

PACIFIC GAS AND ELECTRIC COMPANY

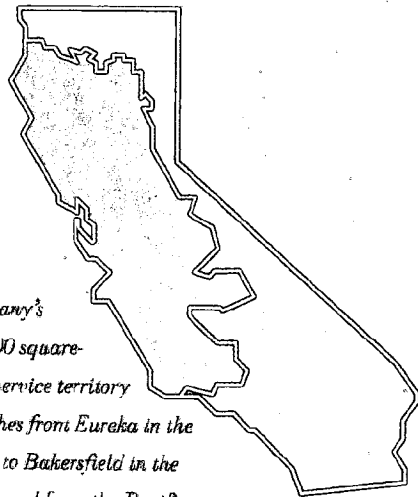
ANNUAL REPORT 1991

PG&E ANNUAL REPORTS
+Pacific Gas and Electric Company



PG&E IS THE NATION'S LARGEST INVESTOR-OWNED GAS

and electric utility, serving 12 million people in Northern and Central California. Our electricity comes from widely diversified resources—fossil-fuel plants, hydro-electric plants, a major pumped storage plant, a geothermal complex, the Diablo Canyon Nuclear Power Plant and from such alternative technologies as wind power, solar power and biomass. Our natural gas comes from Canada, the U.S. Southwest and California.



The company's 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 Sierra Nevada in the east.

Cover

The latest model natural gas vehicle drives along the Avenue of Giants in Humboldt County.

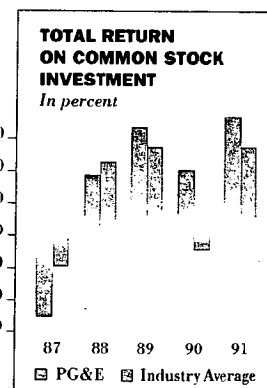
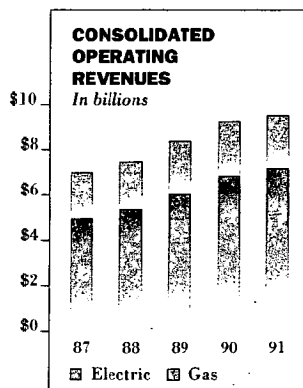
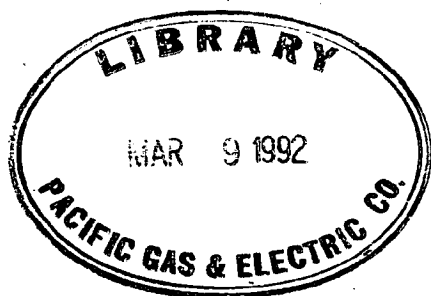
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HIGHLIGHTS

Pacific Gas and Electric Company

| | 1991 | 1990 | % Change |
|---|------------------|------------------|----------|
| Operating revenues | \$ 9,778,119,000 | \$ 9,470,092,000 | 3 |
| Operating income | \$ 1,713,079,000 | \$ 1,706,136,000 | — |
| Net income | \$ 1,026,392,000 | \$ 987,170,000 | 4 |
| Earnings available for common stock | \$ 936,797,000 | \$ 889,169,000 | 5 |
| Earnings per common share | \$ 2.24 | \$ 2.10 | 7 |
| Dividends declared per common share | \$ 1.64 | \$ 1.52 | 8 |
| Construction expenditures (including AFUDC) | \$ 1,795,726,000 | \$ 1,541,779,000 | 16 |
| Total electric sales to customers (kwh) | 74,195,890,000 | 74,056,536,000 | — |
| Total gas sales to customers (mcf) | 428,393,000 | 472,546,000 | (9) |
| At year-end | | | |
| Total assets | \$22,900,670,000 | \$21,958,397,000 | 4 |
| Total customers | 7,757,000 | 7,647,000 | 1 |
| Number of shareholders | 330,000 | 349,000 | (5) |
| Number of common shares outstanding | 417,571,826 | 420,219,011 | (1) |
| Number of employees (PG&E only) | 26,700 | 26,200 | 2 |



LEADING OUR INDUSTRY

AMERICA'S ENERGY UTILITY INDUSTRY

has entered a new and challenging era, an era of increased competition, rapid advances in technology, new customer expectations and fundamental changes in regulation.

PG&E's performance in 1991 clearly establishes the company as a leader in this transformed utility industry.

Our leadership is demonstrated by:

- financial results that provide superior returns to shareholders,
- a basic utility business that is strong, efficient and technologically advanced,
- service that provides excellent value to customers,
- initiatives that are improving California's environment,
- a nuclear power plant that consistently achieves outstanding levels of safety and performance,
- energy policies that are a model for national energy strategy, and
- programs to build an employee team that can maintain PG&E's leadership position throughout the decade.

Superior Financial Performance

During the past two years, PG&E has provided shareholders a total return on common stock investment of 62.4 percent, ranking us number one among the nation's 50 largest electric and combined electric and gas utilities.

We continued to increase earnings in 1991. Earnings for the year were \$2.24 per share, up 6.7 percent over the \$2.10 per share recorded in 1990. The earnings in 1991 substantially exceeded the company's budgeted earnings for the year.

The two primary reasons for these strong earnings were the continuing excellent operations in our basic utility business, and the safe, record-setting performance of the Diablo Canyon Nuclear Power Plant. Despite two refueling outages during 1991, the plant produced above-budget revenues and contributed significantly to overall corporate earnings.

In January 1991, we increased the dividend on common stock by 7.9 percent. This increase, combined with market confidence in PG&E's ability to continue building earnings, resulted in a higher price for our stock.

The stock price began 1991 at \$25 per share, and closed the year at an all-time high of \$32½ on December 31—an increase of 31 percent.

The performance of PG&E's stock price significantly outpaced both the Dow Jones Utilities Index, which rose about 8 percent over the year, and the general market.

The combination of dividends and stock price appreciation translates to a total return of about 37 percent in 1991. Since 1989, PG&E has provided shareholders an average total annual return of better than 30 percent.

We believe PG&E can continue to build on the solid performance it achieved in 1991. Based on that belief, the Board of Directors on January 15, 1992, raised the quarterly common stock dividend to 44 cents per share.

This was the third dividend increase in three years. It brought the new annualized rate to \$1.76 per share, an increase of 7.3 percent over the former annualized rate of \$1.64 per share.

Strong Performance In Our Utility Business

Management focus on improving performance, increasing efficiency and applying advanced technology is essential to the strength of our utility business. A key measure of that strength is the ability to earn the full return on equity invested in our utility business authorized by the California Public Utilities Commission.

In 1991, we achieved this fundamental goal for the eighth consecutive year through rigorous budgeting, constant attention to controlling costs and productivity improvements.

Throughout the company, we continue to seek better, more cost-effective ways to do the job. For example, one of the company's major costs is constructing distribution facilities to provide electric service to new residential customers.

By adopting new design standards and construction techniques, and other measures, PG&E's ambitious goal is to reduce these costs by as much as 25 percent in the next three years.

PG&E is a leader in the use of advanced technologies that add to our efficiency and support our environmental initiatives. These range from state-of-the-art computer systems that monitor operations at Diablo Canyon and our Energy Control Center, to research and development projects on solar energy and fuel cell power plants.

We are achieving productivity gains while also maintaining safety, reliability and the quality of service we provide. We recognize that outstanding customer service is essential to PG&E's business success.

Customer Service That Provides Excellent Value

Last year, customers gave us the highest grades for service that we have ever received. We earned these marks by providing excellent value, tailoring our service to meet the energy needs of our customers.



Stanley T. Skinner, President and Chief Operating Officer, and Richard A. Clarke, Chairman of the Board and Chief Executive Officer.

That value includes a strong tradition of rapid, effective and courageous action during life-threatening emergencies.

When one of the nation's worst urban wildfires devastated the East Bay hills on October 20, 1991, some 1,500 PG&E employees responded to restore service safely and quickly. Their extraordinary work mirrored the care, concern and extra effort to reduce suffering that PG&E people demonstrated following the 1989 Loma Prieta earthquake.

Winter weather arrived shortly after the fire storm, and many residents needed help. PG&E people handed out blankets and portable heaters to those who had electricity but were still without gas service. In addition, the company contributed \$180,000 to various East Bay agencies to help the victims of this disaster.

Improving the Environment

Today, PG&E is a nationally recognized leader among businesses working to improve the quality of the environment.

On October 31, 1991, the company received the nation's highest award for environmental excellence: the President's Environment and Conservation Challenge Award.

This and numerous other awards we received in 1991 symbolize the success PG&E is achieving in its environmental initiatives, especially in increasing customers' efficient use of energy.

Through Customer Energy Efficiency (CEE) programs, we are able to earn a profit for assisting customers to conserve gas and electricity. In this way, PG&E is able to build earnings, benefit customers and help to create a cleaner, healthier environment in California.

For many years, PG&E has provided electricity from a wide array of renewable energy resources, including hydroelectric, geothermal, wind and solar power. Today, through our renewable and clean fuels initiatives, we are leaders in the development of the next generation of cost-effective, renewable energy technologies.

The company also is promoting the use of natural gas in fleet vehicles because this fuel is

more economic and cleaner burning than gasoline or diesel. And we support the development of electric cars, which produce no direct emissions.

Our initiatives include extensive programs to preserve the environmental quality of the land and water resources we manage, and protect the animal habitats these resources support. Employees actively participate in a variety of recycling programs, and the company purchases environmentally preferred materials to the greatest extent possible.

Outstanding Nuclear Power Plant Performance

Diablo Canyon has been one of the nation's outstanding

nuclear power plants, virtually from the day it began commercial operation.

In 1991, we continued leadership in nuclear power generation by retaining strong ratings from the Nuclear Regulatory Commission and the Institute of Nuclear Power Operations while continuing to set performance records. Prior to June 1991, Unit 1 of Diablo Canyon held the national record for continuous days of operation for a reactor of its type.

Unit 2 eclipsed that mark and, in August, completed 481 days of continuous operation, setting a new world's record for a reactor of its type.

During the year, Diablo Canyon generated more than 15 billion kilowatthours of electricity and produced \$1.5 billion in revenues, including decommissioning revenues.

Both units completed refueling outages in record times. Excluding these outages, the plant achieved a combined operating "capacity factor"—a measure of actual performance against the theoretical maximum performance—of 95 percent, compared to an industry average of 81 percent for the last cycle of similar plants.

Through 1994, the price per kilowatthour for Diablo Canyon power increases annually. In 1992, for example, this means each unit at Diablo Canyon will produce about \$2.7 million in revenues each day it operates at full power.

We will need to refuel only one Diablo Canyon unit in 1992 and one in 1993. This refueling schedule, combined with the price escalations, should result in substantial growth in Diablo Canyon's contributions to our earnings, so long as we continue to operate the plant as well as we have in the past.

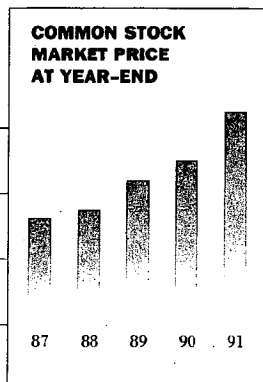
Leadership for the Future

PG&E's leadership includes innovative policies that provide a model for national energy strategy in the 1990s.

PG&E's electric supply plan stresses reduced use of oil, greater customer energy efficiency, renewable energy resources and a competitive bulk power supply market.

Increasingly, these are being recognized as necessary components of a national energy strategy that can provide consumers energy at least cost and, at the same time, improve the environment.

While prospects for PG&E's business remain strong, we recognize the need to manage regulatory and other changes to sustain our leadership. Among these manage-



ment challenges are significant changes in our gas business.

PG&E's subsidiaries built and own a gas purchasing and interstate pipeline system to bring Canadian gas to California. This system was built to ensure California customers access to reliable and competitively priced gas supplies. Recent regulatory decisions aimed at giving customers greater choice of gas suppliers are defining PG&E's future more as a transporter than a marketer of gas.

We no longer need to buy as much gas in Canada, and we no longer need to own gas pipeline and acquisition operations outside of California.

We are moving aggressively to achieve a transition to this new, more competitive gas supply marketplace. Doing so, however, will require resolution of a number of significant issues.

These include the California Public Utilities Commission's review of the reasonableness of our past gas purchasing costs; litigation by several Canadian gas producers over the level of gas purchases by Alberta and Southern Gas Co. Ltd. (A&S), our Canadian gas purchasing subsidiary; and potential costs associated with renegotiating existing gas supply contracts.

We are working with state and federal regulators, gas producers, and the Canadian and Alberta governments to achieve a transition that is fair to all concerned.

As part of this transition, PG&E is restructuring its Canadian gas supply arrangements, including pursuing the sale of A&S. The company also announced plans in 1991 to sell Pacific Gas Transmission Company (PGT), our wholly owned, interstate gas pipeline subsidiary that transports Canadian gas to California, to TransCanada PipeLines Ltd. of Calgary, Alberta.

The regulatory changes in our gas business do not alter an important fact: The demand for natural gas in California continues to grow, and with it, the potential to increase earnings by expanding gas transmission capacity in California.

We are moving ahead with construction of the California portion of the PGT-PG&E pipeline expansion. PGT will build the interstate portion that will parallel PGT's existing Canada-to-California pipeline system. When the sale of PGT is completed, TransCanada will become our partner in this project.

Overall, the expansion will transport 755 million cubic feet (mmcf) per day of Canadian gas to California, and 148 mmcf per day to the Pacific Northwest. Preliminary construction on the expansion began in December 1991, and the project is scheduled to be completed in late 1993.

Another major challenge is to build an employee team for the future that is as strong, dedicated and capable of leadership as our current work force.

That is why we are striving to develop a work place in which employees can learn new skills, and can contribute their knowledge and experience to continuously improve performance.

PG&E is prepared for the challenges and changes of the 1990s. The innovative policies we are pursuing and the excellent results we are achieving give me confidence PG&E will continue to be an industry leader, a company that will help shape the energy future in California and the nation.

This industry-leading performance will benefit our shareholders, customers and employees. It is the catalyst for increasing shareholder value, providing outstanding customer service and continuing PG&E's long tradition of success. I am convinced PG&E has the people, policies and programs to remain a leader and to achieve these objectives in the years to come.



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

January 29, 1992

TOWARD A CLEANER CALIFORNIA

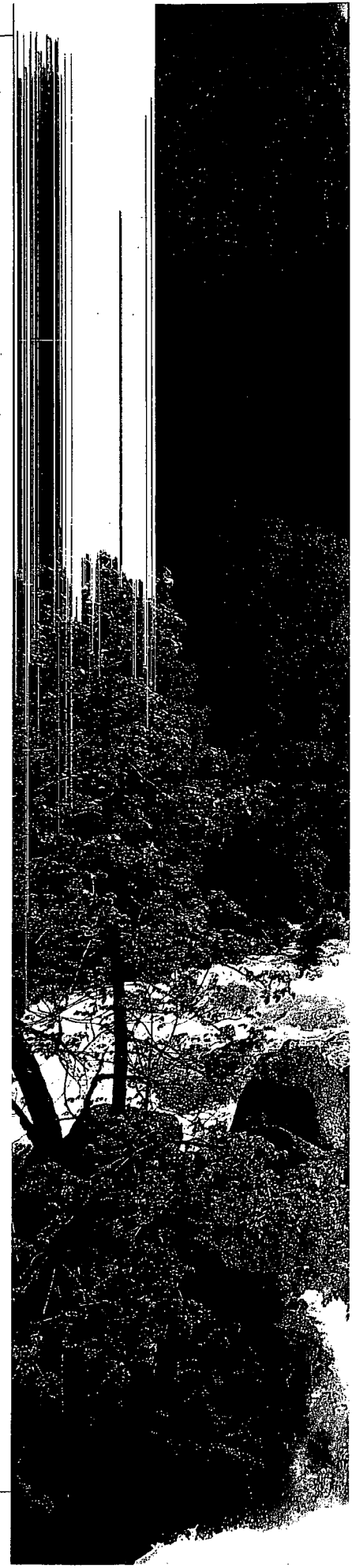
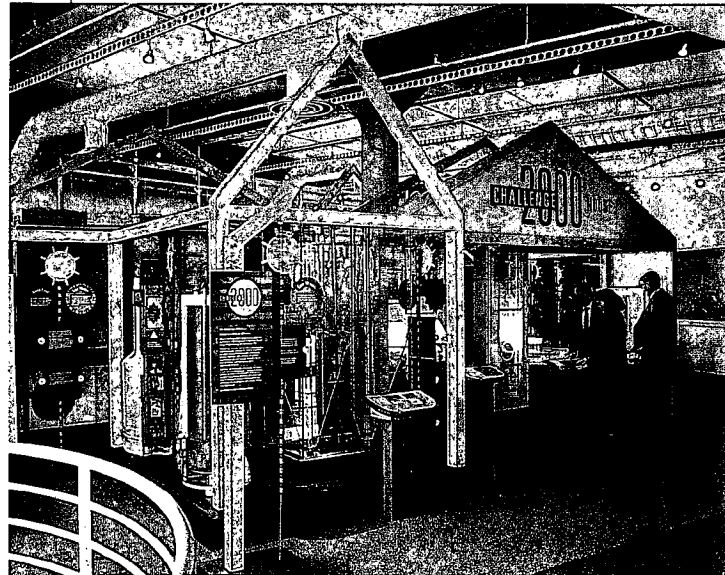
IN 1990, PG&E ESTABLISHED A MAJOR CORPORATE GOAL: to improve the environment by leading efforts to increase energy efficiency, develop environmentally preferred technologies and expand the use of clean fuels. This goal was based on the premise that the company could integrate responsible environmental policy and sound business practice to the

benefit of our shareholders, customers and the communities we serve. Today—less than two years later—the company is well on its way to meeting that goal. PG&E's programs are already producing cleaner air in California,

reduced costs for customers and increased earnings for shareholders based on the energy savings we achieve.

The centerpiece of PG&E's environmental initiatives is to meet much of the growth in electric demand by increasing customers' efficient use of energy.

The Pacific Energy Center in San Francisco is America's premier showcase for energy-efficient technology and design.



Customer Energy Efficiency

PG&E is aggressively promoting the use of energy-efficient lighting, motors, cooling and heating systems, refrigeration, gas and electric appliances, construction design and techniques, and insulation.

As an incentive to customers, PG&E offers rebates that significantly reduce the pay-back times for installing such equipment and systems.

By the end of the decade, we intend to reduce growth in peak electric demand by 2,500 megawatts through Customer Energy Efficiency (CEE) programs. This will enable PG&E to avoid emitting three million tons of carbon dioxide into the air annually by the year 2000—the equivalent of taking 375,000 cars off California roads.

In 1991, our CEE programs helped customers to conserve substantial amounts of gas and electricity. As a result, PG&E:

- reduced growth in peak electric demand by 119 megawatts,
- saved 37 million therms of natural gas,
- cut air emissions by 300,000 tons of carbon dioxide, 120 tons of sulfur dioxide, 445 tons of nitrogen oxide and 15 tons of particulates,
- and under an innovative program to encourage utility CEE programs adopted by California regulators, PG&E actually added to its earnings for not selling energy. We earned \$45 million pre-tax as a result of these energy savings.

To support its CEE programs, the company is taking several groundbreaking actions. Chief among these is the Pacific Energy Center, which the company opened in San Francisco in December 1991. The center is the nation's most advanced and comprehensive energy-efficiency facility.

At this center, architects, engineers, designers, manufacturers, builders and building managers can conduct hands-on evaluations of the most energy-efficient equipment and systems available on the market today.

Saving energy in our homes, businesses, farms and factories is vital to achieving a cleaner environment.

So is using cleaner burning fuels in our power plants, in our factories and in our vehicles.

Natural Gas

Natural gas is the most environmentally acceptable of the fossil fuels. In the last 15 years, PG&E has greatly increased its use of natural gas as a fuel to generate electricity, enabling the company to significantly reduce the amount of oil it burns. Other utilities that serve California are eager to increase their use of natural gas in order to meet the state's strict clean air regulations. Expansion of the PGT-PG&E pipeline from Canada will provide those utilities with greater access to the natural gas supplies they want and need.

As the shift from less clean-burning fuels continues in a variety of industrial applications, the demand for natural gas should increase in the years ahead.

That is a major reason the company has created PG&E Resources, a subsidiary of PG&E Enterprises, which invests in unregulated business ventures. PG&E Resources acquires, develops, produces and markets natural gas and oil.

In December of 1991, Resources purchased TEX/CON Oil and Gas Company of Houston, Texas, for \$389 million. This acquisition added substantially to Resources' energy portfolio.

Clean Air Vehicles

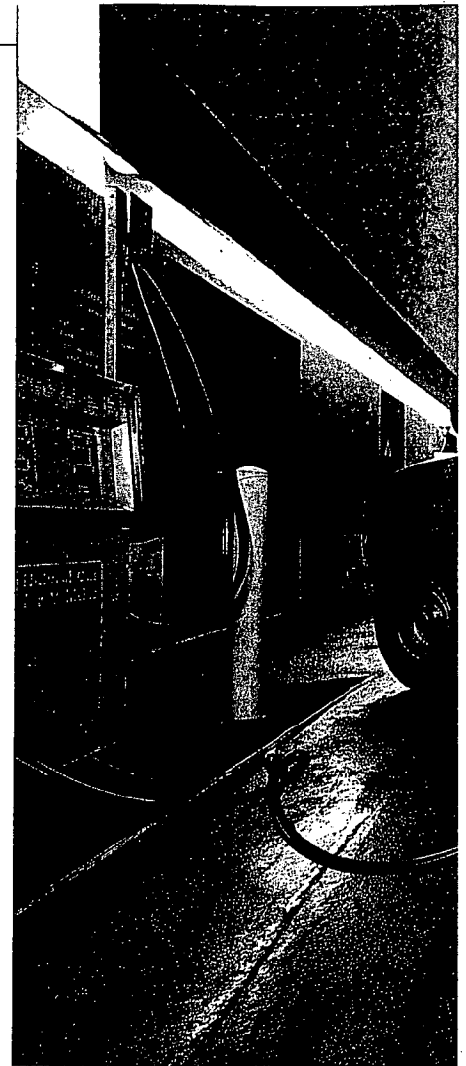
Using natural gas in stationary sources of pollution helps to improve the environment. But the major source of air pollution in California is transportation, the emissions produced by the millions of vehicles on our roads powered by gasoline and diesel.

That is why promoting Clean Air Vehicles (CAVs) is another key component of PG&E's environmental initiatives. Our goal is to have 125,000 fleet vehicles in Northern and Central California operate on natural gas by the end of the decade, and to ensure adequate fueling stations to facilitate their use.

Natural gas offers many advantages to fleet operators. It is a cleaner, more economic alternative to gasoline or diesel. And, unlike the petroleum from which gasoline is refined, natural gas is abundantly available in the U.S. and Canada.

In 1991, our CAV program made significant progress.

- The company opened six natural gas fueling stations at PG&E facilities. PG&E now has 14 such stations located throughout its service area.
- The California Public Utilities Commission in July approved a two-year program that will fund construc-



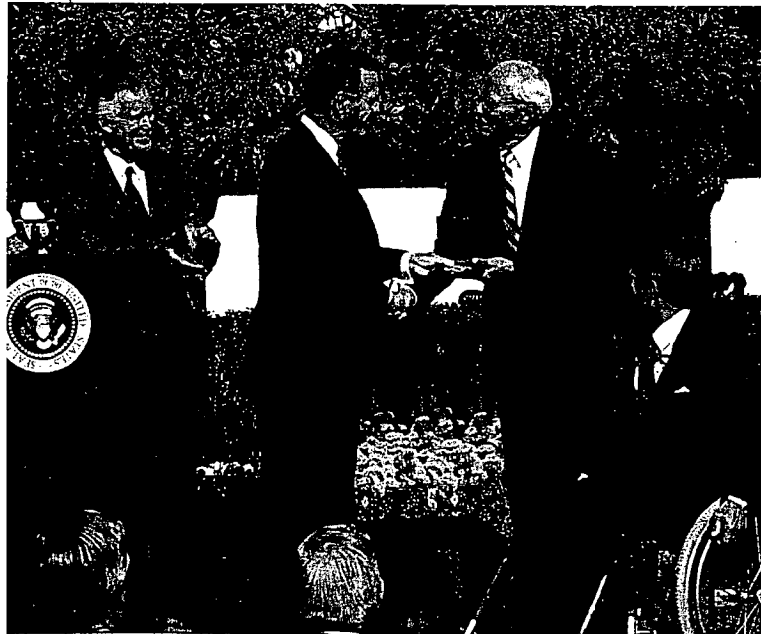
tion of 25 additional natural gas fueling stations, conversion of 500 PG&E vehicles and 800 customer vehicles to natural gas, and a test center for these vehicles.

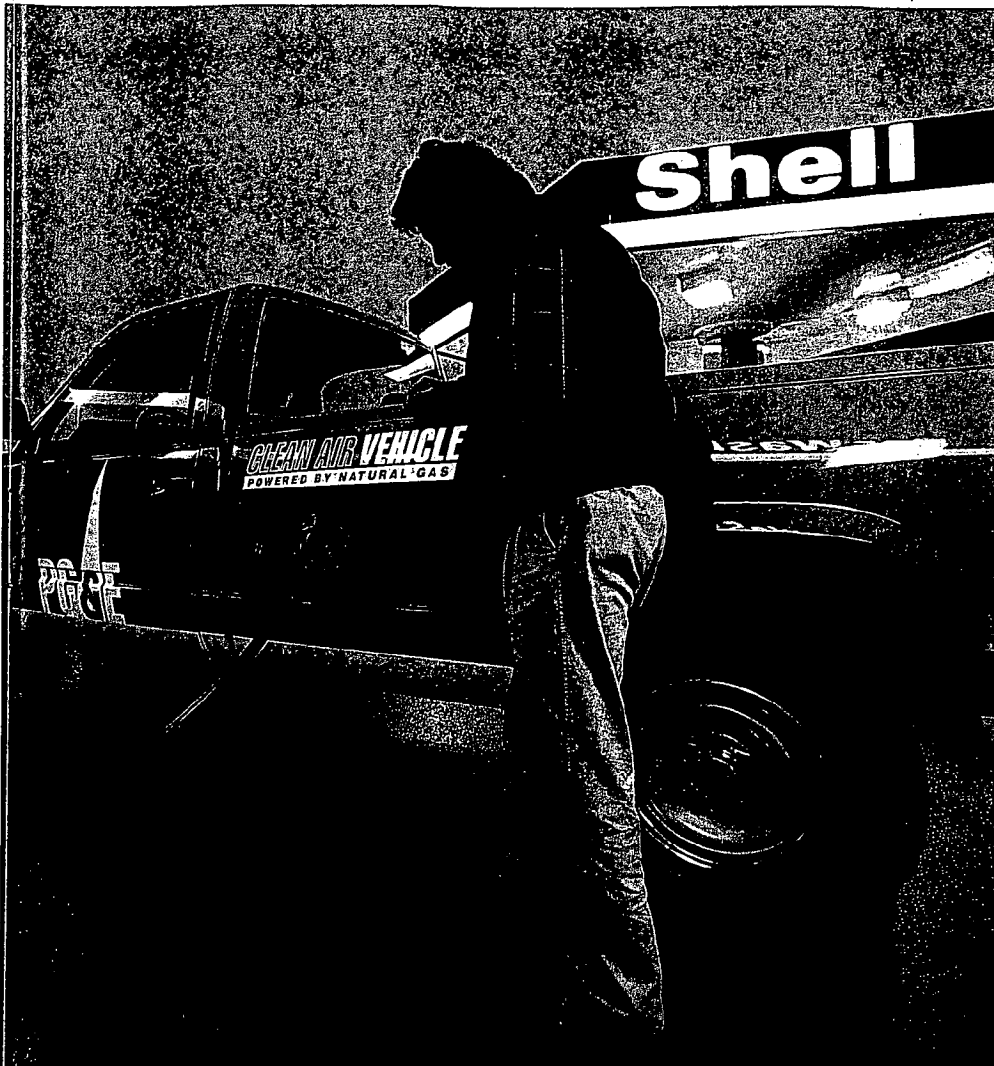
■ PG&E accepted the keys to a prototype of the first pickup truck specifically manufactured by General Motors Corporation to run on natural gas.

Use of natural gas in fleet vehicles makes sense today. But electric vehicles, which produce no direct emissions, should become a major transportation option in the future—especially as air quality regulations become more stringent. PG&E supports the development of such vehicles.

PG&E's customer energy efficiency and clean air vehicle programs are just part of the company's comprehensive environmental initiatives, which are gaining national recognition for the leadership they demonstrate.

On October 31, PG&E received the nation's highest environmental award, the President's Environment and Conservation Challenge Award, from President Bush during a ceremony in the White House Rose Garden.





On October 31, 1991, President George Bush presented PG&E with the newly created President's Environment and Conservation Challenge Award for demonstrating that environmental values can be integrated into sound management decisions and business practices. The company was one of only nine gold medal winners in the nation, and the only industrial firm to receive this recognition.

In January 1992, PG&E received another national honor: the 1991 Environmental Achievement Award, presented by the National Wildlife Federation's Corporate Conservation Council. These awards—and many others the company has won—are solid evidence that PG&E is meeting the challenge of environmental leadership in the 1990s.

In April 1991, PG&E and Shell Oil Company opened California's first natural gas fueling facility at a retail service station. The station is located in Sacramento.

LEADING THE WAY

In 1991, PG&E achieved significant "firsts" in its environmental programs.

■ **WORLD FIRST:** PG&E began experimental operation of the world's first molten carbonate fuel cell power plant. The plant directly converts the chemical energy of oxygen and natural gas into electricity, rather than generating power from combustion. This highly efficient electrochemical technology produces virtually no pollutants, and may ultimately become a significant electric energy resource.

■ **U.S. FIRST:** PG&E formed a partnership with the Environmental Protection Agency to work jointly to prevent pollution in our region—the first public-private partnership of its kind in the nation. The agreement includes projects to increase energy efficiency in federal buildings, encourage use of alternate fuels such as natural gas, and conduct pollution prevention education and research.

■ **CALIFORNIA FIRST:** PG&E opened a fueling facility for natural gas vehicles at a Shell service station in Sacramento—the first natural gas dispenser located at an oil company service station in California. We now have an agreement to install a natural gas dispenser at a Chevron service station, and are working with other oil companies to increase the number of such facilities.

SERVICE BEYOND DUTY

PG&E gas serviceman David Acebo had planned to spend October 20 watching the '49ers on TV. The ominous trails of black smoke over the East Bay hills changed all that. They signaled the onset of one of the nation's worst urban fire storms.

Acebo quickly reported to work and was one of the first PG&E employees to reach the Caldecott Tunnel, where the fire was blazing out of control. With just a hard hat and dust mask for protection, he raced through burning neighborhoods shutting off high pressure gas lines.

Acebo worked 12 harrowing hours in the wind-driven flames. His bravery and dedication were part of an extraordinary response by PG&E men and women to this life-threatening emergency.

Approximately 1,500 PG&E employees from throughout the system—many of them coming in voluntarily—contributed to the effort to safely and rapidly restore gas and electric service.

The fire destroyed hundreds of utility poles, transformers, switches and boxes, and miles of electric wire. Yet, just five days after the fire, full service was restored to all homes that survived the blaze.

On the same day as the East Bay fire, a separate blaze threatened units at The Geysers, PG&E's geothermal complex about 80 miles north of San Francisco. Showing the same skill and bravery as their co-workers in Oakland and Berkeley, a PG&E fire brigade successfully fought this blaze, preventing damage to the units.

A few days later, PG&E crews responded to a severe rainstorm around Fresno. Employees from all around the area reported back to work to restore electric service to 133,000 homes and businesses and repair damage to substations.

SERVICE THAT PROVIDES VALUE

A RECORD-HIGH 93 PERCENT OF OUR CUSTOMERS reported they were satisfied with the company's service in 1991. This marks the sixth straight year we have received customer satisfaction ratings of 90 percent or better. These grades represent the value—outstanding service at fair prices—we provide customers.



This value reflects our commitment to service which consistently meets our customers' expectations.

Sometimes that means meeting an individual need such as arranging a special time for a repair, explaining a bill or discussing the best options for purchasing energy-efficient appliances.

Other times, quality service calls for meeting the needs of many customers with special programs. When record cold weather drove energy use up during the 1990-91 winter, PG&E rapidly instituted an innovative "Winter Stretch" payment plan. More than 171,000 customers used this plan, which enabled them to extend their bill payments over six months.

Customers who need assistance paying gas and electric bills can turn to our REACH (Relief for Energy Assistance through Community Help) program, the largest such aid plan in the nation. In 1991, REACH provided more than \$6.6 million to some 37,000 households.

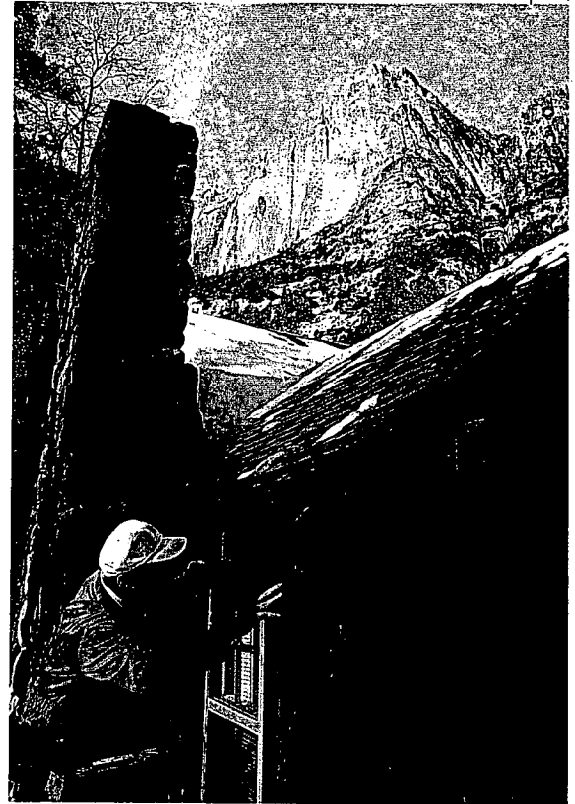
Under another companywide program, PG&E performs free residential energy surveys to help customers use gas and electricity more efficiently and save on energy bills. In some cases, our service people offer to install free energy-efficient light bulbs, low-flow showerheads and insulating blankets for water heaters as part of these energy surveys.

PG&E also tailors its service to assist its larger customers to meet their changing energy needs. In 1991, a major oil company considered building an electric generating plant at its oil refinery in Benicia. PG&E and the customer, working together, developed a competitive alternative that allowed the oil company to build a substation on land leased from PG&E and take power directly from our transmission system at a reduced price. The result: The oil company lowered its energy costs and PG&E kept a major customer.

Whether a customer is a large, established business or a single new resident from another country, PG&E has programs to meet that customer's needs.

Because we serve one of the most diverse populations in the nation, we have representatives who communicate in Spanish, Cantonese, Mandarin, Vietnamese and Hmong, a Southeast Asian dialect. And we offer the AT&T Language Service that translates calls in some 140 languages and dialects and provides immediate service.

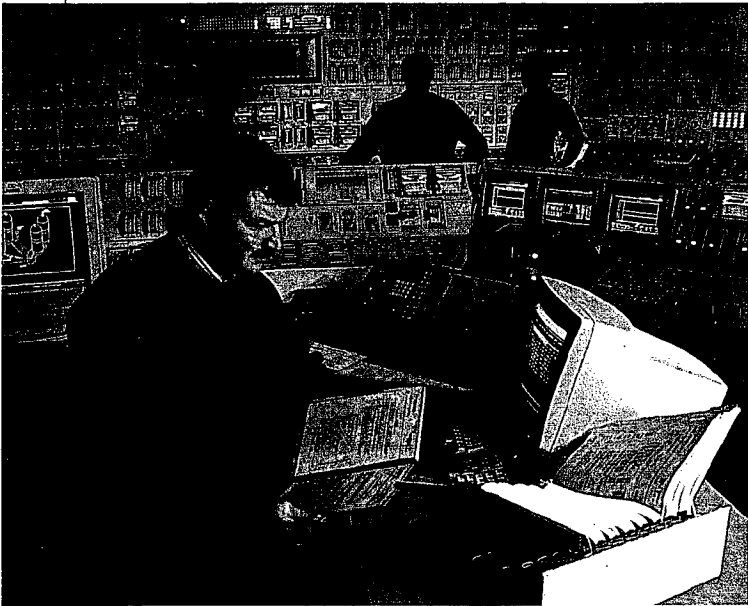
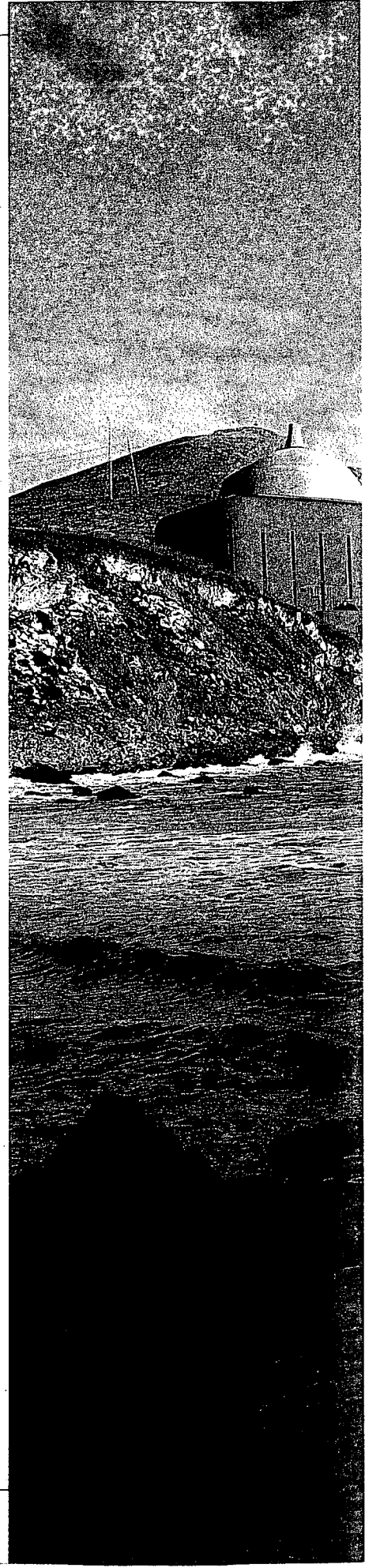
Many of the ways PG&E serves customers are changing. But the response of PG&E men and women to hazardous, sometimes life-threatening emergencies has never changed. In the face of devastating fires and major storms in 1991, they proved once again that service above and beyond the call of duty is an enduring tradition at PG&E.



PG&E conducts more than 30,000 energy surveys annually to help customers find ways to use energy more efficiently.

KEEPING DIABLO ON LINE AND ON TOP

DIABLO CANYON IS RECOGNIZED AS ONE OF THE NATION'S premier nuclear power plants. The revenues from the power it produces contribute significantly to PG&E's overall corporate earnings. The plant has achieved outstanding levels of performance and safety largely due to an unwavering effort to continuously improve operations.

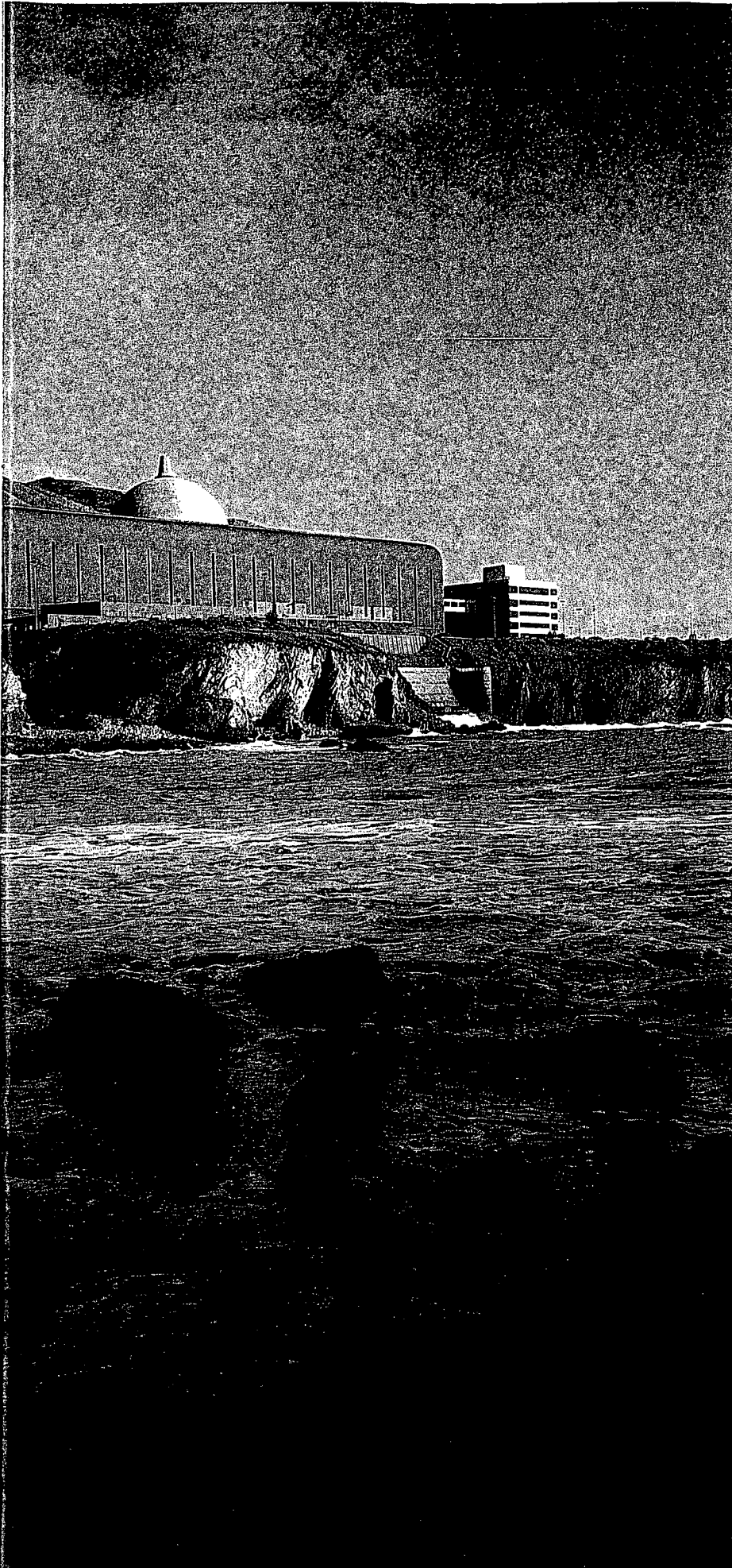


Two key elements in the success of this effort are emphasis on training and safe, efficient refueling outages.

No one ever graduates at Diablo Canyon. Licensed operators train to meet exacting standards and then retrain to stay abreast of a complex, advancing technology. Employees are learning continuously in the classroom, in the control room simulator and on the job. Even senior reactor operators must spend one week out of every five in training.

The quality of this training was reflected in the excellent assessments of the plant's performance in 1991. In the Nuclear Regulatory Commission's Systematic Assessment of Licensee Performance review in August, the plant earned the highest rating—"superior"—in four of seven categories and "good" in the others.

The quality of training at PG&E's Diablo Canyon is one reason the plant consistently achieves high ratings for safety and performance.



The emphasis on training at Diablo Canyon is matched by intense efforts to continuously improve the plant's performance.

These improvement efforts are heavily focused on two areas: safely shortening the time required to refuel a unit, and ensuring that the work done in the refueling is done right the first time. This means that the unit can rapidly be brought back to full power and remain there until the next refueling.

Planning for the basic work to be done in refueling outages begins as much as five years in advance. This work includes mandatory maintenance, equipment upgrades and design changes to the plant, as well as the reactor refueling.

During the outage the most critical and complex work is handled by High Impact Teams (HITs). These units include all supervisors and workers responsible for a particular refueling task. Their responsibilities include planning, conducting and critiquing their work assignments.

Almost as soon as one refueling outage is completed, detailed planning for the next one begins. The lessons learned from the last refueling are captured for use in future refuelings. The outage staff identifies any problems, reviews and adopts solutions, then assures that the changed procedures are implemented.

This comprehensive approach to refueling the units at Diablo Canyon is producing positive results.

Since the first unit began operation in 1985, refueling outage times have been cut almost in half. Our outages are now consistently among the shortest in the industry. In 1991, Unit 1 completed its refueling outage in 62 days, a record for that unit. Unit 2 completed its refueling in 1991 in just 56 days, a record for the unit and the plant.

Equally important, the time it takes to bring the units up to full power following a refueling outage has been cut by two-thirds in the last five years.

High quality training and increasing the time the plant safely operates at full capacity are two of the best assurances that Diablo Canyon will continue to be a major asset to PG&E's customers and shareholders.

SHAPING OUR ENERGY FUTURE

PG&E'S ENERGY POLICIES ARE A PROTOTYPE FOR a stronger, more secure energy future. They form the basis for a national energy strategy that reduces dependence on foreign oil, improves the environment and provides consumers energy at the lowest cost.

At the center of the company's energy program is an electric supply plan that focuses on four key objectives:

- Cutting use of oil.
- Maximizing customer energy efficiency.
- Speeding development of renewable energy resources.
- Participating in a competitive bulk power supply market.

Reducing Oil Use

Since the late 1970s, PG&E has trimmed its use of oil to produce power from about 29 million barrels a year to less than 665,000 barrels in 1991. That means in 1991 less than 0.5 percent of PG&E's power generation came from oil.

Using less oil in our power plants is important. But close to half the oil the



U.S. consumes today is refined into gasoline, most of it going to operate the nation's cars, trucks and other vehicles.

So another way to build energy independence is to increase the use of alternative fuels for these vehicles—natural gas today and electricity tomorrow. PG&E's Clean Air Vehicle program supports that objective.

Natural gas vehicles and electric cars not only can help reduce our reliance on foreign oil, they also provide the opportunity to improve the quality of our air, particularly in urban areas. Natural gas is cleaner burning than gasoline or diesel, and electric vehicles have no direct emissions.

Customer Energy Efficiency

PG&E's Customer Energy Efficiency programs are the most extensive in the nation. They already are helping to reduce customers' energy bills and cleaning California's air.

The Electric Power Research Institute estimates that energy efficiency programs could reduce national electric consumption by 450 billion kilowatt-hours annually by the year 2010. That is equal to saving 16 percent of all the electricity used in the U.S. in 1990.

Achieving these energy savings would, by the year 2010, cut annual CO₂ emissions in the U.S. by more than 335 million tons. That's the equivalent of taking more than 28 million cars off the road—more than one of every five cars registered in the U.S. in 1989.

The economic impact would also be significant. These energy savings would reduce American electric consumers' annual bills by \$32 billion (in 1990 dollars).

Using electric power more wisely will spur productivity gains and make American goods and services more competitive in world markets. This benefit will increase as America's demand for electric energy grows, with the greater use of robotics, telecommunications, electrified mass transit and, ultimately, electric cars.

Development of Renewables

California is unique in that renewables have always played a large role in the state's energy supply. During a normal

rain and snowfall year, almost half of PG&E's power is generated by renewable energy resources—hydroelectric, geothermal, wind and solar.

Most economic hydroelectric and geothermal sites in our service area have already been fully developed. Today, we are focusing on development of wind and solar power, which are huge, largely untapped energy sources.

For example, 37 of the 50 states have the capability to develop wind power as an energy source, and it has been estimated that wind power could contribute as much as 10 percent of the nation's total electric supply.

PG&E conducts an aggressive research and development program aimed at making the next generation of renewable technologies cost competitive with fossil fuels.

Even with these efforts, however, most renewable technologies available in California today remain about 20 percent more costly than fossil fuel options.

Extensive support at the national level will be necessary to speed improvement of these technologies to make them cost competitive.

Competitive Bulk Power Supply

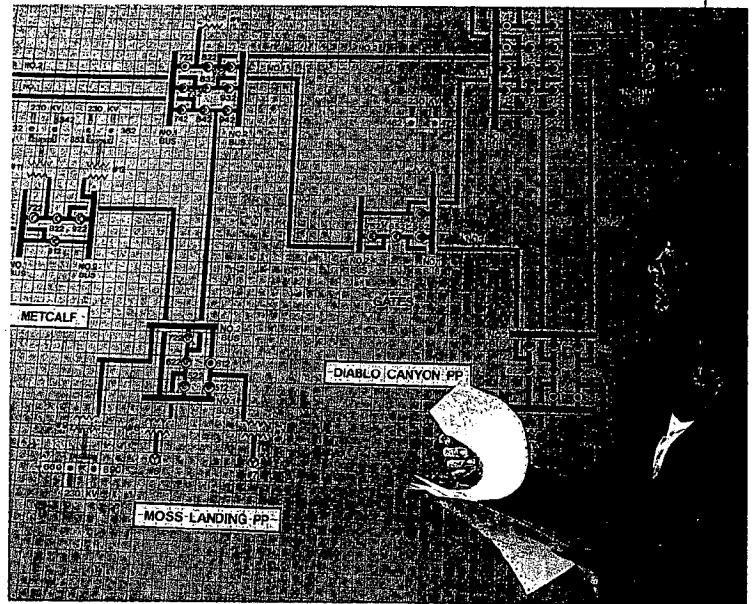
Competitive bulk power supply markets have emerged in many states as regulators require new power plants to be built by the lowest-cost bidder.

PG&E is a significant participant in this market through U.S. Generating Company, an unregulated affiliate which builds, owns and manages independent power projects nationwide. It is a partnership of PG&E and Bechtel Group, Inc. The company (formerly PG&E-Bechtel Generating Company) changed its name in 1991 to more clearly identify the national scope of its business.

U.S. Generating Company is developing power plants which utilize advanced natural gas and coal combustion tech-

nologies and emissions controls. It has completed one plant in Montana. In 1991, it began construction of three additional power projects located in New Jersey, Pennsylvania and Massachusetts. These plants total more than 550 megawatts.

In January 1992, it started construction on a 92-megawatt natural gas-fired cogeneration facility located in New York. This facility will incorporate the latest gas turbine combustion and emissions control technologies. Seven additional power projects totaling more than 1500 megawatts are in advanced stages of development.



The nerve center of PG&E's electric system is the Energy Control Center which coordinates the company's generation and transmission facilities.

Construction proceeds on the 80-megawatt Scrubgrass power plant in Pennsylvania, which is being developed and managed by U.S. Generating Company. The plant is scheduled to begin operation in mid-1993.

GETTING THE JOB DONE BETTER

IT IS ALMOST AXIOMATIC THAT IF YOU WANT TO manage change in the 1990s, you first have to change the way you manage. To maintain our leadership in a changing utility industry, PG&E management is striving to create a working environment in which:

- Employees are actively involved in finding ways to continuously improve their performance.
- Employees add to their technical, business and communication skills through our learning programs.
- And our employee team understands and can effectively serve the needs of our culturally diverse customer base.

Employee Involvement

The manager of PG&E's North Bay Division knows the value of employee involvement. All 265 employees in her division are directly involved in writing the yearly business plan. They set the division's budgetary, service and safety goals, and recommend ways the division's performance can be improved.

Their ideas are working. In just two years, the number of customers served by each North Bay Division employee increased from 380 to 426. At the same time, the cost of serving each customer decreased from \$78 to \$72. In addition, service reliability to certain areas within the division rose dramatically.

The same active use of employee knowledge and experience has led to significant improvements at the Moss Landing Power Plant, a facility that has been generating electricity for 41 years.

Control room operators at the plant designed changes to their facility and operation. Bargaining unit employees are routinely rotated to management positions to gain a new perspective on their work. Others serve on special project teams and committees to review design changes and critique plant outages.

As a result, safety, reliability and efficiency have all increased dramatically at the plant in recent years.

At Diablo Canyon, employee involvement is fundamental to the High Impact Teams (HITs), which were developed to improve safety and efficiency in the complex refueling of the plant.

These teams, made up of all personnel involved in a major task during a refueling outage, provide ideas to improve their own work plans and conduct a post-outage review of their own work.

Upper management does not attend these meetings. Rather, the team members are empowered to critique their own work freely, and to make their own suggestions for improvement, most of which are adopted by management. The results have been outstanding.

Continuous Learning

In a rapidly changing business environment, employees need the opportunity to learn new skills in order to contribute to the company's success. In essence, we are creating a "PG&E University" within the company to make learning an integral part of our work.

An Education Policy Board, chaired by Chairman Dick Clarke, completed a "Blueprint for Learning" in 1991. This comprehensive plan establishes guidelines for employee learning throughout the rest of the decade.

The plan supports an already extensive educational program at PG&E. Last year, the company spent \$120 million on education. More than two million man/woman hours were devoted to training. On any given work day, more than 1,100 employees were attending class.

PG&E's Learning Center in San Ramon provides state-of-the-art training for all employees.

The company offered more than 1,000 training programs in 1991, and employees averaged 10 work days in training. While training takes place at Diablo Canyon, Stockton and elsewhere in the company, PG&E's major educational facility is the Learning Center in San Ramon, a modern 17-acre campus near San Francisco.

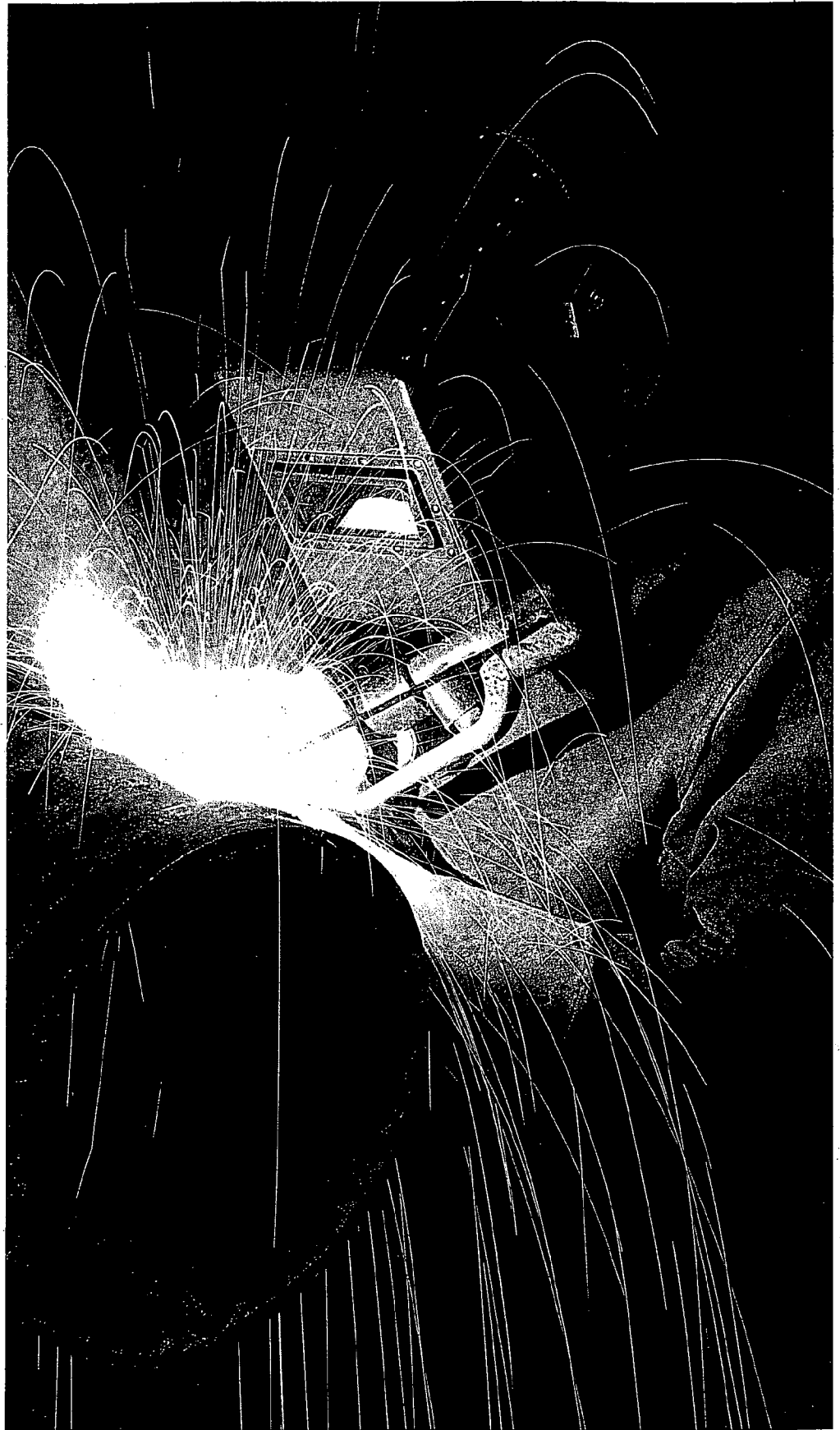
By 1994, the company will have spent \$42 million to complete an expansion of the Learning Center begun in 1991, and to complete a new campus in Livermore for training electric line crews.

Serving a Diverse Customer Base

PG&E strongly believes that recruiting, retaining and promoting qualified people regardless of race or gender is not only the right policy, it is the only way we will continue to succeed. We need employees who understand and can effectively serve a diverse customer base.

Today, women and minorities hold important positions throughout the company's middle- and upper-management ranks. And the company supports a wide variety of educational and community programs designed to better prepare minorities for success in tomorrow's labor market.

Through all of its efforts to maintain its leadership standing, PG&E is not simply striving to become an even better place to work. It is striving to become a company that works better, more productively, more profitably — now and in the years to come.



SELECTED FINANCIAL DATA

Pacific Gas and Electric Company

| | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|--------------|--------------|--------------|--------------|--------------|
| <i>In thousands, except per share amounts</i> | | | | | |
| Operating revenues | \$ 9,778,119 | \$ 9,470,092 | \$ 8,588,264 | \$ 7,645,748 | \$ 7,185,701 |
| Operating income | \$ 1,713,079 | \$ 1,706,136 | \$ 1,622,558 | \$ 1,297,372 | \$ 1,261,701 |
| Net income | \$ 1,026,392 | \$ 987,170 | \$ 900,628 | \$ 62,127 | \$ 688,517 |
| Earnings (loss) per common share | \$ 2.24 | \$ 2.10 | \$ 1.90 | \$ (.10) | \$ 1.53 |
| Dividends declared per common share | \$ 1.64 | \$ 1.52 | \$ 1.40 | \$ 1.66 | \$ 1.92 |
| At year-end | | | | | |
| Book value per common share | \$ 18.40 | \$ 17.86 | \$ 17.38 | \$ 16.79 | \$ 18.68 |
| Common stock price per share | \$ 32.63 | \$ 25.00 | \$ 22.00 | \$ 17.50 | \$ 16.25 |
| Total assets | \$22,900,670 | \$21,958,397 | \$21,351,970 | \$21,067,685 | \$21,733,652 |
| Long-term debt, preferred stock with mandatory redemption provision and capital lease obligations | \$ 8,368,508 | \$ 7,929,734 | \$ 7,978,968 | \$ 8,116,603 | \$ 8,511,789 |

Matters relating to certain data above are discussed in Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition and in Notes to Consolidated Financial Statements. 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.

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

Pacific Gas and Electric Company

Results of Operations

Pacific Gas and Electric Company (PG&E) and its wholly owned and majority owned subsidiaries (the Company) have three types of operations: utility, Diablo Canyon Nuclear Power Plant (Diablo Canyon) and nonregulated through PG&E Enterprises (Enterprises), the parent company for PG&E's nonregulated subsidiaries. For 1991 and 1990, selected financial information is shown below:

| | Utility | Diablo Canyon | Enterprises |
|--|-----------|------------------|-------------|
| <i>In millions, except per share amounts</i> | | | |
| 1991 | | | |
| Operating revenues | \$ 8,204 | \$ 1,501 | \$ 73 |
| Operating income (loss) | \$ 1,251 | \$ 497 | \$ (35) |
| Net income (loss) | \$ 777 | \$ 274 | \$ (25) |
| Earnings (loss) per common share | \$ 1.71 | \$.59 | \$ (.06) |
| Total assets at year-end | \$ 16,440 | \$ 5,543 | \$ 918 |
| 1990 | | | |
| Operating revenues | \$ 7,899 | \$ 1,509 | \$ 62 |
| Operating income (loss) | \$ 1,189 | \$ 550 | \$ (33) |
| Net income (loss) | \$ 688 | \$ 318 | \$ (19) |
| Earnings (loss) per common share | \$ 1.48 | \$.67 | \$ (.05) |
| Total assets at year-end | \$ 15,869 | \$ 5,660 | \$ 429 |

Earnings In 1991, the Company's earnings per common share were \$2.24 compared to earnings of \$2.10 in 1990 and \$1.90 in 1989. Earnings per common share for 1991 were higher than for 1990 primarily due to a \$66 million after tax charge to 1990 utility earnings related to the reserve for certain Helms Pumped Storage Plant (Helms) costs, including litigation settlement costs, discussed in Note 10 of the Notes to Consolidated Financial Statements. In 1991, the Company earned a 12.5% return on average common stock equity and an 11.3% return on average utility rate base.

Common stock dividend In January 1992, the Company raised the quarterly common stock dividend 7.3%, from an annualized rate of \$1.64 per share to \$1.76 per share, the third dividend increase in three years. The increase was based on a number of financial considerations, including estimates that future earnings will be sufficient to sustain the higher dividends while providing adequate financial flexibility.

Operating revenues In 1991 and 1990, the Company's operating revenues increased \$308 million and \$882 million, respectively, over the preceding year.

Electric revenues increased \$333 million and \$820 million in 1991 and 1990, respectively, over the preceding year. The increases were primarily due to increased rates necessary to recover higher fuel and purchased energy costs. Sales volume increased .2% and 6.2%, reflecting the addition of approximately

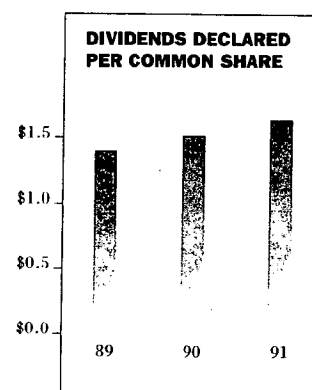
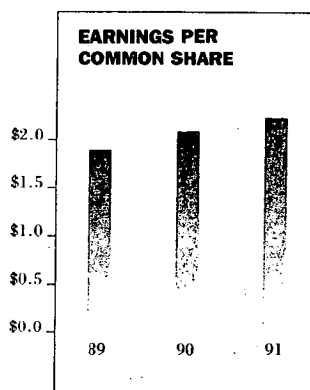
60,000 customers and 87,000 customers, in 1991 and 1990, respectively.

Diablo Canyon revenues, which are included in the electric revenues discussed above, decreased \$8 million in 1991 compared to 1990 primarily due to two scheduled refuelings, compared to one scheduled refueling in 1990. Diablo Canyon revenues increased \$136 million in 1990 over 1989 primarily due to the annual increase in the price per kilowatt-hour (kwh) as provided in the Diablo Canyon rate case settlement discussed below.

Gas revenues decreased \$25 million in 1991 compared to 1990 primarily due to a decrease in the cost of purchased gas. The decrease in revenues attributable to lower gas costs was partially offset by rate adjustments associated with general increases in operating expenses resulting from inflation, and a higher gas rate base on which PG&E is allowed to earn a return. Gas revenues increased \$62 million in 1990 over 1989 primarily due to rate increases associated with general increases in operating expenses resulting from inflation, and a higher gas rate base. Volumes of gas sold to customers decreased 9.3% and 5.0% in 1991 and 1990, despite the addition of approximately 50,000 and 78,000 customers, respectively.

Operating expenses In 1991 and 1990, the Company's operating expenses, including the cost of fuel and energy, increased \$301 million and \$798 million, respectively, over the preceding year.

The 1991 increase was primarily due to increases in the cost of electric energy, administrative and general, maintenance and other operating expenses, offset partially by a decrease in cost of gas. Cost of electric energy increased \$84 million in 1991 primarily due to higher fuel and purchased energy costs. Administrative and general expense increased \$82 million in 1991 primarily due to the tax-deductible funding of the Company's



postretirement benefits other than pensions. (See Note 7 of the Notes to Consolidated Financial Statements.) Maintenance expense and other operating expenses increased \$121 million and \$55 million, respectively, in 1991 primarily because of two Diablo Canyon scheduled refuelings compared to one 1990 scheduled refueling, and to higher environmental cleanup costs. Cost of gas decreased \$208 million in 1991 primarily due to reductions in demand and the price of natural gas.

The 1990 increase in operating expenses was primarily due to an increase in the cost of electric energy resulting from higher fuel and purchased energy costs.

Diablo Canyon The Diablo Canyon rate case settlement bases revenues for the plant 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.

Diablo Canyon revenues are based primarily on a pre-established price for each kwh of electricity generated by the plant. (Pricing for Diablo Canyon is discussed in Note 3 of the Notes to 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 ensure 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 and specified regulatory costs will continue to be recovered through base rates and are not subject to plant performance.

The plant capacity factors for 1991 and 1990 were 80% and 86%, respectively, reflecting the scheduled refueling outage for both Unit 1 and Unit 2 in 1991 and for Unit 2 in 1990 and no extended unscheduled outages. Through December 31, 1991, the lifetime capacity factor for the plant was 76%. The Company will report significantly lower revenues for the plant during any extended outages, including refueling outages. Refuelings, the lengths of which depend on the scope of the work, typically occur for each unit every eighteen months. A refueling outage for Unit 1 is scheduled to begin in September 1992 and is planned to last about eleven weeks. Each Diablo Canyon unit will contribute approximately \$2.7 million in revenues per day at full power operation in 1992. Diablo Canyon revenues per kwh after 1994 will be based on a formula that includes the prior year's change in the consumer price index.

Regulatory matters PG&E electric and gas energy prices are regulated by the California Public Utilities Commission (CPUC) through base rates and balancing accounts. Base rates compensate PG&E for operating and maintenance costs, taxes and depreciation, and provide a return on capital. Base rates are set in general rate case (GRC) proceedings, the most recent of which was for 1990. 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 most electric and core gas energy costs. Sales balancing accounts reduce the effect on earnings of fluctuations in sales to electric and gas customers. For those customers, the CPUC sets rates based on estimated sales; differences between revenues authorized by the CPUC 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. Core customers include residential and small commercial customers. Noncore customers are industrial and larger commercial customers. For noncore customers, PG&E offers an array of services from which the customer may select, ranging from full gas service to more limited transportation of customer-owned gas. PG&E has greater flexibility in competing for some customers who have energy alternatives through the ability to negotiate transport rates; it also puts PG&E at risk for achieving projected noncore gas transportation revenues forecasted for ratemaking purposes.

Cost allocation proceedings allocate forecasted costs between core and noncore customers and set associated rates. PG&E is placed at risk for collecting transportation revenues from the noncore class. The 1991 Annual Cost Allocation Proceeding decision limits this risk by instituting 90% balancing account treatment for noncore transportation revenues effective May 1991. Prior to May 1991, to the extent that gas transportation revenues collected from noncore customers were different than the projected revenues allocated to these customers, PG&E earnings were affected.

In May 1992, if there is no further CPUC action, the 90% balancing account will be discontinued and a 75% balancing account, established by the new gas purchasing rules discussed below, will take effect.

The regulatory framework in place has helped to neutralize the effects of inflation on PG&E's utility operations. Both the ARA mechanism and the energy-cost balancing accounts limit the effect of inflation on PG&E's earnings by closely matching rates with costs.

Gas purchasing and capacity brokering rules As discussed in Note 2 of the Notes to Consolidated Financial Statements,

recent regulatory decisions significantly alter the Company's gas business.

A new gas purchasing program initiated by the CPUC went into effect in August 1991. The new rules authorize the Company's noncore customers to negotiate directly with certain producers for gas supplies. During an interim period originally scheduled to be in effect until August 1994, the noncore customers' gas purchases from producers under contract with Alberta and Southern Gas Co. Ltd. (A&S), the Company's independent Canadian gas purchasing subsidiary, will help satisfy A&S's minimum contractual obligations. In November 1991, the CPUC issued a decision in its capacity brokering proceeding which established a targeted implementation date of October 1992, or when the Federal Energy Regulatory Commission (FERC) allows capacity brokering on Pacific Gas Transmission Company (PGT), the Company's wholly owned interstate gas pipeline subsidiary, whichever is later.

The gas purchasing rules and capacity brokering program, when implemented, will require a decrease in the volume of Canadian gas purchased from A&S's producers and will require the restructuring of the Company's gas supply arrangements to reflect the altered gas market for the Company. A&S currently has commitments to purchase minimum quantities of gas under various contracts which extend through 2005. A&S has commenced negotiations to restructure its contracts with gas producers to change its obligations. If compensation is paid to producers as a result of restructuring, the Company would expect to apply for rate recovery of restructuring costs. Recovery of such costs would be subject to review through the federal and state regulatory processes. In connection with the current CPUC reasonableness proceeding, the CPUC's Division of Ratepayer Advocates has recommended that recovery of such costs not be allowed. However, the CPUC deferred consideration of that issue until a future reasonableness proceeding.

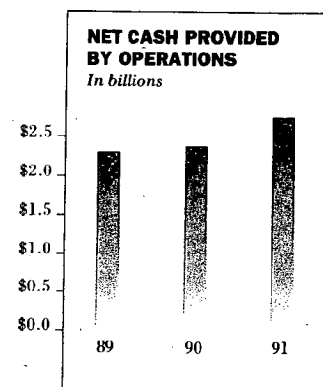
Other gas matters As discussed above, A&S must restructure its commitments to purchase minimum quantities of gas from Canadian producers as a result of revised regulations initiated by the CPUC. As discussed in Note 2 of the Notes to Consolidated Financial Statements, three Canadian gas producers have filed lawsuits against the Company claiming damages in the aggregate of at least \$420 million (Canadian) for the alleged failure of A&S to meet its minimum contractual obligations in 1991 and the anticipated failure of A&S to meet those obligations through 2005. The CPUC is reviewing the reasonableness of Canadian gas costs for the test years 1988 through 1990. An intervenor has asserted that the Company overpaid for such costs by up to \$670 million. The Company currently is unable to estimate the ultimate outcome of these matters or predict whether such outcome would have a significant adverse impact on the Company's financial position or results of operations.

Rate changes Effective January 1, 1992, the CPUC granted PG&E an increase in electric and gas rates of approximately \$159 million and \$84 million, respectively. The electric and gas rate increases are primarily due to general increases in operating expenses resulting from inflation, and a higher rate base on which PG&E is allowed to earn a return. In addition, rates increased for the tax-deductible funding of postretirement benefits other than pensions. (See Note 7 of the Notes to Consolidated Financial Statements.) These amounts are based on a 12.65% utility return on common stock equity authorized by the CPUC for 1992, a decrease from the 12.9% authorized for 1991.

In November 1991, PG&E filed its 1993 GRC application requesting an increase in base revenues to become effective January 1, 1993. The total requested increase, after adjusting for changes in base rates as a result of the 1992 ARA, will be \$595 million. This amount consists of \$476 million and \$119 million for electric and gas revenues, respectively.

Helms As discussed in Note 10 of the Notes to Consolidated Financial Statements, the Company provided a reserve of approximately \$64 million against its investment in Helms as a result of an adverse decision in 1990 in the water conduit rupture litigation. The remaining net unrecovered costs and revenues related to Helms are approximately \$110 million. The Company believes that it is uncertain whether, and to what extent, any of the remaining costs and revenues will be recovered through the ratemaking process.

New accounting standards Statement of Financial Accounting Standards (SFAS) No. 96, *Accounting for Income Taxes*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, established new financial accounting standards which must be adopted by 1993. Due to expected future regulatory treatment, adoption of SFAS No. 96 should not have a significant impact on the Company's results of operations and



adoption of SFAS No. 106 should not have a significant impact on the Company's financial position or results of operations. (See Note 8 and Note 7, respectively, of the Notes to Consolidated Financial Statements.)

Liquidity and Capital Resources

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

| <i>In millions</i> | 1992 | 1993 | 1994 |
|---------------------------------|----------------|----------------|----------------|
| Utility | \$1,552 | \$1,878 | \$1,903 |
| PGT-PG&E pipeline expansion* | 908 | 642 | 21 |
| Diablo Canyon | 125 | 118 | 126 |
| Enterprises | 189 | 168 | 254 |
| Total capital expenditures | 2,774 | 2,806 | 2,304 |
| Maturing debt and sinking funds | 138 | 415 | 234 |
| Total capital requirements | <u>\$2,912</u> | <u>\$3,221</u> | <u>\$2,538</u> |

*Estimated costs for PGT's portion of the project are \$458 in 1992, \$339 in 1993, and \$11 in 1994. The pending sale of PGT is discussed below and if completed would reduce the expenditures for the pipeline expansion significantly.

Utility expenditures primarily will be for replacing, modernizing and expanding the Company's facilities. Utility and pipeline expansion expenditures include the allowance for funds used during construction.

Enterprises' actual capital expenditures may vary significantly depending on the availability of attractive investment opportunities. These expenditures include oil and gas exploration and development costs and Enterprises' equity share of generating facilities.

PGT-PG&E pipeline expansion project PG&E and PGT have proposed to expand PGT's Alberta-California pipeline and PG&E's transmission facilities in California to provide additional natural gas from Canada to customers in California and the Pacific Northwest. The CPUC has approved the California portion of this project, and the FERC has approved the interstate portion.

The CPUC authorization included a \$736 million cost cap for the California portion, which represents the maximum cost determined by the CPUC to be reasonable and prudent based on an estimate of the anticipated construction costs. The CPUC also accepted the Company's proposal to escalate these costs to 1994. The Company currently estimates that the escalated cost of the California portion will be \$821 million and intends to apply for rate recovery of the increased amount.

The FERC approval reduced PGT's return on equity to 10.13% and will increase it to 12.5% when PGT can demonstrate that neither its rates or transportation policies, nor those of PG&E, are unduly discriminatory with respect to interstate/intrastate access.

In response to the above issues related to interstate/intrastate access, the CPUC has accelerated its reexamination of the project's rate design and access issues. Hearings concluded in late December, and a CPUC decision is expected in Spring 1992.

At December 31, 1991, the Company's investment in the project was approximately \$116 million. In addition, the Company has a project construction contract which contains cancellation cost provisions. Construction is scheduled to be completed in late 1993 at an escalated cost of \$1.7 billion.

Pending sale and acquisition In September 1991, the Company signed an agreement in principle to sell all of the shares of PGT, including PGT's 49.98% interest in Alberta Natural Gas Company Ltd (ANG) to TransCanada PipeLines Limited of Calgary, Alberta. Assuming the sale closes in the second half of 1992, the total purchase price for PGT, including its ANG holding and excluding debt, is estimated at between \$350 million and \$450 million, depending on a number of adjustments such as contingent future payments and reimbursement of expenditures on the PGT portion of the PGT-PG&E pipeline expansion project discussed above. Completion of the sale is subject to resolution of a number of outstanding issues. The Company intends to own and operate the California portion of the PGT-PG&E pipeline expansion project, which comprises approximately 50% of the total project investment.

In addition, the Company is assessing its continued ownership of A&S and is in discussion with a company to determine its interest in purchasing A&S.

In December 1991, PG&E Resources Company, a wholly owned subsidiary of Enterprises, acquired all the capital stock of TEX/CON Oil & Gas Company, an oil and gas exploration and production company, for \$389 million.

Common stock repurchase program PG&E has a program to repurchase its common stock, on the open market or in negotiated transactions, primarily to offset new shares issued through PG&E's Dividend Reinvestment Plan and employee Savings Fund Plan. In 1990, the Board of Directors authorized PG&E to repurchase \$1.25 billion of common stock. PG&E repurchased \$338 million in 1991 and \$455 million in 1990. In 1990, PG&E also repurchased approximately \$60 million of its common stock which was used in the acquisition of a nonregulated business.

Sources of capital Internally generated cash flows and external financings will continue to supply capital. In 1991, cash proceeds from long-term debt and common stock issued were \$739 million and \$271 million, respectively. Common stock is issued through PG&E's Dividend Reinvestment Plan and employee Savings Fund Plan.

PG&E's authorized utility capital structure for 1992 is 46.75% common equity, 5.75% preferred stock and 47.50% long-term

debt. Authorized return on utility rate base for 1992 is 10.76%.

The Company's capital structure helps provide financial flexibility and access to capital markets at reasonable rates. Actual consolidated capitalization ratios for the Company at December 31 were:

| | 1991 | 1990 |
|----------------------|------|------|
| Common equity | 45% | 45% |
| Preferred stock | 6 | 7 |
| Long-term debt | 49 | 48 |
| Total capitalization | 100% | 100% |

PG&E's bond indenture permits issuance of mortgage bonds up to an amount approved by the Board of Directors and the CPUC. At December 31, 1991, PG&E had \$6.6 billion outstanding in mortgage bonds and may issue, subject to regulatory approval, up to \$3.4 billion more. To reduce financing costs, PG&E reacquired \$119 million in 1991 and \$273 million in 1990 of certain high-cost mortgage bonds. PG&E also reacquired \$89 million in 1991 and \$26 million in 1990 of preferred stock.

In 1991, PG&E issued \$400 million of mortgage bonds and \$352 million of medium-term notes. Proceeds from these bonds and notes were applied to construction expenditures and to the redemption, repayment or retirement of debt or preferred stock.

In January 1992, the Board of Directors authorized PG&E to reacquire up to \$1.3 billion of certain high-cost mortgage bonds 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 and gas inventories, advances to gas producers, and unrecovered balances in balancing accounts. The Company must use external financing when balancing account revenues are undercollected, as in 1990 and 1991, until the revenues, plus interest, are received in rates. The Company's short-term borrowings were \$1.01 billion at December 31, 1991.

PG&E has \$850 million in long-term revolving credit facilities with various banks to support the sale of commercial paper and for other corporate purposes. These include two facilities totaling \$100 million executed by PG&E in January 1992. Pacific Energy Fuels Company, a wholly owned subsidiary, has a \$250 million, long-term revolving credit facility with various banks to support its commercial paper issued to finance the purchase of nuclear fuel. PGT has a \$200 million, 364-day revolving credit facility with various banks to support the construction of the PGT-PG&E pipeline expansion project and for other corporate purposes.

At December 31, 1991, the Company had unused credit facilities of \$1.27 billion, including those mentioned above.

Environmental matters The Company is subject to an increasing number of laws and regulations designed to protect the

environment by imposing stringent controls with regard to planning and construction, land use, air and water pollution and hazardous waste management activities. These laws and regulations affect future planning and existing operations, including environmental cleanup activities.

The Company's projected expenditures for environmental protection are subject to periodic review and revision to reflect changing technology and evolving regulatory requirements. Capital expenditures to protect or repair the environment are currently estimated to be approximately \$70 million, \$98 million and \$197 million for 1992, 1993 and 1994, respectively, and are included in the Company's three-year projection of capital requirements shown above. Expenditures during this period will be primarily for nitrogen oxide (NOx) emission reduction projects. For the 1993-1995 GRC filing period, PG&E is estimating plant additions of approximately \$475 million for NOx control projects. PG&E's environmental capital expenditures are recovered through base rates and PG&E anticipates that this will continue.

The Company assesses on an ongoing basis measures that may need to be taken to comply with requirements related to environmental cleanup activities and has recorded a liability at December 31, 1991 of approximately \$71 million for estimated overall cleanup costs. (See Note 10 of the Notes to Consolidated Financial Statements.)

To the extent that environmental cleanup costs are not recovered through insurance or by other means, the Company will apply for rate recovery of such costs through special environmental ratemaking procedures established by the CPUC, and expects that most prudently incurred environmental remediation costs will be recovered through rates. The Company has recorded a regulatory asset at December 31, 1991 of approximately \$62 million representing the minimum amount of accrued environmental cleanup costs expected to be recovered under the current ratemaking mechanism. Due to expected regulatory treatment, the Company believes that the level of cleanup costs will not have a significant impact on its financial position or results of operations.

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, 1991 and 1990, 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, 1991. 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, 1991 and 1990, and the results of their operations and cash flows for each of the three years in the period ended

December 31, 1991 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, Alberta and Southern Gas Co. Ltd. (A&S), a wholly owned subsidiary of the Company, has commitments to purchase minimum quantities of gas from certain Canadian producers. Three of these producers have filed lawsuits against the Company for the alleged failure of A&S to meet its minimum contractual obligations in 1991. Revised regulations initiated by the California Public Utilities Commission (CPUC) will require the Company to reduce its Canadian gas purchases and to negotiate restructured gas supply arrangements. The CPUC is reviewing the reasonableness of Canadian gas costs for test years 1988 through 1990. The Company currently is unable to estimate the ultimate outcome of these natural gas matters or predict whether such outcome would have a significant adverse impact on the Company's financial position or results of operations.

As discussed in Note 10 to the consolidated financial statements, the Company provided a reserve of approximately \$64 million against its investment in Helms as a result of an adverse decision in 1990 in the water conduit rupture litigation. The remaining net unrecovered costs and revenues related to Helms are approximately \$110 million. The Company believes that it is uncertain whether, and to what extent, any of the remaining costs and revenues will be recovered through the ratemaking process.

ARTHUR ANDERSEN & CO.

San Francisco, California

January 29, 1992

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, considered the Company's systems of internal

accounting controls and have conducted other tests as they deemed necessary 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.

STATEMENT OF CONSOLIDATED INCOME

Pacific Gas and Electric Company

| <i>Years ended December 31</i> | 1991 | 1990 | 1989 |
|---|-------------------|-------------------|-------------------|
| <i>In thousands, except per share amounts</i> | | | |
| OPERATING REVENUES | | | |
| Electric | \$7,368,640 | \$7,036,071 | \$6,216,050 |
| Gas | 2,409,479 | 2,434,021 | 2,372,214 |
| Total operating revenues | 9,778,119 | 9,470,092 | 8,588,264 |
| OPERATING EXPENSES | | | |
| Cost of electric energy | 2,318,179 | 2,233,879 | 1,755,955 |
| Cost of gas | 960,208 | 1,168,464 | 1,181,772 |
| Transmission | 195,642 | 180,157 | 161,996 |
| Distribution | 208,881 | 195,352 | 199,972 |
| Customer accounts and services | 372,088 | 345,194 | 329,756 |
| Administrative and general | 875,878 | 794,368 | 698,544 |
| Maintenance | 525,220 | 404,154 | 372,845 |
| Depreciation and decommissioning | 1,140,877 | 1,046,417 | 1,000,316 |
| Income taxes | 863,089 | 856,401 | 724,718 |
| Property and other taxes | 288,610 | 278,231 | 270,573 |
| Other | 316,368 | 261,339 | 269,259 |
| Total operating expenses | 8,065,040 | 7,763,956 | 6,965,706 |
| OPERATING INCOME | 1,713,079 | 1,706,136 | 1,622,558 |
| OTHER INCOME AND (INCOME DEDUCTIONS) | | | |
| Allowance for equity funds used during construction | 24,543 | 24,585 | 25,200 |
| Interest income | 94,161 | 127,375 | 131,250 |
| Other—net | (23,909) | (67,023) | (43,530) |
| Total other income and (income deductions) | 94,795 | 84,937 | 112,920 |
| INCOME BEFORE INTEREST EXPENSE | 1,807,874 | 1,791,073 | 1,735,478 |
| INTEREST EXPENSE | | | |
| Interest on long-term debt | 697,185 | 699,849 | 733,776 |
| Other interest charges | 101,871 | 126,745 | 119,335 |
| Allowance for borrowed funds used during construction | (17,574) | (22,691) | (18,261) |
| Net interest expense | 781,482 | 803,903 | 834,850 |
| NET INCOME | 1,026,392 | 987,170 | 900,628 |
| Preferred dividend requirement | 89,595 | 98,001 | 101,079 |
| EARNINGS AVAILABLE FOR COMMON STOCK | \$ 936,797 | \$ 889,169 | \$ 799,549 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 417,965 | 423,759 | 420,940 |
| EARNINGS PER COMMON SHARE | \$2.24 | \$2.10 | \$1.90 |
| DIVIDENDS DECLARED PER COMMON SHARE | \$1.64 | \$1.52 | \$1.40 |

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

CONSOLIDATED BALANCE SHEET

Pacific Gas and Electric Company

| December 31 | 1991 | 1990 |
|---|---------------------|---------------------|
| <i>In thousands</i> | | |
| ASSETS | | |
| PLANT IN SERVICE (at original cost) | | |
| Electric | | |
| Non-nuclear | \$15,497,597 | \$14,488,016 |
| Diablo Canyon | 5,860,468 | 5,756,471 |
| Gas | 5,073,997 | 4,643,315 |
| Total plant in service | 26,432,062 | 24,887,802 |
| Accumulated depreciation and decommissioning | (9,472,581) | (8,467,350) |
| <i>Net plant in service</i> | 16,959,481 | 16,420,452 |
| CONSTRUCTION WORK IN PROGRESS | 711,509 | 655,202 |
| OTHER NONCURRENT ASSETS | | |
| Advances to gas producers | 46,095 | 118,674 |
| Decommissioning and other funds held by trustee | 384,369 | 297,115 |
| Oil and gas properties | 632,811 | 255,146 |
| Investments and other assets | 241,715 | 224,933 |
| <i>Total other noncurrent assets</i> | 1,304,990 | 895,868 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 97,280 | 101,207 |
| Accounts receivable | | |
| Customers | 1,311,646 | 1,246,972 |
| Other | 255,468 | 251,053 |
| Allowance for uncollectible accounts | (16,677) | (16,664) |
| Regulatory balancing accounts receivable | 555,955 | 758,356 |
| Inventories | | |
| Fuel oil | 158,725 | 132,698 |
| Nuclear fuel | 99,470 | 114,630 |
| Gas stored underground | 186,861 | 186,922 |
| Materials and supplies | 225,107 | 228,473 |
| Prepayments | 39,443 | 62,295 |
| <i>Total current assets</i> | 2,913,278 | 3,065,942 |
| DEFERRED CHARGES | | |
| Regulatory assets | 348,453 | 282,189 |
| Unamortized project costs | 33,942 | 62,167 |
| Workers' compensation and disability claims recoverable | 140,340 | 134,579 |
| Unamortized loss net of gain on reacquired debt | 245,772 | 245,133 |
| Other — net | 242,905 | 196,865 |
| <i>Total deferred charges</i> | 1,011,412 | 920,933 |
| TOTAL ASSETS | \$22,900,670 | \$21,958,397 |

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

CONSOLIDATED BALANCE SHEET*Pacific Gas and Electric Company*

December 31

1991

1990

In thousands

| | 1991 | 1990 |
|--|---------------------|---------------------|
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION | | |
| Common stock | \$ 2,087,859 | \$ 2,101,095 |
| Additional paid-in capital | 3,287,313 | 3,170,890 |
| Reinvested earnings | 2,306,152 | 2,234,227 |
| Common stock equity | 7,681,324 | 7,506,212 |
| Preferred stock without mandatory redemption provision | 894,897 | 983,961 |
| Preferred stock with mandatory redemption provision | 92,010 | 116,888 |
| Long-term debt | 8,249,300 | 7,785,521 |
| Total capitalization | 16,917,531 | 16,392,582 |
| NONCURRENT LIABILITIES | | |
| Customer advances for construction | 185,586 | 180,996 |
| Workers' compensation and disability claims | 142,800 | 136,300 |
| Other | 205,200 | 134,038 |
| Total noncurrent liabilities | 533,586 | 451,334 |
| CURRENT LIABILITIES | | |
| Short-term borrowings | 1,009,911 | 1,024,189 |
| Accounts payable | | |
| Trade creditors | 678,352 | 537,052 |
| Other | 325,679 | 294,734 |
| Accrued taxes | 109,062 | 73,085 |
| Deferred income taxes | 276,654 | 341,437 |
| Long-term debt and preferred stock | 138,033 | 106,353 |
| Interest payable | 83,491 | 71,086 |
| Dividends payable | 171,159 | 159,860 |
| Amounts due customers | 102,104 | 106,657 |
| Other | 201,113 | 180,987 |
| Total current liabilities | 3,095,558 | 2,895,440 |
| DEFERRED CREDITS | | |
| Deferred investment tax credits | 497,752 | 516,176 |
| Deferred income taxes | 1,642,004 | 1,498,421 |
| Other | 214,239 | 204,444 |
| Total deferred credits | 2,353,995 | 2,219,041 |
| COMMITMENTS AND CONTINGENCIES (Notes 2, 9 and 10) | | |
| TOTAL CAPITALIZATION AND LIABILITIES | \$22,900,670 | \$21,958,397 |

STATEMENT OF CONSOLIDATED CASH FLOWS

Pacific Gas and Electric Company

| <i>Years ended December 31</i> | 1991 | 1990 | 1989 |
|---|--------------------|--------------------|--------------------|
| <i>In thousands</i> | | | |
| CASH FLOWS FROM OPERATIONS | | | |
| Net income | \$ 1,026,392 | \$ 987,170 | \$ 900,628 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and decommissioning | 1,140,877 | 1,046,417 | 1,000,316 |
| Amortization | 31,061 | 31,572 | 83,374 |
| Deferred taxes | 78,800 | 161,326 | 84,057 |
| Allowance for equity funds used during construction | (24,543) | (24,585) | (25,200) |
| Advances to gas producers | 72,579 | 104,991 | 56,668 |
| Change in operating assets and liabilities | | | |
| Accounts receivable | (69,076) | 318 | (15,044) |
| Regulatory balancing accounts | 202,401 | 2,588 | (124,455) |
| Accounts payable | 172,245 | 9,211 | 141,591 |
| Accrued taxes | 35,977 | 55,703 | (6,289) |
| Other working capital | 29,344 | (6,911) | 117,541 |
| Other—net | 29,020 | 4,782 | 69,375 |
| Net cash provided by operations | 2,725,077 | 2,372,582 | 2,282,562 |
| INVESTING ACTIVITIES | | | |
| Construction expenditures | (1,753,609) | (1,494,503) | (1,404,991) |
| Allowance for borrowed funds used during construction | (17,574) | (22,691) | (18,261) |
| Purchase of subsidiary | (388,662) | — | — |
| Nonregulated expenditures | (117,847) | (139,624) | (43,915) |
| Other—net | 33,156 | (6,564) | 118,913 |
| Net cash used in investing activities | (2,244,536) | (1,663,382) | (1,348,254) |
| FINANCING ACTIVITIES | | | |
| Common stock issued | 271,482 | 260,963 | 334,988 |
| Common stock repurchased | (337,969) | (515,028) | — |
| Preferred stock redeemed | (123,667) | (53,093) | (25,390) |
| Long-term debt issued | 738,649 | 376,172 | 316,379 |
| Long-term debt matured or reacquired | (196,664) | (357,270) | (249,357) |
| Long-term debt purchased for sinking fund (at cost) | (66,556) | (54,565) | (67,531) |
| Short-term debt issued (redeemed)—net | (14,278) | 396,457 | (230,500) |
| Capital lease payments | (1,737) | (1,304) | (356,911) |
| Dividends paid | (765,543) | (731,903) | (688,126) |
| Other—net | 11,815 | 4,800 | 1,952 |
| Net cash used in financing activities | (484,468) | (674,771) | (964,496) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (3,927) | 34,429 | (30,188) |
| CASH AND CASH EQUIVALENTS AT JANUARY 1 | 101,207 | 66,778 | 96,966 |
| CASH AND CASH EQUIVALENTS AT DECEMBER 31 | \$ 97,280 | \$ 101,207 | \$ 66,778 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 723,968 | \$ 743,336 | \$ 772,492 |
| Income taxes | \$ 768,097 | \$ 567,994 | \$ 535,486 |

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

**STATEMENT OF CONSOLIDATED COMMON STOCK EQUITY
AND PREFERRED STOCK**

Pacific Gas and Electric Company

| | Common stock | Additional paid-in capital | Reinvested earnings | Common stock equity | Preferred stock without mandatory redemption provision | Preferred stock with mandatory redemption provision* |
|---|--------------------|----------------------------------|------------------------|---------------------------|---|---|
| <i>In thousands, except shares</i> | | | | | | |
| 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 |
| Net income—1990 | | | 987,170 | 987,170 | | |
| Common stock sold (14,255,467 shares) | 71,277 | 249,998 | | 321,275 | | |
| Common stock repurchased (23,026,622 shares) | (115,133) | (199,255) | (200,640) | (515,028) | | |
| Preferred stock redeemed (1,301,842 shares) | | (1,436) | (178) | (1,614) | (26,234) | (25,245) |
| Cash dividends declared | | | | | | |
| Preferred stock | | | (98,829) | (98,829) | | |
| Common stock | | | (643,319) | (643,319) | | |
| Foreign currency translation adjustment | | | 1,164 | 1,164 | | |
| Balance, December 31, 1990 | 2,101,095 | 3,170,890 | 2,234,227 | 7,506,212 | 983,961 | 129,510 |
| Net income—1991 | | | 1,026,392 | 1,026,392 | | |
| Common stock sold (10,263,302 shares) | 51,317 | 220,165 | | 271,482 | | |
| Common stock repurchased (12,910,487 shares) | (64,553) | (98,455) | (174,961) | (337,969) | | |
| Preferred stock redeemed (3,811,325 shares) | | (5,287) | (4,438) | (9,725) | (89,064) | (24,878) |
| Cash dividends declared | | | | | | |
| Preferred stock | | | (91,501) | (91,501) | | |
| Common stock | | | (685,341) | (685,341) | | |
| Foreign currency translation adjustment | | | 1,774 | 1,774 | | |
| BALANCE, DECEMBER 31, 1991 | \$2,087,859 | \$3,287,313 | \$2,306,152 | \$7,681,324 | \$ 894,897 | \$104,632 |

*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

| December 31 | 1991 | 1990 |
|---|----------------------|----------------------|
| <i>In thousands, except percentages and shares</i> | | |
| Common stock, par value \$5 per share (authorized 800,000,000 shares, issued and outstanding at December 31, 1991: 417,571,826; 1990: 420,219,011) | \$ 2,087,859 | \$ 2,101,095 |
| Additional paid-in capital | 3,287,313 | 3,170,890 |
| Reinvested earnings | 2,306,152 | 2,234,227 |
| COMMON STOCK EQUITY | 7,681,324 45% | 7,506,212 45% |
| Preferred stock without mandatory redemption provision Par value \$25 per share (authorized 75,000,000 shares) | | |
| <i>Nonredeemable</i> | | |
| 5% to 6% — 5,784,825 shares outstanding | 144,621 | 144,621 |
| <i>Redeemable</i> | | |
| 4.36% to 8.2% — 13,534,959 shares outstanding | 338,373 | 338,373 |
| 9% to 10.46% — 16,476,092 and 20,038,642 shares outstanding | 411,903 | 500,967 |
| | 894,897 | 983,961 |
| Preferred stock with mandatory redemption provision Par value \$100 per share (authorized 10,000,000 shares) 9% and 10.17% — 1,046,325 and 1,295,100 shares outstanding | 104,632 | 129,510 |
| TOTAL PREFERRED STOCK | 999,529 6% | 1,113,471 7% |
| <i>Less preferred stock — current portion</i> | 12,622 | 12,622 |
| PREFERRED STOCK IN TOTAL CAPITALIZATION | 986,907 | 1,100,849 |
| Pacific Gas and Electric Company | | |
| First and refunding mortgage bonds | | |
| <i>Maturity Interest rates</i> | | |
| 1991—1996 4.25% to 13% | 762,310 | 811,406 |
| 1997—2016 4.625% to 8.125% | 1,380,130 | 1,380,130 |
| 2001—2024 8.2% to 8.875% | 2,009,983 | 1,609,983 |
| 1997—2023 9% to 9.95% | 1,595,350 | 1,691,750 |
| 2011—2020 10% to 12.75% | 810,457 | 896,588 |
| Principal amounts outstanding | 6,558,230 | 6,389,857 |
| Unamortized discount net of premium | (92,201) | (89,172) |
| Total mortgage bonds | 6,466,029 | 6,300,685 |
| Unsecured debentures, 10.81% to 12%, due 1994—2000 | 221,538 | 221,538 |
| Pollution control loan agreements, variable rates, due 2008—2016 | 925,000 | 925,000 |
| Medium-term notes, 5.7% to 10.1%, due 1991—2011 | 590,850 | 240,050 |
| Unamortized discount related to medium-term notes | (2,577) | (1,098) |
| Other long-term debt | 28,002 | 29,946 |
| Total PG&E long-term debt | 8,228,842 | 7,716,121 |
| Long-term debt of subsidiaries | 145,869 | 163,131 |
| TOTAL LONG-TERM DEBT OF PG&E AND SUBSIDIARIES | 8,374,711 49% | 7,879,252 48% |
| <i>Less long-term debt — current portion</i> | 125,411 | 93,731 |
| LONG-TERM DEBT IN TOTAL CAPITALIZATION | 8,249,300 | 7,785,521 |
| TOTAL CAPITALIZATION | \$16,917,531 | \$16,392,582 |

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 |
|---|---------------------|---------------------|------------------------------|----------------------|
| <i>In thousands</i> | | | | |
| 1991 | | | | |
| Operating revenues | \$ 7,368,640 | \$2,409,479 | | \$ 9,778,119 |
| Intersegment revenues ^(a) | 15,043 | 541,963 | \$(557,006) | — |
| TOTAL OPERATING REVENUES | \$ 7,383,683 | \$2,951,442 | \$(557,006) | \$ 9,778,119 |
| DEPRECIATION AND DECOMMISSIONING | \$ 843,768 | \$ 297,109 | | \$ 1,140,877 |
| OPERATING INCOME BEFORE INCOME TAXES^(b) | \$ 2,271,571 | \$ 304,597 | | \$ 2,576,168 |
| CONSTRUCTION EXPENDITURES^(c) | \$ 1,192,570 | \$ 603,156 | | \$ 1,795,726 |
| Identifiable assets ^(c) | \$17,259,755 | \$4,947,101 | | \$22,206,856 |
| Corporate assets | | | | 693,814 |
| TOTAL ASSETS | | | | \$22,900,670 |
| 1990 | | | | |
| Operating revenues | \$ 7,036,071 | \$ 2,434,021 | | \$ 9,470,092 |
| Intersegment revenues ^(a) | 13,823 | 734,271 | \$(748,094) | — |
| Total operating revenues | \$ 7,049,894 | \$ 3,168,292 | \$(748,094) | \$ 9,470,092 |
| Depreciation and decommissioning | \$ 799,214 | \$ 247,203 | | \$ 1,046,417 |
| Operating income before income taxes^(b) | \$ 2,288,965 | \$ 273,572 | | \$ 2,562,537 |
| Construction expenditures^(c) | \$ 1,079,098 | \$ 462,681 | | \$ 1,541,779 |
| Identifiable assets ^(c) | \$ 16,936,713 | \$ 4,318,541 | | \$ 21,255,254 |
| Corporate assets | | | | 703,143 |
| Total assets | | | | \$ 21,958,397 |
| 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 and decommissioning | \$ 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) | \$ 16,479,807 | \$ 4,182,397 | | \$ 20,662,204 |
| Corporate assets | | | | 689,766 |
| Total assets | | | | \$ 21,351,970 |

(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.

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).

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

Major subsidiaries are: Pacific Gas Transmission Company (PGT)—transports natural gas in the Pacific Northwest and sells natural gas to PG&E at the California border; 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 (Enterprises)—parent company for the nonregulated subsidiaries of PG&E, including PG&E Resources Company (PG&E Resources) which engages in exploration, development and production of oil and natural gas.

Alberta Natural Gas Company Ltd (ANG), a 49.98%-owned affiliate of PGT, owns and operates a pipeline in British Columbia, which transports natural gas for A&S to the U.S. border. The investment in ANG is accounted for by the equity method of accounting.

Revenues Revenues are recorded primarily for deliveries of gas and electric energy to customers. These revenues give rise to receivables from a diversified base of customers including residential, commercial and industrial customers in Northern and Central California.

Sales adjustment balancing accounts accumulate differences between authorized and actual base revenues. Energy cost balancing accounts accumulate differences between recorded costs of gas and electric energy and the revenue designated for recovery of such costs. Recovery of gas and electric energy costs through these balancing accounts is subject to a CPUC determination that such costs were incurred reasonably. (See Note 2.) These balancing accounts are recorded to the extent that future rate recovery from customers, or refunds to customers, are probable.

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 debt and equity funds used to finance the construction of new facilities. 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 not on a cost-based ratemaking basis. (See Note 3.) The original cost of utility plant retired plus removal costs less salvage are charged to accumulated depreciation. Property maintenance, repairs and minor replacements and additions are charged to maintenance expense.

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

The estimated cost of decommissioning the Company's nuclear power facilities is recovered in base rates through an annual allowance charged to expense. The estimated total obligations for decommissioning costs are approximately \$973 million in 1991 dollars. This estimate includes a contingency factor for possible changes in regulatory requirements and waste disposal cost increases.

As of December 31, 1991, approximately \$376 million had been accumulated in external trust funds to be used for the decommissioning of the Company's nuclear facilities. Funds may not be released from the trusts until authorized by the CPUC.

Income taxes PG&E files a consolidated federal income tax return that includes domestic 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, excess depreciation for state purposes, and removal costs and federal tax depreciation on property acquired prior to 1981. At December 31, 1991, the cumulative net amount of these differences was \$1.5 billion for federal purposes and \$2 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. 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 energy output.

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 kilowatthour (kwh) generated by all nuclear power plants. This fee is paid quarterly to DOE.

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 properties PG&E Resources uses the successful efforts method of accounting for oil and gas properties.

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 activities include the exchange of PG&E common stock valued at approximately \$60 million for the acquisition of a nonregulated business, in 1990.

Reclassifications Prior years' amounts in the consolidated financial statements have been reclassified where necessary to conform to the 1991 presentation.

Note 2

NATURAL GAS MATTERS

Natural gas purchase obligations A&S, the Company's independent Canadian gas purchasing subsidiary, currently has commitments to purchase minimum quantities of gas from Canadian producers under various contracts which extend through 2005. Under these contracts, A&S is committed to take a minimum contract quantity which varies based on a number of factors, including purchases made by PGT from A&S, fixed volume contracts, sales made by A&S within Canada, and total supply contracted to A&S. At present, with PG&E's current gas market requirements, A&S's aggregate minimum contract quantity slightly exceeds PG&E's requirements, even taking into consideration sales made by A&S within Canada. A&S is authorized to export to the U.S. approximately 374 billion cubic feet per year, or about 1,023 million cubic feet per day (mmcf/d). The contract prices are renegotiated on an annual basis. The base contract prices for the three seasonal

pricing periods within the current contract year, which began August 1, 1991, range from approximately \$1.30 per thousand cubic feet (mcf) to approximately \$1.75 per mcf.

A new gas purchasing program, initiated by the CPUC, went into effect in August 1991. The Company is prohibited from purchasing for noncore customers (industrial and commercial customers that meet certain size limitations) in a portfolio separate from the core customers. During an interim period, originally scheduled to be in effect until August 1994, noncore customers may choose to negotiate directly with producers for gas supplies which the Company will purchase under existing contractual arrangements for service via the Company's transmission system from Canada and under newly executed contracts for service via the Company's southern transmission system. The program during the interim period is limited to 250 mmcf/d of Canadian gas supply and 200 mmcf/d of Southwest gas supply. The Canadian portion of the access agreement provides A&S exclusive rights to sell to noncore customers up to 250 mmcf/d. During this interim period, the noncore customers' gas purchases from producers under contract with A&S will help satisfy A&S's minimum contractual obligations. In addition, the Company's electric department may purchase only 65% of its forecasted gas demand from the core portfolio until implementation of the new capacity brokering program discussed below. The remainder of the electric department's supply must be purchased under contracts separate from those for the core portfolio.

In November 1991, the CPUC issued a decision in its capacity brokering proceeding which established a targeted implementation date of October 1992, or when the FERC allows capacity brokering on PGT, whichever is later. The capacity brokering decision provides for significant changes in the natural gas industry in California, especially regarding access to Canadian gas supplies for noncore customers and the purchasing and transporting of gas for the Company's electric department. Capacity brokering is a way of allocating pipeline capacity whereby noncore customers and other shippers attain rights to firm interstate pipeline transportation capacity held by the local gas distribution utilities. Under capacity brokering, the utilities assign their existing rights to noncore shippers for a specified period. There is an existing FERC rulemaking which will decide whether unused interstate transportation capacity will be allocated by the local distribution utilities or the interstate pipelines. The current FERC proposal is not consistent with the CPUC's approach in that the FERC proposal provides that the interstate pipelines allocate unused capacity.

The gas purchasing rules and capacity brokering program, when implemented, will require a decrease in the volume of Canadian gas purchased from A&S's producers and will require

the restructuring of the Company's gas supply arrangements to reflect the Company's altered gas market. As part of the new rules, the Company's electric department will not have a preference to firm interstate capacity as compared to other non-core customers. However, the program provides for a transition period during which the electric department will be permitted to elect core subscription service for up to certain decreasing percentages of its average annual loads. Beginning in the fifth year of the program, the electric department will not be allowed to purchase core subscription service, and instead will compete with other noncore customers to obtain transportation services.

A&S has commenced negotiations to restructure its contracts with gas producers to reduce its obligations. In 1991, A&S presented a proposal to its Canadian producers to establish guidelines and a time schedule to negotiate restructured gas supply arrangements. The A&S proposal provides that the rights and obligations under the existing contracts are issues to be negotiated, including compensation, if appropriate. The Company would expect to apply for rate recovery of compensation amounts paid. Recovery of such amounts would be subject to review through the federal and state regulatory processes. In connection with the current CPUC reasonableness proceeding, the CPUC's Division of Ratepayer Advocates (DRA) has recommended that recovery of such amounts not be allowed. However, the CPUC deferred consideration of that issue until a future reasonableness proceeding.

Natural gas purchase contracts litigation In 1991, three Canadian producers filed lawsuits against the Company claiming damages in the aggregate of at least \$420 million (Canadian). All three producers seek damages resulting from the alleged failure of A&S to meet its minimum and reasonably expected contractual gas purchase obligations for the 1990-1991 contract year, and two producers seek damages for the anticipated failure of A&S to meet those obligations through 2005. The lawsuits also seek to restrain A&S from purchasing certain other gas in the 1991-1992 contract year until its minimum purchase obligations are met to these producers.

The shortfall associated with these producers' supply contracts represents approximately 66% of the total 1990-1991 contract year shortfall resulting from the aggregate A&S gas purchase obligations discussed above. It is possible that other gas producers will pursue claims against A&S for failure to take minimum quantities of gas during the 1990-1991 contract year. As a result of the CPUC's regulatory changes discussed above, it is expected that the purchases by A&S for the 1991-1992 contract year will be lower than those in the 1990-1991 contract year since, among other causes, the Company's electric department may now purchase only up to 65% of its forecasted demand through the Company's core portfolio.

Reasonableness proceedings Recovery of gas and electric energy costs through the Company's regulatory balancing account mechanisms is subject to a CPUC determination that such costs were incurred reasonably. Under the current regulatory framework, annual reasonableness proceedings are conducted by the CPUC on a historic test year basis.

In July 1991, the CPUC issued a decision which concluded that the electric system operations of the Company were reasonable in 1989, but deferred consideration of the reasonableness of gas system costs and certain gas-related electric system costs. In an earlier decision affecting the 1988 test year, the CPUC deferred consideration of the reasonableness of all gas system costs pending completion of an investigation by the DRA of the Company's gas purchasing activities. Those issues have been consolidated with the CPUC's review of the reasonableness of gas and electric system costs for the 1989 and 1990 test years.

In September 1991, the DRA released its recommendation in connection with the Company's Canadian gas purchasing activities during the three open test years. The DRA recommends that the Company refund approximately \$410 million based on its contention that the Company should have purchased 50% of its Canadian supplies on the spot market instead of through almost totally relying on long-term contracts. The DRA also noted that the Company purchases electric energy when it is cheaper than its incremental fossil generation costs, which it argued would have been lower if cheaper Canadian gas supplies had been used. The DRA indicated that it did not address at this time issues related to certain contracts with Southwestern gas producers. Using a different theory than the DRA, an intervenor has asserted that the Company overpaid for Canadian gas in the range between \$540 million to \$670 million.

In addition, the DRA has recommended a disallowance of \$37 million related to gas inventory operations. The DRA contends that the Company should have withdrawn excess gas from storage in the winter of 1989-1990 and December 1990 rather than burning fuel oil, which on an accounting basis was more expensive.

The DRA is a consumer advocacy branch of the CPUC staff, and its recommendations do not constitute a CPUC decision. The CPUC can accept all, part or none of the DRA's recommendations. The Company believes that its gas purchasing activities during the three open test years were prudent and will vigorously contest the DRA's recommendations. Hearings are scheduled for the second quarter of 1992.

Financial impact As a result of the litigation and gas contract restructuring discussed above, the Company reserved its entire \$18 million equity investment in A&S in 1991. The Company currently is unable to estimate the ultimate outcome of these natural gas matters or predict whether such outcome would have a significant adverse impact on the Company's financial position or results of operations.

Note 3**DIABLO CANYON**

Rate case settlement The Diablo Canyon rate case settlement, effective July 1988, bases revenues for the plant 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, ending 2016.

The settlement provides that certain Diablo Canyon regulatory costs aggregating \$1.056 billion after tax will be recovered over the term of the settlement, including a full return, through base rates. The related revenues to recover these costs are included in Diablo Canyon revenues for reporting purposes. 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.

Pricing The price per kwh consists of a fixed component and an escalating component. The total prices for 1989 through 1991 were 8.34 cents, 8.93 cents and 9.6 cents per kwh, effective January 1. Total prices for the years 1992 through 1994, effective January 1 of each year, are 10.34 cents, 11.16 cents and 11.89 cents per kwh. For 1995 through 2016, the escalating component will be adjusted by a factor related to inflation. During the first 700 hours of full-power operation for each unit during the peak period (10 a.m. to 10 p.m. on weekdays 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 for each unit outside the peak period, the price is 70% of the stated amount. At all other times, the price is 100% of the stated amount.

Note 4**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 PG&E 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 10.28% | \$2.25 to \$2.57 | \$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 1992 through 1996 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.

PG&E reacquired \$89 million and \$26 million of its preferred stock in 1991 and 1990, respectively. Dividend rates on the reacquired preferred stock ranged from 9.3% to 10.46%.

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 5**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 1992 to 2024. 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.

PG&E is required by the indenture to make semi-annual sinking fund payments on February 1 and August 1 of each year for the retirement of the bonds. The payments equal 1/2 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.

PG&E reacquired \$119 million and \$273 million of certain high-cost mortgage bonds in 1991 and 1990, respectively. Interest rates on the bonds ranged from 10% to 12.75%.

In April 1991, PG&E issued \$200 million of Series 91A mortgage bonds at 8.8%, to mature in May 2024. In May 1991, PG&E issued \$200 million of Series 91B mortgage bonds at 8.875%, to mature in July 2024. Proceeds from these bonds were applied to construction expenditures and to the redemption, repayment or retirement of debt or preferred stock.

In January 1992, the Board of Directors authorized PG&E to reacquire up to \$1.3 billion of certain high-cost mortgage bonds to reduce financing costs.

Pollution control loan agreements PG&E has loans totaling \$925 million from an agency of the State of California to finance air and water pollution control, and sewage and solid waste disposal facilities. Interest rates on the 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 on these loans for 1991 ranged from 4.3% to 4.5%. These loans are subject to redemption by the holder on demand under certain circumstances. PG&E's obligations for such demands are secured by irrevocable letters of credit which can be drawn on at anytime until 1997. Any borrowings resulting from use of the letters of credit would mature in 1997. 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.

Medium-term notes PG&E had \$591 million of unsecured medium-term notes outstanding at December 31, 1991, with interest rates ranging from 5.7% to 10.1% and maturities from 1992 to 2011. During 1991, PG&E issued \$352 million of medium-term notes. Proceeds from these notes were applied to construction expenditures and to the redemption, repayment or retirement of debt or preferred stock.

Repayment schedule For the years 1992 through 1996, the Company's combined aggregate amount of debt maturing and sinking fund requirements, at December 31, 1991, is \$125 million, \$402 million, \$221 million, \$461 million, and \$404 million.

Note 6

SHORT-TERM BORROWINGS

Short-term borrowings are principally commercial paper with weighted average interest rates of 5.2% and 8.6% at December 31, 1991 and 1990, respectively. The usual maturity for commercial paper is 10 to 90 days.

PG&E has \$850 million in revolving credit facilities with various banks to support the sale of commercial paper and for other corporate purposes. These include two facilities totaling \$100 million executed by PG&E in January 1992. PEFCO has a \$250 million revolving credit facility with various banks to support its commercial paper issued to finance the purchase of nuclear fuel. PG&E guarantees PEFCO's credit facility and commercial paper. These credit facilities expire in 1994; however, they may be extended annually for additional one-year periods upon mutual agreement between the Company and the banks. The Company is in compliance with all covenants associated with the facilities. At December 31, 1991 and 1990, there were no borrowings outstanding against the credit facilities.

In July 1991, PGT entered into a \$200 million revolving credit facility agreement with various banks to support the construction of the PGT-PG&E pipeline expansion project and for other corporate purposes. PGT is in compliance with all covenants associated with the facility. The facility, which is guaranteed by PG&E, expires in July 1992. At December 31, 1991, PGT had \$30 million outstanding against the facility.

PG&E has executed guarantees to assume liabilities not to exceed \$350 million on A&S commercial paper and a standby bank line of credit to finance advances to gas producers, which were \$46 million and \$119 million at December 31, 1991 and 1990, respectively.

Note 7

RETIREMENT PLAN AND OTHER POSTRETIREMENT BENEFITS

Retirement Plan The Company provides a noncontributory 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.

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

| | 1991 | 1990 | 1989 |
|---|------------|------------|------------|
| <i>In thousands</i> | | | |
| Service cost for benefits earned | \$ 112,940 | \$ 112,552 | \$ 90,735 |
| Interest cost on projected benefit obligation | 238,153 | 232,263 | 215,993 |
| Actual (return) loss on plan assets | (774,445) | 63,205 | (552,393) |
| Net amortization and deferral | 552,775 | (292,147) | 349,742 |
| Net pension cost | \$ 129,423 | \$ 115,873 | \$ 104,077 |

The increase in net pension cost in 1991 compared to 1990 is due in part to a plan amendment made by the Company at year-end 1990.

Net pension cost is calculated using expected return on plan assets. The difference between actual and expected return on plan assets is included in net amortization and deferral and is considered in the determination of future pension cost.

In 1991 and 1989, actual returns on plan assets exceeded expected returns, whereas in 1990, the Retirement Plan experienced a negative investment return on plan assets.

The expected long-term rate of return on plan assets used in determining pension cost was 8% for 1991 and 1990, and 8.5% for 1989.

In conformity with accounting for rate-regulated enterprises, regulatory adjustments have been recorded in the income statement and balance sheet for the difference between utility pension cost determined for accounting purposes and that for ratemaking, which is based on a contribution approach.

The plan's funded status was:

| December 31 | 1991 | 1990 |
|---|-------------|-------------|
| <i>In thousands</i> | | |
| Actuarial present value of projected benefit obligations | | |
| Vested benefits | \$2,530,262 | \$2,249,931 |
| Nonvested benefits | 174,143 | 143,613 |
| Accumulated benefit obligation | 2,704,405 | 2,393,544 |
| Effect of projected future compensation increases | 808,219 | 764,333 |
| Projected benefit obligation | 3,512,624 | 3,157,877 |
| Plan assets at market value | 3,728,174 | 3,005,383 |
| Projected benefit obligation (less than) in excess of plan assets | (215,550) | 152,494 |
| Unrecognized prior service cost | (76,432) | (82,592) |
| Unrecognized net gain | 507,889 | 121,623 |
| Unrecognized net obligation | (149,743) | (161,723) |
| Accrued pension liability | \$ 66,164 | \$ 29,802 |

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

| | 1991 | 1990 |
|---|------|------|
| Weighted-average discount rate | 7.0% | 7.5% |
| Average rate of projected future compensation increases | 6.0% | 6.5% |

Plan assets are composed primarily of common stocks, fixed-income securities and real estate investments. The unrecognized prior service cost is being amortized over approximately 16 years, beginning in 1991. The unrecognized net obligation is being amortized over approximately 18 years, beginning in 1987.

Pension benefits for management employees are based on final three years' average pay. For nonmanagement employees,

effective January 1991, pension benefits automatically are based on the most current pay. This change does not affect the projected benefit obligation or pension cost since increases in pay were anticipated by the Company.

Savings Fund Plan The Company sponsors a defined contribution plan to which employees with at least one year of service may make contributions. Employees may contribute up to 14 percent of their covered compensation on a pre-tax or after-tax basis. Pre-tax employee contributions and, effective January 1991, after-tax employee contributions, up to a maximum of 6 percent of covered compensation are eligible for matching Company contributions at specified rates. The cost of Company contributions was charged to expense and plant in service and totaled \$33 million, \$29.8 million and \$28.8 million for 1991, 1990 and 1989, respectively.

Other postretirement benefits The Company provides health care benefits for retired employees and their eligible dependents. The cost, based on benefits paid, totaled \$16.5 million, \$15.6 million and \$15 million for 1991, 1990 and 1989, respectively. The cost of health care benefits was charged to expense and plant in service.

The Company also provides life insurance benefits for retired employees. This benefit is provided through an insurance company at a cost based on total current claims paid plus administrative fees. A life insurance plan available to certain management employees uses the same actuarial funding method 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 \$2.8 million for 1991 and \$2.6 million for 1990 and 1989.

New accounting standard In December 1990, the Financial Accounting Standards Board issued SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, which establishes accounting and reporting standards for such benefits. The new standard requires accrual of the expected cost of these benefits during the employees' years of service. The Company currently recognizes these costs as they are paid or funded, which is consistent with current ratemaking. The assumptions and calculations involved in determining the SFAS No. 106 accrual closely parallel pension accounting requirements.

The Company is required to adopt the new standard no later than 1993 and may recognize the transition obligation immediately or prospectively. The Company expects to adopt the new standard effective 1993 and to amortize the transition obligation at that date to expense over 20 years. Based on a preliminary valuation by actuaries in 1991, the accumulated benefit obligation for the postretirement medical and life insurance plans

at January 1, 1993, measured in accordance with the new standard, is approximately \$1.2 billion. The incremental expense above pay-as-you-go amounts in 1993, calculated in accordance with the new standard, is approximately \$160 million. The actual obligation and expense in 1993 could differ significantly due to changes in health care cost trends, interest rates and the plans. Due to expected future regulatory treatment, adoption should not have a significant impact on the Company's financial position or results of operations.

PG&E and other California utilities currently are participating in an investigation before the CPUC on the ratemaking effects of the new accounting standard on utilities. In July 1991, the CPUC authorized rate recovery of tax-deductible funding for 1991 and 1992. In December 1991, PG&E began funding post-retirement medical benefits with a \$72.7 million contribution to two independent trusts. The utility portion of the cost was charged to expense and plant in service. The CPUC's decision with respect to ratemaking for postretirement benefits other than pensions in 1993 and beyond is expected in 1992.

Note 8

INCOME TAXES

The current and deferred components of income tax expense were:

| | 1991 | 1990 | 1989 |
|--------------------------------------|------------------|------------------|------------------|
| <i>In thousands</i> | | | |
| Current | | | |
| Federal | \$589,713 | \$555,186 | \$457,014 |
| State | 201,445 | 185,015 | 139,975 |
| Total current | <u>791,158</u> | <u>740,201</u> | <u>596,989</u> |
| Deferred — federal and state | | | |
| Regulatory balancing accounts | (86,682) | (11,031) | 78,445 |
| Depreciation | 161,937 | 191,899 | 95,414 |
| Contributions in aid of construction | (13,375) | (23,902) | (27,708) |
| Unbilled revenues | — | 3,828 | (39,599) |
| State tax deductions | 3,076 | 29,020 | (20,173) |
| Other — net | 13,844 | (28,488) | (2,322) |
| Total deferred | <u>78,800</u> | <u>161,326</u> | <u>84,057</u> |
| Investment tax credits — net | (18,424) | (19,880) | (11,161) |
| Total income tax expense | <u>\$851,534</u> | <u>\$881,647</u> | <u>\$669,885</u> |
| Classification of income taxes | | | |
| Included in operating expenses | \$863,089 | \$856,401 | \$724,718 |
| Included in other — net | (11,555) | 25,246 | (54,833) |
| Total income tax expense | <u>\$851,534</u> | <u>\$881,647</u> | <u>\$669,885</u> |

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

| | 1991 | 1990 | 1989 |
|--|--------------------|--------------------|--------------------|
| <i>In thousands</i> | | | |
| Expected federal income tax expense at statutory rate | \$ 638,495 | \$ 635,398 | \$ 533,974 |
| Increase (decrease) in income tax expense resulting from: | | | |
| Investment and other tax credits | (18,424) | (21,499) | (24,547) |
| State income tax (net of federal benefit) | 134,568 | 173,206 | 96,225 |
| Depreciation and related timing differences not deferred | 101,098 | 95,678 | 89,780 |
| AFUDC | (15,055) | (20,410) | (14,629) |
| Helms reserve | — | 17,105 | — |
| Other — net | 10,852 | 2,169 | (10,918) |
| Total income tax expense | <u>\$ 851,534</u> | <u>\$ 881,647</u> | <u>\$ 669,885</u> |
| Income before income tax expense | <u>\$1,877,926</u> | <u>\$1,868,817</u> | <u>\$1,570,513</u> |
| Effective tax rate (total income tax expense/income before income tax expense) | 45.3% | 47.2% | 42.7% |

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 1993. 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. Due to expected future regulatory treatment, adoption should not have a significant impact on the Company's results of operations.

Note 9

COMMITMENTS

Capital projects Capital expenditures for 1992 are estimated to be approximately \$2.8 billion, consisting of \$1.6 billion for utility expenditures, \$908 million for the PCT-PG&E pipeline expansion project, \$125 million for Diablo Canyon and \$189 million for nonregulated investments. Utility and pipeline expansion expenditures include AFUDC.

At December 31, 1991, Enterprises had commitments to make capital contributions for its equity share of generating facility projects. The contributions, payable upon commercial operation of the projects, are estimated to be \$30 million and \$50 million in 1993 and 1994, respectively.

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. The QF must meet certain performance obligations, depending on the contract, prior to receiving capacity payments. The total cost of both energy and capacity payments to QFs is recoverable in rates.

Payments to QFs are expected to vary in future years. The amount of energy received from QFs and the total energy and capacity payments made under these agreements were:

| | 1991 | 1990 | 1989 |
|--------------------|--------|--------|--------|
| <i>In millions</i> | | | |
| Kwh received | 19,127 | 17,010 | 12,975 |
| Energy payments | \$970 | \$873 | \$602 |
| Capacity payments | \$450 | \$374 | \$255 |

Irrigation districts and water agencies The Company has contracts with various irrigation districts and water agencies to purchase hydroelectric power. The contracts expire on various dates from 2004 to 2031. Under these contracts, the Company must make specified monthly or semi-annual minimum payments whether or not any energy is supplied, subject to the provider's retention of FERC authorization. Additional variable payments for operation and maintenance costs incurred by the providers also are required to be made under the contracts. The total cost of these payments is recoverable in rates. At December 31, 1991, the future minimum payments under the contracts were \$33 million for each of the years 1992 through 1996 and \$544 million for periods thereafter. Total payments under these contracts were \$47 million, \$45 million and \$47 million in 1991, 1990 and 1989, respectively.

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. At December 31, 1991, the cost to the Company to return the amount of energy currently available to WAPA was approximately \$274 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.

Stock Option Plan The Company has a Stock Option Plan (Plan) to grant to key management employees stock options with or without associated stock appreciation rights (SARs), and dividend equivalents.

A total of 1.5 million shares of PG&E's common stock has been authorized for award under the Plan. Costs associated with the Plan are not recoverable in rates.

At December 31, 1991, stock options on 1,055,835 shares, granted at stock option prices ranging from \$16.75 to \$26.63, were outstanding. Option prices are the market price per share on the date of grant.

Outstanding stock 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. Stock options also become exercisable within certain time limitations upon retirement, disability or death.

In 1991, stock options and SARs on 37,835 shares were exercised at option prices ranging from \$16.75 to \$26.63. At December 31, 1991, stock options on 200,598 shares were exercisable.

Note 10

CONTINGENCIES

Helms Pumped Storage Plant (Helms) The completion of Helms was delayed due to a water conduit rupture in 1982 and various start-up problems related to the plant's generators. Helms became commercially operable in 1984.

The total cost of the plant at December 31, 1991 was \$967 million, of which \$769 million has been allowed in rate base and \$22 million was disallowed by the CPUC in 1985. In 1990, as a result of an adverse decision in the litigation with USX Corporation in which the jury found that the Company's negligence was the proximate cause of the water conduit rupture, the Company reserved approximately \$64 million for the costs (after adjustment for depreciation) attributable to the conduit rupture.

The remaining \$85 million (after adjustment for depreciation) is not in rate base and therefore is not earning a return on investment. The Company sought recovery of the majority of these costs through litigation with Westinghouse Electric Corporation (Westinghouse) for costs attributable to the problems with the generators. The Company also sought from Westinghouse recovery of the revenues lost during the time that Helms was out of service for the modification and repair of the generators. These revenues and related recorded interest amounted to \$55 million.

In 1991, the Company and Westinghouse entered into a comprehensive settlement agreement to resolve the Helms litigation. Under the terms of the agreement, Westinghouse agreed to reduce the costs of goods and services purchased in the future by credits with a net present value of \$30 million. Excluding the costs of the water conduit rupture already reserved and the \$30 million settlement from Westinghouse, the remaining

unrecovered costs of Helms (after adjustment for depreciation) and revenues discussed above amount to approximately \$110 million. The unrecovered Helms costs include approximately \$18 million of construction expenditures not attributable to the problems with the generators. The Company has filed an application for rate recovery of the remaining unrecovered Helms costs and lost revenues.

The CPUC indicated in a 1985 rate decision that should the Company seek recovery in rates of expenditures related to the problems with the plant's generators, it will bear a heavy burden of proof in establishing their reasonableness. The CPUC also declined in 1985 to include in rates the revenues recorded during the time Helms was out of service for the modification and repair of the generators.

The Company believes that it is uncertain whether, and to what extent, any of the remaining costs and revenues will be recovered through the ratemaking process.

Nuclear insurance PG&E is a member of Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL I and II). If the nuclear plant of a member utility is damaged or increased costs for replacement power are incurred due to a prolonged accidental outage, PG&E may be subject to maximum assessments of \$21 million (property damage) or \$8 million (business interruption), in each case per policy period, if losses exceed premiums, reserves and other resources of NML, NEIL I or NEIL II.

The federal government has enacted laws that require all utilities with nuclear generating facilities to share in payment for claims resulting from a nuclear incident. The Price-Anderson Act limits industry liability for third-party claims resulting from any nuclear incident to \$7.4 billion per incident. Coverage of the first \$200 million is provided by private insurance. If a nuclear incident results in public liability claims in excess of \$200 million, PG&E may be assessed up to \$126 million per incident, with payments in each year limited to a maximum of \$20 million per incident. If additional funds are needed to satisfy public liability claims and legal costs arising from any nuclear incident, PG&E can be assessed an additional \$6.3 million.

Geothermal steam contracts litigation In 1987, two lawsuits were filed against the Company relating to contracts for sale of geothermal steam to the Company for use at The Geysers Power Plant (The Geysers). In total, the lawsuits claimed damages in excess of \$120 million for breaches of contract. The Company had filed a cross-complaint requesting damages in excess of \$57 million.

In 1991, Unocal and the Company signed a settlement agreement and new steam sales agreement to settle litigation between them. The agreements become effective upon receipt of certain regulatory approvals. Under the settlement, Unocal would pay the Company \$43 million for costs the Company incurred for a plant that was never built because of insufficient steam, and the Company would pay Unocal \$13 million in settlement of Unocal's claim that the steam price was improperly calculated. All other claims of both parties would be dismissed.

Settlement has not been reached with Thermal Power Company. Thermal has a 25% interest in the properties operated by Unocal at The Geysers and has joined in Unocal's lawsuit. The trial currently is scheduled to begin in February 1992. The Company is contesting the lawsuits vigorously.

The Company expects to apply for rate recovery of any amounts paid pursuant to the settlement agreement with Unocal and believes that the ultimate outcome of this matter would not have a significant impact on its financial position or results of operations.

Environmental matters The Company assesses on an ongoing basis measures that may need to be taken, principally at retired manufactured gas plant sites and gas compressor stations, to comply with laws and regulations related to environmental cleanup activities. Although the overall costs of these measures are difficult to estimate due to uncertainty about the extent of environmental risks and the Company's responsibility, the complexity of environmental laws and regulations, and the selection of alternative compliance approaches, the Company has recorded a liability at December 31, 1991 of approximately \$71 million for estimated overall cleanup costs.

To the extent that environmental cleanup costs are not recovered through insurance or by other means, the Company will apply for rate recovery of such costs through special environmental ratemaking procedures established by the CPUC and expects that most prudently incurred environmental remediation costs will be recovered through rates. The Company has recorded a regulatory asset at December 31, 1991 of approximately \$62 million representing the minimum amount of accrued environmental cleanup costs expected to be recovered under the current ratemaking mechanism. Due to expected regulatory treatment, the Company believes that the ultimate outcome of these matters would not have a significant impact on its financial position or results of operations.

QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)

Pacific Gas and Electric Company

Quarterly financial data for the four quarters of 1991 and 1990 are shown below. Due to the seasonal nature of the utility business and the scheduled 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 Zürich stock exchanges. There were approximately 261,000 common shareholders of record at December 31, 1991. Dividends are paid on a quarterly

basis, and there are no significant restrictions on the present ability of the Company to pay dividends. In the first quarter of 1991, ANG wrote off its investment in a magnesium metal production facility project in Alberta, Canada. As a result, the Company's earnings decreased approximately \$26 million after tax. In the second quarter of 1990, the Company's earnings decreased approximately \$66 million after tax due to an adverse decision in the Helms Pumped Storage Plant water conduit rupture litigation and to related settlement costs.

| | 4th | 3rd | 2nd | 1st |
|---|--------------|--------------|--------------|--------------|
| <i>In thousands, except per share amounts</i> | | | | |
| 1991 | | | | |
| Operating revenues | \$2,635,012 | \$2,520,341 | \$2,351,887 | \$2,270,879 |
| Operating income | \$ 405,592 | \$ 494,483 | \$ 474,487 | \$ 338,517 |
| Net income | \$ 246,889 | \$ 334,597 | \$ 305,543 | \$ 139,363 |
| Earnings per common share | \$.54* | \$.75* | \$.67* | \$.28* |
| Dividends declared per common share | \$.41 | \$.41 | \$.41 | \$.41 |
| Common stock price per share | | | | |
| High | \$ 32.63 | \$ 29.25 | \$ 27.38 | \$ 26.25 |
| Low | \$ 28.63 | \$ 24.63 | \$ 24.75 | \$ 24.00 |
| 1990 | | | | |
| Operating revenues | \$ 2,452,026 | \$ 2,597,650 | \$ 2,172,601 | \$ 2,247,815 |
| Operating income | \$ 390,566 | \$ 548,285 | \$ 389,530 | \$ 377,755 |
| Net income | \$ 216,364 | \$ 394,181 | \$ 166,213 | \$ 210,412 |
| Earnings per common share | \$.46 | \$.88 | \$.33* | \$.43* |
| Dividends declared per common share | \$.38 | \$.38 | \$.38 | \$.38 |
| Common stock price per share | | | | |
| High | \$ 25.63 | \$ 23.25 | \$ 23.50 | \$ 22.88 |
| Low | \$ 21.00 | \$ 20.00 | \$ 21.13 | \$ 20.00 |

*Includes Diablo Canyon scheduled refueling outage.

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

| <i>Years ended December 31</i> | <i>1991</i> | <i>1990</i> | <i>1989</i> | <i>1988</i> |
|---|---------------|---------------|---------------|---------------|
| ELECTRIC STATISTICS* | | | | |
| Net area output (millions of kwh) | 88,727 | 92,103 | 94,155 | 91,575 |
| Net area output — percent | | | | |
| Hydroelectric plants | 8.2% | 8.3% | 11.5% | 9.3% |
| Thermal electric plants (excluding nuclear) | 32.6 | 34.5 | 35.9 | 42.3 |
| Nuclear plants | 17.0 | 17.7 | 16.8 | 12.5 |
| Other producers | 42.2 | 39.5 | 35.8 | 35.9 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |
| Area capability —mw (at annual peak) | | | | |
| Hydroelectric plants (adverse conditions) | 3,881 | 3,877 | 3,895 | 3,875 |
| Thermal electric plants (excluding nuclear) | 8,936 | 8,936 | 8,995 | 8,995 |
| Nuclear plants | 2,160 | 2,160 | 2,160 | 2,160 |
| Other producers | 7,762 | 6,967 | 8,194 | 8,917 |
| Total | 22,739 | 21,940 | 23,244 | 23,947 |
| Net area peak demand —mw | 16,630 | 17,400 | 17,623 | 18,490 |
| Reserves capacity margin at peak —percent | 9.1% | 10.3% | 8.8% | 7.8% |
| Annual load factor —percent | 59.2% | 60.4% | 61.0% | 56.7% |
| Average annual residential consumption —kwh | 6,421 | 6,443 | 6,468 | 6,537 |
| Average residential revenue per kwh | 11.60¢ | 10.41¢ | 9.69¢ | 8.64¢ |
| Average annual residential bill | \$745 | \$671 | \$626 | \$565 |
| Total customers (at year-end) | 4,257,000 | 4,197,000 | 4,110,000 | 4,027,000 |
| Plant investment per customer | \$3,445 | \$3,443 | \$3,474 | \$3,520 |
| Customers per mile of distribution line | 41.4 | 41.2 | 40.8 | 40.3 |
| GAS STATISTICS | | | | |
| Gas purchased for U.S. operations (thousands of mcf) | 612,175 | 737,302 | 756,222 | 745,606 |
| Source of gas purchased —percent | | | | |
| From California | 11.9% | 10.6% | 11.7% | 15.8% |
| From other states | 32.8 | 37.5 | 39.2 | 33.0 |
| From Canada | 55.3 | 51.9 | 49.1 | 51.2 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |
| Average cost of gas purchased per mcf (U.S. operations) | | | | |
| From California | \$2.00 | \$2.04 | \$1.83 | \$1.69 |
| From other states | \$2.68 | \$2.81 | \$2.58 | \$2.47 |
| From Canada | \$2.12 | \$2.19 | \$2.36 | \$1.88 |
| Average | \$2.29 | \$2.40 | \$2.38 | \$2.05 |
| Peak day sendout —mmcf | 3,559 | 4,063 | 3,430 | 3,524 |
| Average annual residential consumption —mcf | 64.0 | 64.0 | 67.0 | 64.0 |
| Average residential revenue per mcf | \$5.82 | \$5.58 | \$5.28 | \$4.77 |
| Average annual residential bill | \$374 | \$355 | \$352 | \$305 |
| Total customers (at year-end) | 3,500,000 | 3,450,000 | 3,372,000 | 3,300,000 |
| Plant investment per customer | \$893 | \$748 | \$705 | \$665 |
| Customers per mile of distribution main | 100.3 | 100.5 | 100.4 | 100.1 |
| MISCELLANEOUS STATISTICS | | | | |
| Customers served per employee | 290 | 292 | 286 | 275 |
| Depreciation and amortization as a percent of average depreciable plant | | | | |
| Electric | 3.7% | 3.6% | 3.6% | 3.6% |
| Gas | 4.6% | 4.6% | 5.3% | 5.3% |
| PG&E composite (includes common plant in service) | 4.1% | 4.0% | 4.0% | 4.0% |

*Beginning in 1990, load and capability figures exclude entities which are no longer integrated with PG&E.

| 1987 | 1986 | 1985 | 1984 | 1983 | 1982 | 1981 |
|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 88,444 | 84,633 | 85,398 | 84,227 | 78,879 | 78,399 | 80,606 |
| 10.2% | 17.4% | 13.3% | 17.9% | 22.9% | 19.9% | 13.2% |
| 38.2 | 28.7 | 40.2 | 36.8 | 28.9 | 31.7 | 48.8 |
| 15.8 | 14.5 | 7.6 | 3 | — | — | — |
| 35.8 | 39.4 | 38.9 | 45.0 | 48.2 | 48.4 | 38.0 |
| 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| 3,938 | 3,875 | 3,913 | 3,723 | 2,658 | 2,518 | 2,517 |
| 9,070 | 9,171 | 8,939 | 8,926 | 8,923 | 8,699 | 8,815 |
| 2,164 | 2,152 | 1,073 | — | — | — | — |
| 6,554 | 6,978 | 6,866 | 7,561 | 7,617 | 6,673 | 8,732 |
| 21,726 | 22,176 | 20,791 | 20,210 | 19,198 | 17,890 | 20,064 |
| 16,202 | 15,439 | 16,507 | 16,225 | 15,156 | 13,907 | 15,542 |
| 19.3% | 25.7% | 11.6% | 6.2% | 8.8% | 9.6% | 5.9% |
| 62.3% | 62.6% | 59.1% | 59.1% | 59.4% | 64.4% | 59.2% |
| 6,489 | 6,343 | 6,533 | 6,557 | 6,386 | 6,252 | 6,489 |
| 7.80¢ | 7.82¢ | 7.88¢ | 6.75¢ | 6.03¢ | 7.33¢ | 5.77¢ |
| \$506 | \$496 | \$515 | \$443 | \$385 | \$458 | \$374 |
| 3,951,000 | 3,855,000 | 3,761,000 | 3,686,000 | 3,594,000 | 3,546,000 | 3,515,000 |
| \$3,565 | \$3,592 | \$3,407 | \$3,157 | \$2,847 | \$2,554 | \$2,310 |
| 40.0 | 39.5 | 38.8 | 38.3 | 39.4 | 39.1 | 39.2 |
| 681,421 | 586,135 | 778,318 | 690,455 | 621,539 | 698,166 | 835,684 |
| 18.3% | 24.4% | 21.9% | 24.0% | 23.1% | 18.2% | 19.5% |
| 27.7 | 33.7 | 39.3 | 42.4 | 36.9 | 45.4 | 49.2 |
| 54.0 | 41.9 | 38.8 | 33.6 | 40.0 | 36.4 | 31.3 |
| 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| \$1.71 | \$2.20 | \$2.88 | \$3.60 | \$3.40 | \$3.09 | \$2.60 |
| \$2.16 | \$2.58 | \$3.61 | \$3.98 | \$4.02 | \$3.54 | \$2.57 |
| \$1.87 | \$2.26 | \$3.14 | \$4.21 | \$4.49 | \$5.14 | \$4.86 |
| \$1.92 | \$2.36 | \$3.27 | \$3.96 | \$4.07 | \$4.04 | \$3.29 |
| 3,530 | 3,107 | 3,603 | 3,205 | 3,025 | 3,133 | 3,144 |
| 66.0 | 64.6 | 75.1 | 69.6 | 73.0 | 78.3 | 72.7 |
| \$4.55 | \$4.75 | \$5.38 | \$5.43 | \$4.84 | \$4.39 | \$3.91 |
| \$300 | \$307 | \$404 | \$378 | \$353 | \$344 | \$284 |
| 3,245,000 | 3,158,000 | 3,083,000 | 3,021,000 | 2,949,000 | 2,915,000 | 2,897,000 |
| \$631 | \$595 | \$555 | \$500 | \$471 | \$474 | \$475 |
| 100.3 | 99.8 | 98.9 | 98.4 | 97.2 | 96.8 | 96.9 |
| 264 | 240 | 231 | 236 | 240 | 249 | 241 |
| 3.6% | 3.5% | 3.6% | 3.7% | 3.5% | 3.5% | 3.3% |
| 5.7% | 4.2% | 4.3% | 4.3% | 4.2% | 4.2% | 3.5% |
| 4.0% | 3.8% | 3.8% | 3.9% | 3.7% | 3.7% | 3.4% |

CONSOLIDATED REVENUES AND SALES (Unaudited)

Pacific Gas and Electric Company

| Years ended December 31 | 1991 | 1990 | 1989 | 1988 |
|--|---------------------|---------------------|---------------------|---------------------|
| <i>In thousands</i> | | | | |
| ELECTRIC DEPARTMENT | | | | |
| Revenues | | | | |
| Residential | \$ 2,729,763 | \$ 2,418,250 | \$ 2,212,789 | \$ 1,950,125 |
| Commercial | 2,745,040 | 2,532,655 | 2,289,726 | 2,083,570 |
| Industrial (1,000 kw demand or over) | 1,186,452 | 1,071,714 | 1,032,304 | 945,893 |
| Agricultural power | 477,397 | 429,445 | 346,982 | 290,139 |
| Public street and highway lighting | 50,631 | 47,121 | 45,210 | 44,254 |
| Other electric utilities | 204,089 | 217,276 | 90,796 | 101,147 |
| Miscellaneous | 96,367 | 211,199 | 50,959 | 87,120 |
| Other | 6,813 | 5,839 | 4,806 | 3,854 |
| Regulatory balancing accounts | (127,912) | 102,572 | 142,478 | 6,763 |
| Total electric revenues | \$ 7,368,640 | \$ 7,036,071 | \$ 6,216,050 | \$ 5,512,865 |
| Sales—kwh | | | | |
| Residential | 23,534,822 | 23,222,083 | 22,845,271 | 22,564,697 |
| Commercial | 25,757,736 | 25,867,393 | 24,723,165 | 23,917,480 |
| Industrial (1,000 kw demand or over) | 16,472,583 | 16,271,379 | 16,222,496 | 15,942,700 |
| Agricultural power | 4,733,798 | 4,701,831 | 3,897,556 | 3,782,041 |
| Public street and highway lighting | 388,668 | 375,422 | 365,595 | 349,180 |
| Other electric utilities | 3,308,283 | 3,618,428 | 1,711,645 | 1,981,110 |
| Total electric sales to customers | 74,195,890 | 74,056,536 | 69,765,728 | 68,537,208 |
| GAS DEPARTMENT | | | | |
| Revenues | | | | |
| Residential | \$ 1,226,094 | \$ 1,139,998 | \$ 1,108,446 | \$ 936,872 |
| Commercial | 551,669 | 565,608 | 532,587 | 467,334 |
| Industrial | 366,346 | 453,871 | 449,526 | 409,014 |
| Other gas utilities | 43,224 | 84,771 | 99,110 | 68,405 |
| Miscellaneous | (59,056) | 52,308 | (33,963) | 104,583 |
| Regulatory balancing accounts | (44,213) | (124,606) | (17,283) | (42,422) |
| Subsidiary companies (U.S. and Canada) | 192,067 | 155,312 | 159,953 | 124,442 |
| Gas transport | 133,348 | 106,759 | 73,838 | 64,655 |
| Total gas revenues | \$ 2,409,479 | \$ 2,434,021 | \$ 2,372,214 | \$ 2,132,883 |
| Sales—mcf | | | | |
| Residential | 210,657 | 204,433 | 210,116 | 196,275 |
| Commercial | 85,203 | 102,579 | 101,309 | 92,671 |
| Industrial | 119,916 | 133,930 | 144,233 | 143,449 |
| Other gas utilities | 12,617 | 31,604 | 41,551 | 28,897 |
| Total gas sales to customers | 428,393 | 472,546 | 497,209 | 461,292 |
| PG&E use (primarily electric generation) | 220,589 | 231,201 | 227,663 | 263,588 |
| Subsidiary companies (U.S. and Canada) | 71,589 | 61,960 | 61,862 | 51,009 |
| Total | 720,571 | 765,707 | 786,734 | 775,889 |

| 1987 | 1986 | 1985 | 1984 | 1983 | 1982 | 1981 |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 1,711,031 | \$ 1,639,108 | \$ 1,659,401 | \$ 1,400,148 | \$ 1,192,997 | \$ 1,401,267 | \$ 1,128,851 |
| 1,955,721 | 1,918,093 | 1,952,531 | 1,580,192 | 1,326,406 | 1,530,542 | 1,233,564 |
| 980,773 | 1,184,217 | 1,381,346 | 1,105,750 | 914,786 | 1,078,493 | 860,577 |
| 239,204 | 220,462 | 287,226 | 239,644 | 157,528 | 235,164 | 241,221 |
| 40,803 | 45,149 | 46,997 | 41,970 | 48,320 | 53,224 | 41,498 |
| 122,349 | 63,915 | 93,473 | 99,350 | 129,992 | 172,819 | 117,791 |
| 77,102 | 73,839 | 92,737 | 116,050 | 40,350 | 56,256 | 70,094 |
| 3,492 | 3,504 | 5,305 | 7,113 | 7,890 | 8,008 | 7,313 |
| 2,553 | 419,151 | 300,967 | 567,948 | 87,545 | (687,171) | 204,964 |
| \$ 5,133,028 | \$ 5,567,438 | \$ 5,819,983 | \$ 5,158,165 | \$ 3,905,814 | \$ 3,848,602 | \$ 3,905,873 |
| 21,932,544 | 20,949,230 | 21,067,234 | 20,730,060 | 19,778,553 | 19,107,415 | 19,575,283 |
| 22,621,071 | 21,286,100 | 21,452,853 | 20,626,467 | 19,259,758 | 18,662,382 | 18,722,954 |
| 16,061,922 | 15,972,091 | 17,042,349 | 16,108,571 | 14,986,722 | 15,843,646 | 16,401,293 |
| 3,154,373 | 2,560,390 | 3,252,215 | 3,309,155 | 2,304,205 | 2,922,541 | 3,890,088 |
| 341,909 | 344,276 | 336,736 | 329,378 | 339,823 | 365,119 | 401,930 |
| 2,446,371 | 725,397 | 1,576,215 | 2,230,163 | 3,341,984 | 3,544,563 | 2,676,998 |
| 66,558,190 | 61,837,484 | 64,727,602 | 63,333,794 | 60,011,045 | 60,445,666 | 61,668,546 |
| \$ 901,326 | \$ 899,039 | \$ 1,156,002 | \$ 1,058,995 | \$ 972,150 | \$ 935,996 | \$ 764,468 |
| 435,618 | 435,351 | 562,590 | 596,107 | 651,332 | 681,520 | 607,417 |
| 299,870 | 437,677 | 800,651 | 732,875 | 648,832 | 712,341 | 794,786 |
| 88,861 | 28,962 | 38,322 | 37,410 | 39,202 | 52,589 | 158,433 |
| (2,777) | (270) | 4,117 | 2,447 | 3,710 | 2,462 | 2,152 |
| 119,848 | 220,840 | (233,064) | (107,521) | 91,820 | 149,817 | (276,749) |
| 136,922 | 207,883 | 280,428 | 349,986 | 332,080 | 395,395 | 238,057 |
| 73,005 | 19,741 | 1,952 | 1,239 | 1,759 | 6,373 | 138 |
| \$ 2,052,673 | \$ 2,249,223 | \$ 2,610,998 | \$ 2,671,538 | \$ 2,740,885 | \$ 2,936,493 | \$ 2,288,702 |
| 197,882 | 189,120 | 214,935 | 195,092 | 200,774 | 213,031 | 195,631 |
| 80,144 | 78,087 | 89,415 | 90,027 | 109,637 | 124,622 | 128,758 |
| 99,719 | 128,854 | 178,407 | 137,178 | 114,310 | 132,789 | 171,769 |
| 46,977 | 9,832 | 9,247 | 8,281 | 8,532 | 12,021 | 35,135 |
| 424,722 | 405,893 | 492,004 | 430,578 | 433,253 | 482,463 | 531,293 |
| 239,815 | 153,566 | 263,017 | 242,985 | 170,773 | 201,219 | 280,990 |
| 46,229 | 56,027 | 62,184 | 61,400 | 69,417 | 96,330 | 73,166 |
| 710,766 | 615,486 | 817,205 | 734,963 | 673,443 | 780,012 | 885,449 |

BOARD OF DIRECTORS¹

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

William S. Davila²
President, The Vons Companies, Inc. (retail grocery)

Lewis S. Eaton³
Chairman of the Northern California Group of Glendale Federal Bank

Ira Michael Heyman
Professor of Law, University of California, Berkeley

Melvin B. Lane
Consultant to Sunset Publishing Corporation

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. Magowan⁴
Chairman of the Board, President, and Chief Executive Officer, Safeway Inc.

George A. Maneatis
Former President, Pacific Gas and Electric Company

Mary S. Metz
Dean of University Extension, University of California, Berkeley

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

William F. Miller
Professor of Public and Private Management and Professor of Computer Science, Stanford University

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

Samuel T. Reeves²
Co-Chairman of the Board and President, Dunavant Enterprises, Inc. (cotton merchandising)

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

John C. Sawhill
President and Chief Executive Officer, The Nature Conservancy (international environmental organization)

Stanley T. Skinner
President and Chief Operating Officer, Pacific Gas and Electric Company

Barry Lawson Williams
President, Williams Pacific Ventures, Inc. (venture capital and real estate)

PERMANENT COMMITTEES OF THE BOARD OF DIRECTORS¹

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

Richard A. Clarke (Chairman)
Harry M. Conger
Leslie L. Luttgens
Richard B. Madden
John B.M. Place
Stanley T. Skinner

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

Harry M. Conger (Chairman)
William S. Davila
Melvin B. Lane
Mary S. Metz
Samuel T. Reeves

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
Carl E. Reichardt
Stanley T. Skinner
Barry Lawson Williams

Nominating and Compensation Committee
Recommends candidates for nomination as directors, and compensation and employee benefit policies and practices. Reviews planning for executive development and succession.

Leslie L. Luttgens (Chairman)
Ira Michael Heyman
William F. Miller
John B.M. Place
John C. Sawhill

Public Policy Committee
Reviews public policy issues which could significantly affect customers, shareholders, employees, or the communities served, and recommends plans and programs to address such issues.

Richard A. Clarke (Chairman)
Ira Michael Heyman
Melvin B. Lane
Mary S. Metz
Frederick W. Mielke, Jr.
John C. Sawhill

1. As of February 19, 1992
2. Elected February 19, 1992
3. Retired February 19, 1992
4. Did not stand for reelection in 1992

OFFICERS*Pacific Gas and Electric Company***PG&E OFFICERS**

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

**Stanley T. Skinner*
President and
Chief Operating Officer

**Jerry R. McLeod*
Executive Vice President

**James D. Shiffer*
Executive Vice President

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

**Robert D. Glynn, Jr.*
Senior Vice President
and General Manager,
Electric Supply
Business Unit

**Benjamin F. Montoya*
Senior Vice President
and General Manager,
Gas Supply Business Unit

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

**Gregory M. Rueger*
Senior Vice President and
General Manager,
Nuclear Power Generation
Business Unit

Norman L. Bryan
Vice President
Clean Air Vehicles

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

Russell H. Cunningham
Vice President
Human Resources

Philip G. Damask
Vice President
Engineering and
Construction:
Transmission and
Distribution

John C. Danielsen
Vice President
Computer and
Telecommunications
Services

Ronald G. Domer
Vice President
Engineering and
Construction:
Generation

Richard A. Draeger
Vice President
General Services

Roger J. Flynn
Vice President
San Joaquin Valley Region

Warren H. Fujimoto
Vice President
Nuclear Technical Services

Daniel E. Gibson
Vice President
Gas Supply

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
Assistant to the
Chairman of the Board

Grant N. Horne
Vice President
Corporate
Communications

Jack F. Jenkins-Stark
Vice President and
Treasurer

Donald L. Kennady, Jr.
Vice President
Redwood Region

John C. Keyser
Vice President
Marketing and Customer
Services

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

Jackalynne Pfannenstiel
Vice President
Corporate Planning

James H. Pope
Vice President
Sacramento Valley Region

James K. Randolph
Vice President
Power Generation

Gordon R. Smith
Vice President and
Chief Financial Officer

James B. Stoutamore
Vice President
Gas Transmission
and Storage

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

Gloria S. Gee
Controller

Kent M. Harvey
Corporate Secretary

Brian L. McGrath
Assistant Corporate
Secretary

Kathleen Rueger
Assistant Corporate
Secretary

Julia B. York
Assistant Treasurer

**Member Management
Committee*

**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

Norman E. Wagner
Chairman of the Board,
President and Chief
Executive Officer
Alberta Natural Gas
Company Ltd

Donald McMorland
Chairman of the Board,
President and Chief
Executive Officer
Alberta and Southern Gas
Co. Ltd.

**CHIEF EXECUTIVE
OFFICERS OF
PRINCIPAL PG&E
ENTERPRISES AND
RELATED VENTURES**

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

Joseph P. Kearney
President and Chief
Executive Officer
U.S. Generating Company

Earl H. Franklin
President and Chief
Executive Officer
U.S. Operating Services
Company

Alan W. Beringsmith
President and Chief
Executive Officer
PG&E Properties, Inc.

SHAREHOLDER SERVICES OFFICE
77 BEALE STREET
ROOM 2600
SAN FRANCISCO
CA 94106
1-800-367-7731

SHAREHOLDER HANDBOOK

PG&E has prepared a shareholder 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 it is held for you by your 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 shares 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 mid-year 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 has been lost, stolen or in some 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 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 midyear 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 midyear 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 midyear 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.

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 20 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: | |
| 10.28% | PGEpfW |
| 10.18% | PGEpfT |
| 9.48% | PGEpfR |
| 9.30% | PGEpfV |
| 9.28% | PGEpfJ |
| 9.00% | PGEpfL |
| 8.20% | PGEpfP |
| 8.16% | PGEpfK |
| 8.00% | PGEpfO |
| 7.84% | PGEpfM |
| 5.00% | PGEpfD |
| 5.00% Series A | PGEpfE |
| 4.80% | PGEpfG |
| 4.50% | PGEpfH |
| 4.36% | PGEpfI |
| Non-Redeemable: | |
| 6.00% | PGEpfA |
| 5.50% | PGEpfB |
| 5.00% | PGEpfC |
| \$100 First Preferred, 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.

If you have general questions about PG&E or information contained in the annual or midyear reports, please write to the Office of the Corporate Secretary at the address shown below.

Security analysts, portfolio managers or other representatives of the investment community should write to the Director of Investor Relations at the address shown below.

CORPORATE SECRETARY

Kent M. Harvey
77 Beale Street, Room 3205
San Francisco, CA 94106
(415) 973-2880

TRANSFER AGENT

Daniel T. Lamey
Shareholder Services
77 Beale Street, Room 2600
San Francisco, CA 94106
1-800-367-7731

DIRECTOR OF INVESTOR RELATIONS

Laura L. Mountcastle
77 Beale Street, Room 840
San Francisco, CA 94106
(415) 973-3007

REGISTRAR OF STOCK

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

ANNUAL MEETING OF SHAREHOLDERS

Date: April 15, 1992

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 26, 1992 to all shareholders of record.


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

10-K REPORT

If you would like a copy of the Company's 1991 Form 10-K Report to the Securities and Exchange Commission, please contact the Shareholder Services office.

1992 DIVIDEND PAYMENT DATES

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

 This report is printed on recycled paper.



Pacific Gas and Electric Company

77 Beale Street

San Francisco, CA 94106