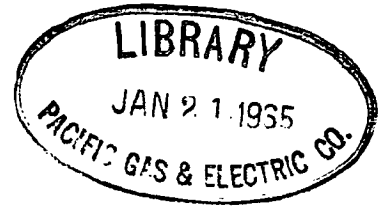


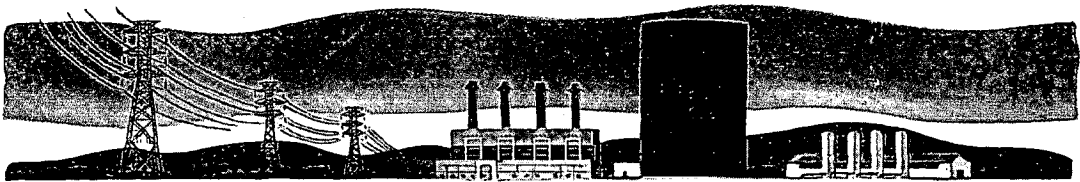
PACIFIC GAS AND ELECTRIC COMPANY



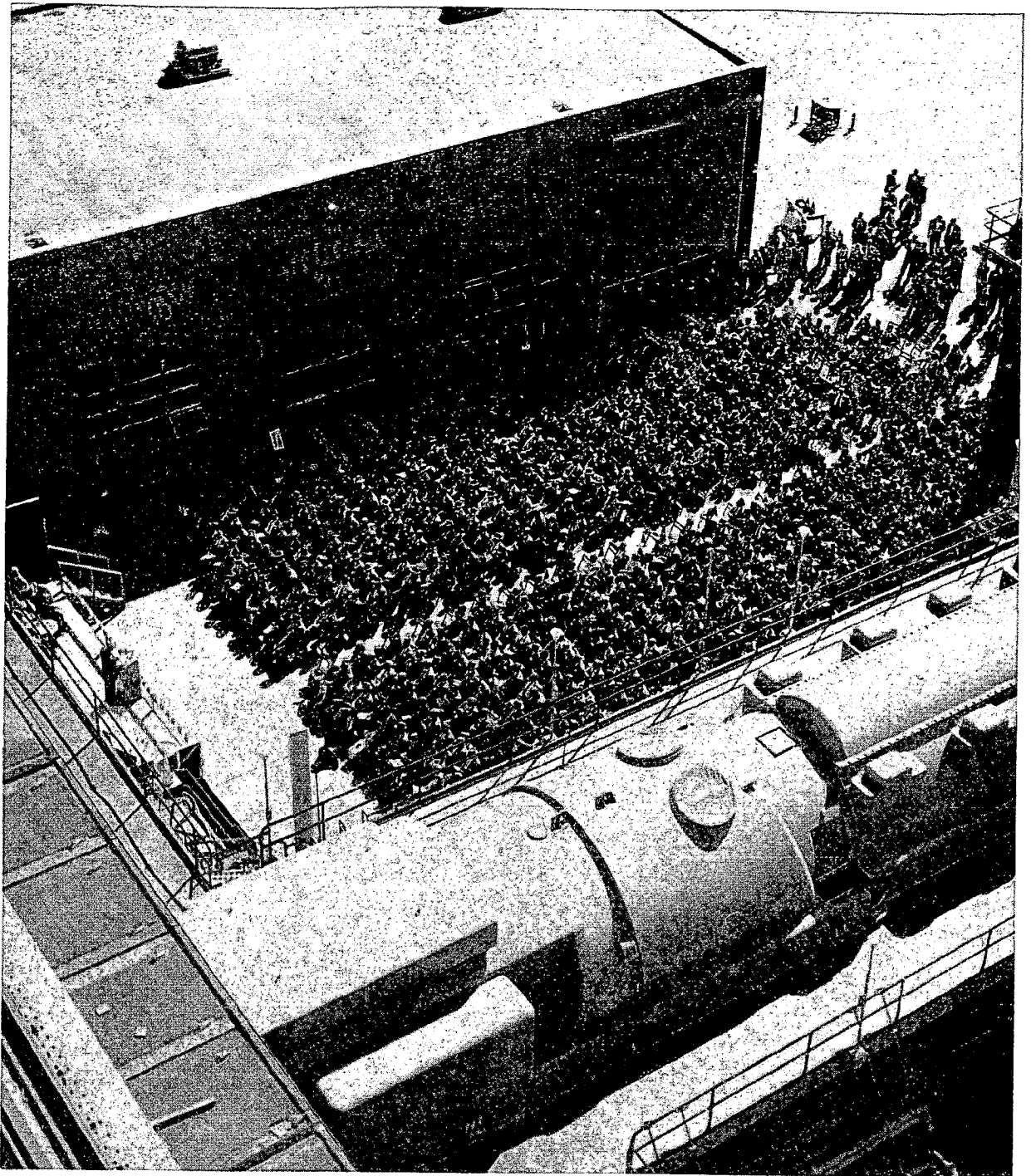
FORTY-NINTH ANNUAL REPORT 1954



*Pacific
Gas and Electric
Company*



Forty-ninth Annual Report for the year ended December 31, 1954



Dedication on October 20, 1954, of our new Pittsburg Steam Plant, 660,000 kilowatts capacity. This ceremony featured our observance of Light's Diamond Jubilee, commemorating the 75th anniversary of the invention of the incandescent lamp by Thomas A. Edison. The plant is the largest on our system and also the largest steam plant west of the Mississippi River.

Contents

	PAGE
<i>Pittsburg Steam Plant</i>	<i>Cover</i>
TO THE STOCKHOLDERS	5
HIGHLIGHTS OF THE YEAR'S OPERATIONS	7
TABLE—REVENUES AND SALES BY CLASSES OF SERVICE	8
OPERATING REVIEW	9
OPERATING REVENUES	9
OPERATING EXPENSES	10
TABLE—SOURCES AND DISPOSITION OF INCOME	10-11
TAXES	12
DEPRECIATION AND AMORTIZATION	13
FIXED CHARGES AND DIVIDENDS	14
FINANCING	14
CONSTRUCTION PROGRAM	15
SALES	16
<i>Map of Territory Served</i>	<i>Center</i>
CUSTOMERS	21
OPERATIONS	22
RATE MATTERS	23
GAS SUPPLY	24
PERSONNEL	24
STOCK OWNERSHIP	25
CENTRAL VALLEY POWER	26
DIRECTORS AND OFFICERS	26
ANNUAL MEETING	27
CERTIFIED FINANCIAL STATEMENTS	28-34
ACCOUNTANTS' CERTIFICATE	35
DEPARTMENTAL ORGANIZATION AND DIVISION MANAGERS	36

Board of Directors

JAMES B. BLACK	San Francisco
FRANK E. BUCK	San Francisco
ALLEN L. CHICKERING	San Francisco
JOHN P. COGHLAN	San Francisco
JAMES F. CRAFTS	San Francisco
WILLIAM W. CROCKER	San Francisco
ROBERT H. GERDES	San Francisco
WALTER A. HAAS	San Francisco
JAMES K. LOCHHEAD	San Francisco
ELLIOTT McALLISTER	San Francisco
HENRY D. NICHOLS	San Francisco
SILAS H. PALMER	San Francisco
WALTER H. SULLIVAN	San Francisco
N. R. SUTHERLAND	San Francisco
CARL F. WENTE	San Francisco

Executive Committee

JAMES B. BLACK
 ALLEN L. CHICKERING
 WILLIAM W. CROCKER
 HENRY D. NICHOLS
 SILAS H. PALMER

Officers

JAMES B. BLACK, *President*
 N. R. SUTHERLAND, *Vice-President and General Manager*
 L. HAROLD ANDERSON, *Vice-President and Assistant General Manager*
 ROBERT H. GERDES, *Vice-President and General Counsel*
 J. S. MOULTON, *Vice-President and Executive Engineer*
 G. A. PEERS, *Vice-President in Charge of Electric Operations*
 P. E. BECKMAN, *Vice-President in Charge of Gas Operations*
 WALTER DREYER, *Vice-President and Chief Engineer*
 O. R. DOERR, *Vice-President in Charge of Sales*
 A. J. SWANK, *Vice-President in Charge of General Construction*
 J. K. HORTON, *Vice-President*
 K. C. CHRISTENSEN, *Treasurer*
 E. E. MANIARD, *Secretary*
 O. H. BARTHOL, *Assistant Treasurer and Assistant Secretary*
 F. W. McCHESNEY, *Assistant Treasurer*
 V. D. VINCENT, *Assistant Treasurer*
 H. C. NELSON, *Assistant Secretary*
 J. F. TAYLOR, *Assistant Secretary*
 A. H. CATHERALL, *Assistant Secretary*

* * *

E. W. HODGES,* *Comptroller*
 *Retired December 31, 1954

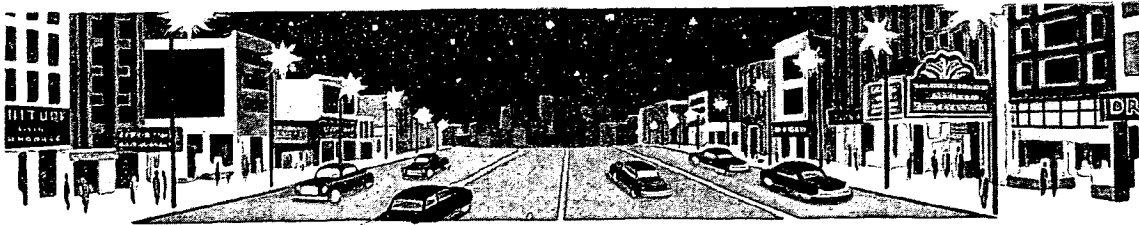
Stock Transfer Agencies

OFFICE OF THE COMPANY (E. F. Hall, Transfer Agent),
 San Francisco; BANKERS TRUST COMPANY, New York.

Registrars of Stock

AMERICAN TRUST COMPANY, San Francisco;
 THE NEW YORK TRUST COMPANY, New York.

*This Company makes no charge for stock transfers except as to
 documentary stamps or other charges that may be required by law.*



REPORT OF THE DIRECTORS OF PACIFIC GAS AND ELECTRIC COMPANY

San Francisco, California, February 18, 1955

To the Stockholders:

The year 1954 was one of further progress for the Company, particularly in view of the many accomplishments which promise well for the future.

After showing only moderate gains in the first three quarters of the year, we experienced a marked upturn in sales in the last quarter, a trend which is continuing into 1955.

Nevertheless, the year surpassed all previous records in sales of gas and electricity, gross operating revenues and number of customers served.

Based on the average number of shares of common stock outstanding, earnings per share were somewhat below those realized in the previous year, but somewhat greater than those reported for the previous year based on end-of-period shares outstanding. Using this latter standard of measurement, our earnings per share were at the highest level for any postwar year.

Net earnings for the common stock amounted to \$46,773,000, equivalent to \$2.89 a share on an average of 16,160,533 shares outstanding, and to \$2.88 a share, based on the 16,255,733 shares outstanding at the close of 1954. These results compare with earnings of \$3.12 a share on an average of 14,114,427 shares outstanding in 1953, and \$2.82 a share upon the 15,574,549 shares outstanding at the close of 1953.

The quarterly common stock dividend rate of 55 cents a share, increased from 50 cents in the third quarter of 1953, was maintained throughout the year.

Substantial additions were made to our facilities during the year, although, as forecast in our 1953 annual report, construction activities proceeded at a slower rate than in the previous year.

A further reduction is anticipated in 1955, made possible by the Company's steady and substantial progress in building up its gas and electric reserves over the past several years.

Our outlay for construction purposes in 1954 totaled approximately \$171,000,000, which brings to \$1,345,000,000 the amount spent by the Company in the postwar period to keep pace with the rapid development of the area we serve.

Major construction accomplishment of the year was the completion of our new Pittsburg Steam Plant, with a nominal rated capacity of 600,000 kilowatts. The dedication of this plant on October 20, 1954 featured our observance of Light's Diamond Jubilee, commemorating the 75th anniversary of the invention of the incandescent lamp by Thomas A. Edison.

Our gas transmission system was enlarged to accommodate an increase in the delivery of natural gas from out-of-state sources from 550 to 700 million cubic feet per day.

To offset the higher cost of out-of-state gas purchased by the Company, higher gas rates were placed in effect which are estimated to increase our revenues about \$7,000,000 annually. As the new rates were not applicable until December 1, the effect on 1954 earnings was negligible. On a full year's basis, however, this increase will add about 20 cents a share to our earnings, on the number of common shares presently outstanding.

Reference was made in last year's annual report to the preliminary steps taken toward the acquisition of Pacific Public Service Company. Majority control of the stock of this company was obtained in February 1954. Subsequently, all of its remaining publicly held stocks and those of its principal subsidiary, Coast Counties Gas and Elec-

tric Company, were eliminated by exchange or by redemption, and the two companies were merged into this Company on July 30 and August 31, 1954, respectively. These mergers followed the approval given by our stockholders at the special meeting held on July 14, 1954. All debt assumed by this Company on the respective merger dates was retired before the year-end.

Two other non-utility subsidiaries of the former Pacific Public Service Company, Natural Gas Corporation of California and Gas Lines, Inc., have been retained as wholly-owned subsidiaries.

With approximately 140,000 customers and about 600 employees, Coast Counties Gas and Electric Company was the only other investor-owned gas and electric utility system of consequence operating in Northern California. Our interest in acquiring this property had extended over a period of many years.

In keeping with our long-standing policy of corporate simplification, dissolution of Vallejo Electric Light and Power Company, a wholly-owned subsidiary, was completed on December 31, 1954. It had approximately 15,000 electric customers.

The Company continued to offer its cooperation to the Federal government in the disposition of by-product electric energy generated in connection with irrigation and reclamation projects. At a hearing conducted before a Congressional Committee studying a proposed multiple-purpose Federal development on the Trinity River, the Company offered to purchase the falling water and to construct all power-generating and related facilities. This would result in a capital saving to the United States Treasury of approximately \$50,000,000 and a substantial increase in the Project's net revenues by integration with our system.

In a statement made before a Hoover Commission Task Force, we also stated our willingness, if Congress desires, to purchase the Central Valley Project power transmission facilities of the United States Bureau of Reclamation. We would, of course, propose to continue a working partnership with the Federal government for the disposition of power from this Project.

In addition to conserving Federal funds, these proposed arrangements would create new tax revenues for both Federal and local governments.

Attention of stockholders is again directed to the heavy burden of taxation which must be reflected in our charges for utility service. Our total tax bill approached \$104,000,000 in 1954, that portion charged to income absorbing 25.3% of gross operating revenues from all sources.

In contrast to the heavy tax burden borne by the investor-owned utilities, government-owned utilities are favored with almost complete tax exemption. It is little wonder, therefore, that as a result of this tax avoidance which increases the burden of other taxpayers, government-owned utilities are often able to provide utility service at an apparently lower cost than can investor-owned utilities. Advocates of socialization of the utility industry are quick to seize upon these rate differentials to further their aims, conveniently ignoring the tremendously unfair advantage that tax exemption accords government-owned utilities.

Clearly, the only fair and equitable way to correct this situation is to impose taxation on government-owned utilities equal to that now assessed on the investor-owned utilities and their customers.

Harnessing of atomic energy for commercial power purposes continued to engage the attention of the Company in 1954. In association with the other member firms of the Nuclear Power Company group, it continued research on the design, construction and operation of an atomic reactor for industrial use.

There is no certainty, of course, that nuclear power plants ever will be competitive with conventional plants. Studies made to date, however, give promise that a significant nuclear power industry eventually will be developed, a prospect which fully justifies our continuing participation in this activity.

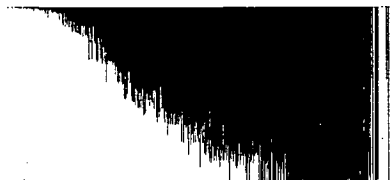
In the event nuclear power plants become feasible, they will be used to augment rather than to supplant existing sources of power.

We believe the outlook for the Company in 1955 is good, and that further growth and stability will be achieved. Many of the difficult problems with which the Company has been faced in the postwar period have now been eliminated or are well on their way to successful solution. New problems will doubtless present themselves, but we believe we have the personnel and organization to successfully cope with them.



Highlights OF THE YEAR'S OPERATIONS

<p>Gross operating revenues from all sources reached a new peak of \$386,244,000 and exceeded those of the previous year by \$22,139,000, or 6.1%. In addition, miscellaneous income amounted to \$1,035,000, consisting principally of dividends from subsidiary companies.</p>	<p>Expenditures for expanding and enlarging our facilities totaled \$170,933,000 for the year, or about \$26,000,000 below the peak established in the previous year. A further substantial reduction in these expenditures is anticipated in 1955.</p>
<p>Sales of electricity to customers totaled 15,042,000,000 kilowatt-hours, or 1.8% over those of the previous year. In addition, we delivered for the account of others 943,000,000 kilowatt-hours. Combined sales to customers and deliveries for others exceeded those of 1953 by 5.0%.</p>	<p>In order to offset the higher cost of out-of-state gas purchased by the Company, higher gas rates estimated to increase our gross revenues \$7,073,000 annually were placed in effect on December 1, 1954. On a full year's basis, this increase will add about 20 cents a share to our earnings.</p>
<p>Sales of gas to our customers totaled 243,508,000,000 cubic feet, an increase of 16,455,000,000 cubic feet, or 7.2%. In addition, 71,092,000,000 cubic feet of gas was transported for use in our steam-electric generating plants and for other Company uses.</p>	<p>We experienced a further gain in the number of stockholders participating in our ownership. At the year-end we had 217,336 stockholders of record, a gain of 10,253 for the year. Of the total, 88,259 were preferred stockholders and 129,077 common stockholders.</p>
<p>At the year-end we were supplying service to 2,973,590 customers in all branches of our operations. The net gain for the year was 244,422,139,642, of which were acquired on August 31, 1954, as a result of the merger of Coast Counties Gas and Electric Company.</p>	<p>Control of Pacific Public Service Company was acquired in February 1954. The company and its principal subsidiary, Coast Counties Gas and Electric Company, were merged into this Company on July 30, 1954 and August 31, 1954, respectively.</p>
<p>Bonds and preferred stock with an aggregate par value of \$85,000,000 were sold to finance our continuing construction program. In addition, about 681,000 shares of common stock and 72,000 shares of preferred stock were issued in exchange for securities of acquired companies. A \$65,000,000 bond issue was sold to refund our outstanding Series V Bonds.</p>	<p>Net earnings for the common stock amounted to \$2.89 a share compared with \$3.12 in the previous year, both based on the average number of shares outstanding in the respective periods. Based on end-of-period shares outstanding, our earnings were \$2.88 a share compared with \$2.82 a share in the previous year.</p>



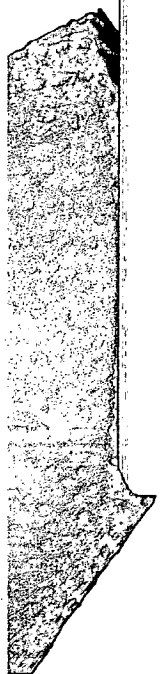
REVENUES AND SALES—ELECTRIC AND GAS DEPARTMENTS BY CLASSES OF SERVICE

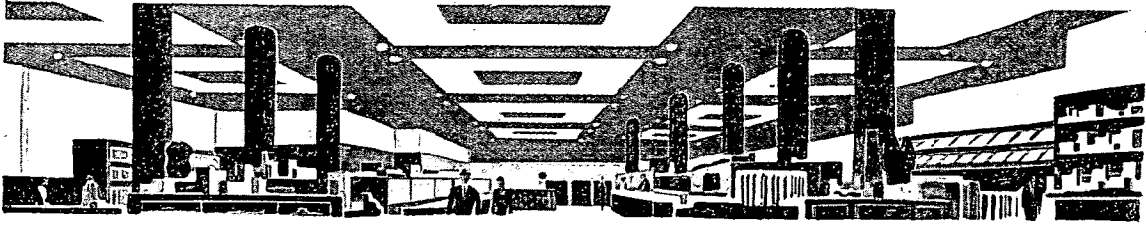
ELECTRIC DEPARTMENT				
ELECTRIC REVENUES	Year 1954	Year 1953	Increase	
			Amount	Per Cent
Residential or Domestic Sales	\$ 86,503,778	\$ 79,745,830	\$ 6,757,948	8.5%
Small Light and Power Sales	52,703,043	51,174,062	1,528,981	3.0
Large Light and Power Sales	65,079,055	62,445,691	2,633,364	4.2
Agricultural Power Sales	37,233,151	36,763,696	469,455	1.3
Public Street and Highway Lighting	3,647,184	3,322,318	324,866	9.8
Sales to Railroads and Railways	316,028	310,155	5,873	1.9
Sales to Other Electric Utilities	13,059,600	12,757,190	302,410	2.4
Company Use (Construction)	185,541	170,832	14,709	8.0
Other Miscellaneous Revenue	6,691,296	5,974,032	717,264	12.0
TOTALS	\$265,418,676	\$252,663,806	\$12,754,870	5.0%
ELECTRIC SALES—Kilowatt-Hours				
Residential or Domestic Sales	3,060,142,957	2,778,977,198	281,165,759	10.1%
Small Light and Power Sales	1,697,385,573	1,656,854,608	40,530,965	2.4
Large Light and Power Sales	5,480,987,445	5,322,122,268	158,865,177	3.0
Agricultural Power Sales	2,937,544,835	2,903,139,865	34,404,967	1.2
Public Street and Highway Lighting	96,112,033	85,243,179	10,868,854	12.8
Sales to Railroads and Railways	21,368,363	19,605,043	1,763,315	9.0
Sales to Other Electric Utilities	1,740,614,038	1,996,752,266	*256,138,228	*12.8
Company Use (Construction)	8,299,902	7,700,873	599,029	7.8
TOTAL SALES TO CUSTOMERS	15,042,455,146	14,770,396,308	272,059,838	1.8
Delivered for the accounts of others	942,831,215	460,116,438	482,714,777	104.9
TOTALS	15,985,286,361	15,230,511,746	754,774,615	5.0%

*Denotes decrease

GAS DEPARTMENT				
GAS REVENUES	Year 1954	Year 1953	Increase	
			Amount	Per Cent
Residential or Domestic Sales	\$ 65,051,067	\$ 59,183,952	\$ 5,867,115	9.9%
Commercial Sales	17,809,929	16,785,108	1,024,821	6.1
Industrial Sales	31,971,110	28,763,492	3,207,618	11.2
Sales to Other Gas Utilities	3,717,421	4,514,977	*797,556	*17.7
Company Use (Construction)	40,277	47,600	*7,323	*15.4
Other Miscellaneous Revenue	256,756	437,071	*180,315	*41.3
TOTALS	\$118,846,560	\$109,732,200	\$9,114,360	8.3%
GAS SALES—Thousands of Cubic Feet				
Residential or Domestic Sales	102,046,027	93,140,506	8,905,521	9.6%
Commercial Sales	35,034,023	33,076,529	1,957,494	5.9
Industrial Sales	93,233,290	84,359,139	8,874,151	10.5
Sales to Other Gas Utilities	13,065,299	16,308,929	*3,243,630	*19.9
Company Use (Construction)	129,241	167,301	*38,060	*22.7
TOTAL SALES TO CUSTOMERS	243,507,880	227,052,404	16,455,476	7.2
Company Use (Steam-electric plants, etc.)	71,092,400	55,980,817	15,111,583	27.0
TOTALS	314,600,280	283,033,221	31,567,059	11.2%

*Denotes decrease





Operating Review

OPERATING REVENUES

Gross operating revenues from all sources totaled \$386,244,000, representing an increase over the previous year of \$22,139,000, or 6.1%. In addition, the Company had miscellaneous income of \$1,035,000, consisting principally of dividends from subsidiary companies.

Electric business contributed 68.7% of total operating revenues, gas business 30.8%, and minor activities 0.5%.

Reference is made to the table on the opposite page which details gross revenues for the Electric and Gas Departments by classes of service, compared with those for the previous year.

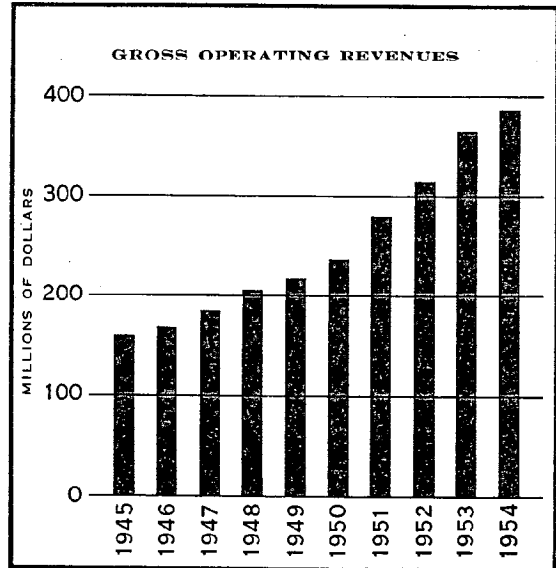
The two years, however, are not strictly comparable in a number of respects. The principal distortion arises from the fact that prior to the merger of the Coast Counties Gas and Electric Company on August 31, 1954, we supplied all of that company's electric requirements and a large part of its gas requirements at wholesale, the revenues therefrom being recorded in sales to other utilities. The merger terminated these wholesale transactions and resulted in the addition of the retail revenue accounts of the acquired company to those of the Pacific Gas and Electric Company.

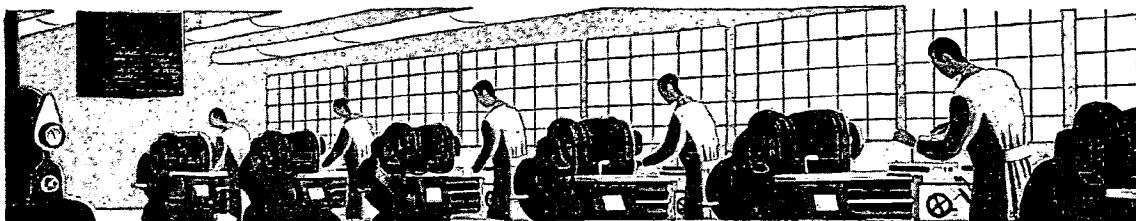
Two other factors distort the comparison of revenues received from sales to other electric utilities and the related kilowatt-hour sales. Effective July 1, 1954, the Sacramento Municipal Utility District, which had purchased its wholesale electric requirements from us, commenced receiving deliveries of power from the Bureau of Reclamation, the Company "wheeling" such power in accordance with the contract executed with the United States Bureau of Reclamation in 1951. Hence, the

resale account reflects no revenues from this customer in the last six months of the year. Compensation received by the Company for wheeling services is reported in other miscellaneous electric revenues.

Effective July 1, 1954, also, the Company entered into a new agreement with another California utility company providing for the purchase by it of a substantial block of power on a firm basis over a two-year period. Revenues under this contract are now reported in sales to other electric utilities, whereas revenues formerly received under our interchange agreement with that company were credited to purchased power expense, and did not appear in our revenue accounts.

While not strictly comparable on either an overall basis or by classes of service, it is nonetheless interesting to note that our Electric and Gas Departments showed increases in gross revenues of 5.0% and 8.3%, respectively.





Revenues from our gas operations in 1954 were not materially affected by the rate increase which was applicable to gas consumed on and after December 1, 1954.

OPERATING EXPENSES

Expenses incurred in maintaining and operating our properties, exclusive of taxes and the provision for depreciation, totaled \$167,914,000 for the year, or \$7,558,000 more than in the previous year.

Good progress was made in improving our operating efficiency. Overtime payments were reduced substantially. To augment our efforts in this direction, a new department on procedures and organization was established, which should prove effective in helping to maintain our operations on the most economical basis.

Wages and salaries for operating employees amounted to \$50,994,000 for the year. The increase over the previous year, \$1,928,000, indicates a very close control over our operating costs, particularly in view of the wage increases that were granted late in 1953 and late in 1954, and the absorption of about 600 employees upon the merger of the Coast Counties Gas and Electric Company, whose wages and salaries were reflected in our accounts during the last four months of 1954.

Power purchased from wholesale producers decreased \$634,000, and totaled \$6,377,000 for the year. The decrease was due principally to a reduction in the amount of power purchased from the Central Valley Project of the United States Bureau of Reclamation. The change in accounting treatment on July 1, 1954, with respect to power deliveries to another California utility, also had a bearing on the change in this item of expense, as compared with the previous year.

The cost of natural gas purchased was \$8,477,000 greater than in the previous year, amount-

FOR THE YEARS

SOURCES OF INCOME:

- Electric Department revenues
- Gas Department revenues
- Revenues from other operating departments
- Miscellaneous income

Totals

DISPOSITION OF INCOME:

- Wages and salaries of operating employees
- Power purchased from wholesale producers
- Natural gas purchased
- Oil and other fuel
- Material and supplies, services from others, etc.
- Provision for pensions, insurance, etc.
- Provision for depreciation and amortization
- Taxes, including provision for Federal taxes on income
- Special charges in lieu of and for deferred Federal and State taxes on income
- Bond interest and other income deductions
- Dividends paid on preferred stock
- Dividends paid on common stock
- Balance retained in the business

Totals

AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING

EARNINGS PER SHARE ON AVERAGE NUMBER OF SHARES OUTSTANDING

DIVIDENDS PAID PER SHARE OF COMMON STOCK

RETAINED IN THE BUSINESS, PER SHARE OF COMMON STOCK



ing to \$73,980,000. As the average unit price of natural gas was substantially unchanged from the previous year, the increase was entirely attributable to the larger volume purchased. Approximately 55% of the increase represented gas purchased for sale to our customers, and the remaining 45% was used as fuel in our steam-electric generating plants.

Oil and other fuel, the bulk of which is consumed in our steam-electric generating plants, decreased \$2,526,000. While more electricity was generated

in our steam plants than in the previous year, a greater use of natural gas for fuel caused a decrease in this item of expense.

The provisions made for pensions, insurance, injuries and damages, and uncollectible accounts totaled \$7,776,000 for the year. The rather substantial increase of \$2,147,000 over the previous year's provisions for these same items was due mainly to increased costs associated with our Retirement Plan. In contemplation for several years, the Plan was amended as of January 1, 1954, to

SUMMARY SHOWING SOURCES AND DISPOSITION OF INCOME

1950-1954 INCLUSIVE, AND AVERAGE FOR FIVE-YEAR PERIODS 1950-1954 AND 1945-1949

Year 1954	Year 1953	Year 1952	Year 1951	Year 1950	Average Five-Years 1950-54	Average Five-Years 1945-49
\$265,419,000	\$252,664,000	\$205,643,000	\$189,365,000	\$166,805,000	\$215,979,000	\$129,106,000
118,846,000	109,732,000	106,781,000	88,634,000	69,257,000	98,650,000	56,499,000
1,979,000	1,709,000	1,561,000	1,500,000	1,375,000	1,625,000	1,187,000
1,035,000	208,000	429,000	364,000	547,000	517,000	364,000
<u>\$387,279,000</u>	<u>\$364,313,000</u>	<u>\$314,414,000</u>	<u>\$279,863,000</u>	<u>\$237,984,000</u>	<u>\$316,771,000</u>	<u>\$187,156,000</u>
\$ 50,994,000	\$ 49,066,000	\$ 46,688,000	\$ 42,392,000	\$ 37,611,000	\$ 45,350,000	\$ 30,030,000
6,377,000	7,011,000	10,166,000	10,975,000	11,385,000	9,183,000	9,722,000
73,980,000	65,503,000	54,957,000	50,238,000	33,785,000	55,693,000	24,834,000
8,442,000	10,968,000	8,497,000	10,877,000	7,467,000	9,250,000	10,333,000
20,345,000	22,179,000	20,537,000	16,363,000	15,397,000	18,964,000	12,214,000
7,776,000	5,629,000	3,805,000	3,806,000	3,058,000	4,815,000	2,176,000
39,099,000	35,172,000	32,700,000	31,610,000	28,123,000	33,339,000	23,527,000
93,186,000	91,309,000	73,324,000	60,497,000	49,850,000	73,633,000	36,159,000
4,504,000	—	—	—	—	901,000	1,725,000
19,546,000	17,783,000	16,740,000	16,229,000	13,462,000	16,752,000	10,919,000
16,266,000	15,722,000	15,530,000	13,383,000	12,906,000	14,761,000	8,939,000
35,553,000	29,689,000	24,984,000	22,003,000	19,045,000	26,255,000	13,823,000
11,220,000	14,282,000	6,486,000	1,490,000	5,895,000	7,875,000	2,755,000
<u>\$387,279,000</u>	<u>\$364,313,000</u>	<u>\$314,414,000</u>	<u>\$279,863,000</u>	<u>\$237,984,000</u>	<u>\$316,771,000</u>	<u>\$187,156,000</u>
16,160,533	14,114,427	12,492,070	11,001,529	9,522,817	12,658,000	6,911,217
\$2.89	\$3.12	\$2.52	\$2.14	\$2.62	\$2.70	\$2.40
\$2.20	\$2.10	\$2.00	\$2.00	\$2.00	\$2.06	\$2.00
\$0.69	\$1.02	\$0.52	\$0.14	\$0.62	\$0.64	\$0.40



PACIFIC GAS AND ELECTRIC COMPANY

provide more liberal retirement incomes. Contributing to the higher cost during the initial year of operation under the amended Plan were the higher wage levels in effect and the greater number of employees participating.

reaching a total of \$103,886,000, or \$6,419,000 more than in the previous year. Of the total, \$97,690,000 was charged against income, the remainder being charged to capital and other accounts.

TAXES

Provision for taxes of all kinds passed the one hundred million dollar mark for the first time in 1954,

A detail of taxes by classes is shown in the table below. This table also shows a comparison with the previous year.

For a number of years, taxes have been by far the largest single item of expense in conducting

TAXES—BY CLASSES AND COMPARISON WITH PREVIOUS YEAR.			
	Year 1954	Year 1953	Increase
LOCAL TAXES:			
Ad valorem property	\$ 41,273,000	\$35,586,000	\$5,687,000
Franchise payments	2,099,000	1,909,000	190,000
Total local taxes	43,372,000	37,495,000	5,877,000
STATE TAXES:			
Bank and corporation franchise	4,250,000	3,194,000	1,056,000
Provision for state income taxes payable following period of accelerated amortization	36,000	—	36,000
Unemployment	52,000	57,000	* 5,000
Other	361,000	294,000	67,000
Total state taxes	4,699,000	3,545,000	1,154,000
CITY AND STATE:			
Sales and use	1,906,000	2,537,000	* 631,000
FEDERAL TAXES:			
Corporation income	47,709,000	52,542,000	* 4,833,000
Provision for federal income taxes payable following period of accelerated amortization	2,580,000	—	2,580,000
Special charges in lieu of federal taxes on income	1,888,000	—	1,888,000
Unemployment	168,000	180,000	* 12,000
Old age benefits	1,349,000	1,040,000	309,000
Other	215,000	128,000	87,000
Total federal taxes	53,909,000	53,890,000	19,000
Total taxes	\$103,886,000	\$97,467,000	\$6,419,000
CHARGED TO:			
Income account as taxes	\$ 95,802,000	\$91,309,000	\$4,493,000
Income deductions	1,888,000	—	1,888,000
Capital and other accounts	6,196,000	6,158,000	38,000
Total taxes	\$103,886,000	\$97,467,000	\$6,419,000
*Denotes decrease			



our business. In 1954 they absorbed 25.3% of our revenues from all sources. Taxes, of course, must be recovered in our charges for utility service.

Ad valorem property taxes paid to cities and counties and to other local taxing jurisdictions increased \$5,687,000 to a new peak of \$41,273,000. This large increase was due principally to very substantial additions of utility properties to the assessment rolls as a result of our construction program, and also to a higher average tax rate.

The provision for Federal and State income taxes accounted for well over half of our total taxes. In this connection, reference is made to the table on page 12 and to our certified financial statements at the back of this report. They show that we made provision in our accounts in 1954 for income taxes payable following the period of accelerated amortization, in the amount of \$2,616,000. This sum represents the amount equivalent to the reduction in Federal and State income taxes for the year resulting from claiming for tax purposes amortization of defense facilities over a 60-month period in lieu of normal depreciation.

A concurrent credit in the same amount was made to restricted surplus on our balance sheet. Following the close of the amortization period, the balance in the restricted surplus account will be drawn down by crediting to current income an amount equal to the annual increase in taxes based on income during the post-amortization period, which increase will result from the fact that normal depreciation for tax purposes on the defense facilities cannot then be deducted.

This accounting treatment was authorized by the California Public Utilities Commission, and has been adopted quite generally by other companies in our industry which have accepted certificates for accelerated amortization. The effect of accelerated amortization is merely to defer to sub-

sequent years income taxes otherwise payable during the amortization period, and to make cash available to the Company for the construction of these facilities.

On our books we are continuing to accrue depreciation for these projects in the regular manner based on the estimated normal service life of the facilities. The effect of the foregoing accounting treatment is, therefore, to state our net income just as if the Company had not elected to accept certificates for accelerated amortization.

Another item relating to Federal income taxes requiring some explanation is the special charge to income deductions made in lieu of Federal income taxes in the amount of \$1,888,000. The major portion of this charge, \$1,625,000, is the amount equivalent to the reduction in Federal income taxes resulting from the refunding operation undertaken during the year, as more fully discussed under Financing. This reduction arose from the fact that the premium on the bonds called for redemption was taken as a deduction for tax purposes. This saving was applied as a partial offset to the redemption premium on the old issue which is being amortized over the life of the refunding issue. The balance of the charge, in the amount of \$263,000, represents a similar tax reduction arising from the redemption of the bonds of the Coast Counties Gas and Electric Company. A concurrent credit in the same amount was made as an offset to the redemption premium, which was charged to surplus.

DEPRECIATION AND AMORTIZATION

The provision made for depreciation and amortization on our books amounted to \$39,090,000, or \$3,918,000 greater than in the preceding year. This provision absorbed 10.1% of our gross operating revenues.



As in the previous year, depreciation for all departments was accrued on a 4% remaining-life sinking fund basis. Our depreciation rates are reviewed annually and appropriate adjustments made whenever indicated.

At the year-end our reserve for depreciation and amortization, as shown on our balance sheet, totaled \$379,608,000, equivalent to 18.5% of our gross plant account on the same date. In view of the relatively low average age of our property, and its estimated remaining-life expectancy, it is believed that our depreciation reserve ratio is adequate.

FIXED CHARGES AND DIVIDENDS

Income deductions totaled \$19,546,000, or \$1,763,000 more than in 1953. Because of additional bonds sold in both the years 1953 and 1954, bond interest charges exceeded those of the previous year by \$2,500,000. This was offset in part by the larger credit made for interest during construction, which totaled \$5,656,000 for the year, an increase of \$792,000. The larger credit for interest during construction associated with a reduced volume of construction expenditures is explained by the fact that the character of our construction activities in 1954 resulted in a consistently higher average amount of construction work in progress than in the previous year.

Our bond interest charges were earned 5.7 times, before Federal income taxes, and our fixed charges after taxes, 4.3 times.

Dividends paid on our preferred stock were \$544,000 greater than in the previous year, reflecting additional amounts of preferred stock issued during the year, as described in the section on Financing. Our preferred dividends were earned 3.9 times, about the same coverage realized in the previous year.

Approximately 12% of our gross operating rev-

enues was carried down as earnings available for the common stock, which totaled \$46,773,000 for the year. Dividends were paid at the annual rate of \$2.20 per share, the aggregate disbursement for which totaled \$35,553,000, equivalent to 76% of the total earnings available for the common stock. After payment of common dividends, there remained \$11,220,000 for reinvestment in the business.

Financing

Our financing program in 1954 was unusual in that it was the first year in eight that we did not issue and sell common stock for a cash consideration. Some common stock was issued, however, in exchange for securities of companies acquired, as will be discussed more fully below.

Two security offerings were made for new money purposes. The first was an issue of \$60,000,000 face amount of First and Refunding Mortgage Bonds, Series W, 3 $\frac{1}{8}$ %, due December 1, 1984. These bonds were sold at competitive bidding in February 1954, the Company realizing proceeds of slightly in excess of the face amount.

The second new money offering, made in June 1954, was an issue of 1,000,000 shares of 4.50% Redeemable First Preferred Stock. The public offering price was \$25.75 a share. The issue, marketed by a nationwide group of underwriters, was very favorably received by both individual and institutional investors. Approximately 40% of the offering was absorbed by California investors.

The proceeds from both of the above offerings were applied to finance the Company's continuing construction program.

One refunding operation was conducted during the year. In May an issue of \$65,000,000 face amount of First and Refunding Mortgage Bonds, Series X, 3 $\frac{1}{8}$ %, due June 1, 1984, was sold at competitive bidding, the proceeds being applied to

redeem, on July 1, 1954, a similar face amount of Series V, 4% Bonds sold in the previous year. Annual savings of approximately \$400,000 will be realized as a result of this refunding operation.

Installment payments for shares of the Company's 5% Redeemable First Preferred Stock, Series A, offered to employees in 1952, were completed in January 1954, and 133,374 shares were issued as of February 1, 1954, to 5,036 employees. Under a similar plan, another offering was made to employees in November 1954, entitling them to subscribe for shares of 4.50% Redeemable First Preferred Stock. Under this offer, 5,514 employees entered subscriptions for 148,358 shares, installment payments for which will be made over a two-year period.

In connection with the acquisition of control of Pacific Public Service Company and the subsequent mergers of that company and its principal subsidiary, Coast Counties Gas and Electric Company, into this Company, we issued in exchange for the publicly held stocks of those companies 681,184 shares of common stock, 54,297 shares of 5% Redeemable First Preferred Stock, and 17,375 shares of 4.80% Redeemable First Preferred Stock.

Control of Pacific Public Service Company was obtained in February 1954, when the Company issued 330,535 shares of its common stock in exchange for the holdings of the majority common stockholder of Pacific Public Service Company. Shortly thereafter, offers of exchange were made to the remaining common stockholders and the preferred stockholders of Pacific Public Service Company and to the preferred stockholders of Coast Counties Gas and Electric Company, with gratifying results. The small amount of stock not surrendered in exchange pursuant to these offers was either converted into our common stock, in accordance with the terms of the merger agreement, or called for redemption.

On August 31, 1954, the date of the merger of Coast Counties Gas and Electric Company, the Company assumed \$14,295,000 face amount of outstanding First Mortgage Bonds of that company. The entire amount was redeemed on December 29, 1954. Bank loans assumed in the amount of \$6,000,000 were also retired during the year.

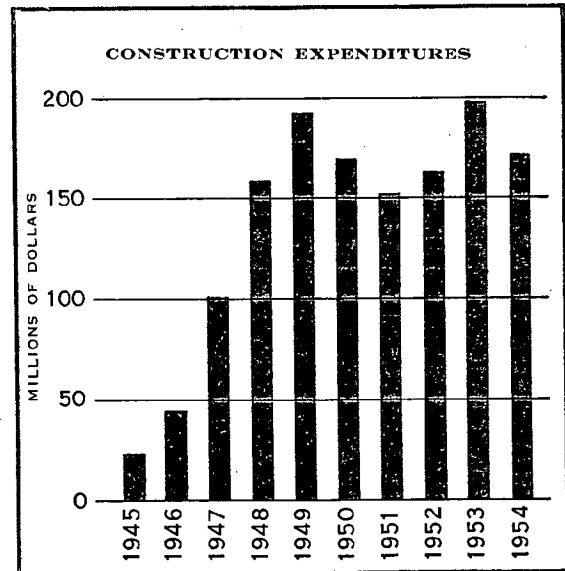
In order to provide funds to carry forward its construction program in the closing months of the year, and to effect the redemption of the above-mentioned Coast Counties debt, the Company temporarily financed its requirements by means of bank loans, \$38,000,000 of such loans being outstanding at the year-end. It is planned to retire these loans from the proceeds of a bond offering early in 1955.

Exclusive of short-term bank loans, the Company's capitalization at December 31, 1954, aggregated \$1,628,244,000, consisting of 47.2% bonds, all outstanding under our First and Refunding Mortgage, 19.8% preferred stock, and 33.0% common stock equity.

Construction Program

Construction expenditures totaled \$170,933,000 in 1954, or about \$26,000,000 below the peak reached in the previous year. A further substantial reduction in our construction expenditures is expected in 1955.

As stated earlier in this report, the major construction accomplishment of the year was the completion of our Pittsburg Steam Plant of 600,000 kilowatts nominally rated capacity. This plant is the largest on our system and is also the largest



steam plant west of the Mississippi River. An interesting feature of the plant is its outdoor design, the first of its type in this area. Following extensive performance tests, completed after the close of the year, the rated capacity of the plant was increased to 660,000 kilowatts.

The small, historic Murphys Hydro Plant, of 1,900 kilowatts capacity, was replaced with a modern outdoor plant of 3,800 kilowatts capacity.

Completion of these plants brought to 2,528,400 kilowatts the electric generating capacity built by the Company since the close of World War II. At the year-end our installed generating capacity was about 4,000,000 kilowatts.

Construction is proceeding on our Morro Bay Plant of 300,000 kilowatts capacity. The first unit of 150,000 kilowatts capacity will be placed in operation within the next few months, and a second unit of similar size in 1956. Construction was commenced on a new steam plant to be known as Humboldt Bay Plant. It is designed for an initial capacity of 50,000 kilowatts and, as its name implies, will be located on Humboldt Bay in the extreme northwest portion of our service area.

Construction schedules were maintained on our new Pit No. 4 Hydro Plant of 84,000 kilowatts capacity, and it is expected to be placed in operation in mid-1955. Preliminary work was commenced late in the year on our Poe Hydro Plant on the Feather River. This plant will have a capacity of 106,000 kilowatts.

Reference has been made in our last two annual reports to the Company's plans for developing the hydro potential of the Kings River, and to the litigation which developed in this connection. We have substantially completed agreements with various irrigation interests regarding our storage and use of the waters of the Kings River for power generation, which we believe will enable us to obtain final licenses from the Federal Power Commission. We hope that these licenses will be issued, and the necessary authority obtained from the California Public Utilities Commission, so that we will be able to commence construction on the project during 1955.

Early in 1955, the Federal Power Commission authorized issuance of licenses for the construction of three additional hydro plants on the

Feather River. These plants, to be known as Butt Valley, Caribou No. 2 and Belden, will have an aggregate capacity of 258,000 kilowatts. Applications are also on file for the construction of hydro facilities on the Pit and McCloud Rivers.

The major Gas Department construction project completed during the year was the paralleling of about 200 miles of our Topock-Milpitas Transmission Line, and the installation of additional compressor facilities, which increased the capacity of this line from 550 to 700 million cubic feet of gas a day.

Less spectacular than the major construction projects outlined above, but nonetheless in the aggregate a major part of our construction activities, are the continuing additions being made to our gas and electric transmission and distribution systems. The year 1954 was no exception in this respect, and in view of the expected growth in population and the new customers that will be connected to our lines, this phase of our construction activities will probably continue.

Sales

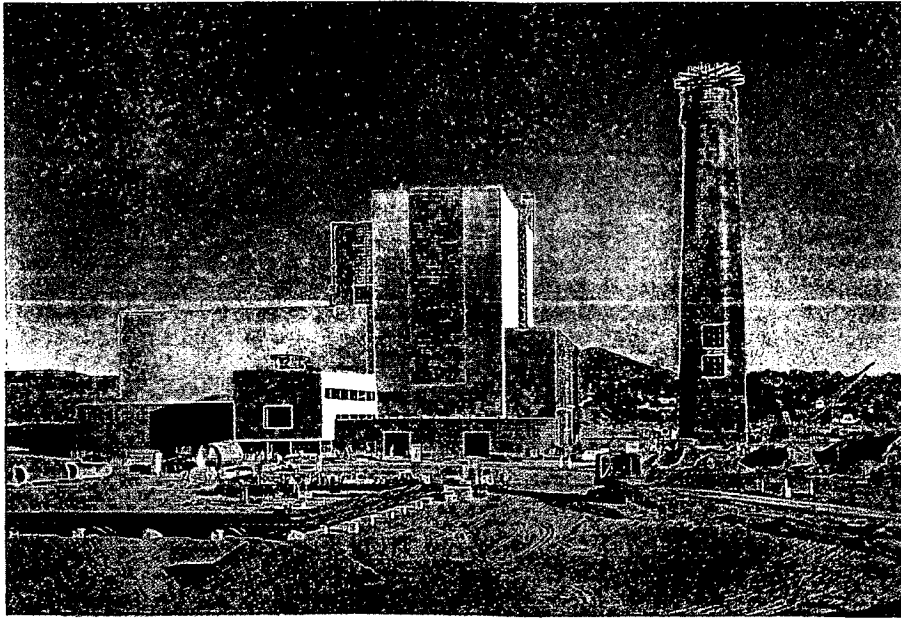
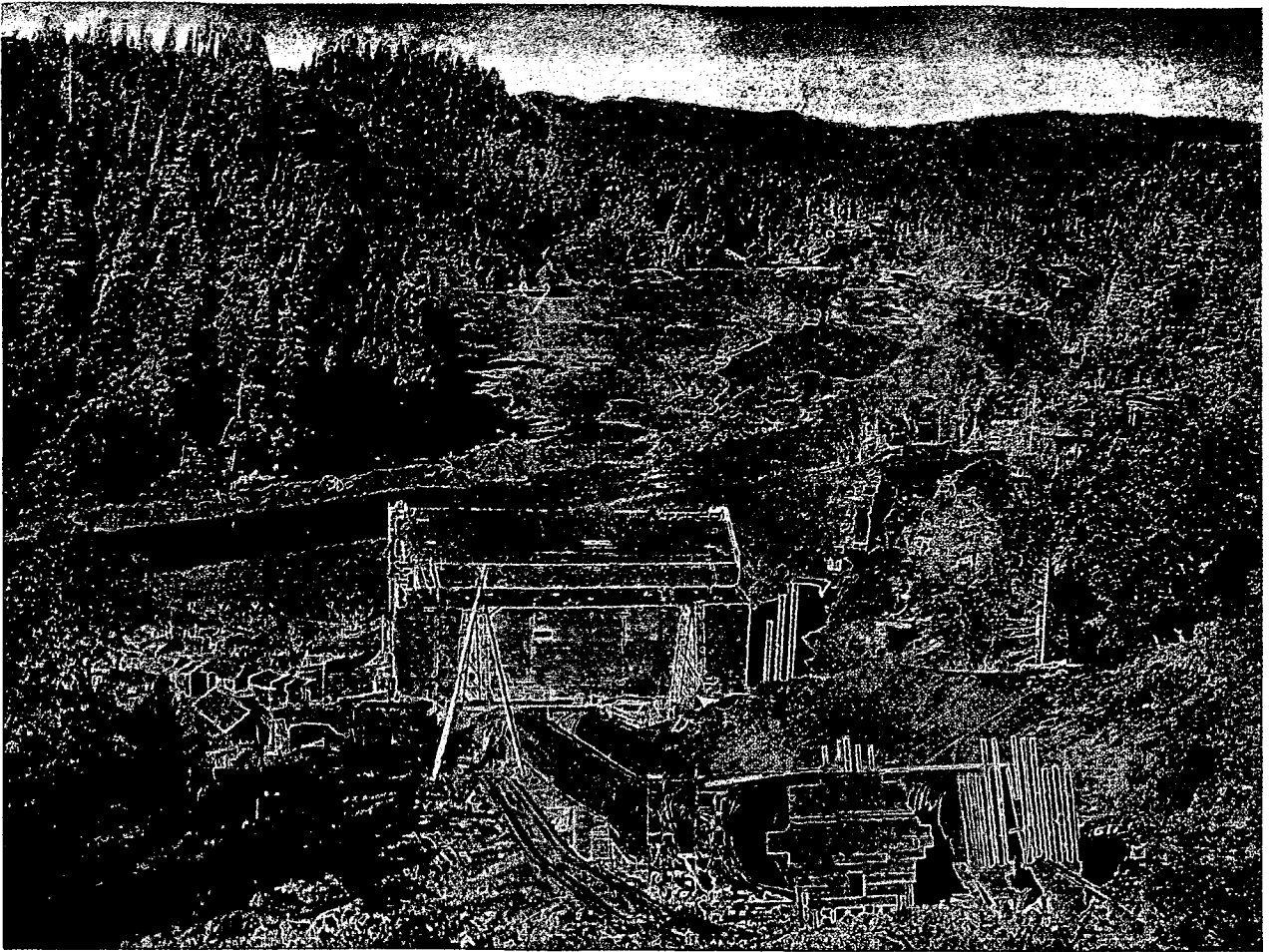
Sales of electricity to our customers reached a new peak of 15,042,000,000 kilowatt-hours, an increase of 1.8%. Deliveries for the account of others were approximately double those of the preceding year, and totaled 943,000,000 kilowatt-hours. On a combined basis, sales to our customers and deliveries for the account of others exceeded those of the previous year by 5.0%.

Sales of gas to customers also reached a new peak of 243,508,000,000 cubic feet. The increase over the previous year was 16,455,000,000 cubic feet, or 7.2%. Temperatures, on the average, were higher than normal. This adversely affected our gas heating sales, particularly in the early months of the year.

For the same reasons already discussed under Operating Revenues, the recorded sales in relation to the previous year are not strictly comparable on either an over-all basis or by classes of service. The distortion is more pronounced in the Electric than in the Gas Department, particularly in the resale classification.

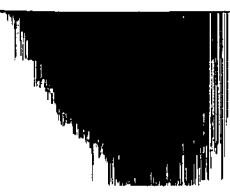
In the residential or domestic classification,

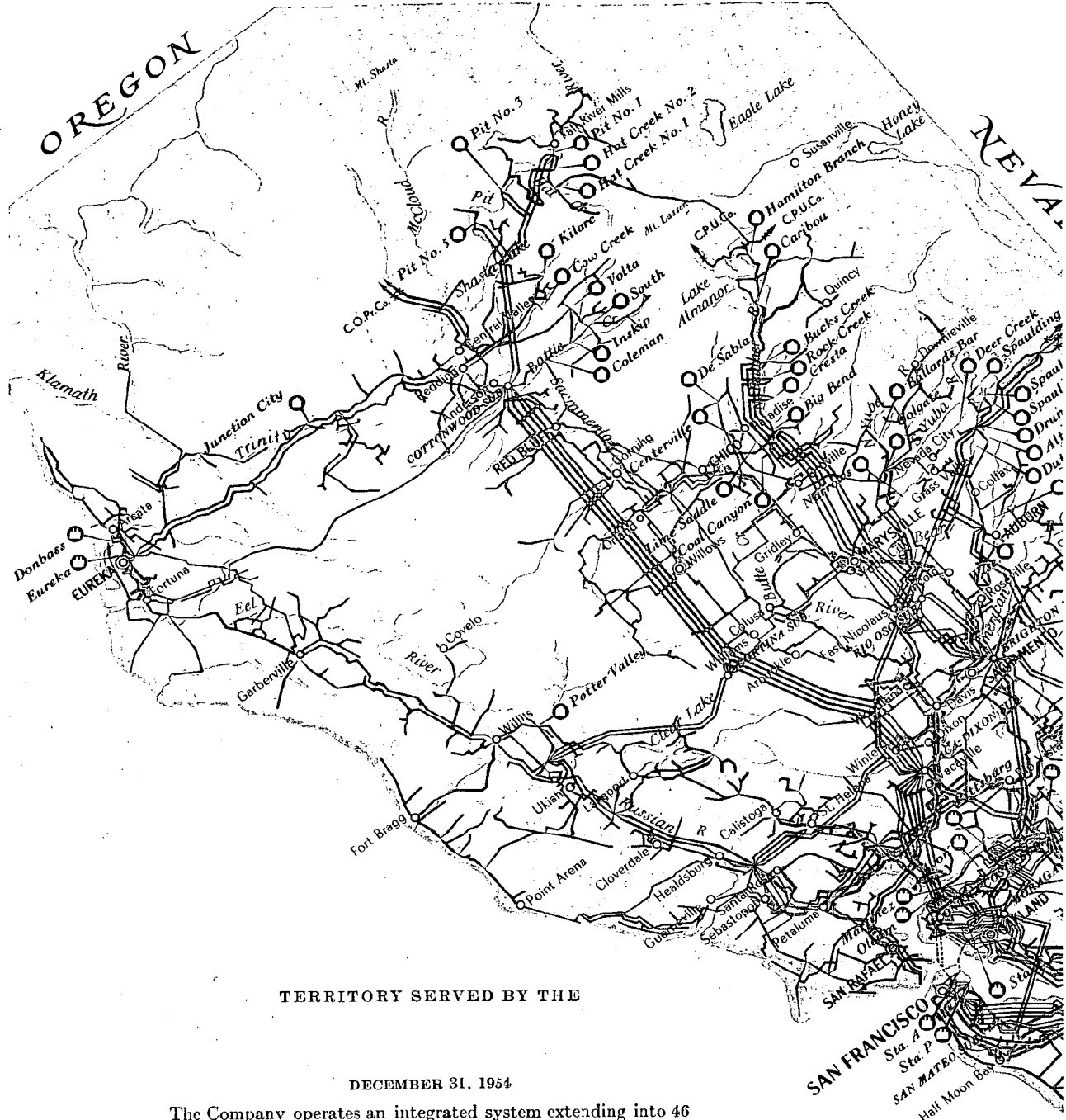




Pit No. 4 Hydro Plant under construction, 84,000 kilowatts capacity. Upon completion, in mid-1955, the plant will increase the Company's total generating capacity on the Pit River to 363,000 kilowatts.

Morro Bay Steam Plant, located in the extreme south-western portion of our service area, will have a capacity of 300,000 kilowatts. The first unit will be placed in operation in 1955 and the second in 1956.





TERRITORY SERVED BY THE

DECEMBER 31, 1954

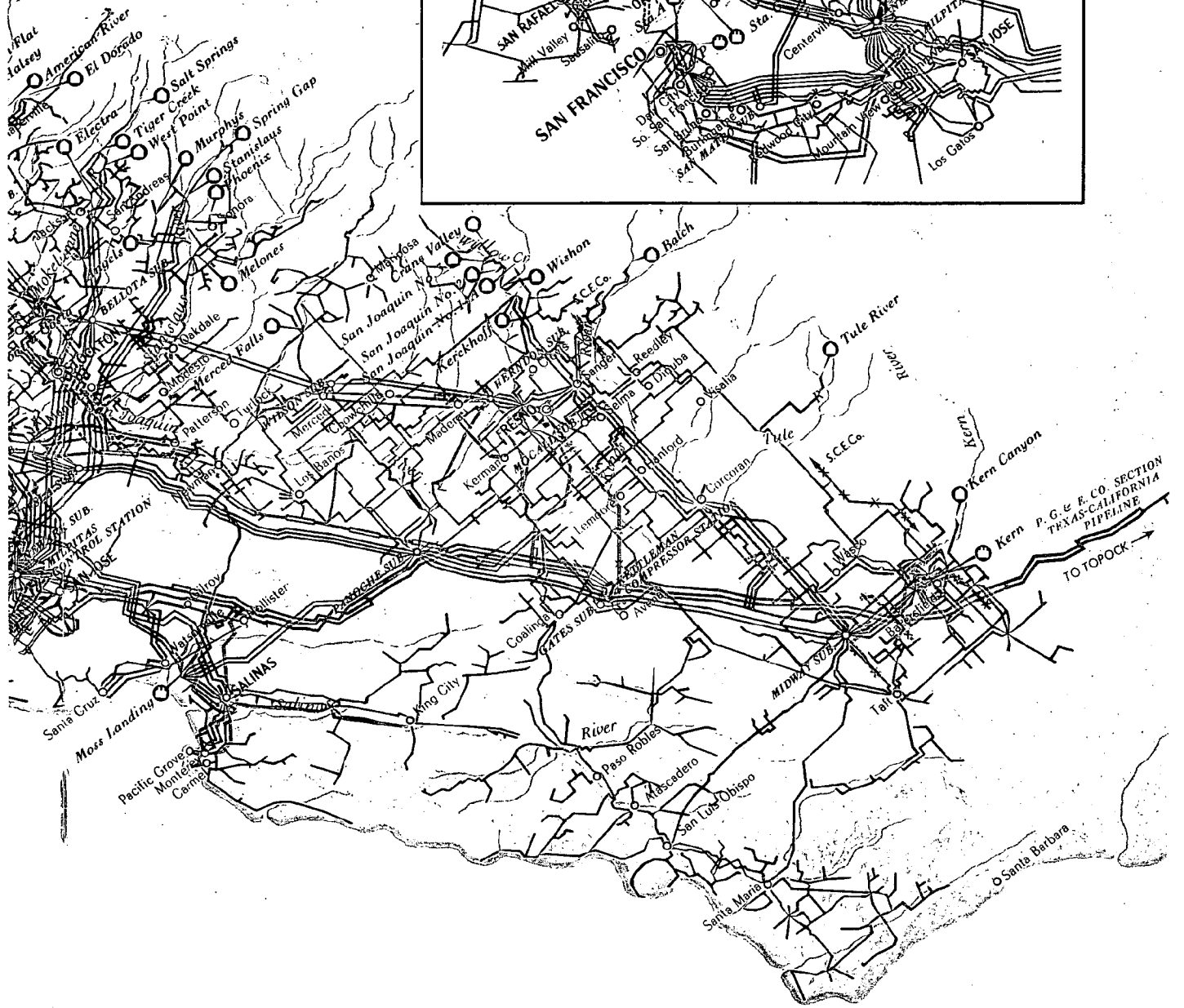
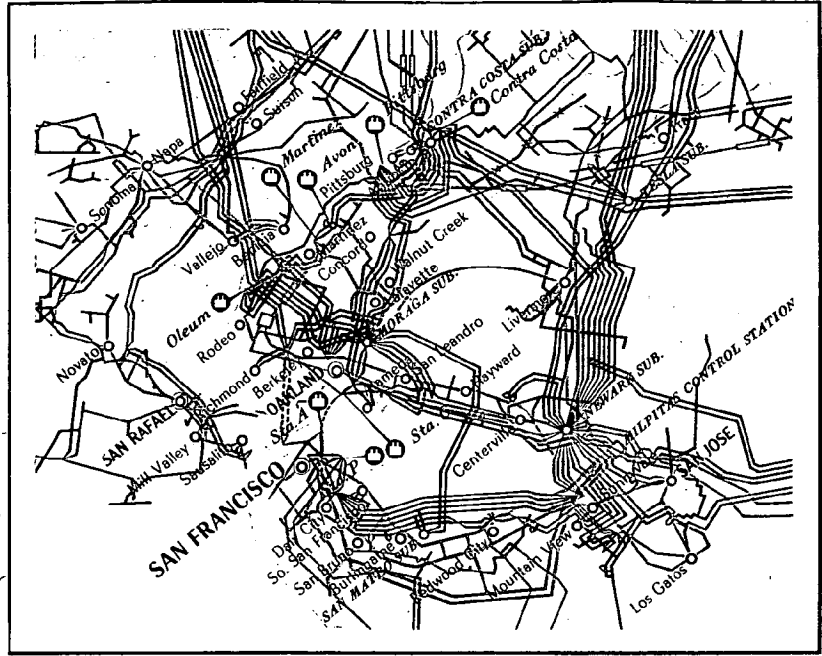
The Company operates an integrated system extending into 46 California counties with an estimated population of 5,800,000

ELECTRIC SYSTEM		GAS SYSTEM	
○	Generating Plants—Steam-electric	○	Generating Plants
○	Generating Plants—Hydro-electric	—	Major Gas Lines
—	Major Electric Lines	—	Connecting Companies
—	Connecting Companies	—	Standard Pacific Gas Line Inc.

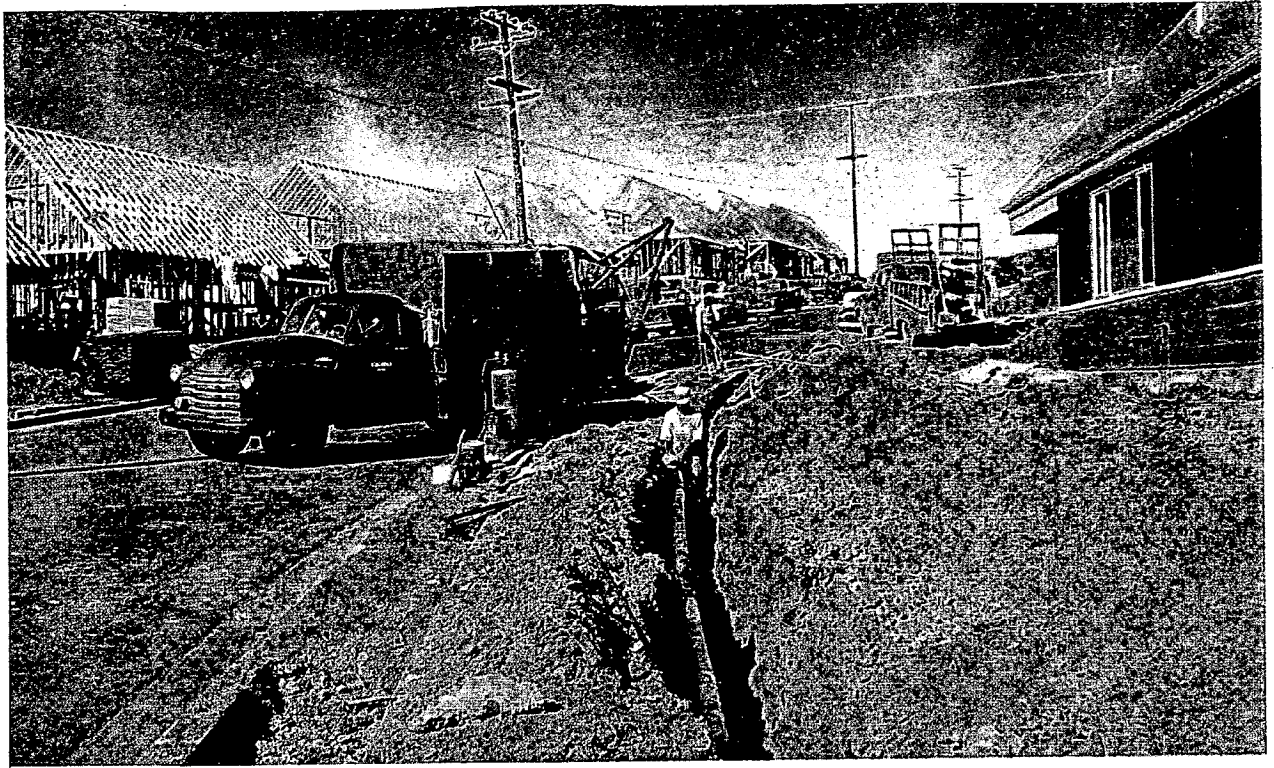
57 Hydro-electric Plants	1,356,300 Kw.	2,800 miles gas transmission lines
12 Steam-electric Plants	2,641,300 Kw.	14,800 miles gas distribution lines
69 Plants Capacity . . .	3,997,600 Kw.	17,600 miles of gas pipe lines
Capacity from others . . .	500,000 Kw.	
65,800 miles of electric power lines		



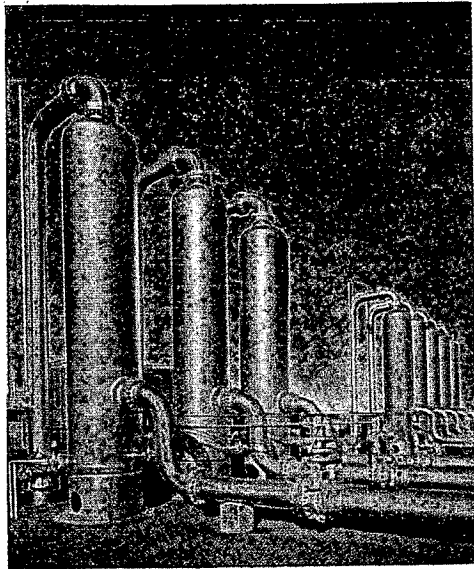
0.5
SP.P.Co.
ng No. 1
Lake
Tahoe



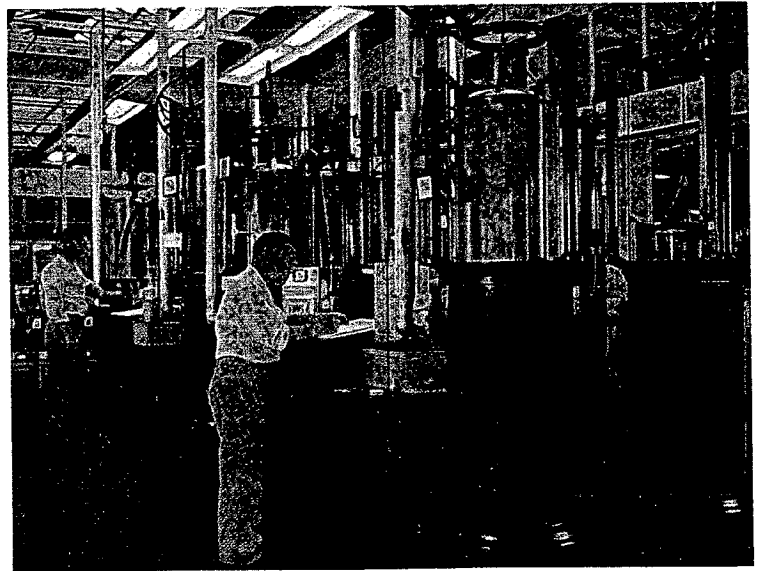
P. G. & F. CO. SECTION
TEXAS-CALIFORNIA
PIPELINE
TO TOPOCK



Installation of gas distribution mains in residential subdivision. In the past ten years, we have connected approximately 575,000 new customers to our extensive gas transmission and distribution pipeline system.



Gas scrubbers, located adjacent to our Topock-Milpitas gas line, are utilized to wash impurities from natural gas.



Miniature gas holders of certified capacity and operated under carefully controlled conditions are employed in the periodic testing of customers' gas meters to insure accuracy and dependability.

however, the two years are sufficiently comparable to conclude that the strong uptrend in sales, observable for many years, continued in both the Electric and Gas Departments. Sales in this classification showed gains of 10.1% and 9.6%, respectively, in the two departments.

The average annual domestic electric use per customer reached 2,424 kilowatt-hours for the year, or 122 kilowatt-hours greater than in the preceding year. Every indication points to a continued upward trend in domestic electric consumption.

After adjustment for proper comparison, only moderate gains in sales were recorded in the commercial and industrial classifications, in both the Electric and Gas Departments. When measured against the change in the national indices of business activity, however, this performance can be considered satisfactory.

Agricultural power sales, one of our major classes of business, were less than 2% above those of the previous year. In view of the different climatic conditions that prevailed in the agricultural areas as compared with those of the prior year, and the acreage restrictions imposed on cotton planting, it is quite remarkable that this class of service registered any gain at all.

Our sales promotion activities were expanded

during the year with good results, and a further intensification of our sales effort is planned for 1955.

Customers

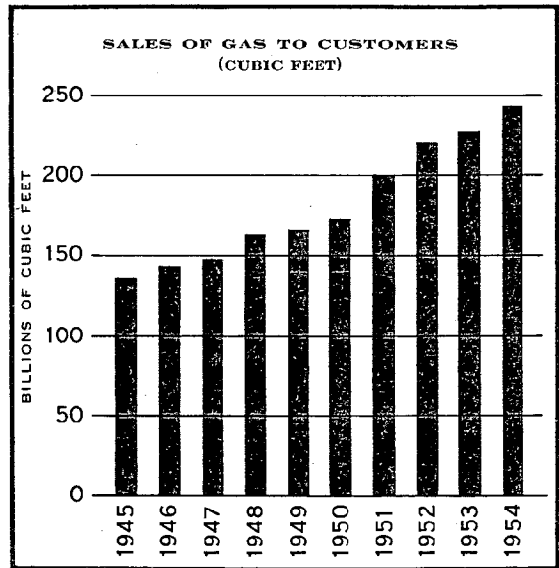
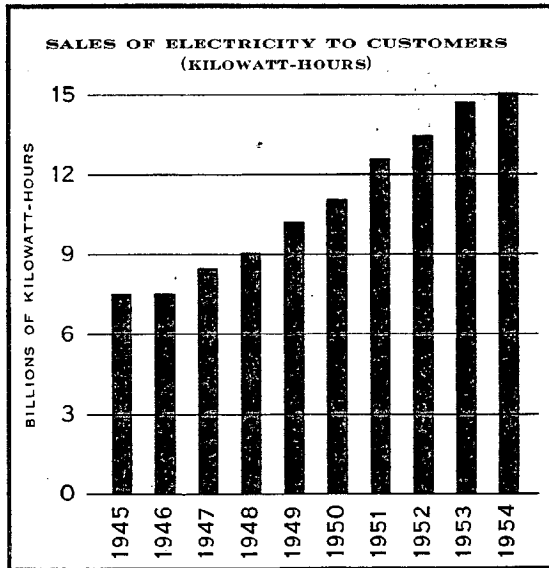
At the year-end the Company was supplying service to 2,973,590 customers in all branches of its operations.

Based on present growth trends, we will connect our three-millionth customer sometime during the first half of 1955. In this connection, it is interesting to observe that our two-millionth customer was connected as recently as November 1947. Thus our system will soon be supplying utility service to one-half more customers than it did less than eight years ago.

During 1954 the net gain in customers totaled 244,422, of which 139,642 were acquired on August 31, 1954, as a result of the merger of Coast Counties Gas and Electric Company. Aside from the Coast Counties customers, however, it was the eighth successive year in which more than 100,000 customers were connected to our lines.

Natural gas service was extended during the year to six towns and communities which had not previously enjoyed this service.

The customer gain in the first three quarters of



the year fell considerably behind that of the previous year. The gain in the fourth quarter, however, was approximately 30% above that of the corresponding period of the previous year, reflecting the marked resurgence in new residential construction which got under way in the spring and summer of the year. The high level of residential construction in our territory appears to be continuing into 1955, and it is believed that we will again show a large gain in the number of customers served.

The table at the bottom of the page shows the number of customers served by departments at the end of the year, and the increase during the year.

Operations

Gross system output of electricity totaled 19.3 billion kilowatt-hours, compared with 18.5 billion in the previous year.

Of the total, 8.1 billion was produced in our hydro plants, 8.2 billion in our steam plants, with the balance of 3.0 billion being delivered into our system by other producers. This latter figure includes, in addition to power purchased under firm contracts for resale to our customers, power transported or "wheeled" for the account of other producers. It is considered a part of our gross system output, as it utilizes our transmission and distribution system, and we have a responsibility in certain circumstances to make up deficiencies in deliveries.

In 1954, for the first time with the exception

of the year 1949, we produced more power in our steam plants than in our hydro plants. In the years ahead, we can expect that increasing proportions of our requirements will be generated in thermal plants.

The changing character of our system electric resources is demonstrated by the fact that at the close of 1954, 66% of our installed generating capacity was in steam plants, compared with only 37% at the close of World War II. The former percentage was after giving effect to the retirement, and withdrawal from our resources in 1954, of 136,500 kilowatts capacity of old and inefficient steam units, made possible by the building up of our reserves in recent years.

The system electric peak occurred on July 29, and amounted to 3,693,300 kilowatts, or 10.6% above that of the previous year. This includes 125,000 kilowatts of firm deliveries at the time of the system peak to another California utility company. Effective July 1, 1954, deliveries to this utility were commenced on a firm basis. Prior to that date, under our interchange agreement, deliveries were made on a non-firm basis, and were not reported as a part of our system demand or output.

The maximum day sendout on our gas system occurred on December 21, and amounted to 1,364,000,000 cubic feet. This peak was met without any curtailment of our interruptible customers, whose deliveries are subject to reduction or shut-off in the event the gas is needed to supply our firm customers.

CUSTOMERS—BY DEPARTMENTS AND INCREASE DURING YEAR

	December 31 1954	December 31 1953	Increase during 1954(a)
Electric Department	1,612,263	1,513,442	98,821
Gas Department	1,337,592	1,194,098	143,494
Water and Irrigation Department	23,028	20,915	2,113
Steam Sales Department	707	713	* 6
TOTALS	2,973,590	2,729,168	244,422

*Denotes decrease

(a) Includes 47,041 electric customers, 91,345 gas customers and 1,256 water customers, or a total of 139,642 customers acquired on August 31, 1954, as a result of the merger of Coast Counties Gas and Electric Company.

Rate Matters

Stockholders have previously been advised of the higher rates for out-of-state gas purchased by us from El Paso Natural Gas Company, and of the application filed with the California Public Utilities Commission requesting an increase in our gas rates of \$7,073,000 to offset these increased costs.

The Commission issued its decision on November 4, 1954, granting the requested increase in full. The new rates became effective for consumption on and after December 1, 1954, subject to refund if and to the extent the Federal Power Commission shall allow a lesser increase than the El Paso Company requested.

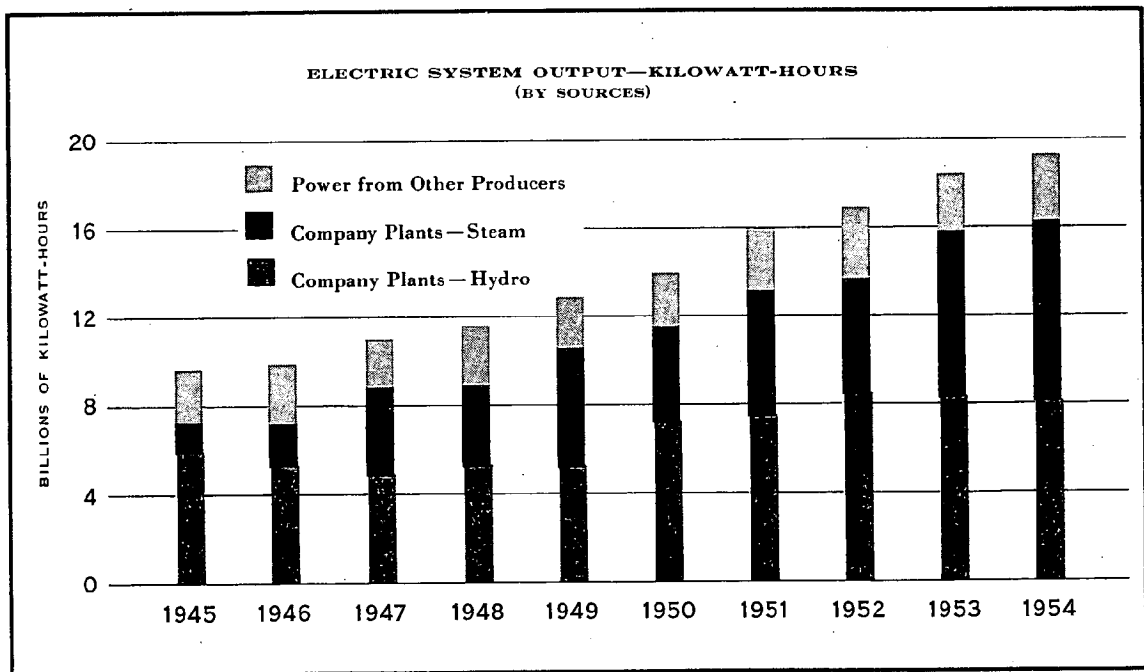
On November 23, 1954, the Federal Power Commission issued an order which in effect allowed the El Paso Company approximately three-fourths of the amount it had requested. However, on December 22, 1954, the Federal Power Commission stayed this order and granted a rehearing at the request of the El Paso Company.

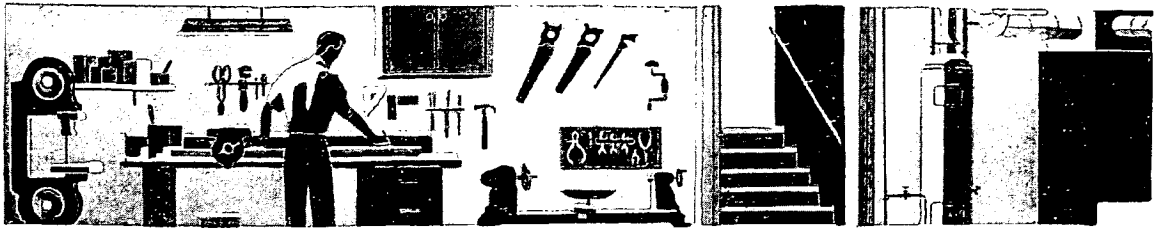
In view of the rehearing granted, it is not now

known whether the Company will receive a refund for the period of time during which it absorbed the higher rates paid the El Paso Company, or whether a refund will be due our customers for the period subsequent to December 1, 1954, when our increased rates went into effect.

In the meantime, on October 14, 1954, the El Paso Company had filed for still higher rates, which are estimated to increase the cost of out-of-state gas by an additional \$8,086,000, based on the estimated volume of purchases in 1955. On November 15, 1954, the Federal Power Commission issued its order suspending the effective date for these new rates until April 15, 1955.

In anticipation of higher rates for out-of-state gas to be effective on April 15, 1955, the Company on January 14, 1955, filed an application with the California Public Utilities Commission to increase its charges for gas service in an amount sufficient to offset the full amount of the El Paso increases. It is hoped that the new rates will be made applicable simultaneously with the effective date for the higher rates for out-of-state gas.





Gas Supply

We purchased almost 335 billion cubic feet of natural gas in 1954, or 13% more than in the previous year, for sale to our customers and for use as fuel in our steam-electric generating plants.

An increasing proportion of our natural gas requirements is being supplied from out-of-state sources. Last year approximately 68% originated from these sources, the balance having been delivered into our system from numerous gas fields in Northern and Central California. All of this out-of-state gas is delivered to us at the California-Arizona border from fields in Texas, Colorado and New Mexico through the facilities of the El Paso Natural Gas Company.

Our present contract demand from the El Paso Company is approximately 700 million cubic feet per day. The Company has signed a letter of intent to purchase from the El Paso Company an additional 100 million cubic feet per day, half of which will be delivered commencing on November 1, 1956, and the remainder commencing on November 1, 1957. Application is being made to the Federal Power Commission by the El Paso Company, and by this Company to the California Public Utilities Commission, for the necessary authorizations to construct the facilities required to transport the additional gas. In order to transport this increased volume of gas, we plan to parallel an additional portion of our Topock-Milpitas gas line and to install additional compressor facilities.

The letter of intent also provides for increasing these new purchases to a total of 150 million cubic feet per day if the El Paso Company is able to contract for an additional 50 million cubic feet and we have need for it.

Looking further into the future, the Company during the year investigated the possibility of

bringing Canadian gas into its service area. It is continuing to investigate this possibility, as well as other proposals that have been made to augment the supply of natural gas in this area. To date, however, no contracts or commitments for additional gas supplies have been made beyond those outlined above.

Personnel

The relationship between the Company and its employees and their union representatives was maintained on a harmonious and cooperative level throughout the year.

At the year-end we had 18,034 employees, compared with 18,550 at the end of the previous year. The 1954 figure, however, includes about 600 employees of the former Coast Counties Gas and Electric Company added to our payroll on the date of merger, August 31, 1954. Excluding Coast

SUMMARY OF PAYROLLS AND OTHER EMPLOYEE BENEFITS, YEAR 1954

PAYROLLS:	
Wages and salaries of operating employees	\$50,994,000
Payroll of construction employees	38,046,000
Sub-total	\$89,040,000
OTHER EMPLOYEE BENEFITS PAID BY COMPANY:	
Contribution to Retirement Plan	\$ 6,447,000
Other pension payments made by Trustee	790,000
State unemployment insurance tax	52,000
Federal unemployment insurance tax	168,000
Federal old-age insurance contribution	1,349,000
Group Life Insurance Plan payments	94,000
Contributions to employee associations	157,000
Sub-total	\$ 9,057,000
TOTAL PAYROLLS AND OTHER EMPLOYEE BENEFITS	\$98,097,000

Counties employees, there was a net reduction of about 1,150 employees, due principally to the reduced volume of construction activity.

Wages and salaries of both operating and construction employees totaled \$89,040,000 for the year. The operating payroll increased \$1,928,000 while the payroll of employees engaged in construction activities decreased \$2,974,000, resulting in a net reduction in the total payroll of \$1,046,000.

The payroll figures given above include paid vacations, sick leave and holidays. Aside from these benefits, however, the Company made direct payments during the year for other employee benefits in the amount of \$9,057,000. Over two-thirds of this sum represented contributions to our Retirement Plan. At the year-end, 1,880 former employees were receiving retirement incomes under this Plan.

Our labor agreements with the International Brotherhood of Electrical Workers (A. F. of L.), which represents the majority of our employees, were amended September 1, 1954, for a period of 22 months. The amended agreements provided for a wage increase of 2.5%, plus additional hourly adjustments for certain classifications. A similar increase was negotiated with the San Francisco Area Group of Professional Employees, representing certain technical engineering employees. Wages and salaries of employees not represented by a union were also adjusted.

Participation in our Employees Suggestion Plan surpassed all previous records. About 3,000 suggestions for the improvement of our operations were received. Over one-third were adopted, for which cash awards were made.

The Pacific Service Employees Association, with a membership of 16,900, completed its 38th year of successful operation. A voluntary organization, it conducts extensive educational, social, and recreational programs. The educational program of the Association is very popular and successful. In 1954 there were more than 10,000 enrollments in its courses, and 8,500 certificates were awarded for satisfactory completions. The Association also sponsors a comprehensive welfare program, including a Disability Plan, a Wage Benefit Plan, and a Hospitalization Plan which includes coverage for retired members.

Stock Ownership

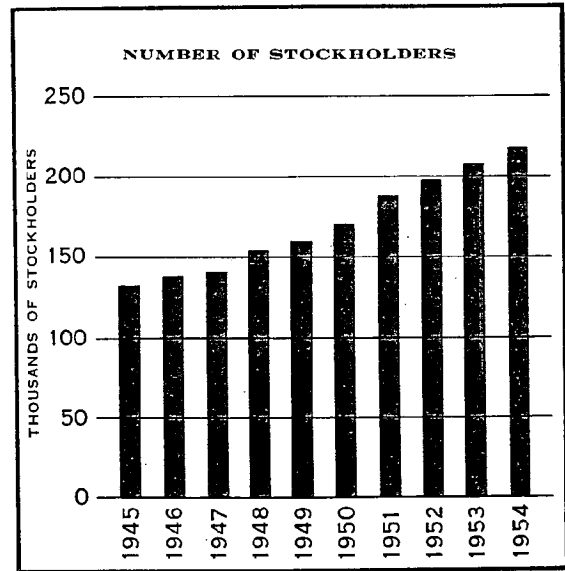
For the fifteenth consecutive year, we experienced a gain in the number of those owning our stocks. At the year-end we had 217,336 stockholders of record, a gain of 10,253 for the year.

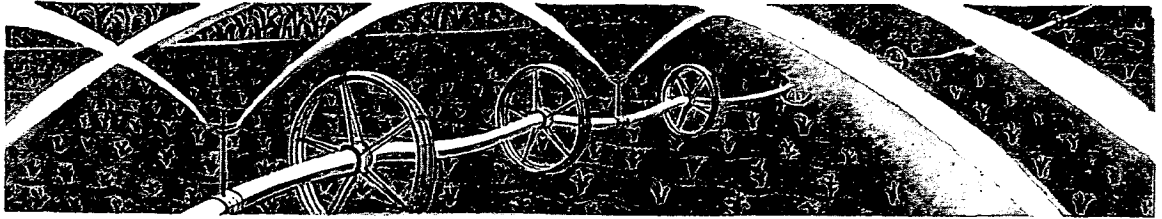
Of the total, 88,259 were preferred stockholders, and 129,077 common stockholders.

Based on the most recent figures available, our Company now ranks sixth in number of stockholders among the publicly-owned corporations of the country.

Geographically, these stockholders are widely distributed in every state in the union, and in a number of foreign countries. We have consistently encouraged a high degree of local ownership. That we have succeeded is evidenced by the fact that at the present time approximately 66% of our stockholders reside in California, and hold about 48% of outstanding stock.

One of the significant trends of recent years has been the growing institutional demand for preferred and common stocks, particularly the latter. This trend has been accentuated, in many instances, by the liberalization of the legal investment statutes of the several states. In view of the investment quality of our stock, we have, of course, been affected by this trend. Increasing amounts of





our stock are flowing into the portfolios of insurance and investment companies, savings banks, pension funds, and other similar types of institutional investors.

Because institutional investors characteristically hold stock in much larger blocks than do individuals, average share ownership has increased steadily over the past ten years. At the year-end, it was approximately 134 shares, compared with about 90 shares ten years ago. A very much smaller increase, however, appears in the average ownership of individual and joint accounts. This average is still only 84 shares. Our stocks continue to be attractive to many individual investors of modest means; about 66,000 of our stockholders own 25 shares or less.

While the trend observed above, whereby increasing amounts of the savings of the American people are being channeled into industry through institutional investment, will doubtless continue,

it is nonetheless healthy and desirable that direct ownership by individual investors be encouraged. The promotional efforts of security dealers, stock exchanges, and the sponsors of Invest in America Weeks in leading cities are splendid examples of efforts in this direction.

Central Valley Power

Under our power wheeling service contract with the United States Bureau of Reclamation, executed in 1951, we were providing service at the year-end to seventeen Federal establishments and to seven other customers entitled to preference under the Reclamation Law. Approximately 735,000,000 kilowatt-hours were transported for the account of the Bureau to these customers during the year. Their maximum simultaneous firm demand was 227,000 kilowatts.

Principal additional customers for which wheeling service was commenced during the year were the Ames Aeronautical Laboratory, an agency of the Federal government, on January 1, 1954, and as has been stated earlier in the report, the Sacramento Municipal Utility District on July 1, 1954. The District has announced plans to construct facilities to accept delivery of power directly from the Bureau's lines by July 1, 1957.

Under our related purchase contract with the Bureau, also executed in 1951, we purchased all of the output of the Central Valley Project not needed for project uses or for requirements under the wheeling contract. Our purchases for the year from the Bureau totaled 1,544,000,000 kilowatt-hours.

Directors and Officers

Mr. Carl F. Wente was elected a member of our Board of Directors on June 16, 1954. Mr. Wente

DISTRIBUTION OF STOCK OWNERSHIP BY CLASS OF INVESTOR, DECEMBER 31, 1954

CLASS OF INVESTOR	Number of Stockholders	Number of Shares Owned
Women stockholders	85,013	6,919,282
Joint and other tenancies	59,943	4,783,719
Men stockholders	52,323	4,774,659
Trustees, guardians and other fiduciaries	13,265	1,703,206
Corporations, partnerships and proprietorships	1,983	1,429,113
Nominees	1,506	4,354,197
Charitable and fraternal organizations and foundations	1,037	259,813
Banks, investment companies and security dealers	842	1,375,684
Insurance companies	623	3,230,995
Religious institutions	433	76,035
Educational institutions	368	231,593
TOTALS	217,336	29,138,296

is Chairman of the Executive Committee and a Director of the Bank of America, and is currently serving as President of the California State Chamber of Commerce. He replaced Mr. K. C. Christensen, Treasurer of the Company, who had served briefly on the Board following the death of Mr. Norman B. Livermore late in 1953.

Mr. John P. Coghlan, Vice-President and Assistant to the President, retired on June 30, 1954, after more than 48 years of loyal and devoted service to the Company. Mr. Coghlan served as assistant to three Company Presidents over a period of 31 years. His character, personality and ability have made an unusual impression on the Company's affairs. We are gratified that we will continue to have his advice and counsel as a member of the Board of Directors, on which he has served for 23 years.

On June 1, 1954, Mr. Dunlap D. Smalley, Vice-President and Assistant General Manager, retired after 43 years of outstanding service to the Company.

Mr. George H. Hagar, Vice-President in Charge of Electric Operations, retired on June 30, 1954. Mr. Hagar had completed 34 years of conscientious and loyal service. He was succeeded by Mr. George A. Peers, whose appointment became effective July 1, 1954.

Mr. J. K. Horton was appointed a Vice-President on September 1, 1954. He had served as President of Pacific Public Service Company and of Coast Counties Gas and Electric Company prior to their mergers into this Company.

On December 31, 1954, Mr. E. W. Hodges, Comptroller, retired after nearly 38 years in the employ of the Company. Throughout his long service, Mr. Hodges displayed exceptional ability, integrity and devotion to the Company's welfare. Mr. L. W. Coughlan, Assistant Comptroller, was appointed to succeed Mr. Hodges, effective January 1, 1955. Mr. Coughlan has been with the Company 38 years.

Annual Meeting

This forty-ninth annual report of the Company will be submitted at the annual meeting of stockholders to be held at the office of the Company, 245 Market Street, San Francisco, California, on Tuesday, April 12, 1955.

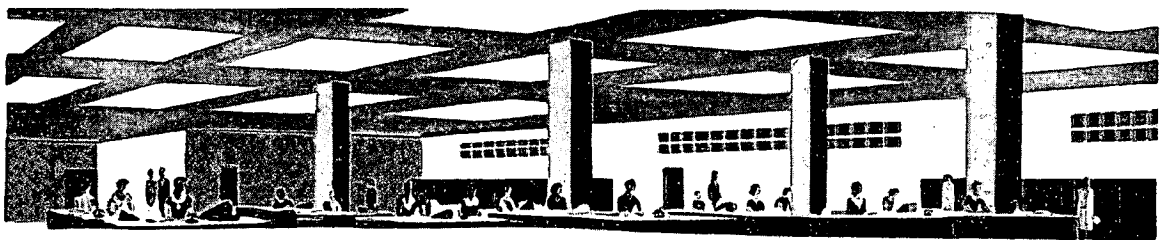
* * * * *

In closing this report, I wish to express appreciation to all employees who contributed so much to the Company's progress during the year. I know that they will continue to measure up to the high standards of public service that have always characterized the operations of our Company.

For the Board of Directors,


President.

The management will solicit proxies for the annual meeting. In connection with such solicitation, it is expected that the proxy statement and a form of proxy will be mailed to stockholders on or about March 8, 1955.



PACIFIC GAS AND ELECTRIC COMPANY

Statement of Net Income for the Years Ended December 31, 1954 and 1953

	Year Ended December 31	
	1954	1953
GROSS OPERATING REVENUES:		
Electric department	\$265,418,676	\$252,663,806
Gas department	118,846,560	109,732,200
Other	1,978,956	1,709,464
Total	\$386,244,192	\$364,105,470
OPERATING EXPENSES:		
Maintenance and repairs	\$ 15,063,191	\$ 17,057,327
Production expenses:		
Power purchased	6,377,050	7,010,866
Natural gas purchased	73,980,191	65,503,416
Oil and other fuel	8,442,500	10,968,124
Other	8,463,994	8,533,766
Transmission expenses	4,214,983	4,210,733
Distribution expenses	18,231,693	17,772,310
Customers' accounting and collecting expenses	13,688,354	13,039,346
Sales promotion expenses	2,973,051	2,694,957
Provision for depreciation and amortization (Note 2)	39,090,308	35,172,465
Taxes:		
Provision for Federal income tax (Note 6)	50,289,329	52,541,593
Other taxes	45,512,679	38,767,195
Administrative and general expenses	8,703,528	7,936,015
Provision for doubtful accounts	940,000	810,000
Provision for insurance and casualties	2,115,554	2,126,393
Pension plan expenses	4,720,076	2,692,392
Total	\$302,806,481	\$286,836,898
NET OPERATING REVENUES	\$ 83,437,711	\$ 77,268,572
MISCELLANEOUS INCOME:		
Dividends from subsidiaries (Note 1)	\$ 915,483	\$ 17,100
Interest	100,821	167,366
Other (net)	18,749	23,168
Total	\$ 1,035,053	\$ 207,634
Total	\$ 84,472,764	\$ 77,476,206
INCOME DEDUCTIONS:		
Interest on funded debt	\$ 23,645,828	\$ 21,145,536
Amortization of net bond discount and expense	420,053	375,648
Miscellaneous interest	514,328	539,530
Interest charged to construction	*5,656,119	*4,863,642
Special charge equivalent to reduction in Federal income tax (resulting from redemption of bonds)	1,887,672	
Miscellaneous	621,853	585,739
Total	\$ 21,433,615	\$ 17,782,811
NET INCOME	\$ 63,039,149	\$ 59,693,395

*Denotes red figure.

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

PACIFIC GAS AND ELECTRIC COMPANY

Statement of Surplus for the Years Ended December 31, 1954 and 1953

	Year Ended December 31	
	1954	1953
EARNED SURPLUS:		
Restricted for income taxes payable following period of accelerated amortization (Note 6)	\$ 3,135,620	\$ 517,995
Unrestricted:		
Balance at beginning of year	\$ 69,006,699	\$ 55,030,903
Net income from statement of net income	63,039,149	59,693,395
Miscellaneous additions to earned surplus—net	66,340	*9,966
Total	\$132,112,188	\$114,714,332
Deductions from earned surplus:		
Adjustment of past service pension fund	\$ 1,000,000	
Cost of preliminary surveys on projects abandoned (less related Federal income tax credit, \$210,126)		\$ 193,963
Provision for contingent electric rate refund	472,383	94,625
Redemption premium on bonds of merged subsidiary (less unamortized premium and expense \$64,882 and related Federal income tax \$263,259)	141,810	
Purchase premium on bonds reacquired, plus unamortized net discount and expense applicable thereto	102,863	8,259
Total	\$ 1,717,056	\$ 296,847
Dividends on capital stocks held by public—Cash:		
First preferred—6% cumulative	\$ 6,317,589	\$ 6,317,590
First preferred—5½% cumulative	1,613,218	1,613,221
First preferred—5% cumulative	6,149,988	5,991,007
First preferred—4.80% cumulative	1,810,425	1,800,000
First preferred—4.50% cumulative	375,015	
Common	35,553,172	29,688,968
Total	\$ 51,819,407	\$ 45,410,786
Total deductions from earned surplus	\$ 53,536,463	\$ 45,707,633
Balance at end of year	\$ 78,575,725	\$ 69,006,699
CAPITAL SURPLUS—Balance at beginning and end of year	\$ 627,217	\$ 627,217
TOTAL SURPLUS	\$ 82,338,562	\$ 70,151,911

*Denotes red figure.

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

PACIFIC GAS AND ELECTRIC COMPANY

Balance Sheet, December 31, 1954 and 1953

		December 31	
ASSETS		1954	1953
UTILITY PLANT (Note 2):			
Tangible plant		\$2,035,589,436	\$1,850,718,368
Intangible plant		1,212,657	1,178,119
Plant acquisition adjustments		15,544,051	15,544,051
Total utility plant		<u>\$2,052,346,144</u>	<u>\$1,867,440,538</u>
Less reserves for depreciation and amortization		379,607,593	349,957,211
Utility plant—net		<u>\$1,672,738,551</u>	<u>\$1,517,483,327</u>
INVESTMENTS—At cost:			
Capital stock of subsidiaries (Notes 1 and 3)		\$ 17,045,316	\$ 3,705,646
Investment in other physical property		4,335,294	4,998,267
Other investments and non-current receivables		189,362	5,410
Total investments		<u>\$ 21,569,972</u>	<u>\$ 8,709,323</u>
CURRENT ASSETS:			
Cash on hand, demand deposits, and time deposits		\$ 26,857,543	\$ 27,377,967
Temporary cash investments (United States Government securities)—at cost			4,980,100
Miscellaneous special deposits		539,874	483,397
Accounts receivable (less reserve for doubtful accounts: 1954, \$1,512,188; 1953, \$1,391,633)		27,618,820	25,358,777
Materials and supplies (for operations and construction)—at average cost		15,368,650	19,379,825
Total current assets		<u>\$ 70,384,887</u>	<u>\$ 77,580,066</u>
DEFERRED CHARGES:			
Unamortized bond discount and expense (Note 4)		\$ 11,143,653	\$ 10,145,960
Other (Note 6)		4,940,865	5,325,622
Total deferred charges		<u>\$ 16,084,518</u>	<u>\$ 15,471,582</u>
TOTAL		<u>\$1,780,777,928</u>	<u>\$1,619,244,298</u>

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

PACIFIC GAS AND ELECTRIC COMPANY

Balance Sheet, December 31, 1954 and 1953

December 31

LIABILITIES		1954	1953
CAPITAL STOCK (Schedule 1) (Note 5):			
First preferred		\$ 322,064,125	\$ 291,937,975
Common		406,395,275	389,365,675
Excess of premiums received over discount and expense on outstanding shares		49,002,806	42,329,421
Instalments received on preferred stock purchase agreements		178,924	2,972,807
Total capital stock		<u>\$ 777,641,130</u>	<u>\$ 726,605,878</u>
MORTGAGE BONDS (Schedule 2) (Note 4):			
Issued		\$ 771,127,000	\$ 716,580,000
Less in treasury		2,684,000	2,404,000
Mortgage bonds held by public		<u>\$ 768,443,000</u>	<u>\$ 714,176,000</u>
Less estimated additional sinking-fund requirements for year shown among current liabilities		5,027,270	4,762,000
Remainder—Mortgage bonds (less sinking-fund requirements)		<u>\$ 763,415,730</u>	<u>\$ 709,414,000</u>
DUE TO SUBSIDIARY COMPANIES			<u>\$ 253,396</u>
CURRENT LIABILITIES:			
Bank loans		\$ 38,000,000	
Accounts payable		17,737,023	\$ 15,673,349
Drafts outstanding		1,394,279	1,448,089
Dividends payable		8,947,100	8,566,113
Estimated additional sinking-fund requirements for year (Note 4)		5,027,270	4,762,000
Matured mortgage bonds unpaid		424,635	59,775
Bond interest due		244,414	231,361
Accrued bond interest—not due		1,935,855	1,840,614
Customers' meter and line deposits		4,567,188	3,811,984
Accrued taxes for current and prior years (Note 6)		69,114,142	68,135,344
Total current liabilities		<u>\$ 147,391,906</u>	<u>\$ 104,528,629</u>
DEFERRED CREDITS:			
Unamortized premium on bonds (Note 4)		\$ 1,615,255	\$ 1,946,294
Other		43,911	98,078
Total deferred credits		<u>\$ 1,659,166</u>	<u>\$ 2,044,372</u>
RESERVES:			
For insurance and casualties		\$ 1,731,926	\$ 1,277,686
For contingent electric rate refund		567,008	94,625
Total reserves		<u>\$ 2,298,934</u>	<u>\$ 1,372,311</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION		<u>\$ 6,032,500</u>	<u>\$ 4,873,801</u>
SURPLUS:			
Earned surplus:			
Restricted for income taxes payable following period of accelerated amortization (Note 6)		\$ 3,135,620	\$ 517,995
Unrestricted		78,575,725	69,006,699
Total earned surplus		<u>\$ 81,711,345</u>	<u>\$ 69,524,694</u>
Capital surplus		627,217	627,217
Total surplus		<u>\$ 82,338,562</u>	<u>\$ 70,151,911</u>
TOTAL		<u><u>\$1,780,777,928</u></u>	<u><u>\$1,619,244,298</u></u>

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

PACIFIC GAS AND ELECTRIC COMPANY

Capital Stock, December 31, 1954

(SCHEDULE 1)	Description	Shares Authorized	Issued and Outstanding —Held by Public	
			Shares	Amount
FIRST PREFERRED, CUMULATIVE, PAR VALUE \$25 PER SHARE:				
	6%	4,211,662	4,211,662	\$105,291,550
	5½%	1,173,163	1,173,163	29,329,075
	5%	400,000	400,000	10,000,000
	5% redeemable	2,860,977	2,860,977	71,524,425
	5% redeemable—Series A	1,750,000	1,719,388	42,984,700
	4.80% redeemable	1,517,375	1,517,375	37,934,375
	4.50% redeemable	1,000,000	1,000,000	25,000,000
	Redeemable (unclassified in series)	7,086,823		
	TOTAL	20,000,000	12,882,565	\$322,064,125
	COMMON, PAR VALUE \$25 PER SHARE	20,000,000	16,255,811	406,395,275
	TOTAL	40,000,000	29,138,376	\$728,459,400
EXCESS OF PREMIUMS RECEIVED OVER DISCOUNT AND EXPENSE ON OUTSTANDING SHARES (See Note)				49,002,806
INSTALMENTS RECEIVED ON PREFERRED STOCK PURCHASE AGREEMENTS				178,924
TOTAL				<u>\$777,641,130</u>
NOTE: Includes premium recorded in 1954 in connection with the exchange of common and preferred capital stocks in the acquisition of Pacific Public Service Company and its subsidiaries.				

Mortgage Bonds, December 31, 1954

(SCHEDULE 2)	Title of Issue	Interest Rate %	Maturity	Amount Outstanding —Held by Public	Amount Held in Treasury
FIRST AND REFUNDING MORTGAGE (See Note):					
	Series I	3½	June 1, 1966	\$ 927,000	
	Series J	3	Dec. 1, 1970	18,669,000	
	Series K	3	June 1, 1971	23,839,000	
	Series L	3	June 1, 1974	109,548,000	
	Series M	3	Dec. 1, 1979	77,975,000	
	Series N	3	Dec. 1, 1977	48,182,000	
	Series O	3	Dec. 1, 1975	9,850,000	\$ 250,000
	Series P	2¾	June 1, 1981	24,088,000	
	Series Q	2⅞	Dec. 1, 1980	67,434,000	
	Series R	3⅞	June 1, 1982	69,150,000	
	Series S	3	June 1, 1983	74,774,000	
	Series T	2⅞	June 1, 1976	77,475,000	
	Series U	3⅞	Dec. 1, 1985	47,650,000	525,000
	Series W	3⅞	Dec. 1, 1984	57,057,000	1,909,000
	Series X	3⅞	June 1, 1984	61,825,000	
	TOTAL			<u>\$768,443,000</u>	<u>\$2,684,000</u>
CLASSIFICATION IN BALANCE SHEET OF MORTGAGE BONDS:					
SHOWN UNDER CURRENT LIABILITIES—Estimated additional sinking-fund requirements (See Note 4 to the financial statements)				\$ 5,027,270	
SHOWN AS MORTGAGE BONDS				763,415,730	
TOTAL				<u>\$768,443,000</u>	
NOTE: Additional amounts may be issued under the terms of the indentures relating to these bonds.					

PACIFIC GAS AND ELECTRIC COMPANY

Notes to Financial Statements, December 31, 1954

NOTE 1—Financial Statements;

Subsidiary Companies:

In this report the financial statements presented relate to the Company only, by reason of the fact that the net assets and earnings of the subsidiaries are relatively insignificant. As of December 31, 1954 and 1953 the Company's investment in subsidiaries (\$17,045,316 and \$2,326,386 at the respective dates) exceeded its equities in the net assets of the subsidiaries by \$13,696,423 and \$119,267, respectively. The excess in 1954 represents principally the investment in Natural Gas Corporation of California as to which it is believed, based on engineering estimates, that the earnings of this subsidiary will be adequate to amortize the Company's investment over the life of the gas reserve. The Company's equities in the undistributed earnings of the subsidiaries for the years 1954 and 1953 were, respectively, \$23,405 and \$79,739. The amount shown for 1954 does not include equities in undistributed earnings of subsidiaries merged during that year because, in accordance with orders of the California Public Utilities Commission, such equities were applied in reduction of asset values at the merger dates.

In February of 1954 the Company acquired a controlling interest in Pacific Public Service Company, a holding company controlling three subsidiary operating companies. Pacific Public Service Company and one of its subsidiaries, Coast Counties Gas and Electric Company, were merged with the Company on July 30, 1954, and August 31, 1954, respectively. The other two subsidiary companies, Natural Gas Corporation of California, a gas producing company, and Gas Lines, Inc., a gas transportation company, are now wholly-owned subsidiaries of Pacific Gas and Electric Company. During 1954 the Company received \$898,383 in dividends from Pacific Public Service Company and its three subsidiary companies.

NOTE 2—Utility Plant:

The Company maintains its accounts in accordance with the California Public Utilities Commission's uniform systems of accounts prescribed for electrical corporations and for gas corporations, which are substantially the same as those prescribed by the Federal Power

Commission. The major portion of the Company's utility plant, consisting of plant constructed by the Company, is recorded in the accounts at cost to the Company (such cost includes interest and taxes during construction, direct engineering and supervision expenses, and proportions of administrative and general expenses determined by the Company to be applicable to construction). The remainder of its utility plant, consisting of acquisitions of operating units or systems, is recorded in accordance with said systems of accounts at "original cost" (defined as cost to the person first devoting the property to public service) except an amount of \$15,544,051 charged to utility plant acquisition adjustments, representing the excess of cost to the Company over "original cost," which is being amortized out of earnings over the fifteen-year period commenced January 1, 1950.

NOTE 3—Securities Pledged:

The capital stocks of subsidiaries are on deposit and pledged with the California Trustee of the first and refunding mortgage.

NOTE 4—Mortgage Bonds, and Related Sinking Funds, Discount and Expense, and Premiums:

Under the terms of the first and refunding mortgage, the Company is required to make semi-annual sinking-fund payments based upon the aggregate bonded indebtedness outstanding; such sinking-fund payments during the year ending December 31, 1955 will amount to approximately \$7,711,000 as to bonded indebtedness outstanding at December 31, 1954, subject to reduction, in effect, by such amounts as may be received through sale to the sinking-fund Trustee of the treasury bonds held by the Company at December 31, 1954 in the principal amount of \$2,684,000; the net of these amounts, \$5,027,000, is shown among the current liabilities in the accompanying balance sheet.

In general, bond discount and expense, redemption premiums on refunded issues, and sale premiums are being written off over the lives of the various issues to which they pertain, or refunding issues, and such items applicable to bonds reacquired other than through re-

funding operations are cleared to earned surplus at time of reacquisition.

Subsequent to December 31, 1954 the Company filed a Registration Statement covering a proposed offering of \$50,000,000 of Series Y bonds due December 1, 1987.

NOTE 5—Capital Stock:

During November 1954 an employees' stock purchase plan became effective under the terms of which the Company offered 175,000 shares of its \$25 par value 4.50% redeemable first preferred stock on an instalment basis. Purchase agreements covering 147,504 shares with unpaid balances of \$3,535,227 were in effect at December 31, 1954.

At December 31, 1954 the Company had outstanding 4,580,365 shares of 5% redeemable preferred stock, 1,517,375 shares of 4.80% redeemable preferred stock, and 1,000,000 shares of 4.50% redeemable preferred stock. Such shares may be redeemed in whole or in part at the Company's option at any time upon payment of the redemption price plus accumulated and unpaid dividends to the date fixed for redemption.

NOTE 6—Federal Income Tax:

In June 1953 final agreement was reached with the Internal Revenue Service on Federal income tax liability for the years 1946 to 1951, inclusive. Adjustments in allowable depreciation for those years gave rise to additional assessments of Federal income and State franchise taxes, of which the unamortized balance of

\$1,830,322 is included in other deferred charges at December 31, 1954. This balance is to be amortized by charges to income over the period from January 1, 1955 to December 31, 1957 as authorized by the Public Utilities Commission of the State of California.

The Company is amortizing construction completed under Certificates of Necessity on a five-year basis for income tax purposes. During 1954 the Company recorded in its accounts a provision for deferred income taxes, and a surplus account restricted for income taxes payable following the period of accelerated depreciation. The deferred tax liability in the amount of \$517,995 which was accumulated in the accrued tax account prior to 1954 has been reclassified as restricted surplus.

NOTE 7—Commitments and Contingent Liabilities:

At December 31, 1954 the Company had firm commitments in the aggregate amount of about \$38,549,000 in connection with its plant construction program.

The Company closes its accounts promptly as of the end of each month, with the result that there are always unrecorded items of expense from month to month and year to year; at December 31, 1954 the unrecorded liabilities and accruals for expenses were more than offset by the unrecorded and unbilled revenues accrued at that date.

Except as to matters involved in litigation which is considered routine to the Company's operations and certain indemnities given in the normal course of business, there are no known contingent liabilities not provided for by reserves or insurance.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

ALEXANDER BUILDING
155 MONTGOMERY STREET
SAN FRANCISCO 4

ACCOUNTANTS' CERTIFICATE

The Board of Directors of
Pacific Gas and Electric Company:

We have examined the balance sheet of Pacific Gas and Electric Company as of December 31, 1954 and the related statements of net income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Previously we made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and statements of net income and surplus, with their footnotes, present fairly the financial position of the Company at December 31, 1954 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

February 18, 1955.

DEPARTMENTAL ORGANIZATION

H. H. Courtright, S. L. Sibley, A. R. Bailey, *Assistants to Vice-President and General Manager*

DEPARTMENT OF ELECTRIC OPERATION

I. W. Collins, *Assistant to Vice-President in Charge of Electric Operations*

General Superintendents: J. H. Martin, *Power Control*; V. F. Estcourt, *Steam Generation*; J. N. Spaulding, *Water Systems*; W. H. Herbeck, *Hydro Generation*; H. T. Sutcliffe, *Substations*; T. B. Copeland, *Transmission and Distribution*; R. L. Brinton, *Communications*; A. Scott, *System Protection*

DEPARTMENT OF GAS OPERATION

General Superintendents: R. D. Smith, *Transmission and Distribution*; M. A. Richford, *Production and Utilization*; R. T. Peterson, *Gas Control*; K. B. Anderson, *Technical Services*; E. H. Fisher, *Pipe Line Operations*

DEPARTMENT OF GENERAL CONSTRUCTION

H. W. Haberkorn, *Manager of Hydroelectric Construction*
Charles H. Sedam, *Manager of Station Construction*
H. D. Wright, *Manager of Line Construction*
J. A. Love, *Manager of Gas Construction*

DEPARTMENT OF EXECUTIVE ENGINEER

Stanley B. Barton, *Manager Valuation Department*
B. K. Dunshee, *Manager Land Department*
Rudolph Jenny, *Manager Rate Department*

ACCOUNTING AND TAX DEPARTMENTS

L. W. Coughlan, *Assistant Comptroller*
R. N. Dreiman, *Assistant Comptroller*
T. R. Salm, *General Auditor*
Harry McGann, *Auditor of Division Accounts*
D. J. Beaudet, *Auditor of Plant Accounts*
Francis J. Carr, *Manager Tax Department*

*Retired December 31, 1954

DEPARTMENT OF ENGINEERING

C. C. Wheelchel, *Chief Mechanical Engineer*
H. V. Lutge, *Chief Civil Engineer*
W. R. Johnson, *Chief Electric Generation and Transmission Engineer*
C. E. Baugh, *Chief Electric Distribution Engineer*
E. V. Noe, *Chief of Bureau of Specifications and Estimates*
W. N. Lindblad, *Chief of Bureau of Tests and Inspections*

SALES AND COMMERCIAL DEPARTMENT

R. W. Joyce, *Manager Commercial Department*
J. H. Gumz, *Manager Commercial and Industrial Sales*
E. G. Stahl,* *Manager Agricultural Sales*
J. S. C. Ross, *Manager Residential Sales*
R. I. Mendes, *Manager Market Research and Sales Control*
R. L. Hayden, *Manager Customer and Community Services*

LAW DEPARTMENT

P. E. Sloane, F. T. Searls, R. H. Peterson, *Assistant General Counsel*
R. W. White, *Manager Claims and Safety Department*

CREDIT AND COLLECTION DEPARTMENT

F. U. Naylor, *Manager*

PERSONNEL DEPARTMENT

H. F. Carr, *Manager*

AUTOMOTIVE DEPARTMENT

C. R. Stanley, *Manager*

PURCHASES AND STORES DEPARTMENT

F. E. Baxter, *Manager*

ADVERTISING AND PUBLICITY DEPARTMENT

Robert R. Gros, *Manager*

DIVISION MANAGERS

COAST VALLEYS: T. E. Ward, Salinas
COLGATE: F. Y. Kraft, Marysville
DE SABLE: George L. Works, Chico
DRUM: R. A. Cayot, Auburn
EAST BAY: W. H. Park, Oakland
HUMBOLDT: D. F. Villa, Eureka

NORTH BAY: W. F. Pape, San Rafael
SACRAMENTO: L. J. Brundige, Sacramento
SAN FRANCISCO: H. A. Lee, San Francisco
SAN JOAQUIN: A. D. Church, Fresno
SAN JOSE: W. R. Bowler, San Jose
SHASTA: L. H. Smith, Red Bluff

STOCKTON: C. V. Wilbur, Stockton