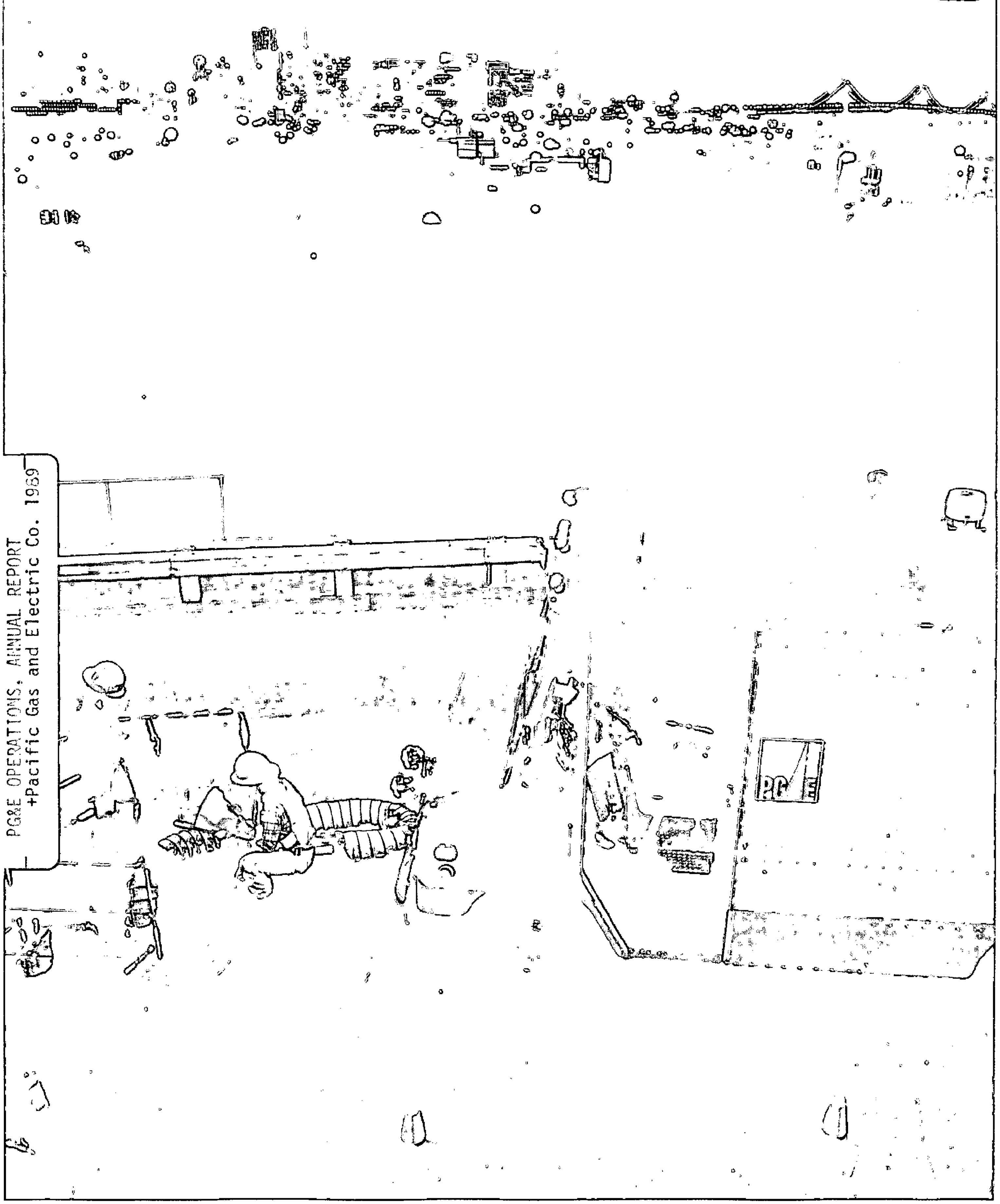
PACIFIC GAS AND ELECTRIC COMPANY 1989 ANN



PG&E is one of the nation's largest investor-owned gas and electric utilities, serving 11.5 million people in Northern and Central California.

Our electricity comes from widely diversified resources—fossil-fuel plants; hydroelectric plants; a major pumped storage plant; the Diablo Canyon Nuclear Power Plant; and from alternative technologies, wind power, solar power and biomass. Our natural gas comes from Canada, the U.S. Southwest and California. The area PG&E serves is also diversified, with a robust economy based on technology, agriculture and industry.

CONTENTS:

COVER:

A PG&E crew goes to work on Potrero Hill in San Francisco as night overtakes the city.

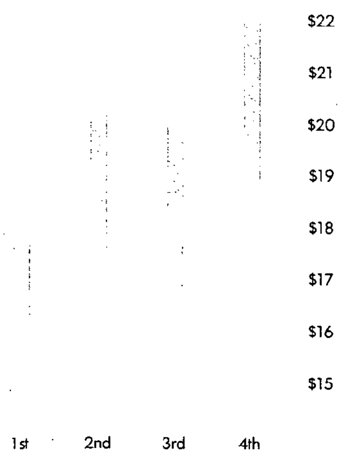
Pacific Gas and Electric Company

	1989	*1988*
Operating revenues	**$ 8,588,264,000**	$ 7,645,748,000
Operating income	**$ 1,622,558,000**	$ 1,297,372,000
Net income	**$ 900,628,000**	$ 62,127,000
Earnings (loss) applicable to common stock	**$ 799,549,000**	$ (40,330,000)
Earnings (loss) per common share	**$ 1.90**	$ (.10)
Dividends declared per common share	**$ 1.40**	$ 1.66
Construction expenditures (including AFUDC)	**$ 1,448,452,000**	$ 1,335,257,000
Total electric sales to customers (kwh)	**69,765,728,000**	68,537,208,000
Total gas sales to customers (mcf)	**497,209,000**	461,292,000
At year-end		
Total assets	**$21,351,970,000**	$21,067,685,000
Total customers	**7,482,000**	7,327,000
Number of shareholders	**368,000**	388,000
Number of common shares outstanding	**428,990,166**	411,443,226
Number of employees (PG&E only)	**26,200**	26,600

In 1988, net income was reduced by $576 million ($1.43 per share) as a result of the Diablo Canyon Nuclear Power Plant rate case settlement and adjustments for various non-Diablo Canyon costs. This is discussed in Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations.

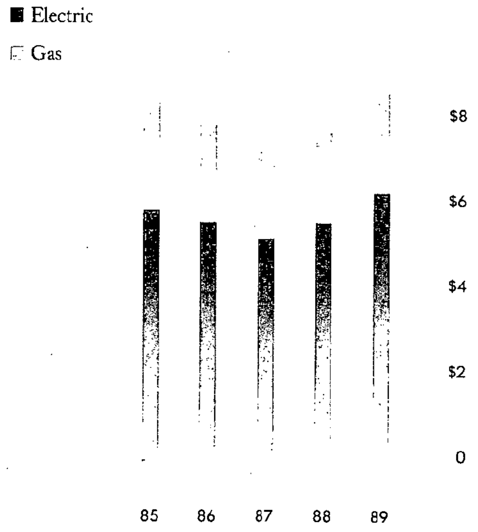
Common Stock Price—1989

At end of quarter



Consolidated Operating Revenues

In billions



DEDICATION

This annual report is dedicated to the 26,200 men and women of PG&E. Their extraordinary efforts led to the safe, efficient and rapid restoration of gas and electric service in Northern California following the earthquake on October 17, 1989. Their achievements in all aspects of PG&E's business resulted in a very successful year, providing a basis for optimism that PG&E will succeed in meeting the challenges of the decade of the 1990s.

PG&E ENTERS THE 1990s prepared to build on the success it achieved in 1989. Your company brings many strengths to the new decade. But none is more important than its people — their competence, their commitment, their cooperation and their courage.

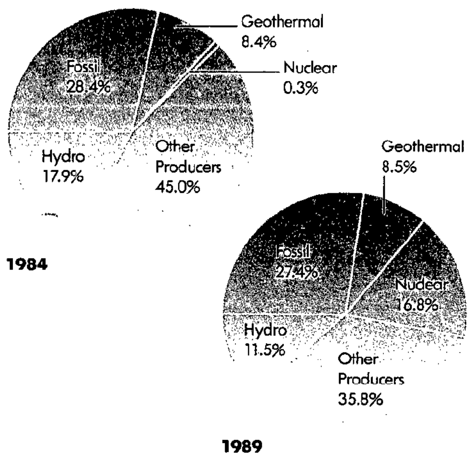
PG&E people demonstrated all of these attributes following the 7.1-magnitude earthquake that struck Northern California on October 17 last year. Their outstanding efforts were praised by the customers and communities we serve, by our regulators and by city, state and federal officials.

Our employees' response to this disaster and their superior performance throughout the year reinforce management's confidence that your company can meet any challenge that lies ahead — a confidence supported by the excellent results PG&E produced in 1989.

Earnings in 1989 were $1.90 per share, compared to the loss of 10 cents per share recorded last year. We achieved our earnings in 1989 for two primary reasons. First, we earned the full return on equity invested in our utility business authorized by the California Public Utilities Commission for 1989. Second, we continued to operate the Diablo Canyon Nuclear Power Plant safely and reliably. The revenues we received for the power produced by the plant contributed significantly to our corporate earnings for the year.

Energy Resources

Percentage of total area load



Based on the company's positive financial performance in 1989, and our confidence in PG&E's continued solid performance in the years ahead, the Board of Directors on January 17, 1990, raised the quarterly common stock dividend to 38 cents per share, an increase of 3 cents over the 35-cent level set in June 1988.

The new annualized rate is $1.52 per share, an increase of 8.6 percent from the previous annualized rate of $1.40 per share.

This action is consistent with our commitment to a policy of increasing dividends for our shareholders when such increases can be sustained. We believe that we have the plans, the people, the resources and the opportunities to increase earnings so we can accomplish that objective:

- We serve one of America's most dynamic economies and our utility business should continue to grow.
- We are developing new markets for our gas transmission business in Southern California and the Pacific Northwest.
- We are committed to operating Diablo Canyon at the highest levels of safety and performance. Under the settlement agreement, the price we are paid for power produced by the plant escalates annually through 1994 at a fixed rate and thereafter at a rate based on an inflation formula. These price escalations can add substantially to our revenues and earnings, so long as we operate the plant effectively.

ur company is

effectively positioned to

continue its success

Over the longer term, our objective is that PG&E Enterprises, our unregulated subsidiary, will provide new earnings from its investments in independent electric power generation, gas exploration and development, and development of real estate in Northern California.

In addition to raising the dividend, the Board in January authorized the purchase on the open market of up to $500 million of the company's common stock. This stock purchase will be used primarily to offset new shares issued through the employees' stock ownership plan and the shareholder dividend reinvestment plan.

The financial results your company achieved in 1989 clearly reflect PG&E people's commitment to controlling costs in order to keep prices competitive, and to adding value to the services they provide.

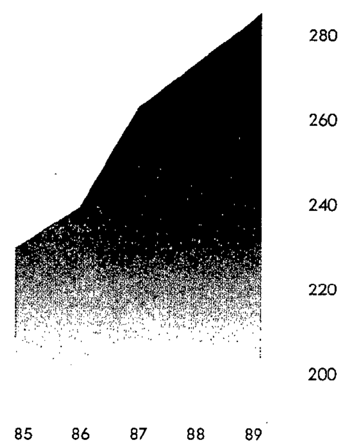
Throughout the company, from linemen and gas servicemen in the field, to computer operators and customer services people in division offices, to budget analysts and engineers in corporate headquarters, PG&E people are getting the job done with fewer human and financial resources. In 1989 — for the fourth consecutive year — PG&E managers held their operating budgets nearly flat. The budget approved for 1990 once again shows little spending growth. By focusing on essential work, by applying new, more efficient technologies, and finding better ways to accomplish their tasks, PG&E people are increasing productivity. Since 1986, we have absorbed more than 469,000 new customers and cumulative inflation of 13. 2 percent without significant spending increases. Four years ago, we served 231 customers per employee. Today we serve 286 customers per employee — an increase of 24 percent — and we have a customer/employee ratio that ranks us among the most productive utilities in the nation.

At the same time, we continue to receive very high marks for the quality of service PG&E provides. In 1989 overall customer opinion ratings were among the most favorable we have ever had. But we are not becoming complacent. Customer service representatives, marketing employees and operating crews are continuing to find ways to add value to PG&E service.

In addition to serving our existing markets efficiently and competitively, we also are moving aggressively to build new markets. Managers and engineers in our gas supply unit and in our subsidiary, Pacific Gas Transmission Company, are developing a planned expansion of our pipeline that brings competitively priced Canadian natural gas into California. Some of the added capacity provided by this expansion would be used to

Customers Served Per Employee

At year-end



meet forecasted increases in gas demand by customers in PG&E's service area. But a vast majority of this increased gas supply would be transported to utilities and large industrial customers in Southern California and the Pacific Northwest.

Our managers and plant personnel have been very successful in the operation of the Diablo Canyon Nuclear Power Plant. As a result of their competence and commitment, Diablo Canyon is recognized as one of the nation's premier nuclear power plants. In 1989, it continued to operate safely and

Chairman Richard A. Clarke toured the San Francisco Marina District after the October 17 earthquake and discussed repairs with PG&E crews.

reliably, generating about 15.8 billion kilowatthours of electricity and $1.4 billion in revenues. Over the year, the plant achieved a "capacity factor" — which is a measure of actual performance against the theoretical maximum performance — of 84 percent for both units combined. That is significantly higher than the 75-percent capacity factor that PG&E management had budgeted for the year. The plant's performance, averaged over the past three years, has exceeded the U.S. industry's average capacity factor for plants of this type.

Looking ahead, we are pursuing new opportunities that are being created as deregulation occurs in the gas and electric industry. PG&E Enterprises is working to capitalize on these opportunities by making investments in unregulated businesses where we have expertise. The objective is to achieve returns that exceed utility returns and that will sustain earnings growth in the mid-1990s and in the years that follow.

However, losses attributable to startup and other costs for such ventures are to be expected in the early years. In 1989, those losses amounted to nine cents per share. But we believe that the strategy for Enterprises is in the long-term best interests of our shareholders.

We are also positioning PG&E to meet three major challenges in the 1990s: serving businesses which face increased competition in the global marketplace, improving the quality of our environment and adapting to significant changes in the workplace.

Global competition will intensify as Western Europe moves to form a unified economic community in 1992, making the countries there more economically efficient. American businesses, already severely challenged to provide quality goods at competitive prices in global markets, will be put to an even greater test of their ability to provide value to customers. In turn, these businesses will expect PG&E to provide energy at competitive prices so that American business can compete. PG&E will meet intensified competitive pressures with a renewed dedication to holding down costs and finding innovative ways to add value to our service.

In the 1990s we will increase our efforts to improve the environment, and we're already moving down that path.

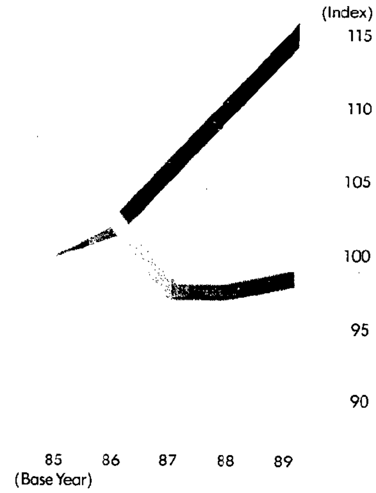
Growth will bring increased demand for electricity. PG&E's electric supply planners are working to meet that increased demand in an environmentally acceptable way. One

Expense Per Customer

Non-fuel

■ Expense per customer

■ Inflation



Expense includes transmission, distribution, customer services, administrative and general, maintenance and other expenses.

PG&E people are ready to meet the major challenges of the 1990s

key will be to add to our power supply using clean fuels and renewable resources to the maximum extent possible.

For this reason we are adding to our supplies of natural gas, which is the most environmentally acceptable of the fossil fuels. We also are working to increase the amount of hydroelectric and other preferred power supplies available to us.

In addition, we are working to demonstrate the potential for vehicles powered by electricity and compressed natural gas (CNG)—an effort which before long may help to reduce the amount of pollution in California's skies. PG&E's first public access CNG service station will open soon in Concord, California, to serve company CNG vehicles and selected new fleet customers.

Another key to improving the environment is increasing consumers' efficient use of energy. PG&E has joined with the Natural Resources Defense Council, the Rocky Mountain Institute and Lawrence Berkeley Laboratory in a three-year test to find ways to increase the energy efficiency of products in homes, offices and businesses.

We know, for example, that lighting can account for between 30 and 70 percent of a commercial firm's energy bills. So PG&E will open a $3-million Lighting Technology Center next year to promote new, more efficient lighting materials and systems.

And we are striving to capitalize on the third major issue for the 1990s — the changing nature of the workplace. Our employees have proven their excellence in all aspects of our business, but they will continue to be tested. Fewer people will be entering the workplace, and the jobs that are available will require greater competency in technology, communications and business.

To help meet this new challenge, we are developing an atmosphere of continuous learning and improvement for all employees. Everyone at PG&E is encouraged to improve his or her skills and find better, more productive ways to do the job. Since it opened in 1987, the company's Learning Center in San Ramon has trained more than 11,800 employees in technical, business and communications skills. Throughout the company, managers are working with their employees to provide opportunities for improvement through training and temporary assignments.

Our work environment is also changing to reflect the demographics and the cultural diversity of our service territory. PG&E's line managers and human resources personnel have worked hard to advance equal opportunity for minorities and women in the company. PG&E also supports education programs in the community which will help prepare generations of future workers. In 1989 the company was honored for these programs by the U.S. Department of Labor with its prestigious Opportunity 2000 Award.

With strong performance in our utility business, a diverse and growing economy to serve, safe and reliable operation at Diablo Canyon, and a clear corporate direction for sustaining future earnings growth, PG&E is effectively positioned to continue its success.

In every part of your company, employees are working to make that success a reality. Through their outstanding performance in 1989, these men and women proved once again that they can translate competence, commitment, cooperation and courage into superior results. I am confident they will continue that kind of performance in the decade ahead and that PG&E will continue to provide value for our shareholders, for our customers and for the communities we are privileged to serve.

Richard A. Clarke

Richard A. Clarke
Chairman of the Board
and Chief Executive Officer

February 2, 1990

PG&E is people: the men and women who climb poles and string wires, dig trenches and lay gas lines, maintain and run a highly diversified electric generating and transmission system, buy natural gas in three widely dispersed markets and transport it to California, talk to customers and solve their problems, plan for future growth and manage a highly complex energy utility. As our business has changed, PG&E people have changed with it, finding new ways to do the job, new solutions to difficult challenges, new ventures to capitalize on emerging opportunities. Because of them, PG&E is a leader in the industry. Because of them, PG&E is prepared to succeed in the decade of the 1990s. The following section can show just a few of these extraordinary people at work, but it is dedicated to all the 26,200 men and women who are your company.

SERVING OUR CUSTOMERS

PG&E's basic utility business, providing gas and electric services to 11.5 million people in Northern and Central California, is changing rapidly. New computer technologies are increasing the flexibility and precision of controlling our electric system, dispatching gas servicemen and troublemen in the field, running our natural gas transmission pipelines, and receiving and managing customer accounting data — to name just a few areas where service is being streamlined.

One constant remains, however, and that is to provide customers a real value for their energy dollar: high-quality service at prices which are competitive.

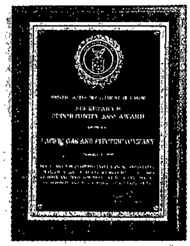
To serve large commercial and industrial customers who have sensitive electronic control and data processing systems, the staff in our Marketing Department developed a program called Power Quality Enhancement. This adds value to PG&E service by helping these customers identify and solve reliability problems on their premises. To date, almost 400 such customers have benefited from this service.

With the trend toward two-income households, many residential customers place increasing value on their time. That means PG&E troublemen, gas servicemen and phone clerks have to be available to serve customers during hours when customers are at home.

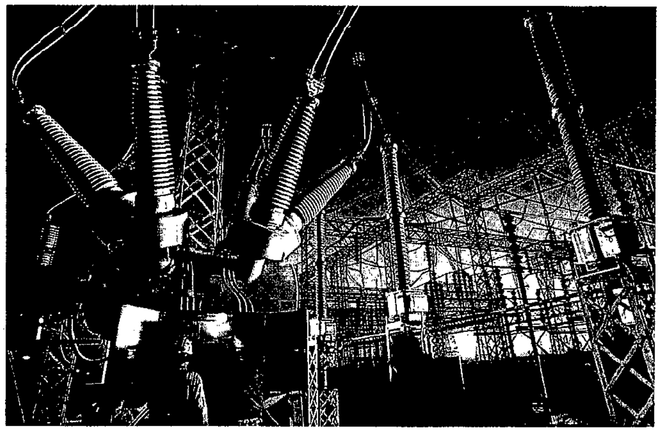
Computerized controls on electric distribution lines can reduce outage times for customers from two or three hours to a few minutes. Sensors on these circuits can detect faults, allowing distribution operators to control switches remotely to isolate the break and reroute power over alternative lines.

The proof that PG&E is adding value can be found in the evaluations customers routinely make of seven popular PG&E services: 91 percent rated the company "excellent" or "very good." In all our business, customer satisfaction is a key to success.

A PG&E account representative consults with the manager of Gladding McBean & Co.'s clay pipe and terra-cotta tile plant in the Sacramento Valley to reduce the fuel consumption of a beehive kiln.



The Opportunity 2000 Award recognizes PG&E's affirmative action programs.



A construction crew installs a massive new 230-kilovolt circuit breaker at San Mateo Substation.

Mobile data terminals, now being tested, will speed the dispatching of gas servicemen and electric troublemen.

The PG&E spirit is teamwork. Two linemen working at the top of a pole in Santa Cruz keep the energy flowing.

Phone clerks give warm and caring service to PG&E's call-in customers.

RESPONDING TO THE EARTHQUAKE

PG&E people are deeply committed to service. When high winds knock down power lines, darkening whole neighborhoods, that sense of commitment sends line crews out into the storm to get the lights back on.

The competence and commitment of PG&E people were demonstrated by the speed and efficiency with which they restored service and recovered from the damage caused by the October 17 earthquake. Over 1.4 million electric customers had been plunged into darkness. In the days following the quake, more than 150,000 gas customers were without service.

Yet PG&E people were ready for it. Senior executives, local managers, electric and gas crews—everyone knew how to do the job. Electric service was restored to the bulk of PG&E's customers within 48 hours. The last gas customers without service, in the San Francisco Marina District, were reconnected slightly more than a month after the disaster—after the gas system there had been almost completely rebuilt.

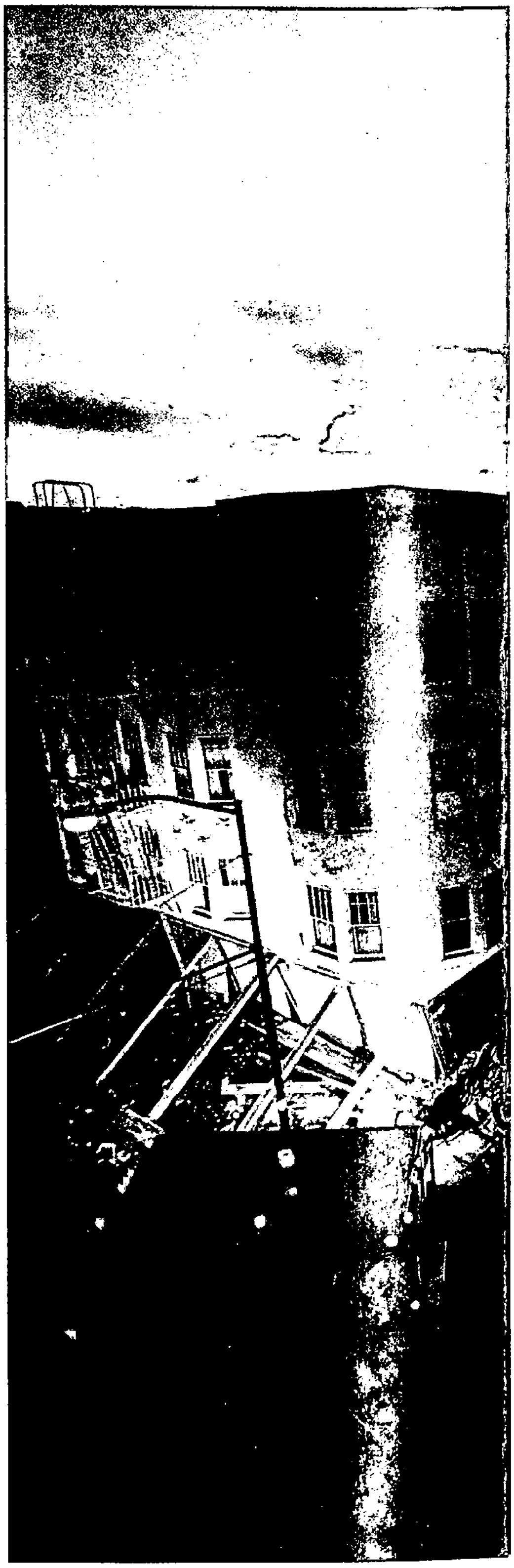
Thorough planning and training—tested in an emergency response drill in June 1989—had prepared our managers and service crews for this situation. Our electric and gas crews worked at peak efficiency, giving special attention to public safety.

The U.S. Department of Energy, in its final report on the earthquake, noted that PG&E was "well prepared. The company is exceptionally well organized, confident and professional."

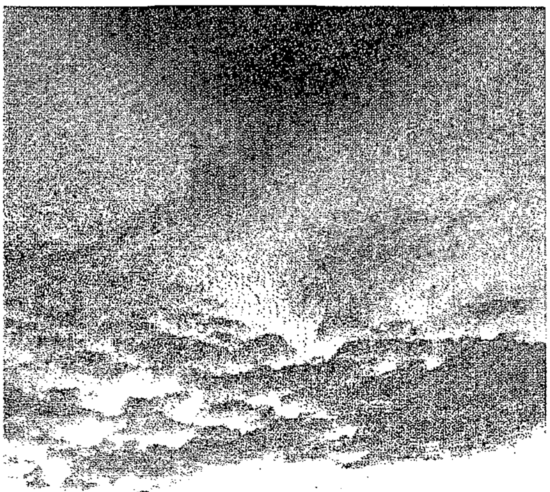
PG&E people were supported in their efforts by more than 400 gas service personnel from other utilities throughout the West, and by units of the U.S. Navy and Air Force.

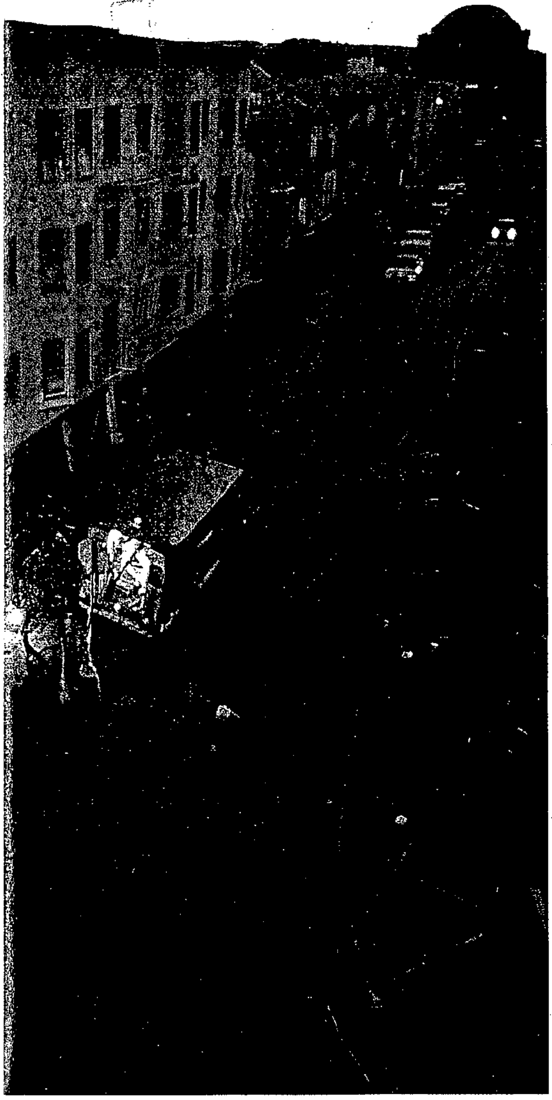
The company also helped others, with a donation of $1.2 million to the Red Cross, The Salvation Army, local food banks and other programs to assist quake victims. PG&E employees volunteered their time in the hardest-hit areas.

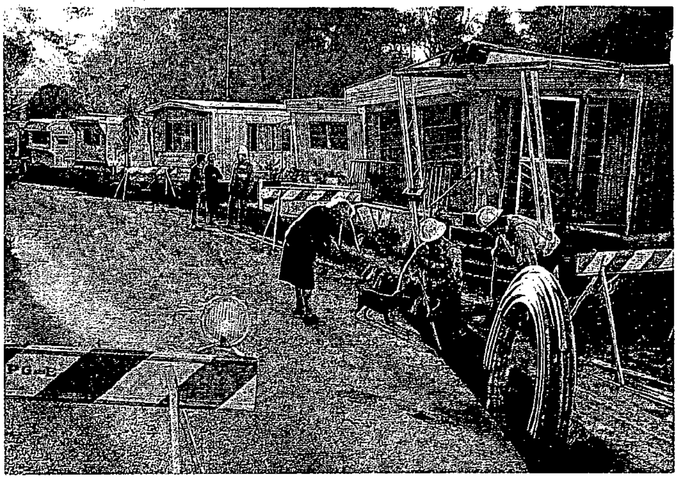
After the October quake, 5,400 gas customers in the San Francisco Marina were without service. PG&E mobilized 400 employees to replace 10 miles of line in just over a month.



A customer service representative helps a family of quake victims in the Santa Cruz area.

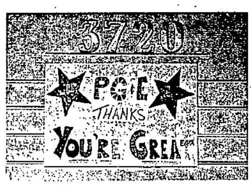




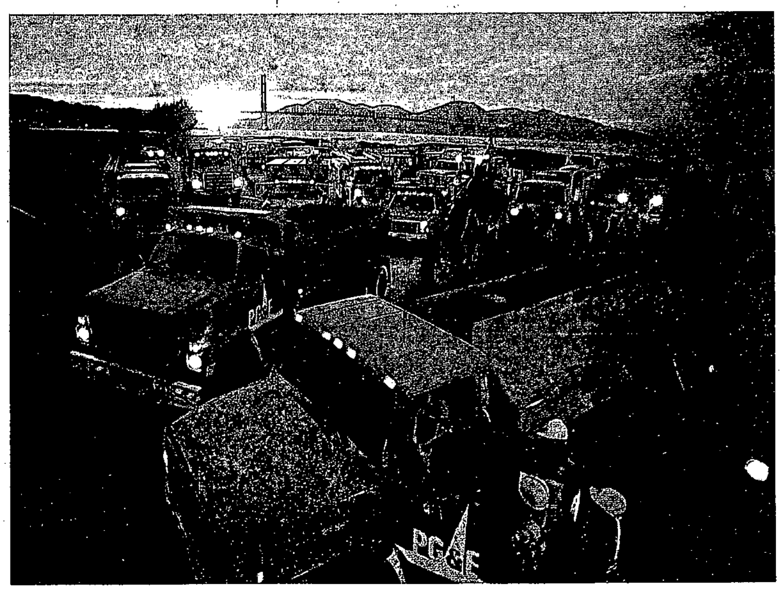


In Capitola, a PG&E crew takes a moment from installing new gas pipe to visit with a customer and her dog.

The earthquake plunged 1.4 million electric customers into darkness. PG&E crews restored service to most of these customers in 48 hours.



The work of PG&E gas and electric crews earned an outpouring of affection. Polls showed 92 percent of customers in affected areas had positive feelings about PG&E.



To restore gas to the Marina, PG&E set up a temporary service center at Crissy Field.

From there, crews and their trucks moved into the damaged area.

MANAGING OUR ASSET AT DIABLO CANYON

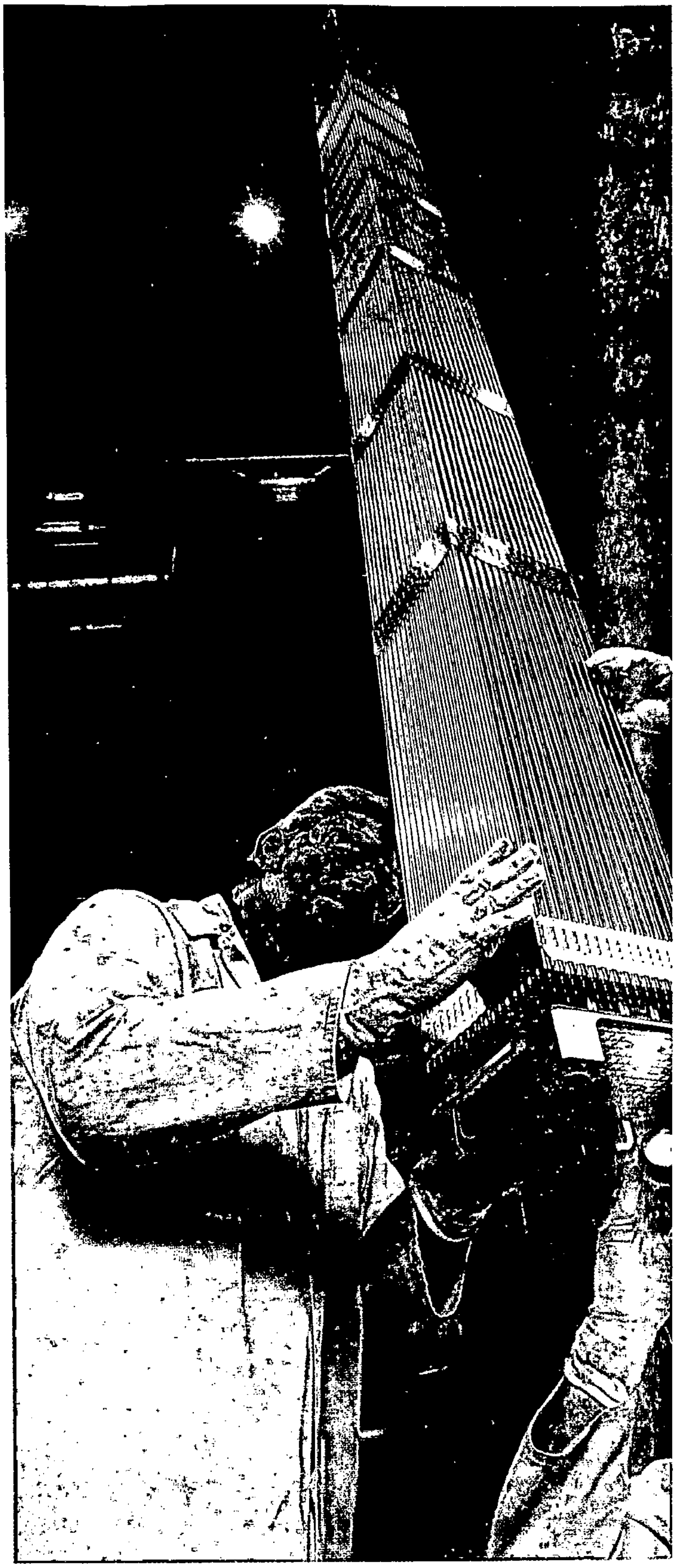
The company's largest single asset is the Diablo Canyon Nuclear Power Plant. In 1989, it generated 15.8 billion kilowatthours of electricity and $1.4 billion in revenues. Diablo Canyon contributed 25 percent of the company's net income in 1989.

The management, operating and maintenance crews at Diablo Canyon are committed to running the plant at the highest levels of safety and efficiency, so that it can continue to earn revenues for PG&E shareholders and provide a major energy resource to the people of California.

An example of this safe and efficient operation is the refueling outage for Unit 1, which began in early October. PG&E's outage team had completed a previous refueling — of Unit 2 in 1988 — in only 82 days, establishing a plant record for this work. They completed the most recent outage of Unit 1 in only 70 days. This is an important accomplishment, because each unit at the plant earns revenues of approximately $2 million for every day it can operate at full capacity.

Training is essential to achieving such a level of performance. The operating crews at Diablo Canyon spend one week out of five in the classroom or in the control room simulator. Through this constant training they have the skills which help make Diablo Canyon one of the best operated nuclear power plants in the country.

PG&E supports its commitment to safe and reliable performance with the most sophisticated computer systems to monitor and manage plant operations. We are also providing the maximum support for maintenance crews, including a new computerized parts inventory system, enabling rapid delivery of necessary equipment and supplies.

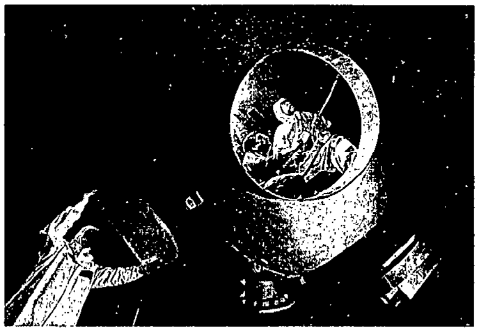


Before a fuel assembly is loaded into the reactor, plant technicians give it meticulous inspections.

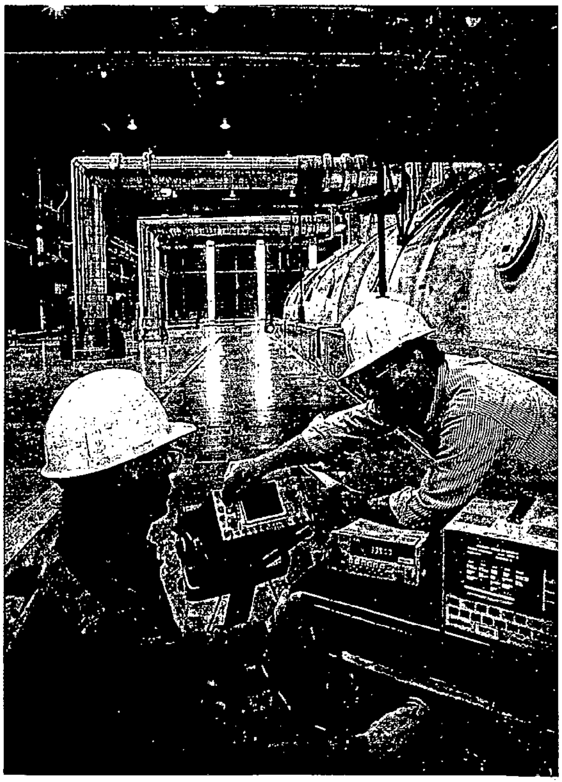
PG&E biologists study the marine life in Diablo Cove. Preserving the unique environment of the California coast is a responsibility PG&E people take seriously.

The Diablo Canyon computer center is one of the most sophisticated in the world, monitoring nearly every plant function.

Maintenance crews train with a mockup of the steam generator.



Plant technicians continuously test Diablo Canyon's turbines for vibration. They also run electrical tests and measure valve function. Safe and reliable operation is their first concern.



PREPARING FOR THE FUTURE

As PG&E moves into the 1990s, an increasingly competitive national market for electricity, a rising demand for natural gas, and the public's desire for environmental quality will shape future opportunities.

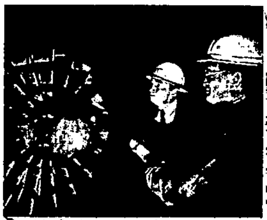
Our unregulated subsidiary, PG&E Enterprises, seeks to capitalize on these opportunities. Entrepreneurs, engineers, geologists and analysts within Enterprises and its various subsidiaries and affiliates are developing investment opportunities in business areas that build on PG&E's expertise and that can, over time, provide returns greater than utility returns.

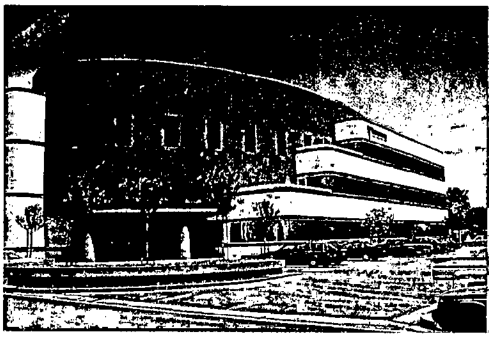
PG&E-Bechtel Generating Company, which develops, manages and owns independent power projects, now has eight plants representing approximately 1,500 megawatts of generating capacity in various stages of development throughout the nation. A 35-megawatt plant using waste coal as fuel will begin commercial operation in Montana this spring. And in 1989, the joint venture participated in two winning competitive bids: one in Massachusetts, the other in New York.

PG&E Resources, located in Dallas, acquires and develops natural gas and oil resources. The subsidiary is focusing on exploration and development in Texas, Louisiana and the Rocky Mountains. Its success rate in drilling exploratory wells in 1989 was well above the historical average in the industry. In 1989, PG&E Resources participated in developing 21 wells with a potential for producing the equivalent of 26 million cubic feet of gas per day.

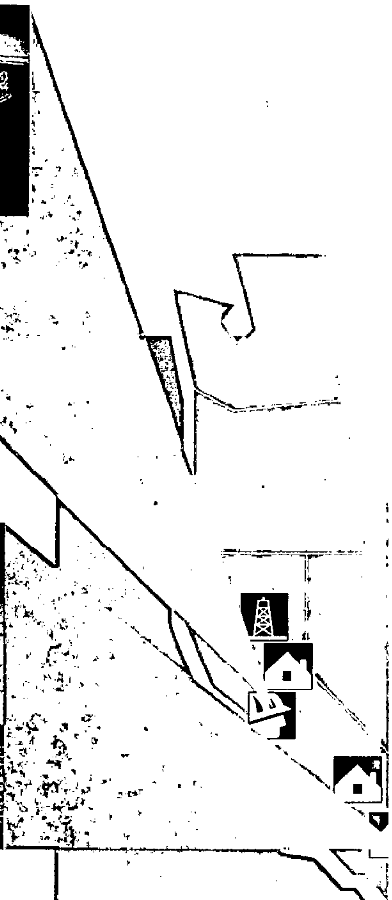
PG&E Properties, working in joint ventures with local and regional developers, has completed five projects in California, including an apartment complex in Folsom and an office building in Bakersfield. A 294-unit housing development in Pittsburg is under construction.

PG&E Operating Services engineers study a gas turbine unit in Oakland, California.





PG&E Properties was a partner in the construction of this 51,000-square-foot office building in Bakersfield, California.

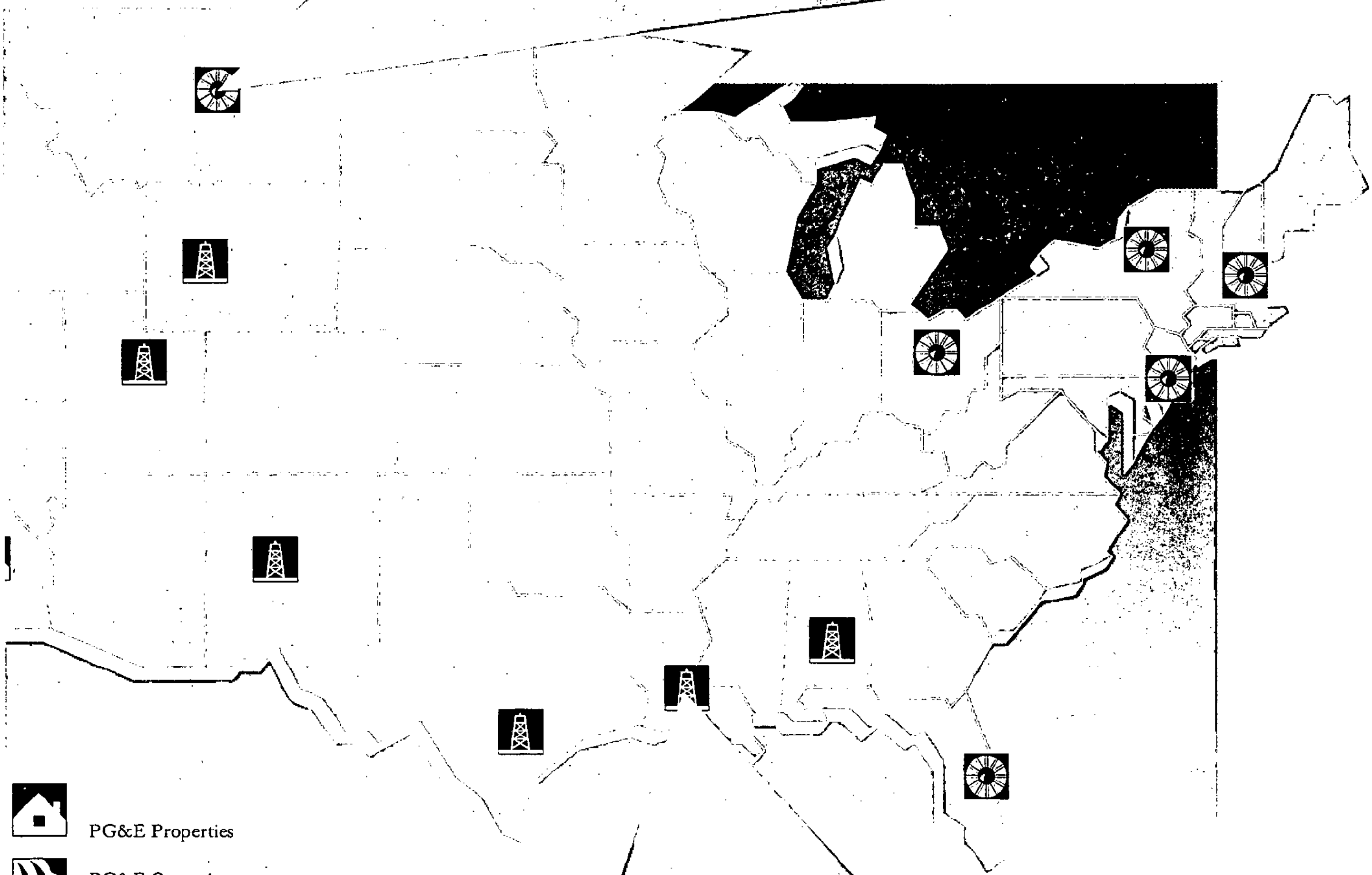


PG&E Enterprises projects in various stages of development:

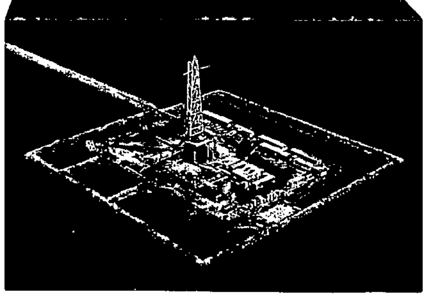
PG&E-Bechtel Generating Company

PG&E Resources Company

PG&E-Bechtel Generating Company is completing a 35-megawatt power plant at Colstrip, Montana.



PG&E Resources has an interest in this rig drilling for natural gas in Louisiana.



SELECTED FINANCIAL INFORMATION

Pacific Gas and Electric Company

There are 26,200 people at PG&E, all of whom contribute toward preparing the company for the future. Those featured on the following pages are just a few of them.

In thousands, except per share amounts	***1989***	*1988*	*1987*	*1986*	*1985*
Operating revenues	**$ 8,588,264**	$ 7,645,748	$ 7,185,701	$ 7,816,661	$ 8,430,981
Operating income	**$ 1,622,558**	$ 1,297,372	$ 1,261,701	$ 1,653,625	$ 1,369,359
Net income	**$ 900,628**	$ 62,127	$ 688,517	$ 1,081,223	$ 1,030,805
Earnings (loss) per common share	**$ 1.90**	$ (.10)	$ 1.53	$ 2.60	$ 2.65
Dividends declared per common share	**$ 1.40**	$ 1.66	$ 1.92	$ 1.90	$ 1.81
At year-end					
Book value per common share	**$ 17.38**	$ 16.79	$ 18.68	$ 19.06	$ 18.05
Common stock price per share	**$ 22.00**	$ 17.50	$ 16.25	$ 24.25	$ 20.00
Total assets	**$21,351,970**	$21,067,685	$21,733,652	$21,002,253	$19,098,003
Long-term debt, preferred stock with mandatory redemption provision and capital lease obligations	**$ 7,978,968**	$ 8,116,603	$ 8,511,789	$ 7,832,921	$ 7,760,506

The above includes data discussed in 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

Responsible for company's corporate account representative, power quality enhancement and marketing and sales training programs. Over last several years has led PG&E efforts to successfully retain electric customers with potential to bypass PG&E.

John Sherriff
Director, Corporate Sales

Results of Operations

Earnings In 1989, the Company's earnings per common share were $1.90 compared to a loss of $.10 in 1988 and earnings of $1.53 in 1987. The 1989 earnings equal an 11.1% return on weighted average common equity and an 11.4% return on average utility rate base. In 1989, the performance of the Diablo Canyon Nuclear Power Plant (Diablo Canyon) significantly contributed to the Company's earnings whereas in 1988, settlement of the Diablo Canyon rate case resulted in a substantial charge to earnings.

The Company has three types of operations: utility, Diablo Canyon and nonregulated through PG&E Enterprises (Enterprises), a wholly-owned subsidiary formed to invest in nonregulated businesses. For 1989, the first full year of operations for Diablo Canyon under the settlement and for Enterprises, selected financial information is shown below:

In millions, except per share amounts	*Utility*	*Diablo Canyon*	*Enterprises*
Operating revenues	$ 7,169	$1,373	$ 46
Operating income (loss)	$ 1,150	$ 497	$ (24)
Net income (loss)	$ 715	$ 225	$ (39)
Earnings (loss) per common share	$ 1.54	$ .45	$ (.09)
Total assets at year-end	$15,271	$5,786	$ 295

In 1989 and 1988, revenues increased $943 million and $460 million, respectively, over the preceding years primarily due to Diablo Canyon and the recovery of increased fuel costs. Revenues for Diablo Canyon increased $533 million in 1989 and $157 million in 1988.

In 1987, revenues decreased by $631 million from 1986 primarily because effective January 1987, the Company changed its recording of revenues for Diablo Canyon essentially to reflect only amounts actually received through interim rates and other costs approved by the California Public Utilities Commission (CPUC).

In 1988, as a result of the Diablo Canyon rate case settlement, the Company charged to earnings approximately $871 million of Diablo Canyon revenues previously recorded but uncollected through rates, as well as approximately $150 million of litigation and other Diablo Canyon costs. In addition, the Company charged to earnings various non-Diablo Canyon costs. The effect on earnings of the above charges was a decrease of $576 million after tax.

To match revenues and expenses more closely, effective January 1987, the Company began accruing revenues for service provided but unbilled at the end of each month. The cumulative effect of this accounting change increased net income in 1987 by $91 million, net of related income taxes of $77 million.

In 1987, the Company offered an early retirement plan to qualified employees, which increased administrative and general expenses by $87 million before taxes.

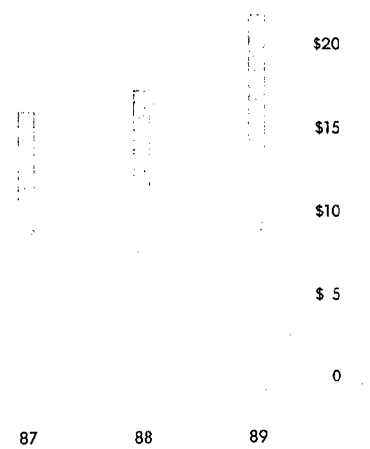
Annual dividend In January 1990, the Company increased the quarterly common stock dividend, effective with the April 15, 1990 payment. The increase was based on estimates that longer-term earnings will be sufficient to sustain the higher dividend while providing adequate financial flexibility. On an annualized basis, the new dividend is $1.52 per share compared to the previous dividend of $1.40 per share.

Diablo Canyon Under the Diablo Canyon rate case settlement approved by the CPUC, effective July 1988, revenues for the plant are based primarily on the amount of electricity generated, rather than on traditional cost-based ratemaking. Under this "performance-based" approach, the Company assumes a significant portion of the operating risk of the plant. The extent and timing of the recovery of actual operating costs, depreciation and a return on the investment in the plant primarily depend on the amount of power produced and the level of costs incurred. The Company's earnings are affected directly by plant performance and costs.

In approving the settlement, the CPUC explicitly affirmed that Diablo Canyon costs and operations no longer should be subject to CPUC reasonableness

Common Stock Price Per Share

At year-end



reviews. The CPUC cannot bind future commissions in fixing rates for Diablo Canyon, but to the extent permitted by law intends that this decision remain in effect for the full term of the settlement.

Diablo Canyon revenues are based primarily on a pre-established price for each kilowatt-hour (kwh) of electricity generated by the plant. (Pricing for Diablo Canyon is discussed in Note 2 to the consolidated financial statements.) From the revenues received for Diablo Canyon, the Company must recover the costs of owning and operating the plant, including all future capital additions. If power generation drops below specified capacity levels, the Company may request floor payments which insure that the Company will receive some revenue, even if the plant stops producing power. However, payments received must be refunded to customers under specified conditions. Decommissioning costs will continue to be recovered through base rates and are not subject to plant performance.

Helped design and install Diablo Canyon's Plant Information System, one of the most advanced computer systems in the nuclear power industry.

Jeffrey Johnson
Computer Applications Specialist

The CPUC has directed the Company to conduct and file a study by December 31, 1990, on segregation of administrative and general costs and common plant between Diablo Canyon and other operations. The purpose of the study is to segregate the costs of operating Diablo Canyon from those considered in establishing electric and gas rates for utility customers. Based on the study and the comments of interested parties, the CPUC may conduct further hearings to consider revisions to the revenue requirement for utility expenses for the 1991 and 1992 attrition years.

The plant capacity factor for 1989 was 84%, reflecting one planned refueling outage for Unit 1 in the fourth quarter and no extended unscheduled outages for either unit during the year. The plant capacity factor for the second half of 1988, after the settlement became effective, was 60%, primarily due to the scheduled refueling and unplanned outage of Unit 2. During refueling outages, which typically occur every eighteen months and last about three months, or during unscheduled outages, the Company will report significantly lower revenues for the plant. The Unit 1 refueling in the fourth quarter of 1989 was completed two weeks ahead of schedule. Unit 2 is scheduled for refueling beginning March 1990. Through December 31, 1989, the lifetime capacity factor for the plant was 73%, exceeding the national average capacity factor for this type of nuclear power plant.

Under the settlement and for illustration purposes, a Diablo Canyon capacity factor of 60% in 1990 would produce 11.4 billion kwh or $1 billion in revenues on an annualized basis. An 80% capacity factor would produce 15.1 billion kwh or $1.3 billion in revenues.

Ratemaking Pacific Gas and Electric Company's (PG&E) prices for electric and gas energy, excluding Diablo Canyon, are regulated by the CPUC through base rates and balancing accounts. Base rates compensate the Company for operating and maintenance costs, taxes and depreciation, and provide a return on capital. Base rates are set in general rate case (GRC) proceedings every three years. Between rate cases, the Attrition Rate Adjustment (ARA) mechanism makes annual adjustments for certain changes in financial and operational expenses.

Balancing accounts help stabilize PG&E's earnings. Energy-cost balancing accounts reduce the effect on earnings of fluctuations in electric and gas energy costs. Sales balancing accounts reduce the effect on earnings of fluctuations in electric and gas sales. For electric and core gas customers, the CPUC bases rates on estimated sales; differences between revenues based on these estimates and actual revenues are accumulated in the balancing accounts for subsequent rate adjustment.

PG&E's gas customers are separated into "core" and "noncore" classes as part of the CPUC's regulatory framework for natural gas service, effective May 1988. Core customers include all residential customers and commercial customers that do not exceed certain use limitations. Noncore customers are industrial and larger commercial customers that meet certain size limitations. For noncore customers, PG&E offers an array of services including gas transportation. While these changes give the Company greater flexibility in competing for some customers through the ability to negotiate transport rates, they remove some of the protection afforded previously by the gas balancing accounts.

The Annual Cost Allocation Proceeding (ACAP) is part of the gas regulatory framework which places utilities at risk for recovering most of the transportation costs associated with their noncore markets. To the extent that gas transportation revenues collected from the noncore customers are less than the forecasted costs allocated to these customers, the Company is not allowed full recovery of the shortfall. Currently, however, the Negotiated Revenue Stability Account (NRSA) places a limit on over or undercollections of noncore gas revenues, up to $17 million before tax through April 1990, when NRSA is scheduled to be eliminated. The Company has filed a petition with the CPUC requesting an extension. In 1989, after the limited NRSA protection, the Company had a revenue shortfall of approximately $33 million.

Effective June 1989, the CPUC granted the Company a $151 million increase in gas revenues under the first ACAP, primarily for net undercollections in the gas balancing accounts and an increase in purchased gas costs. In January 1990, the Company revised to $129 million the $143 million revenue increase requested in its second ACAP application.

In December 1989, in the 1990 GRC decision, the CPUC granted PG&E an increase in the electric and gas revenue requirement of $174 million and $43 million, respectively, effective January 1, 1990. These amounts are based on a 12.9% return on common equity authorized by the CPUC for 1990, a decrease from the 13% authorized for 1989.

On October 17, 1989, a major earthquake struck Northern California causing damage to a wide area served by PG&E. The Company currently estimates total costs at approximately $100 million. These costs are not expected to have a significant impact on results of operations because the Company will seek recovery through insurance and regulatory action. Effective November 3, 1989, the CPUC authorized a balancing account to accumulate costs associated with the earthquake. By May 1, 1990, the Company will file a report of the costs recorded in the account for the CPUC's review and will propose rate recovery of earthquake-related costs.

The regulatory environment has helped to reduce the effects of inflation on the Company's utility business. Both the ARA and the energy-cost balancing accounts limit the effect of inflation on PG&E's earnings by closely matching rates with costs. Diablo Canyon rates are based on a formula that considers inflation after 1994.

Saved PG&E over $188,000 by researching and negotiating a new trenching service contract in Concord, California.

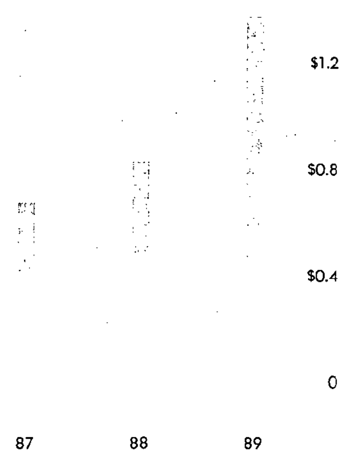
Judy Vicory

Assistant Foreman's Clerk

Diablo Canyon Operating Revenues

(Including decommissioning revenues)

In billions



Liquidity and Capital Resources

Diablo Canyon While revenues are based primarily on the amount of electricity generated by the plant, actual cash revenues collected are based on a forecasted operating capacity factor adopted by the CPUC for that year. For the twelve months ending October 31, 1990, the adopted operating capacity factor is 81%, excluding the effects of the two refueling outages scheduled during that period. Over or undercollections in one year resulting from differences between the actual and forecasted operating capacity factor are refunded or collected in the following year. Accordingly, cash flows over the long term under the settlement will depend significantly on Diablo Canyon's performance.

Capital requirements The Company's three-year projection of capital requirements is shown below:

In millions	*1990*	*1991*	*1992*
Utility	$1,572	$1,796	$2,196
Diablo Canyon	109	102	107
Enterprises	125	122	102
Total capital expenditures	1,806	2,020	2,405
Maturing debt and sinking funds	74	117	182
Total capital requirements	$1,880	$2,137	$2,587

Utility includes allowance for funds used during construction and 100% of the PGT-PG&E pipeline expansion project costs discussed below.
Enterprises' actual capital expenditures may vary significantly depending on the availability of attractive investment opportunities. Enterprises' amounts include oil and gas exploration and development costs and the equity share of generating facilities.

Utility expenditures primarily will be for replacing, modernizing and expanding the Company's facilities.

Pacific Gas Transmission Company (PGT), a wholly-owned subsidiary, has filed an application with the Federal Energy Regulatory Commission and PG&E has filed an application with the CPUC for authority to expand their respective connecting gas pipeline transmission facilities. The escalated cost to complete the pipeline expansion is estimated at $1.5 billion. The expanded facilities would transport Canadian gas to the Pacific Northwest and California. Construction would be completed in 1993.

In February 1990, the CPUC issued a decision in a proceeding to investigate California's need for new interstate gas pipeline capacity and the various proposals to construct that capacity. The CPUC stated it would allow competition to decide which of the numerous proposed pipeline projects should be built to serve California's growing needs for additional natural gas supplies. The CPUC will support projects that meet certain conditions. The decision indicates that the PGT-PG&E project meets most of the conditions, but expresses concern with respect to issues relating to capacity allocation and cost allocation. The CPUC also stated it would give expedited consideration to all pipeline related issues.

Encourages employees to improve their personal productivity and quality of work in serving approximately 175,000 customers in Central Division based in Oakland, California.

Robert Harris
Division Manager, Central Division

Sources of capital Internally generated cash flows and external financings will continue to supply capital. In 1989, proceeds from long-term debt and common stock issued were $316 million and $335 million, respectively. Net of optional repurchases, these cash flows supplied 21% of cash used to meet capital requirements for the year. The Company did not require other significant long-term debt financing due to strong cash flows from operations.

Utility capitalization ratios authorized by the CPUC for 1990 are 46.75% common equity, 6.25% preferred stock and 47% long-term debt.

Actual consolidated capitalization ratios for the Company at December 31 were:

	1989	1988
Common equity	**45%**	43%
Preferred stock	**7**	8
Long-term debt	**48**	49
Total capitalization	**100%**	100%

Long-term debt has been sold in the United States and in European financial markets. Common stock has been issued through the Company's dividend reinvestment and employee savings plans. Over the next two and one-half years, the Company plans to purchase up to $500 million of its common stock on the open market or in negotiated transactions, primarily to offset new shares purchased from the Company by these plans.

The Company's bond indenture permits issuance of mortgage bonds up to an amount approved by the Company's Board of Directors and the CPUC. At December 31, 1989, the Company had $6.5 billion outstanding in mortgage bonds and may issue up to $3.5 billion more under the indenture provisions on earnings coverage and property available as collateral. In 1987, 1988 and 1989, the Company reacquired certain older, high-cost securities to reduce financing costs.

The Company issues short-term debt (principally commercial paper) for interim construction financing and for fluctuations in general working capital. Short-term debt also has helped fund fuel oil, nuclear fuel, gas inventories, advances to gas producers, and unrecovered balances in balancing accounts. The Company must borrow when balancing account revenues are undercollected, as in 1987, 1988 and 1989, until the revenues, plus interest, are received in rates. Short-term borrowings, which provide flexibility to meet capital needs and to schedule long-term debt issues, were $628 million at December 31, 1989.

In 1989, PG&E entered into a $750 million, four-year global revolving credit facility agreement to support the sale of commercial paper and for other corporate purposes. Pacific Energy Fuels Company (PEFCO), a wholly-owned subsidiary, entered into a $250 million revolving credit facility agreement to support the sale of commercial paper which is used to finance the purchase of nuclear fuel. PEFCO's commercial paper and credit agreement are guaranteed by PG&E.

At December 31, 1989, the Company had total credit facilities available of $1,050 million, including those mentioned above.

Statement of Financial Accounting Standards (SFAS) No. 96, *Accounting for Income Taxes,* issued in December 1987, established new financial accounting standards for income taxes, which must be adopted by 1992. (See Note 8.)

STATEMENT OF CONSOLIDATED INCOME

Pacific Gas and Electric Company

Implemented a new Accounts Payable System and is currently adding a new Payroll/Human Resources System using state-of-the-art technology.

Terry Lattemore
Manager of Accounting Services

Years ended December 31 *In thousands, except per share amounts*	*1989*	*1988*	*1987*
Operating revenues			
Electric	**$6,216,050**	$5,512,865	$5,133,028
Gas	**2,372,214**	2,132,883	2,052,673
Total operating revenues	**8,588,264**	7,645,748	7,185,701
Operating expenses			
Cost of electric energy	**1,755,955**	1,666,971	1,383,497
Cost of gas	**1,181,772**	1,031,353	899,981
Transmission	**161,996**	142,572	135,435
Distribution	**199,972**	201,231	189,782
Customer accounts and services	**329,756**	304,654	283,965
Administrative and general	**698,544**	641,943	708,200
Maintenance	**372,845**	382,366	341,118
Depreciation	**1,000,316**	931,964	875,208
Income taxes	**724,718**	508,258	603,012
Property and other taxes	**270,573**	252,257	240,217
Other	**269,259**	284,807	263,585
Total operating expenses	**6,965,706**	6,348,376	5,924,000
Operating income	**1,622,558**	1,297,372	1,261,701
Other income and (income deductions)			
Diablo Canyon rate case settlement	**—**	(1,021,858)	—
Income tax benefit related to Diablo Canyon rate case settlement	**—**	509,547	—
Allowance for equity funds used during construction	**25,200**	18,603	2,564
Interest income	**131,250**	115,442	99,011
Other—net	**(43,530)**	(55,258)	10,312
Total other income and (income deductions)	**112,920**	(433,524)	111,887
Income before interest expense	**1,735,478**	863,848	1,373,588
Interest expense			
Interest on long-term debt	**733,776**	722,074	698,233
Other interest charges	**119,335**	91,813	77,845
Allowance for borrowed funds used during construction	**(18,261)**	(12,166)	316
Net interest expense	**834,850**	801,721	776,394
Income before change in recording unbilled revenues	**900,628**	62,127	597,194
Cumulative effect as of January 1, 1987 of accruing unbilled revenues, net of income taxes of $77,045	**—**	—	91,323
Net income	**900,628**	62,127	688,517
Preferred dividend requirement	**101,079**	102,457	110,782
Earnings (loss) applicable to common stock	**$ 799,549**	$ (40,330)	$ 577,735
Weighted average common shares outstanding	**420,940**	401,775	377,723
Earnings (loss) per common share before change in recording unbilled revenues	**$1.90**	$(.10)	$1.29
Cumulative effect as of January 1, 1987 of accruing unbilled revenues	**—**	—	.24
Earnings (loss) per common share	**$1.90**	$(.10)	$1.53
Dividends declared per common share	**$1.40**	$1.66	$1.92

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

Pacific Gas and Electric Company

Provided leadership in repairing a damaged substation to restore power to customers in Morgan Hill.

Joseph Cardinale
Maintenance Electrician
Mike Davis
Operator No. 1 Relief

December 31	***1989***	*1988*
In thousands		
Assets		
Plant in service (at original cost)		
Electric		
Non-nuclear	**$13,606,860**	$12,721,004
Diablo Canyon	**5,655,651**	5,602,997
Gas	**4,244,858**	3,889,030
Total plant in service	**23,507,369**	22,213,031
Accumulated depreciation	**(7,533,159)**	(6,717,941)
Net plant in service	**15,974,210**	15,495,090
Construction work in progress	**683,723**	837,941
Advances to gas producers	**223,665**	280,333
Funds held by trustee	**207,262**	143,458
Oil and gas exploration costs	**176,809**	213,842
Investments	**144,663**	106,106
Capital leases (including nuclear fuel of $212,255 in 1988)	**15,337**	228,553
Other	**5,851**	16,035
Total	**17,431,520**	17,321,358
Current assets		
Cash and cash equivalents	**66,778**	96,966
Accounts receivable		
Customers	**1,102,867**	1,001,969
Other	**393,087**	472,014
Allowance for uncollectible accounts	**(14,275)**	(7,348)
Regulatory balancing accounts receivable	**760,944**	636,489
Inventories		
Fuel oil	**99,399**	109,400
Nuclear fuel	**138,406**	—
Gas stored underground	**196,217**	204,077
Materials and supplies	**220,038**	216,921
Prepayments	**57,115**	38,408
Total current assets	**3,020,576**	2,768,896
Deferred charges		
Regulatory assets	**293,263**	304,336
Unamortized project costs	**96,991**	125,796
Workers' compensation and disability claims recoverable	**103,061**	100,000
Unamortized loss net of gain on reacquired debt	**235,828**	225,772
Other—net	**170,731**	221,527
Total deferred charges	**899,874**	977,431
Total assets	**$21,351,970**	$21,067,685

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

Pacific Gas and Electric Company

Works on structural and policy issues aimed at controlling rapidly rising workers' compensation costs.
Etta Herbach
Manager, Safety, Health, and Claims

December 31	*1989*	*1988*
In thousands		
Capitalization and liabilities		
Capitalization		
Common stock	**$ 2,144,951**	$ 2,057,216
Additional paid-in capital	**3,121,583**	2,874,279
Reinvested earnings	**2,188,859**	1,978,432
Common stock equity	**7,455,393**	6,909,927
Preferred stock without mandatory redemption provision	**1,010,195**	1,010,195
Preferred stock with mandatory redemption provision	**142,133**	167,378
Long-term debt	**7,809,187**	7,781,580
Total capitalization	**16,416,908**	15,869,080
Noncurrent liabilities		
Customer advances for construction	**164,559**	145,351
Workers' compensation and disability claims	**113,000**	100,000
Capital lease obligations	**15,026**	155,023
Other	**134,978**	152,689
Total noncurrent liabilities	**427,563**	553,063
Current liabilities		
Short-term borrowings	**627,732**	858,232
Accounts payable		
Trade creditors	**526,316**	450,770
Other	**296,259**	230,214
Accrued taxes	**17,382**	23,671
Deferred income taxes	**337,560**	287,784
Long-term debt and preferred stock	**74,133**	68,350
Capital lease obligations	**253**	225,839
Interest payable	**73,902**	71,181
Dividends payable	**149,615**	145,555
Amounts due customers	**97,093**	109,006
Other	**180,571**	74,497
Total current liabilities	**2,380,816**	2,545,099
Deferred credits		
Deferred investment tax credits	**536,056**	546,078
Deferred income taxes	**1,340,972**	1,319,139
Other	**249,655**	235,226
Total deferred credits	**2,126,683**	2,100,443
Contingencies (Note 10)		
Total capitalization and liabilities	**$21,351,970**	$21,067,685

STATEMENT OF CONSOLIDATED CASH FLOWS

Pacific Gas and Electric Company

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Years ended December 31	*1989*	*1988*	*1987*
In thousands			
Cash flows from operations			
Net income	**$ 900,628**	$ 62,127	$ 688,517
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**1,000,316**	931,964	875,208
Amortization	**93,396**	152,583	190,355
Deferred taxes	**84,057**	(238,385)	172,796
Regulatory balancing accounts			
Diablo Canyon	**—**	871,144	—
Other	**(124,455)**	(2,592)	(145,507)
Change in operating assets and liabilities			
Accounts receivable	**(15,044)**	(40,795)	(417,470)
Fuel inventories	**42,482**	11,309	35,183
Accounts payable	**141,591**	(46,704)	44,776
Accrued taxes	**(6,289)**	(77,956)	51,793
Advances to gas producers	**56,668**	54,434	32,659
Other working capital	**75,059**	(32,613)	16,343
Other—net	**44,619**	152,111	277,578
Net cash provided by operations	**2,293,028**	1,796,627	1,822,231
Investing activities			
Construction expenditures	**(1,423,252)**	(1,316,654)	(1,326,211)
Other—net	**64,532**	8,531	158,067
Net cash used in investing activities	**(1,358,720)**	(1,308,123)	(1,168,144)
Financing activities			
Common stock issued	**334,988**	378,233	415,898
Preferred stock redeemed	**(25,390)**	(15,000)	(268,976)
Long-term debt issued	**316,379**	1,059,570	1,083,703
Long-term debt matured or redeemed	**(249,357)**	(1,262,191)	(314,136)
Long-term debt purchased for sinking fund (at cost)	**(67,531)**	(69,515)	(71,340)
Short-term debt issued (redeemed)—net	**(230,500)**	304,208	(547,189)
Capital lease payments	**(356,911)**	(80,504)	(97,432)
Dividends paid	**(688,126)**	(810,044)	(840,466)
Other—net	**1,952**	(41,852)	13,204
Net cash used in financing activities	**(964,496)**	(537,095)	(626,734)
Net change in cash and cash equivalents	**(30,188)**	(48,591)	27,353
Cash and cash equivalents at January 1	**96,966**	145,557	118,204
Cash and cash equivalents at December 31	**$ 66,778**	$ 96,966	$ 145,557
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ 772,492**	$ 748,272	$ 736,107
Income taxes	**$ 535,486**	$ 414,348	$ 250,817

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Works as a team builder wherever the company sends him. Has received awards for accomplishments in boosting morale and raising productivity through his own positive example and leadership style.

Mike Myers

Lineman

STATEMENT OF CONSOLIDATED COMMON STOCK EQUITY AND PREFERRED STOCK

Pacific Gas and Electric Company

Created a system for analyzing legislation which may affect her department's operations. Her system has since been adopted by other departments.

Joyce Chan
Assistant Planning Analyst—Permits and Environmental Planning

In thousands, except shares	*Common stock*	*Additional paid-in capital*	*Reinvested earnings*	*Common stock equity*	*Preferred stock without mandatory redemption provision*	*Preferred stock with mandatory redemption provision**
Balance, December 31, 1986	$1,840,636	$2,319,344	$2,855,748	$7,015,728	$1,207,865	$225,285
Net income—1987			688,517	688,517		
Common stock sold (20,181,371 shares)	100,907	314,991		415,898		
Preferred stock redeemed (8,209,650 shares)		(22,681)		(22,681)	(197,670)	(30,285)
Cash dividends declared						
Preferred stock			(120,992)	(120,992)		
Common stock			(728,873)	(728,873)		
Foreign currency translation adjustment			4,708	4,708		
Balance, December 31, 1987	1,941,543	2,611,654	2,699,108	7,252,305	1,010,195	195,000
Net income—1988			62,127	62,127		
Common stock sold (23,134,679 shares)	115,673	262,560		378,233		
Preferred stock redeemed (150,000 shares)		65	(18,407)	(18,342)		(15,000)
Cash dividends declared						
Preferred stock			(102,752)	(102,752)		
Common stock			(666,846)	(666,846)		
Foreign currency translation adjustment			5,202	5,202		
Balance, December 31, 1988	2,057,216	2,874,279	1,978,432	6,909,927	1,010,195	180,000
Net income—1989			**900,628**	**900,628**		
Common stock sold (17,546,940 shares)	**87,735**	**247,253**		**334,988**		
Preferred stock redeemed (252,450 shares)		**51**	**(196)**	**(145)**		**(25,245)**
Cash dividends declared						
Preferred stock			**(101,560)**	**(101,560)**		
Common stock			**(590,626)**	**(590,626)**		
Foreign currency translation adjustment			**2,181**	**2,181**		
Balance, December 31, 1989	**$2,144,951**	**$3,121,583**	**$2,188,859**	**$7,455,393**	**$1,010,195**	**$154,755**

**Includes current portion.*

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

STATEMENT OF CONSOLIDATED CAPITALIZATION

Pacific Gas and Electric Company

Received Chairman's Award in 1988 for improvements to Moss Landing Power Plant, saving the company over $20 million. This year coordinated and trained employee groups to further increase their performance and participation in problem solving and decision making.

Ron Williams
Executive in Residence
San Ramon Learning Center

December 31	*1989*		*1988*	
In thousands, except percentages and shares				
Common stock, par value $5 per share (authorized 800,000,000 shares, issued and outstanding at December 31, 1989: 428,990,166; 1988: 411,443,226)	**$ 2,144,951**		$ 2,057,216	
Additional paid-in capital	**3,121,583**		2,874,279	
Reinvested earnings	**2,188,859**		1,978,432	
Common stock equity	**7,455,393**	**45%**	6,909,927	43%
Preferred stock without mandatory redemption provision				
Par value $25 per share (authorized 75,000,000 shares)				
Nonredeemable				
5% to 6%—5,784,825 shares outstanding	**144,621**		144,621	
Redeemable				
4.36% to 8.2%—13,534,959 shares outstanding	**338,373**		338,373	
9% to 10.46%—21,088,034 shares outstanding	**527,201**		527,201	
	1,010,195		1,010,195	
Preferred stock with mandatory redemption provision				
Par value $100 per share (authorized 10,000,000 shares)				
9% and 10.17%—1,547,550 and 1,800,000 shares outstanding	**154,755**		180,000	
Total preferred stock	**1,164,950**	**7%**	1,190,195	8%
Less preferred stock—current portion	**12,622**		12,622	
Preferred stock in total capitalization	**1,152,328**		1,177,573	
Pacific Gas and Electric Company				
First and refunding mortgage bonds				
Maturity — ***Interest rates***				
1989-1994 — 4.375% to 14%	**391,305**		442,843	
1995-2016 — 4.25% to 8.125%	**1,613,393**		1,613,393	
1996-2020 — 8.2% to 8.875%	**1,709,984**		1,709,984	
1995-2022 — 9% to 9.95%	**1,559,250**		1,359,250	
2012-2020 — 10% to 13.5%	**1,223,426**		1,415,474	
Principal amounts outstanding	**6,497,358**		6,540,944	
Unamortized discount net of premium	**(91,559)**		(93,229)	
Total mortgage bonds	**6,405,799**		6,447,715	
Unsecured debentures, 10.8% to 12%, due 1994-2000	**221,538**		223,650	
Pollution control loan agreements, variable rates, due 2008-2016	**925,000**		925,000	
Other long-term debt	**157,340**		159,202	
Total PG&E long-term debt	**7,709,677**		7,755,567	
Long-term debt of subsidiaries	**161,021**		81,741	
Total long-term debt of PG&E and subsidiaries	**7,870,698**	**48%**	7,837,308	49%
Less long-term debt—current portion	**61,511**		55,728	
Long-term debt in total capitalization	**7,809,187**		7,781,580	
Total capitalization	**$16,416,908**		$15,869,080	

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

SCHEDULE OF CONSOLIDATED SEGMENT INFORMATION

Pacific Gas and Electric Company

Years ended December 31	*Electric*	*Gas*	*Intersegment eliminations*	*Total*
In thousands				
1989				
Operating revenues	**$ 6,216,050**	**$ 2,372,214**		**$ 8,588,264**
Intersegment revenues(a)	**12,463**	**670,011**	**$ (682,474)**	**—**
Total operating revenues	**$ 6,228,513**	**$ 3,042,225**	**$ (682,474)**	**$ 8,588,264**
Depreciation	**$ 753,488**	**$ 246,828**		**$ 1,000,316**
Operating income before income taxes(b)	**$ 2,099,884**	**$ 247,392**		**$ 2,347,276**
Construction expenditures(c)	**$ 1,016,707**	**$ 431,745**		**$ 1,448,452**
Identifiable assets(c)	**$16,272,545**	**$ 4,182,397**		**$20,454,942**
Corporate assets				**897,028**
Total assets				**$21,351,970**
1988				
Operating revenues	$ 5,512,865	$ 2,132,883		$ 7,645,748
Intersegment revenues(a)	9,807	717,833	$ (727,640)	—
Total operating revenues	$ 5,522,672	$ 2,850,716	$ (727,640)	$ 7,645,748
Depreciation	$ 716,539	$ 215,425		$ 931,964
Operating income before income taxes(b)	$ 1,587,438	$ 218,192		$ 1,805,630
Construction expenditures(c)	$ 932,573	$ 402,684		$ 1,335,257
Identifiable assets(c)	$ 16,058,553	$ 4,079,365		$ 20,137,918
Corporate assets				929,767
Total assets				$ 21,067,685
1987				
Operating revenues	$ 5,133,028	$ 2,052,673		$ 7,185,701
Intersegment revenues(a)	7,724	631,981	$ (639,705)	—
Total operating revenues	$ 5,140,752	$ 2,684,654	$ (639,705)	$ 7,185,701
Depreciation	$ 674,135	$ 201,073		$ 875,208
Operating income before income taxes(b)	$ 1,574,483	$ 290,230		$ 1,864,713
Construction expenditures(c)	$ 948,080	$ 380,695		$ 1,328,775
Identifiable assets(c)	$ 16,874,666	$ 3,765,079		$ 20,639,745
Corporate assets				1,093,907
Total assets				$ 21,733,652

(a) Intersegment electric and gas revenues 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. Operating income in the Statement of Consolidated Income is net of income taxes.

(c) Includes an allocation of common plant in service and AFUDC.

The accompanying Notes to Consolidated Financial Statements are an integral part of this schedule.

Helped to consolidate five office locations—with five different ways of doing things—by creating consistent policies and procedures for handling routine customer inquiries, including billing and credit information.

Charlene Manfre
Senior Service Representative

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pacific Gas and Electric Company
For years ended December 31, 1989, 1988 and 1987

Note 1: Summary of Significant Accounting Policies

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

Developed and implemented a complete safety program for meter readers which has resulted in an 88 percent reduction in accidents and saved the company $23,000 in 1989 compared to 1988.

Pam Buck
Meter Reading Supervisor

Principles of consolidation The consolidated financial statements include PG&E and its wholly-owned and majority-owned subsidiaries (the Company). All significant intercompany transactions are eliminated.

Major subsidiaries are: Pacific Gas Transmission Company (PGT) — transports and sells natural gas outside California; Alberta and Southern Gas Co. Ltd. (A&S) — buys gas in Canada and arranges transport to the U.S. border; Pacific Energy Fuels Company (PEFCO) — finances the purchase of nuclear fuel through issuance of its commercial paper; PG&E Enterprises — holding company for the nonregulated subsidiaries of PG&E, including PG&E Resources Company (PG&E Resources) which acquires and operates oil and natural gas production properties.

Alberta Natural Gas Company Ltd (ANG), an affiliate of PGT, owns and operates a pipeline in Canada, which transports natural gas for A&S to the U.S. border. The investment in ANG, a less than 50%-owned affiliate, is accounted for by the equity method of accounting.

Revenues Revenues include billings to customers, accrued unbilled revenues and changes in regulatory balancing accounts.

Before 1987, revenues were recognized as customers were billed throughout each month. To match revenues and expenses more closely, effective January 1987, the Company began accruing revenues for service provided but unbilled at the end of each month.

The CPUC authorizes the use of balancing accounts which reduce earnings fluctuations from changes in sales and most costs of providing electricity and gas. The balances of these accounts represent amounts that will be recovered from, or repaid to, customers by adjustments to future customer rates. The CPUC reviews the reasonableness of the amounts in these accounts.

Plant in service The costs of plant additions, including replacements of plant retired, are capitalized. Costs include labor, material, construction overheads and an allowance for funds used during construction (AFUDC). AFUDC is the cost of financing the construction of new facilities. Effective July 1988, financing costs of capital additions for the Diablo Canyon Nuclear Power Plant (Diablo Canyon) are calculated under Statement of Financial Accounting Standards (SFAS) No. 34, *Capitalization of Interest Cost*, since Diablo Canyon is no longer on a cost-based ratemaking basis. (See Note 2.) Costs of depreciable retired utility plant plus removal costs less salvage are charged to accumulated depreciation. Property maintenance, repairs and minor replacements and additions are charged to maintenance expense.

Depreciation For financial reporting purposes, depreciation of plant in service is computed using a straight-line remaining-life method. For federal income tax purposes, the most liberal depreciation methods allowed by the Internal Revenue Code generally are used.

Income taxes PG&E files a consolidated federal income tax return that includes subsidiaries in which its ownership is 80% or more. Income tax expense includes the current and deferred income tax expense resulting from operations during the year. Deferred income tax expense is provided on most of the major timing differences between financial statement and income tax reporting, to the extent permitted for ratemaking purposes. These timing differences are itemized in the deferred tax section of Note 8. Although the tax effects of most major timing differences are deferred, others are recorded currently. Timing differences for which there are no deferred taxes include certain capitalized overheads, percentage repair allowances,

Developed and implemented new planning criteria for transmission and substation facilities, saving $7 million in one year.

Bill Stephenson
Gas & Electric Technical Services
Supervising Electrical Engineer

excess depreciation for state purposes, and removal costs and federal tax depreciation on property acquired prior to 1981. At December 31, 1989, the cumulative net amount of these differences was $2.1 billion for federal purposes and $2.5 billion for state purposes. The Company expects to recover the tax effects of these timing differences in future rates. Investment tax credits are deferred and amortized to income over the life of the related property.

Debt premium, discount and related expense Long-term debt premium, discount and expense are amortized over the life of each issue. Gains and losses on reacquired debt are amortized over the remaining original lives of debt reacquired, consistent with ratemaking. Effective July 1988, gains and losses on reacquired debt allocated to Diablo Canyon are recognized in income.

Inventories Nuclear fuel inventory is stated at the lower of cost or market. Amortization of fuel in the reactor is based on the amount of power generated.

As required by federal law, the U.S. Department of Energy (DOE) is responsible for the future storage and disposal of spent nuclear fuel. The cost of these activities is funded through a one-tenth of one cent fee on each kilowatt-hour (kwh) generated by all nuclear power plants, including Diablo Canyon. This fee is deposited with the DOE. The cost of nuclear fuel, including the spent fuel fee, is recoverable through the Diablo Canyon settlement revenues. (See Note 2.)

Other inventories are valued at average cost except for fuel oil, which is valued by the last-in first-out (LIFO) method.

Oil and gas exploration costs PG&E Resources uses the successful efforts method of accounting to determine the profits and losses on nonregulated oil and gas exploration, development and production.

Statement of consolidated cash flows Cash and cash equivalents include special deposits, working funds and short-term investments (at cost which approximates market).

Noncash investing and financing activities include increases of $50 million and $48 million in 1988 and 1987, respectively, in capital lease obligations, primarily for nuclear fuel. (See Note 6.)

Reclassifications Prior years' amounts in the consolidated financial statements have been reclassified where necessary to conform to the 1989 presentation.

Note 2: Diablo Canyon

Rate case settlement In December 1988, the CPUC approved a settlement of the Diablo Canyon rate case. The settlement, effective July 1988, adopted alternative ratemaking for Diablo Canyon by basing revenues primarily on the amount of electricity generated rather than on traditional cost-based ratemaking. In approving the settlement, the CPUC explicitly affirmed that Diablo Canyon costs and operations no longer should be subject to CPUC reasonableness reviews. The CPUC cannot bind future commissions in fixing rates for Diablo Canyon, but to the extent permitted by law intends that this decision remain in effect for the full term of the settlement.

The settlement provides that certain costs of Diablo Canyon aggregating $1.056 billion after tax will continue to be recovered, including a full return, through base rates. Other than these and decommissioning costs, Diablo Canyon no longer meets the criteria for application of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation.* Consequently, application of this statement was discontinued for Diablo Canyon effective July 1988.

In 1988, as a result of the settlement, the Company charged to earnings approximately $871 million of Diablo Canyon revenues previously recorded but uncollected through rates, as well as approximately $150 million of litigation and other Diablo Canyon costs.

Pricing Under the settlement, revenues are based on a pre-established price per kwh consisting of a fixed component and an escalating component. The total price for 1989 was 8.34 cents per kwh, effective January 1. Total prices for the years 1990 through 1994, effective January 1 of each year, are 8.93 cents, 9.6 cents, 10.34 cents, 11.16 cents and 11.89 cents per kwh. For 1995 through 2016, the escalating component will be adjusted by an inflation factor. During the first 700 hours of full-power operation during the peak period in June through September, the price is 130% of the stated amount to encourage the Company to utilize the plant during the peak period. Beginning in January of each year, during the first 700 hours of full-power operation outside this peak period, the price is 70% of the stated amount. At all other times, the price is 100% of the stated amount.

Received company commendations for rigorously controlling costs and increasing operating efficiency through re-negotiated contracts for conversion of several overhead electric facilities to underground facilities.

Wayne Clerk
Director
Governmental & Area Services

Decommissioning costs Since 1987, the CPUC has granted the Company $53 million in annual revenues to provide for the future costs of decommissioning Diablo Canyon. This amount is based on an estimated decommissioning cost of $579 million (computed in 1985 dollars), which includes a contingency factor of 50% for expected changes in regulatory requirements and waste disposal cost increases. Decommissioning costs will continue to be recovered through base rates and are not subject to plant performance.

As of December 31, 1989, approximately $149 million had been deposited in an external trust fund to be used for the decommissioning of Diablo Canyon and was included in funds held by trustee in the consolidated balance sheet. Funds may not be released from the trust fund until authorized by the CPUC.

Note 3: Preferred Stock

Nonredeemable preferred stock ($25 par) consists of a 5%, a 5.5%, and a 6% series, which have rights to annual dividends per share of $1.25, $1.375, and $1.50, respectively.

Redeemable preferred stock without mandatory redemption provision ($25 par) is subject to redemption, in whole or in part, if the Company pays the specified redemption price plus accumulated and unpaid dividends to the redemption date. Per share information is:

Series	*Annual dividend*	*Redemption price*
4.36% to 8.2%	$1.09 to $2.05	$25.75 to $28.125
9% to 10.46%	$2.25 to $2.615	$25.85 to $28.50

Preferred stock with mandatory redemption provision ($100 par) consists of a 9% and a 10.17% series, each entitled to a sinking fund providing for the retirement of stock outstanding at $100 per share plus accumulated and unpaid dividends. The total redemption cost, excluding any accumulated and unpaid dividends, for each of the years 1990 through 1994 is $13 million.

In addition to sinking fund retirements, the 9% series, and after August 14, 1993, the 10.17% series, may be redeemed at PG&E's option for $100 per share plus accumulated and unpaid dividends and a redemption premium under specified circumstances.

Preferred stock dividends are cumulative. All shares of preferred stock have equal preference in dividend and liquidation rights. Upon liquidation or dissolution of PG&E, holders of the preferred stock would receive the par value of such shares plus all accumulated and unpaid dividends, as specified for the class and series.

Note 4: Long-term Debt

Mortgage bonds The first and refunding mortgage bonds of PG&E are issued in series, bear annual interest rates ranging from 4.25% to 13% and mature from 1990 to 2022. Additional bonds may be issued up to a maximum total outstanding of $10 billion, assuming compliance with indenture covenants for earnings coverage and property available as security. The indenture requires that net earnings not including depreciation and interest be equal to or greater than 1.75 times the annual interest charges on PG&E's mortgage bonds outstanding. The Board of Directors of PG&E may increase the amount authorized, subject to CPUC approval. 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's mortgage bonds.

PG&E is required by the indenture to make semiannual sinking fund payments on February 1 and August 1 of each year for the retirement of the bonds. The payments equal ½ of 1% of the aggregate bonded indebtedness outstanding on the preceding November 30 and May 31, respectively. Bonds of any series, with certain exceptions, may be used to satisfy this requirement. In addition, holders of Series 84D bonds maturing in 2017 have an option to redeem their bonds in 1995.

Performance for servicemen is measured against factors established jointly by the company and the union. Grisham comes out a perfect 100 on the quality index and a 122 on the productivity index.

Revis Grisham
Gas Serviceman

PG&E continues to reacquire high-cost debt when it is economical to do so. In 1989, PG&E reacquired $161 million of its outstanding long-term debt with interest rates ranging from 12% to 14%, at a redemption premium of $25 million. The premium is amortized over the remaining original lives of the debt reacquired. Effective July 1988, the portion allocated to Diablo Canyon is charged to income.

In January 1989, PG&E issued $200 million of Series 89A mortgage bonds at 9.95%, to mature in February 2022. Proceeds from these bonds were applied to construction expenditures and to the redemption, repayment, or retirement of debt or preferred stock.

Pollution control loan agreements PG&E has loans from an agency of the State of California to finance air and water pollution control, and sewage and solid waste disposal facilities. In 1988, PG&E borrowed $925 million to refund existing loans with the agency. Interest rates on the $925 million in loans vary depending on whether the loans are in a daily, weekly, commercial paper, or fixed rate mode. Conversions from one mode to another take place at PG&E's option. Average annual interest rates for 1989 ranged from 6.3% to 6.6%. These loans are subject to redemption by the holder on demand under certain circumstances. The Company's obligations for such demands are secured by irrevocable letters of credit which can be drawn on at anytime until 1996. Any borrowings resulting from use of the letters of credit would mature in 1996. PG&E has additional loans with the agency totaling $423 million with interest rates ranging from 6.25% to 8.875% and maturities from 2007 to 2018. These loans are secured by PG&E's mortgage bonds.

Repayment schedule For the years 1990 through 1994, the Company's combined aggregate amount of debt maturing and sinking fund requirements, as of December 31, 1989, is $62 million, $104 million, $169 million, $358 million, and $174 million.

Note 5: Short-term Borrowings

Short-term borrowings are principally commercial paper with weighted average interest rates of 10.1% and 9.7% at December 31, 1989 and 1988, respectively. The usual maturity for commercial paper is 10 to 90 days.

PG&E has a $750 million revolving credit facility agreement to support the sale of commercial paper and for other corporate purposes. PEFCO's commercial paper issued to finance the purchase of nuclear fuel is supported by a $250 million revolving credit facility agreement guaranteed by PG&E. PEFCO's commercial paper also is guaranteed by PG&E. The Company is in compliance with all covenants associated with both agreements. There were no borrowings outstanding against either of these facilities at December 31, 1989.

A&S maintains a $35 million (Canadian) line of credit with a bank to support the sale of commercial paper for take-or-pay payments on gas contracts. PG&E has executed guarantees to assume liabilities not to exceed $350 million on commercial paper and a bank line of credit for A&S to cover take-or-pay borrowings. (See Note 9.) A&S also maintains lines of credit with four banks totaling $23 million (Canadian) for operations. As of December 31, 1989, A&S had no significant borrowings outstanding against either of these lines of credit.

The Company pays fees to the banks for credit facilities and other banking services.

Note 6: Nuclear Fuel Lease

Manages pension fund as well as a trust fund established for eventual decommissioning of nuclear power plants.

Sunny Oberoi

Director, Investments and Benefit Finance

PG&E leased nuclear fuel from Pacific Energy Trust (PET) under an agreement that was terminated in March 1989. Lease payments were based on the cost of the nuclear fuel used plus the daily finance charges on PET's net investment in nuclear fuel during the period.

Nuclear fuel lease expenses were $98 million and $110 million, including interest of $21 million and $11 million, in 1988 and 1987, respectively. The carrying value of nuclear fuel under capital lease, net of accumulated amortization of $160 million, was $212 million as of December 31, 1988.

In March 1989, PEFCO purchased PET's remaining investment in the nuclear fuel lease. The acquisition cost was financed by the issuance of commercial paper. PEFCO continues to finance the acquisition of nuclear fuel through the issuance of its commercial paper. (See Note 5.)

Note 7: Retirement Plan and Postretirement Benefits

Retirement Plan The Company provides a defined benefit retirement plan covering substantially all employees. The retirement benefits are based on years of service and the employee's base salary. The Company's funding policy is to contribute each year not more than the maximum amount deductible for federal income tax purposes and not less than the minimum contribution required under the Employee Retirement Income Security Act of 1974. The cost of this plan was charged to expense and plant in service.

The plan's funded status was:

December 31	**1989**	*1988*
In thousands		
Actuarial present value of projected benefit obligations		
Vested benefits	**$2,003,385**	$1,777,000
Nonvested benefits	**127,876**	154,711
Accumulated benefit obligation	**2,131,261**	1,931,711
Effect of projected future compensation increases	**846,957**	789,306
Projected benefit obligation	**2,978,218**	2,721,017
Plan assets at market value	**3,075,207**	2,535,708
Projected benefit obligation in excess of (less than) plan assets	**(96,989)**	185,309
Unrecognized prior service cost	**(3,247)**	—
Unrecognized net gain	**308,741**	52,309
Unrecognized net obligation	**(173,703)**	(185,682)
Accrued pension liability	**$ 34,802**	$ 51,936

Assumptions used to calculate the projected benefit obligation to determine the plan's funded status were:

Weighted-average discount rate	**7.5%**	8.0%
Rate of projected future compensation increases	**6.5%**	7.0%

Plan assets are composed primarily of common stocks, fixed-income securities and real estate investments. The unrecognized net obligation is being amortized over approximately 18 years.

Net pension cost, using the projected unit credit actuarial cost method, was:

	1989	*1988*	*1987*
In thousands			
Service cost for benefits earned	**$ 90,735**	$ 81,653	$ 92,812
Interest cost on projected benefit obligation	**215,993**	209,372	184,774
Return on plan assets	**(552,393)**	(323,087)	(89,046)
Net amortization and deferral	**349,742**	135,536	(87,235)
Net pension cost	**104,077**	103,474	101,305
Cost of early retirement benefits	**—**	—	87,052
Net pension cost recognized	**$ 104,077**	$ 103,474	$ 188,357

The expected long-term rate of return on plan assets used in determining pension cost was 8.5%, 9% and 8% for 1989, 1988 and 1987, respectively.

Effective January 1988, pension benefits for management employees were based on final three years' average pay. For nonmanagement employees, the Company historically has amended the retirement plan every two to three years so that pension benefits are based on the most current salaries. Subject to collective bargaining, the Company intends to continue this practice and therefore future amendments to the plan for nonmanagement employees have been anticipated and are reflected in the projected benefit obligation and pension cost.

One of several PG&E biologists monitoring the marine environment around the Diablo Canyon Nuclear Power Plant.

Sally Krenn

Biologist II

Early retirement plan In 1987, PG&E offered an early retirement plan to qualified employees, which increased administrative and general expenses in 1987 by $87 million before taxes.

Life insurance benefits The Company provides life insurance benefits for retired employees. This benefit is provided through an insurance company whose premiums are based on total claims paid in the prior year. A life insurance plan available to certain management employees uses the same actuarial funding methods and assumptions as the retirement plan. The annual contribution is the normal cost plus the amortization of the unfunded actuarial liability. The cost of providing life insurance benefits was charged to expense and plant in service and totaled $2.6 million, $1.3 million and $2.2 million for 1989, 1988 and 1987, respectively.

Health care benefits The Company provides health care benefits for retired employees and their eligible dependents. Costs are based on benefits paid during each year. The cost of providing these benefits for retirees cannot be separated from the cost for active employees. Health care costs (in thousands) and the number of covered retired and active employees were:

	1989	*1988*	*1987*
Health care costs	**$92,000**	$99,000	$87,000
Retired employees	**8,400**	8,400	8,400
Active employees	**27,900**	28,400	28,900

The cost of health care benefits was charged to expense and plant in service.

Note 8: Income Taxes

The current and deferred components of income tax expense were:

In thousands	***1989***	*1988*	*1987*
Current			
Federal	**$457,014**	$ 133,864	$313,144
State	**139,975**	88,579	111,835
Total current	**596,989**	222,443	424,979
Deferred—Federal and State			
Balancing accounts	**78,445**	(11,215)	100,229
Depreciation	**95,414**	223,494	197,143
Contributions in aid of construction	**(27,708)**	(27,100)	(30,741)
Fuel oil inventory	**7,912**	14,282	(38,924)
Capitalized interest and overheads	**(1,240)**	13,511	(44,246)
Early retirement plan	**2,630**	2,401	(37,790)
Unbilled revenues	**(39,599)**	(6,433)	48,642
State tax deductions	**(20,173)**	15,300	(9,721)
Gain/loss on reacquired debt	**908**	8,216	(2,694)
Energy project costs	**—**	(24,414)	—
Diablo Canyon adjustment account	**—**	(446,280)	—
Other—net	**(12,532)**	(147)	(9,066)
Total deferred	**84,057**	(238,385)	172,832
Investment tax credits-net	**(11,161)**	(7,423)	34,663
Total income tax expense	**$669,885**	$ (23,365)	$632,474
Classification of income taxes			
Included in operating expenses	**$724,718**	$ 508,258	$603,012
Included in other—net	**(54,833)**	(22,076)	(47,583)
Included in accounting change	**—**	—	77,045
Diablo Canyon settlement	**—**	(509,547)	—
Total income tax expense	**$669,885**	$ (23,365)	$632,474

Pacific Gas and Electric Company

The differences between reported state and federal income taxes and amounts determined on income before income tax expense by applying the federal statutory rate are:

In thousands	1989	1988	1987
Expected federal income tax expense at statutory rate	**$ 533,974**	$ 13,179	$ 528,396
Increase (decrease) in income tax expense resulting from:			
Investment and other tax credits	**(24,547)**	(21,923)	(29,019)
State income tax (net of federal benefit)	**96,225**	13,365	74,853
Financial statement depreciation in excess of tax depreciation	**89,780**	105,977	133,656
AFUDC	**(14,629)**	(8,076)	(899)
Removal costs	**(6,724)**	(6,724)	(7,912)
Repair allowance	**(10,881)**	(10,880)	(8,120)
Capitalized interest	**8,404**	6,165	(35,094)
Capitalized overheads	**(3,621)**	(11,326)	(26,670)
Diablo Canyon settlement	**—**	(104,169)	—
Other—net	**1,904**	1,047	3,283
Total income tax expense	**$ 669,885**	$ (23,365)	$ 632,474
Income before income tax expense	**$1,570,513**	$ 38,762	$1,320,991
Effective tax rate (total income tax expense/ income before income tax expense)	**42.7%**	(60.3%)	47.9%

Began "job sharing"—coordinating one full-time workload between two part-time employees—as a creative, flexible response to the demands of work and family.

Lori Austin
Communications Editor
Lori Jarvis-Steinwert
Communications Editor

The 1988 effective tax rate was affected primarily by the Diablo Canyon settlement. Deferred income taxes for Diablo Canyon revenues accrued but not collected had been provided in prior years using historical income tax rates. In 1988, these deferred income taxes were reversed and the difference between historical and present income tax rates was included in net income.

SFAS No. 96, *Accounting for Income Taxes,* issued in December 1987, established new financial accounting standards for income taxes. The Company currently is evaluating the accounting, regulatory and financial implications of SFAS No. 96, which must be adopted by 1992. The Company estimates that both consolidated assets and liabilities will increase by two to three billion dollars upon adoption, as the result of recording additional deferred taxes and the related regulatory assets. The impact on consolidated net income is not expected to be material.

Note 9: Commitments

Capital expenditures Capital expenditures for 1990 are estimated to be approximately $1.8 billion, consisting of $1.6 billion, including AFUDC, for utility expenditures, $109 million for Diablo Canyon and $125 million for nonregulated investments.

Natural gas take-or-pay contracts A&S, the Company's Canadian gas purchasing subsidiary, has contracted to make take-or-pay payments to Canadian natural gas producers if it does not take certain quantities of natural gas during a contract year. The contracts permit make-up of the prepaid gas and provide for reimbursement of take-or-pay payments if make-up of the gas prior to the expiration of the contracts is not possible. Total advances by A&S to producers as of December 31, 1989, were $224 million. Advances unreimbursed by A&S's gas customers are financed by short-term borrowings. PG&E has executed guarantees to assume liabilities not to exceed $350 million on commercial paper and a standby bank line of credit for A&S to cover take-or-pay borrowings. (See Note 5.)

Each year PG&E selects employees active in the community and awards them the Frederick W. Mielke, Jr. Award. The following pages list this year's recipients:

Stock Option Plan The Company has a Stock Option Plan (Plan) to grant incentive and nonqualified stock options with associated stock appreciation rights (SARs) and dividend equivalents to key management employees.

A total of 1.5 million shares of the Company's common stock was authorized for award under the Plan. Costs associated with the Plan are not recoverable in rates.

During 1987 through 1989, nonqualified options on 322,650 shares were granted at option prices ranging from $16.75 to $26.63. Option prices were the market price per share on the date of grant.

The options expire ten years and one day after the date of grant, and become exercisable on a cumulative basis at one-third each year commencing two years from the date of grant. Options also become exercisable upon retirement or death. As of December 31, 1989, options on 72,996 shares were exercisable. No options or SARs have been exercised.

Western Area Power Administration (WAPA) energy agreement The Company has an agreement with WAPA to purchase energy from them and resell it to them upon their request. The energy under contract has been purchased by the Company from WAPA at favorable prices based on WAPA's cost of generation. That energy must be sold back to WAPA at a price equal to the Company's current thermal production cost at the time of delivery to WAPA less the Company's savings that resulted from the purchases at the lower WAPA prices.

The contract will expire in 2005. As of December 31, 1989, the cost to the Company to return the amount of energy currently available to WAPA was approximately $412 million, assuming WAPA requests the return of all the energy prior to the contract's expiration date. However, such cost represents a return of the benefits the Company received through its purchases from WAPA, which were passed on to ratepayers at that time. The Company believes it is entitled to recover in rates costs of energy resold to WAPA.

Qualifying facilities (QFs) Under the Public Utility Regulatory Policy Act of 1978, the Company is required to purchase energy and capacity produced by QFs. The CPUC established a series of power purchase agreements which set the applicable terms, conditions and price options.

Under the power purchase agreements, sellers receive payments for the energy delivered at a calculated rate equal to the Company's own marginal costs for constructing new facilities or purchasing power, or at forecasted rates negotiated in the individual agreement. The total cost of the QF purchase payments is recoverable in rates.

Approximately $857 million, $538 million and $360 million was paid to QFs for 12,975 million, 9,387 million and 6,718 million kwh of energy and associated capacity in 1989, 1988 and 1987, respectively.

Note 10: Contingencies

Helms Pumped Storage Project (Helms) Helms, which was delayed due to a water conduit rupture in 1982 and various start-up problems, became commercially operable in 1984.

The total cost of the project as of December 31, 1989 was $969 million, of which $716 million is in rate base and $22 million was disallowed by the CPUC. The Company was granted recovery of an additional $51 million of costs in the 1990 general rate case. The remaining $180 million is not in rate base and therefore is not earning a return on investment. The Company currently is seeking recovery of the majority of these costs through litigation. Any costs then remaining will be submitted to the CPUC for recovery in rates.

The CPUC has indicated that PG&E will bear a heavy burden of proof in establishing the reasonableness of these costs. In addition, if PG&E seeks to recover these costs in rates, the CPUC intends to consider an offset to revenues to reflect lost or deferred capacity benefits due to the delay in commercial operation.

In its 1985 Helms rate case decision, the CPUC declined to include in rates the revenues accrued during the time Helms was out of service for the modification and repair of the generators. These revenues and related interest amounted to $55 million. PG&E will be allowed to file a separate application for recovery after claims against third parties are resolved.

The Company believes that it is entitled to recover in rates all Helms costs not recovered through claims or litigation and that any revenues or costs disallowed by the CPUC would not have a significant impact on its financial position or results of operations.

Nuclear insurance PG&E is a member of Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL I and II). In the event of property damage to a nuclear plant of a member utility or increased cost of replacement power due to a prolonged accidental outage of a member utility's reactor unit, PG&E may be subject to maximum assessments of $55 million (property damage), or $9 million (replacement power) in each case per policy period, if losses exceed premiums, reserves, NML, NEIL I or NEIL II resources. With respect to property damage at Diablo Canyon, the NML coverage is limited to $500 million and an additional $1.5 billion of excess coverage is provided by NEIL II and the nuclear insurance industry pools.

The maximum industry liability for third-party claims resulting from any nuclear incident is $7.4 billion per incident under provisions of the Price-Anderson Act. In the event that a nuclear incident results in public liability claims in excess of $200 million, PG&E is subject to a retrospective assessment of up to $63 million per incident for each of its two licensed reactors, not to exceed $10 million per reactor per calendar year with payments in excess deferred to the next calendar year. In addition, if the sum of all public liability claims and legal costs arising from any nuclear incident exceeds the maximum amount of financial protection, each licensee can be assessed an additional 5% ($3.2 million) of the maximum retrospective assessment for each of its licensed reactors.

Geothermal steam contracts litigation In January 1987, two lawsuits were filed against the Company relating to the sale of geothermal steam to the Company for use in the generation of electricity at the Company's Geysers Geothermal Power Plant. In total, the lawsuits claim damages in excess of $120 million for breaches of contract.The Company has filed a cross-complaint requesting damages in excess of $57 million.

The Company plans to defend these lawsuits vigorously and believes that the ultimate outcome of this matter would not have a significant impact on its financial position or results of operations.

An active scout for over 42 years, spends more than 60 hours a month volunteering with the Boy Scouts. Currently an Area Council vice president, has developed many special programs.
William McLane
Diablo Canyon Nuclear Power Plant
Outage Manager
(Mielke Award)

Material Redacted GTR0061432

FERC hydroelectric relicensing Federal legislation has eliminated any preference for governmentally-run utilities in the relicensing of hydroelectric projects. Certain governmentally-run utilities previously had challenged the Company's relicensing of three hydroelectric projects.

The new law requires the Company to pay these challengers a "reasonable" settlement consisting of their costs incurred to pursue the licenses and a potential further amount ranging from 0% to 100% of the Company's remaining net investment of approximately $126 million in the projects. In return, the challengers are required to withdraw their competing license applications. Settlement negotiations are taking place and a tentative agreement has been reached for one project. The other two projects currently are proceeding toward eventual FERC hearing. The Company expects to recover settlement costs for each project through rates.

Volunteered with Indian communities in the northern part of our service territory to create a 24-hour health facility, improve the domestic water system for the Tuolumne Rancheria, begin drug and alcohol abuse programs and create cultural programs for Indian youth.

Dennis Hendricks
Customer Service Representative
(Mielke Award)

Take-or-pay liabilities The Company has a service agreement with El Paso Natural Gas Company (El Paso) for the purchase of natural gas. Under a FERC order, El Paso may recover take-or-pay settlement costs from customers, subject to refund. As a result, the Company estimates that it could be assessed over $100 million in fixed costs over three years. The Company has challenged El Paso's proposed allocation of these costs.

The Company began payments to El Paso in January 1989, and as of January 1990, had paid approximately $21 million in direct billings. The Company has applied to the CPUC for rate recovery and believes that the ultimate outcome would not have a significant impact on its financial position or results of operations.

Environmental cleanup matters The Company currently is assessing measures that may need to be taken, principally at retired manufactured gas plant sites, to comply with environmental laws and regulations. The probable costs of these measures cannot be determined at this time due to uncertainty as to the extent of environmental risks and the Company's responsibility, the complexity of environmental laws and regulations and the selection of alternative compliance approaches. However, the Company expects to recover in rates costs not recovered through insurance and believes that the ultimate outcome would not have a significant impact on its financial position or results of operations.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Pacific Gas and Electric Company

To the Shareholders and the Board of Directors of Pacific Gas and Electric Company:

We have audited the accompanying consolidated balance sheet and the statement of consolidated capitalization of Pacific Gas and Electric Company (a California corporation) and subsidiaries as of December 31, 1989 and 1988, and the related statements of consolidated income, cash flows, common stock equity and preferred stock, and the schedule of consolidated segment information for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and schedule of consolidated segment information referred to above present fairly, in all material respects, the financial position of Pacific Gas and Electric Company and subsidiaries as of December 31, 1989 and 1988, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 1987, the Company changed its method of recognizing revenues to accrue for service provided but unbilled.

ARTHUR ANDERSEN & CO.
San Francisco, California
February 2, 1990

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Pacific Gas and Electric Company

The responsibility for the integrity of the financial information included in this annual report rests with management. Such information has been prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and is based on the Company's best estimates and judgments after giving consideration to materiality.

PG&E maintains systems of internal accounting controls supported by formal policies and procedures which are communicated throughout the Company. These controls are adequate to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce the records necessary for the preparation of financial information. There are limits inherent in all systems of internal control, based on the recognition that the costs of such systems should not exceed the benefits to be derived. The Company believes its systems provide this appropriate balance. In addition, the Company's internal auditors perform audits and evaluate the adequacy of and the adherence to these controls, policies and procedures.

Arthur Andersen & Co., the Company's independent public accountants, review and evaluate the Company's internal accounting control systems to the extent they consider necessary in order to support their opinion on the consolidated financial statements. Their auditors' report contains an independent informed judgment as to the fairness, in all material respects, of the Company's reported results of operations and financial position.

In a further attempt to assure objectivity and remove bias, the financial data contained in this report have been reviewed by the Audit Committee of the Board of Directors. The Audit Committee is composed of five outside directors who meet regularly with management, the corporate internal auditors and Arthur Andersen & Co., jointly and separately, to review internal accounting controls and auditing and financial reporting matters.

The Company maintains high standards in selecting, training and developing personnel to ensure that management's objectives of maintaining strong, effective internal controls and unbiased, uniform reporting standards are attained. The Company believes its policies and procedures provide reasonable assurance that operations are conducted in conformity with applicable laws and with its commitment to a high standard of business conduct.

QUARTERLY CONSOLIDATED FINANCIAL DATA *(Unaudited)*

Pacific Gas and Electric Company

Quarterly financial data for the four quarters of 1989 and 1988 are shown below. Due to the seasonal nature of the utility business and the planned refueling outages for Diablo Canyon, 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 Zurich stock exchanges. There were approximately 287,000 common shareholders of record as of December 31, 1989. Dividends are paid on a quarterly basis, and there are no material restrictions on the present ability of the Company to pay dividends. In the fourth quarter of 1988, the Company charged to earnings $576 million after tax for the Diablo Canyon rate case settlement and for various non-Diablo Canyon adjustments.

Following his son's injury in a tragic drunk-driving accident, began a series of talks to high school groups and has continued efforts for five years now. Also provides support to families with mentally impaired members.

Dallas Huston
Associate Distribution Engineer
(Mielke Award)

In thousands, except per share amounts	*4th*	*3rd*	*2nd*	*1st*
1989				
Operating revenues	**$2,146,711**	**$2,245,948**	**$2,086,494**	**$2,109,111**
Operating income	**$ 296,437**	**$ 475,876**	**$ 430,479**	**$ 419,766**
Net income	**$ 102,975**	**$ 317,022**	**$ 236,193**	**$ 244,438**
Earnings per common share	**$ .18**	**$ .69**	**$ .50**	**$ .53**
Dividends declared per common share	**$ .35**	**$ .35**	**$ .35**	**$ .35**
Common stock price per share				
High	**$ 22.00**	**$ 21.63**	**$ 20.50**	**$ 18.50**
Low	**$ 18.75**	**$ 19.50**	**$ 17.50**	**$ 17.25**
1988				
Operating revenues	$2,043,571	$1,966,016	$1,766,565	$1,869,596
Operating income	$ 290,085	$ 388,685	$ 318,403	$ 300,199
Net income (loss)	$ (461,644)	$ 240,649	$ 146,454	$ 136,668
Earnings (loss) per common share	$ (1.19)	$ .53	$ .30	$ .28
Dividends declared per common share	$ .35	$ .35	$ .48	$ .48
Common stock price per share				
High	$ 18.38	$ 17.50	$ 16.13	$ 18.00
Low	$ 16.63	$ 15.00	$ 14.00	$ 15.13

Pacific Gas and Electric Company

For over 10 years, has been actively involved with the Oakland Community Organizations, a federation of neighborhood groups striving to improve the quality of life in the area. Currently serves as president of the group.

Diane Ingram
Customer Services Office Supervisor
(Mielke Award)

Years ended December 31	*1989*	*1988*	*1987*
Electric statistics			
Net area output (millions of kwh)	**94,155**	91,575	88,444
Net area output—percent			
Hydroelectric plants	**11.5%**	9.3%	10.2%
Thermal electric plants (excluding nuclear)	**35.9**	42.3	38.2
Nuclear plants	**16.8**	12.5	15.8
Other producers	**35.8**	35.9	35.8
Total	**100.0%**	100.0%	100.0%
Area capability—mw (at annual peak)			
Hydroelectric plants (adverse conditions)	**3,895**	3,875	3,938
Thermal electric plants (excluding nuclear)	**8,995**	8,995	9,070
Nuclear plants	**2,160**	2,160	2,164
Other producers (adverse conditions)	**8,194**	8,917	6,554
Total	**23,244**	23,947	21,726
Net area peak demand—mw	**17,623**	18,490	16,202
Reserves capacity margin at peak—percent	**8.8%**	7.8%	19.3%
Annual load factor—percent	**61.0%**	56.7%	62.3%
Average annual residential consumption—kwh	**6,468**	6,537	6,489
Average residential revenue per kwh	**9.69¢**	8.64¢	7.80¢
Average annual residential bill	**$626**	$565	$506
Total customers (end of year)	**4,110,000**	4,027,000	3,951,000
Plant investment per customer	**$3,474**	$3,520	$3,565
Customers per mile of distribution line	**40.8**	40.3	40.0
Gas statistics			
Gas purchased for U.S. operations (thousands of mcf)	**756,222**	745,606	681,421
Source of gas purchased—percent			
From California	**11.7%**	15.8%	18.3%
From other states	**39.2**	33.0	27.7
From Canada	**49.1**	51.2	54.0
Total	**100.0%**	100.0%	100.0%
Average cost of gas purchased per mcf (U.S. operations)			
From California	**$1.83**	$1.69	$1.71
From other states	**$2.58**	$2.47	$2.16
From Canada	**$2.36**	$1.88	$1.87
Average	**$2.38**	$2.05	$1.92
Peak day sendout—mmcf	**3,430**	3,524	3,530
Average annual residential consumption—mcf	**67.0**	64.0	66.0
Average residential revenue per mcf	**$5.28**	$4.77	$4.55
Average annual residential bill	**$352**	$305	$300
Total customers (end of year)	**3,372,000**	3,300,000	3,245,000
Plant investment per customer	**$705**	$665	$631
Customers per mile of distribution main	**100.4**	100.1	100.3
Miscellaneous statistics			
Customers served per employee	**286**	275	264
Depreciation and amortization as a percent of average depreciable plant			
Electric	**3.6%**	3.6%	3.6%
Gas	**5.3%**	5.3%	5.7%
PG&E composite (includes common plant in service)	**4.0%**	4.0%	4.0%

1986	1985	1984	1983	1982	1981	1980	1979
84,633	85,398	84,227	78,879	78,399	80,606	76,747	77,511
17.4%	13.3%	17.9%	22.9%	19.9%	13.2%	17.3%	15.3%
28.7	40.2	36.8	28.9	31.7	48.8	46.0	53.6
14.5	7.6	.3	—	—	—	—	—
39.4	38.9	45.0	48.2	48.4	38.0	36.7	31.1
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3,875	3,913	3,723	2,658	2,518	2,517	2,491	2,485
9,171	8,939	8,926	8,923	8,699	8,815	8,694	8,629
2,152	1,073	—	—	—	—	—	—
6,978	6,866	7,561	7,617	6,673	8,732	7,180	7,307
22,176	20,791	20,210	19,198	17,890	20,064	18,365	18,421
15,439	16,507	16,225	15,156	13,907	15,542	15,336	15,065
25.7%	11.6%	6.2%	8.8%	9.6%	5.9%	9.0%	12.1%
62.6%	59.1%	59.1%	59.4%	64.4%	59.2%	57.0%	58.7%
6,343	6,533	6,557	6,386	6,252	6,489	6,535	6,811
7.82¢	7.88¢	6.75¢	6.03¢	7.33¢	5.77¢	5.16¢	3.54¢
$496	$515	$443	$385	$458	$374	$337	$241
3,855,000	3,761,000	3,686,000	3,594,000	3,546,000	3,515,000	3,448,000	3,366,000
$3,592	$3,407	$3,157	$2,847	$2,554	$2,310	$2,199	$2,032
39.5	38.8	38.3	39.4	39.1	39.2	39.1	38.9
586,135	778,318	690,455	621,539	698,166	835,684	781,643	843,381
24.4%	21.9%	24.0%	23.1%	18.2%	19.5%	16.0%	16.8%
33.7	39.3	42.4	36.9	45.4	49.2	43.7	37.0
41.9	38.8	33.6	40.0	36.4	31.3	40.3	46.2
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
$2.20	$2.88	$3.60	$3.40	$3.09	$2.60	$2.16	$1.74
$2.58	$3.61	$3.98	$4.02	$3.54	$2.57	$2.30	$1.79
$2.26	$3.14	$4.21	$4.49	$5.14	$4.86	$4.34	$2.61
$2.36	$3.27	$3.96	$4.07	$4.04	$3.29	$3.10	$2.16
3,107	3,603	3,205	3,025	3,133	3,144	3,275	3,398
64.6	75.1	69.6	73.0	78.3	72.7	81.6	90.4
$4.75	$5.38	$5.43	$4.84	$4.39	$3.91	$3.70	$2.37
$307	$404	$378	$353	$344	$284	$302	$214
3,158,000	3,083,000	3,021,000	2,949,000	2,915,000	2,897,000	2,858,000	2,805,000
$595	$555	$500	$471	$474	$475	$467	$450
99.8	98.9	98.4	97.2	96.8	96.9	97.0	97.2
240	231	236	240	249	241	229	230
3.5%	3.6%	3.7%	3.5%	3.5%	3.3%	3.3%	3.1%
4.2%	4.3%	4.3%	4.2%	4.2%	3.5%	3.5%	3.1%
3.8%	3.8%	3.9%	3.7%	3.7%	3.4%	3.4%	3.2%

CONSOLIDATED REVENUES AND SALES *(Unaudited)*

Pacific Gas and Electric Company

For over four years, has organized fundraising events in Monterey to benefit Hospice and Camp Sunburst, a foundation arranging summer camp experiences for terminally ill children.

Ted Leikam
Transmission & Distribution Driver
(Mielke Award)

Years ended December 31	**1989**	*1988*	*1987*
In thousands			
Electric department			
Revenues			
Residential	**$ 2,212,789**	$ 1,950,125	$ 1,711,031
Commercial	**2,289,726**	2,083,570	1,955,721
Industrial (1,000 kw demand or over)	**1,032,304**	945,893	980,773
Agricultural power	**346,982**	290,139	239,204
Public street and highway lighting	**45,210**	44,254	40,803
Other electric utilities	**90,796**	101,147	122,349
Miscellaneous	**50,959**	87,120	77,102
Other	**4,806**	3,854	3,492
Regulatory balancing accounts	**142,478**	6,763	2,553
Total electric revenues	**$ 6,216,050**	$ 5,512,865	$ 5,133,028
Sales—kwh			
Residential	**22,845,271**	22,564,697	21,932,544
Commercial	**24,723,165**	23,917,480	22,621,071
Industrial (1,000 kw demand or over)	**16,222,496**	15,942,700	16,061,922
Agricultural power	**3,897,556**	3,782,041	3,154,373
Public street and highway lighting	**365,595**	349,180	341,909
Other electric utilities	**1,711,645**	1,981,110	2,446,371
Total electric sales to customers	**69,765,728**	68,537,208	66,558,190
Gas department			
Revenues			
Residential	**$ 1,108,446**	$ 936,872	$ 901,326
Commercial	**532,587**	467,334	435,618
Industrial	**449,526**	409,014	299,870
Other gas utilities	**99,110**	68,405	88,861
Miscellaneous	**(27,713)**	108,916	1,073
Regulatory balancing accounts	**(17,283)**	(42,422)	119,848
Subsidiary companies (U.S. and Canada)	**159,953**	124,442	136,922
Gas transport	**67,588**	60,322	69,155
Total gas revenues	**$ 2,372,214**	$ 2,132,883	$ 2,052,673
Sales—mcf			
Residential	**210,116**	196,275	197,882
Commercial	**101,309**	92,671	80,144
Industrial	**144,233**	143,449	99,719
Other gas utilities	**41,551**	28,897	46,977
Total gas sales to customers	**497,209**	461,292	424,722
PG&E use (primarily electric generation)	**227,663**	263,588	239,815
Subsidiary companies (U.S. and Canada)	**61,862**	51,009	46,229
Total	**786,734**	775,889	710,766

1986	1985	1984	1983	1982	1981	1980	1979
$ 1,639,108	$ 1,659,401	$ 1,400,148	$ 1,192,997	$ 1,401,267	$ 1,128,851	$ 998,130	$ 693,368
1,918,093	1,952,531	1,580,192	1,326,406	1,530,542	1,233,564	1,067,198	752,359
1,184,217	1,381,346	1,105,750	914,786	1,078,493	860,577	699,073	461,653
220,462	287,226	239,644	157,528	235,164	241,221	212,770	142,727
45,149	46,997	41,970	48,320	53,224	41,498	38,225	30,491
63,915	93,473	99,350	129,992	172,819	117,791	71,926	67,740
73,839	92,737	116,050	40,350	56,256	70,094	58,568	50,111
3,504	5,305	7,113	7,890	8,008	7,313	5,336	4,115
419,151	300,967	567,948	87,545	(687,171)	204,964	(223,385)	261,281
$ 5,567,438	$ 5,819,983	$ 5,158,165	$ 3,905,814	$ 3,848,602	$ 3,905,873	$ 2,927,841	$ 2,463,845
20,949,230	21,067,234	20,730,060	19,778,553	19,107,415	19,575,283	19,329,190	19,605,541
21,286,100	21,452,853	20,626,467	19,259,758	18,662,382	18,722,954	18,283,154	17,891,820
15,972,091	17,042,349	16,108,571	14,986,722	15,843,646	16,401,293	14,801,260	15,253,371
2,560,390	3,252,215	3,309,155	2,304,205	2,922,541	3,890,088	3,540,022	3,715,026
344,276	336,736	329,378	339,823	365,119	401,930	431,564	455,445
725,397	1,576,215	2,230,163	3,341,984	3,544,563	2,676,998	1,906,465	2,807,249
61,837,484	64,727,602	63,333,794	60,011,045	60,445,666	61,668,546	58,291,655	59,728,452
$ 899,039	$ 1,156,002	$ 1,058,995	$ 972,150	$ 935,996	$ 764,468	$ 799,307	$ 555,017
435,351	562,590	596,107	651,332	681,520	607,417	626,611	406,497
437,677	800,651	732,875	648,832	712,341	794,786	708,259	499,242
28,962	38,322	37,410	39,202	52,589	158,433	148,074	85,867
976	6,069	3,686	5,469	8,835	2,290	(6,560)	7,128
220,840	(233,064)	(107,521)	91,820	149,817	(276,749)	(133,807)	176,354
207,883	280,428	349,986	332,080	395,395	238,057	189,174	170,519
18,495	—	—	—	—	—	—	—
$ 2,249,223	$ 2,610,998	$ 2,671,538	$ 2,740,885	$ 2,936,493	$ 2,288,702	$ 2,331,058	$ 1,900,624
189,120	214,935	195,092	200,774	213,031	195,631	216,184	234,295
78,087	89,415	90,027	109,637	124,622	128,758	146,827	143,707
128,854	178,407	137,178	114,310	132,789	171,769	161,060	186,165
9,832	9,247	8,281	8,532	12,021	35,135	34,821	36,013
405,893	492,004	430,578	433,253	482,463	531,293	558,892	600,180
153,566	263,017	242,985	170,773	201,219	280,990	202,964	216,062
56,027	62,184	61,400	69,417	96,330	73,166	72,608	77,411
615,486	817,205	734,963	673,443	780,012	885,449	834,464	893,653

Board of Directors[1]

Richard A. Clarke
Chairman of the Board and Chief Executive Officer, Pacific Gas and Electric Company

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

Lewis S. Eaton
Chairman of Guarantee Savings and Loan Association

Ira Michael Heyman
Chancellor, University of California, Berkeley

Melvin B. Lane
Co-Chairman of the Board, 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, President, and Chief Executive Officer, Safeway Stores, Incorporated

George A. Maneatis
President, Pacific Gas and Electric Company

Mary S. Metz
President, Mills College

Frederick W. Mielke, Jr.
Former 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)

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

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

Wilson C. Riles[2]
President, Wilson Riles and Associates, Inc. (educational development and consulting)

John C. Sawhill[3]
President and Chief Executive Officer, The Nature Conservancy (effective April 1, 1990)

Stanley T. Skinner
Vice Chairman of the Board, Pacific Gas and Electric Company

Permanent Committees[1] **of the Board of Directors**

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

Richard A. Clarke (Chairman)
Lewis S. Eaton
Leslie L. Luttgens
Richard B. Madden
Peter A. Magowan
George A. Maneatis

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

Lewis S. Eaton (Chairman)
Ira Michael Heyman
Melvin B. Lane
Peter A. Magowan
Mary S. Metz

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

Richard A. Clarke (Chairman)
Richard B. Madden
William F. Miller
John B. M. Place
Carl E. Reichardt
Stanley T. Skinner

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

Leslie L. Luttgens (Chairman)
Harry M. Conger
Richard B. Madden
William F. Miller
John B. M. Place
John C. Sawhill

Advisory Nominating Committee
Recommends candidates for nomination as directors.

Richard A. Clarke (Chairman)
Harry M. Conger
Leslie L. Luttgens
Peter A. Magowan
Frederick W. Mielke, Jr.
John B. M. Place

[1]As of February 21, 1990.
[2]Retired February 21, 1990.
[3]Elected February 21, 1990.

Pacific Gas and Electric Company

PG&E Officers

**Richard A. Clarke*
Chairman of the Board and Chief Executive Officer

**Stanley T. Skinner*
Vice Chairman of the Board

**George A. Maneatis*
President

**Jerry R. McLeod*
Executive Vice President and General Manager, Gas Supply Business Unit

**Donald A. Brand*
Senior Vice President and General Manager, Engineering and Construction Business Unit

**Gene G. Elam*
Senior Vice President Administrative Services

**Virgil G. Rose*
Senior Vice President and General Manager, Distribution Business Unit

**Gregory M. Rueger*
Senior Vice President and General Manager, Electric Supply Business Unit

**James D. Shiffer*[1]
Senior Vice President and General Manager, Nuclear Power Generation Business Unit

Norman L. Bryan
Vice President
Redwood Region

George F. Clifton, Jr.
Vice President
East Bay Region

Russell H. Cunningham
Vice President
Human Resources

Philip G. Damask
Vice President
General Construction

John C. Danielsen
Vice President
Computer and Telecommunications Services

Richard A. Draeger
Vice President
General Services

Roger J. Flynn
Vice President
San Joaquin Valley Region

Daniel E. Gibson
Vice President
Gas Supply

Robert D. Glynn, Jr.
Vice President
Power Generation

Howard V. Golub
Vice President and General Counsel

Leland M. Gustafson
Vice President
Golden Gate Region

Robert J. Haywood
Vice President
Power Planning and Contracts

Thomas W. High
Vice President and Corporate Secretary

Grant N. Horne
Vice President
Corporate Communications

John C. Keyser
Vice President
Sacramento Valley Region

John E. Koehn
Vice President
Community and Governmental Relations

William R. Mazotti
Vice President
Gas and Electric Technical Services

Peter C. Nelson
Vice President
Mission Trail Region

Jackalyne Pfannenstiel
Vice President
Corporate Planning

Gordon R. Smith
Vice President
Finance and Rates

James B. Stoutamore
Vice President
Gas Transmission and Storage

John D. Townsend[1]
Vice President
Diablo Canyon Operations and Plant Manager

William H. Wallace
Vice President
Engineering

Gloria S. Gee
Controller

Jack F. Jenkins-Stark
Treasurer

Brian L. McGrath
Assistant Corporate Secretary

Kathleen Rueger
Assistant Corporate Secretary

Julia B. York
Assistant Treasurer

Chief Executive Officers of Principal PG&E Subsidiaries and Affiliates

**Mason Willrich*
President and Chief Executive Officer
PG&E Enterprises

Stephen P. Reynolds
President and Chief Executive Officer
Pacific Gas Transmission Company

Douglas R. Fenton
President and Chief Executive Officer
Alberta Natural Gas Company Ltd
Alberta and Southern Gas Co. Ltd.

Chief Executive Officers of Principal PG&E Enterprises Subsidiaries and Related Ventures

Joseph T. Williams
President and Chief Executive Officer
PG&E Resources Company

Joseph P. Kearney
President and Chief Executive Officer
The PG&E-Bechtel Generating Company

Russell P. Wischow
President and Chief Executive Officer
PG&E Operating Services Company

*Member Management Committee
[1]Effective February 1, 1990

Pacific Gas and Electric Company

Shareholder Services Office
77 Beale Street,
Room 2600
San Francisco, CA 94106
1-800-367-7731

Shareholder Handbook
PG&E has prepared a helpful shareholder's handbook providing information on the Company's shareholder services, stock certificates, and stock transfer systems. Copies are available from the Shareholder Services office.

Stock Held in Brokerage Accounts ("Street Name")
When you purchase your stock and the stock is held for you by the broker, it is listed with the Company in the broker's name, or "street name." PG&E does not know the identity of individual shareholders who hold their stock in this manner—we simply know that a broker holds a certain number of shares which may be for any number of customers.

If you hold your stock in street name, you are not eligible to participate in PG&E's Dividend Reinvestment Plan. Also, you receive all dividend payments, annual and quarterly reports, and proxy materials through your broker. Therefore, if you are receiving unwanted duplicate mailings, you should contact your broker, not PG&E, to eliminate the duplications.

Lost or Stolen Certificates
If your stock certificate is lost, stolen, burned or in some other way destroyed, you should notify the Shareholder Services office in writing immediately.

Multiple Dividend Checks and Duplicate Mailings
Some shareholders hold their stock on our records in similar but different names (e.g. Robert A. Johnson and R.A. Johnson). When this occurs, the law requires that we create a separate account for each name. Even though the mailing addresses are the same, we are required to mail separate dividend checks and annual and quarterly reports to each account.

How to Consolidate Accounts
If you want to consolidate your separate accounts into one account, you should contact the Shareholder Services office to obtain the necessary forms and instructions. When accounts are consolidated, it may be necessary to reissue the stock certificates.

How to Eliminate Duplicate Mailings
If you want to maintain more than one account but eliminate additional mailings of annual and quarterly reports, you may do so by sending the labels (or a copy of the labels) from a Company mailing to the Shareholder Services office, indicating the names you wish to keep on the mailing list for annual and quarterly reports and the names you wish to delete. This will only affect these mailings; dividend checks and proxy materials will continue to be sent to each account.

Replacement of Dividend Checks
If you do not receive your dividend check within five business days after the payment date, or if a check is lost or destroyed, you should notify the Shareholder Services office so that payment may be stopped on the check and a replacement issued.

Dividend Reinvestment Plan
You may automatically reinvest your dividends from common and preferred stock in new shares of PG&E common stock through the Company's Dividend Reinvestment Plan.

If you hold certificates in your own name (rather than through a broker) you may obtain the Plan prospectus and enrollment form by contacting the Shareholder Services office. However, if your certificates are held by a broker (in "street name"), then you are not eligible to participate in the Dividend Reinvestment Plan.

Uses advanced communications, such as toll-free WATS service, and new computer techniques to increase services to shareholders, improve employee productivity, and reduce costs.

Daniel Lamey
Transfer Agent

Stock Exchange Listings
PG&E's common stock is traded on the New York, Pacific, London, Basel, Zürich, and Amsterdam stock exchanges. The official New York Stock Exchange symbol is "PCG" but the Company's common stock usually is listed in the newspaper under "PacGE."

The Company has 21 issues of preferred stock, most of which are listed on the American Stock Exchange and the Pacific Stock Exchange.

Issue	*Newspaper symbol*
First Preferred, Cumulative, Par Value $25 Per Share Redeemable:	
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
Nonredeemable:	
6.00%	PGEpfA
5.50%	PGEpfB
5.00%	PGEpfC
$100 First Preferred, Cumulative, Par Value $100 Per Share	
10.17%	Unlisted
9.00%	Unlisted

Shareholder Services
If you have questions about your account or need copies of the Company's publications, please write to the Transfer Agent at the address shown below or call 1-800-367-7731.

If you have general questions about PG&E or information contained in the annual or quarterly reports, please write to the Office of the Corporate Secretary at the address shown below or call (415) 973-2880.

Security analysts, portfolio managers or other representatives of the investment community should write to the Director of Investor Relations at the address shown below or call (415) 972-3007.

Vice President and Corporate Secretary
Thomas W. High
77 Beale Street, Room 3205
San Francisco, CA 94106

Transfer Agent
Daniel T. Lamey
Shareholder Services
77 Beale Street, Room 2600
San Francisco, CA 94106

Director of Investor Relations
Kent M. Harvey
77 Beale Street, Room 835
San Francisco, CA 94106

Registrar of Stock
First Interstate Bank of California
345 California Street
San Francisco, CA 94104

Annual Meeting of Shareholders
Date: April 18, 1990
Time: 2:00 p.m.
Location:
Masonic Auditorium
1111 California Street
San Francisco, California

A notice of the meeting, proxy statement, and proxy form are being mailed with this annual report on or about February 27, 1990 to all shareholders of record.

A report on the annual meeting will also be mailed to shareholders.

10-K Report
If you would like a copy of the Company's 1989 Form 10-K Report to the Securities and Exchange Commission, please contact the Shareholder Services office.

1990 Dividend Payment Dates

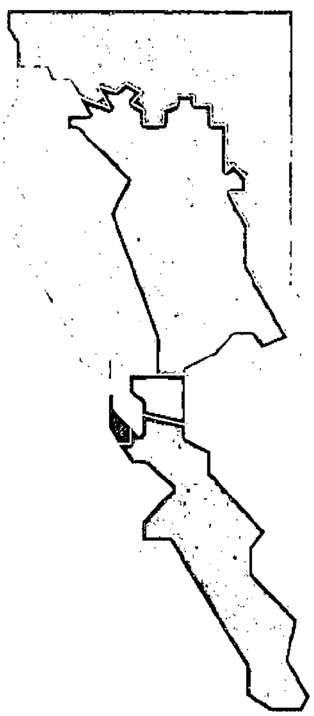
Common Stock	*Preferred Stock*
January 15	February 15
April 15	May 15
July 15	August 15
October 15	November 15

PG&E'S SERVICE TERRITORY

PG&E provides natural gas and electricity to 11.5 million people in one of the nation's most scenic and prosperous regions — Northern and Central California. Our 94,000-square-mile service territory stretches from Eureka in the north to Bakersfield in the south and from the Pacific Ocean in the west to the snow-capped Sierra Nevada in the east.

Standing alone, the area served by PG&E ranks among the largest economies in the world — larger than the economies of Australia, the Netherlands, or Switzerland. Just as important, the region has consistently outperformed the rest of the U.S. economy.

This solid and steady growth can be explained in a single word: diversity. Our service territory's prosperity does not depend on a single industry or a single product. Instead, the area's economy rests on a strong, growing base of aerospace manufacturing companies, high-tech electronics industries, food processing, petroleum refining, agriculture and dozens of other industries. And PG&E is there, ready to sell the high-quality electric and gas services they need.



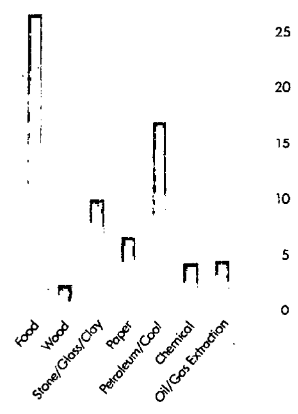
PG&E's Operating Regions

- Redwood
- Sacramento Valley
- San Joaquin Valley
- East Bay
- Mission Trail
- Golden Gate

Diversity of Major Industrial Sales—1989

Gas

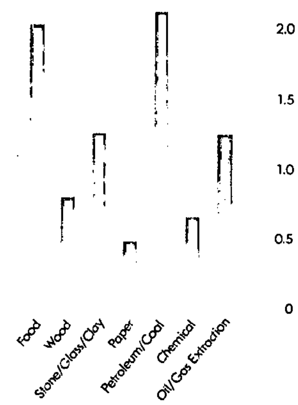
In billions of cubic feet



Diversity of Major Industrial Sales—1989

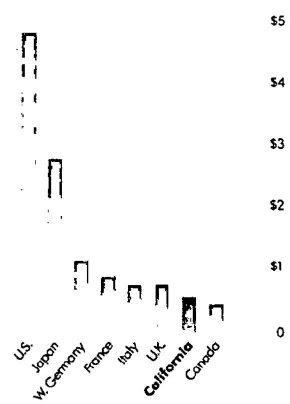
Electric

In billions of kwh



Gross National Product

In trillions



Source: Data Resources, Inc., data for 1988.

Design: Broom & Broom, Inc.

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