DOCKET NO.: A-110049
RESPONDENT OR APPLICANT: PG&E ENERGY SERVICES CORP
PARTY OR COMPLAINANT:

ENTRY	TYPE	DATE	BUREAU	PERSONNEL
1	N	09/19/97	SEC	TROUT

APPLICATION OF PG&E ENERGY SERVICES FOR A BROKER/MARKETER LICENSE

2	N	09/23/97	SEC	TROUT

SEC MEMO TO FUS ASSIGNING APPLICATION

3	N	09/23/97	SEC	TROUT

SEC LETTER TO APPLICANT ACKNOWLEDGING RECEIPT OF APPLICATION

4	N	10/23/97	SEC	KEPNER

RECOM ADOPTED-APPLICATION FOR INTERIM LICENSE APPROVED'STATEMENT BLOOM

5	N	10/23/97	SEC	BARBUSH

APPLICANT FILED PROOFS OF PUBLICATION (7)

6	N	10/24/97	SEC	GREGORY

OPINION AND ORDER ISSUED VICE CHAIRMAN BLOOM DISSENTING-STATEMENT ATTACHED

7	N	11/06/97	SEC	BARBUSH

INTERIM LICENSE DATED 11/4/97 ISSUED

8	N	01/16/98	SEC	FRISCIA

RECEIPT OF $350.00 FILING FEE ISSUED

9	N	12/03/97	SEC	HANCOCK

PECO FILED ELECTRIC GENERATION SUPPLY AGREEMENT WITH APPLICANT

10	N	04/23/98	SEC	ADAMS

PG& E ENERGY FILED CORRECTED ADDRESS

11	N	04/28/98	SEC	ADAMS

PG&E ENERGY FILED NEW ADDRESS

12	N	11/24/98	SEC	BARBUSH

SEC LTR ADV INFO NEEDED TO UPDTE LICENSE APP & APPLY FOR PERM LICENSE BY 12/7

13	N	12/04/98	SEC	HANCOCK

APPLICANT FILED LICENSE APPLICATION UPDATE & REQUEST FOR PERMANENT LICENSE

14	N	12/21/98	SEC	HANCOCK

SEC MEMO TO UFS ASSIGNING LICENSE APP UPDATE & REQUEST FOR PERMANENT LICENSE

15	N	12/23/98	SEC	TROUT

SEC LTR TO APP RETURNING OLD U.S. FIDELITY BOND-ACCEPTS NEW FIREMAN'S FUND BND

16	N	12/08/98	SEC	ADAMS

APPL FLD FIREMAN'S FUND BOND #11133363215 REPLACES U.S FIDELITY & GUARNTY BOND

17	N	01/26/99	SEC	HANCOCK

OPINION & ORDER SVD TO PARTIES; VICE CHRMN BLOOM, DISSENT IN PART-STMNT ATTCHD

18	N	01/26/99	SEC	HANCOCK

LICENSE FOR ELECTRIC GENERATION SUPPLIER DATED 1/1/99 ISSUED

19	N	01/14/99	SEC	KEPNER

RECOM ADOPTED-PERMANENT LICENSE GRANTED

20	N	05/09/00	SEC	FRISCIA

APPLICANT FILED LTR RELINQUISHING ELEC GENERATION SUPPLIER LIC EFF IMMEDIATELY

21	N	05/19/00	SEC	FRISCIA

SEC LTR TO APPLI ACK RCPT OF NOTC TO CANCEL LIC;LIC CANCLD,BOND RETURND 90 DYS

22	N	05/22/00	SEC	FRISCIA

FIRMAN'S FUND FLD NOT/CANCELLATION OF APPLI BOND EFF 30 DYS AFTER RECPT OF NOT

23	N	06/04/01	SEC	ADAMS

APPLICANT FILED CHANGE OF CONTACT PERSON & ADDRESS

CAPTION SHEET CASE MANAGEMENT SYSTEM

1. REPORT DATE: 00/00/00
2. BUREAU: FUS
3. SECTION(S):
4. PUBLIC MEETING DATE: 00/00/00
5. APPROVED BY:
   DIRECTOR:
   SUPERVISOR:
6. PERSON IN CHARGE:
7. DATE FILED: 09/19/97
8. DOCKET NO: A-110049
9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: PG&E ENERGY SERVICES CORP

COMP/APP COUNTY: UTILITY CODE: 110049

ALLEGATION OR SUBJECT

APPLICATION OF PG&E ENERGY SERVICES CORPORATION FOR APPROVAL TO OFFER, RENDER, FURNISH OR SUPPLY ELECTRICITY OR ELECTRIC GENERATION SERVICES AS A BROKER/MARKETER ENGAGED IN THE BUSINESS OF SUPPLYING ELECTRICITY TO THE PUBLIC IN THE COMMONWEALTH OF PENNSYLVANIA.

DOCKETED
SEP 23 1997

DOCUMENT
FOLDER

PG&E Energy Services

A-110049

September 19, 1997

RECEIVED

SEP 19 1997

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

James J. McNulty
Acting Secretary
Pennsylvania Public Utilities Commission
B-20 North Office Building
Harrisburg, PA 17120

Dear Mr. McNulty

Enclosed for filing are original and eight copies of the Application of PG&E Energy Services for certification as an Electric Service Provider in Pennsylvania. We are also serving a copy of the Application on each person designated by the Commission to receive such service copy. Please file stamp and return one copy of the Application to us.

Thank you for your attention to this matter.

Sincerely,

Jennifer Chamberlin

Jennifer Chamberlin

JC

DOCUMENT FOLDER

353 Sacramento Street - Suite1900 - San Francisco, California 94111 Phone: 415.217.6400 Fax: 415.217.6473 A PG&E Company

ORIGINAL

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

RECEIVED

SEP 19 1997

PA PUBLIC UTILITY COMMISSION
PROTHONOTARY'S OFFICE

Application of PG&E Energy Services Corporation
d/b/a ______________________, for approval
to offer, render, furnish, or supply electricity or electric
generation services as a(n)
[as specified in item 10 below]
to the public in the Commonwealth of Pennsylvania.

Application Docket No.
A-110049
F ________
19 ___

To the Pennsylvania Public Utility Commission:

1. **IDENTITY OF THE APPLICANT:** The name, address, telephone number, and FAX number of the Applicant are:

PG&E Energy Services Corporation
353 Sacramento Street, Suite 1900
San Francisco, CA 94111
Tel: (415) 217-6400
Fax: (415) 217-6473

DOCKETED
SEP 23 1997

Please identify any predecessor(s) of the Applicant and provide other names under which the Applicant has operated within the preceding five (5) years, including name, address, and telephone number.

Vantus Energy Corporation (Former name)
353 Sacramento Street, Suite 1900
San Francisco, CA 94111
Tel: (415) 217-6400
Fax: (415) 217-6473

2. a. **CONTACT PERSON:** The name, title, address, telephone number, and FAX number of the person to whom questions about this Application should be addressed are:

Harold T. Judd
Chief Counsel
One Capitol Street
Concord, NH 03301
Tel: (603) 229-1644
Fax: (603) 225-4923

DOCUMENT
FOLDER

b. **CONTACT PERSON-PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY:** The name, title, address telephone number and FAX number of the person with whom contact should be made by PEMA:

William Talbot
Manager of Trading Operations
353 Sacramento Street, Suite 1900
San Francisco, CA 94111
Tel: (415) 217-6400
Fax: (415) 217-6473

3.a. **ATTORNEY:** If applicable, the name, address, telephone number, and FAX number of the Applicant's attorney are: Douglas A. Oglesby, Vice President, General Counsel

3.a. **ATTORNEY:** If applicable, the name, address, telephone number, and FAX number of the Applicant's attorney are:

Douglas A. Oglesby, Vice President, General Counsel
PG&E Energy Services
353 Sacramento Street, Suite 1900
San Francisco, CA 94111
Tel: (415) 217-6400
Fax: (415) 217-6473

b. REGISTERED AGENT: If the Applicant does not maintain a principal office in the Commonwealth, the required name, address, telephone number and FAX number of the Applicant's Registered Agent in the Commonwealth are:

PG&E Energy Services
7 Parkway Center, Suite 615
Pittsburgh, PA 15220
Tel: (415) 928-0245
Fax: (415) 928-0233

4. **FICTITIOUS NAME:** (select and complete appropriate statement)

☐ The Applicant will be using a fictitious name or doing business as ("d/b/a"):

Attach to the Application a copy of the Applicant's filing with the Commonwealth's Department of State pursuant to 54 Pa. C.S. §311, Form PA-953.

or

x ☐ The Applicant will not be using a fictitious name.

5. **BUSINESS ENTITY AND DEPARTMENT OF STATE FILINGS:** (select and complete appropriate statement)

☐ The Applicant is a sole proprietor.

If the Applicant is located outside the Commonwealth, provide proof of compliance with 15 Pa. C.S. §4124 relating to Department of State filing requirements.

or

☐ The Applicant is a:

- ☐ domestic general partnership (*)
- ☐ domestic limited partnership (15 Pa. C.S. §8511)
- ☐ foreign general or limited partnership (15 Pa. C.S. §4124)
- ☐ domestic limited *liability partnership (15 Pa. C.S.* §8201)
- ☐ foreign limited liability general partnership (15 Pa. C.S. §8211)
- ☐ foreign limited liability limited partnership (15 Pa. C.S. §8211)

Provide proof of compliance with appropriate Department of State filing requirements as indicated above.

Give name, d/b/a, and address of partners. If any partner is not an individual, identify the business nature of the partner entity and identify its partners or officers.

☐ * If a corporate partner in the Applicant's domestic partnership is not domiciled in Pennsylvania, attach a copy of the Applicant's Department of State filing pursuant to 15 Pa. C.S. §4124.

or

X☐ The Applicant is a :

- X☐ domestic corporation (none)
- ☐ foreign corporation (15 Pa. C.S. §4124)
- ☐ domestic limited liability company (15 Pa. C.S. §8913)
- ☐ foreign limited liability company (15 Pa. C.S. §8981)
- ☐ Other ______________________________

Provide proof of compliance with appropriate Department of State filing requirements as indicated above. Additionally, provide a copy of the Applicant's Articles of Incorporation.

Give name and address of officers.

Please see attached list.

The Applicant is incorporated in the state of California.

6. **AFFILIATES AND PREDECESSORS WITHIN PENNSYLVANIA:** (select and complete appropriate statement)

X☐ Affiliate(s) of the Applicant doing business in Pennsylvania are:

US Generating Company
7500 Old Georgetown Rd., Suite 1300
Bethesda, MD 20814

PG&E Energy Trading
1100 Louisiana, Suite 100
Houston, TX 77002

Neither affiliate is a jurisdictional public utility.

State of California
SECRETARY OF STATE

1897879

CORPORATION DIVISION

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the annexed transcript has been compared with the corporate record on file in this office, of which it purports to be a copy, and that same is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this

APRIL 28, 1995

Bill Jones

Secretary of State

SEC/STATE FORM CE-107 (REV. 12/94)

1897879

ENDORSED
FILED
in the office of the Secretary of State
of the State of California

APR 27 1995

BILL JONES, Secretary of State

ARTICLES OF INCORPORATION OF VANTUS ENERGY CORPORATION

FIRST

The name of this corporation is Vantus Energy Corporation.

SECOND

The purpose of the corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

THIRD

The name and business address in this state of the corporation's initial agent for service of process is Stuart W. Booth, 444 Market Street, 19th Floor, San Francisco, California 94111.

FOURTH

This corporation is authorized to issue only one class of shares, which shall be designated "common" shares. The total authorized number of shares which may be issued is 10,000 shares. No distinction shall exist between the shares of the corporation.

FIFTH

The shares of stock may be offered for sale for money or in exchange for property, from time to time upon such terms and conditions as the board of directors may prescribe.

SIXTH

This corporation shall have two directors. The names and addresses of the persons appointed as the initial directors are:

Tony F. DiStefano
444 Market Street, 19th Floor
San Francisco, CA 94111

Stuart W. Booth
444 Market Street, 19th Floor
San Francisco, CA 94111

SEVENTH

The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

EIGHTH

The corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaws, resolutions, agreements with agents, vote of shareholders or disinterested directors, or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code.

IN WITNESS WHEREOF, the undersigned, who are the above-named initial directors of this corporation, have executed these Articles of Incorporation on April 25, 1995.

Tony F. DiStefano

Stuart W. Booth

We, and each of us, declare:

1. We are the persons whose names are subscribed below.

2. We collectively are all of the initial directors named in the foregoing Articles of Incorporation.

3. The foregoing Articles of Incorporation are our act and deed, jointly and severally.

Executed on April 25, 1995.

Tony F. DiStefano

Stuart W. Booth

PG&E Energy Services Officers

Samuel F. Barakat
Vice President, Products
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Stuart W. Booth
Treasurer
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

John H. Chamberlin
Vice President, Products
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Richard Comerford
Regional Vice President, Northeast Region
15604 Warm Springs Court
Charlotte, NC 28278

James Davis
Senior Vice President, Integrated Sales
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Paul DeMartini
Vice President, Retail Power Services
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

William R. Doucette
Senior Vice President, Gas Field Sales
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Domenic Falcone
Vice President, Finance/Controller
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Grant A. Farris
Senior Vice President, Operations & Customer Service
10375 Richmond, Suite 300
Houston, TX 77042

Scott W. Gebhardt
President & CEO
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Anthony Harris
Vice President, California Sales
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Jeffery Jacobs
Regional Vice President, Central Region
7500 Old Georgetown Road, Suite 1300
Bethesda, MD 20814

James A. Josephson
Vice President, Indirect Sales
1506 Warm Springs Court
Charlotte, NC 28278

Johnathan H. Keast
Vice President, Chief Information Officer
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Dale A. Murdock
Senior Vice President, Power Sales
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Laura L. Murrell
Vice President, Regulatory
4400 Post Oak Parkway, 10th Floor
Houston, TX 77027

Douglas A. Oglesby
Vice President & General Counsel, Secretary
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

William E. Roth
Senior Vice President, National Account Sales
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

☐ If the Applicant or an affiliate has a predecessor who has done business within Pennsylvania, give name and address of the predecessor(s) and state whether the predecessor(s) were jurisdictional public utilities.

or

☐ The Applicant has no affiliates doing business in Pennsylvania or predecessors which have done business in Pennsylvania.

7. **APPLICANT'S PRESENT OPERATIONS:** (select and complete the appropriate statement)

☐ The Applicant is presently doing business in Pennsylvania as a

- ☐ *vertically-integrated provider of generation, transmission, and distribution services.*
- ☐ municipal electric corporation providing service outside its municipal limits.
- ☐ electric cooperative
- ☐ local gas distribution company
- ☐ *nonintegrated provider of electric generation, transmission or distribution services.*
- X☐ Other. (Identify the nature of service being rendered.)

PG&E Energy Services is currently operating in Pennsylvania as a gas marketer.

or

☐ The Applicant is not presently doing business in Pennsylvania.

8. **APPLICANT'S PROPOSED OPERATIONS:** The Applicant proposes to operate as a:

- ☐ Generator and supplier of electric power.
- ☐ Municipal generator and supplier of electric power.
- ☐ Electric Cooperative and supplier of electric power
- X☐ Broker/Marketer engaged in the business of supplying electricity.
- ☐ Aggregator engaged in the business of supplying electricity

9. **PROPOSED SERVICES:** Generally describe the electric services or the electric generation services which the Applicant proposes to offer.

Marketing and sale of energy products and services, including energy commodity, at retail.

10. **SERVICE AREA:** Generally describe the geographic area in which Applicant proposes to offer services.

The state of Pennsylvania.

11. **CUSTOMERS:** Applicant proposes to initially provide services to:

- ❑ Residential Customers
- x❑ Commercial Customers
- x❑ Industrial Customers
- x❑ Governmental Customers
- ❑ All of above
- ❑ Other (Describe):

12 **FERC FILING**: Applicant has:

❑ Filed an Application with the Federal Energy Regulatory Commission to be a Power Marketer.

x❑ Received approval from FERC to be a Power Marketer at Docket or Case Number _ER 95-1614-000. (Through wholly-owned subsidiary PG&E Energy Services, Energy Trading Corporation) _

13. **START DATE:** The Applicant proposes to begin delivering services on _November 1997.___ (approximate date).

14. **FURTHER DEVELOPMENTS:** Applicant is under a continuing obligation to amend its application if substantial changes occur in the information upon which the Commission relied in approving the original filing.

15. **NOTICE:** Pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14, serve a copy of the signed and verified Application with attachments on the following:

Irwin A. Popowsky
Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Bernard A. Ryan, Jr.
Commerce Building, Suite 1102
Small Business Advocate
300 North Second Street
Harrisburg, PA 17101

Office of the Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Pursuant to Sections 1.57 and 1.58 of the Commission's Regulations, 52 Pa. Code §§1.57 and 1.58, attach Proof of Service of the Application and attachments upon the above named parties. Upon review of the Application, further notice may be required pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14.

16. **AFFIDAVIT AS TO SERVICE AND FITNESS:** Attach to the Application an affidavit as follows:

AFFIDAVIT

State of California :

: ss.

County of San Francisco :

Douglas A. Oglesby, Affiant, being duly affirmed according to law, deposes and says that:

He is the Vice President, General Counsel & Secretary of PG&E Energy Services Corporation;

That he is authorized to and does make this affidavit for said Applicant;

That PG&E Energy Services Corporation, the Applicant herein, acknowledges that PG&E Energy Services Corporation may have obligations pursuant to this Application consistent with the Public Utility Code of the Commonwealth of Pennsylvania, Title 66 of the Pennsylvania Consolidated Statutes; or with other applicable statutes or regulations including Emergency Orders which may be issued verbally or in writing during any emergency situations that may unexpectedly develop from time to time in the course of doing business in Pennsylvania.

That PG&E Energy Services Corporation, the Applicant herein, asserts that it possesses the requisite technical, managerial, and financial fitness to render electric service within the Commonwealth of Pennsylvania and that the Applicant will abide by all applicable federal and state laws and regulations and by the decisions of the Pennsylvania Public Utility Commission.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief and that he expects said Applicant to be able to prove the same at any hearing hereof.

Douglas A. Oglesby, Vice President, General Counsel & Secretary

Sworn and subscribed before me this 18th day of September, 1997.

NICOLE L. ARNELLE
Comm. # 1040339
NOTARY PUBLIC - CALIFORNIA
City and County of San Francisco
My Comm. Expires Sept. 30, 1998

Nicole L. Arnelle

My commission expires September 30, 1998.

17. **TAXATION:** Provide the State Tax Account number or similar number of the Applicant . _6938641_

In certification that the supplier will pay in full all taxes due from the supplier as required by 66 Pa. C.S. Section 2809 (C)(1)(II)(IV), the Applicant will attach to the Application and affidavit as follows:

AFFIDAVIT

State of California :

: ss.

County of San Francisco :

Douglas A. Oglesby, Affiant, being duly affirmed according to law, deposes and says that:

That he is the Vice President, General Counsel & Secretary of PG&E Energy Services Corporation;

That he is authorized to and does make this affidavit for said Applicant;

That PG&E Energy Services Corporation, the Applicant herein, certifies to the Commission that it is subject to, will pay and in the past has paid, the full amount of taxes imposed by Articles II and XI of the Act of March 4, 1971, (P.L. 6, No.. 2), known as the Tax Reform Act of 1971 and any tax imposed by Chapter 28 of Title 66. The Applicant acknowledges that failure to pay such taxes or otherwise comply with the taxation requirements of Chapter 28, shall be cause for the Commission to revoke the license of the Applicant. The Applicant acknowledges that it shall provide to the Commission its jurisdictional Gross Receipts and power sales for ultimate consumption, for the previous year or as otherwise required by the Commission and is subject to Title 66, Section 506.

As provided by Section 2810 (C)(6)(IV), Applicant, by filing of this application waives confidentiality with respect to its state tax information in the possession of the Department of Revenue, regardless of the source of the information, and shall consent to the Department of Revenue providing that information to the Pennsylvania Public Utility Commission.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief and that he expects said Applicant to be able to prove the same at any hearing hereof. .

Douglas A. Oglesby

Douglas A. Oglesby, Vice President, General Counsel & Secretary

Sworn and subscribed before me this 18 day of September, 1997.

NICOLE L. ARNELLE
Comm. # 1040339
NOTARY PUBLIC · CALIFORNIA
City and County of San Francisco
My Comm. Expires Sept. 30, 1998

Nicole L. Arnelle

Nicole L. Arnelle

My commission expires September 30, 1998.

18. **COMPLIANCE:** State specifically whether the Applicant, an affiliate, a predecessor of either, or a person identified in this Application has been convicted of a crime involving fraud or similar activity. Identify all proceedings, by name, subject and citation, dealing with business operations, in the last five (5) years, whether before an administrative body or in a judicial forum, in which the Applicant, an affiliate, a predecessor of either, or a person identified herein has been a defendant or a respondent. Provide a statement as to the resolution or present status of any such proceedings.

No.

19. **STANDARDS, BILLING PRACTICES, TERMS AND CONDITIONS OF PROVIDING SERVICE AND CONSUMER EDUCATION:** Electricity should be priced in clearly stated terms to the extent possible. Common definitions should be used. All consumer contracts or sales agreements should be written in plain language with any exclusions, exceptions, add-ons, package offers, limited time offers or other deadlines prominently communicated. Penalties and procedures for ending contracts should be clearly communicated.

a. Contacts for Consumer Service and Complaints: Provide the name, title, address, telephone number and FAX number of the person and an alternate person responsible for addressing customer complaints. These persons will ordinarily be the initial point(s) of contact for resolving complaints filed with Applicant, the Electric Distribution Company, the Pennsylvania Public Utility Commission or other agencies.

Alan Schurr, General Manager, Mass Markets
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

William Talbot
Manager of Trading Operations
353 Sacramento Street, Suite 1900
San Francisco, CA 94111

Consumer service questions and complaints will be handled through our customer service center: (888) 743-3900.

b. Provide a copy of all standard forms or contracts that you use, or propose to use, for service provided to residential customers.

We do not currently plan to provide service to residential customers.

c. Attach to the Application an Affidavit as follows:

AFFIDAVIT

State of California :

: ss.

County of San Francisco :

Douglas A. Oglesby, Affiant, being duly affirmed according to law, deposes and says that:

He is the Vice President, General Counsel & Secretary of PG&E Energy Services Corporation;

That he is authorized to and does make this affidavit for said Applicant;

That PG&E Energy Services Corporation, the Applicant herein, acknowledges that it has a statutory obligation to conform with 66 PA. C.S. Section 506, 2807 (C), 2807(D)(2), 2809(B) and the standards and billing practices of 52 PA. Code Chapter 56.

That the Applicant agrees to provide all consumer education materials and information in a timely manner as requested by the Bureau of Public Liaison or other Commission bureaus. Materials and information requested may be analyzed by the Commission or designee to meet obligations under applicable sections of the law.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief and that he expects said Applicant to be able to prove the same at any hearing hereof.

Douglas A. Oglesby

Douglas A. Oglesby, Vice President & General Counsel

Sworn and subscribed before me this 16th day of September, 19 97.

NICOLE L. ARNELLE
Comm. # 1040339
NOTARY PUBLIC - CALIFORNIA
City and County of San Francisco
My Comm. Expires Sept. 30, 1998

Nicole L. Arnelle

Nicole L. Arnelle

My commission expires September 30, 1998.

20. **BONDING:** In accordance with 66 PA. C.S. Section 2809(C) (1)(I), the Applicant is:

X ☐ Furnishing a copy of initial bond , letter of credit or proof of bonding to the Commission in the amount of $250,000.

☐ Furnishing proof of other initial security for Commission approval, to ensure financial responsibility.

☐ Filing for a modification to the $250,000 and furnishing a copy of an initial bond, letter of credit or proof of bonding to the Commission for the amount of $__________. Applicant is required to provide information supporting an amount less than $250,000.

At the conclusion of Applicant's first year of operation or when a permanent license is issued, whichever comes first, it is the intention of the Commission to tie security bonds to a percentage of Applicant's gross receipts resulting from the sale of generated electricity consumed in Pennsylvania. The amount of the security bond will be reviewed and adjusted on an semi-annual basis.

21. **FALSIFICATION:** The Applicant understands that the making of false statement(s) herein may be grounds for denying the Application or, if later discovered, for revoking any authority granted pursuant to the Application. This Application is subject to 18 Pa. C.S. §§4903 and 4904, relating to perjury and falsification in official matters.

22. **TRANSFER OF LICENSE:** The Applicant understands that if it plans to transfer its license to another entity, it is required to request authority from the Commission for permission prior to transferring the license. See 66 Pa. C.S. Section 2809(D). Transferee will be required to file the appropriate licensing application.

23. **ASSESSMENT:** The Applicant acknowledges that Title 66, Chapter 5, Section 510 grants to the Commission the right to make assessments to recover regulatory expenses and that as a supplier of electricity or an electric generation supplier it will be assessed under that section of the Pennsylvania Code. The Applicant also acknowledges that the continuation of its license as a supplier of electricity or an electric generation supplier will be dependent upon the payment of all prior years assessments.

24. **FINANCIAL FITNESS:**

A. *Applicant shall provide sufficient information to demonstrate financial fitness commensurate with the* service proposed to be provided. Examples of such information which may be submitted include the following:

- Actual (or proposed) organizational structure including parent, affiliated or subsidiary companies.
  Please see attached.
- Published parent company financial and credit information.
  Please see attached. (Parent Company)
- Applicant's balance sheet and income statement for the most recent fiscal year. Published financial information such as 10K's and 10Q's may be provided, if available.
  Please see attached. (Parent Company)
- Evidence of Applicant's credit rating. Applicant may provide a copy of its Dun and Bradstreet Credit Report and Robert Morris and Associates financial form or other independent financial service reports.
- A description of the types and amounts of insurance carried by Applicant which are specifically intended to provide for or support its financial fitness to perform its obligations as a licensee.
  Please see attached.
- Such other information that demonstrates Applicant's financial fitness.

CREDIT REFERENCES

Dunn & Bradstreet

Dunns# 941565582

Federal Tax ID#

94-3240290

Bank References

Mellon Bank
20 Cabot Road
Medford, MA 02155
(617) 382-4916
Contact - Cynthia Mercer
Account # 064912

Trade References

Illinova Energy Partners
6955 Union Park Center, Suite 300
Salt Lake City, UT 84047
(801) 568-0100

Koch Energy Trading, Inc.
P.O. Box 730253
Dallas, TX 75373-0253
(713) 229-5450

PacifiCorp Wholesale
825 NE Multinomah, 540 Lct
Portland, OR 97232
(503) 464-6854

Southern Energy Trading & Marketing, Inc.
900 Ashwook Parkway, Suite 310
Atlanta, GA 30338
(800) 2557364

Dow Jones News Service
August 7, 1997

PG&E, Units, Ratings Affirmed by S&P; Outlooks Unchanged

NEW YORK (Dow Jones) – Standard & Poor's said it affirmed its ratings on PG&E Corp. and all of its subsidiaries.

The ratings outlook on PG&E Corp. remains stable, the outlook on Pacific Gas and Electric Co. (PacGas) remains positive, and the outlook on Pacific Gas Transmission Co. remains stable, the ratings agency said.

S&P said the affirmation is in response to Wednesday's announcement that PG&E Corp.'s subsidiary, U.S. Generating Co. (US Gen) has agreed to acquire a portfolio of non-nuclear electric generation assets and power supply contracts from New England electric System (NES) for approximately $1.59 billion in cash.

S&P said the ratings at PG&E Corp. reflect the consolidated credit quality of its subsidiaries, one of which is US Gen. The ratings and stable outlook had anticipated continued investment in the natural gas transmission, energy marketing, and other related energy businesses. As such, the announcement of the intended transaction with NES does not impair credit quality, to the extent that nonregulated activities are deemed to be investment grade, S&P said.

RATINGS AFFIRMED BY S&P

PG&E Corp.	
Corporate credit rating	A
Commercial paper	A-1
Bank Loan	A
(Outlook: Stable)	
Pacific Gas and Electric Co.	
Corporate credit rating	A+
Senior secured debt	A+
Senior unsecured debt	A
Preferred stock	A
Preferred stock shelf (prelim)	A
Commercial paper	A-1
Bank loan	A
Pacific Energy Fuels Co.	
Commercial paper	A-1
(Outlook: Positive)	
Pacific Gas Transmission Co.	
Senior unsecured debt	A-
Commercial paper	A-2
(Outlook: Stable)	

PR Newswire
August 7, 1997

Pacific Gas and Electric Unaffected by Acquisition News, Says Fitch

NEW YORK, Aug. 7/PRNewswire/ -- Pacific Gas and Electric Co.'s 'A' rated first mortgage bonds will not be adversely affected by U.S. Generation Co.'s (US Gen) agreement to acquire New England Electric System's (NEES) non-nuclear generating assets and power supply contracts for $1.6 billion, say Fitch analysts. The acquisition will temporarily increase the consolidated leverage of PG&E Corp., parent company of Pacific Gas & Electric Co. and US Gen. However, PG&E Corp. will benefit from strong cash inflows resulting from industry restructuring and should be able to enhance its equity capitalization over a two to three year period.

PG&E Corp.'s purchase of the NEES assets continues a string of energy asset acquisitions in the past 10 months. Other announced acquisitions include: Teco Pipeline Co.; the natural gas pipelines, processing and storage facilities of Valero Energy Corp.; and the buyout of Bechtel Enterprises, Inc.'s interest in US Gen. Through such acquisitions, PG&E Corp. is positioning itself to become a nationwide energy provider and marketer.

Fitch will continue to review Pacific Gas & Electric Co. for any benefits it may derive from industry restructuring and from the sale of its fossil generating plants.

Business Wire
August 7, 1997

PG&E Corp., Ratings Afrmd by S&P After Anncmnt

NEW YORK – (Business Wire) – Standard and Poor's CreditWire 8/7/97 – Standard and Poor's today has affirmed its ratings on PG&E Corp. and all of its subsidiaries (see below).

The ratings outlook on PG&E Corp. remains stable, the outlook on Pacific Gas and Electric Co. (PacGas) remains positive, and the outlook on Pacific Gas Transmission Co. remains stable.

At March 31, 1997, $7.7 billion of debt was outstanding. The affirmation is in response to the Aug. 6 announcement that PG&E Corp.'s subsidiary, U.S. Generating Co. (US Gen) has agreed to acquire a portfolio of non-nuclear electric generation assets and power supply contracts from New England Electric Systems (NES) fro approximately $1.59 billion in cash. The transaction is expected to close in 1998.

The affirmation of the ratings takes several circumstances/assumptions into account. Importantly, the dominant operating entity, Pacific Gas & Electric Co. (PacGas) is considered largely insulated from affiliate, nonregulated activities due to the oversight of the California Public Utilities Commission (CPUC), as well as California law, which prohibits utilities form incurring or guaranteeing debt for nonutility affiliates. Additionally, the CPUC regulates the utilities capital structure, limiting the dividends it pays PG&E Corp. Still, Standard & Poor's is wary of debt incurred at the holding company level, as this is viewed as being serviced by the operating subsidiaries. However, given the temporary nature of the debt at PG&E Corp., it does not negatively impact the creditworthiness of PacGas. Standard & Poor' expectation is that the commercial paper at PG&E Corp. will be paid down within two years.

Ratings at PG&E Corp. reflect the consolidated credit quality of its subsidiaries, one of which is US Gen. The ratings and stable outlook had anticipated continued investment in the natural gas transmission, energy marketing, and other related energy businesses. As such, the announcement of the intended transaction with NEX does not impair credit quality, to the extent that nonregulated activities are deemed to be investment grade. In addition, the magnitude of non-utility operation is still moderate relative to the consolidated entity. The acquisition will be funded with $750 million of equity from PG&E Corp. (initially through commercial paper issuance), and the remainder with project debt and debt at the US Gen corporate level. Given the time frame of an expected close in 1998, details of the financing structure has not been finalized. – CreditWire

RATINGS AFFIRMED

<u>PG&E Corp.</u>

Corporate credit rating	A
Commercial paper	A-1
Bank Loan	A
(Outlook: Stable)	

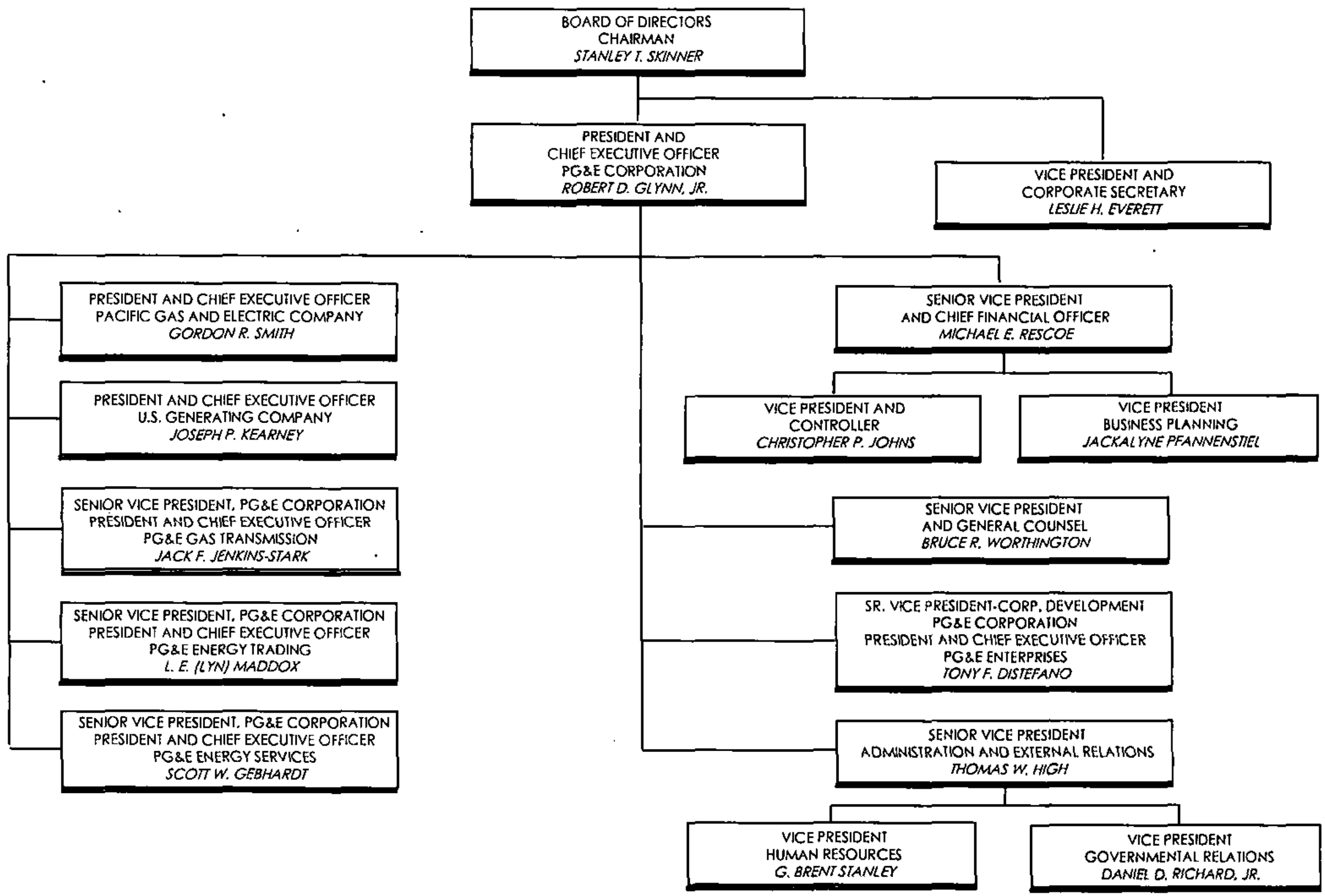
<u>Pacific Gas and Electric Co.</u>

Corporate credit rating	A+
Senior secured debt	A+
Senior unsecured debt	A
Preferred stock	A
Preferred stock shelf (prelim)	A
Commercial paper	A-1
Bank loan	A

Pacific Energy Fuels Co.	
Commercial paper	A-1
(Outlook: Positive)	
Pacific Gas Transmission Co.	
Senior unsecured debt	A-
Commercial paper	A-2
(Outlook: Stable)	

PG&E Corporation

CORPORATE ORGANIZATION



Rev. 9/2/97

PG&E ENERGY SERVICES
OUTLINE OF INSURANCE

Property*

Description	All property owned by the insured or in the insured's care, custody or control unless otherwise excluded (includes builder's risk)
Policy Period	October 1, 1996 to October 1, 1997
Insurance Co.	Zurich American Insurance Company (U.S.)
Broker	Aon
Limits	$10 million (to replacement cost values)

Liability

Description	Covers bodily injury and property damage liability to third parties.
Policy Period	October 1, 1996 to October 1, 1997
Insurance Co.	Federal Insurance (Chubb)
Broker	Aon
Limits	$10 million

Auto

Description	Covers bodily injury, property damage, for owned, non-owned and hired vehicles.
Policy Period	October 1, 1996 to October 1, 1997
Insurance Co.	Wausau Underwriters Insurance Company
Broker	Aon
Limits	$10 million

Workmans Compensation

Description	Covers bodily injury by accident or disease sustained by an employee a arising out of and in the course of employment for the Insured.
Policy Period	October 1, 1996 to October 1, 1997
Insurance Co.	Wausau Underwriters Insurance Company
Broker	Aon
Limits	Per statute

Employer's Liability

Description	Covers bodily injury by accident or disease sustained by an employee arising out of and in the course of employment for the Insured.
Policy Period	October 1, 1996 to October 1, 1997
Insurance Co.	Federal Insurance (Chubb)
Broker	Aon
Limits	$2 million

B. Applicant must provide the following information:

- Identify Applicant's chief officers including names and their professional resumes.
  Domenic Falcone
  Please see attached resume
- Provide the name, title, address, telephone number and FAX number of Applicant's custodian for its accounting records.
  Vanessa White
  Accounting Manageer
  345 California Street, Suite 2600
  San Francisco, CA 94111
  Tel (415) 217-6400
  Fax (415) 984-5740

25. **TECHNICAL FITNESS:** To ensure that the present quality and availability of service provided by electric utilities does not deteriorate, the Applicant shall provide sufficient information to demonstrate technical fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- The identity of the Applicant's officers directly responsible for operations, including names and their professional resumes.
  Dale Murdock
  Please see attached resume.

- General information concerning the energy sources to be employed by the Applicant in providing services.

  We will obtain energy from a variety of sources including: our affiliates PG&E Energy Trading and US Generating, and through market transactions.

- Documentation of membership in ECAR, MAAC or other regional reliability councils.
  Please see attached.

- An affidavit stating that you will adhere to the reliability protocols of the North American Electric Reliability Council, the appropriate regional reliability council(s), and the Commission, and that you agree to comply with the operational requirements of the control area(s) within which you provide retail service.

26. **UNIFORM STANDARDS OF CONDUCT AND DISCLOSURE:** As a condition of receiving a license, Applicant agrees to conform to any Uniform Standards of Conduct and Disclosure as set forth by the Commission.

27. **REPORTING REQUIREMENTS**: Applicant agrees to provide the following information to the Commission or the Department of Revenue, as appropriate:

a. Reports of Gross Receipts: Applicant shall report its Pennsylvania intrastate gross receipts to the Commission on a quarterly and year to date basis no later than 30 days following the end of the quarter.

b. The Treasurer or other appropriate officer of Applicant shall transmit to the Department of Revenue by March 15, an annual report, and under oath or affirmation, of the amount of gross receipts received by Applicant during the prior calendar year.

c. Applicant shall report to the Commission the following information on an annual basis:

- the percentages of total electricity supplied by each fuel source

Applicant will provide fuel source information to the extent that such information is reasonably available to the applicant. Fuel source information is not normally available when electricity supply is from other marketers.

Domenic J. Falcone, CPA
Vice President and Chief Financial Officer
PG&E Energy Services

Mr. Falcone brings more than 25 years of experience in developing financing for the energy, equipment leasing, and infrastructure industries (i.e., water supply, wastewater treatment, and solid waste). Both as a consultant and as a corporate officer, Mr. Falcone helped arrange and negotiate numerous complex, multimillion dollar joint ventures and financing transactions.

Before joining the Company he served as president of Creston Financial Group, which for five years provided project fianancing and financial consulting services to the independent power, cogeneration, wastewater and solid waste industries. He was, concurrently, a special consultant to Barakat & Chamberlin, Inc. Earlier, Mr. Falcone served 18 years at a publicly traded geothermal company. There he held several senior management and officer positions and was a member of the Board of Directors. He was responsible for the general management of company operations and for negotiation of project and equipment financings, mergers and acquisitions, and joint venture activities.

Mr. Falcone has been deeply involved with the independent power industry. He provided testimony on tax legislation before committees of the U.S. Senate and House of Representatives. He was the 1991 recipient of the Joseph W. Aidlin Award for Outstanding Contribution to the Geothermal Resources Council and to Development of Geothermal Energy.

Mr. Falcone earned a B.S. in economics from Villanova University. Mr. Falcone is a Certified Public Accountant and a California Real Estate Broker.

DALE A. MURDOCK
Senior Vice President, Power Services
PG&E Energy Services

Mr. Murdock is responsible for electric and gas energy portfolio management, including procurement, sales, delivery management, pricing and risk management. He is also involved in product and business development.

Mr. Murdock has been with PG&E Energy Services since the company's inception in early 1995. Prior to joining PG&E Energy Services, he accumulated 18 years of experience in electric power generation, fuels management and procurement, wholesale electric energy trading and strategic planning.

Prior to coming to PG&E Energy Services Energy, Mr. Murdock most recently served as Manager of Power Generation Fuels and Planning at Pacific Gas and Electric Company (PG&E), where he managed an electric generation fuel portfolio, including planning, procurement and risk management for annual fuel purchase contracts of over $500 million. Mr. Murdock was responsible planning and scheduling procurement of natural gas for PG&E's 6,000 mW of oil and natural gas-fired generation. In addition, Mr. Murdock was also responsible for managing PG&E's inventory of over 3 million barrels of low sulfur fuel oil.

Mr. Murdock also served as Manager of Energy Trading and Power Market Planning. In this role, he was responsible for managing PG&E's portfolio of electric energy supply, including scheduling and dispatch of PG&E's roughly 10,000 mW of generation facilities and over 5,000 mW of power purchases. He was also responsible for procuring and managing transmission capacity necessary to support management of the electric supply portfolio. Mr. Murdock was responsible for power market analysis and market strategy development for the wholesale electric markets in the western United States.

As Manager of PG&E's Qualifying Facilities Contracts Department, Mr. Murdock developed policies and negotiated contracts for over 4500 MW of non-utility power. These Independent Power Producer contracts involved complex financial modeling and tariff analyses, as well as interpretation of complex regulatory restrictions and requirements.

Mr. Murdock served as Plant Manager at PG&E's Pittsburg Power Plant. Located near San Francisco, Pittsburg Power Plant is a 2000 mW facility, capable of meeting the energy needs of approximately 2 million electric customers. The facility consisted of 7 large natural gas or oil fired steam generating units, ranging individually in size from 165 mW to 750 mW with a full time operations, maintenance and engineering staff of 275. Mr. Murdock was responsible for all aspects of plant operations requiring an average annual O&M budget of $40 million and annual capital investment budgets of up to $60 million. As Plant Manager at Pittsburg, Mr. Murdock was also responsible for the maintenance and operations of over 5 million barrels of fuel oil storage and blending facilities, PG&E's largest active marine fuel oil terminal and a 46 mile long hot oil pipeline used to transport low sulfur fuel oil from refinery to power plant.

Mr. Murdock holds a Master's Degree in Business Administration from Saint Mary's College of California, as well as a Bachelor's Degree in Mechanical Engineering from California State University, Chico. He is a licensed Professional Mechanical Engineer in the State of California.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Western Systems Power Pool) Docket No. ER96-3056-000

NOTICE OF FILING

(September 26, 1996)

Take notice that on September 19, 1996, Vantus Power Services (Vantus), tendered for filing an application for membership in the Western Systems Power Pool (WSPP) under regulations of the Commission, and requested the Commission to issue an order amending the WSPP Agreement to reflect Vantus' membership, accepting for filing the letter informing Vantus that the WSPP Executive Committee has approved Vantus for membership, waiving the sixty day notice requirement and making such membership effective September 19, 1996, and granting certain other waivers.

Vantus is a wholesale marketer of electric power with authority from the Commission to sell power at market-based rates. Vantus Energy Corporation, 73 FERC ¶ 61,099 (1993). Vantus is a wholly-owned subsidiary of Pacific Gas and Electric Company, a public utility. The WSPP is a short term electric power trading market whose implementing agreement has been accepted for filing by the Commission: Pacific Gas and Electric Company, 55 FERC ¶ 61,099, order on reh'g, 55 FERC ¶ 61,495 (1991). Vantus has applied for, and been accepted for membership in, the WSPP.

Any person desiring to be heard or to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211 and 18 CFR 385.214). All such motions or protests should be filed on or before October 10, 1996. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection.

Lois D. Cashell
Secretary

ER 96-3056-000

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Western Systems Power Pool	)))	Docket No. ER91-195 - _____

APPLICATION OF VANTUS POWER SERVICES FOR MEMBERSHIP IN THE WESTERN SYSTEMS POWER POOL

Douglas A. Oglesby
General Counsel
Vantus Energy Corporation
353 Sacramento Street, Suite 1900
San Francisco, CA 94111
(415) 217-6400

September 18, 1996

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Western Systems Power Pool	)))	Docket No. ER91-195 - _____

APPLICATION OF VANTUS POWER SERVICES FOR MEMBERSHIP IN THE WESTERN SYSTEMS POWER POOL

Pursuant to Rule 205 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. section 385.205, and section 35.13 of the Commission's Regulations, 18 C.F.R. section 35.13, and pursuant to section 205 of the Federal Power Act, 16 U.S.C. 824d, Vantus Power Services ("Vantus") hereby requests this Commission to modify the Agreement of the Western Systems Power Pool ("WSPP") to reflect that Vantus has become a member of the WSPP. Vantus further submits for filing the letter from the WSPP informing Vantus that its application for membership in the WSPP has been approved. Vantus further requests waiver of the sixty day notice requirement pursuant to section 35.11 of the Commission's Regulations, 18 C.F.R. section 35.11, and that Vantus' membership in the WSPP be made effective on September 19, 1996. Finally, Vantus requests the Commssion to waive such other filing requirements as are necessary and appropriate.

I. COMMUNICATIONS

Communications regarding this application should be addressed to:

Douglas A. Oglesby
General Counsel
Vantus Power Services
353 Sacramento Street, Suite 1900
San Francisco, CA 94111
(415) 217-6461
(415) 217-6400

II. DISCUSSION

Vantus is an electric power marketer with authority from this Commission to sell power at wholesale at market-based rates. Vantus Energy Corporation, 73 FERC ¶ 61,099 (1995).[1] Vantus is headquartered in San Francisco, California, and is a wholly-owned subsidiary of Pacific Gas and Electric Company ("PG&E").

The WSPP is a short term capacity and energy trading market whose implementing Agreement was accepted for filing by this Commission on May 1, 1991. Pacific Gas and Electric Company, 55 FERC ¶ 61,099, order on rehg, 55 FERC ¶ 61,495 (1991). By letter dated June 11, 1996, a copy of which is attached hereto as Attachment A, Vantus applied for membership in the WSPP. By letter dated August 6, 1996, a copy of which is attached hereto as Attachment B, Vantus was informed by the WSPP's General Counsel that the WSPP Executive Committee had accepted Vantus' application for WSPP membership ("Acceptance Letter").[2] The Acceptance Letter (at page 2) identifies certain conditions which Vantus must satisfy to implement its membership in the WSPP. With the filing of this Application, these conditions will have been fully satisfied. Also attached hereto is a copy of the pertinent signature page of the WSPP Agreement showing its execution by Vantus.

Accordingly, Vantus having been accepted for membership in the WSPP and having satisfied all WSPP implementation conditions, it is appropriate that the Commission amend the WSPP Agreement by incorporating into the Agreement the signature page executed by Vantus, and by accepting the Acceptance Letter for filing.

Vantus also requests that the Commission make its membership in the WSPP effective on September 19, 1996. Accordingly, Vantus requests the Commission to waive the sixty day notice requirement pursuant to section 35.11 of the Commission's Regulations. September 19, 1996 is the appropriate date to make Vantus' membership effective because that is the date on which all steps necessary to implement Vantus' WSPP membership will have been completed. Moreover, Vantus intends to compete immediately for the opportunity to make wholesale and, in those jurisdictions

---

[1] Vantus' authority to sell power at market-based prices was obtained under Vantus' original name Vantus Energy Corporation. On May 6, 1996, by delegated authority this Commission accepted for filing a notice of succession filed by Vantus Power Services stating that Vantus Energy Corporation had changed its name to Vantus Power Services and that Vantus Power Services was succeeding to Vantus Energy Corporation's Rate Schedule FERC No.1. Letter dated May 6, 1996 from Donald J. Gelinas, Director, Division of Applications, Federal Energy Regulatory Commission

[2] The Acceptance Letter is incorrectly addressed to Vantus Energy, rather than Vantus Power Services, and the signature pages enclosed with that letter similarly reflect Vantus Energy. However, the application for WSPP membership was made in the name Vantus Power Services (see Attachment A).

permitting, retail power sales, and would look to the WSPP as its primary supply source and trading partner. Vantus will lose business opportunities if the effective date is delayed. Vantus is fully authorized to transact under the terms and conditions of its market-based Rate Schedule FERC No. 1, including with WSPP members (except its parent, PG&E). The principal advantage of WSPP membership from Vantus' perspective is the ability to transact with any of some 140 WSPP members under the WSPP Agreement without having to put separate enabling agreements or transactional agreements in place. No purchasers or sellers will be disadvantaged by waiving the notice requirement.

Vantus also asks the Commission to waive filing of the information otherwise required by section 35.13 to support a change in rate schedule. All information required by section 35.13 in support of the WSPP Agreement was submitted when the WSPP Agreement was filed. Admission of Vantus to WSPP membership does not result in any substantive change to the WSPP Agreement other than adding a new WSPP member; all rates, terms and conditions of the Agreement will continue unchanged.

Attached as Attachment D is a form of notice suitable for publication in the Federal Register. Copies of this Application and all Attachments have been served on the officers of WSPP Executive Committee and on the other individuals identified in the Acceptance Letter.

WHEREFORE, Vantus Power Services requests the Commission to amend the WSPP Agreement to reflect that Vantus is a WSPP member, accept the Acceptance Letter for filing, make its membership effective on September 19, 1996, and waive all informational filing requirements.

Respectfully submitted,

By: Douglas A. Oglesby

Dated: September 18, 1996

Douglas A. Oglesby
General Counsel
Vantus Power Services
353 Sacramento Street, Suite 1900
San Francisco, CA 94111
(415) 217-6461
(415) 217-6400

ATTACHMENT A

VANTUS ENERGY

June 11, 1996

Western Systems Power Pool
c/o Rodney L. Nefsky
Chairman, WSPP Operating Committee
Central Louisiana Electric Company, Inc.
P.O. Box 70
St. Landry, LA 71367-0070

Dear Mr. Nefsky:

Enclosed is Vantus Power Services' application for membership to the Western Systems Power Pool ("WSPP"). Vantus Power Services is the FERC certified power marketing arm (ER95-1614-000) of Vantus Energy, which is a wholly owned subsidiary of Pacific Gas & Electric Enterprises.

As described in sections 4.4, 16.1 and 16.4 of the Conformed Western Systems Power Pool Agreement, Vantus Power Services complies with the membership requirements as set forth below:

1. Contractual control of generation/transmission: Vantus Power Services has firm rights to capacity and dispatchable energy from a specified unit through the attached, executed agreement with Washington Water Power ("WWP").

2. Contractual right to deliver power to a WSPP member: Vantus Power Services has executed Enabling Agreements with several WSPP members, including WWP and Electric Clearinghouse ("ECI"). These agreements are also attached.

3. Control area services agreement: Provisions for control area services are set forth in the Enabling Agreements referenced above. Vantus Power Services will identify the entity responsible for providing control area services for each transaction in the transaction specific documentation (transaction letter, contract or confirmation) for each such transaction.

4. Membership fee: If accepted and upon notification of acceptance by the WSPP, Vantus Power Services will immediately forward payment of $25,000 either by check or wire as requested.

In addition, Vantus Power Services has a signed agreement with Pacific Gas & Electric Company for 24 hour scheduling services.

If you have any questions regarding this application, please do not hesitate calling me at (415) 291-6420, or Gary Jeung at (415) 291-6488. I look forward hearing from you following the WSPP Executive Committee's review.

Sincerely,

D P Jeung
for Dale A. Murdock

Dale A. Murdock
Vice President
Vantus Power Services

cc: Junona Jonas, President and CEO, Vantus Energy

Phone: 415-291-6400
Fax: 415-291-6498

444 Market Street - Suite 1900 - San Francisco, California - 94111 A PG&E Company

ATTACHMENT B

HAROLD L. TALISMAN
GREGORY GRADY
JAMES T. McMANUS
JEFFREY D. KOMAROW
ROBERT H. BENNA
ALAN J. STATMAN
DOUGLAS O. WAIKART
MICHAEL E. SMALL
MICHAEL J. THOMPSON
JOSEPH B. KOURY
JEFFREY G. DISCIULLO
ARNOLD B. PODGORSKY
BARRY S. SPECTOR
ROBERT H. LAMB*
KENNETH S. KAUFMAN
SAÔNE B. CROCKER
PAUL M. FLYNN
JOHN W. HEIDERSCHEIT, III
SCOTT H. DUBOFF
ROBERT G. KERN*
JEANNE M. BENNETT
JONATHAN L. SOCOLOW
CARRIE L. BUMGARNER
DAVID S. BERMAN
WENDY N. REED*
JASON S. AUSTIN
MARK C. WILLIAMS*
*ADMITTED IN OTHER THAN D. C.

LAW OFFICES
WRIGHT & TALISMAN, P.C.
SUITE 600
1200 G STREET, N. W.
WASHINGTON, D. C. 20005-3802
(202) 393-1200
TELEFAX (202) 393-1240

WRIGHT & TALISMAN
SHELL BUILDING, SUITE 225
100 BUSH STREET
SAN FRANCISCO, CA 94104-3905
(415) 781-0701
TELEFAX (415) 781-1719

MICHAEL B. DAY, P.C.
JAMES W. McTARNAGHAN*
JEROME FITCH CANDELARIA
*ADMITTED IN OTHER THAN CA

JOHN F. HARRINGTON - OF COUNSEL

HARRY S. LITTMAN (1906-81)
DALE A. WRIGHT (1927-89)

August 6, 1996

BY FEDERAL EXPRESS

Dale A. Murdock
Vantus Energy
444 Market Street
Suite 1900
San Francisco, California 94111

Re: WSPP Membership

Dear Mr. Murdock:

On behalf of the Executive Committee of the Western Systems Power Pool (WSPP), I am pleased to inform you that your application was approved by the Executive Committee by fax vote which ended this week. However, the Executive Committee accepts your membership application upon the following condition:

> In exercising its judgment under Section 16.1 of the WSPP Agreement allowing the Executive Committee to determine whether a party is operating a control area or has appropriate long-term contractual arrangements to meet control area responsibilities, the Executive Committee deems that you meet this requirement so long as for each WSPP transaction, there exists a contractual arrangement which establishes at least one entity as the party that has control area responsibilities. That responsible entity must observe and conform to all criteria and practices of the North American Electric Reliability Council

(NERC) guidelines. In addition, you must abide by any WSPP Operating Procedures.

Please note that the WSPP's action is based upon the representations you made as part of your membership application. If circumstances change such that you no longer satisfy the WSPP's membership criteria, you need to inform the WSPP's Executive Committee of that fact.

To implement your participation, please complete the following:

1. Execute the two enclosed signature pages of the WSPP Agreement and return one to Kenneth S. Miyoshi, Chairman, WSPP Executive Committee, Department of Water and Power, the City of Los Angeles, Box 111, Los Angeles, CA 90051-0100;

2. Pursuant to Section 16.4 of the WSPP Agreement forward to Mr. Miyoshi a check in the amount of $25,000 payable to Arizona Public Service Company (if you have already paid, please ignore this request);

3. Specify your official mailing title and address, and billing title and address for inclusion in Exhibit A and Exhibit B, respectively, of the WSPP Agreement;

4. Specify your member and alternate member representatives to the WSPP Executive and Operating Committees pursuant to Sections 8.1, 8.2 and 8.5 of the WSPP Agreement (please provide direct telephone and fax numbers);

5. Contact the WSPP Hub Operator, Arizona Public Service Company (Mr. Cary Diese) at (602) 250-1497 to coordinate appropriate computer terminal requirements for your company; and

6. If you are a FERC public utility under Section 201 of the Federal Power Act, then you need to make a FERC filing to become a member of the WSPP. You should notify all WSPP members of the filing and of FERC's acceptance. For lists see the WSPP web site - WSPP.ORG. Please note that you can request that FERC make your membership effective as of the date you complete the above arrangements.

Please send a complete copy of your response to Mr. Miyoshi and to me. In addition, please send a copy of your response to:

Mr. Jack Davis (APS)
Vice Chairman of Executive Committee
Arizona Public Service Co.
400 N. 5th Street
Phoenix, AZ 85004

Mr. Walter Pollack (BPA)
Secretary-Treasurer of Executive Committee
Bonneville Power Administration
905 N.E. 11th Avenue
Portland, OR 97232

Mr. Rodney Nefsky (CLECO)
Chairman - WSPP Operating Committee
Central Louisiana Electric Co.
P.O. Box 70, Highway 106
St. Landry, LA 71367-0070

Mr. Cary Diese (APS)
Hub Operator
Arizona Public Service Co.
400 N. 5th Street
Phoenix, AZ 85004

Finally, please contact Mark Palmer to be added to the WSPP web site. His address and numbers are as follows:

Web Systems Corp.
2503 Robinhood, Suite 290
Houston, TX 77005-2544
Tel. (713) 529-4450
Fax (713) 529-4453
e-mail palmer @ webs.com.

We look forward to your participation in the WSPP. Please call with any questions.

Sincerely,

Michael E. Small

General Counsel to the Western Systems Power Pool

wspp\1003-179.147

WESTERN SYSTEMS POWER POOL AGREEMENT

E-PRIME
By:

Name: ____________________

Title: ____________________

LOUISVILLE GAS & ELECTRIC COMPANY
By:

Name: ____________________

Title: ____________________

VANTUS ENERGY
By:

Name: Dale C. Murdock

Title: Vice President - Vantus Power Services

WSPP\1003-179.147

AFFIDAVIT

State of California :
:
County of San Francisco :

Douglas A. Oglesby, Affiant, being duly affirmed according to law, deposes and says that:

That he is the Vice President, General Counsel of PG&E Energy Services Corporation;

That he is authorized to and does make this affidavit for said Applicant;

That PG&E Energy Services Corporation, the Applicant herein, certifies to the Commission that it will adhere to the reliability protocols of the North American Electric Reliability Council, the appropriate regional reliability council(s), and the Commission, and it agrees to comply with the operational requirements of the control area(s) within which it provides retail service.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief and that he expects said Applicant to be able to prove the same at any hearing hereof.

Signature of Affiant

Sworn and subscribes before me this 18th of September, 1997

Signature of official administering oath

NICOLE L. ARNELLE
Comm. # 1040339
NOTARY PUBLIC - CALIFORNIA
City and County of San Francisco
My Comm. Expires Sept. 30, 1998

Applicant will be required to meet periodic reporting requirements as may be issued by the Commission to fulfill the Commission's duty under Chapter 28 pertaining to reliability and to inform the Governor and Legislature of the progress of the transition to a fully competitive electric market.

28. **FEE:** The Applicant has enclosed the required initial licensing fee of $350.

Applicant: PG&E Energy Services Corporation

By: ______________________

Title: Vice President, General Counsel & Secretary

VERIFICATION

State of California :

: ss.

County of San Francisco :

Douglas A. Oglesby, Affiant, being duly *affirmed* according to law, deposes and says that:

He is the Vice President, General Counsel & Secretary of PG&E Energy Services Corporation;

That he is authorized to and does make this affidavit for said corporation;

That the facts above set forth are true and correct to the best of his knowledge, information, and belief and that he expects said Applicant to be able to prove the same at any hearing hereof.

Douglas A. Oglesby

Douglas A. Oglesby, Vice President, General Counsel & Secretary

Sworn and subscribed before me this 18 day of Sept., 1997

NICOLE L. ARNELLE
Comm. # 1040339
NOTARY PUBLIC CALIFORNIA
City and County of San Francisco
My Comm. Expires Sept. 30, 1998

Nicole L. Arnelle

Nicole L. Arnelle

My commission expires September 30, 1998.

CERTIFICATE OF SERVICE

Pursuant to Sections 1.57 and 1.58 of the Commission's Regulations, 52 Pa. Code §§1.57 and 1.58, I hereby certify that on September 19, 1997, the foregoing document was served upon each of the following parties:

Irwin A. Popowsky
Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Bernard A. Ryan, Jr.
Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Office of the Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Joan M. Searls

Joan M. Searls

Bo 74-5723-00027-97

KNOW ALL BY THESE PRESENTS, That we, PG&E ENERGY SERVICES CORP.

as Principal, and the UNITED STATES FIDELITY AND GUARANTY COMPANY a corporation organized under the laws of the State of Maryland, and authorized to transact the business of surety in the State of Massachusetts as Surety, are held and firmly bound unto PENNSYLVANIA PUBLIC UTILITY COMMISSION in the just and full sum of Two Hundred Fifty Thousand and 00/100 -- Dollars ($ 250,000.00), for which sum, well and truly to be paid, we bind ourselves, our heirs, executors, administrators, successors and assigns, jointly and severally, firmly by these presents.

Sealed with our seals, and dated this 18th day of September, 1997

THE CONDITION OF THIS OBLIGATION IS SUCH, That, WHEREAS, the Principal has applied to the Obligee for a license as an electric generation supplier.

This bond is written in accordance with Section 2809(c)(1)(i) of the Public Utility Code, 66 Pa. C.S. § 2809(c)(1)(i), to assure compliance with applicable provisions of the Public Utility Code, 66 Pa. C.S. §§ 101 et seq. and the rules and regulations of the Pennsylvania Public Utility Commission by the Principal as a licensed electric generation supplier; to ensure the payment of Gross Receipts Tax as required by Section 2810 of the Public Utility Code, 66 Pa. C.S. § 2810; and to ensure the supply of electricty at retail in accordance with contracts, agreements or arrangements. Payments made pursuant to this bond shall enure first to the benefit of the Commonwealth, and second, to any and all retail electric generation customers to whom the Principal may be held legally liable for failure to supply electric generation pursuant to contract, agreements or arrangements. Any claims made by the Commonwealth shall have priority over claims made by private individuals. Proceeds of the bond may not be used to pay any penalties or fines levied against the Principal for violations of the law, or for payment of any other tax obligations owed to the Commonwealth.

NOW, THEREFORE, if the Principal shall well and truly comply with the application local ordinances, and conduct business in conformity therewith, then this obligation to be void; otherwise to remain in full force and effect.

This bond may be canceled by the Surety by the sending notice in writing to the Obligee, stating when, not less than thirty (30) days thereafter, liability hereunder shall terminate as to subsequent acts or omissions of the Principal.

PG&E ENERGY SERVICES CORP. (Seal)
Principal

BY: (Seal)
Principal

(Seal)
Principal

United States Fidelity and Guaranty Company

By
KATSUKO TAKATA, Attorney-in-Fact

Countersigned By:

Marjorie J. Arch
Pennsylvania Resident Agent

EXECUTED DUPLICATE OF LOST ORIGINAL

ACKNOWLEDGMENT BY SURETY

STATE OF CALIFORNIA)
County of SAN FRANCISCO)

On SEPTEMBER 18, 1997 before me, T.A. FERMANICH, NOTARY PUBLIC, personally appeared KATSUKO TAKATA, ATTORNEY-IN-FACT FOR UNITED STATES FIDELITY AND GUARANTY COMPANY

personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature T.A. Fermanich (Seal)

T.A. FERMANICH
COMM. #1010840
NOTARY PUBLIC-CALIFORNIA
City & County of San Francisco
My Comm. Expires Dec. 17, 1997
PC01

1466015

United States Fidelity and Guaranty Company

U S F+G

Power of Attorney

No. 110286

Know all men by these presents: That **United States Fidelity and Guaranty Company,** a corporation organized and existing under the laws of the State of Maryland and having its principal office at the City of Baltimore, in the State of Maryland, does hereby constitute and appoint Theresa Fermanich and Katsuko Takata

of the City of San Francisco , State of California its true and lawful Attorney(s)-in-Fact, each in their separate capacity if more than one is named above, to sign its name as surety to, and to execute, seal and acknowledge any and all bonds, undertakings, contracts and other written instruments in the nature thereof on behalf of the Company in its business of guaranteeing the fidelity of persons; guaranteeing the performance of contracts; and executing or guaranteeing bonds and undertakings required or permitted in any actions or proceedings allowed by law.

In Witness Whereof, the said **United States Fidelity and Guaranty Company,** has caused this instrument to be sealed with its corporate seal, duly attested by the signatures of its Vice President and Assistant Secretary, this 28th day of March , A.D. 19 97.

United States Fidelity and Guaranty Company.

UNITED STATES FIDELITY AND GUARANTY COMPANY INCORPORATED 1896

(Signed) By Gary A. Wilson
Vice President

(Signed) By Thomas E Huibregtse
Assistant Secretary

State of Maryland)
SS:
Baltimore City)

THIS POWER INVALID WITHOUT THE RED SEAL

On this 28th day of March , A.D. 19 97 , before me personally came Gary A. Wilson, Vice President of **United States Fidelity and Guaranty Company,** and Thomas E. Huibregtse, Assistant Secretary of said Company, with both of whom I am personally acquainted, who being by me severally duly sworn, said, that they, the said Gary A. Wilson and Thomas E. Huibregtse were respectively the Vice President and the Assistant Secretary of the said **United States Fidelity and Guaranty Company,** the corporation described in and which executed the foregoing Power of Attorney; that they each knew the seal of said corporation; that the seal affixed to said Power of Attorney was such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order as Vice President and Assistant Secretary, respectively, of the Company.

My Commission expires the 1st day of August A.D. 19 98.

NOTARY PUBLIC

(Signed) By E. Ahmad H. Kulright
Notary Public

This Power of Attorney is granted under and by authority of the following Resolutions adopted by the Board of Directors of the **United States Fidelity and Guaranty Company** on September 24, 1992:

Resolved, that in connection with the fidelity and surety insurance business of the Company, all bonds, undertakings, contracts and other instruments relating to said business may be signed, executed, and acknowledged by persons or entities appointed as Attorney(s)-in-Fact pursuant to a Power of Attorney issued in accordance with these resolutions. Said Power(s) of Attorney for and on behalf of the Company may and shall be executed in the name and on behalf of the Company, either by the Chairman, or the President, or an Executive Vice President, or a Senior Vice President, or a Vice President or an Assistant Vice President, jointly with the Secretary or an Assistant Secretary, under their respective designations. The signature of such officers may be engraved, printed or lithographed. The signature of each of the foregoing officers and the seal of the Company may be affixed by facsimile to any Power of Attorney or to any certificate relating thereto appointing Attorney(s)-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and subject to any limitations set forth therein, any such Power of Attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company with respect to any bond or undertaking to which it is validly attached.

Resolved, That Attorney(s)-in-Fact shall have the power and authority, and, in any case, subject to the terms and limitations of the Power of Attorney issued to them, to execute and deliver on behalf of the Company and to attach the seal of the Company to any and all bonds and undertakings, and other writings obligatory in the nature thereof, and any such instrument executed by such Attorney(s)-in Fact shall be as binding upon the Company as if signed by an Executive Officer and sealed and attested to by the Secretary of the Company.

I, Thomas E. Huibregtse, an Assistant Secretary of the **United States Fidelity and Guaranty Company,** do hereby certify that the foregoing are true excerpts from the Resolutions of the said Company as adopted by its Board of Directors on September 24, 1992 and that these Resolutions are in full force and effect.

I, the undersigned Assistant Secretary of the **United States Fidelity and Guaranty Company,** do hereby certify that the foregoing Power of Attorney is in full force and effect and has not been revoked.

In Testimony Whereof, I have hereunto set my hand and the seal of the **United States Fidelity and Guaranty Company,** on this 18TH day of SEPTEMBER , 19 97

Thomas E Huibregtse
Assistant Secretary

UNITED STATES FIDELITY AND GUARANTY COMPANY INCORPORATED 1896

FS 3(12/96)

Bond 74-5723-00027-97

KNOW ALL BY THESE PRESENTS, That we, PG&E ENERGY SERVICES CORP.

as Principal, and the UNITED STATES FIDELITY AND GUARANTY COMPANY a corporation organized under the laws of the State of Maryland, and authorized to transact the business of surety in the State of Massachusetts as Surety, are held and firmly bound unto PENNSYLVANIA PUBLIC UTILITY COMMISSION in the just and full sum of Two Hundred Fifty Thousand and 00/100 -- Dollars ($ 250,000.00), for which sum, well and truly to be paid, we bind ourselves, our heirs, executors, administrators, successors and assigns, jointly and severally, firmly by these presents.

Sealed with our seals, and dated this 18th day of September, 1997

THE CONDITION OF THIS OBLIGATION IS SUCH, That, WHEREAS, the Principal has applied to the Obligee for a license as an electric generation supplier.

This bond is written in accordance with Section 2809(c)(1)(i) of the Public Utility Code, 66 Pa. C.S. § 2809(c)(1)(i), to assure compliance with applicable provisions of the Public Utility Code, 66 Pa. C.S. §§ 101 et seq. and the rules and regulations of the Pennsylvania Public Utility Commission by the Principal as a licensed electric generation supplier; to ensure the payment of Gross Receipts Tax as required by Section 2810 of the Public Utility Code, 66 Pa. C.S. § 2810; and to ensure the supply of electricty at retail in accordance with contracts, agreements or arrangements. Payments made pursuant to this bond shall enure first to the benefit of the Commonwealth, and second, to any and all retail electric generation customers to whom the Principal may be held legally liable for failure to supply electric generation pursuant to contract, agreements or arrangements. Any claims made by the Commonwealth shall have priority over claims made by private individuals. Proceeds of the bond may not be used to pay any penalties or fines levied against the Principal for violations of the law, or for payment of any other tax obligations owed to the Commonwealth.

NOW, THEREFORE, if the Principal shall well and truly comply with the application local ordinances, and conduct business in conformity therewith, then this obligation to be void; otherwise to remain in full force and effect.

This bond may be canceled by the Surety by the sending notice in writing to the Obligee, stating when, not less than thirty (30) days thereafter, liability hereunder shall terminate as to subsequent acts or omissions of the Principal.

PG&E ENERGY SERVICES CORP. (Seal)
Principal

BY: [signature] (Seal)
Principal

(Seal)
Principal

United States Fidelity and Guaranty Company

By [signature]
KATSUKO TAKATA, *Attorney-in-Fact*

Countersigned By:
[signature]
Marjorie J. Arch
Pennsylvania Resident Agent

EXECUTED DUPLICATE OF LOST ORIGINAL

ACKNOWLEDGMENT BY SURETY

STATE OF CALIFORNIA)
County of SAN FRANCISCO)

On SEPTEMBER 18, 1997 before me, T.A. FERMANICH, NOTARY PUBLIC, personally appeared KATSUKO TAKATA, ATTORNEY-IN-FACT FOR UNITED STATES FIDELITY AND GUARANTY COMPANY

personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature *T.A. Fermanich* (Seal)

T.A. FERMANICH
COMM. #1010840
NOTARY PUBLIC-CALIFORNIA
City & County of San Francisco
My Comm. Expires Dec. 17, 1997
PC01 PC01

1466015

United States Fidelity and Guaranty Company

USF+G

Power of Attorney

No. 110286

Know all men by these presents: That **United States Fidelity and Guaranty Company**, a corporation organized and existing under the laws of the State of Maryland and having its principal office at the City of Baltimore, in the State of Maryland, does hereby constitute and appoint Theresa Fermanich and Katsuko Takata

of the City of San Francisco, State of California its true and lawful Attorney(s)-in-Fact, each in their separate capacity if more than one is named above, to sign its name as surety to, and to execute, seal and acknowledge any and all bonds, undertakings, contracts and other written instruments in the nature thereof on behalf of the Company in its business of guaranteeing the fidelity of persons; guaranteeing the performance of contracts; and executing or guaranteeing bonds and undertakings required or permitted in any actions or proceedings allowed by law.

In Witness Whereof, the said **United States Fidelity and Guaranty Company**, has caused this instrument to be sealed with its corporate seal, duly attested by the signatures of its Vice President and Assistant Secretary, this 28th day of March, A.D. 19 97.

United States Fidelity and Guaranty Company.

UNITED STATES FIDELITY AND GUARANTY COMPANY INCORPORATED 1896

(Signed) By Gary A. Wilson
Vice President

(Signed) By Thomas E. Huibregtse
Assistant Secretary

State of Maryland)
SS:
Baltimore City)

THIS POWER INVALID WITHOUT THE RED BORDER

On this 28th day of March, A.D. 19 97, before me personally came Gary A. Wilson, Vice President of **United States Fidelity and Guaranty Company**, and Thomas E. Huibregtse, Assistant Secretary of said Company, with both of whom I am personally acquainted, who being by me severally duly sworn, said, that they, the said Gary A. Wilson and Thomas E. Huibregtse were respectively the Vice President and the Assistant Secretary of the said **United States Fidelity and Guaranty Company**, the corporation described in and which executed the foregoing Power of Attorney; that they each knew the seal of said corporation; that the seal affixed to said Power of Attorney was such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order as Vice President and Assistant Secretary, respectively, of the Company.

My Commission expires the 1st day of August A.D. 19 98

NOTARY PUBLIC

(Signed) By Elizabeth L. Kulbright
Notary Public

This Power of Attorney is granted under and by authority of the following Resolutions adopted by the Board of Directors of the **United States Fidelity and Guaranty Company** on September 24, 1992:

Resolved, that in connection with the fidelity and surety insurance business of the Company, all bonds, undertakings, contracts and other instruments relating to said business may be signed, executed, and acknowledged by persons or entities appointed as Attorney(s)-in-Fact pursuant to a Power of Attorney issued in accordance with these resolutions. Said Power(s) of Attorney for and on behalf of the Company may and shall be executed in the name and on behalf of the Company, either by the Chairman, or the President, or an Executive Vice President, or a Senior Vice President, or a Vice President or an Assistant Vice President, jointly with the Secretary or an Assistant Secretary, under their respective designations. The signature of such officers may be engraved, printed or lithographed. The signature of each of the foregoing officers and the seal of the Company may be affixed by facsimile to any Power of Attorney or to any certificate relating thereto appointing Attorney(s)-in-Fact for purposes only of executing and attesting bonds and undertakings and other writings obligatory in the nature thereof, and subject to any limitations set forth therein, any such Power of Attorney or certificate bearing such facsimile signature or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by such facsimile signature and facsimile seal shall be valid and binding upon the Company with respect to any bond or undertaking to which it is validly attached.

Resolved, That Attorney(s)-in-Fact shall have the power and authority, and, in any case, subject to the terms and limitations of the Power of Attorney issued to them, to execute and deliver on behalf of the Company and to attach the seal of the Company to any and all bonds and undertakings, and other writings obligatory in the nature thereof, and any such instrument executed by such Attorney(s)-in Fact shall be as binding upon the Company as if signed by an Executive Officer and sealed and attested to by the Secretary of the Company.

I, Thomas E. Huibregtse, an Assistant Secretary of the **United States Fidelity and Guaranty Company**, do hereby certify that the foregoing are true excerpts from the Resolutions of the said Company as adopted by its Board of Directors on September 24, 1992 and that these Resolutions are in full force and effect.

I, the undersigned Assistant Secretary of the **United States Fidelity and Guaranty Company**, do hereby certify that the foregoing Power of Attorney is in full force and effect and has not been revoked.

In Testimony Whereof, I have hereunto set my hand and the seal of the **United States Fidelity and Guaranty Company**, on this 18TH day of SEPTEMBER, 19 97

Thomas E. Huibregtse
Assistant Secretary

UNITED STATES FIDELITY AND GUARANTY COMPANY INCORPORATED 1896

FS 3(12/96)

1996 FINANCIAL AND STATISTICAL REPORT

PG&E Corporation

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Financial Reporting

For 1996, PG&E Corporation reported financial data and results by three types of operations:

- Utility *(PG&E except Diablo Canyon, including PGT)*
- Diablo Canyon
- Diversified Operations *(principally PG&E Enterprises)*

Corporate Overview

PG&E Corporation was formed as a holding company on January 1, 1997. Through its subsidiaries and their affiliates, PG&E Corporation markets energy services in North America and Australia.

Pacific Gas & Electric Company
Pacific Gas & Electric Company (PG&E) is a public utility engaged principally in the business of providing electric and natural gas service to more than 13 million people in Northern and Central California. PG&E's utility operations include the Diablo Canyon Nuclear Power Plant.

PG&E Corporation Gas Subsidiaries
PG&E Corporation's *current* gas subsidiaries include Pacific Gas Transmission Company, PGT Australia, PG&E Gas Transmission, Texas, and PG&E Energy Trading. *In January* 1997, PG&E Corporation agreed to acquire Valero Energy Corporation; the sale is expected to be completed in mid-1997. Please see page 26 for further information on PG&E Corporation's gas subsidiaries.

PG&E Enterprises
PG&E Enterprises owns and manages several of the corporation's non-utility businesses. Enterprises' subsidiaries include PG&E Generating Company and PG&E Energy Services. Please see page 28 for further information on PG&E Enterprises.

Financial Policies

Capital Investment Policy
PG&E Corporation's policy is to create value for shareholders by making utility and non-utility investments which offer prospective returns commensurate with their risks, build upon core competencies in the electric and gas businesses, and position the corporation to succeed in an increasingly competitive environment. The corporation's utility investments will ensure that PG&E continues to provide safe, reliable, and responsive service to customers.

To the extent that value-creating investment opportunities are not available, PG&E Corporation will return capital to its shareholders through common stock repurchases.

Capital Structure Policy
PG&E Corporation's policy is to finance its assets with a capital structure that minimizes financing costs, maintains financial flexibility, and complies with regulatory guidelines. The current corporate consolidated capitalization ratio targets are as follows:

Long-term and short-term debt	49%
Common equity	47%
Preferred stock	4%

These target ratios exclude potential impacts from the issuance of rate reduction bonds.

The corporation's target capital structure may change as its asset mix, business strategies, and risk-profile change over time.

Dividend Policy
PG&E Corporation's policy is to pay a dividend which enhances shareholder value by providing an effective signal to investors about the corporation's financial outlook and by meeting the objectives of sustainability, financial flexibility, and competitiveness with investment opportunities of similar risk. PG&E Corporation has established a long-term payout ratio target of 50-65%.

PG&E Corporation Highlights

Earnings and Common Stock Data	1996	1995	% Change
Operating revenues (in thousands)	$ 9,609,972	$ 9,621,765	(0.1)
Operating income (in thousands)	$ 1,895,585	$ 2,762,985	(31.4)
Net income (in thousands)	$ 755,209	$ 1,338,885	(43.6)
Earnings available for common stock (in thousands)	$ 722,096	$ 1,268,597	(43.1)
Weighted average common shares outstanding (in thousands)	412,542	423,692	(2.6)
Earnings per common share	$1.75	$2.99	(41.5)
Book value per common share at year end	$20.73	$20.77	(0.2)
Common stock price per share at year end	$21.00	$28.38	(26.0)
Common stock price range per share	$19.50-28.38	$24.25-30.63	–
Market price to book value ratio at year end	1.01x	1.37x	–
Total return on common stock investment	(19.7%)	25.0%	–
Price earnings ratio	12.0x	9.5x	–
Return on average common stock equity	8.5%	14.6%	–
Number of common shareholders at year end	198,000	220,000	(10.0)
Number of common shares outstanding at year end (in thousands)	403,504	414,026	(2.5)
Dividends declared per common share	$1.77	$1.96	(9.7)
Dividends paid per common share	$1.96	$1.96	–
Dividend yield at year end (declared basis)	8.4%	6.9%	–
Dividend payout ratio (declared basis)	101.1%	65.6%	–

Selected PG&E Operating Data	1996	1995	% Change
Total electric sales to customers – kWh (in thousands)	74,394,282	75,358,632	(1.3)
Total electric customers at year end	4,463,000	4,408,000	1.3
Total gas throughput – Mcf (in thousands)[1]	691,910	654,331	5.7
Total gas customers at year end	3,677,000	3,628,000	1.4

[1] *Does not include power plant use.*

FINANCIAL

1996 Selected Financial Data
(in millions, except per share data)

	Utility	Diablo Canyon	Diversified Operations	Total
Operating revenues	$7,411	$1,789	$410	$9,610
Operating expenses	6,465	791	458	7,714
Operating income (loss)	946	998	(48)	1,896
Net income (loss)	292	497	(34)	755[1]
Earnings per common share	.65	1.18	(.08)	1.75[1]

PG&E Corporation

Consolidated Income Statement Data

Years ended December 31

(in thousands, except per share amounts)

Operating Revenues
Electric utility
Gas utility
Diversified operations

Total operating revenues

Operating Expenses
Cost of electric energy
Cost of gas
Maintenance and other operating
Depreciation and decommissioning
Administrative and general
Workforce reduction costs
Property and other taxes

Total operating expenses

Operating Income

Interest income
Interest expense
Other income and (expense)

Pretax Income

Income Taxes

Net Income
Preferred dividend requirement and redemption premium

Earnings Available for Common Stock

Weighted Average Common Shares Outstanding

Earnings Per Common Share

Dividends Declared Per Common Share

1996	1995	1994	1993	1992	1991
$ 7,160,215	$ 7,386,307	$ 8,021,547	$ 7,876,925	$ 7,763,011	$ 7,399,536
2,039,802	2,059,117	2,081,062	2,421,733	2,346,308	2,355,176
409,955	176,341	247,621	251,344	206,394	68,425
9,609,972	9,621,765	10,350,230	10,550,002	10,315,713	9,823,137
2,303,488	2,116,840	2,570,723	2,250,209	2,415,522	2,323,956
761,837	333,280	583,356	952,510	907,945	824,223
2,118,174	1,799,781	1,855,585	1,942,376	1,848,452	1,819,259
1,221,952	1,360,118	1,397,470	1,315,524	1,221,490	1,140,877
1,016,439	971,576	973,302	1,041,453	927,316	875,878
–	(18,195)	249,097	190,200	–	–
292,497	295,380	296,911	297,495	295,164	288,610
7,714,387	6,858,780	7,926,444	7,989,767	7,615,889	7,272,803
1,895,585	2,762,985	2,423,786	2,560,235	2,699,824	2,550,334
72,900	72,524	79,643	55,361	57,022	70,050
(639,823)	(688,408)	(729,207)	(819,429)	(800,461)	(774,945)
(18,459)	87,073	69,995	171,218	109,322	32,487
1,310,203	2,234,174	1,844,217	1,967,385	2,065,707	1,877,926
554,994	895,289	836,767	901,890	895,126	851,534
755,209[1]	1,338,885[2]	1,007,450[3]	1,065,495[4]	1,170,581[5]	1,026,392[6]
33,113	70,288	57,603	63,812	78,887	89,595
$ 722,096[1]	$ 1,268,597[2]	$ 949,847[3]	$ 1,001,683[4]	$ 1,091,694[5]	$ 936,797[6]
412,542	423,692	429,846	430,625	422,714	417,965
$1.75[1]	$2.99[2]	$2.21[3]	$2.33[4]	$2.58[5]	$2.24[6]
$1.77	$1.96	$1.96	$1.88	$1.76	$1.64

[1] *Earnings in 1996 included charges totalling $224 million after tax ($.54 per share) for contingencies related to gas transportation commitments, settlement of litigation, and write-downs of non-regulated investments.*

[2] *Earnings in 1995 included charges totalling $35 million after tax ($.09 per share) for increases in litigation reserves, offset by gain on sale of Dalen Resources and reversal of charges associated with workforce reductions.*

[3] *Earnings in 1994 included charges totalling $257 million after tax ($.60 per share) for workforce reductions, gas reasonableness matters, contingencies related to gas transportation commitments, and an increase in litigation reserves.*

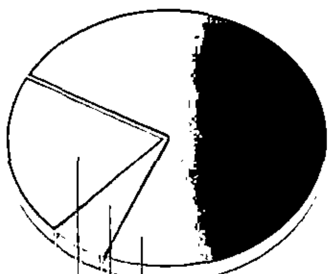
[4] *Earnings in 1993 included charges totalling $261 million after tax ($.62 per share) for workforce reduction costs related to electric operations, gas decontracting costs and gas transportation commitments, reserves for gas reasonableness proceedings, and a Diablo Canyon deferred tax liability adjustment.*

[5] *Earnings in 1992 included a $19 million after tax ($.05 per share) gain due to Pacific Gas Transmission Company's sale of its 49.98% interest in Alberta Natural Gas Company Ltd.*

[6] *Earnings in 1991 included a $26 million after tax ($.06 per share) charge due to an affiliate's write-off of its investment in a magnesium metal production facility project in Alberta, Canada.*

FINANCIAL

Year End 1996 Total Assets
(in millions)



Total Assets
$26,130

PG&E Corporation

Consolidated Balance Sheet Data

December 31
(in thousands)

ASSETS

Plant in Service
Electric
Nonnuclear
Diablo Canyon
Gas

Total plant in service (at original cost)
Accumulated depreciation and decommissioning

Net plant in service[1]

Construction Work in Progress

Other Noncurrent Assets
Oil and gas properties
Nuclear decommissioning funds
Investment in nonregulated projects
Other assets

Total other noncurrent assets

Current Assets
Cash and cash equivalents
Accounts receivable, net[2]
Regulatory balancing accounts receivable
Inventories
Materials and supplies
Gas stored underground
Fuel oil
Nuclear fuel
Prepayments

Total current assets

Deferred Charges
Income tax-related deferred charges[1]
Diablo Canyon costs[1]
Unamortized loss net of gain on reacquired debt
Workers' compensation and disability claims recoverable
Other

Total deferred charges

Total Assets

1996	1995	1994	1993	1992	1991
$ 18,099,342	$ 17,530,446	$ 17,066,490	$ 16,636,601	$ 16,298,823	$ 15,500,581
6,658,137	6,646,853	6,647,162	6,518,413	5,983,976	5,860,468
8,138,106	7,732,681	7,447,879	7,146,741	5,454,084	5,073,997
32,895,585	31,909,980	31,161,531	30,301,755	27,736,883	26,435,046
(14,301,934)	(13,311,500)	(12,270,691)	(11,236,418)	(10,508,222)	(9,472,953)
18,593,651	18,598,480	18,890,840	19,065,337	17,228,661	16,962,093
414,229	333,263	527,867	620,187	1,534,578	711,509
–	–	437,352	573,523	591,544	632,811
882,929	769,829	616,637	536,544	456,061	384,369
817,259	855,962	741,426	302,293	148,832	127,384
134,271	130,128	137,325	193,466	250,615	222,483
1,834,459	1,755,919	1,932,740	1,605,826	1,447,052	1,367,047
143,402	734,295	136,900	61,066	97,592	97,280
1,499,674	1,268,936	1,481,451	1,364,515	1,429,305	1,550,437
444,156	746,344	1,245,100	975,850	743,253	555,955
185,771	181,763	197,394	239,856	234,630	225,107
130,229	146,499	136,326	170,345	151,707	186,861
23,433	40,756	67,707	109,615	155,816	158,725
190,652	175,957	140,357	134,411	135,171	99,470
54,116	47,025	33,251	56,062	47,809	39,443
2,671,433	3,341,575	3,438,486	3,111,720	2,995,283	2,913,278
1,133,043	1,079,673	1,155,421	1,276,532	–	–
363,780	382,445	401,110	419,775	260,042	271,115
376,728	392,116	382,862	395,659	289,338	245,772
288,417	297,266	247,209	192,203	174,168	140,340
454,185	669,553	732,029	458,660	259,037	289,516
2,616,153	2,821,053	2,918,631	2,742,829	982,585	946,743
$ 26,129,925	$ 26,850,290	$ 27,708,564	$ 27,145,899	$ 24,188,159	$ 22,900,670

[1] *Effective January 1, 1993, the Company adopted SFAS No. 109,"Accounting for Income Taxes," which resulted in a $1.5 billion increase in deferred charges and a $0.3 billion increase in net plant in service.*

[2] *Accounts receivable, net consists of customers plus other, less allowance for uncollectible accounts.*

FINANCIAL

Year End 1996 Capitalization
(in millions)

Common stock equity	$8,363
Preferred stock and preferred securities (QUIPS)	840
Long-term debt	7,770
Total capitalization (from consolidated balance sheet)	16,973
Short-term borrowings	681
Long-term debt (current portion)	210
	$17,864

PG&E Corporation

Consolidated Balance Sheet Data (Continued)

December 31

(in thousands)

CAPITALIZATION AND LIABILITIES

Capitalization
Common stock
Additional paid-in capital
Reinvested earnings
Total common stock equity
Preferred stock without mandatory redemption provisions
Preferred stock with mandatory redemption provisions
Company obligated mandatorily redeemable preferred securities of trust holding solely PG&E subordinated debentures (QUIPS)
Long-term debt
Total capitalization

Current Liabilities
Short-term borrowings
Current portion of long-term debt
Accounts payable
Trade creditors
Other
Accrued taxes
Amounts due customers
Deferred income taxes
Interest payable
Dividends payable
Other
Total current liabilities

Deferred Credits and Other Noncurrent Liabilities
Deferred income taxes[1]
Deferred tax credits
Noncurrent balancing account liabilities
Other deferred credits and other noncurrent liabilities
Total deferred credits and other noncurrent liabilities

Total Capitalization and Liabilities

1996	1995	1994	1993	1992	1991
$ 2,017,521	$ 2,070,128	$ 2,151,213	$ 2,136,095	$ 2,134,228	$ 2,087,859
3,709,893	3,716,322	3,806,508	3,666,455	3,517,062	3,287,313
2,635,887	2,812,683	2,677,304	2,643,487	2,631,847	2,306,152
8,363,301	8,599,133	8,635,025	8,446,037	8,283,137	7,681,324
402,056	402,056	732,995	807,995	790,791	894,897
137,500	137,500	137,500	75,000	146,888	92,010
300,000	300,000	–	–	–	–
7,770,067	8,048,546	8,675,091	9,292,100	8,379,060	8,249,300
16,972,924	17,487,235	18,180,611	18,621,132	17,599,876	16,917,531
680,900	829,947	524,685	764,163	1,131,124	1,009,911
209,867	304,204	477,047	221,416	353,692	125,411
834,143	413,972	414,291	472,985	529,315	678,352
365,499	387,747	337,726	389,065	372,157	325,679
310,271	274,093	436,467	303,575	237,305	109,062
186,899	49,175	46,635	59,616	67,324	102,104
157,064	227,782	432,026	315,584	326,219	276,654
63,193	70,179	84,805	82,105	87,975	83,491
123,310	205,467	210,903	203,923	187,721	171,159
309,104	455,798	421,484	428,193	309,862	252,522
3,240,250	3,218,364	3,386,069	3,240,625	3,602,694	3,134,345
3,941,435	3,933,765	3,902,645	3,978,950	1,780,769	1,642,004
379,563	393,255	391,455	410,969	473,879	497,752
120,858	185,647	226,844	112,533	43,315	34,098
1,474,895	1,632,024	1,620,940	781,690	687,626	674,940
5,916,751	6,144,691	6,141,884	5,284,142	2,985,589	2,848,794
$ 26,129,925	$ 26,850,290	$ 27,708,564	$ 27,145,899	$ 24,188,159	$ 22,900,670

[1] *Effective January 1, 1993, the Company adopted SFAS No. 109,"Accounting for Income Taxes," which resulted in a $1.8 billion increase in deferred income taxes.*

FINANCIAL

1996 Cash Flows
(in millions)

Net cash provided by operating activities	$2,611
Net cash used by investing activities	(1,609)
Net cash used by financing activities	(1,593)
Net change in cash and cash equivalents	(591)

PG&E Corporation

Consolidated Cash Flows Data

Years ended December 31

(in thousands)

Cash Flows From Operating Activities
Net income
Adjustments to reconcile net income to net cash
provided by operating activities
Depreciation and decommissioning
Amortization
Gain on sale of investment in
Alberta Natural Gas Company Ltd.
Deferred income taxes and tax credits – net
Other deferred charges
Other noncurrent liabilities
Noncurrent balancing account liabilities
and other deferred credits
Net effect of changes in operating assets and liabilities
Accounts receivable
Regulatory balancing accounts receivable
Inventories
Accounts payable
Accrued taxes
Other working capital
Other – net

Net cash provided by operating activities

Cash Flows From Investing Activities
Capital expenditures
Diversified operations
Acquisition of PGT Queensland Gas Pipeline
Acquisition of Energy Source
Proceeds from sale of DALEN
Proceeds from sale of investment in
Alberta Natural Gas Company Ltd.
Purchase of subsidiary
Other – net

Net cash used by investing activities

Cash Flows From Financing Activities
Common stock issued
Common stock repurchased
Preferred stock issued
Preferred stock redeemed or repurchased
Company obligated mandatorily redeemable
preferred securities issued
Long-term debt issued
Long-term debt matured, redeemed or repurchased
Short-term debt issued (redeemed) – net
Dividends paid
Other – net

Net cash used by financing activities

Net Change in Cash and Cash Equivalents

Cash and Cash Equivalents at January 1

Cash and Cash Equivalents at December 31

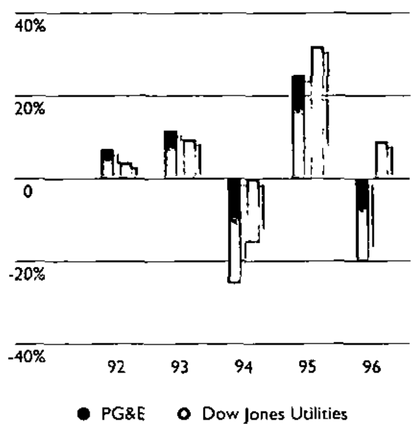
Supplemental disclosures of cash flow information
Cash paid for
Interest (net of amounts capitalized)
Income taxes
Internal generation as % of cash used to meet
capital requirements[1]

1996	1995	1994	1993	1992	1991
$ 755,209	$ 1,338,885	$ 1,007,450	$ 1,065,495	$ 1,170,581	$ 1,026,392
1,221,952	1,360,118	1,397,470	1,315,524	1,221,490	1,140,877
93,948	89,353	95,331	135,808	121,795	103,923
–	–	–	–	(48,722)	–
(149,990)	(116,069)	15,312	319,198	164,457	60,376
94,475	61,700	32,740	(158,725)	8,147	(68,905)
113,244	(17,218)	181,902	50,279	31,374	75,889
(185,390)	(69,787)	316,920	124,189	73,259	9,795
(46,368)	212,515	(116,936)	64,790	39,922	(69,076)
302,188	498,756	(269,250)	(232,597)	(215,195)	202,401
32,043	32,409	66,783	23,097	(7,161)	(7,440)
193,012	49,702	(110,033)	(39,422)	(102,559)	172,245
36,014	(162,374)	132,892	44,638	128,243	35,977
(6,234)	8,304	5,821	108,873	(36,117)	36,784
156,773	50,423	191,285	(28,347)	10,523	5,839
2,610,876	3,336,717	2,947,687	2,792,800	2,560,037	2,725,077
(1,230,331)	(944,618)	(1,126,904)	(1,841,650)	(2,351,535)	(1,771,183)
(99,532)	(178,874)	(308,810)	(234,221)	(148,226)	(117,847)
(136,227)	–	–	–	–	–
(23,270)	–	–	–	–	–
–	340,000	–	–	–	–
–	–	–	–	97,251	–
–	–	–	–	–	(388,662)
(119,923)	(122,913)	(29,914)	9,992	82,352	33,156
(1,609,283)	(906,405)	(1,465,628)	(2,065,879)	(2,320,158)	(2,244,536)
219,726	139,595	274,269	264,489	296,653	271,482
(455,278)	(601,360)	(181,558)	(257,780)	(5,410)	(337,969)
–	–	62,312	200,001	195,451	–
–	(358,212)	(82,875)	(302,640)	(276,806)	(123,667)
–	300,000	–	–	–	–
1,087,732	591,160	60,907	4,584,548	1,676,513	738,649
(1,471,390)	(1,296,549)	(436,673)	(4,002,704)	(1,409,337)	(263,220)
(115,243)	305,262	(239,478)	(366,961)	121,213	(14,278)
(843,997)	(891,270)	(891,850)	(857,515)	(809,108)	(765,543)
(14,036)	(21,543)	28,721	(24,885)	(28,736)	10,078
(1,592,486)	(1,832,917)	(1,406,225)	(763,447)	(239,567)	(484,468)
(590,893)	597,395	75,834	(36,526)	312	(3,927)
734,295	136,900	61,066	97,592	97,280	101,207
$ 143,402	$ 734,295	$ 136,900	$ 61,066	$ 97,592	$ 97,280
$ 598,394	$ 644,978	$ 674,758	$ 642,712	$ 694,512	$ 723,968
639,813	1,125,635	712,777	542,827	682,809	768,097
104.66%	151.1%	121.6%	77.0%	64.6%	80.0%

[1] *This ratio is calculated as net cash provided by operating activities, less common and preferred stock dividends paid, divided by the sum of construction expenditures (including AFUDC), expenditures from diversified operations, cash used for long-term debt maturities, sinking fund requirements, and redemption of preferred stock with mandatory redemption provisions. Calculation does not include $1,112 million, $1,060 million, $210 million, $3,803 million, $1,411 million, and $208 million for optional repurchase of long-term debt and redeemable preferred stock in 1996, 1995, 1994, 1993, 1992, and 1991, respectively.*

FINANCIAL

Total Return on Common Stock Investment



Financial Data and Ratios

Years ended December 31

PG&E Corporation

Total Return on Common Stock Investment
(Combination of change in stock price and dividends paid)

Common Stock Prices Per Share
High
Low
Close – year end

Return on Average Common Stock Equity

Earnings (Loss) Per Common Share
Utility
Diablo Canyon
Diversified Operations

Total

Price Earnings Ratio – Year End

Dividends Data
Dividends declared per common share
Dividends paid per common share
Payout ratio (declared basis)
Dividend yield at year end (declared basis)

Book Value Per Common Share – Year End
Utility
Diablo Canyon
Diversified Operations

Total

Market Price to Book Value Ratio – Year End

Coverage Ratios – Year End
Times interest earned [1]
Before income taxes
After income taxes
Times interest and preferred dividends and distributions earned [2]
Before income taxes
After income taxes

Capitalization Ratios – Year End
Common stock equity
Preferred stock and preferred securities [3]
Debt [4]

Total

AFUDC as % of Earnings Available to Common Stock

Effective Income Tax Rate
Number of employees
Number of common shareholders
Number of common shares outstanding

Pacific Gas & Electric Company

Utility Return on [5]
Equity – authorized
Equity – earned
Average utility rate base

Cost of Capital – Year End [5]
Utility embedded cost of bonds
Utility embedded cost of preferred stock and preferred securities

Depreciation and Amortization as % of Average Depreciable Plant

Authorized Utility Rate Base (in thousands) [5]

Average Utility Rate Base (in thousands) [5]
Electric
Gas

Total

Estimated population in PG&E's service area

1996	1995	1994	1993	1992	1991
(19.7%)	25.0%	(25.4%)	11.8%	7.2%	38.6%
$28.38	$30.63	$35.00	$36.75	$34.63	$32.63
$19.50	$24.25	$21.38	$31.75	$29.00	$24.00
$21.00	$28.38	$24.38	$35.13	$33.13	$32.63
8.5%	14.6%	11.1%	11.9%	13.7%	12.5%
$0.65	$1.80	$1.15	$1.12	$1.61	$1.71
$1.18	$1.16	$1.04	$1.11	$0.99	$0.59
$(0.08)	$0.03	$0.02	$0.10	$(0.02)	$(0.06)
$1.75	$2.99	$2.21	$2.33	$2.58	$2.24
12.0x	9.5x	11.0x	15.1x	12.8x	14.6x
$1.77	$1.96	$1.96	$1.88	$1.76	$1.64
$1.96	$1.96	$1.94	$1.85	$1.73	$1.61
101.1%	65.6%	88.7%	80.7%	68.2%	73.2%
8.4%	6.9%	8.0%	5.4%	5.3%	5.0%
$15.62	$15.22	$14.73	$14.90	$14.35	$13.10
$ 3.41	$ 3.60	$ 3.23	$ 3.30	$ 3.59	$ 3.71
$ 1.70	$ 1.95	$ 2.11	$ 1.57	$ 1.47	$ 1.59
$20.73	$20.77	$20.07	$19.77	$19.41	$18.40
1.01x	1.37x	1.21x	1.78x	1.71x	1.77x
3.04x	4.23x	3.51x	3.30x	3.53x	3.40x
2.17x	2.93x	2.36x	2.20x	2.41x	2.30x
2.79x	3.83x	3.25x	3.07x	3.21x	3.05x
1.99x	2.65x	2.19x	2.05x	2.19x	2.06x
46.8%	46.2%	45.0%	43.1%	43.4%	42.5%
4.7%	4.5%	4.5%	4.5%	5.0%	5.5%
48.5%	49.3%	50.5%	52.4%	51.6%	52.0%
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
3.0%	2.4%	3.4%	12.0%	7.7%	4.5%
42.4%	40.1%	45.4%	45.8%	43.3%	45.3%
22,000	22,000	22,000	24,300	27,700	27,400
198,000	220,000	234,000	245,000	254,000	261,000
403,504,000	414,026,000	430,243,000	427,219,000	426,846,000	417,572,000
11.60%	12.10%	11.00%	11.90%	12.65%	12.90%
4.33%	11.73%	9.63%	10.52%	11.93%	13.64%
5.95%	9.53%	8.51%	9.28%	10.19%	11.25%
7.46%	7.45%	7.47%	7.51%	8.56%	9.04%
7.44%	7.37%	8.10%	8.20%	8.37%	8.74%
3.7%	4.1%	4.1%	3.9%	4.1%	4.1%
$ 11,895,595	$ 13,264,321	$ 12,717,416	$ 12,065,027	$ 10,999,047	$ 10,555,553
$ 8,996,733	$ 8,960,877	$ 8,986,737	$ 8,955,903	$ 8,853,363	$ 8,513,000
2,741,701	2,688,666	2,690,237	2,643,503	2,594,716	2,384,900
$ 11,738,434	$ 11,649,543	$ 11,676,974	$ 11,599,406	$ 11,448,079	$ 10,897,900
13,000,000	13,000,000	13,000,000	12,800,000	12,100,000	12,100,000

[1] *Excludes preferred security distributions which are related to PG&E's issuance of cumulative quarterly income preferred securities (QUIPS) in November 1995.*

[2] *Includes both preferred stock dividends and preferred security distributions.*

[3] *Includes current portion.*

[4] *Consists of long-term debt, long-term debt – current portion, and short-term borrowings.*

[5] *PG&E only, excluding Diablo Canyon and the in-state (or PG&E) portion of the PGT/PG&E Pipeline Expansion (Line 401).*

FINANCIAL

PG&E Corporation

Consolidated Capitalization Data

December 31, 1996

(in thousands)	Shares authorized	Outstanding Shares	Outstanding Amount
PG&E CORPORATION COMMON STOCK			
Common stock	800,000	403,504	$ 2,017,521
Additional paid-in capital	–	–	3,709,893
Reinvested earnings	–	–	2,635,887
Total Common Stock Equity	–	–	$ 8,363,301

PG&E PREFERRED STOCK

Coupon rate	Newspaper Symbol[1]	Not redeemable prior to	Current optional redemption price per share excluding accrued dividends	Shares authorized	Outstanding Shares	Outstanding Amount
Preferred stock without mandatory redemption provisions						
Redeemable - par value $25 per share[2]						
4.36%	PacGE pfI		$25.750	418	418	$ 10,457
4.50%	PacGE pfH		$26.000	611	611	15,279
4.80%	PacGE pfG		$27.250	793	793	19,826
5.00% Series A	PacGE pfE		$26.750	934	934	23,358
5.00%	PacGE pfD		$26.750	1,779	1,779	44,454
6.875%	PacGE pfX	7/31/98	NA	5,000	1,721	43,019
7.04%	PacGE pfU	1/31/03	NA	3,000	1,438	35,963
7.44%	PacGE pfQ	8/1/97	NA	5,000	2,603	65,079
Total redeemable				17,535	10,297	257,435
Nonredeemable - par value $25 per share[2]						
5.00%	PacGE pfC			400	400	10,000
5.50%	PacGE pfB			1,173	1,173	29,329
6.00%	PacGE pfA			4,212	4,212	105,292
Total nonredeemable				5,785	5,785	144,621
Total without mandatory redemption provisions				23,320	16,082	402,056
Preferred stock with mandatory redemption provisions						
Par value $25 per share[2]						
6.30%	PacGE pfZ	1/31/04	NA	2,500	2,500	62,500
6.57%	PacGE pfY	7/31/02	NA	3,000	3,000	75,000
Total with mandatory redemption provisions				5,500	5,500	137,500
Undesignated in class						
Par value $25 per share				46,180	–	–
Par value $100 per share				10,000	–	–
Total undesignated in class				56,180	–	–
Total PG&E Preferred Stock				85,000	21,582	$ 539,556
PG&E PREFERRED SECURITIES						
Company obligated mandatorily redeemable preferred securities of trust holding solely PG&E subordinated debentures (QUIPS)						
7.90% Series A	PG&ECapA quips	11/28/00		NA	12,000	$ 300,000
TOTAL CAPITAL STOCK AND PREFERRED SECURITIES						$ 9,202,857

[1] Local newspaper symbols may vary.

[2] Authorized 75 million shares of $25 par value in total (both with and without mandatory redemption provisions).

Credit Ratings
(December 31, 1996)

	Senior long term debt	First and refunding mortgage bonds	Eurobonds	Medium-term notes	Commercial paper	Preferred stock and preferred securities
PG&E Corporation						
Moody's	Baa1				P-2	
Standard & Poor's	A-				A-2	
PG&E						
Moody's		A2	A3	A3	P-1	A3
Standard & Poor's		A	A-	A-	A-1	A-

PG&E Corporation

LONG-TERM DEBT

December 31, 1996 (in thousands)		Principal amount issued	Principal amount outstanding
PG&E mortgage bonds and pollution control loan agreements			
4-5/8%	Series LL due June 1, 1997	$ 75,000	$ 19,566
5-3/8%	Series MM due June 1, 1998	75,000	48,124
5-3/8%	Series 93B due August 1, 1998	400,000	397,000
5-3/4%	Series NN due December 1, 1998	80,000	66,442
5-1/2%	Series OO due June 1, 1999	80,000	66,769
6-7/8%	Series PP due December 1, 1999	80,000	79,910
6-5/8%	Series QQ due June 1, 2000	50,000	49,928
6-3/4%	Series RR due December 1, 2000	60,000	59,821
8-3/4%	Series 90B due January 1, 2001	100,000	92,890
7-7/8%	Series 92A due March 1, 2002	400,000	380,100
6-1/4%	Series 93C due August 1, 2003	400,000	374,540
6-1/4%	Series 93G due March 1, 2004	350,000	348,000
5-7/8%	Series 93E due October 1, 2005	300,000	289,495
8-3/4%	Series pollution control 1987B-1 due January 1, 2007	50,000	50,000
6-5/8%	Series pollution control 1992A due June 1, 2009	35,000	35,000
6.35%	Series pollution control 1992B due June 1, 2009	50,000	50,000
8-7/8%	Series pollution control 1987B-2 due January 1, 2010	265,000	265,000
8.08%[1]	Series 81B adjustable due August 1, 2011	75,000	75,000
3.42%[2]	Series pollution control 1996G due February 1, 2016	62,870	62,870
3.43%[2]	Series pollution control 1996A due December 1, 2016	200,000	200,000
3.47%[2]	Series pollution control 1996B due December 1, 2016	160,000	160,000
8.2%	Series pollution control 1987A due December 1, 2018	45,000	45,000
8-1/4%	Series 92D due November 1, 2022	400,000	351,936
5-7/8%	Series pollution control 1993A due June 1, 2023	60,000	60,000
6-3/4%	Series 93F due October 1, 2023	400,000	373,650
5.85%	Series pollution control 1993B due December 1, 2023	200,000	200,000
7.05%	Series 93H due March 1, 2024	350,000	299,200
8.80%	Series 91A due May 1, 2024	200,000	184,910
8-3/8%	Series 92B due May 1, 2025	200,000	180,000
8.0%	Series 92C due October 1, 2025	250,000	249,000
7-1/4%	Series 93A due March 1, 2026	300,000	290,240
7-1/4%	Series 93D due August 1, 2026	450,000	438,800
3.50%[2]	Series pollution control 1996D due November 1, 2026	100,000	100,000
3.54%[2]	Series pollution control 1996E due November 1, 2026	165,000	165,000
3.31%[2]	Series pollution control 1996C due November 1, 2026	200,000	200,000
3.35%[2]	Series pollution control 1996F due November 1, 2026	100,000	100,000
Principal amounts outstanding			6,408,191
Unamortized discount net of premium			(49,923)
Total PG&E mortgage bonds and pollution control loan agreements			6,358,268
Other PG&E long-term debt			
Eurobond 12.0% debentures due January 9, 2000			57,539
Unsecured medium-term notes, 4.93% to 9.9%, due 1997-2014			828,900
Unamortized discount related to unsecured medium-term notes			(1,187)
Other long-term debt			32,800
Total PG&E long-term debt			7,276,320
Long-term debt of PGT and Enterprises			703,614
Total PG&E Corporation consolidated long-term debt			7,979,934
Less: long-term debt – current portion			
PG&E			206,829
Enterprises			3,038
Total PG&E Corporation consolidated long-term debt – current portion			209,867
TOTAL PG&E CORPORATION CONSOLIDATED LONG-TERM DEBT			7,770,067
Total PG&E Corporation Consolidated Capitalization			$16,972,924

[1] *Current rate*

[2] *Variable rate (Rate shown is average for 1996).*

Pacific Gas & Electric Company

Issuance of Additional Montgage Bonds

PG&E Corporation's Board of Directors, without shareholder approval, may increase the maximum principal amount of bonds (presently fixed at $10 billion) which may be outstanding or reserved for issue under the Mortgage Indenture (Mortgage). Such an increase would require filing a supplemental mortgage indenture and approval by the California Public Utilities Commission.

Additional bonds may be issued (i) to pay or redeem bonds of another series, (ii) against the surrender and cancellation of bonds of another series, (iii) against deposit of the net proceeds thereof with the Trustee (which shall not be less than 90% of the principal amount of the bonds to be issued), which proceeds may be withdrawn to the extent of 75% of its capital expenditures, and (iv) to reimburse PG&E for 75% of its capital expenditures. As of December 31, 1996, unreimbursed capital expenditures were approximately $8.9 billion. No additional bonds may be issued under (ii) above, in certain instances, or under (iii) and (iv) above, unless aggregate net earnings for a twelve-month period ending not more than 60 days prior to the date of delivery of said bonds were at least 1.75 times annual interest charges on aggregate bonded indebtedness. PG&E's earnings coverage so computed for the year ended December 31, 1996 is 6.70.

Security

The bonds are secured by the Mortgage, which constitutes a valid first lien upon all real property and a perfected security interest in substantially all personal property owned by PG&E for the equal pro rata security of all bonds issued.

Sinking Fund

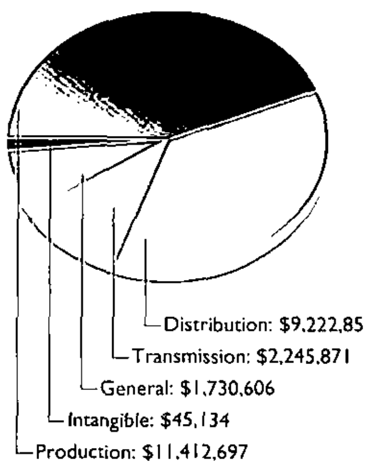
PG&E is required by the indenture to make sinking fund payments to the Trustee on February 1 and August 1 of each year. The payments equal 1/2 of 1% of the aggregate bonded indebtedness of PG&E outstanding on the preceding November 30 and May 31, respectively. For many years, PG&E has satisfied this obligation by purchasing outstanding bonds on the open market and depositing these bonds with the Trustee.

General Reserve Fund

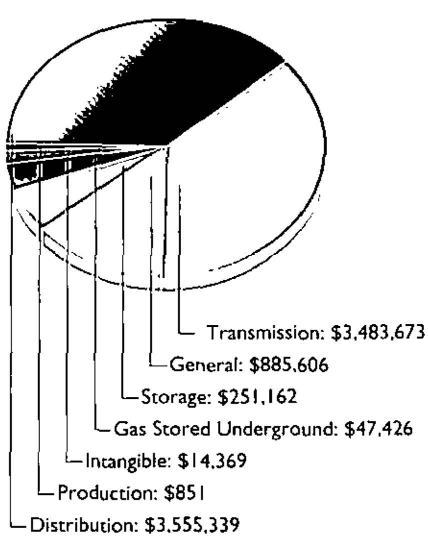
PG&E covenants to pay the Trustee annually, by April 30 of the following year, for crediting to the General Reserve Fund (Fund), 4% of total outstanding bonded indebtedness on June 30, less credits for (i) maintenance, (ii) bonds purchased during the year with money from the Fund and deposited with the Fund, (iii) any balance in the Fund, and (iv) unreimbursed capital expenditures certified to the Trustee for the purposes of such credit. Withdrawals from the Fund may be made on the basis of (a) unreimbursed expenditures for maintenance, (b) unreimbursed capital expenditures, or (c) purchase of bonds and deposit thereof with the Fund (Article Fourth). Since the foregoing credits always have exceeded 4% of the aggregate bonded indebtedness outstanding on June 30, no moneys ever have been deposited in the Fund. It is PG&E's intention to continue to satisfy this requirement through expenditures for maintenance and property additions.

FINANCIAL

1996 Electric Plant in Service
(in thousands)



1996 Gas Plant in Service
(in thousands)



PG&E Corporation

Consolidated Net Plant in Service Data

December 31

(in thousands)

ELECTRIC

Tangible
Production
Fossil fuel
Geothermal
Nuclear[1]
Hydro
Pumped storage
Other
Total production
Transmission
Distribution
General
Total tangible
Intangible
Total electric plant in service
Accumulated Depreciation[2]
Net electric plant in service

GAS

Tangible
Production
Storage
Gas stored underground
Transmission
Distribution
General
Total tangible
Intangible
Total gas plant in service
Accumulated Depreciation
Net gas plant in service
Total Net Plant in Service
Construction Work in Progress
Oil and Gas Properties[3]
Total

1996	1995	1994	1993	1992	1991
$ 1,783,088	$ 1,754,565	$ 1,727,578	$ 1,756,797	$ 1,666,747	$ 1,591,666
842,182	840,187	839,724	844,275	844,875	870,794
6,535,087	6,142,190	6,008,389	5,886,258	5,823,391	5,715,358
1,391,177	1,380,353	1,326,510	1,329,477	1,291,119	1,269,861
788,165	862,388	880,971	890,644	890,641	889,686
72,998	72,986	75,993	75,199	74,563	71,547
11,412,697	11,052,669	10,859,165	10,782,650	10,591,336	10,408,912
2,245,871	2,189,485	2,136,153	2,085,997	2,031,201	1,944,674
9,222,851	8,771,881	8,380,118	8,018,922	7,718,394	7,237,992
1,730,606	2,115,676	2,292,785	2,222,422	1,897,974	1,721,117
24,612,025	24,129,711	23,668,221	23,109,991	22,238,905	21,312,695
45,134	47,588	45,431	45,023	43,894	48,354
24,657,159	24,177,299	23,713,652	23,155,014	22,282,799	21,361,049
(10,981,176)	(10,235,796)	(9,423,282)	(8,636,136)	(7,980,633)	(7,154,501)
13,675,983	13,941,503	14,290,370	14,518,878	14,302,166	14,206,548
851	901	694	3,316	11,609	15,026
251,162	247,521	248,498	234,401	224,854	215,752
47,426	46,794	45,983	55,883	53,688	53,688
3,483,673	3,271,245	3,181,669	3,105,519	1,488,577	1,426,566
3,555,339	3,378,827	3,253,000	3,071,543	2,917,009	2,685,075
885,606	778,552	710,286	670,445	753,367	673,011
8,224,057	7,723,840	7,440,130	7,141,107	5,449,104	5,069,118
14,369	8,841	7,749	5,634	4,980	4,879
8,238,426	7,732,681	7,447,879	7,146,741	5,454,084	5,073,997
(3,320,758)	(3,075,704)	(2,847,409)	(2,600,282)	(2,527,589)	(2,318,452)
4,917,668	4,656,977	4,600,470	4,546,459	2,926,495	2,755,545
18,593,651	18,598,480	18,890,840	19,065,337	17,228,661	16,962,093
414,229	333,263	527,867	620,187	1,534,578	711,509
–	–	437,352	573,523	591,544	632,811
$ 19,007,880	$ 18,931,743	$ 19,856,059	$ 20,259,047	$ 19,354,783	$ 18,306,413

[1] *Excludes transmission and general plant related to Diablo Canyon.*

[2] *Includes approximately $3,019 million, $2,639 million, $2,250 million, $1,895 million, $1,479 million, and $1,196 million of accumulated depreciation and decommissioning related to Diablo Canyon for 1996, 1995, 1994, 1993, 1992, and 1991, respectively.*

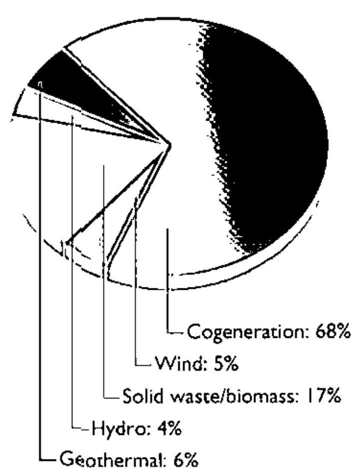
[3] *In June 1995, PG&E sold DALEN Resources Corp.*

Electric

Qualifying Facilities (QFs)
(1996 Statistics)

Capacity under contract	5,300 MW
Operational capacity	4,700 MW
Power delivered	20,309 GWh
Payments to QFs	
Energy	$1,136 million
Capacity	$521 million
Average price paid per kWh (Energy plus capacity)	8.2 cents

1996 QF Purchases
(by technology)



Electric Operating Statistics

Years ended December 31

PG&E Sources of Energy – kWh (in thousands)[1]
Natural gas
Oil
Geothermal
Nuclear
Combustion turbine
Net PG&E thermal
Hydroelectric
Solar and wind
Helms pumpback energy
Net PG&E renewable
Net PG&E generation
PG&E QF area purchases
PG&E in area purchases
PG&E out of area purchases
Net PG&E system sources of energy
Other control area producers
Other control area purchases
Net PG&E control area sources of energy[2]

Disposition of Energy – kWh (in thousands)
Sales to PG&E customers
PG&E uses, losses, and unaccounted for
Other control area disposition
Net PG&E control area disposition

Area Capability (at annual peak) – MW
Thermal (including nuclear)
Hydroelectric (available)
Total PG&E capability
Less unavailable capability
Total PG&E available capability
PG&E QF area purchases (available)
PG&E in area purchases
PG&E out of area purchases
Total PG&E system available capability
Other control area producers
Other control area purchases
Total control area available capability[2]

PG&E System, Peak Demand – MW
Control Area, Peak Demand – MW[2]
Date
Hour
Annual Load Factor – Net Control Area

Average Fuel Cost Per Million BTUs[3]
Natural gas
Residual oil
Weighted average

Fuel Consumed, equivalent barrels (in thousands)
Natural gas (equivalent barrels)[3]
Fuel oil[3]
Nuclear
Total fuel consumed

1996	1995	1994	1993	1992	1991
11,577,860	13,289,962	27,950,029	17,734,738	26,499,926	21,830,266
12,958	425,009	1,583,280	1,324,398	104,083	141,279
4,514,643	4,000,930	6,024,133	6,491,142	7,006,932	6,947,260
16,719,721	16,269,002	15,264,977	16,816,168	16,698,120	15,072,875
29,092	14,044	9,302	10,811	19,087	12,500
32,854,274	33,998,947	50,831,721	42,377,257	50,328,148	44,004,180
15,157,798	16,607,737	7,791,473	14,402,500	7,537,492	7,995,546
1,580	1,451	973	804	323	149
(897,506)	(936,882)	(466,524)	(452,206)	(397,966)	(592,895)
14,261,872	15,672,306	7,325,922	13,951,098	7,139,849	7,402,800
47,116,146	49,671,253	58,157,643	56,328,355	57,467,997	51,406,980
20,351,814	20,376,389	21,692,229	21,302,621	21,312,227	19,133,856
5,918,620	6,310,864	2,185,156	5,584,441	1,947,686	2,553,451
8,040,762	5,150,062	3,281,118	3,096,088	5,118,237	9,761,118
81,427,342	81,508,568	85,316,146	86,311,505	85,846,147	82,855,405
15,457,000	16,018,421	6,453,127	6,123,778	5,004,022	5,239,789
5,115,658	4,440,942	10,994,219	7,437,644	8,402,252	8,875,299
102,000,000	101,967,931	102,763,492	99,872,927	99,252,421	96,970,493
74,394,282	75,358,632	75,621,150	75,653,342	75,285,241	74,195,890
6,500,000	6,040,233	7,838,492	6,960,107	7,277,696	7,184,247
21,105,718	20,569,066	19,303,850	17,259,478	16,689,484	15,590,356
102,000,000	101,967,931	102,763,492	99,872,927	99,252,421	96,970,493
9,673	9,673	11,015	11,018	11,031	11,096
3,603	3,771	3,556	3,696	3,878	3,881
13,276	13,444	14,571	14,714	14,909	14,977
(2,750)	(536)	(913)	(1,456)	(2,573)	(1,358)
10,526	12,908	13,658	13,258	12,336	13,619
3,040	2,952	2,981	2,988	3,185	2,603
1,228	979	788	845	695	770
2,942	1,639	1,341	1,405	1,099	790
17,736	18,478	18,768	18,496	17,315	17,782
3,794	2,682	1,205	2,104	1,220	1,724
1,194	899	1,878	953	1,367	806
22,724	22,059	21,851	21,553	19,902	20,312
16,877	15,988	15,334	15,323	15,137	14,981
21,437	20,317	19,118	19,607	18,594	18,620
August 12	August 1	August 15	August 2	August 11	July 2
5:00 PM	5:00 PM	3:00 PM	4:00 PM	4:00 PM	3:00 PM
54.2%	57.3%	61.4%	58.2%	60.9%	59.5%
$1.83	$2.06	$2.19	$2.86	$2.61	$2.75
2.66	1.28	2.83	3.49	3.13	3.00
1.92	2.03	2.23	2.90	2.62	2.75
20,193	23,143	44,119	28,791	43,446	36,262
686	756	2,395	2,080	171	631
28,574	27,814	26,135	28,724	28,540	25,808
49,453	51,713	72,649	59,595	72,157	62,701

[1] *Represents actual year net generation from sources shown.*

[2] *Includes loads served by Sacramento Municipal Utility District (SMUD), Modesto (MID), and Turlock (TID) Irrigation Districts' own resources.*

[3] *Conventional fossil fuel plants only.*

ELECTRIC

Electric Industrial Sales Diversification 1996 kWh sales (in thousands)	
Food products	2,322,366
Petroleum/coal	1,016,557
Electronics	1,593,518
Industrial machine and equipment	1,430,499
Stone/clay/glass	1,207,973
Oil/gas extraction	985,711
Wood	680,613
Chemicals	591,575
Paper	590,062
Primary metal	565,785
Rubber and plastics	521,377

Electric Revenues, Sales and Customers

Years ended December 31

ELECTRIC REVENUE ANALYSIS

Revenues (in thousands)
Residential
Commercial
Industrial
Agricultural
Public street and highway lighting

Revenues from retail customers
Resale
Miscellaneous

PG&E electric revenues
Regulatory balancing accounts

Total electric revenues

Average Billed Revenue Per kWh
Residential
Commercial
Industrial
Agricultural
Public street and highway lighting
Resale
Average billed revenue per kWh (including resale)
Average billed revenue per kWh from retail customers
Average Annual Residential Bill
Average Annual Residential Consumption—kWh

ELECTRIC SALES ANALYSIS

Sales—kWh (in thousands)
Residential
Commercial
Industrial
Agricultural
Public street and highway lighting

Sales to retail customers
Resale

Total PG&E sales

ELECTRIC CUSTOMERS (at Year End)

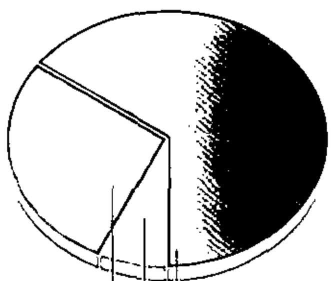
Residential
Commercial
Industrial
Agricultural
Public street and highway lighting
Resale

Total PG&E customers

1996		1995		1994		1993		1992		1991	
$3,033,613	40.3%	$2,979,590	38.3%	$2,980,966	37.8%	$2,952,893	37.6%	$2,790,605	36.5%	$2,729,763	36.4%
2,840,101	37.7	2,964,568	38.1	2,892,302	36.7	2,914,855	37.1	2,864,817	37.5	2,745,040	36.6
1,005,694	13.4	1,160,938	14.9	1,128,561	14.3	1,183,728	15.1	1,210,754	15.9	1,186,452	15.8
396,469	5.3	395,531	5.1	477,330	6.1	419,628	5.3	478,941	6.3	477,397	6.4
55,372	0.7	56,154	0.7	55,545	0.7	55,976	0.7	53,133	0.7	50,631	0.7
7,331,249	97.4	7,556,781	97.1	7,534,704	95.6	7,527,080	95.8	7,398,250	96.9	7,189,283	95.9
81,855	1.1	133,566	1.7	201,133	2.6	242,433	3.1	185,555	2.4	204,089	2.7
112,303	1.5	92,538	1.2	142,771	1.8	87,991	1.1	51,716	0.7	103,180	1.4
7,525,407	100.0%	7,782,885	100.0%	7,878,608	100.0%	7,857,504	100.0%	7,635,521	100.0%	7,496,552	100.0%
(365,192)		(396,578)		142,939		19,421		127,490		(97,016)	
$7,160,215		$7,386,307		$8,021,547		$7,876,925		$7,763,011		$7,399,536	
	% Change		% Change		% Change		% Change		% Change		% Change
11.92¢	(2.5)	12.22¢	(0.2)	12.25¢	–	12.25¢	3.9	11.79¢	1.6	11.60¢	11.4
10.19	(7.1)	10.97	(0.6)	11.04	(0.5)	11.10	1.6	10.92	2.4	10.66	8.9
6.37	(7.4)	6.88	(2.4)	7.05	(1.8)	7.18	(1.5)	7.29	1.3	7.20	9.3
10.92	(4.0)	11.37	5.5	10.78	(5.7)	11.43	13.2	10.10	0.2	10.08	10.4
12.63	(4.5)	13.23	(0.5)	13.29	(0.4)	13.35	0.6	13.27	1.8	13.03	3.8
6.75	60.3	4.21	(11.2)	4.74	(8.1)	5.16	1.0	5.11	(17.2)	6.17	2.8
9.96	(2.4)	10.20	(0.3)	10.23	(0.4)	10.27	2.0	10.07	1.1	9.96	9.8
10.02	(4.3)	10.47	(0.9)	10.56	(0.5)	10.61	2.7	10.33	1.9	10.14	9.9
$783	0.5	$779	(1.0)	$787	(0.1)	$788	4.6	$753	1.1	$745	11.0
6,571	3.0	6,377	(0.7)	6,422	(0.1)	6,431	0.8	6,381	(0.6)	6,421	(0.3)
25,457,707	34.2%	24,391,279	32.4%	24,325,737	32.2%	24,111,122	31.9%	23,663,905	31.4%	23,534,822	31.7%
27,867,567	37.5	27,013,742	35.9	26,195,404	34.5	26,257,994	34.7	26,245,815	34.9	25,757,736	34.7
15,786,178	21.2	16,879,390	22.4	16,010,290	21.2	16,491,597	21.8	16,600,115	22.1	16,472,583	22.2
3,631,376	4.9	3,478,199	4.6	4,425,958	5.9	3,672,449	4.9	4,740,820	6.3	4,733,798	6.4
438,315	0.6	424,501	0.5	417,839	0.6	419,173	0.5	400,484	0.5	388,668	0.5
73,181,143	98.4	72,187,111	95.8	71,375,228	94.4	70,952,335	93.8	71,651,139	95.2	70,887,607	95.5
1,213,139	1.6	3,171,521	4.2	4,245,922	5.6	4,701,007	6.2	3,634,102	4.8	3,308,283	4.5
74,394,282	100.0%	75,358,632	100.0%	75,621,150	100.0%	75,653,342	100.0%	75,285,241	100.0%	74,195,890	100.0%
	% Change		% Change		% Change		% Change		% Change		% Change
3,895,880	1.3	3,844,337	1.2	3,800,399	(0.1)	3,803,485	1.7	3,739,907	1.4	3,689,369	1.4
462,143	1.1	456,967	0.9	452,819	0.3	451,345	–	451,315	(1.0)	455,678	2.1
1,263	(0.6)	1,270	2.2	1,243	0.5	1,237	3.7	1,193	(0.3)	1,196	7.0
86,307	(1.6)	87,677	(1.9)	89,353	(1.6)	90,761	(2.2)	92,847	(2.6)	95,355	(1.3)
17,783	3.1	17,242	2.4	16,844	1.7	16,558	4.5	15,842	2.1	15,523	2.5
37	54.2	24	14.3	21	(25.0)	28	40.0	20	(16.7)	24	14.3
4,463,413	1.3	4,407,517	1.1	4,360,679	(0.1)	4,363,414	1.4	4,301,124	1.0	4,257,145	1.4

GAS

1996 Gas Supply Sources
(in thousands of Mcf)



Pacific Gas & Electric Company

Gas Operating Statistics

Years ended December 31

Sources of Gas Purchased – Mcf (in thousands)
Natural gas purchased
From Canada
From California
From other states (substantially all Southwest U.S.)
Total natural gas purchased
Stored underground (injected)
Withdrawn from storage
Line pack
Net natural gas from storage (to storage)
Total sources

Disposition of Gas – Mcf (in thousands)
Sales to customers
Used in company steam-electric plants
Other – net
Total disposition

Sources of Gas Purchased – Percent
From Canada
From California
From other states (substantially all Southwest U.S.)
Total purchases

Average Cost of Gas Purchased – Mcf
From Canada (at California border)
From California
From other states (at California border)
Average – all purchases

Miles of Gas System
Transmission
Distribution
Total

Customers Per Mile of Gas Distribution System

Peak Day Sendout – Mcf (in thousands)

Mean Temperature on Peak Day (°F)

Annual Degree Days (60° billing basis)

Percent of Normal
(Over 100% indicates colder than normal)

Average System BTU Per Cubic Foot

1996	1995	1994	1993	1992	1991
253,209	261,800	319,453	329,693	321,770	345,020
28,130	31,158	31,757	32,096	50,953	73,257
110,604	117,538	249,733	243,058	327,272	240,141
391,943	410,496	600,943	604,847	699,995	658,418
(22,136)	(30,453)	(44,098)	(42,861)	(27,873)	(31,629)
28,644	19,846	47,805	31,312	38,427	24,673
363	(314)	(116)	(685)	(419)	107
6,871	(10,921)	3,591	(12,234)	10,135	(6,849)
398,814	399,575	604,534	592,613	710,130	651,569
264,439	269,904	306,930	430,718	429,109	428,393
132,397	132,397	286,213	180,275	263,010	219,167
1,978	(2,726)	11,391	(18,380)	18,011	4,009
398,814	399,575	604,534	592,613	710,130	651,569
64.6%	63.8%	53.2%	54.5%	46.0%	52.4%
7.2	7.6	5.3	5.3	7.3	11.1
28.2	28.6	41.5	40.2	46.7	36.5
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
$1.57	$1.34	$1.94	$2.26	$2.14	$2.34
1.90	1.32	1.55	1.65	1.73	2.00
3.72	2.64	2.41	2.84	2.51	2.61
2.21	1.71	2.12	2.46	2.28	2.40
5,730	5,750	5,744	5,727	5,347	5,356
36,213	35,765	35,432	35,163	34,724	34,337
41,943	41,515	41,176	40,890	40,071	39,693
101.5	101.4	99.6	101.2	101.8	101.9
3,407	3,334	3,801	4,002	3,930	3,559
43.9	53.0	49.2	41.4	39.0	42.7
1,307	1,286	1,768	1,554	1,299	1,742
75.7%	75.3%	104.4%	89.9%	76.0%	101.5%
1,020	1,024	1,029	1,019	1,015	1,016

Gas

Gas Industrial Deliveries Diversification 1996 Mcf (in thousands)	
Petroleum/coal	80,729
Food products	38,699
Stone/clay/glass	17,593
Paper	13,167
Chemicals	11,202
Wood	4,675
Oil/gas extraction	2,185

Gas Revenues, Sales and Customers

Years ended December 31

GAS REVENUE ANALYSIS

Revenues (in thousands)
Bundled gas sales and transportation service
Residential
Commercial
Industrial
Other gas utilities
Bundled gas revenues
Transportation service only revenue
Vintage system (substantially all industrial)
In-state portion of Pipeline Expansion (Line 401)
Transportation service only revenues
Miscellaneous
Billed PG&E gas revenues
Regulatory balancing accounts
Subsidiaries
Total gas revenues

Average Billed Revenue Per Mcf
Average billed bundled gas sales revenues
Residential
Commercial
Industrial
Other gas utilities
Average billed revenue per Mcf
Average billed transportation only revenues
Vintage system (substantially all industrial)
In-state portion of Pipeline Expansion (Line 401)

Average Annual Residential Bill

Average Annual Residential Consumption – Mcf

GAS SALES ANALYSIS

Sales – Mcf (in thousands)
Bundled gas sales and transportation service
Residential
Commercial
Industrial
Other gas utilities
Total bundled gas sales
Transportation service only
Vintage system (substantially all industrial)
In-state portion of Pipeline Expansion (Line 401)[1]
Total transportation service only sales

GAS CUSTOMERS (at Year End)

Residential
Commercial
Industrial
Other gas utilities
Total PG&E customers

1996		1995		1994		1993		1992		1991	
$1,109,463	62.6%	$1,205,223	63.4%	$1,268,966	63.3%	$1,152,494	55.9%	$1,092,324	51.2%	$1,226,094	54.2%
362,819	20.5	421,397	22.2	444,805	22.2	467,962	22.7	479,599	22.5	551,669	24.4
42,520	2.4	42,106	2.2	57,297	2.9	367,221	17.8	425,467	20.0	366,346	16.2
510	0.0	0		2,371	0.1	25,654	1.2	38,504	1.8	43,224	1.9
1,515,312	85.5	1,668,726	87.8	1,773,439	88.5	2,013,331	97.6	2,035,894	95.5	2,187,333	96.7
180,197	10.2	167,325	8.8	132,509	6.6	56,733	2.8	75,606	3.5	133,348	5.9
85,144	4.8	82,904	4.4	58,442	2.9	8,097	0.4	–	0.0	–	0.0
265,341	15.0	250,229	13.2	190,951	9.5	64,830	3.2	75,606	3.5	133,348	5.9
(9,271)	(0.5)	(18,018)	(1.0)	40,427	2.0	(16,692)	(0.8)	21,022	1.0	(59,056)	(2.6)
1,771,382	100.0%	1,900,937	100.0%	2,004,817	100.0%	2,061,469	100.0%	2,132,522	100.0%	2,261,625	100.0%
57,864		(43,771)		(101,443)		95,339		40,199		(30,091)	
210,556		201,951		177,688		264,925		173,587		123,642	
$2,039,802		$2,059,117		$2,081,062		$2,421,733		$2,346,308		$2,355,176	
	% Change		% Change		% Change		% Change		% Change		% Change
$5.83	(7.3)	$6.29	6.3	$5.92	5.9	$5.59	(2.6)	$5.74	(1.4)	$5.82	4.3
5.84	(11.1)	6.57	6.7	6.16	8.1	5.70	(5.0)	6.00	(7.3)	6.47	17.4
3.54	18.0	3.00	2.0	2.94	6.5	2.76	(5.8)	2.93	(4.2)	3.06	(9.7)
0.00		0		2.65	(2.6)	2.72	(3.9)	2.83	(17.5)	3.43	28.0
5.73	(7.3)	6.18	6.9	5.78	23.8	4.67	(1.5)	4.74	(7.2)	5.11	7.6
0.67	(2.9)	0.69	15.0	0.60	15.4	0.52	(28.8)	0.73	14.1	0.64	1.6
0.36	5.9	0.34	17.2	0.29	(25.6)	0.39	–	–	–	–	–
$321	(8.8)	$352	(6.4)	$376	9.0	$345	4.5	$330	(11.8)	$374	5.4
55	(1.8)	56	(12.5)	64	3.2	62	8.8	57	(10.9)	64	0.0
190,246	71.9%	191,724	71.0%	214,358	69.8%	206,053	47.8%	190,176	44.3%	210,657	49.2%
62,178	23.5	64,135	23.8	72,183	23.5	82,048	19.1	79,983	18.6	85,203	19.9
12,015	4.6	14,045	5.2	19,495	6.4	133,178	30.9	145,356	33.9	119,916	28.0
–	–	–	–	894	0.3	9,439	2.2	13,594	3.2	12,617	2.9
264,439	100.0%	269,904	100.0%	306,930	100.0%	430,718	100.0%	429,109	100.0%	428,393	100.0%
189,695		143,921		142,393		101,888		103,186		207,544	
237,776		240,506		200,755		20,513		–		–	
427,471		384,427		343,148		122,401		103,186		207,544	
	% Change		% Change		% Change		% Change		% Change		% Change
3,475,597	1.4	3,427,935	2.9	3,331,647	(0.8)	3,358,840	0.7	3,334,436	1.0	3,300,160	1.5
200,123	0.9	198,380	1.0	196,359	(0.7)	197,693	(0.2)	198,016	(0.1)	198,270	0.3
1,437	(4.2)	1,500	1.0	1,485	12.6	1,319	9.2	1,208	4.0	1,161	1.0
2	–	2	–	2	–	2	(50.0)	4	–	4	–
3,677,159	1.4	3,627,817	2.8	3,529,493	(0.8)	3,557,854	0.7	3,533,664	1.0	3,499,595	1.5

[1] *Includes on-system transportation volumes transported on the in-state (or PG&E) portion of the PGT/PG&E Pipeline Expansion (Line 401) of 78,552 MMcf, 100,207 MMcf, 79,749 MMcf, and 7,205 MMcf for 1996, 1995, 1994, and 1993, respectively.*

Diablo Canyon

Since 1988, Diablo Canyon has operated under a unique performance-based ratemaking settlement under which revenues are based primarily on the amount of electricity generated, rather than traditional cost-based ratemaking.

In March 1996, PG&E proposed a modified ratemaking treatment for Diablo Canyon based on the ratemaking treatment for the San Onofre Nuclear Generating Station (SONGS). Under PG&E's proposal, all of PG&E's sunk costs would be recovered by the end of 2001, at a reduced return on equity equal to 90% of PG&E's embedded cost of debt (6.77%). Ongoing operating costs and capital additions would be recovered through a performance-based Incremental Cost Incentive Price (ICIP) mechanism. PG&E's proposal is currently pending before the California Public Utilities Commission.

Diablo Canyon Plant Facts

	Unit 1	Unit 2
Commercial operation	May 7, 1985	March 13, 1986
Plant capacity	1,073 MW	1,087 MW
Lifetime capacity factor through 1996	80%	82%

Refueling Schedule[1]
(subject to change)

	1997	1998	1999	2000	2001
Unit 1	Refueling begins 4/19		Refueling begins 1/30	Refueling begins 9/23	
Unit 2		Refueling begins 2/7	Refueling begins 10/9		Refueling begins 4/28

[1] Beginning in 1996, PG&E is scheduling refueling outages every 21 months as allowed under its existing NRC operating license. PG&E is seeking NRC approval to extend the refueling cycle to 24 months beginning in 2001.

Performance Data

Years ended December 31

(in thousands, except per share amounts)

FINANCIAL DATA

Operating Revenues

Operating Expenses
Cost of electric energy (nuclear fuel)
Maintenance and other operating
Depreciation and decommissioning
Administrative and general
Property and other taxes

Operating Income

Other Income and (Income Deductions)

Net Interest Expense

Pretax Income

Income Taxes

Net Income

Earnings Per Common Share

Gross Plant at year end

Net Plant at year end[3]

Total Assets at year end[4]

OPERATING DATA

Capacity Factor
Unit 1
Unit 2
Combined

Availability Factor
Unit 1
Unit 2
Combined

Net Generation – kWh (in thousands)
Unit 1
Unit 2
Combined

Settlement Price Per kWh

Refueling Outage
Unit 1
Unit 2

Refueling Outage Days
Unit 1
Unit 2

1996	1995	1994[2]	1993	1992	1991[2]
$ 1,789,452	$ 1,844,633	$ 1,869,738	$ 1,932,855	$ 1,781,399	$ 1,501,494
69,755	65,190	68,369	64,887	69,643	68,523
243,846	241,555	273,069	239,956	238,539	262,974
322,280	357,529	350,250	293,090	269,537	264,292
89,776	89,957	156,739	144,465	129,144	119,869
64,928	61,295	65,708	67,834	69,647	71,184
998,867	1,029,107	955,603	1,122,623	1,004,889	714,652
0	(1)	751	39	1,914	103
132,073	145,645	151,698	208,601	219,930	216,206
866,794	883,461	804,656	914,061	786,873	498,549
369,590	376,354	343,813	418,068	343,860	224,564
$ 497,204	$ 507,107	$ 460,843	$ 495,993	$ 443,013	$ 273,985
$1.18	$1.16	$1.04	$1.11	$.99	$.59
$ 6,658,137	$ 6,646,853	$ 6,647,162	$ 6,518,413	$5,983,976	$ 5,860,468
$ 3,639,027	$ 4,008,088	$ 4,397,361	$ 4,623,219	$4,504,497	$ 4,664,642
$ 4,695,962	$ 4,962,972	$ 5,186,938	$ 5,422,347	$5,234,353	$ 5,271,416
93%	79%	78%	96%	79%	78%
83	93	83	82	97	81
88	86	81	89	88	80
95%	82%	80%	99%	82%	81%
85	96	85	84	99	85
90	89	82	91	90	83
8,786,806	7,448,022	7,368,876	9,028,005	7,450,388	7,358,078
7,932,915	8,820,980	7,896,101	7,788,163	9,247,732	7,714,797
16,719,721	16,269,002	15,264,977	16,816,168	16,698,120	15,072,875
10.50¢	11.00¢	11.89¢	11.16¢	10.34¢	9.60¢
–	Sept.30-Nov.26	Mar.12-May 8	–	Sept.12-Nov.11	Feb.1-Apr.4
Apr. 6-May 24	–	Sept.24-Oct.28	Mar.6-May 1	–	Aug.31-Oct.26
–	57	57	–	59	62
48	–	34	57	–	56

[2] *Double refueling year.*

[3] *Net of accumulated decommissioning depreciation of approximately $747 million, $652 million, $517 million, $447 million, $371 million, and $295 million for 1996, 1995, 1994, 1993, 1992, and 1991, respectively.*

[4] *Assets have been restated to exclude regulatory assets associated with Diablo Canyon.*

PG&E Corporation Gas Subsidiaries

Building on its expertise in the natural gas business, PG&E Corporation is expanding its operations in the "midstream" portion of the natural gas market, which includes gas gathering, processing, storage, transportation, and commodity marketing. PG&E Corporation's current gas holdings include Pacific Gas Transmission Company, PGT Australia, PG&E Gas Transmission, Texas (formerly Teco Pipeline Company), and PG&E Energy Trading (formerly Energy Source, Inc.). In January 1997, PG&E Corporation agreed to acquire the natural gas businesses of Valero Energy Corporation; the transaction is expected to be completed in mid-1997.

Pacific Gas Transmission Company

Pacific Gas Transmission Company (PGT) is a wholly-owned subsidiary of PG&E Corporation. The table on the next page provides an overview of PGT's financial performance.

PGT's pipeline went into service in 1961 as the upstream pipeline for Pacific Gas & Electric Company, providing PG&E with Canadian natural gas to complement U.S. supplies delivered within California or at the California border by other pipelines from the southwest. PGT's dual pipeline system extends 612 miles from the Idaho-British Columbia border to California.

PGT offers open-access transportation services to a broad mix of customers, including utilities (both gas and electric), industrial and commercial end-users, and energy marketers. PGT provided transportation services to 91 customers in 1996, 49 of whom have long-term firm transportation service agreements, with terms ranging between 9 and 28 years.

PGT is the largest U.S. transporter of Canadian natural gas, capable of moving 2.4 billion cubic feet a day of gas into the U.S. with capacity to provide 1.8 billion cubic feet a day to California. PGT can also receive U.S. supplies via interconnections with Northwest Pipeline Corporation in Washington and Oregon.

In 1996, PGT was the largest provider of gas transportation to Northern California markets, accounting for more than a third of all deliveries.

PGT operated near system maximums during 1996, achieving system utilization of 97% at the Canadian border and 92% at the California border.

PGT Australia

PGT Australia was established in 1996 to pursue new business development opportunities on the Australian continent. PGT Australia operates the PGT Queensland Gas Pipeline, an intrastate pipeline in Queensland, an Australian state that is two-and-a-half times the size of Texas. The 389-mile line, acquired from the government of Queensland in 1996, serves industrial customers along the coast of Queensland with gas produced in the country's interior. At present, the PGT Queensland Gas Pipeline is the only pipeline in its service area. PGT Australia has made proposals to construct several lateral extensions from the pipeline to meet growing demand in the area.

In addition to several new projects in Queensland, PGT Australia has proposed construction of a major north-south pipeline in Western Australia to serve growing industrial load.

PG&E Gas Transmission, Texas

In January 1997, PG&E Corporation completed the acquisition of Teco Pipeline Company (Teco), an intrastate pipeline company located in Houston, Texas. Teco has been renamed PG&E Gas Transmission, Texas.

PG&E Gas Transmission, Texas and Valero Energy Corporation jointly own a 500-mile Texas intrastate pipeline that connects an important header system near Waha with a hub near the Houston suburb of Katy. Intrastate facilities such as the Waha-to-Katy pipeline are important links between the major Southwest producing basins and the eastbound interstate pipeline systems that originate along the Gulf Coast of Texas.

PG&E Gas Transmission, Texas has investments in gas gathering and processing facilities with a concentration in the Southern and Gulf Coast areas of Texas.

PG&E Energy Trading

PG&E Corporation acquired Energy Source Inc. (ESI), a North American gas marketing company based in Houston, Texas, in December, 1996. In April 1997, the energy trading operations of Teco were consolidated with ESI and the combined entity was renamed PG&E Energy Trading. PG&E Energy Trading is one of the largest natural gas trading businesses in North America and has offices located in various cities throughout the U.S. PG&E Energy Trading, Canada, a subsidiary headquartered in Calgary, conducts trading activities in key Canadian markets.

PG&E Energy Trading is primarily engaged in the wholesale purchase and resale of natural gas to electric generation companies, local distribution companies, and other trading partners. It also markets to large, end-use customers who purchase their energy in wholesale volume. It aggregates natural gas supplies from producing basins in the U.S. and Canada, arranges transportation from the point of purchase to the point of sale, and resells natural gas to customers under a variety of short- and long-term market-sensitive and fixed-price arrangements.

PG&E Energy Trading also markets selected other energy commodities to competitive energy services businesses, regulated utilities, and large, end-use customers. PG&E Energy Trading also supports PG&E Energy Services with a broad portfolio of energy products and services for the retail market.

Valero Energy Corporation

Valero Energy Corporation (Valero) is an intrastate gas company headquartered in San Antonio, Texas. Valero has two main subsidiaries, Valero Natural Gas Company (VNG) and Valero Refining and Marketing Company (Valero R&M). PG&E Corporation will acquire only VNG; Valero R&M will be spun off to Valero shareholders prior to the acquisition.

Pacific Gas Transmission Company

(in thousands, except per share amounts)

For the year:	1996[1]	1995	1994	1993	1992
Revenues[2]	$ 546,785	$ 269,218	$ 251,098	$ 703,212	$ 680,907
Operating income (loss)[3]	122,550	121,963	114,415	(18,693)	(12,871)
Net income (loss)	43,145	51,607	47,742	6,277	24,234
Contribution to PG&E's earnings per share	0.105	0.122	0.111	0.015	0.057
At year end					
Total assets	1,775,294	1,206,205	1,247,484	1,255,585	803,540
Equity	510,502	417,540	405,933	330,191	191,914

[1] *Includes data for PGT Australia and Energy Source, Inc.*

[2] *Decrease in 1994 primarily due to elimination of gas sales revenue with the implementation of FERC Order 636 effective November 1, 1993.*

[3] *Amounts for the years 1992 through 1995 have been revised to reflect the reclassification of operating income taxes to conform to PGT's 1996 Form 10-K presentation.*

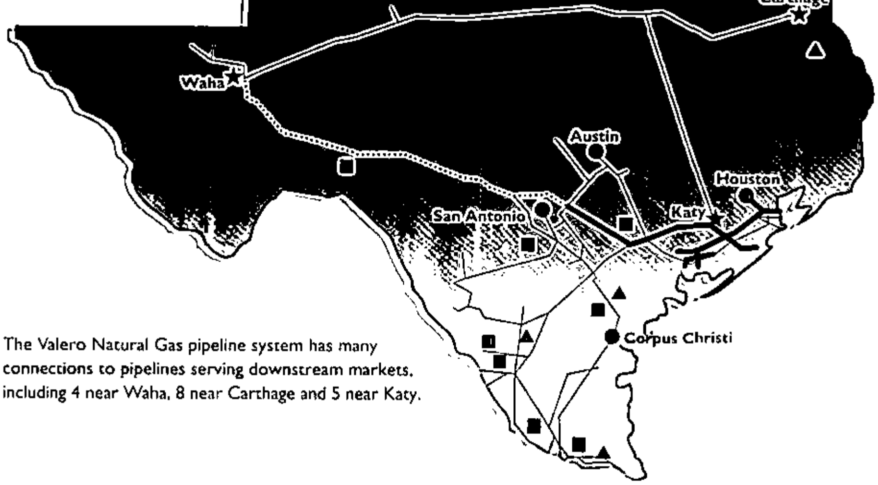
Valero wholly owns approximately 6,400 miles of pipeline. In addition, Valero jointly owns or leases approximately 1,100 miles of pipeline, including the Valero-Teco pipeline from Waha in west Texas to the San Antonio area.

Upon completion of the Valero acquisition, PG&E Corporation will have a major presence in the Texas Gulf mid-stream gas market. Together, PG&E Gas Transmission, Texas and Valero will offer extensive gathering and processing services in Texas, with a concentration in the southern and Gulf Coast areas of the state. Valero is capable of processing 94,000 barrels a day of natural gas liquids extracted at eight Texas processing facilities. In addition, Valero holds under contract 7.2 billion cubic feet of working gas storage at an underground salt-dome facility in Texas and another 6.5 billion cubic feet of storage at three different facilities located near various end-use markets.

Valero also owns a power marketing company which provides risk management and marketing services to the electric power industry.

Valero /PG&E Gas Transmission, Texas

– Texas –



The Valero Natural Gas pipeline system has many connections to pipelines serving downstream markets, including 4 near Waha, 8 near Carthage and 5 near Katy.

PG&E ENTERPRISES

PG&E Enterprises

PG&E Enterprises (Enterprises) is a holding company for PG&E Corporation's unregulated electric investments. Enterprises' wholly-owned subsidiaries include PG&E Generating Company, PG&E Energy Services, and PG&E Properties.

The table to the right provides an overview of Enterprises' consolidated financial performance.

PG&E Enterprises

(in thousands) For the year:	1996	1995	1994	1993	1992
Revenues	$ 126,947	$ 176,186	$ 247,621	$ 251,344	$ 208,981
Pretax income (loss)	(36,696)	12,917	2,370	13,199	(15,084)
Net income (loss)	(34,666)	12,725	4,934	17,045	(10,142)
Operating cashflow	(38,580)	102,427	205,128	185,623	118,178
At year end:					
Total assets	1,085,752	1,368,001	1,528,246	1,042,999	934,668
Equity	630,330	809,144	909,026	670,620	627,623

PG&E Generating Company

PG&E Generating Company was formed to partner with Bechtel Enterprises, Inc. in U.S. Generating Company (USGen). USGen manages the development, construction, and operation of domestic non-utility electric generation and natural gas storage and pipeline facilities in which the partners have ownership interests. USGen's power plants sell electricity and steam to utilities (other than PG&E) and to industrial firms nationwide.

As of December 31, 1996, USGen's partners had ownership interests in 17 operating plants with a total generating capacity of 3,375 megawatts (MW), of which USGen partners own 1,939 MW (PG&E Generating's share is 73% of the 1,939 MW). The projects are typically financed with a combination of equity or equity commitments from the project sponsors and non-recourse debt. In addition, USGen has projects in development located in Massachusetts, Texas, Oregon, California, and Georgia.

In addition to electric generation, USGen is also a 5% owner of the 370-mile Iroquois Gas Transmission natural gas pipeline which runs through New York and Connecticut, bringing Canadian natural gas to the Northeast United States. USGen is also a partner in the Avoca Natural Gas storage project located in Avoca, New York.

USGen Power Services, L.P. (USGenPS), is USGen's power trading subsidiary which participates in the short-term wholesale power market. USGenPS has received authority from the Federal Energy Regulatory Commission to market competitively-priced electricity. USGenPS sells uncommitted capacity from USGen's existing facilities and also aggregates surplus generation from unaffiliated sources for trade or sale to wholesale and large industrial customers.

PG&E Generating Company

(in thousands) For the year:	1996	1995	1994	1993	1992
Revenues[1]	$ 159,163	$ 135,555	$ 68,213	$ 28,947	$ 1,674
Pretax income (loss)	6,429	32,934	35,942	8,365	(2,386)
Net income (loss)[2]	(1,139)	17,560	17,584	4,595	(1,567)
Operating cashflow	100,543	51,888	63,042	57,179	42,029
At year end:					
Total assets	882,020	987,804	872,467	256,990	210,070
Equity	479,440	488,284	457,941	61,873	56,637

[1] *Revenues are primarily earnings from partnerships accounted for under the equity method.*

[2] *Earnings in 1996 included charges totalling $38 million after tax ($.09 per share) for write down of assets to reflect current market conditions.*

PG&E Energy Services

PG&E Energy Services, formerly Vantus Energy, is a retail energy services company formed in August 1995.

Currently, PG&E Energy Services provides comprehensive, customized energy services for commercial and industrial customers throughout the United States. As restructuring of the electric and natural gas industries unfolds nationally, PG&E Energy Services plans to expand its customer base into other retail markets.

PG&E Energy Services offers a broad range of services, including procurement and sale of energy commodities, energy portfolio management, power quality solutions, energy efficiency programs, and customized energy billing and analysis. Currently, PG&E Energy Services has contracted more than 3 million kWh in electricity sales for 1997.

PG&E Energy Services has offices throughout the Western U.S. and will open additional offices in 1997.

USGen Projects

Stage	Project	Location	Year Operational	Project MW	Fuel	USGen Ownership	USGen Owned MW	PG&E Generating Ownership	PG&E Generating Owned MW
Operating	Carneys Point	NJ	1994	260	Coal	60%	156	45%	117
	Cedar Bay	FL	1994	250	Coal	80%	200	64%	160
	Colstrip	MT	1990	37	Waste-coal	75%	28	38%	14
	East Syracuse	NY	1993	97	Natural gas	100%	97	50%	49
	Hermiston[1]	OR	1996	474	Natural gas	50%	237	40%	190
	Indiantown	FL	1995	330	Coal	60%	198	48%	158
	Logan	NJ	1995	225	Coal	100%	225	50%	113
	MASSPOWER	MA	1993	240	Natural gas	48%	114	35%	85
	Northampton	PA	1995	110	Waste-coal	100%	110	50%	55
	Ocean State Power	RI	1991	500	Natural gas	10%	50	9%	44
	Okeelanta	FL	1996	70	Biomass	50%	35	40%	28
	Osceola	FL	1996	56	Biomass	50%	28	39%	22
	Panther Creek	PA	1992	83	Waste-coal	68%	56	47%	39
	Pittsfield	MA	1990	165	Natural gas	100%	165	89%	147
	Scrubgrass	PA	1993	83	Waste-coal	70%	58	49%	41
	Selkirk	NY	1994	345	Natural gas	51%	177	46%	158
	TBG Cogen	NY	1989	50	Natural gas	10%	5	8%	4
Total				3,375		57%	1,939	42%	1,424

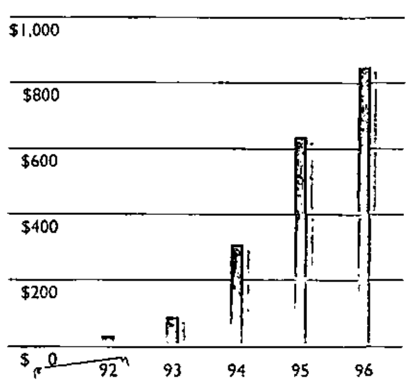
[1] *In 1996, USGen sold a 50% interest in Hermiston to PacifiCorp.*

Other

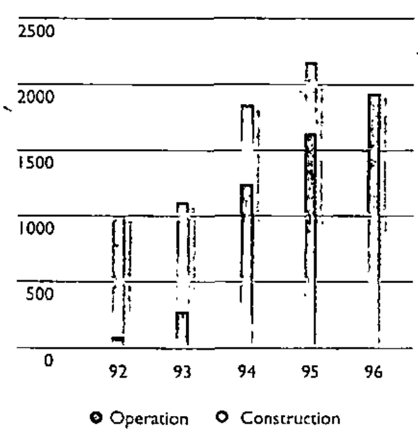
PG&E Properties, Inc. (Properties) develops real estate in PG&E's service territory, focusing on mixed-use planned development. Enterprises has no plans for substantial future additional investments in Properties.

In November 1996, Enterprises announced that it had reached an agreement under which Bechtel Enterprises will acquire Enterprises' interest in International Generating Company (InterGen). The sale is expected to reach financial close in the second quarter of 1997.

USGen Operating Revenues
(in millions of dollars)



USGen Megawatts Owned
(in MW)



Who to Contact

Investor Relations
Security analysts, portfolio managers or other representatives of the investment community should contact the Manager of Investor Relations at the following address:

Angela M. Comstock
Mail Code B8C
P.O. Box 770000
San Francisco, CA 94177-0001
(415) 973-3007

Corporate Secretary
Individual shareholders with general questions about PG&E Corporation should contact the Office of the Corporate Secretary at the following address:

Leslie H. Everett
Mail Code B32
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San Francisco, CA 94177-0001
(415) 973-2880

Shareholder Services
Individual shareholders with questions about shareholder accounts or requests for copies of PG&E Corporation's publications (i.e., Form 10-K Report or Annual Report) should contact the Shareholder Services Office at the following address:

David M. Kelly
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San Francisco, CA 94177-0001
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Key Dates for 1997

Quarter	1st	2nd	3rd	4th
Common dividend declaration	2/19/97	5/21/97	7/16/97	10/15/97
Common ex-dividend	3/12/97	6/12/97	9/11/97	12/11/97
Common dividend record	3/14/97	6/16/97	9/15/97	12/15/97
Dividend payment				
Common stock	4/15/97	7/15/97	10/15/97	1/15/98
Preferred stock (PG&E)	5/15/97	8/15/97	11/15/97	2/15/98
Earnings announcement	4/16/97	7/16/97	10/15/97	1/21/98

Stock Exchange Listings

PG&E Corporation's common stock is traded on the New York, Pacific, and Swiss exchanges. The official New York Stock Exchange symbol is "PCG," but PG&E Corporation's common stock is usually listed in the newspaper under "PG&E" or "PGE."

Pacific Gas & Electric Company has 13 issues of preferred stock and one issue of quarterly income preferred securities, all of which are listed on the American and the Pacific exchanges.

This booklet has been prepared primarily for institutional investors and security analysts in the hope that it will provide a convenient and useful reference source. It is not a representation or prospectus in regard to the corporation's securities and is not furnished in connection with any proposed sale or offer to sell or buy any stock or securities.

The booklet provides detailed information on the corporation's operations, including some material not found in other publications. The financial and statistical data presented herein are unaudited. Complete financial statements are included in PG&E Corporation's 1996 Annual Report to Shareholders.

Prior years' amounts have been reclassified where necessary to conform to the 1996 presentation.

Printed on recycled paper.

Produced by Hane Chow.

1996 Annual Report

PG&E Corporation

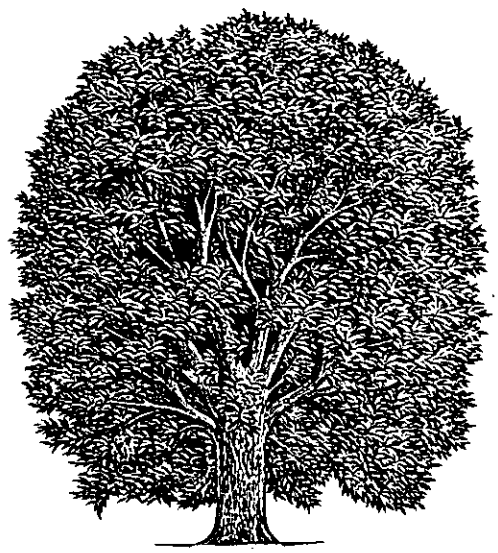
A New Beginning

PG&E Corporation was formed on January 1, 1997. Its subsidiaries include Pacific Gas and Electric Company (PG&E), Pacific Gas Transmission (PGT), and PG&E Enterprises. Through these subsidiaries and their affiliates, PG&E Corporation markets energy services in North America and Australia. In Northern and Central California, PG&E provides natural gas and electric service to more than 13 million people. PGT and its affiliates own and operate natural gas transmission lines from the California border to Canada and in the Pacific Northwest, Texas and Queensland, Australia. U.S. Generating Company (USGen), an unregulated joint venture with Bechtel Enterprises, Inc., is a leading competitive power supplier in U.S. markets. USGen and its affiliates have ownership interests and management responsibilities in 17 power plants located in eight states with a combined generation capacity of nearly 3,400 megawatts. While PG&E Corporation's markets now are primarily in the U.S., the corporation continues to identify and evaluate energy opportunities in other nations around the world.

OVERSIZED DOCUMENT(S)

Financial Highlights

(dollars in thousands, except per share amounts)	1996	1995	% Change
For the Year			
Operating revenues	$ 9,609,972	$ 9,621,765	(0.1)
Operating income	$ 1,895,585	$ 2,762,985	(31.4)
Net income	$ 755,209	$ 1,338,885	(43.6)
Earnings available for common stock	$ 722,096	$ 1,268,597	(43.1)
Earnings per common share	$ 1.75	$ 2.99	(41.5)
Dividends declared per common share	$ 1.77	$ 1.96	(9.7)
Capital expenditures (including AFUDC)	$ 1,403,769	$ 964,657	45.5
Total electric sales to customers (kWh — in thousands)	74,394,282	75,358,632	(1.3)
Total gas sales to customers (Mcf — in thousands)	264,439	269,904	(2.0)
At Year End			
Total assets	$ 26,129,925	$ 26,850,290	(2.7)
Total electric customers	4,463,000	4,408,000	1.2
Total gas customers	3,677,000	3,628,000	1.4
Number of common shareholders	198,000	220,000	(10.0)
Number of common shares outstanding	403,504,292	414,025,586	(2.5)
Number of employees	22,000	22,000	



The strength of a living thing
can be recognized in its endurance...

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Letter to Shareholders

Welcome to the first annual report of PG&E Corporation, the holding company which our shareholders approved at the annual meeting last April. PG&E Corporation was officially created on January 1, 1997.

Under the new structure, Pacific Gas and Electric Company (PG&E), Pacific Gas Transmission (PGT) and PG&E Enterprises are now subsidiaries of PG&E Corporation.

But the holding company is more than just a new name and redefined corporate structure. It is a new beginning.

We are confident that it will significantly increase our flexibility, will add to our ability to respond to competitive changes in the utility industry and to new opportunities in energy services businesses, and will help us to meet our goal as we approach the millennium: to be a recognized leader in the energy industry, here in the U.S. and around the globe.

The name of the holding company is, of course, familiar. It reflects the experience, strength and success of Pacific Gas and Electric Company, which has provided energy to millions of customers in Northern and Central California for almost a century.

But while its heritage is rooted in the past, PG&E Corporation is focused squarely on the ample opportunities for profitable growth it sees in the future.

A new day has dawned in the energy industry, bringing with it new complexities and new opportunities in domestic and foreign markets.

In the competitive and dynamic business environment now emerging, successful companies will be those with the skills, resources and agility to keep up with change, recognize new possibilities, market the range of energy services customers want and do it all profitably.

That is the kind of organization we are building with PG&E Corporation.

Necessary Steps

We know what PG&E Corporation must do to achieve its objectives. We also know that in the short run it won't always be an easy task.

Over the next five years, a significant portion of our business will be transformed from a monopoly to a competitive enterprise. The various component parts of the business that traditionally have been bundled together in vertically integrated utilities now will be unbundled — to give customers choice in the services they receive.

Some components, such as distribution, will remain regulated. Others, such as electric generation, will be largely deregulated and fully competitive.

To help customers manage their needs in this new marketplace, an energy services industry is now developing and will continue to expand and prosper. PG&E Corporation intends to be an active participant in all elements of this new gas and electric services business.

During the transition to a restructured energy marketplace, as we continue to take the steps needed to make components of our business more competitive, earnings will be lower than in the recent past.

In particular, we will accelerate the depreciation of our Diablo Canyon nuclear power plant between now and the end of 2001 in order to price the electricity it generates at competitive levels. This means revenues will be offset by greater depreciation, lowering the earnings available for dividends.

Recognizing this fact, the company in October reduced the common stock dividend approximately 39 percent to an annualized level of $1.20 per share. This level is one that we believe can be sustained and, over time, increased with the strong performance we expect from our various businesses. As anticipated, earnings per share for 1996 were $1.75, down from the $2.99 per share we reported in 1995.

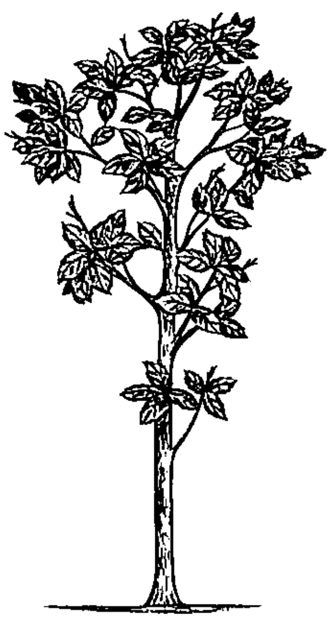
These results are the product of steps — hard but necessary steps — we are taking to achieve the competitive, successful future we are confident lies ahead for your company. As we work to achieve that future, we remain fully aware of our responsibility to increase the value of your investment in PG&E Corporation.

Building On Firm Footings

We believe there is good reason for optimism that earnings, the dividend and stock price will rise over time and that PG&E Corporation will grow, because we are building that success on firm footings and a focused strategic vision. The foundation upon which our new corporation stands is a utility business which we are continuing to strengthen.

We undertook major programs in 1996 to upgrade the systems and facilities of our core electric distribution business. These programs will improve customer service, increase reliability and safety, and hone PG&E's competitiveness in the more deregulated energy market to come.

In 1996, California enacted Assembly Bill 1890. This law provides a clear legislative road map for achieving electric restructuring in California. It also reduces the financial uncertainties surrounding the restructuring by providing legislative assurance that the state's utilities will have a fair opportunity to recover significant costs associated with the transition to a competitive electric marketplace.



and the ability to create new beginnings...

Our gas and electric utility business continued to provide strong cash flow in 1996, which enabled us to repurchase a net of $236 million worth of PG&E common stock and retire a net of $384 million of long-term debt during the year. Over the next several years of transition to a restructured electric industry, we believe cash flow will remain strong as PG&E recovers its investments in utility generation. This will give the corporation substantial flexibility to invest in new business opportunities and continue to retire debt and buy back common stock.

And in our gas business, we continued over the year to expand into domestic and foreign markets through acquisitions of companies that operate in Texas, the Midwest and Eastern U.S., Australia and Canada.

The Future

In the energy world that is evolving, customers will be able to choose from an array of products and services provided by numerous competitive suppliers. Many customers will exercise their ability to choose. But as they do, many will not want the hassle of obtaining individual services from a wide variety of individual providers.

Like consumers who favor the convenience afforded by one-stop shopping at a supermarket, many customers will seek "energy supermarkets"— organizations that can integrate options into custom-tailored packages and "one-stop" total energy solutions.

PG&E Corporation's strategy is based on satisfying customers' desires for both choice and convenience. We intend to leverage the skill, experience and knowledge we have attained over a century of success in the electric and gas business to take full advantage of profitable opportunities as competitive markets open up.

Our plan is to pursue four lines of business.

Energy Services: This will be the major conduit between the customer and the energy choices PG&E Corporation and others in the market will offer. This unregulated business will help provide products and services from both the corporation's various gas and electric units and from competitive suppliers, packaging them in whatever combinations best meet individual customers' needs.

The energy services business will create value for customers by acting as their agent, helping them to make intelligent choices in a crowded and confusing marketplace of competing options.

It will be able to put together a wide range of energy services, obtaining gas and electricity from competitive producers, arranging for distribution and transmission service, providing customized energy billing and analysis, and offering energy retrofits, energy efficiency products and services, and facility improvements.

It also will market power quality services for customers whose manufacturing processes require uninterrupted power supplies. Through energy services, we will market our decades of experience in managing electric and gas facilities by contracting with utilities to help operate their distribution systems.

Distribution: The business of delivering gas and electricity to customers will remain a regulated function. Even if customers choose to purchase their electricity from other generators, the power will be delivered to their homes and businesses by the local distribution company. However, over time, there will be pressure to allow competitive suppliers to perform some functions that traditionally have been part of the distribution business.

Generation: While the amount of PG&E-owned electric generation will decline in the company's traditional service area, we will retain the Diablo Canyon nuclear power plant in California and will continue to develop, own and operate independent power plants in North America and possibly other selected regions of the world.

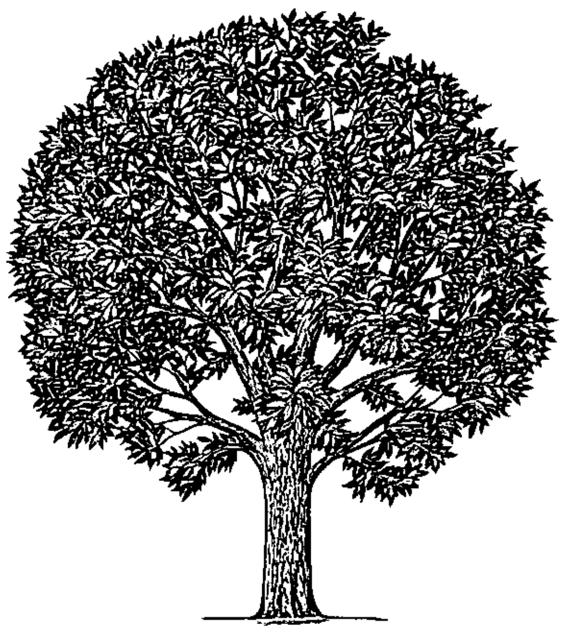
In 1995, the California Public Utilities Commission urged utilities to divest 50 percent of their fossil-fueled generation. In response to this request, PG&E in 1996 announced its intention to sell four of its fossil-fueled plants. These four plants represent half of PG&E's total fossil-fueled generating capacity.

U.S. Generating Company (USGen), our unregulated joint venture with Bechtel Enterprises, Inc., is a leading competitive power supplier. USGen and its affiliates have ownership interests and management responsibilities in 17 electric generation plants, which represent nearly 3,400 megawatts of generating capacity. The management success of these plants reflects USGen's leadership in clean generating technologies, as well as innovative operations, maintenance and environmental management techniques.

USGen is making substantial progress toward achieving its goals of continued long-term growth and profitability. By 2000, through development, acquisitions and concentrated marketing to meet its customers' needs, USGen intends to more than double the megawatts controlled in its current power plant portfolio. With effective management and efficient operation, USGen is confident it can continue to be a pace-setter in the evolving competitive marketplace.

Gas: We are pursuing the "midstream" portion of the gas market. This includes gas gathering, processing, storage, transportation and commodity marketing. This line of business presents attractive growth opportunities.

We estimate that $110 billion worth of new gas pipeline projects and facilities will be built worldwide between now and 2010.



which foster new growth...

Stanley T. Skinner

Customers will include utilities, electric generators, large industrial companies and local distribution organizations.

The corporation took a significant step forward in the midstream gas line of business in April of last year with the acquisition of the Queensland State Gas Pipeline in Australia. We see significant additional opportunities in Australia for this line of business.

In late 1996 and early 1997, we purchased Energy Source, Inc. (ESI) and Teco Pipeline Company. ESI markets natural gas supplies in the Midwest and Eastern U.S. and Canada. Teco Pipeline operates more than 1,000 miles of transmission and gas-gathering pipelines in Texas with a capacity of 1.5 billion cubic feet per day.

On January 31, 1997, we agreed to acquire the natural gas services business of Valero Energy Corporation, Valero Natural Gas Company, which operates a 7,500-mile natural gas pipeline system and eight natural gas processing plants in Texas. Valero's pipeline system has a capacity of more than 3 billion cubic feet of gas per day. Based in San Antonio, Texas, Valero's operations include the gathering, transporting, marketing and storage of natural gas; the processing, transporting and marketing of natural gas liquids; and the marketing of electricity.

Together, Valero, Teco and ESI will create one of the top ten gas marketing operations in the nation, with average daily sales volumes of 3.6 billion cubic feet per day in 1996.

We are optimistic about our ability to succeed in these lines of business. We have capable employees, abundant skills and a clear direction.

Our holding company is a new beginning, a new opportunity to build on our long record of outstanding performance in the energy industry.

For all of these reasons, we strongly believe that PG&E Corporation's prospects are promising and that we will continue to provide excellent value to our shareholders, our customers and the many communities we serve.

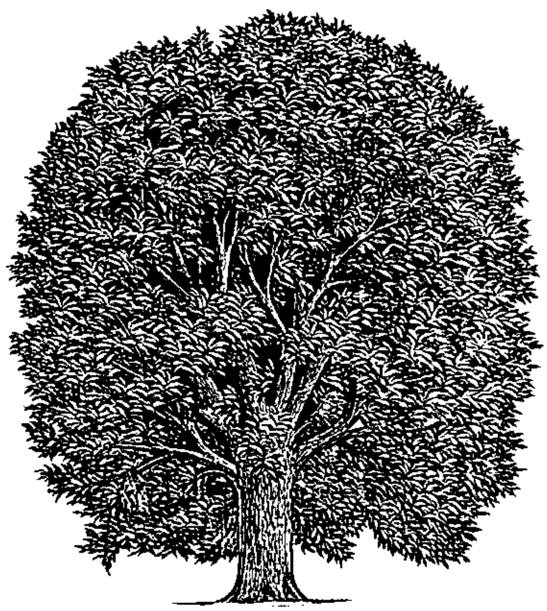
Stanley T. Skinner
Robert D. Glynn, Jr.

Stanley T. Skinner
Chairman of the Board and
Chief Executive Officer

Robert D. Glynn, Jr.
President and Chief
Operating Officer

February 10, 1997

Robert D. Glynn, Jr.



which ultimately endures.

Selected Financial Data

(in thousands, except per share amounts)	1996	1995	1994	1993	1992
For the Year					
Operating revenues	$ 9,609,972	$9,621,765	$10,350,230	$10,550,002	$10,315,713
Operating income	1,895,585	2,762,985	2,423,786	2,560,235	2,699,824
Net income	755,209	1,338,885	1,007,450	1,065,495	1,170,581
Earnings per common share	1.75	2.99	2.21	2.33	2.58
Dividends declared per common share	1.77	1.96	1.96	1.88	1.76
At Year End					
Book value per common share	$ 20.73	$ 20.77	$ 20.07	$ 19.77	$ 19.41
Common stock price per share	21.00	28.38	24.38	35.13	33.13
Total assets	26,129,925	26,850,290	27,708,564	27,145,899	24,188,159
Long-term debt and preferred stock and securities with mandatory redemption provisions (excluding current portions)	8,207,567	8,486,046	8,812,591	9,367,100	8,525,948

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 the Consolidated Financial Statements.

Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition

Effective January 1, 1997, Pacific Gas and Electric Company (PG&E) became a subsidiary of its new parent holding company, PG&E Corporation. PG&E's ownership interest in Pacific Gas Transmission Company (PGT) and PG&E Enterprises (Enterprises) was transferred to PG&E Corporation. PG&E's outstanding common stock was converted on a share-for-share basis into PG&E Corporation common stock. PG&E's debt securities and preferred stock were unaffected and remain securities of PG&E.

This holding company structure is intended to improve PG&E Corporation's ability to respond to new business opportunities and changes in the utility industry. It will enhance the financial separation of the California utility business from PG&E Corporation's other businesses and will provide greater financing flexibility.

The consolidated financial statements in this annual report include the accounts of PG&E and its wholly-owned and controlled subsidiaries (collectively, the Company) and, therefore, also represent the accounts of PG&E Corporation and its subsidiaries. PG&E provides generation, procurement, transmission, and distribution of electricity and natural gas to customers throughout most of Northern and Central California. PG&E is regulated by the California Public Utilities Commission (CPUC), the Federal Energy Regulatory Commission (FERC), and the Nuclear Regulatory Commission, among others.

PGT and Enterprises, previously wholly-owned by PG&E, are now wholly-owned subsidiaries of PG&E Corporation. Through these subsidiaries, the Company is expanding its presence in the "midstream" portion of the gas business, the independent power generation business, and the energy services business.

The midstream portion of the gas business includes gas gathering, processing, storage, and transportation. The energy services business includes obtaining gas and electricity from competitive producers, arranging for distribution and transmission service, and providing customized energy billing and analysis, power quality assessments, energy efficiency products and services, and facility improvements.

PGT transports gas from the Canadian border to the California border and the Pacific Northwest and is regulated by the FERC. In 1996, PGT acquired PGT Queensland Gas Pipeline in Australia and Energy Source, the North American gas operations of Edisto Resources Corporation. In January 1997, PG&E Corporation acquired Teco Pipeline Company (Teco) in Texas. Teco owns a natural gas pipeline system in Texas, investments in gas gathering and processing facilities, and a gas marketing company in Houston. Also in January 1997, PG&E Corporation agreed to acquire Valero Natural Gas Company (Valero) (see Acquisitions and Sales below).

Enterprises, through its subsidiaries and affiliates, develops, owns, and operates unregulated electric and gas projects in the U.S. and around the world. Vantus Energy Corporation (Vantus), a subsidiary of Enterprises, markets gas and electricity commodities and provides energy services.

The following discussion of consolidated results of operations and financial condition includes forward-looking statements that involve risks and uncertainties. Words such as "estimates," "expects," "anticipates," "plans," and similar expressions identify forward-looking statements involving risks and uncertainties.

These risks and uncertainties include but are not limited to the ongoing restructuring of the electric and gas industries and the outcome of regulatory proceedings related to that restructuring. The ultimate impacts of both increased competition and the changing regulatory environment on future results are uncertain, but both are expected to fundamentally change how the Company conducts its business. The outcome of these changes and other matters discussed below may cause future results to differ materially from historic results, or from results or outcomes currently expected or sought by the Company.

Competition and Changing Regulatory Environment: The electric and gas industries are undergoing significant change. Under traditional regulation, utilities were provided the opportunity to earn a fair return on their invested capital in exchange for a commitment to serve all customers within a designated service territory. The objective of this regulatory policy was to provide universal access to safe and reliable utility services. Regulation was designed in part to take the place of competition and ensure that these services were provided at fair prices.

Today, competitive pressures and emerging market forces are exerting an increasing influence over the structure of the gas and electric industries. Other companies are challenging the utilities' exclusive relationship with customers and are seeking to replace certain utility functions with their own. Customers, too, are asking for choice in their energy provider.

These pressures are causing a move from the existing regulatory framework to a framework under which competition would be allowed in certain segments of the gas and electric industries.

For several years, PG&E has been working with its regulators to achieve an orderly transition to competition and to ensure that PG&E has an opportunity to recover investments made under the traditional regulatory policies. In addition, PG&E has proposed alternative forms of regulation for those services for which prices and terms will not be determined by competition. These alternative forms include performance-based ratemaking (PBR) and other incentive-based alternatives. Over the next five years, a significant portion of PG&E's business will be transformed from the current utility monopoly to a competitive operation. This change will impact PG&E's financial results and may result in greater earnings volatility. During the transition period, PG&E expects the return on Diablo Canyon Nuclear Power Plant (Diablo Canyon) and certain other generation assets to be significantly lower than historical levels.

Electric Industry Restructuring: In 1995, the CPUC issued a decision that provides a plan to restructure California's electric utility industry. The decision acknowledges that much of utilities' current costs and commitments result from past CPUC decisions and that, in a competitive generation market, utilities would not recover some of these costs through market-based revenues. To assure the continued financial integrity of California utilities, the CPUC authorized recovery of these above-market costs, called "transition costs."

In 1996, California legislation was passed that adopts the basic tenets of the CPUC's restructuring decision, including recovery of transition costs. In addition, the legislation provides a 10 percent rate reduction for residential and small commercial customers by January 1, 1998, freezes electric customer rates for all other customers, and requires the accelerated recovery of transition costs associated with owned generation facilities. The legislation also establishes the operating framework for a competitive generation market.

The rate freeze will continue until the earlier of March 31, 2002, or until PG&E has recovered its transition costs (the transition period). The freeze will hold rates at 1996 levels for all customers except those receiving the 10 percent rate reduction. The rate freeze will hold the rates for these customers at the reduced level.

To achieve the 10 percent rate reduction, the legislation authorizes utilities to finance a portion of their transition costs with "rate reduction bonds." The maturity period of the bonds is expected to extend beyond the transition period. Also, the interest cost of the bonds is expected to be lower than PG&E's current cost of capital. Once this portion of transition costs is financed, PG&E would collect a separate tariff to recover principal, interest, and issuance costs over the life of the bonds from residential and small commercial customers. The combination of the longer maturity period and the reduced interest costs will lower the amounts paid by these customers each year during the transition period thereby achieving the 10 percent reduction in rates.

During 1997, differences between authorized and actual base revenues and differences between the actual cost of electric generation and the revenue designated for recovery of such revenues or costs will be recorded in balancing accounts. Any residual balance will be available for transition cost recovery. During 1997, amounts recorded in balancing accounts will be subject to a reasonableness review by the CPUC.

Absent the rate freeze, PG&E's rates would be expected to decline under existing cost-based ratemaking methodologies. The most significant reasons for the decrease in cost-based rates are the declining cost of power committed under certain purchase power contracts, the reduction in the Diablo Canyon price for power under the existing CPUC-approved settlement, and the decline in uncollected electric balancing accounts.

Transition Cost Recovery: The legislation authorizes the CPUC to determine the costs eligible for recovery as transition costs. The amount of costs will be based on the aggregate of above-market and below-market values of utility-owned generation assets and obligations. PG&E has proposed that costs eligible for transition cost recovery include: (1) above-market sunk costs (costs associated with utility generating facilities that are fixed and unavoidable and currently collected through rates) and future costs, such as costs related to plant removal, (2) above-market costs associated with purchase power obligations with Qualifying Facilities (QFs) and other Power Purchase Agreements, and (3) generation-related regulatory assets and obligations. PG&E cannot determine the exact amount of sunk costs that will be above market and recoverable as transition costs until a market valuation process (appraisal or sale) is completed for each generation facility. This process will be completed during the transition period.

In compliance with the CPUC's restructuring decision and the restructuring legislation, PG&E has filed numerous regulatory applications and proposals that detail its transition cost recovery plan. PG&E's recovery plan includes: (1) separation or unbundling of its previously approved cost-of-service revenue requirement for its electric operations into distribution, transmission, public purpose programs (PPPs), and generation, (2) accelerated recovery of transition costs, and (3) development of a ratemaking mechanism to track and match revenues and cost recovery during the transition period.

The unbundling of PG&E's revenue requirement enables it to separate revenue provided by frozen rates into transmission, distribution, PPPs, and generation. As proposed, revenues collected under frozen rates would be assigned to transmission, distribution, and PPPs based upon their respective cost of service. Revenue would also be provided for other costs, including nuclear decommissioning, rate-reduction-bond debt service, the on-going cost of generation, and transition cost recovery. The combination of a rate freeze and decreasing costs, based upon existing ratemaking and cost recovery periods, provides an adequate amount of revenue available for full transition cost recovery.

PG&E has proposed to accelerate recovery for certain transition costs related to generation facilities, including Diablo Canyon. Additionally, PG&E would receive a reduced return on common equity associated with generation plant assets for which recovery is accelerated. The lower return reflects the reduced risk associated with the shorter amortization period and increased certainty of recovery.

In applying its cost recovery plan to Diablo Canyon, PG&E has proposed to replace the existing settlement prices with: (1) a sunk cost revenue requirement to recover fixed costs, including a return on these costs, and (2) a PBR mechanism to recover the facility's variable costs and capital addition costs. As proposed, the sunk cost revenue requirement would accelerate recovery of Diablo Canyon sunk costs from a twenty-year period ending in 2016 to a five-year period beginning in 1997 and ending in 2001. The related return on common equity associated with Diablo Canyon sunk costs would be reduced to 90 percent of PG&E's long-term cost of debt. PG&E's authorized long-term cost of debt was 7.52 percent in 1996. The reduced rate of return combined with a shorter recovery period would result in an estimated $4 billion decrease in the net present value of PG&E's future revenues from Diablo Canyon operations. If the proposed cost recovery plan for Diablo Canyon were adopted during 1996, Diablo Canyon's 1996 reported net income would have been reduced by $350 million ($0.85 per share).

Most transition costs must be recovered by March 1, 2002. However, the legislation authorizes recovery of certain transition costs after that time. These costs include: (1) certain employee-related transition costs, (2) payments under existing QF and power purchase contracts, and (3) unrecovered implementation costs. Excluding these exceptions, any transition costs not recovered during the transition period will be absorbed by PG&E. Nuclear decommissioning costs, which are not considered transition costs, will be recovered through a CPUC authorized charge. During the transition period, this charge will be incorporated into the frozen rates. After the transition period, customers will be assessed a surcharge until the nuclear decommissioning costs are fully recovered.

PG&E's ability to recover its transition costs during the transition period will be dependent on several factors. These factors include: (1) the extent to which application of the current regulatory framework established by the restructuring legislation will continue to be applied, (2) the amount of transition costs approved by the CPUC, (3) the market value of PG&E's generation plants, (4) future sales levels, (5) fuel and operating costs, (6) the market price of electricity, and (7) the ratemaking methodology adopted for Diablo Canyon. Considering its current evaluation of these factors, PG&E believes it will recover its transition costs and that its owned generation plants are not impaired. However, a change in these factors could affect the probability of recovery of transition costs and result in a material loss.

PG&E has proposed to implement portions of its transition cost recovery plan in 1997. The CPUC decision on PG&E'S 1997 Energy Cost Adjustment Clause (ECAC) application would decrease PG&E's 1997 revenue requirement by $720 million. This decrease would be partially offset by a $160 million revenue requirement increase, provided by the legislation, for purposes of enhancing transmission and distribution system safety and reliability. This increase was approved by the CPUC as part of PG&E's transition cost recovery plan.

Given the electric customer rate freeze, the $560 million net revenue requirement decrease resulting from the consolidation of the ECAC decision and the revenue requirement increase contemplated in the cost recovery plan would be available for transition cost recovery. The proposed accelerated recovery of Diablo Canyon would absorb an estimated $400 million of this available revenue requirement. The remaining revenue requirement would be available to recover other transition costs.

Competitive Market Framework: In addition to transition cost recovery, the legislation establishes the operating framework for the competitive generation market in California. This framework will consist of a power exchange (PX) and an independent system operator (ISO). The PX, open to all electricity providers, will conduct a competitive auction to establish the price of electricity. The ISO will ensure system reliability and provide all electricity generators with open and comparable access to transmission and distribution services.

Although the PX will be available to all customers, the legislation allows customers to bypass the PX by entering into direct access contracts with other electricity providers, subject to a nonbypassable transition charge. This direct access will be available to certain customers by January 1, 1998, and will be phased in for all remaining customers through December 31, 2001. During the transition period, PG&E will bill direct access customers based upon fully bundled frozen rates. Direct access customers' bills from PG&E would then be reduced by an amount based on the PX price and the customers' electric usage. These customers can be billed for their usage directly by their chosen supplier, or the supplier may contract with PG&E to perform this billing. During the transition period, these customers' overall electric rates will vary only to the extent that their direct access contract price differs from the PX price.

To prevent undue influence on the PX price by any participant in the competitive framework, PG&E has indicated it is willing to proceed with divestiture of at least 50 percent of its fossil-fueled power plants as directed by the CPUC. PG&E has filed an application seeking approval from the CPUC to sell four plants before the end of 1997. The book value for these plants is approximately $400 million, and together they generate approximately 10 percent of PG&E's total electric sales. PG&E proposes to recover any shortfall in proceeds from divestiture of these plants as a transition cost. Accordingly, the Company does not expect any adverse impact on its results of operations from the sale of these plants.

In addition to the CPUC's electric industry restructuring discussed above, the FERC has required utilities to provide wholesale open access to electric transmission systems on terms that are comparable to the way utilities use their own systems. PG&E's open access tariff, filed in July 1996, provides access to any eligible party interested in wholesale transmission service over PG&E's transmission system. The FERC also reaffirmed its intention to permit utilities to recover any legitimate, verifiable, and prudently incurred costs stranded as a result of customers taking advantage of wholesale open access orders to meet their power needs from other sources. Further, the FERC asserted that it has jurisdiction over the transmission component of retail direct access.

By developing the PX and the ISO and by implementing direct access to generation and open access to transmission, regulators have established the operating framework of the competitive generation and wholesale transmission markets. Although this framework will fundamentally change the way PG&E does business, the Company does not believe that the changes will have a material adverse impact on its ability to recover transition costs.

Accounting for the Effects of Regulation: PG&E accounts for the financial effects of regulation in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement allows the Company to record certain regulatory assets and liabilities that would not be recorded under generally accepted accounting principles for nonregulated entities. In addition, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that regulatory assets be written off when they are no longer probable of recovery and that impairment losses be recorded for long-lived assets when related future cash flows are less than the carrying value of the asset.

As a result of applying the provisions of SFAS No. 71, PG&E has accumulated approximately $1.6 billion of regulatory assets attributable to electric generation at December 31, 1996.

The net investments in Diablo Canyon and the other generation assets were $4.5 billion and $2.7 billion, respectively, at December 31, 1996. The net present value of above-market QF power purchase obligations is estimated to be $5.3 billion at January 1, 1998, at an assumed PX price of $0.025 per kilowatt-hour (kWh) beginning in 1997 and escalating at 3.2 percent per year.

PG&E believes that the restructuring legislation establishes a definitive transition to market-based pricing for electric generation. Incorporating the effects of the PX and direct access, this transition includes cost-of-service based ratemaking. In addition, PG&E's generation-related transition costs will be collected through a nonbypassable charge. Based on this structure, PG&E believes it will continue to meet the requirements of SFAS No. 71 throughout the transition period.

At the conclusion of the transition period, PG&E believes it will be at risk to recover its generation costs through market-based revenues. At that time, PG&E expects to discontinue the application of SFAS No. 71 for the electric generation portion of its business. Since PG&E anticipates it will have recovered all transition costs required to be recovered during the transition period, including generation-related regulatory assets and above-market investments in net plant, PG&E does not expect a material adverse impact on its financial position or results of operations from discontinuing the application at that time.

As a result of the CPUC's restructuring decision and California's electric industry restructuring legislation, the Securities and Exchange Commission (SEC) has begun inquiries regarding the appropriateness of the continued application of SFAS No. 71 by California utilities to their electric generation businesses. As discussed above, PG&E believes it currently meets and will continue to meet the requirements to apply SFAS No. 71 during the transition period. In the event that the SEC concludes that the current regulatory and legal framework in California no longer meets the requirements to apply SFAS No. 71 to the generation business, the Company would reevaluate the financial impact of electric industry restructuring and a material write-off could occur.

Given the current regulatory environment, PG&E's electric transmission and distribution businesses are expected to remain regulated and, as a result, will continue application of the provisions of SFAS No. 71.

Gas Industry Restructuring: Restructuring of the natural gas industry on both the national and the state level has given customers greater options in meeting their gas supply needs. PG&E's customers may buy commodity gas directly from competing suppliers and purchase transmission- and distribution-only services from PG&E. Transmission and distribution services have remained "bundled," or sold together at a combined rate, within the state. PGT, as an interstate pipeline, has provided nondiscriminatory transmission-only service since 1993 and no longer sells commodity gas.

Most of PG&E's industrial and larger commercial (noncore) customers purchase their commodity gas from marketers and brokers. Substantially all residential and smaller commercial (core) customers continue to buy commodity gas as well as transmission and distribution from PG&E as a bundled service.

In 1995 and 1996, PG&E actively pursued changes in the California gas industry in an effort to promote competition and increase options for all customers, as well as to position itself for the competitive marketplace. In 1996, PG&E submitted to the CPUC the Gas Accord Settlement (Accord). The Accord is the result of an extensive negotiation process, begun in 1995, among a broad coalition of customer groups and industry participants. The Accord must be approved by the CPUC before it can be implemented. A CPUC decision is expected in 1997.

The Accord consists of three broad initiatives:

(1) The Accord would separate, or "unbundle," PG&E's gas transmission and storage services from its distribution services and would change the terms of service and rate structure for gas transportation. Unbundling would give customers the opportunity to select from a menu of services offered by PG&E and would enable them to pay only for the services they use. PG&E would be at risk for variations in revenues resulting from differences between actual and forecasted transmission throughput. PG&E would also continue to provide cost-of-service based distribution service, much as it does today.

(2) The Accord would increase opportunities for PG&E's core customers to purchase gas from competing suppliers and, therefore, could reduce PG&E's role in procuring gas for such customers. However, PG&E would continue to procure gas as a regulated utility supplier for those customers who request it. The Accord also would establish principles for continuing negotiations between PG&E and California gas producers for

the mutual release of supply contracts and the sale of gas gathering facilities. Also related to PG&E's procurement activities, PG&E has proposed that traditional reasonableness reviews of its core gas costs be replaced with a core procurement incentive mechanism (CPIM) for the period June 1, 1994, through 2002. Under the CPIM, PG&E would be able to recover its gas commodity and interstate transportation costs and would receive benefits or be penalized depending on whether its actual core procurement costs were within, below, or above a "tolerance band" constructed around market benchmarks. Actual core procurement costs measured for the period June 1, 1994, through December 31, 1996, have generally been within the CPIM "tolerance band." The CPIM proposal also requests authorization to use derivative financial instruments to reduce the risk of gas price and foreign currency fluctuations. Gains, losses, and transaction costs associated with the use of derivative financial instruments would be included in the purchased gas account and the measurement against the benchmarks.

(3) The Accord would resolve various regulatory issues (see further discussion in Note 3 to the Consolidated Financial Statements) including:

- the disallowances ordered by the CPUC in connection with PG&E's 1988 through 1995 gas reasonableness proceedings;
- the recovery of certain capital costs associated with the PG&E portion of the PGT/PG&E Pipeline Expansion;
- the recovery of costs related to PG&E's capacity commitments with Transwestern Pipeline Company through 2002; and
- the recovery, through PG&E's interstate transition cost surcharge, of fixed demand charges paid to El Paso Natural Gas Company and PGT for firm capacity held by PG&E on behalf of its customers.

As of December 31, 1996, PG&E has reserved approximately $527 million, including $182 million reserved during 1996, relating to its gas regulatory issues and gas capacity commitments, the majority of which are addressed by the Accord. PG&E believes the ultimate resolution of these matters, whether through approval of the Accord or otherwise, will not have a material adverse impact on its financial position or future results of operations.

Acquisitions and Sales: The Company has developed strategies to focus on the unregulated independent power generation market, the unregulated energy services market, and the regulated and unregulated "midstream" portions of the gas market. As a result of this focus, the Company has been acquiring related businesses and disposing of unrelated businesses.

Enterprises participates in multiple domestic and international energy businesses. The majority of Enterprises' domestic investments are in nonregulated energy projects through U.S. Generating Company (USGen), a joint venture with Bechtel Enterprises, Inc. (Bechtel). USGen and its affiliates develop, own, and operate power plants in the United States.

Enterprises' entry into the international market was also made in partnership with Bechtel. Enterprises and Bechtel formed International Generating Company, Ltd., (InterGen) which develops, owns, and operates international electric generation projects. However, in November 1996, Enterprises and Bechtel reached an agreement for Bechtel to acquire Enterprises' interest in InterGen. The Company expects to complete the sale in the first quarter of 1997 and realize an after-tax gain. Enterprises has refined its international strategy to focus on select countries and to concentrate on end-use energy customers.

In 1995, Enterprises formed Vantus, a retail energy services provider, to assist customers in locating the most cost-effective electric and gas products and services. Vantus' energy services include power marketing for industrial and large commercial businesses nationwide. In 1996, Vantus opened new offices in the western United States to establish a presence and market its services in emerging energy markets.

Also in 1995, Enterprises sold DALEN Corporation (DALEN). The sales price was $455 million, including $340 million cash and the assumption of $115 million of existing debt. The sale resulted in an after-tax gain of approximately $13 million.

The Company is pursuing gas-related opportunities as the gas industry continues to evolve. In July 1996, the Company, through its subsidiary PGT, purchased PGT Queensland State Gas Pipeline, a 389-mile natural gas transportation system in the Australian state of Queensland. The final purchase price was $136 million.

In December 1996, PGT entered the unregulated gas marketing arena with the purchase of Energy Source (ESI), the North American gas marketing operations of Edisto Resources Corporation for approximately $23 million. The purchase included most of ESI's existing contracts for the purchase, sale, and transportation of natural gas and natural gas futures. In 1996, ESI generated over $1.1 billion in gas marketing revenues, of which $283 million was earned in December 1996.

In January 1997, PG&E Corporation acquired Teco and its subsidiaries for approximately $380 million. Teco is an owner of a 500-mile natural gas pipeline system in Texas. Teco also has investments in gas gathering and processing facilities and owns a gas marketing company in Houston.

Also in January 1997, PG&E Corporation agreed to acquire Valero. Valero's operations include the gathering, transportation, marketing, and storage of natural gas, the processing, transportation, and marketing of natural gas liquids, and the marketing of electric power. Valero operates approximately 7,500 miles of natural gas pipeline and also owns and operates 536 miles of natural gas liquid pipeline and eight natural gas processing plants in Texas. PG&E Corporation will acquire Valero for approximately $1.5 billion, comprised of approximately $720 million in PG&E Corporation common stock and the assumption of debt and liabilities. The acquisition is expected to be completed by mid-1997 and is subject to applicable regulatory and shareholder approvals.

All of the above acquisitions have been or will be accounted for using the purchase method of accounting.

Results of Operations: The Company's results of operations were derived from three business lines: utility (excluding Diablo Canyon and including PGT's gas pipeline operations), Diablo Canyon, and diversified operations (principally, Enterprises and ESI). The results of operations and total assets for 1996, 1995, and 1994 are reflected in the following table and discussed below:

(in millions, except per share amounts)	Utility	Diablo Canyon[1]	Diversified Operations	Total
1996				
Operating revenues	$ 7,411	$1,789	$ 410	$ 9,610
Operating expenses	6,465	791	458	7,714
Operating income (loss) before income taxes	$ 946	$ 998	$ (48)	$ 1,896
Net income (loss)	$ 292	$ 497	$(34)[2]	$ 755
Earnings per common share	$ .65	$ 1.18	$ (.08)	$ 1.75
Total assets at year end	$19,283	$5,413	$1,434	$26,130
1995				
Operating revenues	$ 7,601	$1,845	$ 176	$ 9,622
Operating expenses	5,820	816	223	6,859
Operating income (loss) before income taxes	$ 1,781	$1,029	$ (47)	$ 2,763
Net income	$ 820	$ 507	$ 12[2]	$ 1,339
Earnings per common share	$ 1.80	$ 1.16	$ .03	$ 2.99
Total assets at year end	$20,090	$5,717	$1,043	$26,850
1994				
Operating revenues	$ 8,232	$1,870	$ 248	$10,350
Operating expenses	6,732	914	280	7,926
Operating income (loss) before income taxes	$ 1,500	$ 956	$ (32)	$ 2,424
Net income	$ 539	$ 461	$ 7[2]	$ 1,007
Earnings per common share	$ 1.15	$ 1.04	$ .02	$ 2.21
Total assets at year end	$20,295	$5,978	$1,436	$27,709

[1] See Note 4 to the Consolidated Financial Statements for discussion of allocations.
[2] Includes non-operating income resulting from property sales, partnership earnings, and investment income.

Earnings Per Common Share: Earnings per common share were $1.75, $2.99, and $2.21 for 1996, 1995, and 1994, respectively. Utility earnings in 1996 were lower than 1995, reflecting revenue reductions ordered in the 1996 General Rate Case (GRC) and other related rate proceedings and reflecting several one-time charges. The revenue reductions resulted from a lower cost of capital, lower capital expenditures, and reductions in authorized expense levels. Actual maintenance and other operating expenses for distribution and customer-related services increased in 1996 and exceeded levels authorized in the 1996 GRC. These increases were primarily attributable to several projects related to transmission and distribution system reliability, and improved customer-related services. Additionally, PG&E recorded a charge of $.26 per common share for contingencies related to gas transportation commitments and recorded a charge of $.19 per common share for settlement of litigation. (See Operating Expenses below and Notes 3 and 13 to the Consolidated Financial Statements.) Finally, the Company recorded a charge of $.09 per common share for write-downs of nonregulated investments.

Earnings per common share for 1995 were higher than 1994 due to fewer one-time charges against earnings than in 1994 (see Operating Expenses below). In addition, there were fewer scheduled refueling outages at Diablo Canyon in 1995, compared with 1994.

On a consolidated basis, the Company earned 8.5, 14.6, and 11.1 percent returns on average common stock equity for the years ended December 31, 1996, 1995, and 1994, respectively. PG&E has received a CPUC decision which authorizes, for 1997, a return on common equity of 11.6 percent and an overall rate of return of 9.45 percent. However, PG&E has filed a proposal with the CPUC to accelerate recovery of certain transition costs related to generation facilities, including Diablo Canyon. Additionally, PG&E would receive a reduced return on common equity associated with generation plant assets for which recovery is accelerated. This return would equal 90 percent of PG&E's long-term cost of debt. PG&E's authorized long-term cost of debt was 7.52 percent in 1996. (See Electric Industry Restructuring above.)

Common Stock Dividend: The Company's common stock dividend is based on a number of financial considerations, including sustainability, financial flexibility, and competitiveness with investment opportunities of similar risk. The Company's current quarterly common stock dividend is $.30 per common share which corresponds to an annualized dividend of $1.20 per common share. This represents a decrease from the previous annualized dividend of $1.96 per common share. The Company has identified a dividend payout ratio objective (dividends declared divided by earnings available for common stock) of between 50 and 65 percent (based on earnings exclusive of nonrecurring adjustments).

Operating Revenues: Operating revenues in 1996 decreased slightly from 1995. The decreases in utility revenues as ordered in the 1996 GRC, discussed above, and in Diablo Canyon revenues were offset by increased revenues from diversified operations. Revenues from Diablo Canyon decreased due to a decline in the generation price, as provided in the Diablo Canyon rate case settlement as modified in 1995 (Diablo Settlement) (see Note 4 to the Consolidated Financial Statements). This decline was partially offset by higher net generation, which was a result of fewer scheduled refuelings in 1996 compared to 1995. Revenues from diversified operations increased primarily due to the purchase of ESI in December 1996. This purchase created $283 million of revenue but was partially offset by a decline in revenue due to the sale of DALEN in 1995. (See Acquisitions and Sales above.)

Operating revenues for 1995 decreased $728 million from 1994. The decrease in utility revenues was primarily due to a decrease in electric energy costs caused by favorable hydroelectric conditions and lower natural gas prices. Diablo Canyon operating revenues decreased due to a decrease in the generation price as provided in the modified Diablo Settlement (see Note 4 to the Consolidated Financial Statements for further discussion). This decrease was partially offset by favorable operating revenues from Diablo Canyon resulting from fewer refueling days in 1995. Revenues from diversified operations decreased $72 million in 1995 compared to 1994 primarily due to the sale of DALEN in June 1995.

Operating Expenses: Operating expenses increased $855 million in 1996 compared to 1995, primarily due to: (1) a charge of $182 million for contingencies related to gas transportation commitments, (2) increases in the cost of gas due to price increases, (3) increases in purchased power prices and volumes, (4) increases in maintenance and other operating expenses for transmission and distribution system reliability and for improved customer-related services, (5) increases in litigation costs, and (6) an increase in the cost of gas for resale due to the purchase of ESI in December 1996. The cost of gas increase from the purchase of ESI was offset by revenues as discussed above.

Operating expenses decreased $1,067 million in 1995 compared to 1994 primarily due to decreased electric costs caused by favorable hydroelectric conditions, decreased natural gas prices, and no workforce reduction charges in 1995. (See Note 10 to the Consolidated Financial Statements.)

Other Income and (Expense): Other income and expense changed in 1996 compared to 1995 primarily due to write-downs of certain nonregulated investments.

Liquidity and Capital Resources:
The Company's capital requirements are funded from cash provided from operations and, to the extent necessary, external financing. The Company's policy is to finance its assets with a capital structure that minimizes financing costs, maintains financial flexibility, and complies with regulatory guidelines. Based on cash provided from operations and its capital requirements, the Company may repurchase equity and long-term debt in order to manage the overall balance of its capital structure.

Debt: In 1996, 1995, and 1994, the Company redeemed or repurchased $1,113, $758, and $202 million, respectively, of long-term debt to manage the overall balance of the Company's capital structure. Long-term debt maturing during 1996, 1995, and 1994 was not refinanced.

Included in the 1996 repurchases is $988 million of variable and fixed interest rate pollution control mortgage bonds and loan agreements which were replaced with variable interest rate pollution control loan agreements. Also in 1996, the Company entered into additional loan agreements of $92 million to finance the PGT acquisition of PGT Queensland State Gas Pipeline. In addition, the Company used its cash balances to reduce short-term borrowings by $115 million in 1996.

In 1995, PGT issued $400 million of bonds and $70 million of medium-term notes. In addition, PGT issued commercial paper which is classified as long-term debt. This classification is based upon the availability of committed credit facilities expiring in 2000 and management's intent to maintain such amounts in excess of one year. The commercial paper outstanding was $108 and $109 million at December 31, 1996, and 1995, respectively. Substantially all of the proceeds of PGT's debt issued in 1995 were used to refinance outstanding debt.

PG&E issues short-term debt (principally commercial paper) to fund fuel oil, nuclear fuel, and gas inventories, unrecovered balances in balancing accounts, and cyclical fluctuations in daily cash flows. At December 31, 1996, and 1995, PG&E had $681 and $796 million, respectively, of commercial paper outstanding. PG&E maintains a $1 billion revolving credit facility which primarily provides support for PG&E's commercial paper issuance. At maturity, commercial paper can be either reissued or replaced with borrowings from this credit facility. The facility can also be used for general corporate purposes. There were no borrowings under this facility in 1996, 1995, or 1994.

In January 1997, PG&E Corporation established a $500 million revolving credit facility in order to provide for corporate short-term liquidity needs and other purposes.

As discussed in electric industry restructuring above, to achieve the 10 percent rate reduction for residential and small commercial customers, the electric industry restructuring legislation authorizes utilities to finance a portion of the transition costs with "rate reduction bonds." PG&E expects to work with state authorities to coordinate the issuance of up to $2.5 billion of these bonds by a special purpose entity. Once issued, PG&E would collect, on behalf of the special purpose entity, a separate tariff to recover principal, interest, and issuance costs over the life of the bonds from residential and small commercial customers. PG&E does not expect to secure the bonds with the Company's assets or unrelated future revenues.

Equity: In 1996, 1995, and 1994, PG&E received $220, $140, and $274 million, respectively, in proceeds from the sale of common stock under the employee Savings Fund Plan, the Dividend Reinvestment Plan, and the employee Long-term Incentive Program.

Since 1993, the Board has authorized the Company to repurchase up to $2 billion of its common stock on the open market or in negotiated transactions. These repurchases are funded by internally generated funds and are used to manage the overall balance of common stock in the Company's capital structure. Through December 31, 1996, the Company had repurchased approximately $1.5 billion of its common stock under this program. Repurchases for 1996, 1995, and 1994 were $455, $601, and $182 million, respectively.

In 1996, PG&E did not redeem or repurchase any preferred stock. In 1995 and 1994, PG&E redeemed or repurchased $331 and $75 million, respectively, of its higher-cost preferred stock. In 1994, PG&E issued $62 million of preferred stock.

PG&E is limited as to the amount of dividends that it may pay to PG&E Corporation based on PG&E's regulatory capital structure authorized by the CPUC. PG&E's equity shall be retained such that, on average, the capital structure authorized by the CPUC is maintained. This restriction is not expected to affect PG&E Corporation's ability to meet its cash obligations.

Other Capital: In 1995, PG&E through its wholly-owned subsidiary, PG&E Capital I, issued $300 million of cumulative quarterly income preferred securities. Net proceeds were used to redeem and repurchase higher-cost preferred stock.

Investing Activities: The Company's estimated capital requirements for the next three years are shown below:

Year ended December 31, (in millions)	1997	1998	1999
Utility (including PGT)	$1,773	$1,825	$1,705
Diablo Canyon	38	39	41
Diversified operations	211	80	172
Total capital expenditures	2,022	1,944	1,918
Maturing debt and sinking funds	210	660	270
Total capital requirements	$2,232	$2,604	$2,188

Utility and Diablo Canyon expenditures will be primarily for improvements to the Company's facilities to enhance their efficiency and reliability, to extend their useful lives, and to comply with environmental laws and regulations.

Expenditures for diversified operations (consisting primarily of Enterprises) include capital contributions for Enterprises' equity share of generating facility projects. Ongoing capital expenditures for Teco are included in diversified operations in the above estimated capital requirements.

In addition to the above, the Company, in January 1997, has acquired Teco for approximately $380 million, consisting of a note payable of $61 million and $319 million of PG&E Corporation's common stock. Further, the Company, in January 1997, agreed to acquire Valero for approximately $1.5 billion, consisting of approximately $720 million of PG&E Corporation's common stock and the assumption of debt and liabilities. The Company has other commitments as discussed in Notes 3 and 12 to the Consolidated Financial Statements.

In December 1995, the Company had a balance of $734 million of cash and cash equivalents due to the sale of DALEN and the retention of cash for potential investments.

Risk Management: Due to the changing business environment, the Company's exposure to risks associated with changes in energy commodity prices, interest rates, and foreign currencies is increasing. To manage these risks, the Company has adopted a price risk management policy and established an officer-level price risk management committee. The Company's price risk management committee oversees implementation of the policy, approves each price risk management program, and monitors compliance with the policy.

The Company's price risk management policy and procedures adopted by the committee establish guidelines for implementation of price risk management programs. Such programs may include the use of energy and financial derivatives. (A derivative is a contract whose value is dependent on or derived from the value of some underlying asset.) Additionally, the Company's policy allows derivatives to be used for hedging and non-hedging purposes. (Hedging is the process of protecting one transaction by means of another to reduce price risk.) Both hedging and non-hedging activities are limited to those specifically approved by the committee only after appropriate controls and procedures are put in place to measure, monitor, and control the risk of such activities. The Company's policy prohibits the use of derivatives whose payment formula includes a multiple of some underlying asset.

In 1996, the Company approved and implemented interest rate and foreign exchange risk management programs, applied for regulatory approval to use energy derivatives to manage commodity price risk in its utility business, and acquired certain natural gas marketing operations which engage in both hedging and non-hedging derivative transactions. Gains and losses associated with price risk management activities during 1996 were immaterial.

Environmental Matters: 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 for environmental protection are currently estimated to be approximately $36, $50, and $72 million for 1997, 1998, and 1999, respectively. Expenditures during these years will be primarily for nitrogen oxide (NOx) emission reduction projects at the Company's fossil fuel generating plants and natural gas compressor stations. Pursuant to federal and state legislation, local air districts have adopted rules that require reductions in NOx emissions. These rules are subject to continued review and modification by the local air districts in which PG&E operates. The Company currently estimates that compliance with NOx rules could require capital expenditures of up to $360 million over the next ten years.

On an ongoing basis, the Company assesses compliance with laws and regulations related to hazardous substance remediation. The Company has an accrued liability at December 31, 1996, of $170 million for remediation costs at sites where such costs are probable and quantifiable. The costs at identified sites may be as much as $400 million if, among other things, other potentially responsible parties are not financially able to contribute to these costs, or identifiable possible outcomes change. The Company will seek recovery of prudently incurred compliance costs through ratemaking procedures approved by the CPUC. The Company has recorded a regulatory asset at December 31, 1996, of $146 million for recovery of these costs in future rates. Additionally, the Company will seek recovery of costs from insurance carriers and from other third parties. (See Note 13 to the Consolidated Financial Statements.)

Effective January 1, 1997, the Company will adopt the provisions of the American Institute of Certified Public Accountants' Statement of Position (SOP) 96-1, Environmental Remediation Liabilities. This SOP provides authoritative guidance for recognition, measurement, display, and disclosure of environmental remediation liabilities in financial statements. The adoption of SOP 96-1 is not expected to have a material adverse impact on the Company's financial position or results of operations.

Legal Matters: In the normal course of business, the Company is named as a party in a number of claims and lawsuits. Substantially all of these have been litigated or settled with no material adverse impact on either the Company's results of operations or financial position. In addition, the Company believes that the litigation or settlement of pending claims and lawsuits will not have a material adverse impact on its results of operations or financial position. See Note 13 to the Consolidated Financial Statements for further discussion of significant pending legal matters.

Accounting for Decommissioning Expense: In 1996, the Financial Accounting Standards Board issued an exposure draft on a proposed SFAS entitled "Accounting for Certain Liabilities Related to Closure or Removal of Long-Lived Assets." If this exposure draft is adopted: (1) annual expense for power plant decommissioning could increase, and (2) the estimated total cost for power plant decommissioning could be recorded as a liability, with recognition of an increase in the cost of the related power plant, rather than accrued over time as accumulated depreciation. The Company does not believe that this change, if implemented as proposed, would have a material adverse impact on its results of operations due to its current and future ability to recover decommissioning costs through rates. (See Note 2 to the Consolidated Financial Statements for discussion of electric industry restructuring.)

Inflation: The Company's rates are designed to recover operating and historical plant investment costs. Financial statements, which are prepared in accordance with generally accepted accounting principles, report operating results in terms of historic costs and do not evaluate the impact of inflation.

Inflation affects the Company's construction costs, operating expenses, and interest charges. Due to the Company's five-year electric rate freeze, electric revenues will not reflect the impact of inflation. However, inflation at the levels currently being experienced is not expected to have a material adverse impact on the Company's future results of operations.

Statement of Consolidated Income

Year ended December 31,	1996	1995	1994
(in thousands, except per share amounts)			
Operating Revenues			
Electric utility	$7,160,215	$7,386,307	$ 8,021,547
Gas utility	2,039,802	2,059,117	2,081,062
Diversified operations	409,955	176,341	247,621
Total operating revenues	9,609,972	9,621,765	10,350,230
Operating Expenses			
Cost of electric energy	2,303,488	2,116,840	2,570,723
Cost of gas	761,837	333,280	583,356
Maintenance and other operating	2,118,174	1,799,781	1,855,585
Depreciation and decommissioning	1,221,952	1,360,118	1,397,470
Administrative and general	1,016,439	971,576	973,302
Workforce reduction costs	—	(18,195)	249,097
Property and other taxes	292,497	295,380	296,911
Total operating expenses	7,714,387	6,858,780	7,926,444
Operating Income	1,895,585	2,762,985	2,423,786
Interest income	72,900	72,524	79,643
Interest expense	(639,823)	(688,408)	(729,207)
Other income and (expense)	(18,459)	87,073	69,995
Pretax Income	1,310,203	2,234,174	1,844,217
Income Taxes	554,994	895,289	836,767
Net Income	755,209	1,338,885	1,007,450
Preferred dividend requirement and redemption premium	33,113	70,288	57,603
Earnings Available for Common Stock	$ 722,096	$1,268,597	$ 949,847
Weighted Average Common Shares Outstanding	412,542	423,692	429,846
Earnings Per Common Share	$ 1.75	$ 2.99	$ 2.21
Dividends Declared Per Common Share	$ 1.77	$ 1.96	$ 1.96

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

Statement of Consolidated Cash Flows

Year ended December 31, (in thousands)	1996	1995	1994
Cash Flows From Operating Activities			
Net income	$ 755,209	$1,338,885	$1,007,450
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and decommissioning	1,221,952	1,360,118	1,397,470
Amortization	93,948	89,353	95,331
Deferred income taxes and tax credits—net	(149,990)	(116,069)	15,312
Other deferred charges	94,475	61,700	32,740
Other noncurrent liabilities	113,244	(17,218)	181,902
Noncurrent balancing account liabilities and other deferred credits	(185,390)	(69,787)	316,920
Net effect of changes in operating assets and liabilities			
Accounts receivable	(46,368)	212,515	(116,936)
Regulatory balancing accounts receivable	302,188	498,756	(269,250)
Inventories	32,043	32,409	66,783
Accounts payable	193,012	49,702	(110,033)
Accrued taxes	36,014	(162,374)	132,892
Other working capital	(6,234)	8,304	5,821
Other—net	156,773	50,423	191,285
Net cash provided by operating activities	2,610,876	3,336,717	2,947,687
Cash Flows From Investing Activities			
Capital expenditures	(1,230,331)	(944,618)	(1,126,904)
Diversified operations	(99,532)	(178,874)	(308,810)
Acquisition of PGT Queensland Gas Pipeline	(136,227)	—	—
Acquisition of Energy Source	(23,270)	—	—
Proceeds from sale of DALEN	—	340,000	—
Other—net	(119,923)	(122,913)	(29,914)
Net cash used by investing activities	(1,609,283)	(906,405)	(1,465,628)
Cash Flows From Financing Activities			
Common stock issued	219,726	139,595	274,269
Common stock repurchased	(455,278)	(601,360)	(181,558)
Preferred stock issued	—	—	62,312
Preferred stock redeemed or repurchased	—	(358,212)	(82,875)
Company obligated mandatorily redeemable preferred securities issued	—	300,000	—
Long-term debt issued	1,087,732	591,160	60,907
Long-term debt matured, redeemed, or repurchased	(1,471,390)	(1,296,549)	(436,673)
Short-term debt issued (redeemed)—net	(115,243)	305,262	(239,478)
Dividends paid	(843,997)	(891,270)	(891,850)
Other—net	(14,036)	(21,543)	28,721
Net cash used by financing activities	(1,592,486)	(1,832,917)	(1,406,225)
Net Change in Cash and Cash Equivalents	(590,893)	597,395	75,834
Cash and Cash Equivalents at January 1	734,295	136,900	61,066
Cash and Cash Equivalents at December 31	$ 143,402	$ 734,295	$ 136,900
Supplemental disclosures of cash flow information			
Cash paid for			
Interest (net of amounts capitalized)	$ 598,394	$ 644,978	$ 674,758
Income taxes	639,813	1,125,635	712,777

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

Consolidated Balance Sheet

December 31, (in thousands)	1996	1995
Assets		
Plant in Service		
Electric		
Nonnuclear	$18,099,342	$17,530,446
Diablo Canyon	6,658,137	6,646,853
Gas	8,138,106	7,732,681
Total plant in service (at original cost)	32,895,585	31,909,980
Accumulated depreciation and decommissioning	(14,301,934)	(13,311,500)
Net plant in service	18,593,651	18,598,480
Construction Work in Progress	414,229	333,263
Other Noncurrent Assets		
Nuclear decommissioning funds	882,929	769,829
Investment in nonregulated projects	817,259	855,962
Other assets	134,271	130,128
Total other noncurrent assets	1,834,459	1,755,919
Current Assets		
Cash and cash equivalents	143,402	734,295
Accounts receivable, net	1,499,674	1,268,936
Regulatory balancing accounts receivable	444,156	746,344
Inventories		
Materials and supplies	185,771	181,763
Gas stored underground	130,229	146,499
Fuel oil	23,433	40,756
Nuclear fuel	190,652	175,957
Prepayments	54,116	47,025
Total current assets	2,671,433	3,341,575
Deferred Charges		
Income tax-related deferred charges	1,133,043	1,079,673
Other deferred charges	1,483,110	1,741,380
Total deferred charges	2,616,153	2,821,053
Total Assets	$26,129,925	$26,850,290

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

Consolidated Balance Sheet

December 31, (in thousands)	1996	1995
Capitalization and Liabilities		
Capitalization		
Common stock equity	$ 8,363,301	$ 8,599,133
Preferred stock without mandatory redemption provisions	402,056	402,056
Preferred stock with mandatory redemption provisions	137,500	137,500
Company obligated mandatorily redeemable preferred securities of trust holding solely PG&E subordinated debentures	300,000	300,000
Long-term debt	7,770,067	8,048,546
Total capitalization	16,972,924	17,487,235
Current Liabilities		
Short-term borrowings	680,900	829,947
Current portion of long-term debt	209,867	304,204
Accounts payable		
Trade creditors	834,143	413,972
Other	365,499	387,747
Accrued taxes	310,271	274,093
Amounts due customers	186,899	49,175
Deferred income taxes	157,064	227,782
Interest payable	63,193	70,179
Dividends payable	123,310	205,467
Other	309,104	455,798
Total current liabilities	3,240,250	3,218,364
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,941,435	3,933,765
Deferred tax credits	379,563	393,255
Noncurrent balancing account liabilities	120,858	185,647
Other	1,474,895	1,632,024
Total deferred credits and other noncurrent liabilities	5,916,751	6,144,691
Commitments and Contingencies (Notes 1, 2, 3, 12, and 13)	—	—
Total Capitalization and Liabilities	$26,129,925	$26,850,290

Statement of Consolidated Common Stock Equity, Preferred Stock, and Preferred Securities

(dollars in thousands)	Common Stock	Additional Paid-in Capital	Reinvested Earnings	Total Common Stock Equity	Preferred Stock Without Mandatory Redemption Provisions	Preferred Stock With Mandatory Redemption Provisions
Balance December 31, 1993	$2,136,095	$3,666,455	$2,643,487	$8,446,037	$ 807,995	$ 75,000
Net income			1,007,450	1,007,450		
Common stock issued (10,508,483 shares)	52,543	221,726		274,269		
Common stock repurchased (7,485,001 shares)	(37,425)	(66,334)	(77,799)	(181,558)		
Preferred stock issued (2,500,000 shares)		(188)		(188)		62,500
Preferred stock redeemed (3,000,000 shares)		(5,331)	(2,544)	(7,875)	(75,000)	
Cash dividends declared						
Preferred stock			(58,203)	(58,203)		
Common stock			(840,627)	(840,627)		
Other		(9,820)	5,540	(4,280)		
Balance December 31, 1994	2,151,213	3,806,508	2,677,304	8,635,025	732,995	137,500
Net income			1,338,885	1,338,885		
Common stock issued (5,316,876 shares)	26,584	113,011		139,595		
Common stock repurchased (21,533,977 shares)	(107,669)	(195,383)	(298,308)	(601,360)		
Preferred securities issued[1] (12,000,000 shares)						300,000
Preferred stock redeemed or repurchased (13,237,554 shares)		(7,814)	(19,459)	(27,273)	(330,939)	
Cash dividends declared						
Preferred stock			(56,006)	(56,006)		
Common stock			(829,828)	(829,828)		
Other			95	95		
Balance December 31, 1995	2,070,128	3,716,322	2,812,683	8,599,133	402,056	437,500
Net income			755,209	755,209		
Common stock issued (9,290,102 shares)	46,448	173,278		219,726		
Common stock repurchased (19,811,396 shares)	(99,055)	(182,088)	(174,135)	(455,278)		
Cash dividends declared						
Preferred stock			(33,113)	(33,113)		
Common stock			(728,727)	(728,727)		
Other		2,381	3,970	6,351		
Balance December 31, 1996	$2,017,521	$3,709,893	$2,635,887	$8,363,301	$ 402,056	$437,500

[1] Relates to company obligated mandatorily redeemable preferred securities of trust holding solely PG&E subordinated debentures.

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

Statement of Consolidated Capitalization

December 31,	1996	1995
(dollars in thousands, except per share amounts)		
Common Stock Equity		
Common stock, par value $5 per share (authorized 800,000,000 shares, issued and outstanding 403,504,292 and 414,025,856)	$ 2,017,521	$ 2,070,128
Additional paid-in capital	3,709,893	3,716,322
Reinvested earnings	2,635,887	2,812,683
Common stock equity	8,363,301	8,599,133
Preferred Stock and Preferred Securities		
Preferred stock without mandatory redemption provisions		
Par value $25 per share[1]		
Nonredeemable		
5% to 6%—5,784,825 shares outstanding	144,621	144,621
Redeemable		
4.36% to 7.44%—10,297,404 shares outstanding	257,435	257,435
Total preferred stock without mandatory redemption provisions	402,056	402,056
Preferred stock with mandatory redemption provisions		
Par value $25 per share[1]		
6.30% and 6.57%—5,500,000 shares outstanding, due 2002–2009	137,500	137,500
Preferred stock	539,556	539,556
Company obligated mandatorily redeemable preferred securities of trust holding solely PG&E subordinated debentures		
7.90%—12,000,000 shares outstanding, due 2025	300,000	300,000
Long-Term Debt		
PG&E long-term debt		
First and refunding mortgage bonds		
Maturity — Interest rates		
1996–2001 — 4.50% to 8.75%	880,450	915,249
2002–2006 — 5.875% to 7.875%	1,392,135	1,450,000
2007–2012 — 6.25% to 8.875%	475,000	477,870
2013–2019 — 7.5% to 8.2%	45,000	105,000
2020–2026 — 5.85% to 8.875%	2,627,736	2,749,651
Principal amounts outstanding	5,420,321	5,697,770
Unamortized discount net of premium	(49,923)	(55,802)
Total mortgage bonds	5,370,398	5,641,968
Debentures, 12%, due 2000	57,539	57,539
Pollution control loan agreements, variable rates, due 2016–2026	987,870	925,000
Unsecured medium-term notes, 4.93% to 9.9%, due 1997–2014	828,900	1,096,400
Unamortized discount related to unsecured medium-term notes	(1,187)	(1,652)
Other long-term debt	32,800	20,298
Total PG&E long-term debt	7,276,320	7,739,553
Long-term debt of PGT and Enterprises	703,614	613,197
Total long-term debt	7,979,934	8,352,750
Less current portion	209,867	304,204
Long-term debt, excluding current portion	7,770,067	8,048,546
Total Capitalization	$16,972,924	$17,487,235

[1] Authorized 75,000,000 shares in total (both with and without mandatory redemption provisions).

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

Statement of Consolidated Segment Information

(in thousands)	Electric Utility	Gas Utility	Diversified Operations[4]	Intersegment Eliminations	Total
1996					
Operating revenues	$ 7,160,215	$2,039,802	$ 409,955	$ —	$ 9,609,972
Intersegment revenues[1]	12,156	69,645	—	(81,801)	—
Total operating revenues	$ 7,172,371	$2,109,447	$ 409,955	$(81,801)	$ 9,609,972
Depreciation and decommissioning	$ 919,958	$ 288,994	$ 13,000	$ —	$ 1,221,952
Operating income before income taxes[2]	1,757,611	184,506	(47,921)	1,389	1,895,585
Capital expenditures[3]	921,425	459,074	23,270	—	1,403,769
Identifiable assets[3]	$18,005,105	$6,215,028	$1,434,216	$ —	$25,654,349
Corporate assets					475,576
Total assets at year end					$26,129,925
1995					
Operating revenues	$ 7,386,307	$2,059,117	$ 176,341	$ —	$ 9,621,765
Intersegment revenues[1]	12,678	85,356	—	(98,034)	—
Total operating revenues	$ 7,398,985	$2,144,473	$ 176,341	$(98,034)	$ 9,621,765
Depreciation and decommissioning	$ 1,007,467	$ 306,717	$ 45,934	$ —	$ 1,360,118
Operating income before income taxes[2]	2,267,193	540,378	(46,618)	2,032	2,762,985
Capital expenditures[3]	679,866	282,724	2,067	—	964,657
Identifiable assets[3]	$18,610,610	$6,064,596	$1,042,764	$ —	$25,717,970
Corporate assets					1,132,320
Total assets at year end					$26,850,290
1994					
Operating revenues	$ 8,021,547	$2,081,062	$ 247,621	$ —	$10,350,230
Intersegment revenues[1]	12,852	85,341	—	(98,193)	—
Total operating revenues	$ 8,034,399	$2,166,403	$ 247,621	$(98,193)	$10,350,230
Depreciation and decommissioning	$ 982,859	$ 295,979	$ 118,632	$ —	$ 1,397,470
Operating income before income taxes[2]	2,187,569	271,537	(32,093)	(3,227)	2,423,786
Capital expenditures[3]	834,494	292,000	19,456	—	1,145,950
Identifiable assets[3]	$19,637,222	$6,167,314	$1,436,128	$ —	$27,240,664
Corporate assets					467,900
Total assets at year end					$27,708,564

[1] Intersegment electric and gas revenues are accounted for at tariff rates prescribed by the CPUC.
[2] General corporate expenses are allocated in accordance with FERC Uniform System of Accounts and requirements of the CPUC.
[3] Includes an allocation of common plant in service and allowance for funds used during construction.
[4] Represents the nonregulated operations of wholly-owned subsidiaries including Enterprises, Mission Trail Insurance Ltd. (liability insurance), and Energy Source (gas marketing).

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

Note 1: Significant Accounting Policies

Corporate Restructuring: Effective January 1, 1997, Pacific Gas and Electric Company (PG&E) became a subsidiary of its new parent holding company, PG&E Corporation. PG&E's ownership interest in Pacific Gas Transmission Company (PGT) and PG&E Enterprises (Enterprises) was transferred to PG&E Corporation. PG&E's outstanding common stock was converted on a share-for-share basis into PG&E Corporation's outstanding common stock. PG&E's debt securities and preferred stock were unaffected and remain securities of PG&E. The members of PG&E's current Board of Directors became directors of PG&E Corporation.

Basis of Presentation: The consolidated financial statements include the accounts of PG&E and its wholly-owned and controlled subsidiaries (collectively, the Company) and, therefore, also represent the accounts of PG&E Corporation and its subsidiaries. All significant intercompany transactions have been eliminated. Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the 1996 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of revenues, expenses, assets, and liabilities and disclosure of contingencies. Actual results could differ from these estimates.

Operations: The Company and its subsidiaries provide electric and natural gas services and retail energy services. PG&E is a regulated public utility which provides generation, procurement, transmission, and distribution of electricity and natural gas throughout most of Northern and Central California. PGT transports gas from the Canadian border to the California border and the Pacific Northwest. PGT also has operations in Australia and Texas. Enterprises, through its subsidiaries and affiliates, develops, owns, and operates electric and gas projects and provides energy services.

Regulation: PG&E is regulated by the California Public Utilities Commission (CPUC), the Federal Energy Regulatory Commission (FERC), and the Nuclear Regulatory Commission, among others. PG&E currently accounts for the economic effects of regulation in accordance with Statement of Financial *Accounting Standards (SFAS) No. 71*, "Accounting for the Effects of Certain Types of Regulation." This statement allows the Company to record certain regulatory assets and liabilities which would be included in future rates and would not be recorded under generally accepted accounting principles for nonregulated entities.

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 prescribes general standards for the recognition and measurement of impairment losses. In addition, it requires that regulatory assets continue to be probable of recovery in rates, rather than only at the time the regulatory asset is recorded. Regulatory assets currently recorded would be written off if recovery is no longer probable. Adoption of this standard had no material impact on the Company's financial position or results of operations.

On an ongoing basis, PG&E reviews its regulatory assets and liabilities for the continued applicability of SFAS No. 71 and the effect of SFAS No. 121. (See Note 2 for further discussion.)

Net regulatory assets and liabilities include the following:

December 31, (in millions)	1996	1995
Deferred income tax	$1,133	$1,080
Unamortized loss net of gain on reacquired debt	377	392
Diablo Canyon pre-settlement costs	364	382
Workers' compensation and disability claims costs	288	297
Regulatory balancing accounts (net)	323	561
Other deferred (net)	267	474
	$2,752	$3,186

Revenues and Regulatory Balancing Accounts: Revenues are recorded primarily for delivery of gas and electric energy to customers. Electric and gas utility revenues include amounts for services rendered but unbilled at the end of the year. Revenues also are recorded for changes in regulatory balancing accounts established by the CPUC. Specifically, sales balancing accounts accumulate differences between authorized and actual base revenues. Energy cost balancing accounts accumulate differences between the actual cost of gas and electric energy and the revenues designated for recovery of such costs. Recovery of gas and electric energy costs through energy cost balancing accounts is subject to reasonableness reviews by the CPUC. The regulatory balancing accounts accumulate balances until they are refunded to or received from utility customers through authorized rate adjustments.

Dividend Restriction: PG&E is limited as to the amount of dividends that it may pay to PG&E Corporation based on PG&E's regulatory capital structure authorized by the CPUC. PG&E's equity shall be retained such that, on average, the capital structure authorized by the CPUC is maintained. This restriction is not expected to affect PG&E Corporation's ability to meet its cash obligations.

Financial Derivative Instruments (Derivatives): The Company engages in price risk management activities to manage risks associated with changes in energy commodity prices, interest rates, and foreign currencies. These price risk management activities include the use of derivatives.

Gains and losses on derivatives used for hedging purposes are intended to offset losses and gains on the underlying hedged item. Under hedge accounting, changes in the market value of these transactions are deferred and recognized as an addition to the income or expense of the underlying instrument upon completion of the underlying transaction. All 1996 transactions were accounted for using hedge accounting. Gains and losses associated with derivative transactions during 1996 were immaterial.

Plant in Service: The cost of plant additions and replacements includes labor, materials, construction overhead, and an allowance for funds used during construction (AFUDC) or capitalized interest. AFUDC is the estimated cost of debt and equity funds used to finance regulated plant additions. Capitalized interest is the interest incurred on borrowed funds used to finance nonregulated plant additions. The original cost of retired plant and removal costs less salvage value is charged to accumulated depreciation upon retirement of plant in service.

Plant in service is depreciated using a straight-line remaining-life method. The Company's composite depreciation rates were 3.65, 4.09, and 4.31 percent for the years ended December 31, 1996, 1995, and 1994.

Nuclear Decommissioning Costs: The estimated total obligation for decommissioning PG&E's nuclear power facilities is comprised of the total cost (including labor, materials, and other costs) of decommissioning and dismantling plant systems and structures. In addition, a contingency amount for possible changes in regulatory requirements and increases in waste disposal costs is included in the estimated total obligation.

The estimated total obligation for nuclear decommissioning costs, based on a 1994 site study, is approximately $1.2 billion in 1996 dollars (or $5.9 billion in future dollars). Actual decommissioning costs are expected to vary from this estimate because of changes in assumed dates of decommissioning, regulatory requirements, technology, and costs of labor, materials, and equipment. The estimated total obligation is being recognized proportionately over the license of each facility.

For the years ended December 31, 1996, 1995, and 1994, nuclear decommissioning costs recovered in rates through an annual allowance were $33, $54, and $54 million, respectively. Based on the 1994 site study, the amount assumed to be recovered in rates in 1997 and annually up to the commencement of decommissioning is $33 million. This amount will be reviewed in future rate proceedings.

At December 31, 1996, the total nuclear decommissioning obligation accrued was $889 million and was included in the balance sheet classification of Accumulated Depreciation and Decommissioning.

Decommissioning costs recovered in rates are placed in external trust funds. These funds along with accumulated earnings will be used exclusively for decommissioning. (See Note 8 for further discussion of nuclear decommissioning funds.)

Decommissioning is scheduled to begin for Diablo Canyon Nuclear Power Plant's (Diablo Canyon) Unit 1 and Unit 2 in 2015 and 2016, respectively, with scheduled completion for both units in 2034. The decommissioning method selected for Diablo Canyon anticipates that the facilities will be decontaminated to a level that permits the property to be released for unrestricted use.

Decommissioning for Humboldt Bay Power Plant is scheduled to begin in 2015. The decommissioning method selected consists of placing and maintaining the facility in protective storage until some future time when dismantling can be initiated.

PG&E, as required by federal law, has signed a contract with the U.S. Department of Energy (DOE) to provide for the disposal of spent nuclear fuel and high-level radioactive waste from PG&E's nuclear power facilities beginning not later than January 1998. However, due to delays in identifying a storage site, the DOE has officially acknowledged that it will not be able to meet its contract commitment. The DOE's current estimate for an available site to begin accepting physical possession of the spent nuclear fuel is 2010.

At the projected level of operation for Diablo Canyon, PG&E's facilities are sufficient to store on-site all spent fuel produced through approximately 2006. It is likely that an interim or permanent DOE storage facility will not be available for Diablo Canyon's spent fuel by 2006. PG&E is examining options for providing additional temporary spent fuel storage at Diablo Canyon or other facilities, pending disposal or storage at a DOE facility.

Gains and Losses on Reacquired Debt: Gains and losses on reacquired debt charged to operations subject to the provisions of SFAS No. 71 are deferred and amortized over the remaining original lives of the debt reacquired, consistent with ratemaking principles. Gains and losses on reacquired debt associated with other operations are recognized in earnings at the time such debt is reacquired.

Inventories: Stored nuclear fuel inventory is stated at lower of average cost or market. Nuclear fuel in the reactor is amortized based on the amount of energy output. Other inventories are valued at average cost except for fuel oil, which is valued by the last-in-first-out method.

Cash Equivalents: Cash equivalents (stated at cost, which approximates market) include working funds and short-term investments with original maturities of three months or less.

Note 2: Electric Industry Restructuring

In 1995, the CPUC issued a decision that provides a plan to restructure California's electric utility industry. The decision acknowledges that much of utilities' current costs and commitments result from past CPUC decisions and that, in a competitive generation market, utilities would not recover some of these costs through market-based revenues. To assure the continued financial integrity of California utilities, the CPUC authorized recovery of these above-market costs, called "transition costs."

In 1996, California legislation was passed that adopts the basic tenets of the CPUC's restructuring decision, including recovery of transition costs. In addition, the legislation provides a 10 percent rate reduction for residential and small commercial customers by January 1, 1998, freezes electric customer rates for all other customers, and requires the accelerated recovery of transition costs associated with owned generation facilities. The legislation also establishes the operating framework for a competitive generation market.

The rate freeze will continue until the earlier of March 31, 2002, or until PG&E has recovered its transition costs (the transition period). The freeze will hold rates at 1996 levels for all customers except those receiving the 10 percent rate reduction. The rate freeze will hold the rates for these customers at the reduced level.

To achieve the 10 percent rate reduction, the legislation authorizes utilities to finance a portion of their transition costs with "rate reduction bonds." The maturity period of the bonds is expected to extend beyond the transition period. Also, the interest cost of the bonds is expected to be lower than PG&E's current cost of capital. Once this portion of transition costs is financed, PG&E would collect a bond service payment to recover principal, interest, and issuance costs over the life of the bonds from residential and small commercial customers. The combination of the longer maturity period and the reduced interest costs will lower the amounts paid by these customers each year during the transition period thereby achieving the 10 percent reduction in rates.

Tax-exempt trusts have been established to oversee the development of the operating framework for the competitive generation market. The CPUC has authorized California utilities to guarantee bank loans of up to $250 million to be used by the trusts for this purpose. Under this authorization, PG&E will guarantee a maximum of $112.5 million of these loans.

Transition Cost Recovery: The legislation authorizes the CPUC to determine the costs eligible for recovery as transition costs. The amount of costs will be based on the aggregate of above-market and below-market values of utility-owned generation assets and obligations. PG&E has proposed that costs eligible for transition cost recovery include: (1) above-market sunk costs (costs associated with utility generating facilities that are fixed and unavoidable and currently collected through rates) and future costs, such as costs related to plant removal,

(2) above-market costs associated with purchase power obligations with Qualifying Facilities (QFs) and other Power Purchase Agreements, and (3) generation-related regulatory assets and obligations. PG&E cannot determine the exact amount of sunk costs that will be above market and recoverable as transition costs until a market valuation process (appraisal or sale) is completed for each generation facility. This process will be completed during the transition period.

Most transition costs must be recovered by March 1, 2002. However, the legislation authorizes recovery of certain transition costs after that time. These costs include: (1) certain employee-related transition costs, (2) payments under existing QF and power purchase contracts, and (3) unrecovered implementation costs. Excluding these exceptions, any transition costs not recovered during the transition period will be absorbed by PG&E. Nuclear decommissioning costs, which are not considered transition costs, will be recovered through a CPUC authorized charge. During the transition period, this charge will be incorporated into the frozen rates. After the transition period, customers will be assessed a surcharge until the nuclear decommissioning costs are fully recovered.

PG&E's ability to recover its transition costs during the transition period will be dependent on several factors. These factors include: (1) the extent to which application of the current regulatory framework established by the restructuring legislation will continue to be applied, (2) the amount of transition costs approved by the CPUC, (3) the market value of its generation plants, (4) future sales levels, (5) fuel and operating costs, (6) the market price of electricity, and (7) the ratemaking methodology adopted for Diablo Canyon. Considering its current evaluation of these factors, PG&E believes it will recover its transition costs and that its owned generation plants are not impaired. However, a change in these factors could affect the probability of recovery of transition costs and result in a material loss.

PG&E has proposed to implement portions of its transition cost recovery plan in 1997. The CPUC decision on PG&E's 1997 Energy Cost Adjustment Clause (ECAC) application would decrease PG&E's 1997 revenue requirement by $720 million. This decrease would be partially offset by a $160 million revenue requirement increase, provided by the legislation, for purposes of enhancing transmission and distribution system safety and reliability. This increase was approved by the CPUC as part of PG&E's transition cost recovery plan.

Given the electric customer rate freeze, the $560 million net revenue requirement decrease resulting from the consolidation of the ECAC decision and the revenue requirement increase contemplated in the cost recovery plan would be available for transition cost recovery. The proposed accelerated recovery of Diablo Canyon would absorb an estimated $400 million of this available revenue requirement. The remaining revenue requirement would be available to recover other transition costs.

Accounting for the Effects of Regulation: As a result of applying the provisions of SFAS No. 71 (discussed in Note 1 above), PG&E has accumulated approximately $1.6 billion of regulatory assets attributable to electric generation at December 31, 1996. The net investments in Diablo Canyon and the other generation assets were $4.5 and $2.7 billion, respectively, at December 31, 1996. The net present value of above-market QF power purchase obligations is estimated to be $5.3 billion at January 1, 1998, at an assumed market price of $0.025 per kilowatt-hour (kWh) beginning in 1997 and escalating at 3.2 percent per year.

PG&E believes that the restructuring legislation establishes a definitive transition to market-based pricing for electric generation. Incorporating the effects of the competitive auction pricing of electricity and customer direct access, this transition includes cost-of-service based ratemaking. In addition, PG&E's generation-related transition costs will be collected through a nonbypassable charge. Based on this structure, PG&E believes it will continue to meet the requirements of SFAS No. 71 throughout the transition period.

At the conclusion of the transition period, PG&E believes it will be at risk to recover its generation costs through market-based revenues. At that time, PG&E expects to discontinue the application of SFAS No. 71 for the electric generation portion of its business. Since PG&E anticipates it will have recovered all transition costs required to be recovered during the transition period, including generation-related regulatory assets and above-market investments in net plant, PG&E does not expect a material adverse impact on its financial position or results of operations from discontinuing the application at that time.

As a result of the CPUC's restructuring decision and California's electric industry restructuring legislation, the Securities and Exchange Commission (SEC) has begun inquiries regarding the appropriateness of the continued application of

SFAS No. 71 by California utilities to their electric generation businesses. As discussed above, PG&E believes it currently meets and will continue to meet the requirements to apply SFAS No. 71 during the transition period. In the event that the SEC concludes that the current regulatory and legal framework in California no longer meets the requirements to apply SFAS No. 71 to the generation business, the Company would reevaluate the financial impact of electric industry restructuring and a material write-off could occur.

Given the current regulatory environment, PG&E's electric transmission and distribution businesses are expected to remain regulated and, as a result, will continue application of the provisions of SFAS No. 71.

Note 3: Natural Gas Matters

The Gas Accord Settlement (Accord): In an effort to promote competition and to give all residential and smaller commercial (core) customers the same options that exist for industrial and larger commercial (noncore) customers, PG&E submitted the Accord to the CPUC in 1996. In addition to offering increased customer choice, the Accord would establish gas transmission rates for the period July 1997 through December 2002 and resolve various pending regulatory issues. The Accord must be approved by the CPUC before it can be implemented. A CPUC decision is expected in 1997.

The major outstanding gas regulatory issues that the Accord would resolve include the 1988 through 1995 gas reasonableness proceedings, the initial capital costs for the PG&E Pipeline Expansion, the interstate transition cost surcharge (ITCS) recovery, and the PG&E pipeline transportation commitments, all of which are discussed in further detail below.

As of December 31, 1996, PG&E has reserved approximately $527 million, including $182 million reserved during 1996, relating to its gas regulatory issues and gas capacity commitments, the majority of which are addressed by the Accord. The Company believes the ultimate resolution of these matters, whether through approval of the Accord or otherwise, will not have a material adverse impact on its financial position or future results of operations.

Gas Reasonableness Proceedings: Recovery of gas costs through PG&E's regulatory balancing account mechanisms is subject to a CPUC determination that such costs were reasonable. Under the current regulatory framework, annual reasonableness proceedings are conducted by the CPUC on a historic calendar year basis.

In 1994, the CPUC issued a decision which ordered a disallowance of approximately $90 million of gas costs plus accrued interest of approximately $25 million through 1993 for PG&E's Canadian gas procurement activities from 1988 through 1990. PG&E has filed a lawsuit in a federal district court challenging the CPUC's decision on Canadian gas costs. PG&E expects this issue to be resolved as part of the Accord discussed above. Under the Accord, PG&E would agree to forgo recovery of the $90 million disallowance ordered in the 1988 through 1990 gas reasonableness proceeding, irrespective of the outcome of the lawsuit.

A number of other reasonableness issues related to PG&E's gas procurement practices, transportation capacity commitments, and supply operations for periods dating from 1988 to 1994 were resolved when the CPUC accepted a settlement in December 1996 between PG&E and the Office of Ratepayer Advocates (ORA) of the CPUC. Under the terms of that settlement, PG&E will return $67 million plus interest to ratepayers in 1997. PG&E has previously recorded reserves for this settlement.

PGT/PG&E Pipeline Expansion: In November 1993, the Company expanded its natural gas transmission system providing additional firm transportation capacity from the Canadian border to Northern and Southern California and the Pacific Northwest.

PG&E has filed an application with the CPUC requesting that capital costs of $810 million and ongoing operating costs for the PG&E, or California, portion of the Pipeline Expansion be found reasonable. Revenues are currently being collected under interim rates approved by the CPUC, subject to adjustment.

In 1996, a CPUC Administrative Law Judge (ALJ) ordered consolidation of the market impact phase of the PG&E Pipeline Expansion reasonableness proceeding and the ITCS proceeding discussed below. An ALJ also ordered reopening of the 1993 PG&E Pipeline Expansion Rate Case to allow reconsideration of issues regarding the decision to construct the PG&E Pipeline Expansion. Were the CPUC to reverse its previous decision, which found that PG&E was reasonable in constructing the PG&E Pipeline Expansion, the ultimate outcome could have an adverse impact on PG&E's ability to recover its cost for unused *capacity on other pipelines as well as on its own intrastate* facilities. PG&E expects these issues to be resolved as part of the Accord discussed above. Under the Accord, PG&E would agree to set rates for the PG&E Pipeline Expansion based on total capital costs of $736 million.

Transportation Commitments: PG&E has gas transportation service agreements with various Canadian and interstate pipeline companies. These agreements include provisions for payment of fixed demand charges for reserving firm capacity on the pipelines. The total demand charges that PG&E will pay each year may change due to changes in tariff rates. The total demand and transportation charges paid by PG&E under these agreements (excluding agreements with PGT) were approximately $212, $175, and $225 million in 1996, 1995, and 1994, respectively.

The following table summarizes the approximate capacity held by PG&E on various pipelines (excluding PGT) and the related annual demand charges at December 31, 1996:

Pipeline Company	Firm Capacity Held (MMcf/d)	Total Annual Gross Demand Charges (in millions)	Contract Expiration
El Paso	1,140	$163	Dec. 1997
Transwestern	200	$ 29	Mar. 2007
NOVA	600	$ 20	Oct. 2001
ANG	600	$ 13	Oct. 2005

As a result of regulatory changes, PG&E no longer procures gas for its noncore customers, resulting in a decrease in PG&E's need for firm transportation capacity for its gas purchases. PG&E continues to procure gas for almost all of its core customers and those noncore customers who choose bundled service (core subscription customers). To serve these customers, PG&E holds approximately 600 million cubic feet per day (MMcf/d) of firm capacity for its core and core subscription customers on each of the pipelines owned by El Paso Natural Gas Company (El Paso), NOVA Corporation of Alberta (NOVA), Alberta Natural Gas Company Ltd (ANG), and PGT.

PG&E is continuing its efforts to broker or assign any remaining unused capacity, including unused capacity held for its core and core subscription customers. Due to relatively low demand for Southwest pipeline capacity, PG&E cannot predict the volume or price of the capacity on El Paso and Transwestern Pipeline Company (Transwestern) that will be brokered or assigned.

Substantially all demand charges incurred by PG&E for pipeline capacity are eligible for rate recovery, subject to a reasonableness review. These demand charges include capacity that was formerly used to serve noncore customers but which at present cannot be brokered or which is brokered at a discount. However, certain groups, including the ORA and intervenors, have challenged the recovery of these unrecovered demand charges.

In December 1995, the CPUC issued a decision on the reasonableness of PG&E's 1992 operations, concluding that it was unreasonable for PG&E to commit to transportation capacity with Transwestern. The decision orders that costs for the capacity in subsequent years of the contract, which expires in 2007, be disallowed unless PG&E can demonstrate that the benefits of the commitment outweigh the costs.

The recovery of demand charges associated with capacity which was formerly used to serve PG&E's noncore customers will be decided by the CPUC in the ITCS proceeding, unless otherwise resolved as part of the Accord. Pending a final decision in the ITCS proceeding, the CPUC has approved collection (subject to refund) in rates of approximately 50 percent of the demand charges for unbrokered or discounted El Paso and PGT capacity which was formerly used to serve PG&E's noncore customers.

Under the Accord, PG&E would not recover costs through 1997 associated with Transwestern capacity originally subscribed to in order to serve core customers and would have limited recovery during the period 1998 through 2002. Also as part of the Accord, PG&E would forgo recovery of 100 percent and 50 percent of the ITCS amounts allocated to its core and noncore customers, respectively.

The Company believes ultimate resolution of its capacity commitments and the ITCS proceeding, either through approval of the Accord or otherwise, will not have a material adverse impact on its financial position or future results of operations.

Note 4: Diablo Canyon

The Diablo Canyon rate case settlement as adopted in 1988 and modified in 1995 (Diablo Settlement) bases revenues primarily on the amount of electricity generated by Diablo Canyon. The Diablo Settlement provides that Diablo Canyon costs and operations are not subject to CPUC reasonableness reviews. Only certain Diablo Canyon costs may be recovered through base revenues over the term of the Diablo Settlement, including a full return on such costs. The revenues to recover all Diablo Canyon costs are included in Diablo Canyon operating revenues reported below. Other than for these and decommissioning costs, Diablo Canyon discontinued the application of SFAS No. 71 in July 1988.

Under the pricing provisions of the existing Diablo Settlement, the price for power produced by Diablo Canyon for 1997 is 10.0 cents per kWh effective January 1. PG&E has the right to reduce the price below the amount specified. Under the existing settlement, at full operating power, each Diablo Canyon unit would contribute approximately $2.6 million in revenues per day in 1997. The prices per kWh of electricity generated by Diablo Canyon for 1996, 1995, and 1994 were 10.50, 11.00, and 11.89 cents per kWh, respectively.

Selected financial information for Diablo Canyon is shown below:

Year ended December 31, (in millions)	1996	1995	1994
Operating revenues	$1,789	$1,845	$1,870
Operating income before income taxes	998	1,029	956
Net income	497	507	461

In determining operating results of Diablo Canyon, operating revenues and the majority of operating expenses were specifically identified pursuant to the Diablo Settlement. Administrative and general expenses, principally labor costs, are allocated based on a study of labor costs. Interest is charged to Diablo Canyon based on an allocation of PG&E debt.

In conjunction with electric industry restructuring, PG&E filed in March 1996 a proposal for pricing Diablo Canyon generation at market prices and completing recovery of the investment in Diablo Canyon by the end of 2001. If this proposal is adopted, there would be a significant change to the manner in which Diablo Canyon earns revenues.

Under its proposal, PG&E would replace the existing settlement prices with: (1) a sunk cost revenue requirement to recover fixed costs, including a return on these costs, and (2) a performance-based ratemaking (PBR) mechanism to recover the facility's variable costs and capital addition costs. As proposed, the sunk cost revenue requirement would accelerate recovery of Diablo Canyon sunk costs from a twenty-year period ending in 2016 to a five-year period beginning in 1997 and ending in 2001. The related return on common equity associated with Diablo Canyon sunk costs would be reduced to 90 percent of PG&E's long-term cost of debt. PG&E's authorized long-term cost of debt was 7.52 percent in 1996. The reduced rate of return combined with a shorter recovery period would result in an estimated $4 billion decrease in the net present value of PG&E's future revenues from Diablo Canyon operations. If the proposed cost recovery plan for Diablo Canyon were adopted during 1996, Diablo Canyon's 1996 reported net income would have been reduced by $350 million ($0.85 per share).

Note 5: Preferred Stock and Company Obligated Mandatorily Redeemable Preferred Securities of Trust Holding Solely PG&E Subordinated Debentures

(See the Statement of Consolidated Capitalization for additional information.)

Preferred Stock: PG&E's nonredeemable preferred stock at December 31, 1996, has rights to annual dividends per share ranging from $1.25 to $1.50.

PG&E's redeemable preferred stock without mandatory redemption provisions is subject to redemption at PG&E's option, in whole or in part, if PG&E pays the specified redemption price plus accumulated and unpaid dividends through the redemption date. Annual dividends and redemption prices per share at December 31, 1996, range from $1.09 to $1.86 and from $25.75 to $27.25, respectively.

PG&E's redeemable preferred stock with mandatory redemption provisions consists of the 6.30% and 6.57% series at December 31, 1996. These series of preferred stock are subject to mandatory redemption provisions entitling them to sinking funds providing for the retirement of stock outstanding. They may be redeemed at PG&E's option, beginning in 2004 and 2002, respectively, at par value plus accumulated and unpaid dividends through the redemption date. The estimated fair value of PG&E's preferred stock with mandatory redemption provisions at December 31, 1996, and 1995, was approximately $135 and $139 million, respectively, based on quoted market prices.

In 1995, PG&E redeemed all of its series 7.84%, 8%, and 8.20% redeemable preferred stock. In addition, PG&E repurchased partial amounts of its series 6⅞%, 7.04%, and 7.44% redeemable preferred stock through a tender offer. The aggregate par value of these redemptions and repurchases was $331 million.

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

Company Obligated Mandatorily Redeemable Preferred Securities of Trust Holding Solely PG&E Subordinated Debentures: During 1995, PG&E through its wholly-owned subsidiary, PG&E Capital I (Trust), completed a public offering of 12 million shares of 7.90% cumulative quarterly income preferred securities (QUIPS), with an aggregate liquidation value of $300 million. Concurrent with the issuance of the QUIPS, the Trust issued to PG&E 371,135 shares of common securities with an aggregate liquidation value of approximately $9 million. The Trust in turn used the net proceeds from the QUIPS offering and issuance of the common securities to purchase subordinated debentures issued by PG&E with a face value of approximately $309 million, an interest rate of 7.90 percent, and a maturity date of 2025. These subordinated debentures are the only assets of the Trust. Proceeds to PG&E from the sale of the subordinated debentures were used to redeem and repurchase higher-cost preferred stock.

PG&E's guarantee of the QUIPS, considered together with the other obligations of PG&E with respect to the QUIPS, constitutes a full and unconditional guarantee by PG&E of the Trust's obligations under the QUIPS issued by the Trust. The subordinated debentures may be redeemed at PG&E's option beginning in 2000 at par plus accrued interest through the redemption date. The proceeds of any redemption will be used by the Trust to redeem QUIPS in accordance with their terms.

Upon liquidation or dissolution of PG&E, holders of these QUIPS would be entitled to the liquidation preference of $25 per share plus all accrued and unpaid dividends thereon to the date of payment. The estimated fair value of PG&E's QUIPS at December 31, 1996, and 1995, was approximately $291 and $311 million, respectively, based on quoted market prices.

Note 6: Long-term Debt

(See the Statement of Consolidated Capitalization for additional information.)

Mortgage Bonds: PG&E had $5.4 and $5.7 billion of mortgage bonds outstanding at December 31, 1996, and 1995, respectively. Additional mortgage bonds may be issued, subject to CPUC approval, up to a maximum total amount outstanding of $10 billion. All real properties and substantially all personal properties of PG&E are subject to the lien of the mortgage, and PG&E is required to make semi-annual sinking fund payments for the retirement of the bonds.

PG&E redeemed or repurchased $182 and $114 million of mortgage bonds in 1996 and 1995, respectively, with interest rates ranging from 5.375 to 12.75 percent.

Included in the total of outstanding mortgage bonds at December 31, 1996, and 1995, are $705 and $768 million, respectively, of mortgage bonds held in trust for the California Pollution Control Financing Authority (CPCFA) with interest rates ranging from 5.85 to 8.875 percent and maturity dates from 2007 to 2023. In addition to these mortgage bonds, PG&E holds long-term loan agreements with the CPCFA as described below.

Pollution Control Loan Agreements: In 1996, PG&E refinanced $925 million of variable interest rate pollution control loan agreements with variable interest rate pollution control loan agreements to extend certain maturities and achieve cost savings. These loan agreements from the CPCFA totaled $988 and $925 million, respectively, at December 31, 1996, and 1995. Interest rates on the loans vary with average annual interest rates for 1996 ranging from 3.24 to 3.54 percent. These loans are subject to redemption by the holder under certain circumstances. These loans are secured by irrevocable letters of credit which mature as early as 1999.

Long-term Debt of PGT: In 1996, PGT borrowed $92 million of long-term debt to finance the acquisition of PGT Queensland Gas Pipeline.

In 1995, PGT issued $470 million of long-term debt, the proceeds of which were used to refinance $600 million of outstanding PGT debt.

Additionally, in 1995, PGT issued commercial paper classified as long-term debt based upon the availability of committed credit facilities expiring in 2000 and management's intent to maintain such amounts in excess of one year. The commercial paper outstanding was $108 and $109 million at December 31, 1996, and 1995, respectively.

Repayment Schedule: At December 31, 1996, the Company's combined aggregate amounts of maturing long-term debt and sinking fund requirements, for the years 1997 through 2001, are $210, $660, $270, $413, and $376 million, respectively.

Fair Value: The estimated fair value of the Company's total long-term debt of $8.0 and $8.4 billion at December 31, 1996, and 1995, respectively, was approximately $8.0 and $8.7 billion, respectively. The estimated fair value of long-term debt was determined based on quoted market prices, where available. Where quoted market prices were not available, the estimated fair value was determined using other valuation techniques (e.g., the present value of future cash flows).

Note 7: Short-term Borrowings

Substantially all short-term borrowings consist of commercial paper, having a maturity of one to ninety days. Commercial paper outstanding and the associated weighted average interest rate at December 31, 1996, and 1995, were $681 million and 5.86 percent and were $796 million and 5.92 percent, respectively. The carrying amount of short-term borrowings approximates fair value.

PG&E maintains a $1 billion revolving credit facility which expires in 2001; however, it may be extended annually for additional one-year periods upon mutual agreement between PG&E and the banks. This credit facility primarily provides support for PG&E's commercial paper issuance. At maturity, commercial paper can be either reissued or replaced with borrowings from this credit facility. There were no borrowings under this facility in 1996 or 1995.

In January 1997, PG&E Corporation established a $500 million revolving credit facility in order to provide for corporate short-term liquidity needs and other purposes.

Note 8: Investments in Debt and Equity Securities

All of PG&E's investments in debt and equity securities are held in external trust funds and are reported at fair value. These investments, which are included in Nuclear Decommissioning Funds, cannot be released from the trust funds until authorized by the CPUC.

The proceeds received during 1996 and 1995 from sales were approximately $1.5 billion in each year. During 1996 and 1995, the gross realized gains on sales of securities held as available-for-sale were $14 and $9 million, respectively, and the gross realized losses on sales of securities held as available-for-sale were $20 and $22 million, respectively. The cost of debt and equity securities sold is determined by specific identification.

The following table provides a summary of amortized cost and fair value of these investments:

Year ended December 31,	1996	1995
(in thousands)		
Amortized Cost:		
U.S. government and agency issues	$374,931	$322,838
Equity securities	281,532	269,117
Municipal bonds and other	32,952	63,061
Gross unrealized holding gains	198,875	117,673
Gross unrealized holding losses	(5,361)	(2,860)
Fair value	$882,929	$769,829

Note 9: Employee Benefit Plans

Retirement Plan: The Company provides noncontributory defined benefit pension plans covering substantially all employees. Pension benefits are based on an employee's years of service and base salary. The Company's policy is to fund each year not more than the maximum amount deductible for federal income tax purposes and not less than the minimum legal funding requirement.

The following schedule reconciles the plans' funded status to the pension liability recorded on the Consolidated Balance Sheet:

December 31, (in thousands)	1996	1995
Actuarial present value of benefit obligations		
Vested benefits	$(3,486,136)	$(3,464,782)
Nonvested benefits	(177,782)	(182,503)
Accumulated benefit obligation	(3,663,918)	(3,647,285)
Effect of projected future compensation increases	(529,045)	(548,743)
Projected benefit obligation	(4,192,963)	(4,196,028)
Plan assets at market value	5,526,247	4,935,267
Plan assets in excess of projected benefit obligation	1,333,284	739,239
Unrecognized prior service cost	82,756	90,496
Unrecognized net gain	(1,559,281)	(1,074,347)
Unrecognized net transition obligation	85,895	97,348
Accrued pension liability	$ (57,346)	$ (147,264)

Plan assets consist primarily of common stocks and fixed-income securities. Unrecognized prior service costs and net gains are amortized on a straight-line basis over the average remaining service period of active plan participants. The transition obligation is being amortized over 17.5 years from 1987.

Using the projected unit credit actuarial cost method, net pension income consisted of the following components:

Year ended December 31, (in thousands)	1996	1995	1994
Service cost for benefits earned	$ (99,946)	$ (82,814)	$(109,132)
Interest cost	(301,631)	(290,563)	(272,932)
Actual return (loss) on plan assets	811,130	968,126	(20,358)
Net amortization and deferral	(353,195)	(586,350)	412,547
Net pension income	$ 56,358	$ 8,399	$ 10,125

The following actuarial assumptions were used in determining the plans' funded status and net pension income. Year-end assumptions are used to compute funded status, while prior year-end assumptions are used to compute net pension income.

December 31,	1996	1995	1994
Discount rate	7.5%	7.25%	8%
Rate of future compensation increases	5%	5%	5%
Expected long-term rate of return on plan assets	9%	9%	9%

Net pension income or 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 net pension income or cost. In 1996 and 1995, actual return on plan assets exceeded expected return. In 1994, the plan experienced a negative investment return due to weak performance in domestic equities and bonds.

In conformity with SFAS No. 71, regulatory adjustments have been recorded in the income statement and balance sheet for the difference between utility pension income or cost determined for accounting purposes and that for ratemaking, which is based on a funding approach.

Postretirement Benefits Other Than Pensions: The Company provides contributory defined benefit medical plans for retired employees and their eligible dependents and noncontributory defined benefit life insurance plans for retired employees. Substantially all employees retiring at or after age 55 are eligible for these benefits. The medical benefits are provided through plans administered by an insurance carrier or a health maintenance organization. Certain retirees are responsible for a portion of the cost based on past claims experience of the Company's retirees.

The CPUC has authorized PG&E to recover these benefits for 1993 and beyond. Recovery is based on the lesser of the annual accounting costs or annual contributions on a tax-deductible basis to appropriate trusts. The Company's policy is to fund each year an amount consistent with the basis for rate recovery.

The following schedule reconciles the medical and life insurance plans' funded status to the postretirement benefit liability recorded on the Consolidated Balance Sheet:

December 31, (in thousands)	1996	1995
Accumulated postretirement benefit obligation		
Retirees	$(444,782)	$(528,367)
Other fully eligible participants	(132,797)	(123,615)
Other active plan participants	(343,864)	(309,405)
Total accumulated postretirement benefit obligation	(921,443)	(961,387)
Plan assets at market value	666,287	538,905
Accumulated postretirement benefit obligation in excess of plan assets	(255,156)	(422,482)
Unrecognized prior service cost	21,946	23,761
Unrecognized net gain	(226,753)	(104,167)
Unrecognized transition obligation	419,617	449,647
Accrued postretirement benefit liability	$ (40,346)	$ (53,241)

Plan assets consist primarily of common stocks and fixed-income securities. Unrecognized prior service costs are amortized on a straight-line basis over the average remaining years of service to full eligibility of active plan participants. Unrecognized net gains are amortized on a straight-line basis over the average remaining years of service of active plan participants. The transition obligation is being amortized over 20 years from 1993.

Using the projected unit credit actuarial cost method, net postretirement medical and life insurance cost consisted of the following components:

Year ended December 31, (in thousands)	1996	1995	1994
Service cost for benefits earned	$ 21,954	$ 17,004	$ 23,617
Interest cost	65,629	64,776	64,872
Actual return on plan assets	(91,050)	(108,932)	(1,232)
Amortization of unrecognized prior service cost	1,602	1,616	1,711
Amortization of transition obligation	26,314	26,533	28,913
Net amortization and deferral	38,329	70,070	(29,804)
Net postretirement benefit cost	$ 62,778	$ 71,067	$ 88,077

The discount rate, rate of future compensation increases, and expected long-term rate of return on plan assets used in accounting for the postretirement benefit plans for 1996, 1995, and 1994 were the same as those used for the pension plan.

The assumed health care cost trend rate for 1997 is approximately 10.0 percent, grading down to an ultimate rate in 2005 of approximately 6.0 percent. The effect of a one-percentage-point increase in the assumed health care cost trend rate for each future year would increase the accumulated postretirement benefit obligation at December 31, 1996, by approximately $75 million and the 1996 aggregate service and interest costs by approximately $8 million.

The decrease in net postretirement benefit cost in 1995 compared to 1994 was primarily due to a reduction in workforce and an increase in discount rate.

Net postretirement benefit 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 postretirement benefit cost. In 1996 and 1995, actual return on plan assets exceeded expected return. In 1994, actual *return on plan assets was less than expected.*

Workforce Reductions: The effects of workforce reductions announced by PG&E in 1994 are reflected in the pension and postretirement benefits funded status tables above, and the costs are discussed in Note 10.

Long-term Incentive Program: PG&E Corporation maintains a Long-term Incentive Program (Program) which provides for grants of stock options to eligible participants with or without associated stock appreciation rights and dividend equivalents. The Program also grants performance-based units to eligible participants. As of December 31, 1996, 24.5 million shares of common stock have been authorized for award under the program. At December 31, 1996, stock options on 3,461,733 shares, granted at option prices ranging from $16.75 to $34.25, were outstanding, of which 1,655,450 were exercisable. In 1996, 877,900 options were granted at an option price of $28.25, which was 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. In 1996, 1995, and 1994, stock options on 72,960, 235,568, and 52,143 shares, respectively, were exercised at option prices ranging from $16.75 to $33.13, $16.75 to $33.13, and $24.75 to $32.13, respectively.

Effective January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 requires the Company to disclose stock option costs based on the fair value of options granted. For the years ended December 31, 1996, and 1995, the fair value of options granted was not material to the Company's results of operations or earnings per share.

Note 10: Workforce Reductions

In 1994, PG&E expensed the total cost of its planned 1994-1995 workforce reductions of $249 million and recorded a corresponding liability for benefits to be funded or paid. This amount consisted of $136 million for additional pension benefits, $52 million for other postretirement benefits, and $61 million for estimated severance costs. PG&E did not seek rate recovery for the cost of the 1994-1995 workforce reductions.

In 1995, PG&E canceled approximately 800 of the 3,000 planned 1994-1995 reductions in response to the severity of the damage caused by the winter storms of 1995 and the identification of certain facilities that would benefit from a more extensive and accelerated maintenance program. As a result, the estimated severance costs accrued and expensed in 1994 were reduced by $18 million in 1995.

Note 11: Income Taxes

The Company files a consolidated federal income tax return that includes domestic subsidiaries in which its ownership is 80 percent or more. Income tax expense includes current and deferred income taxes resulting from operations during the year. Tax credits are amortized over the life of the related property.

The significant components of income tax expense were:

Year ended December 31, (in thousands)	1996	1995	1994
Current	$ 704,984	$1,011,358	$821,455
Deferred	(132,250)	(97,864)	34,657
Tax credits—net	(17,740)	(18,205)	(19,345)
Total income tax expense	$ 554,994	$ 895,289	$836,767

The significant components of net deferred income tax liabilities were:

December 31, (in thousands)	1996	1995
Deferred income tax assets	$1,308,395	$1,203,981
Deferred income tax liabilities:		
Regulatory balancing accounts	$ 294,494	$ 385,604
Plant in service	3,623,544	3,552,974
Income tax-related deferred charges[1]	454,359	443,152
Other	1,034,497	983,798
Total deferred income tax liabilities	$5,406,894	$5,365,528
Total net deferred income taxes	$4,098,499	$4,161,547
Classification of net deferred income taxes:		
Included in current liabilities	$ 157,064	$ 227,782
Included in deferred credits	3,941,435	3,933,765
Total net deferred income taxes	$4,098,499	$4,161,547

[1] Represents the portion of the deferred income tax liability related to the revenues required to recover future income taxes.

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

Year ended December 31, (in thousands)	1996	1995	1994
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in income tax rate resulting from:			
State income tax (net of federal benefit)	3.7	4.8	8.3
Effect of regulatory treatment of depreciation differences	5.9	3.2	3.7
Tax credits—net	(1.4)	(.8)	(1.1)
Other—net	(.8)	(2.1)	(.5)
Effective tax rate	42.4%	40.1%	45.4%

Note 12: Commitments

Capital Projects: Capital expenditures for 1997 are estimated to be $1,773 million for utility, $38 million for Diablo Canyon, and $211 million for diversified operations.

At December 31, 1996, Enterprises had $67 million in firm 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

$52 million in 1997 (included in the expenditures above) and $15 million in 1998.

Letters of Credit: PG&E utilizes approximately $247 million in standby letters of credit to secure future workers' compensation liabilities.

Qualifying Facilities and Other Power-Purchase Contracts: Under the Public Utility Regulatory Policies Act of 1978, PG&E is required to purchase electric energy and capacity provided by QFs which are cogenerators and small power producers. The CPUC established a series of power-purchase contracts with certain QFs and set the applicable terms, conditions, and price options. Under these contracts, PG&E is required to purchase electric energy and capacity; however, payments are only required when energy is supplied or when capacity commitments are met. The total cost of these payments is recoverable in rates. PG&E's contracts with QFs expire on various dates from 1997 to 2028. Energy payments to QFs are expected to decline in the years 1997 through 2000. Capacity payments are expected to remain at current levels.

In 1996, 1995, and 1994, PG&E negotiated early termination or suspension of certain QF contracts to be paid through 1999 at discounted costs of $25, $142, and $155 million for 1996, 1995, and 1994, respectively. These amounts are expected to be recovered in rates and as such are reflected as deferred charges on the accompanying balance sheet. At December 31, 1996, the total discounted future payments remaining under QF early termination or suspension contracts is $68 million.

QF deliveries in the aggregate account for approximately 19 percent of PG&E's 1996 electric energy requirements, and no single contract accounted for more than 5 percent of PG&E's energy needs.

PG&E also has contracts with various irrigation districts and water agencies to purchase hydroelectric power. Under these contracts, PG&E must make specified semi-annual minimum payments whether or not any energy is supplied (subject to the provider's retention of the FERC's authorization) and variable payments for operation and maintenance costs incurred by the providers. These contracts expire on various dates from 2004 to 2031. The total cost of these payments is recoverable in rates. At December 31, 1996, the undiscounted future minimum payments under these contracts are $34 million for each of the years 1997 through 2001 and a total of $383 million for periods thereafter. Irrigation district and water agency deliveries in the aggregate account for approximately six percent of PG&E's 1996 electric energy requirements, and no single contract accounted for more than five percent of PG&E's energy needs.

The amount of energy received and the total payments made under QF and other power-purchase contracts were:

Year ended December 31, (in millions)	1996	1995	1994
Kilowatt-hours received	26,056	26,468	23,903
QF energy payments	$1,136	$1,140	$1,196
QF capacity payments	$ 521	$ 484	$ 518
Other power purchase payments	$ 52	$ 50	$ 49

Note 13: Contingencies

Nuclear Insurance: PG&E has insurance coverage for property damage and business interruption losses as a member of Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL). Under these policies, if a nuclear generating facility of a member utility suffers a loss due to a prolonged accidental outage, PG&E may be subject to maximum assessments of $29 million (property damage) and $8 million (business interruption), in each case per policy period, in the event losses exceed the resources of NML or NEIL.

PG&E has purchased primary insurance of $200 million for public liability claims resulting from a nuclear incident. An additional $8.7 billion of coverage is provided by secondary financial protection which provides for loss sharing among utilities owning nuclear generating facilities if a costly incident occurs. If a nuclear incident results in claims in excess of $200 million, PG&E may be assessed up to $159 million per incident, with payments in each year limited to a maximum of $20 million per incident.

Environmental Remediation: The Company may be required to pay for environmental remediation at sites where the Company has been or may be a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or the California Hazardous Substance Account Act. These sites include former manufactured gas plant sites and sites used by PG&E for the storage or disposal of materials which may be determined to present a significant threat to human health or the environment because of an actual or potential release of hazardous substances. Under CERCLA, the Company's financial responsibilities may include remediation of hazardous substances, even if the Company did not deposit those substances on the site.

The Company records a liability when site assessments indicate remediation is probable and a range of reasonably likely cleanup costs can be estimated. The Company reviews its sites and measures the liability quarterly, by assessing a range of reasonably likely costs for each identified site using currently available information, including existing technology, presently enacted laws and regulations, experience gained at similar sites, and the probable level of involvement and financial condition of other potentially responsible parties. These estimates include costs for site investigations, remediation, operations and maintenance, monitoring, and site closure. Unless there is a better estimate within this range of possible costs, the Company records the lower end of this range (classified as other noncurrent liabilities).

The cost of the hazardous substance remediation ultimately undertaken by the Company is difficult to estimate. It is reasonably possible that a change in the estimate will occur in the near term due to uncertainty concerning the Company's responsibility, the complexity of environmental laws and regulations, and the selection of compliance alternatives. The Company has an accrued liability at December 31, 1996, of $170 million for hazardous waste remediation costs at those sites where such costs are probable and quantifiable. Environmental remediation at identified sites may be as much as $400 million if, among other things, other potentially responsible parties are not financially able to contribute to these costs, or further investigation indicates that the extent of contamination or necessary remediation is greater than anticipated at sites for which the Company is responsible. This upper limit of the range of costs was estimated using assumptions least favorable to the Company, based upon a range of reasonably possible outcomes. Costs may be higher if the Company is found to be responsible for cleanup costs at additional sites or identifiable possible outcomes change.

The Company will seek recovery of prudently incurred hazardous substance remediation costs through ratemaking procedures approved by the CPUC. The Company has recorded a regulatory asset at December 31, 1996, of $146 million for recovery of these costs in future rates. Additionally, the Company will seek recovery of costs from insurance carriers and from other third parties. The Company believes the ultimate outcome of these matters will not have a material adverse impact on its financial position or results of operations.

Helms Pumped Storage Plant (Helms): Helms is a three-unit hydroelectric combined generating and pumped storage plant with a net investment of $710 million at December 31, 1996. The net investment is comprised of the pumped storage facility (including regulatory assets of $51 million), common plant, and dedicated transmission plant. As part of the 1996 General Rate Case decision in December 1995, the CPUC directed PG&E to perform a cost-effectiveness study of Helms. In July 1996, PG&E submitted its study, which concluded that the continued operation of Helms is cost effective. As a result of the study, PG&E recommended that the CPUC take no action and address Helms along with other generating plants in the context of electric industry restructuring.

PG&E is currently unable to predict whether there will be a change in rate recovery resulting from the study. As with its other hydroelectric generating plants, the Company expects to seek recovery of its net investment in Helms through PBR and transition cost recovery. The Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position or results of operations.

Helms became commercially operable in 1984, following delays due to a water conduit rupture in 1982 and various start-up problems related to the plant's generators. As a result of the rupture damage and the operational delay, PG&E incurred additional costs which were excluded from rate base and lost revenues during the period the plant was under repair. In 1994, PG&E submitted for CPUC approval a settlement with the ORA regarding recovery of such additional costs and lost revenues, amounting to approximately $98 million. In September 1996, the CPUC issued a final decision adopting the settlement which permits PG&E to recover that amount. Because PG&E's current rate recovery already reflects the anticipated settlement, adoption of the settlement will have no impact on rates.

Legal Matters:

Cities Franchise Fees Litigation: In 1994, the City of Santa Cruz filed a class action suit in a state superior court (Court) against PG&E on behalf of itself and 106 other cities in PG&E's service area. The complaint alleges that PG&E has underpaid electric franchise fees to the cities by calculating those fees at different rates from other cities not included in the complaint.

In September 1995, the Court certified the class of 107 cities in this suit and approved the City of Santa Cruz as the class representative. In January and March 1996, the Court made two rulings against certain cities effectively eliminating a major portion of the suit. The Court's rulings do not resolve the suit completely. The cities appealed both rulings. The trial has been postponed pending the cities' appeal.

Should the cities prevail on the issue of franchise fee calculation methodology, PG&E's annual systemwide city electric franchise fees could increase by approximately $14 million and damages for alleged underpayments for the years 1987 to 1996 could be as much as $145 million (exclusive of interest). If the Court's January and March 1996 rulings become final, PG&E's annual systemwide city electric franchise fees for the remaining class member cities not subject to the Court's rulings could increase by approximately $4 million and damages for alleged underpayments for the years 1987 to 1996 could be as much as $39 million (exclusive of interest).

The Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position or results of operations.

Hinkley: In 1996, PG&E settled a 1993 lawsuit seeking damages for personal injuries allegedly suffered as a result of exposure to chromium near PG&E's gas compressor station at Hinkley. This lawsuit was settled for the aggregate sum of $333 million, of which $50 million had been paid in 1994, with the remaining $283 million paid in 1996. PG&E had previously reserved $200 million for this litigation and in 1996 recorded an additional reserve of $133 million for this settlement. The settlement does not resolve other pending chromium litigation, described below.

Chromium Litigation: In 1994 through 1996, several civil suits were filed against PG&E on behalf of more than 1,500 individuals. The complaints seek an unspecified amount of compensatory and punitive damages for alleged personal injuries resulting from exposure to chromium in the vicinity of PG&E's gas compressor stations at Hinkley, Kettleman, and Topock.

PG&E is responding to the complaints and asserting affirmative defenses. PG&E will pursue appropriate legal defenses, including statute of limitations or exclusivity of workers' compensation laws, and factual defenses including lack of exposure to chromium and the inability of chromium to cause certain of the illnesses alleged.

Given the uncertainty, the Company cannot predict the outcome of this litigation. However, the Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position or results of operations.

Quarterly Consolidated Financial Data (Unaudited)

Quarterly Financial Data: 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 every quarter during the year.

All four quarters of 1996 reflected a decline in price per kilowatt-hours as provided in the modified pricing provisions of the Diablo Canyon rate case settlement, and revenue reductions authorized by the 1996 General Rate Case (GRC) and other related rate proceedings. In addition, maintenance and operating expenses exceeded levels authorized by the GRC.

In the second quarter of 1996, the Company charged to earnings $133 million for the settlement of a litigation claim. Revenues were also reduced due to a greater number of scheduled refueling days and unscheduled outages.

In the third quarter of 1996, the Company took charges against earnings of $182 million for contingencies related to gas transportation commitments.

In the fourth quarter of 1996, the Company charged to earnings $59 million in write-downs of nonregulated investments.

The Company recorded additional litigation reserves of $50 million in the first and third quarters of 1995. Diablo Canyon scheduled refueling days and unscheduled outages reduced earnings per common share in the fourth quarter of 1995.

The Company's common stock is traded on the New York, Pacific, and Swiss stock exchanges. There were approximately 198,000 common shareholders of record at December 31, 1996. Dividends are paid on a quarterly basis, and net cash flows are sufficient to maintain the current payment of dividends.

Quarter ended	*December 31*	*September 30*	*June 30*	*March 31*
(in thousands, except per share amounts)				
1996				
Operating revenues	$2,700,686	$2,521,852	$2,138,666	$2,248,768
Operating income	508,970	524,846	288,375	573,394
Net income	149,030	233,695	111,780	260,704
Earnings per common share	.34	.55	.25	.61
Dividends declared per common share	.30	.49	.49	.49
Common stock price per share				
High	24.25	23.88	23.75	28.38
Low	20.88	19.50	21.50	22.38
1995				
Operating revenues	$2,227,224	$2,637,653	$2,448,641	$2,308,247
Operating income	451,674	781,912	820,370	709,029
Net income	227,085	377,593	405,520	328,687
Earnings per common share	.48	.85	.92	.73
Dividends declared per common share	.49	.49	.49	.49
Common stock price per share				
High	30.63	30.00	29.75	25.75
Low	27.13	28.38	24.75	24.25

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of PG&E Corporation:

We have audited the accompanying consolidated balance sheet and the statement of consolidated capitalization of PG&E Corporation (a California corporation) and subsidiaries as of December 31, 1996, and 1995, and the related statements of consolidated income, cash flows, common stock equity, preferred stock and preferred securities, and the schedule of consolidated segment information for each of the three years in the period ended December 31, 1996. These financial statements and schedule of consolidated segment information are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules 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 PG&E Corporation and subsidiaries as of December 31, 1996, and 1995, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP
San Francisco, California
February 10, 1997

Responsibility for Consolidated Financial Statements

The responsibility for the integrity of the consolidated financial statements and related financial information included in this report rests with management. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and are based on the Company's best estimates and judgments after giving consideration to materiality.

The Company maintains systems of internal 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 material loss or unauthorized use and to produce the records necessary for the preparation of consolidated financial statements. There are limits inherent in all systems of internal controls, 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 LLP, the Company's independent public accountants, considered the Company's systems of internal accounting controls and 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.

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 six outside directors who meet regularly with management, the corporate internal auditors, and Arthur Andersen LLP, 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 and effective internal controls and maintaining unbiased and 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.

Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company*

Richard A. Clarke
Chairman of the Board, Retired,
Pacific Gas and Electric Company

Harry M. Conger
Chairman of the Board,
Homestake Mining Company

David A. Coulter
Chairman and Chief Executive Officer,
BankAmerica Corporation and
Bank of America NT&SA

C. Lee Cox
Vice Chairman,
AirTouch Communications
and President and Chief Executive Officer, Retired,
AirTouch Cellular

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

Robert D. Glynn, Jr.
President and
Chief Operating Officer,
PG&E Corporation and
Pacific Gas and Electric Company

David M. Lawrence, MD
Chairman and
Chief Executive Officer,
Kaiser Foundation Health Plan, Inc.
and Kaiser Foundation Hospitals

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

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

Rebecca Q. Morgan
President and
Chief Executive Officer,
Joint Venture:
Silicon Valley Network
(nonprofit collaborative addressing critical issues facing Silicon Valley)

Samuel T. Reeves
President,
Pinnacle Trading, LLC
(international investing)

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

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

Alan Seelenfreund
Chairman of the Board and Chief Executive Officer,
McKesson Corporation
(distributor of pharmaceuticals and health care products)

Stanley T. Skinner
Chairman of the Board and
Chief Executive Officer,
PG&E Corporation and
Pacific Gas and Electric Company

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

Permanent Committees of the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company*

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

Stanley T. Skinner (Chair)
Harry M. Conger
Robert D. Glynn, Jr.
Richard B. Madden
Mary S. Metz
Carl E. Reichardt

Audit Committees
Review financial statements and internal accounting and control procedures with independent public accountants.

Harry M. Conger (Chair)
C. Lee Cox
William S. Davila
Mary S. Metz
Rebecca Q. Morgan
Barry Lawson Williams

Capital Investment Committee**
Advises on long-term capital investment strategies and recommends specific investment and divestment opportunities.

Carl E. Reichardt (Chair)
Richard B. Madden
Samuel T. Reeves
John C. Sawhill
Barry Lawson Williams

Finance Committees
Recommend long-range financial policies and objectives, and actions required to achieve those objectives.

Richard B. Madden (Chair)
Richard A. Clarke
David A. Coulter
Carl E. Reichardt
Stanley T. Skinner
Barry Lawson Williams

Nominating and Compensation Committees
Recommend candidates for nomination as directors, recommend compensation and employee benefit policies and practices, and review planning for executive development and succession.

Carl E. Reichardt (Chair)
David M. Lawrence, MD
Samuel T. Reeves
John C. Sawhill
Alan Seelenfreund

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

Mary S. Metz (Chair)
Richard A. Clarke
William S. Davila
Robert D. Glynn, Jr.
John C. Sawhill

*The composition of the Boards of Directors, Executive Committees, Audit Committees, Finance Committees, Nominating and Compensation Committees, and Public Policy Committees is the same for PG&E Corporation and Pacific Gas and Electric Company.
**A committee of the PG&E Corporation Board of Directors only.

Officers of PG&E Corporation

Stanley T. Skinner
Chairman of the Board and
Chief Executive Officer

Robert D. Glynn, Jr.
President and
Chief Operating Officer

Gordon R. Smith
Chief Financial Officer

Bruce R. Worthington
General Counsel

Leslie H. Everett
Corporate Secretary

Kent M. Harvey
Treasurer

Christopher P. Johns
Controller

Linda Y. H. Cheng
Assistant Corporate Secretary

Eric Montizambert
Assistant Corporate Secretary

Kathleen Rueger
Assistant Corporate Secretary

Gabriel B. Togneri
Assistant Treasurer

Officers of Pacific Gas and Electric Company

Stanley T. Skinner
Chairman of the Board and
Chief Executive Officer

Robert D. Glynn, Jr.
President and
Chief Operating Officer

James D. Shiffer
Executive Vice President

Robert J. Haywood
Senior Vice President and
General Manager,
Customer Energy Services

Thomas W. High
Senior Vice President,
Corporate Services

Jack F. Jenkins-Stark
Senior Vice President and
General Manager,
Gas Supply Business Unit

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

Gordon R. Smith
Senior Vice President and
Chief Financial Officer

Bruce R. Worthington
Senior Vice President and
General Counsel

Shan Bhattacharya
Vice President,
Technical and
Construction Services

Lee Callaway
Vice President,
Corporate Communications

Barbara Coull Williams
Vice President,
Division Operations

John C. Danielsen
Vice President,
Computer and
Telecommunications Services

Richard A. Draeger
Vice President,
Electric Service Reliability

Leslie H. Everett
Vice President and
Corporate Secretary

Katheryn M. Fong
Vice President,
Customer Services

Roger J. Gray
Vice President,
General Services

Anthony Harris
Vice President,
Business Customer Service

Robert L. Harris
Vice President,
Community Relations

Kent M. Harvey
Vice President and Treasurer

Christopher P. Johns
Vice President and Controller

Steven L. Kline
Vice President,
Regulation

Thomas C. Long
Vice President,
Customer Information Systems

E. James Macias
Vice President and
General Manager,
Electric Transmission Business Unit

William R. Mazotti
Vice President,
Gas Services and Operations

Jackalyne Pfannenstiel
Vice President,
Corporate Planning

Robert P. Powers
Vice President,
Diablo Canyon Operations and
Plant Manager

James K. Randolph
Vice President and
General Manager,
Power Generation Business Unit

Daniel D. Richard, Jr.
Vice President,
Governmental Relations

G. Brent Stanley
Vice President,
Human Resources

Lawrence F. Womack
Vice President,
Nuclear Technical Services

Linda Y. H. Cheng
Senior Assistant
Corporate Secretary

Eric Montizambert
Assistant Corporate Secretary

Kathleen Rueger
Assistant Corporate Secretary

Gabriel B. Togneri
Assistant Treasurer

Senior Officers of Principal PG&E Enterprises Subsidiaries and Related Ventures

Tony F. DiStefano
Chairman, President, and Chief
Executive Officer of
PG&E Enterprises

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

Junona A. Jonas
President and
Chief Operating Officer of
Vantus Energy Corporation

Robert Frommer
President of
PG&E Properties, Inc.

Senior Officers of Principal Pacific Gas Transmission (PGT) Company Subsidiaries and Related Ventures

Jack F. Jenkins-Stark
Chairman of the Board of PGT

Stephen P. Reynolds
President and
Chief Executive Officer of PGT

David Tudor
President and
Chief Executive Officer of
Energy Source, Inc.

Michael J. McDanold
Managing Director of
PGT Australia PTY Limited

Shareholder Information

Shareholder Services Office
77 Beale Street, Room 2600
San Francisco, CA 94105-1814
Call Toll Free 1-800/367-7731
Fax 415/973-7831

For financial and other information about PG&E Corporation or Pacific Gas and Electric Company, please visit our site on the World Wide Web at: www.pge.com

If you have questions about your account or need copies of PG&E Corporation's or Pacific Gas and Electric Company's publications, please write or call the Shareholder Services Office at:

Manager of Shareholder Services
David M. Kelly
Mail Code B26B
P.O. Box 770000
San Francisco, CA 94177-0001
1-800/367-7731

If you have general questions about PG&E Corporation or Pacific Gas and Electric Company, please write or call the Corporate Secretary's Office:

Corporate Secretary
Leslie H. Everett
Mail Code B32
P.O. Box 770000
San Francisco, CA 94177-0001
415/973-2880

Securities analysts, portfolio managers, or other representatives of the investment community should write or call the Investor Relations Office:

Manager of Investor Relations
Angela M. Comstock
Mail Code B8C
P.O. Box 770000
San Francisco, CA 94177-0001
415/973-3007

PG&E Corporation
Pacific Gas and Electric Company

General Information
415/973-7000

Stock Held in Brokerage Accounts ("Street Name")
When you purchase your stock and it is held for you by your broker, the shares are listed with us in the broker's name, or "street name." We do not know the identity of the individual shareholders who hold their shares in this manner—we simply know that a broker holds a number of shares which may be held for any number of investors. If you hold your stock in a street name account, you receive all dividend payments, tax forms, publications, and proxy materials through your broker. If you are receiving unwanted duplicate mailings, you should contact your broker to eliminate the duplications.

PG&E Corporation Dividend Reinvestment Plan
If you hold PG&E Corporation or Pacific Gas and Electric Company stock in your own name, rather than through a broker, you may automatically reinvest dividend payments from common and/or preferred stock in shares of PG&E Corporation common stock through the Dividend Reinvestment Plan (the "Plan"). You may obtain a Plan prospectus and enroll by contacting the Shareholder Services Office. If your certificates are held by a broker (in "street name"), you are not eligible to participate in the Plan.

Direct Deposit of Dividends
If you hold stock in your own name, rather than through a broker, you may have your common and/or preferred dividends transmitted to your bank electronically. You may obtain a direct deposit authorization form by contacting the Shareholder Services Office.

Replacement of Dividend Checks
If you hold stock in your own name and 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 mailed.

Lost or Stolen Stock Certificates
If you hold stock in your own name and your stock certificate has been lost, stolen, or in some way destroyed, you should notify the Shareholder Services Office immediately.

PG&E Corporation

Pacific Gas and Electric Company

Annual Meetings of Shareholders

Date: April 16, 1997
Time: 10:00 a.m.
Location: Masonic Auditorium
1111 California Street
San Francisco, California

A joint notice of the annual meetings, joint proxy statement, and proxy form are being mailed with this annual report on or about March 3, 1997, to all shareholders of record as of February 18, 1997.

10-K Report

If you would like a copy of the 1996 Form 10-K Report to the Securities and Exchange Commission, please contact the Shareholder Services Office, or visit our site on the World Wide Web at: www.pge.com

1997 Dividend Payment Dates

PG&E Corporation Common Stock	Pacific Gas and Electric Company Preferred Stock
January 15	February 15
April 15	May 15
July 15	August 15
October 15	November 15

Stock Exchange Listings

PG&E Corporation's common stock is traded on the New York, Pacific, and Swiss stock exchanges. The official New York Stock Exchange symbol is "PCG" but PG&E Corporation common stock is listed in daily newspapers under "PG&E" or "PGE." Local newspaper symbols may vary.

Pacific Gas and Electric Company has 13 issues of preferred stock and one preferred security, all of which are listed on the American and Pacific stock exchanges.

Issue	Newspaper Symbol*
First Preferred, Cumulative, Par Value $25 Per Share	
Redeemable:	
7.44%	PacGE pfQ
7.04%	PacGE pfU
6.875%	PacGE pfX
6.57%	PacGE pfY
6.30%	PacGE pfZ
5.00%	PacGE pfD
5.00% Series A	PacGE pfE
4.80%	PacGE pfG
4.50%	PacGE pfH
4.36%	PacGE pfI
Non-Redeemable:	
6.00%	PacGE pfA
5.50%	PacGE pfB
5.00%	PacGE pfC
Cumulative Quarterly Income Preferred Securities:	
7.90% Series A	PG&E Cap A quips

*Local newspaper symbols may vary

OVERSIZED
DOCUMENT(S)

PG&E CORPORATION
77 Beale Street
P.O. Box 770000
San Francisco, CA 94177
www.pge.com

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 1996

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number	Exact Name of Registrant as specified in its charter	State of Incorporation	IRS Employer Identification Number
1-12609	PG&E CORPORATION	California	94-3234914
1-2348	PACIFIC GAS AND ELECTRIC COMPANY	California	94-0742640

77 Beale Street
P.O. Box 770000
San Francisco, California
(Address of principal executive offices)

94177
(Zip Code)

(415) 973-7000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
PG&E Corporation	
Common Stock, no par value	New York Stock Exchange and Pacific Stock Exchange
Pacific Gas and Electric Company	
First Preferred Stock, cumulative, par value $25 per share:	American Stock Exchange and Pacific Stock Exchange
Redeemable:	
7.44% 5% Series A	
7.04% 4.80%	
6-7/8% 4.50%	
5% 4.36%	
Mandatorily Redeemable:	
6.57% 6.30%	
Nonredeemable:	
6% 5-1/2% 5%	
7.90% Cumulative Quarterly Income Preferred Securities, Series A (liquidation preference $25), issued by PG&E Capital I and guaranteed by Pacific Gas and Electric Company	American Stock Exchange and Pacific Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ **No** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Aggregate market value of the voting stock held by non-affiliates of the registrant as of February 18, 1997:

PG&E Corporation Common Stock	$9,460 million
Pacific Gas and Electric Company First Preferred Stock	$453 million

Common Stock outstanding as of February 18, 1997:

PG&E Corporation:	416,528,027
Pacific Gas and Electric Company:	Wholly owned by PG&E Corporation

The market values of certain series of First Preferred Stock, for which market prices as of a date within 60 days prior to the date of filing were not available, were derived by dividing the annual dividend rate of each such series of stock by the average yield of all of Pacific Gas and Electric Company's Preferred Stock outstanding for which market prices were available.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the documents listed below have been incorporated by reference into the indicated parts of this report, as specified in the responses to the item numbers involved.

(1) Designated portions of the Annual Report to Shareholders for the year ended December 31, 1996 .... Part II (Items 5, 6, 7 and 8)
Part IV (Item 14)

(2) Designated portions of the Joint Proxy Statement relating to the 1997 Annual Meetings of Shareholders .... Part III (Items 10, 11, 12 and 13)

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GLOSSARY OF TERMS

AB 1890	Assembly Bill 1890, the California electric industry restructuring legislation
AEAP	Annual Earnings Assessment Proceeding
AER	Annual Energy Rate
AFUDC	allowance for funds used during construction
Bechtel	Bechtel Enterprises, Inc.
BCAP	Biennial Cost Allocation Proceeding
BRPU	Biennial Resource Plan Update
BTA	best technology available
Btu	British thermal unit
California Superfund	California Hazardous Substance Account Act
CARE	California Alternate Rates for Energy
CCAA	California Clean Air Act
CEC	California Energy Commission
Central Coast Board	Central Coast Regional Water Quality Control Board
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CIG	customer identified gas program
Company	Pacific Gas and Electric Company and its subsidiaries, or PG&E Corporation and its subsidiaries, as determined by the context
core customers	residential and smaller commercial gas customers
core subscription customers	noncore customers who choose bundled service
CPIM	core procurement incentive mechanism
CPUC	California Public Utilities Commission
CTC	competition transition costs
Diablo Canyon	Diablo Canyon Nuclear Power Plant
Diablo Settlement	Diablo Canyon rate case settlement
DOE	U.S. Department of Energy
DSM	Demand Side Management
ECAC	Energy Cost Adjustment Clause
EDRA	electric deferred refund account
El Paso	El Paso Natural Gas Company
EMF	electric and magnetic fields
Enterprises	PG&E Enterprises
EPA	United States Environmental Protection Agency
ERAM	Electric Revenue Adjustment Mechanism
ESI	Energy Source, Inc.
FERC	Federal Energy Regulatory Commission
Gas Accord	Gas Accord Settlement
Geysers	The Geysers Power Plant
GRC	General Rate Case
Helms	Helms hydroelectric pumped storage plant
Holding Company Act	Public Utility Holding Company Act of 1935
Humboldt	Humboldt Bay Power Plant
ICIP	Incremental Cost Incentive Price
InterGen	International Generating Company, Ltd.
ISO	Independent System Operator
ITCS	Interstate Transition Cost Surcharge

kV	kilovolts
kVa	kilovolt-amperes
kW	kilowatts
kWh	kilowatt-hour
LEV	low emission vehicle
Mcf	thousand cubic feet
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MW	megawatts
NEIL	Nuclear Electric Insurance Limited
NML	Nuclear Mutual Limited
noncore customers	industrial and larger commercial gas customers
NOx	oxides of nitrogen
NRC	Nuclear Regulatory Commission
Nuclear Waste Act	Nuclear Waste Policy Act of 1982
ORA	Office of Ratepayer Advocates, formerly known as the Division of Ratepayer Advocates
PBR	performance-based ratemaking
PEPR	Pipeline Expansion Project Reasonableness case
PG&E	Pacific Gas and Electric Company
PG&E Expansion	the PG&E portion of the Pipeline Expansion
PGT	Pacific Gas Transmission Company
PGT Expansion	the PGT portion of the Pipeline Expansion
Pipeline Expansion	PGT/PG&E Pipeline Expansion
PPPs	public purpose programs
PRP	potentially responsible party
PX	California Power Exchange
QF	qualifying facility
RAP	Revenue Adjustment Proceeding
SEC	Securities and Exchange Commission
Teco	Teco Pipeline Company
TRA	Transition Revenue Account
transition period	the period during which electric rates are frozen at 1996 levels, which extends until the earlier of March 31, 2002 or the point in time when PG&E has recovered its transition costs
Transwestern	Transwestern Pipeline Company
TURN	The Utility Reform Network
USGen	U.S. Generating Company
USOSC	U.S. Operating Services Company
Vantus	Vantus Energy Corporation
Valero	Valero Natural Gas Company

PART I

ITEM 1. Business.

GENERAL

Corporate Structure and Business

PG&E Corporation was incorporated in California in 1995 for the purpose of becoming the parent holding company of Pacific Gas and Electric Company (PG&E). Effective January 1, 1997, PG&E became a subsidiary of PG&E Corporation. PG&E's ownership interest in PG&E Enterprises (Enterprises) and Pacific Gas Transmission Company (PGT) has been transferred to PG&E Corporation. PG&E's outstanding common stock was converted on a share-for-share basis into PG&E Corporation common stock. PG&E's debt securities and preferred stock were unaffected and remain securities of PG&E. The consolidated financial statements of PG&E incorporated herein include the accounts of PG&E and its wholly-owned and controlled subsidiaries (collectively, the Company), and, therefore, also represent the accounts of PG&E Corporation and its subsidiaries (also referred to collectively as, the Company). For financial information summarizing certain pro forma financial effects of the restructuring of PG&E, see "Formation of PG&E Corporation" below.

The principal executive offices of PG&E Corporation and PG&E are located at 77 Beale Street, P.O. Box 770000, San Francisco, California 94177, and their telephone number is (415) 973-7000.

PG&E, incorporated in California in 1905, is an operating public utility engaged principally in the business of providing electric and natural gas services throughout most of Northern and Central California. As of December 31, 1996, the Company had $26.1 billion in assets. The Company generated $9.6 billion in operating revenues for 1996. As of December 31, 1996, the Company had approximately 22,000 employees.

PG&E's gas and electric utility operations, which include Diablo Canyon Nuclear Power Plant (Diablo Canyon) operations, represent the principal component of its business, contributing $9.2 billion in revenues in 1996 (96% of the Company's total revenues). PG&E's utility operations contributed $1.83 of the Company's total 1996 earnings per share of $1.75. (Utility earnings were offset by losses at Enterprises.)

Diablo Canyon consists of two nuclear power reactor units, each capable of generating up to approximately 26 million kilowatt-hours (kWh) of electricity per day. In 1996, Diablo Canyon contributed $1.8 billion of revenues (19% of the Company's total revenues) and $1.18 in earnings per share (67% of the Company's total 1996 earnings per share). PG&E has proposed a modification to existing Diablo Canyon ratemaking, which if adopted, would significantly reduce PG&E's future revenues from Diablo Canyon operations. See "Future Ratemaking—Electric Ratemaking" below.

PG&E's utility service territory covers 70,000 square miles with an estimated population of approximately 13 million, and includes all or portions of 48 of California's 58 counties. The area's diverse economy includes aerospace, electronics, financial services, food processing, petroleum refining, agriculture, and tourism.

At December 31, 1996, PG&E served approximately 4.5 million electric customers. PG&E serves its electric customers with power generated by seven primarily natural gas-fueled steam power plants with 21 units, ten combustion turbines, Diablo Canyon's two units, 68 hydroelectric powerhouses with 109 units, the Helms hydroelectric pumped storage plant (Helms) with three units, and a geothermal energy complex of 14 units. (PG&E has announced plans to sell four fossil-fueled power plants, with an aggregate of 12 units, in connection with the ongoing electric industry restructuring. See "Electric Utility Operations—Electric Industry Restructuring Legislation" below.) PG&E also purchases power produced by other generating entities that use a wide array of resources and technologies, including hydroelectric, wind, solar, biomass, geothermal, and cogeneration. In addition, PG&E is interconnected with electric power systems in 14 western states and British Columbia, Canada, for the purposes of buying, selling, and transmitting power.

PG&E served approximately 3.7 million gas customers at December 31, 1996. To ensure a diverse and competitive mix of natural gas supplies, PG&E purchases gas from both Canadian and United States suppliers. In 1996, about 65% of PG&E's gas supply came from fields in Canada, about 7% came from fields in California, and about 28% came from fields in other states (substantially all from the U.S. Southwest).

PG&E's utility operations in 1996 also included PGT's gas pipeline operations. PGT owns and operates gas transmission pipelines and associated facilities capable of transporting approximately 2.4 billion cubic feet per day of natural gas over 612 miles from the Canada-U.S. border to the Oregon-California border, as well as two smaller diameter pipeline extensions within Oregon, totaling, 106 miles. In 1996, PGT acquired the PGT Queensland Gas Pipeline, an approximately 389-mile 12-inch pipeline in Queensland, Australia, which provides natural gas transportation service to customers in the vicinity of the pipeline. As noted above, at present PGT is a wholly owned subsidiary of PG&E Corporation.

Building on its expertise in the energy industry, PG&E Corporation is expanding its operations in the "midstream" portion of the gas business, the independent power generation business, and the energy services business. The midstream portion of the gas business includes gas gathering, processing, storage, and transportation. The energy services business includes obtaining gas and electricity from competitive producers, arranging for distribution and transmission service, and providing customized energy billing and analysis, power quality assessments, energy efficiency products and services, and facility improvements.

Enterprises, through its subsidiaries and affiliates, develops, owns, and operates unregulated electric and gas projects both in and outside the United States. Vantus Energy Corporation (Vantus), a subsidiary of Enterprises, markets gas and electricity commodities and provides energy services. In 1996, Enterprises generated approximately $127 million in revenues and accounted for $(0.08) of the Company's total 1996 earnings per share of $1.75. As noted above, Enterprises is now a wholly owned subsidiary of PG&E Corporation.

In December 1996, PGT acquired the gas marketing operations of Edisto Resources Corporation in the United States and Canada, known jointly as Energy Source, Inc. (ESI). The acquisition included most of ESI's existing contracts for the purchase, sale, and transportation of natural gas and natural gas futures. In January 1997, PG&E Corporation acquired Teco Pipeline Company (Teco) in Texas. Teco is an owner of a 500-mile natural gas pipeline system in Texas. Teco also has investments in gas gathering and processing facilities, and owns a gas marketing company in Houston, Texas. Also in January 1997, PG&E Corporation agreed to acquire Valero Natural Gas Company (Valero). Valero's operations include the gathering, transportation, marketing, and storage of natural gas, the processing, transportation, and marketing of natural gas liquids, and the marketing of electric power. Valero operates approximately 7,500 miles of natural gas pipeline and also owns and operates approximately 540 miles of natural gas liquid pipelines and eight natural gas processing plants in Texas. The acquisition is expected to be completed by mid-1997 and is subject to applicable regulatory and shareholder approvals.

The following discussion of the Company's business includes some forward-looking statements that involve risks and uncertainties. Words such as "estimates," "expects," "anticipates," "plans," and similar expressions identify forward-looking statements involving risks and uncertainties. Those risks and uncertainties include, but are not limited to, the ongoing restructuring of the electric and gas industries and the outcome of regulatory proceedings related to that restructuring. The ultimate impacts of both increased competition and the changing regulatory environment on future results are uncertain, but are expected to fundamentally change how the Company conducts its business. The outcome of these changes and other matters discussed below may cause future results to differ materially from historic results, or from results or outcomes currently expected or sought by the Company.

Competition and the Changing Regulatory Environment

The electric and gas industries are undergoing significant change. Under traditional regulation, utilities were provided the opportunity to earn a fair return on their invested capital in exchange for a commitment to serve all customers within a designated service territory. The objective of this regulatory policy was to provide universal access to safe and reliable utility services. Regulation was designed in part to take the place of competition and ensure that these services were provided at fair prices.

Today, competitive pressures and emerging market forces are exerting an increasing influence over the structure of the gas and electric industries. Other companies are challenging the utilities' exclusive relationship with their customers and are seeking to replace certain utility functions with their own. Customers, too, are asking for choice in their energy provider. These pressures are causing a move from the existing regulatory framework to a framework under which competition would be allowed in certain segments of the gas and electric industries.

For several years, PG&E has been working with its regulators to achieve an orderly transition to competition and to ensure that PG&E has an opportunity to recover investments made under traditional regulatory policies. In addition, PG&E has proposed alternative forms of regulation for those services for which prices and terms will not be determined by competition. These alternative forms include performance-based ratemaking (PBR) and other incentive-based alternatives. Over the next five years, a significant portion of PG&E's business will be transformed from the current utility monopoly to a competitive operation. This change will impact PG&E's financial results and may result in greater earnings volatility. During the transition period, PG&E expects the return on Diablo Canyon and certain other generation assets to be significantly lower than historical levels.

Electric Industry

In 1995, the California Public Utilities Commission (CPUC) issued a decision that provides a plan to restructure California's electric industry. The decision acknowledges that much of utilities' current costs and commitments result from past CPUC decisions and that, in a competitive generation market, utilities would not recover some of these costs through market-based revenues. To assure the continued financial integrity of California utilities, the CPUC authorized recovery of these above-market costs, called competition transition costs, or CTCs, through a nonbypassable charge to be collected over a period of years.

In 1996, legislation on electric industry restructuring, Assembly Bill 1890 (AB 1890), was signed into law in California. AB 1890 adopts the basic tenets of the CPUC's restructuring decision and establishes the operating framework for a competitive electric generation market. Key features of AB 1890 include:

— mandatory unbundling of transmission, distribution, and generation services;
— formation by January 1, 1998, of a California Power Exchange (PX) to provide a competitive auction process to establish the price of electricity;
— establishing an Independent System Operator (ISO) to ensure system reliability and provide electric generators with open and comparable access to transmission and distribution services;
— an electric rate freeze at 1996 levels until the earlier of March 31, 2002, or the point in time when PG&E has recovered its CTCs (the transition period);
— a 10% rate reduction by January 1, 1998, for residential and small commercial customers, financed through "rate reduction bonds";
— nonbypassable charges to provide the opportunity for utilities to recover their CTCs and required accelerated recovery of CTCs associated with utility owned generation facilities;
— direct access for all electric customers;
— market valuation for utility owned fossil generation assets by 2001, followed by an end to cost-of-service ratemaking for most plants; and
— continued support for renewable generation resources, conservation and other public purpose programs.

Under AB 1890, PG&E and other utilities will continue to own transmission and distribution facilities and must continue to offer bundled electric service to customers who request it.

Recent regulatory changes enacted at the federal level are also changing the electric industry. In 1996, the Federal Energy Regulatory Commission (FERC) paved the way for the transition to more competitive electric markets by providing open access to electric transmission. See "Electric Utility Operations—Electric Transmission" below.

Additional information concerning electric industry restructuring, the expected operating framework for a competitive generation market and the financial impact of these changes on the Company is provided in "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, beginning on page 9, and in Note 2 of the "Notes to Consolidated Financial Statements" beginning on page 29 of the 1996 Annual Report to Shareholders.

Gas Industry

Restructuring of the natural gas industry on both the national and state levels has given customers greater options in meeting their gas supply needs. PG&E's customers may buy commodity gas directly from competing suppliers and purchase transmission- and distribution-only services from PG&E. PG&E's transmission and distribution services have remained "bundled," or sold together at a combined rate, within California. PGT, as an interstate pipeline, has provided nondiscriminatory transmission-only service since 1993, and no longer sells commodity gas.

Most of PG&E's industrial and larger commercial (noncore) customers purchase their commodity gas from marketers and brokers. Substantially all residential and smaller commercial (core) customers continue to buy commodity gas as well as transmission and distribution from PG&E as a bundled service.

In 1995 and 1996, PG&E actively pursued changes in the California gas industry in an effort to promote competition and increase options for all customers, as well as to position itself for the competitive marketplace. In 1996, PG&E submitted to the CPUC the Gas Accord Settlement (Gas Accord). The Gas Accord is the result of an extensive negotiation process, begun in 1995, among a broad coalition of customer groups and industry participants. The Gas Accord must be approved by the CPUC before it can be implemented. A CPUC decision is expected in 1997.

The Gas Accord consists of three broad initiatives:

— The Gas Accord would separate, or "unbundle," PG&E's gas transmission and storage services from its distribution services and would change the terms of service and rate structure for gas transportation. Unbundling would give customers the opportunity to select from a menu of services offered by PG&E and would enable them to pay only for the services they use. PG&E would be at risk for variations in revenues resulting from differences between actual and forecasted transmission throughput. PG&E would also continue to provide cost-of-service based distribution service, much as it does today.

— The Gas Accord would increase opportunities for PG&E's core customers to purchase gas from competing suppliers and, therefore, could reduce PG&E's role in procuring gas for such customers. However, PG&E would continue to procure gas as a regulated utility supplier for those customers who request it. The Gas Accord also would establish principles for continuing negotiations between PG&E and California gas producers for the mutual release of supply contracts and the sale of gas gathering facilities. Also related to PG&E's procurement activities, PG&E has proposed that traditional reasonableness reviews of its core gas costs be replaced with a core procurement incentive mechanism (CPIM) for the period June 1, 1994, through 2002. See "Future Ratemaking—Gas Ratemaking" below.

— The Gas Accord would resolve various regulatory issues including the recovery of certain capital costs associated with the PG&E portion (PG&E Expansion) of the PGT/PG&E Pipeline Expansion (Pipeline Expansion), recovery of costs related to PG&E's capacity commitments with Transwestern Pipeline Company (Transwestern) through 2002, certain disallowances ordered by the CPUC in connection with PG&E's 1988 through 1995 gas reasonableness proceedings, and the recovery, through the Interstate

Transition Cost Surcharge (ITCS). of fixed demand charges paid to El Paso Natural Gas Company (El Paso) and PGT for firm capacity held by PG&E on behalf of its customers.

Additional information concerning gas, industry restructuring, and the financial impact of these changes on the Company is provided in "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, beginning on page 13, and in Note 3 of the "Notes to Consolidated Financial Statements" beginning on page 31 of the 1996 Annual Report to Shareholders.

Regulation of PG&E

State Regulation

The CPUC consists of five members appointed by the governor and confirmed by the senate for six-year terms. The CPUC regulates PG&E's rates and conditions of service, sales of securities, dispositions of utility property, rate of return, rates of depreciation, uniform systems of accounts, examination of records, long-term resource procurement, and transactions between PG&E and its subsidiaries and affiliates. The CPUC also conducts various reviews of utility performance and conducts investigations into various matters, such as deregulation, competition, and the environment, to determine its future policies.

The California Energy Commission (CEC) has discretion over electric-demand forecasts for the state and for specific service territories. Based upon these forecasts, the CEC determines the need for additional energy sources and for conservation programs. The CEC sponsors alternative-energy research and development projects, promotes energy conservation programs, and maintains a state-wide plan of action in case of energy shortages. In addition, the CEC certifies power-plant sites and related facilities within California. Beginning January 1, 1998, the CEC will also administer funding for public purpose research and development, and renewable technologies programs. The funding will be collected from ratepayers through a nonbypassable public benefits charge. See "Electric Utility Operations—Electric Industry Restructuring Legislation—Public Purpose Programs" below.

Federal Regulation

Both PG&E and PGT are subject to regulation by the FERC. The FERC regulates electric transmission rates and access, compliance with the uniform systems of accounts, and electric contracts involving sales for resale. The FERC also regulates the interstate transportation of natural gas. In addition, most of PG&E's hydroelectric facilities are subject to licenses issued by the FERC.

The Nuclear Regulatory Commission (NRC) oversees the licensing, construction, operation, and decommissioning of nuclear facilities. NRC regulations require extensive monitoring and review of the safety, radiological, and environmental aspects of these facilities.

Local Regulation

PG&E has separate electric and gas franchises with the 48 counties and the 241 cities in its service territory. These franchises allow PG&E to locate facilities for the transmission and distribution of electricity and gas in the streets and other public ways. With few exceptions, the franchises do not have fixed terms and remain in effect as long as PG&E meets the terms and conditions of the franchises. PG&E is currently involved in litigation brought by several counties and cities who have granted franchises to PG&E. See Item 3, Legal Proceedings, "Counties Franchise Fees Litigation" and "Cities Franchise Fees Litigation" below for more information.

Licenses and Permits

PG&E obtains a number of permits, authorizations, and licenses in connection with the construction and operation of its generating plants. Discharge permits, various Air Pollution Control District permits, FERC hydroelectric facility licenses, and NRC licenses are the most significant examples. Some licenses and permits may be revoked or modified by the granting agency if facts develop or events occur that differ significantly from the facts and projections assumed in granting the approval. Furthermore, discharge permits and other approvals and licenses are granted for a term less than the expected life of the associated facility. Licenses and permits may require periodic renewal, which may result in additional requirements imposed by the granting agency.

Regulation of PG&E Corporation

PG&E Corporation and its subsidiaries are exempt from all provisions, except Section 9(a)(2), of the Public Utility Holding Company Act of 1935 (Holding Company Act) on the basis that PG&E Corporation and PG&E are incorporated in the same state and their business is predominantly intrastate in character and carried on substantially in the state of incorporation. It is necessary for PG&E Corporation to file an annual exemption statement with the Securities and Exchange Commission (SEC), and the exemption may be revoked by the SEC upon a finding that the exemption may be detrimental to the public interest or the interest of investors or consumers. At present, PG&E Corporation has no intention of becoming a registered holding company under the Holding Company Act.

PG&E Corporation is not a public utility under the laws of California and is not subject to regulation as such by the CPUC. However, the CPUC approval authorizing PG&E to form a holding company was granted subject to various conditions related to finance, human resources, record and book-keeping, and the transfer of customer information. The financial conditions provide that PG&E is precluded from guaranteeing any obligations of PG&E Corporation without prior written consent from the CPUC, PG&E's dividend policy shall continue to be established by PG&E's Board of Directors as though PG&E were a comparable stand-alone utility company, and the capital requirements of PG&E, as determined to be necessary to meet PG&E's service obligations, shall be given first priority by the Boards of Directors of PG&E Corporation and PG&E. The conditions also provide that PG&E shall maintain on average its CPUC-authorized utility capital structure, although it shall have an opportunity to request a waiver of this condition in the event an adverse financial event reduces the utility's equity ratio by 1% or more.

PG&E Corporation and PG&E have agreed to be subject to the conditions included in the CPUC approval. PG&E Corporation may also be subject to additional conditions based upon the outcome of an audit of affiliate transactions currently underway. The audit is being conducted by an outside consultant and supervised by the CPUC's Office of Ratepayer Advocates (ORA), formerly known as the Division of Ratepayer Advocates.

Other regulatory matters are described throughout this report.

Rate Matters

California Ratemaking Mechanisms

The principal ratemaking mechanisms currently applied by the CPUC in setting PG&E's revenue requirements are described below. It is expected that many of these mechanisms may be changed significantly or eliminated as both the electric and gas utility industries are restructured and regulatory reforms proposed by PG&E and government authorities are implemented. See "Future Ratemaking" below.

PG&E's utility operations, other than Diablo Canyon, are regulated primarily under the traditional cost-based approach to ratemaking. In 1996, Diablo Canyon operations were regulated under a performance-based approach under which revenues for the plant are based primarily on the amount of electricity generated, rather than on the costs associated with the plant's operations. However, PG&E has proposed a significant modification to Diablo Canyon ratemaking. See "Electric Utility Operations—Diablo Canyon—Diablo Settlement" below.

PG&E's basic business and operational costs for its utility operations, other than Diablo Canyon, are recovered through base revenues. Base revenues are intended to recover operation and maintenance expenses (excluding fuel expenses, fuel-related energy costs, and purchased power costs), depreciation expense, taxes, and return on invested capital. Base revenue requirements are currently set in general rate case (GRC) proceedings held before the CPUC every three years. (PG&E's current base revenues were set in the 1996 GRC; its next scheduled GRC would establish base revenue requirements effective January 1, 1999.)

During a GRC, the CPUC critically reviews PG&E's operations and general costs to provide service (excluding energy costs and, in certain instances, major plant additions), and then determines the revenue requirement to cover those costs. The revenue requirement is forecasted on the basis of a specified test year. (The return component of PG&E's revenue requirement is computed using the overall cost of capital authorized by the CPUC in the annual Cost of Capital consolidated proceeding, in which financing costs are reviewed and capital structures for all California energy utilities are adopted.) Following the revenue requirement phase of a GRC, the CPUC conducts a rate design phase, which allocates revenue requirements and establishes rate levels for the different classes of customers.

The Electric Revenue Adjustment Mechanism (ERAM) allows rate adjustments to offset the effect on base revenues of differences between actual electric sales volumes and the forecasted volumes used to set rates in the last GRC. The ERAM eliminates the impact on earnings of sales fluctuations, including those resulting from conservation and weather conditions. Base revenue differences resulting from the disparity between actual and forecasted electric sales accumulate in a balancing account, with interest. ERAM rate adjustments are made as part of the Energy Cost Adjustment Clause (ECAC) proceeding described below.

Most of PG&E's fuel, purchased-power, and energy-related costs of providing electric service, as well as revenues attributable to Diablo Canyon generation, are recovered through a balancing account mechanism called the ECAC. Under the ECAC balancing account procedure, actual costs are compared with revenues designated for recovery of such costs, and the difference is recorded as either an undercollection or overcollection. The differential between forecasted Diablo Canyon revenues under the Diablo Canyon rate case settlement (Diablo Settlement) and actual revenues also is tracked in the ECAC balancing account. In prior years, rates would be adjusted such that the amount of overcollections would be returned to ratepayers through lower rates and undercollections would be recovered through higher rates. However, as part of the electric industry restructuring, PG&E's electric rates have been frozen at 1996 levels, and the recorded overcollection in PG&E's ECAC/ERAM balancing accounts, if any, as of December 31, 1996, will be applied to offset PG&E's CTCs. See "1997 Revenues" below. The disposition of 1997 balancing accounts is being addressed at the CPUC in connection with electric industry restructuring. PG&E has proposed to recover 1997 year end balancing account balances through the CTC ratemaking mechanism.

The Annual Energy Rate (AER) mechanism has provided for recovery of 9% of forecasted electric fuel and fuel-related costs, without balancing account protection for differences between actual and forecasted costs. However, the AER was indefinitely suspended by the CPUC in a December 1996 decision.

In December 1996, the CPUC issued a decision establishing an electric deferred refund account (EDRA). The CPUC ordered PG&E to place into the EDRA credits for CPUC-ordered electric disallowances, the utility electric generation share of CPUC-ordered gas disallowances, electric and utility electric generation gas settlement amounts resulting from reasonableness disputes and fuel-related cost refunds made to PG&E based on regulatory agency decisions, plus interest charges. The CPUC ordered PG&E to file advice letters by January 31 of each year, setting forth its annual refund plans for directly refunding to electric customers the dollars accumulated in the EDRA. The CPUC also ordered PG&E to include initially in the EDRA any such credits which were already recorded in the ECAC and ERAM but had not yet been amortized in rates. The effect of this is to reduce the amount available to offset PG&E's CTCs by approximately $75 million. PG&E is seeking rehearing of this decision at the CPUC. PG&E is also seeking an injunction in federal court to block the refund of $50 million of the initial EDRA amount pending resolution of PG&E's lawsuit challenging the disallowance order issued in PG&E's 1988-1990 gas reasonableness proceeding that gave rise to that portion of the initial EDRA amount.

Fuel and fuel-related costs included in an ECAC adjustment are subject to a subsequent reasonableness review, in which the CPUC determines whether those costs were reasonably incurred. Costs found to be unreasonable may be disallowed, or deducted, from the amount to be recovered in rates. Currently, the amount of Diablo Canyon revenues recovered through the ECAC is determined under the Diablo Settlement and is not subject to reasonableness review. See "Electric Utility Operations—Diablo Canyon—Diablo Settlement" below.

The Biennial Cost Allocation Proceeding (BCAP) is the major rate proceeding for PG&E's natural gas service, other than service on the PG&E Expansion which is addressed in a separate proceeding. Rates to recover the cost of gas procured for customers who buy gas from PG&E and the cost of providing gas transportation service for gas customers are determined in the BCAP. The BCAP normally occurs every two years and is updated in the interim year for purposes of amortizing any accumulation in the balancing accounts. Balancing accounts for natural gas costs and sales volumes are similar to those for electric fuel costs and sales volumes.

In addition to adopting the gas revenue requirements in the BCAP, the CPUC also allocates both the gas fuel and transportation revenue requirements among core and noncore classes and among the customer groups within those classes. The BCAP also includes the rate design process, in which it is determined how specific costs are recovered from customers, with rates set accordingly.

1997 Revenues

Cost Recovery Plan. In December 1996, the CPUC approved the cost recovery plan filed by PG&E in compliance with AB 1890. The provisions of the plan approved by the CPUC include a freeze of electric rates at 1996 levels beginning on January 1, 1997, and pursuant to the provisions of AB 1890, an increase in PG&E's electric base revenues for 1997 of approximately $164 million to be used to enhance transmission and distribution system safety and reliability. In January 1997, The Utility Reform Network (TURN) filed an application for rehearing of the CPUC's decision. TURN's application for rehearing argues that the CPUC exceeded its authority in interpreting AB 1890 to authorize a base revenue increase for PG&E, and that the CPUC's decision requires clarification to ensure that any such base revenue increase as is granted is used only to fund activities which are supplemental to those funded in the most recent GRC. PG&E believes it is entitled to the base revenue increase provided for in AB 1890. However, if the CPUC were to find that those funds were not properly used to supplement PG&E's system safety and reliability expenditures, the CPUC might order disallowances that could negatively impact 1997 earnings.

ECAC. In December 1996, the CPUC issued a decision in PG&E's ECAC proceeding, authorizing a decrease in electric revenue requirements of approximately $720 million. The three elements of this decrease are: (1) a reduction in ECAC revenues of approximately $565 million; (2) a reduction in ERAM revenues of approximately $153 million; and (3) an increase in the California Alternate Rates for Energy (CARE) program, which supports energy rate discounts for low income customers, of approximately $2 million. This net reduction of approximately $720 million is partially offset by an electric revenue requirement increase of approximately $164 million resulting from the consolidation of revenue changes from the ERAM component of other proceedings, the base revenue increase authorized by AB 1890 and included in PG&E's cost recovery plan, the Cost of Capital proceeding, and the Annual Energy Assessment Proceeding (AEAP), which sets rate adjustments resulting from shareholder incentives earned on demand side management (DSM), or energy efficiency, programs. The ECAC decision also indefinitely suspends the AER mechanism, which had placed PG&E at partial risk for variations between actual and forecasted electric energy costs.

Cost of Capital. The CPUC's decision in the 1997 Cost of Capital proceeding authorized a utility return on common equity of 11.60%, a continuation of the 1996 level. The decision authorizes a utility capital structure for PG&E of 48.00% common equity, 5.80% preferred stock, and 46.20% long-term debt. The combined authorized costs of debt, preferred stock, and the 11.60% return on common equity result in an overall return on utility rate base (excluding Diablo Canyon and the PG&E Expansion) of 9.45%, a decrease from the 9.49% authorized for 1996. (However, actual returns for 1997 are expected to be substantially less than authorized levels as a result of the electric industry restructuring. See "Future Ratemaking—Electric Ratemaking" below.) Also as part of the Cost of Capital decision, the CPUC set the authorized return on equity and capital structure for the PG&E Expansion. See "Gas Utility Operations—PGT/PG&E Pipeline Expansion—CPUC Ratemaking" below.

BCAP. The CPUC's December 1995 decision in PG&E's last BCAP authorized an increase of approximately $60 million in annual gas revenues beginning January 1, 1996. In November 1996, PG&E submitted an interim filing, as permitted under the BCAP mechanism to set new rates for the second year of the two-year BCAP period. If approved by the CPUC, the filing would result in an approximately $17 million increase in total gas revenues effective upon CPUC approval, which is not reflected in the table below.

AEAP. The CPUC's December 1996 decision in the annual AEAP, which determines shareholder incentives earned for PG&E's DSM programs, adopted an incentive payment of approximately $72 million for PG&E's 1995 programs, to be collected in installments over a 10-year period. After consolidating incentive payment installments from prior years, the net revenue change in 1997 from DSM shareholder incentives is an electric increase of approximately $9 million and a gas decrease of approximately $2 million.

The consolidated effect of these decisions on authorized revenue requirements for 1997 is indicated in the table below:

Summary of Rate Case Decisions
Effective as of January 1, 1997
(in millions)

	Electric	Gas	Total
ECAC/ERAM/CARE/AER	$(720)	$—	$(720)
AB 1890 base revenue increase	164	—	164
1997 Cost of Capital	(5)	(2)	(7)
ERAM in other proceedings	(4)	—	(4)
BCAP	—	—	—
AEAP	9	(2)	7
Total Change in Authorized Revenue Requirement from 1996 Levels	$(556)	$ (4)	$(560)

Pursuant to PG&E's cost recovery plan and AB 1890, electric rates will not be changed from 1996 levels. Instead, the consolidated net reduction in electric revenue requirements of approximately $556 million will be available to offset PG&E's CTCs and any increase in revenue requirements resulting from PG&E's proposed cost recovery plan.

Future Ratemaking

Although it is clear that ratemaking for both electric and gas utilities in California will be significantly different in the future as a result of the ongoing restructuring in both industries, many of the specifics concerning how rates will be set, adjusted, and billed after 1997 remain to be resolved by the relevant regulatory authorities, utilities, and other interested parties. Outlined below are the more significant regulatory rulings to date on this issue, and some of the proposals made by PG&E in connection with changes to ratemaking in the new restructured markets.

Electric Ratemaking

In December 1996, the CPUC issued a "roadmap" decision outlining the necessary steps to accomplish electric industry restructuring and commence the transition period no later than January 1, 1998. In that decision, the CPUC notes that ratemaking has not changed in that the CPUC will still determine the rate components, revenue allocation, and rate design necessary to derive a rate for each customer class. However, the CPUC recognizes that the process must be revised to accommodate changes in the electric industry necessary for implementation of AB 1890 and the new market structure beginning in 1998. A consideration of necessary changes includes unbundling of rates, transition costs, PBR, and other activities that affect rates and revenue requirements.

In its roadmap decision, the CPUC establishes a separate annual proceeding to consider ratemaking issues related to each electric utility's revenues, which will consolidate all pending revenue changes and track utility revenues at present rate levels for the purpose of comparison with authorized amounts. This annual Revenue Adjustment Proceeding (RAP) will be designed to annually review, track, and compare each electric utility's authorized revenue requirements with the actual recorded revenues, and to make any necessary adjustments or updates due to authorized revenues from PBR mechanisms and other proceedings, or revenues for various power purchase contracts, public purpose programs, nuclear facilities, nuclear decommissioning, and transition costs. The differential between actual recorded revenues and the consolidated authorized revenue requirement will be applied to recover CTCs. The authorized revenues will be established in their respective proceedings and consolidated into the RAP. The first RAP will begin in 1998.

PG&E has filed numerous regulatory applications and proposals that detail its cost recovery plan during the transition period. PG&E's recovery plan includes: (1) separation or unbundling of its previously approved cost-of-service revenue requirement for its electric operations into distribution, transmission, public purpose programs (PPPs), and generation, (2) accelerated recovery of transition costs, and (3) development of a ratemaking mechanism to track and match revenues and cost recovery during the transition period.

PG&E's unbundling application, filed in December 1996, proposes to unbundle PG&E's revenue requirements, enabling it to separate revenues provided by frozen rates into transmission, distribution, PPPs, and generation. As proposed, revenues collected under frozen rates would be assigned to transmission, distribution, and PPPs, based upon their respective cost of service. Revenue would also be provided for other costs, including nuclear decommissioning, rate-reduction-bond debt service, the ongoing cost of generation, and CTC recovery. The combination of a rate freeze and decreasing costs, based upon existing ratemaking and cost recovery periods, provides an adequate amount of revenue available for full CTC recovery. PG&E's unbundling application also presents a method to separate electric rates into the four functional cost categories of PPPs, distribution, transmission, and generation (including energy costs based on the PX price, and CTCs, determined after all other costs are accounted for), effective January 1, 1998. Bills for all customers would describe what portion of the bill is attributable to transmission, distribution, PPPs, energy, and CTCs and other nonbypassable charges. PG&E's unbundling application also proposes to replace the ECAC and ERAM during the transition period with a single balancing account, the Transition Revenue Account (TRA). The TRA would be functionally equivalent to the current system in that it would match revenues with cost components. With the TRA, CTC would be the only cost component for which recovery during the transition period would be affected by any variation in billed revenues due to sales fluctuations.

PG&E has proposed to accelerate recovery for certain CTCs related to generation facilities, including Diablo Canyon. Additionally, PG&E would receive a reduced return on common equity associated with generation plant assets for which recovery is accelerated. The lower return is intended to reflect reduced risk associated with the shorter amortization period and increased certainty of recovery.

In applying its cost recovery plan to Diablo Canyon, PG&E has proposed a significant modification to the existing Diablo Canyon ratemaking. Under the current Diablo Settlement, Diablo Canyon revenues are based on a pre-established price per kWh of plant generation. PG&E proposes to replace the existing settlement price with: (1) a sunk cost revenue requirement to recover fixed costs, including a return on those fixed costs, and (2) a PBR mechanism to recover the facility's variable costs and capital addition costs. As proposed, the sunk cost revenue requirement would accelerate recovery of Diablo Canyon sunk costs from a twenty-year period ending in 2016 to a five-year period beginning in 1997 and ending in 2001. The related return on common equity associated with Diablo Canyon sunk costs would be reduced to 90% of PG&E's long-term cost of debt. PG&E's authorized long-term cost of debt was 7.52% in 1996. The reduced rate of return combined with a shorter recovery period would result in an estimated $4.0 billion decrease in the net present value of PG&E's future revenues from Diablo Canyon operations. If the proposed cost recovery plan for Diablo Canyon had been adopted during 1996, Diablo Canyon's 1996 reported net income would have been reduced by $350 million ($0.85 per share). The assigned CPUC administrative law judge (ALJ) has issued a proposed decision on PG&E's proposal to modify existing Diablo Canyon ratemaking. With significant exceptions, the proposed decision generally adopts the overall ratemaking structure proposed by PG&E, but would substantially alter the proposed ICIP mechanism and would exclude certain items from the sunk cost revenue requirement. See "Electric Utility Operations—Diablo Canyon—Diablo Settlement" below for more information regarding PG&E's proposed modification and the proposed decision issued by the ALJ. The proposed decision is not a final decision of the CPUC, and is subject to change prior to a vote of the full CPUC. The proposed decision currently is scheduled for consideration by the full CPUC at its April 9, 1997 meeting.

PG&E has proposed a PBR mechanism for recovery of its hydroelectric and geothermal generating unit costs. The proposed mechanism consists of a base revenue amount that is adjusted to account for inflation less a productivity offset. In its unbundling application, PG&E proposed a starting point for the hydroelectric/geothermal generation PBR at approximately $545 million in 1998. Under the AB 1890 cost recovery plan submitted by PG&E and approved by the CPUC, the difference between the authorized revenue requirement for these units and revenues earned at PX prices would be credited against CTC recovery if, as currently expected, the revenues earned at market prices exceed the cost of operating these facilities as set under the PBR mechanism.

Additional information concerning the Company's transition cost recovery plan, the financial impact of electric industry restructuring and these various proposals is provided in "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, beginning on page 9, and in Notes 2 and 4 of the "Notes to Consolidated Financial Statements" beginning on pages 29 and 32, respectively, of the 1996 Annual Report to Shareholders.

Gas Ratemaking

As noted above (see "Competition and the Changing Regulatory Environment—Gas Industry" above), PG&E has submitted to the CPUC the Gas Accord, which would offer increased customer choice, establish gas transmission rates for the period July 1997 through December 2002, and resolve various pending regulatory issues. The Gas Accord must be approved by the CPUC before it can be implemented. Among other things, the Gas Accord would unbundle PG&E's gas transmission and storage services from its distribution services and would change the terms of service and rate structure for gas transportation. Unbundling would give customers the opportunity to select from a menu of services offered by PG&E and would enable them to pay only for the services they use. PG&E would be at risk for variations in revenues resulting from differences between actual and forecasted transmission throughput. PG&E would continue to provide cost-of-service based distribution service, much as it does today. Additional information concerning the potential financial impact of the Gas Accord is provided in "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, beginning on page 13, and in Note 3 of the "Notes to Consolidated Financial Statements" beginning on page 31 of the 1996 Annual Report to Shareholders.

As part of the Gas Accord, PG&E has proposed that traditional reasonableness reviews of its core gas costs be replaced with a CPIM for the period June 1, 1994, through 2002. Under the CPIM, PG&E would be able to recover its gas commodity and interstate transportation costs and would receive benefits or be penalized depending on whether its actual core procurement costs were within, below, or above a "tolerance band" constructed around market benchmarks. Actual core procurement costs measured for the period June 1, 1994, through December 31, 1996, have generally been within the CPIM "tolerance band." The CPIM proposal also requests authorization to use derivative financial instruments to reduce the risk of gas price and foreign currency fluctuations. Gains, losses, and transaction costs associated with the use of derivative financial instruments would be included in the purchased gas account and the measurement against the benchmarks.

Capital Requirements and Financing Programs

PG&E and PGT continue to require capital for improvements to facilities to enhance their efficiency and reliability, to extend their useful lives, and to comply with environmental laws and regulations. PG&E's and PGT's expenditures for these purposes, including the allowance for funds used during construction (AFUDC), were approximately $1,244 million for 1996. New investments totaled $159 million in 1996.

The following table sets forth PG&E Corporation's estimated total capital requirements, consisting of capital expenditures for PG&E's utility functions, including Diablo Canyon, as well as capital requirements for PGT and diversified operations and amounts for maturing debt and sinking funds for the years 1997 through 1999. *These are forward-looking statements which involve a number of assumptions and uncertainties.* Actual amounts may differ materially from the estimated amounts shown below.

PG&E Corporation Capital Requirements
(in millions)

	1997	1998	1999	Total
Utility(1)	$1,773	$1,825	$1,705	$5,303
Diablo Canyon	38	39	41	118
Diversified Operations(2)				
U.S. Generating Company(3)	160	57	169	386
Other(4)	51	23	3	77
Total Capital Expenditures	2,022	1,944	1,918	5,884
Maturing Debt and Sinking Funds	210	660	270	1,140
Total Capital Requirements	$2,232	$2,604	$2,188	$7,024

(1) Utility expenditures include PG&E's electric and gas operations and PGT's gas pipeline operations, are shown net of reimbursed capital, and include AFUDC.

(2) Actual capital expenditures may vary significantly depending on the availability of attractive investment opportunities. PG&E has announced an agreement to sell its interest in International Generating Company, Ltd. in 1997 and capital requirements for that company are not included in the table.

(3) U.S. Generating Company expenditures include commitments by PG&E Corporation, PG&E, and/or Enterprises to make capital contributions for Enterprises' equity share of currently identified generating facility projects. These contributions, payable upon commercial operation of the projects, are estimated to be $52 million and $15 million in 1997 and 1998, respectively.

(4) Other expenditures include ongoing capital requirements for ESI and Teco.

Most of Utility and Diablo Canyon capital expenditures for 1997 through 1999 are associated with short lead time, modest capital expenditure projects aimed at the replacement and enhancement of existing facilities, and compliance with environmental laws and regulations. Also included are expenditures to improve the safety and reliability of PG&E's electric transmission and distribution system consistent with AB 1890, as well as major projects associated with customer service improvements.

PG&E Corporation estimates that its total capital requirements for the years 1997 through 1999 will include approximately $1,140 million for payment at maturity of outstanding long-term debt and for meeting sinking fund requirements for debt, as indicated above.

The funds necessary for 1997-1999 capital requirements of PG&E Corporation and its subsidiaries will be obtained from (i) internal sources, principally net income before noncash charges for depreciation and deferred income taxes, and (ii) external sources, including short-term financing, such as bank loans and the sale of short-term notes, and long-term financing, such as sales of equity and long-term debt securities, when and as required.

PG&E Corporation and its subsidiaries and affiliates conduct a continuing review of their capital expenditures and financing programs. The programs and estimates above are subject to revision and actual amounts may vary based upon changes in assumptions as to system load growth, rates of inflation, receipt of adequate and timely rate relief, availability and timing of regulatory approvals, total cost of major projects, availability and cost of suitable nonregulated investments, and availability and cost of external sources of capital, as well as the outcome of the ongoing restructuring in both the electric and gas industries.

In January 1997, PG&E Corporation acquired Teco and its subsidiaries for approximately $380 million, consisting of the purchase of a $61 million note, and $319 million of PG&E Corporation common stock. Also in January 1997, PG&E Corporation agreed to acquire Valero for approximately $1.5 billion, consisting of approximately $720 million of PG&E Corporation common stock and the assumption of debt and liabilities. The cost of these acquisitions is not included in the table above, nor are estimates of expected ongoing capital requirements for Valero.

Risk Management Programs

Due to the changing business environment, the Company's exposure to risks associated with changes in energy commodity prices, interest rates, and foreign currencies is increasing. To manage these risks, the Company has adopted a price risk management policy and established an officer-level price risk management committee. The Company's price risk management committee oversees implementation of the policy, approves each price risk management program, and monitors compliance with the policy.

The Company's price risk management policy and procedures adopted by the committee establish guidelines for implementation of price risk management programs. Such programs may include the use of energy and financial derivatives. (A derivative is a contract whose value is dependent on or derived from the value of some underlying asset.) Additionally, the Company's policy allows derivatives to be used for hedging and non-hedging purposes. (Hedging is the process of protecting one transaction by means of another to reduce price risk.) Both hedging and non-hedging activities are limited to those specifically approved by the committee only after appropriate controls and procedures are put in place to measure, monitor, and control the risk of such activities. The Company's policy prohibits the use of derivatives whose payment formula includes a multiple of some underlying asset.

In 1996, the Company approved and implemented interest rate and foreign exchange risk management programs, applied for regulatory approval to use energy derivatives to manage commodity price risk in its utility business, and acquired certain natural gas marketing operations which engage in both hedging and non-hedging derivative transactions. Gains and losses associated with price risk management activities during 1996 were immaterial.

Additional information concerning the Company's risk management activities is provided in "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, beginning on page 18, and in Note 1 of the "Notes to Consolidated Financial Statements" on page 28 of the 1996 Annual Report to Shareholders.

ELECTRIC UTILITY OPERATIONS

Electric Industry Restructuring Legislation

In 1996, comprehensive legislation on electric industry restructuring, in the form of AB 1890, was signed into law in California. AB 1890 adopted the basic tenets of the CPUC's 1995 restructuring decision and provides guidance to the CPUC on a number of implementation issues. Although many details remain to be worked out, implementation of AB 1890 will have a significant impact on PG&E's electric utility operations beginning as early as 1998.

Major provisions of AB 1890 include the following:

Independent System Operator and Power Exchange

AB 1890 requires the CPUC to facilitate the development of an ISO and a PX, and establishes a five-member Oversight Board to oversee the ISO and PX and appoint the members of the ISO and PX Governing Boards. The ISO and PX Governing Boards will include representatives of investor owned utility transmission owners, publicly owned utility transmission owners, nonutility electricity sellers, public buyers and sellers, private buyers and sellers, industrial end-users, commercial end-users, residential end-users, agricultural end-users, public interest groups, and non-market participant representatives. In a November 1996 order approving in concept the proposed ISO/PX framework, the FERC limited the ongoing role of the Oversight Board and eliminated the requirement of AB 1890 that members of the Oversight Board be residents of California.

Under AB 1890, it is intended that both California's investor owned utilities and its publicly owned utilities commit control of their transmission facilities to the ISO. The ISO is required to ensure reliable transmission services consistent with planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council and the North American Electric Reliability Council. Oversight responsibility for reliability of utility distribution systems remains with the CPUC.

To prevent undue influence on the PX price by any participant in the competitive framework, PG&E has indicated that it is willing to proceed with voluntary divestiture of at least 50% of its fossil-fueled power plants as directed by the CPUC. PG&E has filed an application seeking approval from the CPUC to sell four plants (comprised of 12 units) before the end of 1997. The book value for these plants is approximately $400 million, and together they generate approximately 10% of PG&E's total electric sales. PG&E proposes to recover any shortfall in proceeds from divestitures of these plants as CTCs.

Direct Access

AB 1890 authorizes direct transactions between electricity suppliers and customers, beginning January 1, 1998, and on a phased-in schedule, if justified by technical considerations, through December 31, 2001, that is equitable to all customer classes. Aggregation of customer electrical load for such direct transactions is authorized.

Rate Levels and Recovery of CTCs

AB 1890 provides for a 10% rate reduction for residential and small commercial electric customers, freezes electric customer rates for all other customers, and requires the accelerated recovery of CTCs associated with utility owned generation facilities. The rate freeze will continue until the end of the transition period, which extends to the earlier of March 31, 2002, or until PG&E has recovered its CTCs. The freeze will hold rates at 1996 levels for all customers except those receiving the 10% rate reduction. The rate freeze will hold the rates for these customers at the reduced level.

To achieve the 10% rate reduction, AB 1890 authorizes utilities to finance a portion of their CTCs with "rate reduction bonds." PG&E expects to work with state authorities to coordinate the issuance of up to

$2.5 billion of these bonds by a special purpose entity. The maturity period of the bonds is expected to extend beyond the transition period. Also, the interest cost of the bonds is expected to be lower than PG&E's current cost of capital. Once the bonds are issued, PG&E would collect, on behalf of the special purpose entity, a separate tariff to recover principal, interest, and issuance costs over the life of the bonds from residential and small commercial customers. The combination of the longer maturity period and the reduced interest costs will lower the amounts paid by these customers each year during the transition period thereby achieving the 10% reduction in rates. PG&E does not expect to secure the bonds with the Company's assets or unrelated future revenues.

AB 1890 authorizes utilities to recover transition costs, or CTCs (the uneconomic costs of their generation-related assets and obligations, including regulatory assets and the costs associated with nuclear ratemaking settlements such as the Diablo Settlement), from all customers (with certain exceptions) through a nonbypassable charge included as part of rates over the period ending December 31, 2001. Recovery may extend beyond December 31, 2001, for certain CTCs, such as certain employee-related transition costs (recoverable through December 31, 2006) and costs resulting from implementation of direct access and creation of the PX and ISO, and above market costs associated with power purchase agreements. As a prerequisite to any consumer obtaining direct access services, the consumer must agree to pay its applicable nonbypassable CTC charge.

CTCs associated with utility owned fossil generation would be limited to regulatory assets and the uneconomic net book value of the fossil capital investment as of January 1, 1998, plus the costs of capital additions subsequent to December 20, 1995, that the CPUC determines are reasonable and, in the case of fossil plant additions, are necessary to maintain the facilities through December 31, 2001. CTCs associated with utility owned generation-related costs not recovered during the transition period will be absorbed by PG&E. Operating costs for such facilities would generally be recoverable through market-based rates, excluding facilities that are required to be operated for reliability purposes by the ISO. Operating costs for those facilities would be recovered on a cost-of-service basis through ISO contracts. CTCs associated with existing power purchase contracts, such as those for purchases from qualifying facilities (QFs), also would be recoverable through nonbypassable rates, except that the recovery period would be over the duration of the contract or any restructuring thereof.

Nuclear decommissioning costs would continue to be recovered through a nonbypassable charge separate from CTCs until fully recovered. Recovery of nuclear decommissioning costs may be accelerated.

Base Revenue Increases

AB 1890 provides for annual increases in base revenues for PG&E, effective in 1997 and 1998, equal to the inflation rate for the prior year plus two percentage points. Given the rate freeze, the base revenue increase would reduce the amount available for CTC recovery. The increases will remain in effect pending PG&E's next GRC, which will set rates effective January 1999. The base revenue increases must be used for enhancing transmission and distribution system safety and reliability, and any such revenues not expended for such purposes must be credited against subsequent safety and reliability revenue requirements in future years.

In December 1996, the CPUC approved the cost recovery plan filed by PG&E in compliance with AB 1890, which included an increase in PG&E's electric base revenues for 1997 of approximately $164 million to be used to enhance transmission and distribution system safety and reliability as contemplated by AB 1890. TURN has filed an application for rehearing of the CPUC's decision, challenging the base revenue increase. See "General—Rate Matters—1997 Revenues" above.

Public Purpose Programs

Under AB 1890, energy efficiency, research and development, and low income programs will be funded in electric rates pursuant to a separate, nonbypassable charge at current levels from January 1, 1998, through December 31, 2001. Under this provision, PG&E is obligated to fund through electric rates energy efficiency and conservation programs at not less than $106 million per year, research and development programs at not less than $30 million per year, and renewable technologies at not less than $48 million per year.

In February 1997, the CPUC adopted a decision that changes the way these programs will be administered, beginning after 1997. Currently, PG&E and other utilities administer public purpose programs for energy efficiency and conservation, research and development and low income customer assistance. Under the CPUC's decision, the CPUC will appoint independent boards to oversee energy efficiency and low income assistance programs. These boards will solicit competitive bids to determine who will administer the programs from January 1, 1998, through 2001. PG&E or an affiliate will be permitted to bid for administration of the energy efficiency programs. The decision also turns over administration of the funding for research and development, and renewable technologies programs to the CEC, beginning January 1, 1998.

Additional information concerning AB 1890 and its financial impact on the Company is provided in "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, beginning on page 9, and in Note 2 of the "Notes to Consolidated Financial Statements" beginning on page 29 of the 1996 Annual Report to Shareholders.

Electric Operating Statistics

The following table shows PG&E's operating statistics (excluding subsidiaries except where indicated) for electric energy, including the classification of sales and revenues by type of service.

	Years Ended December 31				
	1996	1995	1994	1993	1992
Customers (average for the year):					
Residential	3,874,223	3,825,413	3,788,044	3,748,831	3,708,374
Commercial	459,001	454,718	452,049	449,619	455,480
Industrial	1,248	1,253	1,260	1,243	1,207
Agricultural	87,250	88,546	90,520	91,376	94,562
Public street and highway lighting	17,583	17,089	16,709	16,096	15,681
Other electric utilities	28	35	29	28	24
Total	4,439,333	4,387,054	4,348,611	4,307,193	4,275,328
Generated, received and sold — kWh (in millions):					
Generated:					
Hydroelectric plants	15,158	16,608	7,791	14,403	7,537
Thermal-electric plants:					
Fossil fueled	11,620	13,729	29,543	19,070	26,623
Geothermal	4,514	4,001	6,024	6,491	7,007
Nuclear	16,720	16,269	15,265	16,816	16,698
Total thermal-electric plants	32,854	33,999	50,832	42,377	50,328
Wind and solar plants	2	1	1	—	—
Received from other sources(1)	57,134	54,935	47,199	48,859	46,243
Total gross system output(2)	105,148	105,543	105,823	105,639	104,108
Delivered for interchange or exchange	4,000	4,261	3,275	8,848	3,912
Delivered for the account of others(1)	19,356	18,946	18,622	13,726	17,235
Helms pumpback energy(3)	898	937	467	452	398
PG&E use, losses, etc.(4)	6,500	6,040	7,838	6,960	7,278
Total energy sold	74,394	75,359	75,621	75,653	75,285
Power plant fuel supply (in thousands):					
Natural gas (equivalent barrels)	20,193	23,143	44,119	28,791	43,446
Fuel oil	686	756	2,395	2,080	171
Nuclear (equivalent barrels)	28,574	27,814	26,135	28,724	28,540
Total	49,453	51,713	72,649	59,595	72,157
Power plant fuel costs (average cost per million Btu's):					
Natural gas	$ 1.83	$ 2.06	$ 2.19	$ 2.86	$ 2.61
Fuel oil	$ 2.66	$ 1.28	$ 2.83	$ 3.49	$ 3.13
Weighted average	$ 1.92	$ 2.03	$ 2.23	$ 2.90	$ 2.62
Sales — kWh (in millions):					
Residential	25,458	24,391	24,326	24,111	23,664
Commercial	27,868	27,014	26,195	26,258	26,246
Industrial	15,786	16,879	16,010	16,492	16,600
Agricultural	3,631	3,478	4,426	3,672	4,741
Public street and highway lighting	438	425	418	419	400
Other electric utilities	1,213	3,172	4,246	4,701	3,634
Total energy sold	74,394	75,359	75,621	75,653	75,285
Revenues (in thousands):					
Residential	$3,033,613	$2,979,590	$2,980,966	$2,952,893	$2,790,605
Commercial	2,840,101	2,964,568	2,892,302	2,914,855	2,864,817
Industrial	1,005,694	1,160,938	1,128,561	1,183,728	1,210,754
Agricultural	396,469	395,531	477,330	419,628	478,941
Public street and highway lighting	55,372	56,154	55,545	55,976	53,133
Other electric utilities	81,855	133,566	201,133	242,433	185,555
Revenues from energy sales	7,413,104	7,690,347	7,735,837	7,769,513	7,583,805
Miscellaneous	112,303	92,538	142,771	87,991	51,716
Regulatory balancing accounts	(365,192)	(396,578)	142,939	19,421	127,490
Operating revenues	$7,160,215	$7,386,307	$8,021,547	$7,876,925	$7,763,011

(1) Includes energy supplied through PG&E's system by the City and County of San Francisco for San Francisco's own use and for sale by San Francisco to its customers, by the Department of Energy for government use and sale to its customers, and by the State of California for California Water Project pumping, as well as energy supplied by QFs and purchases from other utilities.
(2) Includes energy output from Modesto and Turlock Irrigation Districts' own resources.
(3) Represents energy required for pumping operations.
(4) Includes use by business units other than the electric utility business units.

	Years Ended December 31				
	1996	1995	1994	1993	1992
Selected Statistics:					
Total customers (at year-end)	4,500,000	4,400,000	4,400,000	4,400,000	4,300,000
Average annual residential usage (kWh)	6,571	6,377	6,422	6,431	6,381
Average billed revenues per kWh (¢):					
Residential	11.92	12.22	12.25	12.25	11.79
Commercial	10.19	10.97	11.04	11.10	10.92
Industrial	6.37	6.88	7.05	7.18	7.29
Agricultural	10.92	11.37	10.78	11.43	10.10
Net plant investment per customer ($)	3,198	3,228	3,362	3,436	3,428
Electric control area capability(megawatts)(1)	22,724	22,099	21,851	23,009	22,475
Electric net control area peak demand(megawatts)(2)	21,437	20,317	19,118	19,607	18,594

(1) Area net capability at time of annual peak, based on actual water conditions.
(2) Net control area peak demand includes demand served by Modesto and Turlock Irrigation Districts' own resources.

Electric Generating and Transmission Capacity

As of December 31, 1996, PG&E owned and operated the following generating plants, all located in California, listed by energy source:

Generation Type	County Location	Number of Units	Net Operating Capacity kW
Hydroelectric:			
Conventional Plants(1)	16 counties in Northern and Central California	109	2,698,100
Helms Pumped Storage Plant	Fresno	3	1,212,000
Hydroelectric Subtotal		112	3,910,100
Steam Plants:			
Contra Costa	Contra Costa	2	680,000
Humboldt Bay	Humboldt	2	105,000
Hunters Point(2)	San Francisco	3	377,000
Morro Bay(2)	San Luis Obispo	4	1,002,000
Moss Landing(2)	Monterey	2	1,478,000
Pittsburg	Contra Costa	7	2,022,000
Potrero	San Francisco	1	207,000
Steam Subtotal		21	5,871,000
Combustion Turbines:			
Hunters Point	San Francisco	1	52,000
Oakland(2)	Alameda	3	165,000
Potrero	San Francisco	3	156,000
Mobile Turbines(3)	Humboldt and Mendocino	3	45,000
Combustion Turbines Subtotal		10	418,000
Geothermal:			
The Geysers Power Plant(4)	Sonoma and Lake	14	1,224,000
Nuclear:			
Diablo Canyon	San Luis Obispo	2	2,160,000
Thermal Subtotal		47	9,673,000
Total		159	13,583,100

(1) Two hydroelectric plants with approximately 5,000 kW of net operating capacity were sold in 1996.
(2) *PG&E has announced plans to sell these power plants in connection with electric industry restructuring.*
(3) Listed to show capability; subject to relocation within the system as required.
(4) The Geysers Power Plant net operating capacity is based on adequate geothermal steam supply conditions. Any decrease in capacity, at peak, is included as unavailable capacity in the *Control Area Net Capacity table below.*

The following table sets forth the available capacity for the control area (the area served by PG&E and various publicly owned systems in Northern California) at the date of peak (including reduction for scheduled and forced outages and based on actual water conditions) by various sources of generation available to the control area and the total amount of generation provided by these sources during the year ended December 31, 1996.

	Control Area Net Capacity (at date of 1996 peak)	
	kW	**%**
Sources of Electric Generation:		
PG&E-Owned Plants:		
Fossil Fueled	6,289,000	48
Geothermal	1,224,000	9
Nuclear	2,160,000	16
Total Thermal	9,673,000	73
Hydroelectric (available)	3,603,300	27
Solar	0	0
Total PG&E-Owned Capacity	13,276,300	100
Less Unavailable Capacity	2,750,000	
Total PG&E Available Capacity	10,526,300	46
Capacity Received from Others:		
QF Producers (available)	3,039,600	14
Area Producers & Imports	9,158,100	40
Capacity from Others	12,197,700	54
Total Available Capacity	22,724,000	100
Total Area Demand(1)(2)	21,437,000	

	Generation Year Ended December 31, 1996(3)	
	kWh Thousands	**%**
Electric Generation:		
PG&E-Owned Plants:		
Fossil Fueled	11,619,910	11
Geothermal	4,514,643	4
Nuclear	16,719,721	17
Total Thermal	32,854,274	32
Hydroelectric	15,157,798	15
Solar	1,580	0
Total PG&E Generation	48,013,652	—
Helms Pumpback Energy	(897,506)	(1)
Net PG&E Generation	47,116,146	46
Generation Received from Others:		
QF Producers	20,351,814	20
Area Producers & Imports	34,532,040	34
Generation from Others	54,883,854	54
Total Area Generation	102,000,000	100

(1) The maximum control area peak demand to date was 21,437,000 kW which occurred in August 1996.

(2) The reserve capacity margin at the time of the 1996 control area peak, taking into account short-term firm capacity purchases from utilities located outside PG&E's service area: PG&E's load responsibility for spinning reserve (capability already connected to the system and ready to meet instantaneous changes in demand) to the control area peak was 7.3% of the peak demand and total reserve (spinning reserve and capability available within a short period of time) was 7.8%.

(3) Represents actual year net generation from sources shown. Generation received from others is based on the best available information at the publication date of this document.

Diablo Canyon

Diablo Canyon Operations

Diablo Canyon Units 1 and 2 began commercial operation in May 1985 and March 1986, respectively. The operating license expiration dates for Diablo Canyon Units 1 and 2 are September 2021 and April 2025, respectively. As of December 31, 1996, Diablo Canyon Units 1 and 2 had achieved lifetime capacity factors of 79.7% and 81.7%, respectively.

The table below outlines Diablo Canyon's refueling schedule for the next five years. In the past, Diablo Canyon refueling outages typically have occurred every 18 months. Beginning in 1996, PG&E schedules refueling outages every 21 months, and it intends to seek NRC licensing authority to schedule such outages once every 24 months beginning in 2001. The schedule below assumes that a refueling outage for a unit will last approximately six weeks, depending on the scope of the work required for a particular outage. The schedule is subject to change in the event of unscheduled plant outages or changes in the length of the fuel cycle.

	1997	1998	1999	2000	2001
Unit 1					
Refueling	April		January	September	
Startup	May		March	October	
Unit 2					
Refueling		February	October		April
Startup		March	November		June

Diablo Settlement

The Diablo Settlement adopted alternative ratemaking for Diablo Canyon by basing revenues primarily on the amount of electricity generated by the plant, rather than on traditional cost-based ratemaking. Under the existing Diablo Settlement, revenues are based on a pre-established price per kWh of electricity generated by the plant. That price consists of a fixed component (3.15 cents per kWh) and a separate component that declines until 2000, at which point the variable component begins to escalate. The total price per kWh for the year 1996 was 10.50 cents. Under this "performance-based" approach, PG&E assumes a significant portion of the operating risk of the plant because 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. PG&E's earnings are affected directly by plant performance and costs incurred. Currently, earnings relating to Diablo Canyon can fluctuate significantly as a result of refueling or other extended plant outages, plant expenses, and the effects of a peak-period pricing mechanism.

As noted above, in connection with electric industry restructuring, PG&E has proposed to modify the existing Diablo Settlement. Under the modification proposal, PG&E would replace the existing Diablo Settlement price with a sunk cost revenue requirement and a performance-based Incremental Cost Incentive Price (ICIP). The sunk cost revenue requirement for Diablo Canyon would include recovery of the net investment in Diablo Canyon over a five-year period and a return on common equity of 90% of PG&E's long-term cost of debt. PG&E's authorized long-term cost of debt was 7.52% in 1996. Under the ICIP, the plant's variable and other operating costs and future capital additions would be recovered under a pre-set price per kWh of plant output based on an initial expectation of such costs and output.

Under PG&E's modification proposal, the termination date in the existing Diablo Settlement would be changed from 2016 to 2001. As proposed, closure cost recovery provisions would replace existing abandonment payment provisions. Under the cost recovery provisions, PG&E would be entitled to recover a percentage of its annual operating costs for a limited number of years following the plant's permanent closure. PG&E's continued recovery of the sunk cost revenue requirement would be subject to CPUC evaluation if Diablo Canyon is shut down for nine months or more before the end of the transition period. After such time, there would be no restrictions on Diablo Canyon's operations, to which customers it could sell and at what prices, terms, and conditions; however, 50% of any after-tax earnings available for common equity after such time would be allocated to ratepayers.

More information concerning the financial impact of the proposed Diablo Settlement modification is included in "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, beginning on page 9, and in Notes 2 and 4 of the "Notes to Consolidated Financial Statements" beginning on pages 29 and 32, respectively, of the 1996 Annual Report to Shareholders.

On February 28, 1997, the assigned ALJ issued a proposed decision on PG&E's proposed modification to Diablo Canyon ratemaking. With significant exceptions, the proposed decision generally adopts the overall ratemaking structure proposed by PG&E, but would substantially alter the proposed ICIP mechanism and would exclude certain items from the sunk cost revenue requirement.

Instead of adopting the fixed forecast of ICIP prices for the 1997-2001 period proposed by PG&E, the proposed decision adopts an alternative cost of service approach, which would establish an initial forecast of ICIP prices which will be adjusted annually through 2001 to reflect a new forecast incorporating Diablo Canyon's actual operating costs and capacity factor. With respect to sunk costs, the proposed decision adopts a "prudence" disallowance based on the finding that PG&E admitted in pre-1988 Diablo testimony that a design error cost $100 million. The disallowance would be equal to $100 million times the ratio of depreciated value of the original plant to undepreciated value of the original plant, which PG&E estimates would equal approximately $60-$70 million. The proposed decision also excludes several items totaling $160 million from the sunk cost revenue requirement, including out-of-core fuel inventory, materials and supplies inventory, and prepaid insurance expenses. The proposed decision requires that out-of-core fuel inventory and materials and supplies inventory be recovered in ICIP prices. The proposed decision requires an independent financial verification audit of Diablo Canyon sunk costs, to be completed within six months. Diablo Canyon sunk cost recovery would be adjusted to reflect the results of this audit.

In addition, the proposed decision terminates, rather than modifies as proposed by PG&E, the Diablo Settlement on the date the proposed decision is adopted by the CPUC. PG&E intends to seek clarification from the CPUC that the termination of the Diablo Settlement would not affect Diablo Canyon's "must take" status during the transition period.

Based on a very preliminary review and interpretation of the proposed decision and assuming that the modified rates are effective January 1, 1997, PG&E Corporation estimates that the impact on 1997 earnings could be approximately five cents per share negative compared to PG&E Corporation's 1997 budget. This estimate is subject to change, and the actual impact of the proposed decision on the Company's financial results will depend on several factors, including clarification of several ambiguities in the proposed decision. In addition, there could be a further negative impact compared to PG&E Corporation's 1997 budgeted results if the modified rates are effective on the date the CPUC adopts the final decision, given the timing of recovery of Diablo Canyon transition costs.

The proposed decision is not a final decision of the CPUC, and is subject to change prior to a vote of the full CPUC. The proposed decision currently is scheduled for consideration by the full CPUC at its April 9, 1997 meeting.

Nuclear Fuel Supply and Disposal

PG&E has purchase contracts for, and inventories of, uranium concentrates, uranium hexaflouride, and enriched uranium; it has one contract for fuel fabrication. Based on current operations forecasts, Diablo Canyon's requirements for uranium supply, the conversion of uranium to uranium hexaflouride, and the enrichment of the uranium hexaflouride to enriched uranium will be satisfied by a combination of existing contracts and inventories through 2000, 1999, and 2002, respectively. The fuel fabrication contract for the two units will supply their requirements for the next eight operating cycles of each unit. These contracts are intended to ensure long-term fuel supply, but permit PG&E the flexibility to take advantage of short-term supply opportunities. In most cases, PG&E's nuclear fuel contracts are requirements-based, with PG&E's obligations linked to the continued operation of Diablo Canyon.

Under the Nuclear Waste Policy Act of 1982 (Nuclear Waste Act), the U.S. Department of Energy (DOE) is responsible for the transportation and ultimate long-term disposal of spent nuclear fuel and high-level radioactive waste. Under the Nuclear Waste Act, utilities are required to provide interim storage facilities until permanent storage facilities are provided by the federal government. The Nuclear Waste Act mandates that one or more such permanent disposal sites be in operation by 1998. Consistent with the law, PG&E has signed a contract with the DOE providing for the disposal of the spent nuclear fuel and high-level radioactive waste from PG&E's nuclear power facilities beginning not later than January 1998. However, due to delays in identifying a storage site, the DOE has officially acknowledged that it will not be able to meet its contract commitment to begin accepting spent fuel by January 1998. Further, under the DOE's current estimated acceptance schedule for spent fuel, Diablo Canyon's spent fuel may not be accepted by the DOE for interim or permanent storage before 2012, at the earliest. At the projected level of operation for Diablo Canyon, PG&E's facilities are sufficient to store on-site all spent fuel produced through approximately 2006 while maintaining the capability for a full-core off-load. It is likely that an interim or permanent DOE storage facility will not be available for Diablo Canyon's spent fuel by 2006. PG&E is examining options for providing additional temporary spent fuel storage at Diablo Canyon or other facilities, pending disposal or storage at a DOE facility.

In July 1988, the NRC gave final approval to PG&E's plan to store radioactive waste from the Humboldt Bay Power Plant (Humboldt) at Humboldt for 20 to 30 years and, ultimately, to decommission the unit. The license amendment issued by the NRC allows storage of spent fuel rods at Humboldt until a federal repository is established. PG&E has agreed to remove all nuclear waste as soon as possible after the federal disposal site is available.

Insurance

PG&E has insurance coverage for property damage and business interruption losses as a member of Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL). These companies, which are owned by utilities with nuclear generating facilities, provide insurance coverage against property damage, decontamination, decommissioning, and business interruption and/or extra expenses during prolonged accidental outages for reactor units in commercial operation. Under PG&E's policies, if the nuclear generating facility of a member utility suffers a loss due to a prolonged accidental outage, PG&E may be subject to maximum retrospective premium assessments of $29 million (property damage) and $8 million (business interruption), in each case per one-year policy period, if losses exceed the resources of NML or NEIL.

PG&E has purchased primary insurance of $200 million for public liability claims resulting from a nuclear incident. An additional $8.7 billion of coverage is provided by secondary financial protection required by federal law and provides for loss sharing among utilities owning nuclear generating facilities if a costly incident occurs. If a nuclear incident results in claims in excess of $200 million, PG&E may be assessed up to $159 million per incident, with payments in each year limited to a maximum of $20 million per incident.

Decommissioning

The estimated total obligation for decommissioning PG&E's nuclear power facilities is comprised of the total cost (including labor, materials, and other costs) of decommissioning and dismantling plant systems and structures. In addition, a contingency amount for possible changes in regulatory requirements and increases in waste disposal costs is included in the estimated total obligation. The estimated total obligation for nuclear decommissioning costs, based on a 1994 site study, is approximately $1.2 billion in 1996 dollars (or $5.9 billion in future dollars). Actual decommissioning costs are expected to vary from this estimate because of changes in assumed dates of decommissioning, regulatory requirements, technology, and costs of labor, materials, and equipment. The estimated total obligation is being recognized proportionately over the license term of each facility.

Decommissioning costs recovered in rates are placed in external trust funds. These funds, along with accumulated earnings, will be used exclusively for decommissioning. The trust funds maintain substantially all of their investments in debt and equity securities. All fund earnings are reinvested. Funds may not be released from the external trust funds until authorized by the CPUC. As of December 31, 1996, PG&E had accumulated external trust funds with an estimated fair value of $883 million, based on quoted market prices, to be used for the decommissioning of PG&E's nuclear facilities.

In the past, the amount recovered in rates for decommissioning costs through an annual allowance has been reviewed by the CPUC as part of the GRC. The CPUC considers the trust's asset level, together with revised earnings and decommissioning cost assumptions, to determine the amount of decommissioning costs it will authorize in rates for contribution to the trust. The funds contributed to the decommissioning trusts, together with existing trust fund balances and projected earnings, are intended to satisfy the estimated future obligation for decommissioning costs. For the year ended December 31, 1996, nuclear decommissioning costs recovered in rates were $33 million.

In the future, AB 1890 provides that nuclear decommissioning costs, which are not transition costs, will be recovered through a nonbypassable charge until those costs are fully recovered. Recovery of decommissioning costs may be accelerated to the extent possible under the rate freeze. In its roadmap decision, the CPUC established a Nuclear Decommissioning Costs Triennial Proceeding to determine the decommissioning costs and establish the annual revenue requirement and attrition factors over three-year periods when and if GRCs are discontinued.

Other Electric Resources

QF Generation and Other Power Purchase Contracts

Under the Public Utility Regulatory Policies Act of 1978, PG&E is required to purchase electric energy and capacity provided by QFs which are cogenerators and small power producers. The CPUC established a series of power purchase contracts with QFs and set the applicable terms, conditions, and price options. Under these contracts, PG&E is required to purchase electric energy and capacity; however, payments are only required when energy is supplied or when capacity commitments are met. The total cost of these payments is recoverable in rates. PG&E's contracts with QFs expire on various dates from 1997 to 2028. Energy payments to QFs are expected to decline in the years 1997 through 2000. Capacity payments are expected to remain at current levels.

In 1996, 1995 and 1994, PG&E negotiated the early termination or suspension of certain QF contracts at discounted costs of $25 million, $142 million, and $155 million, respectively. Amounts to be paid for termination or suspension are payable through 1999. These amounts are expected to be recovered in rates. At December 31, 1996, the total discounted future payments remaining under QF early termination or suspension contracts was $68 million.

QF deliveries in the aggregate account for approximately 19% of PG&E's 1996 electric energy requirements and no single contract accounted for more than 5% of PG&E's energy needs.

PG&E also has contracts with various irrigation districts and water agencies to purchase hydroelectric power. Under these contracts, PG&E must make specified semi-annual minimum payments whether or not any energy is supplied (subject to the provider's retention of the FERC's authorization) and variable payments for operation and maintenance costs incurred by the providers. These contracts expire on various dates from 2004 to 2031. The total cost of these payments is recoverable in rates. At December 31, 1996, the undiscounted future minimum payments under these contracts are $34 million for each of the years 1997 through 2001, and a total of $383 million for periods thereafter. Irrigation district and water agency deliveries in the aggregate account for approximately 6% of PG&E's 1996 electric energy requirements, and no single contract accounted for more than 5% of PG&E's energy needs.

The amount of energy received and the total payments made (including termination and suspension payments) under QF contracts and other power purchase contracts were:

	1996	1995	1994
		(in millions)	
kWh received	26,056	26,468	23,903
QF energy payments	$1,136	$1,140	$1,196
QF capacity payments	$ 521	$ 484	$ 518
Other power purchase payments	$ 52	$ 50	$ 49

As of December 31, 1996, PG&E had approximately 5,800 megawatts (MW) of QF capacity under CPUC-mandated power purchase agreements. Of the 5,800 MW, approximately 4,600 MW were operational. Development of the balance is uncertain and it is estimated that very few of the remaining contracts will become operational. The 5,800 MW of QF capacity consists of 2,900 MW from cogeneration projects, 1,700 MW from wind projects and 1,200 MW from other projects, including biomass, waste-to-energy, geothermal, solar, and hydroelectric.

Geothermal Generation

PG&E's geothermal units at The Geysers Power Plant (Geysers) are forecast to operate at reduced capacities because of declining geothermal steam supplies and curtailment of the Geysers due to the existence of more economic sources of electric generation. PG&E's agreements with several of its steam suppliers permit PG&E to curtail generation at the Geysers at PG&E's discretion. The consolidated Geysers capacity factor is forecast to be approximately 40% of installed capacity in 1997, which includes economic curtailments, forced outages, scheduled overhauls, and projected steam shortage curtailments, as compared to the actual Geysers capacity factor of 42% in 1996.

Helms Pumped Storage Plant

Helms is a three-unit hydroelectric combined generating and pumped storage facility, completion of which was delayed due to a water conduit rupture in September 1982 and various start-up problems related to the plant's generators. Helms became commercially operable in June 1984. As a result of the damage caused by the rupture and the delay in the operational date, PG&E incurred additional costs which were not initially included in rate base, and lost revenues during the period the plant was under repair. In September 1996, the CPUC approved a settlement resolving the treatment of remaining unrecovered Helms costs.

As part of the 1996 GRC decision issued in December 1995, the CPUC directed PG&E to perform a cost-effectiveness study of Helms. The CPUC indicated the study should consider changes in rate recovery for the plant including, among other things, the option of retirement with recovery of the investment without a return. The cost-effectiveness study submitted by PG&E in July 1996 concluded that the continued operation of Helms is cost effective. PG&E recommended that the CPUC take no action based on the study, but address Helms along with other generating plants in the context of electric industry restructuring. PG&E is currently unable to predict whether there will be a change in rate recovery resulting from the study. As with its other hydroelectric generating plants, PG&E expects to seek recovery of its net investment in Helms ($710 million at December 31, 1996) through the hydroelectric and geothermal PBR and CTC recovery.

Electric Load Forecast and Resource Planning and Procurement

At present, California's long-range electric resource planning is coordinated between the CEC and the CPUC. Applicable statutes require that, every two years, the CEC prepare an Electricity Report that includes load forecasts and resource assumptions for a 20-year period and the CPUC conduct a Biennial Resource Plan Update (BRPU) proceeding which is linked to a specific CEC Electricity Report. The purpose of the BRPU is to determine whether any cost-effective electric resources (either new generating resources or power purchases) should be added to the regulated utilities' electric systems based on a 12-year planning horizon. In making this determination, the CPUC gives great weight to the load forecasts and resource assumptions included in the CEC's Electricity Report. However, in light of the restructuring of the electric utility industry, it is unclear what relevance, if any, the BRPU and the CEC's Electricity Report proceedings will have with regard to California utility resource planning and procurement in the future. The timetable for release of the draft 1996 Electricity Report has been delayed.

The future of electric resource acquisition is being addressed as part of electric industry restructuring. Under the plan contemplated in the CPUC's restructuring decision issued in December 1995, utilities would retain the obligation to acquire resources for customers who continue to take bundled electric utility services, but this obligation would be met entirely through purchases from the PX during the transition period starting January 1, 1998. Beginning in 2002, PG&E could acquire power from sources other than the PX to satisfy the demands of its utility customers.

PG&E's demand forecasts and resource procurement plans are subject to possibly significant changes depending on the ultimate outcome of electric industry restructuring. In 1997, PG&E does not anticipate adding any new MW of resources to its system. PG&E currently plans no new major construction projects for electric supply.

Electric Transmission

To transport energy to load centers, PG&E as of December 31, 1996, owned and operated approximately 18,516 circuit miles of interconnected transmission lines of 60 kilovolts (kV) to 500 kV and transmission substations having a capacity of approximately 32,892,000 kilovolt-amperes (kVa). Energy is distributed to customers through approximately 108,170 circuit miles of distribution system and distribution substations having a capacity of approximately 23,000,000 kVa.

Traditionally, the transmission of electric energy in interstate commerce and the sale of electric energy for resale (wholesale sales) have been regulated by the FERC. In 1996, the FERC issued an order requiring utilities to provide wholesale open access to electric transmission systems on terms that are comparable to the way utilities use their own systems. PG&E's open access tariff, filed in July 1996, is now available for service to any eligible party interested in wholesale transmission service over PG&E's transmission system. The FERC also reaffirmed its intention to permit utilities to recover any legitimate, verifiable, and prudently incurred costs stranded as a result of customers taking advantage of wholesale open access orders to meet their power needs from other sources.

Pursuant to the CPUC's electric industry restructuring decision, PG&E and the other two California investor owned electric utilities filed a joint ISO application with the FERC. The application requested authorization to transfer operational control (but not ownership) of certain transmission facilities to the ISO. The ISO will control the dispatch of generation and the operation of the transmission system and provide open access transmission service on a nondiscriminatory basis. In November 1996, the FERC issued an order approving the structure of the ISO and PX as proposed by the utilities, but requiring detailed tariffs and other required filings by March 31, 1997. Also in connection with electric industry restructuring, the FERC issued an order in December 1996 addressing market power issues. That decision relied on measures to mitigate and monitor market power rather than on continued studies to determine whether the utilities had market power.

The FERC has also approved a proposal from PG&E and the other California utilities that distinguishes between local distribution facilities and transmission facilities. The order defines jurisdiction for the CPUC over local distribution and retail power customers. The FERC will have jurisdiction over the transmission facilities as defined in the order and over the transmission aspects of retail direct access.

GAS UTILITY OPERATIONS

PG&E owns and operates an integrated gas transmission, storage, and distribution system in California. At December 31, 1996, PG&E's system, including the PG&E Expansion (Line 401), consisted of approximately 5,700 miles of transmission pipelines, three gas storage facilities, and approximately 36,200 miles of gas distribution lines.

Gas Operations

PG&E's peak day send-out of gas on its integrated system in California during the year ended December 31, 1996 was 3,407 million cubic feet (MMcf). The total volume of gas throughput during 1996 was approximately 826,000 MMcf, of which 264,000 MMcf was sold to direct end-use or resale customers, 134,000 MMcf was used by PG&E primarily for its fossil-fueled electric generating plants, and 428,000 MMcf was transported as customer owned gas.

The California Gas Report, which presents the outlook for natural gas requirements and supplies for California over a long-term planning horizon, is prepared annually by the California electric and gas utilities as a result of a CPUC order. A comprehensive biennial report is prepared in even-numbered years with a supplemental report in intervening odd-numbered years.

The 1996 Report updates PG&E's annual gas requirements forecast (excluding bypass volumes) for the years 1996 through 2010, forecasting growth in gas thoughput served by PG&E of 2% per year. The gas requirements forecast is subject to many uncertainties and there are many factors that can influence the demand for natural gas, including weather conditions, level of utility electric generation, fuel switching and new technology. In addition, some large customers, mostly in the industrial and enhanced oil recovery sectors, may have the ability to use unregulated private pipelines or interstate pipelines, bypassing PG&E's system entirely. The 1996 Report forecasts a total bypass volume of 133,600 MMcf for 1996.

Gas Operating Statistics

The following table shows PG&E's operating statistics (excluding subsidiaries except where indicated) for gas, including the classification of sales and revenues by type of service.

	Years Ended December 31				
	1996	1995	1994	1993	1992
Customers (average for the year):					
Residential	3,455,086	3,417,556	3,372,768	3,339,859	3,311,881
Commercial	198,071	197,939	196,509	195,815	195,689
Industrial	1,500	1,500	1,400	1,265	1,185
Other gas utilities	2	2	2	4	4
Total	3,654,659	3,616,997	3,570,679	3,536,943	3,508,759
Gas supply — thousand cubic feet (Mcf) (in thousands):					
Purchased:					
From Canada	253,209	261,800	319,453	329,693	321,770
From California	28,130	31,158	31,757	32,096	50,953
From other states	110,604	117,538	249,733	243,058	327,272
Total purchased	391,943	410,496	600,943	604,847	699,995
Net from storage (to storage)	6,871	(10,921)	3,591	(12,234)	10,135
Total	398,814	399,575	604,534	592,613	710,130
PG&E use, losses, etc.(1)	134,375	129,671	297,604	161,895	281,021
Net gas for sales	264,439	269,904	306,930	430,718	429,109
Bundled gas sales and transportation service — Mcf (in thousands):					
Residential	190,246	191,724	214,358	206,053	190,176
Commercial	62,178	64,135	72,183	82,048	79,983
Industrial	12,015	14,045	19,495	133,178	145,356
Other gas utilities	0	0	894	9,439	13,594
Total(2)	264,439	269,904	306,930	430,718	429,109
Transportation service only — Mcf (in thousands):					
Vintage system (Substantially all Industrial)(3)	189,695	143,921	142,393	101,888	103,186
PG&E Expansion (Line 401)	237,776	240,506	200,755	20,513	—
Total	427,471	384,427	343,148	122,401	103,186
Revenues (in thousands):					
Bundled gas sales and transportation service:					
Residential	$1,109,463	$1,205,223	$1,268,966	$1,152,494	$1,092,324
Commercial	362,819	421,397	444,805	467,962	479,599
Industrial	42,520	42,106	57,297	367,221	425,467
Other gas utilities	510	0	2,371	25,654	38,504
Bundled gas revenues	1,515,312	1,668,726	1,773,439	2,013,331	2,035,894
Transportation only revenue:					
Vintage system (Substantially all Industrial)	180,197	167,325	132,509	56,733	75,606
PG&E Expansion (Line 401)	85,144	82,904	58,442	8,097	—
Transportation service only revenue	265,341	250,229	190,951	64,830	75,606
Miscellaneous	(9,271)	(18,018)	40,427	(16,692)	21,022
Regulatory balancing accounts	57,864	(43,771)	(101,443)	95,339	40,199
Subsidiaries(4)	210,556	201,951	177,688	264,925	173,587
Operating revenues	$2,039,802	$2,059,117	$2,081,062	$2,421,733	$2,346,308

(1) Includes use by business units other than the Gas Supply business unit, principally as fuel for fossil-fueled generating plants.

(2) In August 1991, PG&E implemented its customer identified gas (CIG) program. Sales included approximately 105,000 MMcf and 130,000 MMcf in 1993 and 1992, respectively, of gas procured by PG&E for CIG customers at prices negotiated directly between those customers and suppliers. The CIG Program was terminated on October 31, 1993 upon full implementation of the CPUC's capacity brokering program.

(3) Does not include on-system transportation volumes transported on the PG&E Expansion of 78,552 MMcf, 100,207 MMcf, 79,749 MMcf, and 7,205 MMcf for 1996, 1995, 1994, and 1993, respectively.

(4) Includes gas transportation revenues from PGT.

	Years Ended December 31				
	1996	1995	1994	1993	1992
Selected Statistics:					
Total customers (at year-end)	3,700,000	3,600,000	3,500,000	3,600,000	3,500,000
Average annual residential usage (Mcf)	55	56	64	62	57
Heating temperature — % of normal(1)	75.7	75.3	104.4	89.9	76.0
Average billed bundled gas sales revenues per Mcf:					
Residential	$5.83	$6.29	$5.92	$5.59	$5.74
Commercial	5.84	6.57	6.16	5.70	6.00
Industrial	3.54	3.00	2.94	2.76	2.93
Average billed transportation-only revenue per Mcf:					
Vintage system	0.67	0.69	0.60	0.52	0.73
PG&E Expansion (Line 401)	0.36	0.34	0.29	0.39	—
Net plant investment per customer	$1,378	$1,315	$1,340	$1,339	$1,170

(1) Over 100% indicates colder than normal.

Natural Gas Supplies

The objective of PG&E's gas supply planning is to maintain a balanced supply portfolio which provides supply reliability and contract flexibility, minimizes costs, and fosters competition among suppliers.

Under current CPUC regulations, PG&E purchases natural gas from its various suppliers based on economic considerations, consistent with regulatory, contractual, and operational constraints. During the year ended December 31, 1996, approximately 65% of PG&E's total purchases of natural gas consisted of Canadian gas purchased from various Canadian producers and transported by Canadian pipeline companies and PGT; approximately 7% was purchased from various California producers; and approximately 28% was purchased from other states (substantially all U.S. Southwest sources and transported by El Paso or Transwestern). The following table shows the volume and average price of gas in dollars per thousand cubic feet (Mcf) purchased by PG&E from these sources during each of the last five years.

	Years Ended December 31									
	1996		1995		1994		1993		1992	
	Thousands of Mcf	Avg. Price(1)	Thousands of Mcf	Avg. Price(1)	Thousands of Mcf	Avg. Price(1)	Thousands of Mcf	Avg. Price(1)	Thousands of Mcf	Avg. Price(1)
Canada	253,209	$1.57	261,800	$1.34	319,453	$1.94	329,693	$2.26	321,770	$2.14
California	28,130	$1.90	31,158	$1.32	31,757	1.55	32,096	1.65	50,953	1.73
Other states (substantially all U.S. Southwest)	110,604	$3.72	117,538	$2.64	249,733	2.41	243,058	2.84	327,272	2.51
Total/Weighted Average	391,943	$2.21	410,496	$1.71	600,943	$2.12	604,847	$2.46	699,995	$2.28

(1) The average prices for Canadian and U.S. Southwest gas include the commodity gas prices, interstate pipeline demand or reservation charges, transportation charges, and other pipeline assessments, including direct bills allocated over the quantities received at the California border. The average prices for California gas include only commodity gas prices delivered to PG&E's gas system.

Gas Regulatory Framework

The current regulatory framework for natural gas service in California (i) segments customers into core and noncore classes; (ii) unbundles utilities' gas transportation and procurement services; (iii) allows customers to purchase gas directly from producers, aggregators, or marketers, and to separately purchase gas transportation from their utilities; and (iv) places the utilities at risk for collecting a portion of the transportation revenues associated with their noncore markets.

Under this regulatory framework, noncore customers have the option of buying gas directly from the supplier of their choice and purchasing from PG&E transmission and distribution services only. Certain customers can also use alternative transportation services provided by competing pipeline companies. However, core customers continue to have more limited opportunities in choosing their gas suppliers, with substantially all core customers receiving bundled services from PG&E.

In an effort to promote competition and increase options for all customers, as well as to position itself in the competitive marketplace, PG&E has submitted to the CPUC for its approval a Gas Accord, which would restructure PG&E's gas services and its role in the gas market. As discussed above (see "Competition and the Changing Regulatory Environment—Gas Industry"), the Gas Accord consists of three broad initiatives: (1) unbundling of PG&E's gas transmission and storage services from its distribution services; (2) reduction of PG&E's role in procuring gas supplies for core customers in order to increase opportunities for such customers to purchase gas from their supplier of choice; and (3) resolution of major outstanding regulatory issues. Also as part of the Gas Accord, PG&E has proposed that traditional reasonableness reviews of its core gas procurement costs be replaced with a CPIM, under which PG&E would be able to recover its gas commodity and interstate transportation costs and receive benefits or be penalized depending on whether its actual core procurement costs were within, below, or above a "tolerance band" constructed around market benchmarks.

The Gas Accord must be approved by the CPUC before it can be implemented.

Transportation Commitments

PG&E has gas transportation service agreements with various Canadian and interstate pipeline companies. These agreements include provisions for payment of fixed demand charges for reserving firm capacity on the pipelines. The total demand charges that PG&E will pay each year may change due to changes in tariff rates. The total demand and transportation charges paid by PG&E under these agreement (excluding agreements with PGT) was approximately $212 million in 1996.

As a result of regulatory changes, PG&E no longer procures gas for its noncore customers, resulting in a decrease in PG&E's need for firm transportation capacity for its gas purchases. PG&E continues to procure gas for almost all of its core customers and those noncore customers who choose bundled service (core subscription customers).

PG&E is continuing its efforts to broker or assign any remaining unused capacity, including unused capacity held for its core and core subscription customers. Due to relatively low demand for Southwest pipeline capacity, PG&E cannot predict the volume or price of the capacity on El Paso and Transwestern that will be brokered or assigned.

In general, demand charges incurred by PG&E for pipeline capacity are eligible for rate recovery, subject to a reasonableness review. The demand charges include the cost of capacity that was formerly used to serve noncore customers but which at present cannot be brokered or which is brokered at a discount. However, certain groups, including the ORA and intervenors, have challenged the recovery of these unrecovered demand charges in the proceeding relating to ITCS recovery (see "El Paso and PGT Capacity" below). In addition, the CPUC has issued an unfavorable decision addressing recovery of Transwestern charges (see "Transwestern Capacity" below).

El Paso and PGT Capacity

PG&E's firm transportation agreement with PGT for 1,066 million cubic feet per day (MMcf/d) runs through October 31, 2005. PG&E's firm transportation agreement with El Paso for 1,140 MMcf/d runs through December 31, 1997. The firm transportation reservation charges associated with PG&E's firm capacity on PGT and El Paso are approximately $57 million and $163 million per year, respectively.

Pursuant to FERC rules on capacity relinquishment and release and the CPUC's capacity brokering program, PG&E currently retains approximately 600 MMcf/d on each of the PGT and El Paso systems to support its core and core subscription customers. PG&E made capacity not needed to support such customers available for release and brokering to other potential shippers beginning in 1993. PG&E has assigned substantially all of its unused capacity on PGT. Due to lower demand for Southwest pipeline capacity, PG&E cannot predict the volume or price of the capacity on El Paso that will be brokered or assigned. To the extent PG&E is unable to broker its firm interstate capacity above core and core subscription reservations at the full as-billed rate, PG&E has been authorized to accumulate unrecovered demand charges for El Paso and PGT in the ITCS account pending CPUC reasonableness review of those amounts in the ITCS proceeding.

As noted above, in the ITCS proceeding, certain intervenors have challenged PG&E's recovery of amounts in the ITCS account, and suggested disallowances and/or a reallocation among customers of between $40 and $101 million. Pending a final decision in the ITCS proceeding, the CPUC has approved collection in rates (subject to refund) of approximately 50% of the demand charges for unbrokered or discounted El Paso and PGT capacity formerly used to serve PG&E's noncore customers.

In the meantime, PG&E has proposed a resolution of this matter as part of the Gas Accord. Under the Gas Accord, PG&E would forgo recovery of 100% and 50% of the ITCS amounts allocated to its core and noncore customers, respectively.

Transwestern Capacity

In April 1992, PG&E executed firm transportation agreements with Transwestern to transport approximately 200 MMcf/d of San Juan basin gas supplies into PG&E's southern gas system, of which approximately 150 MMcf/d is to be used to meet PG&E's core gas sales demands and approximately 50 MMcf/d is for use by PG&E's electric department. The agreements with Transwestern expire in 2007. The demand charges associated with the entire Transwestern capacity are currently approximately $29 million per year.

Currently, PG&E is not permitted to include any Transwestern firm capacity demand charges in rates or in the ITCS account. PG&E is authorized to record costs associated with its Transwestern capacity in a balancing account, with recovery of such costs subject to reasonableness review proceedings.

In December 1995, the CPUC issued a decision on the reasonableness of PG&E's 1992 gas operations, which concluded that it was unreasonable for PG&E to commit to transportation capacity with Transwestern. The decision orders that costs for the capacity in subsequent years of the contract, which expires in 2007, be disallowed each year unless PG&E can demonstrate that the benefits of the commitment outweight the costs in that year.

PG&E has also addressed the Transwestern issue in its Gas Accord proposal. The Gas Accord provides that PG&E would not recover costs through 1997 associated with Transwestern capacity originally subscribed to in order to serve core customers and would have limited recovery during the period 1998 through 2002.

PG&E has recorded reserves relating to its gas capacity commitments and the issues addressed by the Gas Accord. More information concerning the financial impact of these matters is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 1996 Annual Report to Shareholders, beginning on page 13, and in Note 3 of the "Notes to Consolidated Financial Statements" beginning on page 31 of the 1996 Annual Report to Shareholders.

Gas Reasonableness Proceedings

Recovery of gas costs through PG&E'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 calendar year basis.

1988-1990 Canadian Gas Procurement Activities

In March 1994, the CPUC issued a final decision on PG&E's Canadian gas procurement activities during 1988 through 1990. The CPUC found that PG&E could have saved its customers money if it had bargained more aggressively with its existing Canadian suppliers or bought less expensive gas from other Canadian sources. The decision ordered a disallowance of $90 million of gas costs, plus accrued interest estimated at approximately $25 million through December 31, 1993.

In December 1994, PG&E filed a complaint against the CPUC in the U.S. District Court for the Northern District of California challenging this decision by the CPUC. The complaint alleges that the CPUC disallowance order purports to regulate the foreign and interstate purchase and transportation of natural gas, matters within the exclusive jurisdiction of United States and Canadian regulatory authorities. Accordingly, the complaint alleges, such order is preempted by federal law and violates PG&E's rights under the United States Constitution. The complaint seeks injunctive and declaratory relief.

PG&E's lawsuit is still pending in federal court. However, as part of the Gas Accord, PG&E would agree to forgo recovery of the $90 million disallowance ordered in the 1988-1990 reasonableness proceeding, irrespective of the outcome of the lawsuit challenging the disallowance.

Gas Settlement Agreement

In December 1996, the CPUC approved a settlement agreement resolving various issues related to PG&E's gas procurement practices and supply operations for periods from 1988 through May 1994. Pursuant to the settlement agreement, PG&E will return approximately $75 million (including interest) to ratepayers.

PGT/PG&E Pipeline Expansion

In November 1993, PGT and PG&E placed in service the Pipeline Expansion, an expansion of their interconnected natural gas transmission systems from the Canadian border into California. The 840-mile combined Pipeline Expansion provides an additional 148 MMcf/d of firm capacity to the Pacific Northwest and an additional 851 MMcf/d of capacity to Northern and Southern California.

CPUC Ratemaking

The conditions of the CPUC's approval of the construction of the PG&E Expansion place PG&E at risk for its decision to construct based on its assessment of market demand and for undersubscription and underutilization of the facility. The CPUC required the application of a "cross-over" ban under which volumes delivered from the incremental PGT portion (PGT Expansion) of the Pipeline Expansion must be transported at an incremental PG&E Expansion rate. The costs of PG&E Expansion operations are recovered only from PG&E Expansion customers, through rates established in separate PG&E Expansion rate proceedings.

To date, shippers have executed long-term firm transportation contracts for approximately 40% of capacity on the PG&E Expansion. However, one of those shippers, which holds a substantial portion of the capacity held under long-term firm contracts, has an option to buy out its contract. The option is exercisable on or before May 1, 1997. PG&E will continue to market available capacity on the PG&E Expansion on both firm and as-available bases. Revenues are being collected on the basis of an interim revenue requirement, pending a final decision in the Pipeline Expansion Project Reasonableness case (PEPR).

In 1994, PG&E filed its application in the PEPR requesting that the CPUC find reasonable the full capital costs of the PG&E Expansion (estimated to be $810 million). In that proceeding, the ORA recommended a minimum of $100 million in capital costs be disallowed, while two intervenors jointly recommended a $237 million disallowance or reallocation of costs among customers. In addition, in 1996, a CPUC ALJ ordered consolidation of the market impact phase of the PEPR and the ITCS proceeding described above. An ALJ also ordered reopening of the 1993 PG&E Pipeline Expansion Rate Case to allow reconsideration of issues regarding the decision to construct the PG&E Expansion. Were the CPUC to reverse its previous decision, which found that PG&E was reasonable in constructing the PG&E Expansion, the ultimate outcome could have an adverse impact on PG&E's ability to recover its cost for unused capacity on other pipelines as well as on its own intrastate facilities. Decisions in these proceedings are expected in 1997, if the matters are not otherwise resolved as part of the Gas Accord. Under the Gas Accord, PG&E would agree to set rates for the PG&E Expansion based on total capital costs of $736 million.

The CPUC's decision in the 1997 Cost of Capital proceeding authorized a 1997 return on equity for PG&E Expansion operations of 11.6%, resulting in an overall rate of return of 8.99%. Authorized long-term debt levels for the PG&E Expansion will be reduced from their current 67% to 64% for 1997.

FERC Ratemaking

In September 1996, the FERC approved a settlement of PGT's 1994 rate case. The major issue in this proceeding was whether PGT's mainline transportation rates should be equalized through the use of rolled-in cost allocations, or whether they should continue to reflect the use of incremental cost allocation to determine the rates to be paid by firm shippers. (Under incremental rates, a pipeline would generally charge higher rates to shippers contracting for capacity on newly-added expansion facilities as compared to shippers using depreciated pre-expansion facilities.) The settlement provides for rolled-in rates effective November 1996. To mitigate the impact of the higher rolled-in rates on shippers who were paying lower rates under contracts executed prior to construction of the PGT Expansion, most of the firm shippers who took service prior to such time receive a reduction from the rolled-in rate for a six-year period, while PGT Expansion firm shippers pay a surcharge in addition to the rolled-in rates to offset the effect of the mitigation. The settlement also provides for rates based on a return on equity of 12.2%. Several parties are seeking rehearing of the FERC order approving the settlement, but PGT currently expects the settlement to be upheld.

DIVERSIFIED OPERATIONS

In 1996, diversified operations primarily consisted of Enterprises. Enterprises participates in multiple domestic and international energy businesses. Enterprises, through its wholly owned subsidiary, PG&E Generating Company, has made the majority of its investments in nonregulated energy projects through U.S. Generating Company (USGen), in partnership with Bechtel Enterprises, Inc. (Bechtel). USGen, a California partnership, manages the development, construction, and operation of non-utility electric generation facilities that compete in the United States power generation market. Enterprises' average overall ownership in all the projects in which USGen participates is approximately 42 percent.

As of December 31, 1996, USGen's partners had ownership interests in 17 operating plants. The total generating capacity of these 17 plants is 3,375 MW, of which Enterprises' share is 1,424 MW. The projects were largely financed with a combination of equity or equity commitments from the project sponsors and non-recourse debt. USGen, through its affiliate, U.S. Operating Services Company (USOSC), provides contract operations and maintenance services to many of these facilities. USGen, through its affiliate, USGen Power Services, L.P., is also an active power marketer. USGen also manages approximately 5.6 million tons per year of coal deliveries to its plants and approximately 875 MMcf/d of Canadian and U.S. natural gas supplies for deliveries to its plants and to local gas distribution companies in the Northeast.

Enterprises' entry into the international market was also made in partnership with Bechtel. Enterprises and Bechtel formed International Generating Company, Ltd. (InterGen), which develops, owns, and operates international electric generation projects. However, in November 1996, Enterprises and Bechtel reached an agreement for Bechtel to acquire Enterprises' interest in InterGen. The Company expects to complete the sale in the first quarter of 1997 and to realize an after-tax gain. Enterprises has refined its international strategy to focus on select countries and to concentrate on end-use energy customers.

In 1995, Enterprises formed Vantus, a retail energy services provider, to assist customers in locating the most cost-effective electric and gas products and services. Vantus' energy services include power marketing for industrial and large commercial businesses nationwide. In 1996, Vantus opened new offices in the western United States to establish a presence and market its services in emerging energy markets.

PG&E ENVIRONMENTAL MATTERS

Environmental Matters

The following discussion includes certain forward-looking information relating to estimated expenditures for environmental protection and the possible future impact of environmental compliance. This information reflects PG&E's current estimates which are periodically evaluated and revised. These estimates are subject to a number of assumptions and uncertainties, including changing laws and regulations, the ultimate outcome of complex factual investigations, evolving technologies, selection of compliance alternatives, the nature and extent of required remediation, the extent of PG&E's responsibility, and the availability of recoveries or contributions from third parties. Future estimates and actual results may differ materially from those indicated below.

PG&E and its affiliates are subject to a number of federal, state, and local laws and regulations designed to protect human health and the environment by imposing stringent controls with regard to planning and construction activities, land use, and air and water pollution, and, in recent years, by governing the use, treatment, storage, and disposal of hazardous or toxic materials. These laws and regulations affect future planning and existing operations, including environmental protection and remediation activities. PG&E has undertaken major compliance efforts with specific emphasis on its purchase, use, and disposal of hazardous materials, the cleanup or mitigation of historic waste spill and disposal activities, and the upgrading or replacement of PG&E's bulk waste handling and storage facilities. The costs of compliance with environmental laws and regulations have generally been recovered in rates.

Environmental Protection Measures

PG&E's estimated expenditures for environmental protection are subject to periodic review and revision to reflect changing technology and evolving regulatory requirements. PG&E's capital expenditures for environmental protection are currently estimated to be approximately $36 million, $50 million, and $72 million for 1997, 1998 and 1999, respectively, and are included in PG&E's three-year estimate of capital requirements shown above in "General—Capital Requirements and Financing Programs." Expenditures during these years will be primarily for oxides of nitrogen (NOx) emission reduction projects at PG&E's fossil-fueled generating plants and natural gas compressor stations as described below, which currently are expected to decline in the later years as the NOx reduction projects are completed.

Air Quality

PG&E's existing thermal electric generating plants are subject to numerous air pollution control laws, including the California Clean Air Act (CCAA) with respect to emissions. Pursuant to the CCAA and the Federal Clean Air Act, the three local air districts in which PG&E operates fossil-fueled generating plants adopted final rules that require a reduction in NOx emissions from the power plants of approximately 90% by 2004 (with numerous interim compliance deadlines). The first major retrofits began in 1995. Certain retrofits will not be required if the smaller generating units are operated for emergency purposes only after 2000. PG&E currently estimates that compliance with these NOx rules could require capital expenditures of up to $360 million over 10 years. This estimate assumes that most of the 170 MW and smaller boilers will be retired before the retrofits are required. Ongoing business and engineering studies could change this estimate.

Other air districts have adopted NOx rules for PG&E's natural gas compressor stations in California, and these rules continue to be modified. Eventually the rules are likely to require NOx reductions of up to 80% for many of PG&E's natural gas compressor stations. PG&E currently estimates that the total cost of complying with these rules will be up to $58 million over five years.

In PG&E's 1996 GRC, the CPUC included $11.5 million in 1996 rate base for the estimated $60 million cost of gas and electric NOx retrofit projects to be installed in 1996. In the future, PG&E's electric NOx costs may be recoverable as CTCs or through PBR, market pricing, or other means established as part of electric industry restructuring. Under AB 1890, NOx costs would be eligible for recovery as CTCs but only to the extent that those costs are found by the CPUC to be both reasonable and necessary to maintain the unit in operation through 2001. With respect to gas NOx costs, under the proposed Gas Accord $42 million would be included in rates for gas NOx retrofit projects through 2002.

Water Quality

PG&E's existing power plants, including Diablo Canyon, are subject to federal and state water quality standards with respect to discharge constituents and thermal effluents. PG&E's fossil-fueled power plants comply in all material respects with the discharge constituents standards and either comply in all material respects with or are exempt from the thermal standards. A thermal effects study at Diablo Canyon was completed in May 1988, and was reviewed by the Central Coast Regional Water Quality Control Board (Central Coast Board). The Central Coast Board did not make a final decision on the report and requested that PG&E continue its thermal effects monitoring program. In 1995, the Central Coast Board requested that PG&E prepare an updated comprehensive assessment of Diablo Canyon's thermal effects and approved a reduced environmental monitoring program. The new comprehensive assessment is scheduled for completion in the fourth quarter of 1997. In the unlikely event that the Central Coast Board finds that Diablo Canyon's existing thermal limits are not protective of beneficial uses of the marine waters and that major modifications are required (e.g., cooling towers), significant additional construction expenses could be required.

Pursuant to the federal Clean Water Act, PG&E is required to demonstrate that the location, design, construction, and capacity of power plant cooling water intake structures reflect the best technology available (BTA) for minimizing adverse environmental impacts at all existing water-cooled thermal plants. PG&E has submitted detailed studies of each power plant's intake structure to various governmental agencies. Each plant's existing water intake structure was found to meet the BTA requirements. PG&E is currently preparing a new study for Diablo Canyon. The study is scheduled to be submitted to the Central Coast Board for review in 1999. In the event that the Central Coast Board finds that Diablo Canyon's cooling water intake structure does not meet the BTA requirements, significant additional expenses for construction or mitigation could be required. In addition, the promulgation or modification of federal, state, and regional water quality control plans may impose increasingly stringent cooling water discharge requirements on PG&E power plants in the future. Costs to comply with renewed permit conditions required to meet any more stringent requirements that might be imposed cannot be estimated at the present time.

Several fish species listed or proposed for listing as endangered species may be found in the waters near certain of PG&E's power plants. There are severe restrictions on the "taking" (e.g., harassing, wounding, or killing) of such species. Therefore, significant modifications could be required to plant operations (e.g., cooling towers) if a plant intake structure or thermal discharge is found to "take" an endangered species.

Hazardous Waste Compliance and Remediation

PG&E assesses, on an ongoing basis, measures that may need to be taken to comply with laws and regulations related to hazardous materials and hazardous waste compliance and remediation activities. At present, these compliance and remediation costs (other than certain costs directly attributable to generation facilities) would generally be recovered through the GRC process or through a separate mechanism established by the CPUC in 1994 for recovery of certain hazardous waste remediation costs. At present, environmental remediation costs attributable to the decommissioning of generation facilities are included in rates as part of decommissioning costs. Under electric industry restructuring, remediation costs for generation facilities can be included as eligible CTCs that may be recovered during the transition period. It is not clear at this time what specific ratemaking mechanisms may be available for recovery of hazardous waste compliance and remediation costs after the transition period.

PG&E has a comprehensive program to comply with the many hazardous waste storage, handling, and disposal requirements promulgated by the United States Environmental Protection Agency (EPA) under the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), along with California's hazardous waste laws and other environmental requirements.

One part of this program is aimed at assessing whether and to what extent remedial action may be necessary to mitigate potential hazards posed by certain disposal sites and retired manufactured gas plant sites. During their operation, manufactured gas plants produced lampblack and tar residues, byproducts of a process that PG&E, its predecessor companies, and other utilities used as early as the 1850s to manufacture gas from coal and oil. As natural gas became widely available (beginning about 1930), PG&E's manufactured gas plants were removed from service. The residues which may remain at some sites contain chemical compounds which now are classified as hazardous. PG&E has identified and reported to federal and California environmental agencies 96 manufactured gas plant sites which operated in PG&E's service territory. PG&E owns all or a portion of 29 of these manufactured gas plant sites. PG&E has a program, in cooperation with environmental agencies, to evaluate and take appropriate action to mitigate any potential health or environmental hazards at sites which PG&E owns. PG&E currently estimates that this program may result in expenditures of approximately $8 million to $10 million over the period 1997 through 1998. The full long-term costs of the program cannot be determined accurately until a closer study of each site has been completed. It is expected that expenses will increase as remedial actions related to these sites are approved by regulatory agencies or if PG&E is found to be responsible for cleanup at sites it does not currently own.

Manufactured gas plant sites at which PG&E has been designated as a potentially responsible party (PRP) under the California Hazardous Substance Account Act (California Superfund) include the Martin Service Center site and Midway/Bayshore sites in Daly City, California, the San Rafael site, and the Sacramento site.

In addition to the manufactured gas plant sites, PG&E may be required to take remedial action at certain other disposal sites if they are determined to present a significant threat to human health and the environment because of an actual or potential release of hazardous substances. PG&E has been designated as a PRP under CERCLA (the federal Superfund law) with respect to the Purity Oil Sales site in Malaga, California, the Jibboom Junkyard site in Sacramento, California, the Industrial Waste Processing site near Fresno, California, and the Lorentz Barrel and Drum site in San Jose, California. The Purity Oil Sales site is a former used oil recycling facility at which PG&E is one of nine PRPs named in an EPA order requiring groundwater remediation at the site. PG&E has also entered into an Administrative Order with the EPA to address soil contamination at the site. PG&E has accrued a $4.5 million liability as of December 31, 1996, for the Purity Oil Sales site. With respect to the Casmalia site near Santa Maria, California, PG&E and several other generators of waste sent to the site have entered into an agreement with the EPA that requires these generators to perform certain site investigation and mitigation measures, and provides a release from liability for certain other site cleanup obligations. Court approval of the agreement is being sought. PG&E has accrued a $3.2 million liability as of December 31, 1996, for the Casmalia site. Although PG&E has not been formally designated a PRP with respect to the Geothermal Incorporated site in Lake County, California, the Central Valley Regional Water Quality Control Board and the California Attorney General's office have directed PG&E and other parties to initiate measures with respect to the study and remediation of that site. PG&E has accrued a liability of $12.5 million as of December 31, 1996, for the Geothermal Incorporated site.

In addition to the sites discussed above, PG&E has also been identified as a PRP at certain disposal sites under the California Superfund. These sites include the Emeryville Service Center site in Emeryville, California, and the GBF Landfill at Pittsburg, California. PG&E has also been sued for reimbursement of cleanup costs incurred by the State of California at PG&E's former Jibboom Street Station B power plant in Sacramento, California. In addition, PG&E has been named as a defendant in several civil lawsuits in which plaintiffs allege that PG&E is responsible for performing or paying for remedial action at sites PG&E no longer owns or never owned.

The cost of hazardous substance remediation ultimately undertaken by the Company is difficult to estimate. It is reasonably possible that a change in the estimate will occur in the near term due to uncertainty concerning the Company's responsibility, the complexity of environmental laws and regulations, and the selection of compliance alternatives. The Company had an accrued liability at December 31, 1996, of $170 million for hazardous waste remediation costs at those sites where such costs are probable and quantifiable. Environmental remediation at identified sites may be as much as $400 million if, among other things, other PRPs are not financially able to contribute to these costs or further investigation indicates that the extent of contamination or necessary remediation is greater than anticipated at sites for which the Company is responsible. This upper limit of the range of costs was estimated using assumptions least favorable to the Company among a range of reasonably possible outcomes. Costs may be higher if the Company is found to be responsible for cleanup costs at additional sites or identifiable possible outcomes change.

Potential Recovery of Hazardous Waste Compliance and Remediation Costs

In 1994, the CPUC established a ratemaking mechanism for hazardous waste remediation costs. That mechanism assigns 90% of the includable hazardous substance cleanup costs to utility ratepayers and 10% to utility shareholders, without a reasonableness review of such costs or of underlying activities. However, under the proposed mechanism, utilities will have the opportunity to recover the shareholder portion of the cleanup costs from insurance carriers. Under the mechanism, 70% of the ratepayer portion of PG&E's cleanup costs is attributed to its gas department and 30% is attributed to its electric department. PG&E can seek to recover hazardous substance cleanup costs under the new mechanism in the rate proceeding it deems most appropriate. In connection with electric industry restructuring, PG&E has proposed that any hazardous waste cleanup costs related to electric generation facilities be removed from this mechanism and included in CTCs. In addition, PG&E has proposed that this mechanism no longer be used for electric generation-related cleanup costs after January 1, 1998.

PG&E expects to seek recovery of prudently incurred hazardous substance remediation costs through ratemaking procedures approved by the CPUC. The Company has recorded a regulatory asset at December 31, 1996, of $146 million for recovery of these costs in future rates. Additionally, PG&E will seek recovery of costs from insurance carriers and from other third parties.

In 1992, PG&E filed a complaint in San Francisco County Superior Court against more than 100 of its domestic and foreign insurers, seeking damages and declaratory relief for remediation and other costs associated with hazardous waste mitigation. PG&E had previously notified its insurance carriers that it seeks coverage under its comprehensive general liability policies to recover costs incurred at certain specified sites. In the main, PG&E's carriers neither admitted nor denied coverage, but requested additional information from PG&E. Although PG&E has received some amounts in settlements with certain of its insurers, the ultimate amount of recovery from insurance coverage, either in the aggregate or with respect to a particular site, cannot be quantified at this time.

Compressor Station Litigation

In 1996, litigation brought against PG&E relating to alleged chromium contamination near PG&E's Hinkley Compressor Station was settled for the aggregate sum of $333 million. The Hinkley Compressor Station is located along PG&E's gas transmission system in San Bernardino County, California. The plaintiffs had contended that between 1951 and 1966, PG&E discharged chromium-contaminated wastewater into unlined ponds, which led to chromium percolating into the groundwater of surrounding property.

Several other cases have been brought against PG&E seeking damages from alleged chromium contamination at PG&E's Hinkley, Topock, and Kettleman Compressor Stations. See Item 3, "Legal Proceedings—Compressor Station Chromium Litigation" for a description of the pending litigation.

Electric and Magnetic Fields

In January 1991, the CPUC opened an investigation into potential interim policy actions to address increasing public concern, especially with respect to schools, regarding potential health risks which may be associated with electric and magnetic fields (EMF) from utility facilities. In its order instituting the investigation, the CPUC acknowledged that the scientific community has not reached consensus on the nature of any health impacts from contact with EMF, but went on to state that a body of evidence has been compiled which raises the question of whether adverse health impacts might exist.

In November 1993, the CPUC adopted an interim EMF policy for California energy utilities which, among other things, requires California energy utilities to take no-cost and low-cost steps to reduce EMF from new and upgraded utility facilities. California energy utilities are required to fund a $1.5 million EMF education program and a $5.6 million EMF research program managed by the California Department of Health Services.

As part of its effort to educate the public about EMF, PG&E provides interested customers with information regarding the EMF exposure issue. PG&E also provides a free field measurement service to inform customers about EMF levels at different locations in and around their residences or commercial buildings.

PG&E and other utilities are involved in litigation concerning EMF. In August 1996, the California Supreme Court held that homeowners are barred from suing utilities for alleged property value losses caused by fear of EMF from power lines. The Court expressly limited its holding to property value issues, leaving open the question as to whether lawsuits for alleged personal injury resulting from exposure to EMF are similarly barred. PG&E is named as a defendant in one pending civil appeal in which plaintiffs allege personal injury resulting from exposure to EMF.

In the event that the scientific community reaches a consensus that EMF presents a health hazard and further determines that the impact of utility-related EMF exposures can be isolated from other exposures, PG&E may be required to take mitigation measures at its facilities. The costs of such mitigation measures cannot be estimated with any certainty at this time. However, such costs could be significant depending on the particular mitigation measures undertaken, especially if relocation of existing power lines is ultimately required.

Low Emission Vehicle Programs

In December 1995, the CPUC issued its decision in the Low Emission Vehicle (LEV) proceeding which approved approximately $36 million in funding for PG&E's LEV program for the six-year period beginning in 1996. The CPUC's decision on electric industry restructuring finds that the costs of utility LEV programs should continue to be collected by the utility for the duration of the six-year period.

FORMATION OF PG&E CORPORATION

As previously noted, effective January 1, 1997, PG&E Corporation became the parent holding company of PG&E. PG&E's ownership interest in PGT and Enterprises was transferred to PG&E Corporation. The following financial information summarizes certain pro forma financial effects of the restructuring of PG&E. The restructuring resulted in PG&E becoming a separate subsidiary of PG&E Corporation with the present holders of PG&E common stock becoming holders of PG&E Corporation common stock. The pro forma balance sheet is as of December 31, 1996, and the pro forma income statement is for the twelve months ended December 31, 1996, as if the restructuring occurred December 31, 1996, and January 1, 1996, respectively. The restructuring was accounted for as an as-if pooling of interests.

			Pro Forma (Unaudited)	
	PG&E Consolidated Historical	Pro Forma Adjustments(1)	PG&E Consolidated(1)	PG&E Corporation Consolidated
	(In millions, except per share amounts)			
Balance Sheets—As of December 31, 1996				
Assets				
Net plant in service	$18,594	$(1,176)	$17,418	$18,594
Investments and other noncurrent assets	2,249	(853)	1,396	2,249
Current assets	2,671	(574)	2,097	2,671
Deferred charges	2,616	(91)	2,525	2,616
Total Assets	$26,130	$(2,694)	$23,436	$26,130
Capitalization and Liabilities Capitalization				
Common stock equity	$ 8,363	$(1,142)	$ 7,221	$ 8,363
Preferred stock and preferred securities	840	—	840	840
Long-term debt	7,770	(701)	7,069	7,770
Total Capitalization	16,973	(1,843)	15,130	16,973
Current liabilities	3,240	(343)	2,897	3,240
Deferred credits and other noncurrent liabilities	5,917	(508)	5,409	5,917
Total Capitalization and Liabilities	$26,130	$(2,694)	$23,436	$26,130
Book Value per Common Share	20.73			20.73
Statements of Income— Year Ended December 31, 1996				
Operating Revenues	$ 9,610	$ (620)	$ 8,990	$ 9,610
Operating Expenses	7,714	(537)	7,177	7,714
Operating Income	1,896	(83)	1,813	1,896
Interest Income	73	(3)	70	73
Interest Expense	(640)	32	(608)	(640)
Other Income and (Expense)	(19)	10	(9)	(19)
Preferred Dividend Requirements of PG&E	—	—	—	33(2)
Pretax Income	1,310	(44)	1,266	1,277
Income Taxes	555	(29)	526	555
Net Income	755	(15)	740	722
Preferred Dividend Requirements	33		33(2)	—
Earnings Available for Common Shares	$ 722			$ 722
Earnings per Common Share	$ 1.75			$ 1.75

(1) Reflects transfer of PGT and Enterprises from PG&E to PG&E Corporation in connection with restructuring.

(2) Reflects dividends associated with PG&E Preferred Stock as a charge against retained earnings for PG&E and as a charge against net income for PG&E Corporation.

ITEM 2. Properties.

Information concerning PG&E's electric generation units, gas transmission facilities, and electric and gas distribution facilities is included in response to Item 1. All real properties and substantially all personal properties of PG&E are subject to the lien of an indenture which provides security to the holders of PG&E's First and Refunding Mortgage Bonds.

ITEM 3. Legal Proceedings.

See Item 1 — Business, for other proceedings pending before governmental and administrative bodies. In addition to the following legal proceedings, PG&E is subject to routine litigation incidental to its business.

Antitrust Litigation

On December 3, 1993, the County of Stanislaus and Mary Grogan, a residential customer of PG&E, filed a complaint in the U.S. District Court, Eastern District of California, against PG&E and PGT, on behalf of themselves and purportedly as a class action on behalf of all natural gas customers of PG&E during the period of February 1988 through October 1993. The complaint alleged that the purchase of natural gas in Canada was accomplished in violation of various antitrust laws and sought damages of as much as $950 million, before trebling. In August 1994, the District Court dismissed plaintiffs' antitrust claims, and in September 1994, the plaintiffs filed an amended complaint which added Alberta and Southern Gas Co. Ltd., PG&E's gas purchasing subsidiary, as a defendant. The amended complaint reiterated price fixing claims and also alleged that the defendants, through anticompetitive practices, foreclosed access over the PGT pipeline to alternative sources of gas in Canada.

On December 18, 1995, the District Court dismissed the plaintiffs' amended complaint with prejudice. In dismissing the lawsuit, the District Court determined that plaintiffs were barred from making price fixing allegations because gas rates had been reviewed by various federal authorities and the CPUC. The District Court also found that plaintiffs were barred from making foreclosure of access claims because the volume of imports of gas had been reviewed by federal authorities, and the CPUC had actively overseen the allocation of pipeline capacity. Plaintiffs have filed an appeal with the Court of Appeals.

The Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position.

Counties Franchise Fees Litigation

On March 31, 1994, the Counties of Alameda and Santa Clara filed a complaint in Santa Clara County Superior Court against PG&E on behalf of themselves and purportedly as a class action on behalf of 47 counties with which PG&E has gas or electric franchise contracts. Franchise contracts require PG&E to pay fees on an annual basis to cities and counties for the right to use or occupy public streets and roads. The complaint alleges that, since at least 1987, PG&E has intentionally underpaid its franchise fees to the counties in an unspecified amount.

The complaint cites two reasons for the alleged underpayment of fees. Based on their interpretation of certain legislation, the plaintiffs allege that PG&E has been using the wrong methodology to compute the franchise fees payable to the plaintiff counties. The plaintiffs also allege that fees have been underpaid due to incorrect calculations under the methodology used by PG&E.

The parties agreed to stipulate to this case proceeding as a class action lawsuit regarding the issue of the correct payment methodology to be applied in calculating the franchise fees due to the plaintiffs. On March 14, 1995, the Superior Court granted PG&E's motion for summary judgment in the class action lawsuit. The plaintiffs appealed that ruling and on January 14, 1997, the Court of Appeal upheld the summary judgment in PG&E's favor. The plaintiffs did not seek review of the Court of Appeal's ruling, and accordingly the summary judgment has become final, resolving the issue regarding the payment methodology.

Consistent with the agreement between the parties noted above, the plaintiffs refiled a separate action covering just the issue of whether PG&E properly computed its franchise payments, assuming that PG&E has been using the correct methodology. Plaintiffs may now reactivate this case, which had been stayed pending resolution of the challenge to the payment formula. Plaintiffs have not indicated damages to be sought in that separate action, but they are not anticipated to be material.

Cities Franchise Fees Litigation

On May 13, 1994, the City of Santa Cruz filed a complaint in Santa Cruz County Superior Court against PG&E on behalf of itself and purportedly as a class action on behalf of 107 cities with which PG&E has certain electric franchise contracts. The complaint alleges that, since at least 1987, PG&E has intentionally underpaid its franchise fees to the cities in an unspecified amount.

The complaint alleges that PG&E has asked for and accepted electric franchises from the cities included in the purported class, which provide for lower franchise payments than required by franchises granted by other cities in PG&E's service territory. Plaintiff asserts that this was done in an unlawfully discriminatory manner based solely on location. The plaintiff also alleges that the transfer of these franchises to PG&E by its predecessor companies was not approved by the CPUC as required, and, therefore, all such franchise contracts are void.

The Court has certified the class of 107 cities in this action, and approved the City of Santa Cruz as the class representative. On September 1, 1995, the Court denied PG&E's motions for summary judgment and class decertification in this case. The Court did bifurcate the issues in the case for trial such that the issue concerning whether PG&E engaged in unlawful discrimination in accepting certain franchise contracts with differing payment formulas would be tried first, to be followed by the issue relating to the validity of PG&E's current franchise contracts with the plaintiff cities.

On January 22, 1996, the Court granted PG&E's motion for summary judgment against five class member cities with respect to the cities' claims that the different franchise payment formulas in the 1937 Franchise Act constitute unlawful discrimination. On March 19, 1996, the Court granted PG&E's motion for judgment against the 31 charter cities who are members of the plaintiff class, including the class representative (the City of Santa Cruz). The Court determined that those cities had no basis for their claims against PG&E since their franchise fee structure was of their own choosing as a matter of "home rule" under the California Constitution.

At present, 71 general law cities remain as members of the plaintiff class. Given the Court's prior rulings, the only remaining triable issue relates to the validity of PG&E's current franchise contracts with the remaining plaintiffs. Trial has been postponed indefinitely pending plaintiffs' appeal of the rulings against them.

Should the cities prevail on the issue of franchise fee calculation methodology, PG&E's annual system-wide city electric franchise fees could increase by approximately $14 million and damages for alleged underpayments for the years 1987 to 1996 could be as much as $145 million (exclusive of interest). If the Court's rulings effectively eliminating certain cities' claims become final, PG&E's potential damages and increased fees would be significantly reduced. In that event, should the remaining plaintiffs prevail, PG&E's annual systemwide city electric franchise fees could increase by approximately $4 million and damages for the remaining plaintiffs for alleged underpayments could be as much as $39 million (exclusive of interest). The ultimate damages and/or increase in fees in any case might vary depending on the Court's interpretation of the plaintiffs' claims.

The Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position or results of operations.

Norcen Litigation

In March 1994, Norcen Energy Resources Limited (Norcen Energy) and Norcen Marketing Incorporated (Norcen Marketing) filed a complaint in the U.S. District Court, Northern District of California, against PG&E and PGT. Norcen Marketing has a 30-year gas transportation contract with PGT, which is guaranteed by Norcen Energy. The complaint alleged that PGT and PG&E wrongfully induced Norcen Energy and Norcen Marketing to enter into the 30-year contract by concealing legal action taken by PG&E before the CPUC (requesting clarification that gas shipped on the PGT portion of the Pipeline Expansion should pay PG&E's incremental Expansion rates for in-state service) two days before Norcen Marketing's contract became binding. The complaint also alleged breach of representations to plaintiffs that PG&E would not "unreasonably" build its Pipeline Expansion with less than "sufficient" firm subscription and a breach of an agreement between PGT and a Norcen predecessor relating to the installation of additional capacity. In addition to state law contract claims, the complaint also alleged a series of federal and state antitrust claims related to the construction of the Pipeline Expansion and PG&E's alleged refusals to allow access to the original PGT and California transmission systems.

In September 1994, the District Court granted PGT's and PG&E's motion to dismiss all federal antitrust claims in the complaint originally filed in this case, and dismissed the remaining state law claims for lack of jurisdiction.

In October 1994, plaintiffs filed an amended complaint. The amended complaint reasserted part of the original complaint's antitrust claims, asserted new antitrust claims based on the same facts, and specifically alleged diversity jurisdiction for the state law contract claims. In July 1995, the District Court issued an order on PG&E's motion to dismiss the amended complaint. The order dismisses all of plaintiffs' federal and state antitrust claims, but does not dismiss various state law contract claims, including claims based on fraudulent inducement and breach of contract. Plaintiffs have the right to appeal the dismissal of the antitrust claims to the Court of Appeals. Plaintiffs still seek rescission of their gas transportation contracts and compensatory and punitive damages in connection with their remaining state law claims. The Company believes plaintiffs in this action might seek contract damages of approximately $100 million in this matter.

The Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position or results of operations.

California Attorney General Investigation

In February 1995, the California Attorney General (AG) initiated an investigation to determine whether PG&E and its consultant, Tenera, Inc. (Tenera), violated the Federal Clean Water Act and the California Water Code in connection with a 1988 study of the cooling water intake system at Diablo Canyon (1988 Study). The United States Department of Justice (DOJ) has since joined the AG's investigation. PG&E has been in discussions with the AG and the DOJ concerning the disposition of this matter and related litigation with the League For Coastal Protection and John W. Carter (collectively, the Diablo Canyon Environmental Litigation). See "Diablo Canyon Environmental Litigation" below. In those discussions, the AG and DOJ have indicated their belief that PG&E violated the Federal Clean Water Act, the California Water Code, and other provisions of California law in connection with the 1988 Study. The AG and DOJ have proposed a resolution of these matters that involves the payment by PG&E of civil penalties and mitigation project costs.

The Company believes that the ultimate outcome of these matters will not have a material adverse impact on its financial position or results of operations.

Diablo Canyon Environmental Litigation

On October 13, 1995, the League for Coastal Protection (Coastal League) filed a lawsuit in San Francisco County Superior Court against PG&E and its consultant, Tenera, alleging violations of the California Business and Professions Code in connection with the 1988 Study. The 1988 Study is also the subject of an investigation by the AG and DOJ, as described above. The Coastal League alleges that PG&E and its consultant violated the law by making misrepresentations in connection with the 1988 Study. The Coastal League seeks an unspecified amount of damages related to restitution or disgorgement of improper or excessive profits, punitive damages, injunctive relief, and attorneys' fees.

On April 16, 1996, the Coastal League filed another lawsuit in the United States District Court, Northern District of California, against PG&E and Tenera, alleging violations of the federal Clean Water Act in connection with the 1988 Study. The Coastal League alleges that PG&E and Tenera withheld data from the 1988 Study and submitted misleading information to the state and federal agencies. The Coastal League seeks a judgment that PG&E has violated its discharge permit for Diablo Canyon, revocation of the permit, an order requiring restoration of the marine environment, an unspecified amount of civil penalties, and recovery of its litigation and attorneys' fees.

Also on April 16, 1996, PG&E received a copy of a complaint filed in a third case involving the 1988 Study. In this case, John W. Carter (Carter) alleges on behalf of himself and the United States and the State of California that PG&E, Tenera, and certain of their employees violated the federal and state False Claims Acts by filing an incomplete report in 1988 (i.e., the 1988 Study) and failing to correct it. The United States and the State of California have declined to prosecute this action, and it is maintained by Carter, who is represented by the same attorneys representing the Coastal League. The plaintiffs seek civil penalties, treble damages, a separate payment to Carter under the False Claims Acts, and attorneys' fees.

See "California Attorney General Investigation" above for a discussion of a possible resolution of this litigation.

The Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position or results of operations.

Compressor Station Chromium Litigation

PG&E has been named as a defendant in several civil actions filed in Southern California courts on behalf of more than 1,500 plaintiffs. These cases are Aguayo v. PG&E, filed March 15, 1995, in Los Angeles County Superior Court; Aguilar v. PG&E, filed October 4, 1996, in Los Angeles County Superior Court; Tate v. PG&E, filed October 29, 1996, in San Bernardino County Superior Court; and Adams v. Betz, filed September 21, 1994, in Los Angeles County Superior Court. In the Adams case, the claims remaining against PG&E arise from a cross-claim filed by Betz Chemical Company (Betz), the supplier of water treatment products containing chromium which are used at the gas compressor stations. All of these cases will be referred to collectively as the "Aguayo Litigation." Each of the complaints in the Aguayo Litigation allege personal injuries and seek compensatory and punitive damages in an unspecified amount arising out of alleged exposure to chromium contamination in the vicinity of PG&E's gas compressor stations at Kettleman, Hinkley, and Topock, California. Betz also is named as a defendant in the Aguayo Litigation. The plaintiffs in the Aguayo Litigation include PG&E employees, former PG&E employees, relatives of PG&E employees or former employees, residents in the vicinity of the compressor stations, and persons who visited the gas compressor stations, alleging exposure to chromium at or near the compressor stations. The plaintiffs also include spouses or children of these plaintiffs who claim only loss of consortium or injury through the alleged exposure of their parents. PG&E is responding to the complaints and asserting affirmative defenses. PG&E will pursue appropriate legal defenses, including statute of limitations or exclusivity of workers' compensation laws, and factual defenses, including lack of exposure to chromium and the inability of chromium to cause certain of the illnesses alleged. At this stage of the proceedings, there is substantial uncertainty concerning the claims alleged, and PG&E is attempting to gather information concerning the alleged type and duration of exposure, the nature of injuries alleged by individual plaintiffs, and the additional facts necessary to support its legal defenses, in order to better evaluate and defend this litigation.

The Company believes that the ultimate outcome of this matter will not have a material adverse impact on its financial position or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

"Executive officers," as defined by Rule 3b-7 of the General Rules and Regulations under the Securities and Exchange Act of 1934, of PG&E Corporation are as follows*:

Name	Age at December 31, 1996	Position
S. T. Skinner	59	Chairman of the Board and Chief Executive Officer
R. D. Glynn, Jr.	54	President and Chief Operating Officer
J. D. Shiffer**	58	Executive Vice President (PG&E)
R. J. Haywood	52	Senior Vice President and General Manager, Customer Energy Services (PG&E)
T. W. High	49	Senior Vice President—Corporate Services (PG&E)
J. F. Jenkins-Stark	45	Senior Vice President and General Manager, Gas Supply Business Unit (PG&E)
G. R. Smith	48	Chief Financial Officer
B. R. Worthington	47	General Counsel
J. Pfannenstiel	49	Vice President—Corporate Planning (PG&E)

*All positions are with PG&E Corporation, unless otherwise noted.
**Mr. Shiffer will retire effective April 1, 1997.

"Executive officers," as defined by Rule 3b-7 of the General Rules and Regulations under the Securities and Exchange Act of 1934, of PG&E are as follows*:

Name	Age at December 31, 1996	Position
S. T. Skinner	59	Chairman of the Board and Chief Executive Officer
R. D. Glynn, Jr.	54	President and Chief Operating Officer
J. D. Shiffer**	58	Executive Vice President
R. J. Haywood	52	Senior Vice President and General Manager, Customer Energy Services
T. W. High	49	Senior Vice President—Corporate Services
J. F. Jenkins-Stark	45	Senior Vice President and General Manager, Gas Supply Business Unit
G. R. Smith	48	Senior Vice President and Chief Financial Officer
B. R. Worthington	47	Senior Vice President and General Counsel
J. Pfannenstiel	49	Vice President—Corporate Planning

*All positions are with PG&E.
**Mr. Shiffer will retire effective April 1, 1997.

All officers of PG&E Corporation and PG&E serve at the pleasure of the relevant Board of Directors. All executive officers of both companies have been employees of PG&E for the past five years. During that period, the executive officers had the following business experience as PG&E employees and/or officers, and/or PG&E Corporation officers*:

Name	Position	Period Held Office
S.T. Skinner	Chairman of the Board and Chief Executive Officer (PG&E Corporation)	December 18, 1996 to current
	Chairman of the Board and Chief Executive Officer	June 1, 1995 to current
	President and Chief Executive Officer	July 1, 1994 to May 31, 1995
	President and Chief Operating Officer	November 1, 1991 to June 30, 1994
R.D. Glynn, Jr.	President and Chief Operating Officer (PG&E Corporation)	December 18, 1996 to current
	President and Chief Operating Officer	June 1, 1995 to current
	Executive Vice President	July 1, 1994 to May 31, 1995
	Senior Vice President and General Manager, Customer Energy Services Business Unit	January 1, 1994 to June 30, 1994
	Senior Vice President and General Manager, Electric Supply Business Unit	November 1, 1991 to December 31, 1993
J.D. Shiffer	Executive Vice President	November 1, 1991 to current

Name	Position	Period Held Office
R.J. Haywood	Senior Vice President and General Manager, Customer Energy Services Business Unit	December 21, 1994 to current
	Vice President of Power System	February 22, 1993 to December 20, 1994
	Vice President-Power Planning and Contracts	April 20, 1988 to February 21, 1993
T.W. High	Senior Vice President-Corporate Services	June 1, 1995 to current
	Vice President and Assistant to the Chief Executive Officer	July 1, 1994 to May 31, 1995
	Vice President and Assistant to the Chairman of the Board	November 1, 1991 to June 30, 1994
J.F. Jenkins-Stark	Senior Vice President and General Manager, Gas Supply Business Unit	August 1, 1993 to current
	Vice President and Treasurer	January 15, 1992 to July 31, 1993
G.R. Smith	Chief Financial Officer (PG&E Corporation)	December 18, 1996 to current
	Senior Vice President and Chief Financial Officer	June 1, 1995 to current
	Vice President and Chief Financial Officer	November 1, 1991 to May 31, 1995
B.R. Worthington	General Counsel (PG&E Corporation)	December 18, 1996 to current
	Senior Vice President and General Counsel	June 1, 1995 to current
	Vice President and General Counsel	December 21, 1994 to May 31, 1995
	Chief Counsel-Corporate	January 10, 1991 to December 20, 1994

*All positions are with PG&E, unless otherwise noted.

PART II

ITEM 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

Information responding to part of Item 5 is set forth on page 42 under the heading "Quarterly Consolidated Financial Data" in the 1996 Annual Report to Shareholders, which information is hereby incorporated by reference and filed as part of Exhibit 13 to this report.

PG&E has made no sales of unregistered equity securities in the last three years. PG&E Corporation has made the following sales of unregistered equity securities during such period:

On January 27, 1997, PG&E Corporation issued 14,607,143 shares of common stock. The shares were issued to nine former shareholders of Teco in connection with the acquisition by PG&E Corporation of Teco. PG&E Corporation owns all the outstanding shares of Teco as a result of the acquisition. The shares were issued in reliance upon the exemption from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof and Rule 506 of Regulation D thereunder. All of the former shareholders of Teco represented that they were "accredited investors" as defined in Rule 501(a) under the Securities Act of 1933 and made other representations establishing the basis for the exemption. A legend as provided for by Rule 501 (d)(3) was placed on each of the stock certificates representing the shares of PG&E Corporation common stock received by the former shareholders of Teco.

ITEM 6. Selected Financial Data.

A summary of selected financial information for the Company for each of the last five fiscal years is set forth on page 8 under the heading "Selected Financial Data" in the 1996 Annual Report to Shareholders, which information is hereby incorporated by reference and filed as part of Exhibit 13 to this report.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

A discussion of the Company's financial condition, changes in financial condition and results of operations is set forth on pages 9 through 19 under the heading "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition" in the 1996 Annual Report to Shareholders, which discussion is hereby incorporated by reference and filed as part of Exhibit 13 to this report.

ITEM 8. Financial Statements and Supplementary Data.

Information responding to Item 8 is contained in the 1996 Annual Report to Shareholders on pages 20 through 43 under the headings "Statement of Consolidated Income," "Statement of Consolidated Cash Flows," "Consolidated Balance Sheet," "Statement of Consolidated Common Stock Equity, Preferred Stock and Preferred Securities," "Statement of Consolidated Capitalization," "Statement of Consolidated Segment Information," "Notes to Consolidated Financial Statements," "Quarterly Consolidated Financial Data (Unaudited)," and "Report of Independent Public Accountants," which information is hereby incorporated by reference and filed as part of Exhibit 13 to this report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

Information regarding executive officers of PG&E is included in a separate item captioned "Executive Officers of the Registrant" contained on pages 44 through 45 in Part I of this report. Other information responding to Item 10 is included on pages 2 through 5 under the heading "Election of Directors of PG&E Corporation and PG&E" and page 29 under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the 1997 Joint Proxy Statement relating to the 1997 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

ITEM 11. Executive Compensation.

Information responding to Item 11 is included on page 8 under the heading "Compensation of Directors" and on pages 19 through 27 under the heading "Executive Compensation" (excluding the sections thereunder entitled "Nominating and Compensation Committee Report on Compensation" and "Comparison of Five-Year Cumulative Total Shareholder Return") in the 1997 Joint Proxy Statement relating to the 1997 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

Information responding to Item 12 is included on pages 10 and 28 under the headings "Security Ownership of Management" and "Principal Shareholders" in the 1997 Joint Proxy Statement relating to the 1997 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions.

Information responding to Item 13 is included on page 9 under the heading "Certain Relationships and Related Transactions" in the 1997 Joint Proxy Statement relating to the 1997 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as a part of this report:

1. The following consolidated financial statements, schedules of consolidated segment information, supplemental information, and report of independent public accountants contained in the 1996 Annual Report to Shareholders, are incorporated by reference in this report:

   Statement of Consolidated Income for the Years Ended December 31, 1996, 1995, and 1994.

   Statement of Consolidated Cash Flows for the Years Ended December 31, 1996, 1995, and 1994.

   Consolidated Balance Sheet at December 31, 1996, and 1995.

   Statement of Consolidated Common Stock Equity, Preferred Stock and Preferred Securities for the Years Ended December 31, 1996, 1995, and 1994.

   Statement of Consolidated Capitalization at December 31, 1996, and 1995.

   Schedule of Consolidated Segment Information for the Years Ended December 31, 1996, 1995, and 1994.

   Notes to Consolidated Financial Statements.

   Quarterly Consolidated Financial Data (Unaudited).

   Report of Independent Public Accountants.

2. Report of Independent Public Accountants included at page 53 of this Form 10-K.

3. Consolidated financial statement schedules:

   II — Consolidated Valuation and Qualifying Accounts for the Years Ended December 31, 1996, 1995 and 1994.

Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements including the notes thereto.

4. Exhibits required to be filed by Item 601 of Regulation S-K:

3.1 Restated Articles of Incorporation of PG&E Corporation effective as of December 19, 1996 (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 3.1).

3.2 By-Laws of PG&E Corporation effective as of December 19, 1996 (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 3.2).

3.3 Agreement of Merger (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 1).

3.4 Restated Articles of Incorporation of Pacific Gas and Electric Company effective as of July 26, 1994 (PG&E's Form 10-Q, for quarter ended June 30, 1994 (File No. 1-2348), Exhibit 3.1).

3.5 By-Laws of Pacific Gas and Electric Company as of January 1, 1997.

4. First and Refunding Mortgage of PG&E dated December 1, 1920, and supplements thereto dated April 23, 1925, October 1, 1931, March 1, 1941, September 1, 1947, May 15, 1950, May 1, 1954, May 21, 1958, November 1, 1964, July 1, 1965, July 1, 1969, January 1, 1975, June 1, 1979, August 1, 1983, and December 1, 1988 (Registration No. 2-1324, Exhibits B-1, B-2, B-3; Registration No. 2-4676, Exhibit B-22; Registration No. 2-7203, Exhibit B-23; Registration No. 2-8475, Exhibit B-24; Registration No. 2-10874, Exhibit 4B; Registration No. 2-14144, Exhibit 4B; Registration No. 2-22910, Exhibit 2B; Registration No. 2-23759, Exhibit 2B; Registration No. 2-35106, Exhibit 2B; Registration No. 2-54302, Exhibit 2C; Registration No. 2-64313, Exhibit 2C; Registration No. 2-86849, Exhibit 4.3; PG&E's Form 8-K dated January 18, 1989 (File No. 1-2348), Exhibit 4.2).

10.1 Firm Transportation Service Agreement between PG&E and Pacific Gas Transmission Company dated October 26, 1993 (PG&E's Form 10-K for fiscal year 1993 (File No. 1-2348), Exhibit 10.4), rate schedule FTS-1, and general terms and conditions.

10.2 Transportation Service Agreement as Amended and Restated between PG&E and El Paso Natural Gas Company dated November 1, 1993 (PG&E's Form 10-K for fiscal year 1993 (File No. 1-2348), Exhibit 10.5), rate schedule FT-1, and general terms and conditions. (PG&E's Form 10-K for fiscal year 1995 (File No. 1-2348, Exhibit 10.2).

10.3 Diablo Canyon Settlement Agreement (Diablo Settlement) dated June 24, 1988 (PG&E's Form 8-K dated June 27, 1988) (File No. 1-2348), Exhibit 10.1), Implementing Agreement dated July 15, 1988 (PG&E's Form 10-Q for the quarter ended June 30, 1988 (File No. 1-2348), Exhibit 10.1), portions of the California Public Utilities Commission Decision No. 88-12-083, dated December 19, 1988, interpreting the Diablo Settlement (PG&E's Form 10-K for fiscal year 1988 (File No. 1-2348), Exhibit 10.4) and Settlement Agreement dated December 14, 1994, modifying the Diablo Settlement (PG&E's Form 10-K for fiscal year 1995 (File No. 1-2348), Exhibit 10.3).

*10.4 Pacific Gas and Electric Company Deferred Compensation Plan for Directors (PG&E's Form 10-K for fiscal year 1992 (File No. 1-2348), Exhibit 10.5).

*10.5 PG&E Corporation Deferred Compensation Plan for Directors. (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 10.5)

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* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of Form 10-K.

*10.6 Pacific Gas and Electric Company Deferred Compensation Plan for Officers (PG&E's Form 10-K for fiscal year 1991 (File No. 1-2348), Exhibit 10.6).

*10.7 Savings Fund Plan for Employees of Pacific Gas and Electric Company applicable to non-union employees, as amended and restated effective as of January 1, 1997 (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 10.7).

*10.8 Short-Term Incentive Plan for Officers of Pacific Gas and Electric Company, effective January 1, 1996 (PG&E's Form 10-K for fiscal year 1995 (File No. 1-2348), Exhibit 10.7).

*10.9 The Pacific Gas and Electric Company Retirement Plan applicable to non-union employees, as amended October 18, 1995, effective January 1, 1996 (PG&E's Form 10-K for fiscal year 1995 (File No. 1-2348), Exhibit 10.8).

*10.10 Pacific Gas and Electric Company Supplemental Executive Retirement Plan, as amended through October 16, 1991 (PG&E's Form 10-K for fiscal year 1991 (File No. 1-2348), Exhibit 10.11).

*10.11 Pacific Gas and Electric Company Relocation Assistance Program for Officers (PG&E's Form 10-K for fiscal year 1989 (File No. 1-2348), Exhibit 10.16).

*10.12 Pacific Gas and Electric Company Executive Flexible Perquisites Program (PG&E's Form 10-K for fiscal year 1993 (File No. 1-2348), Exhibit 10.16).

*10.13 PG&E Postretirement Life Insurance Plan (PG&E's Form 10-K for fiscal year 1991 (File No. 1-2348), Exhibit 10.16).

*10.14 PG&E Corporation Retirement Plan for Non-Employee Directors (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 10.14).

*10.15 Pacific Gas and Electric Company Retirement Plan for Non-Employee Directors (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 10.15).

*10.16 Executive Compensation Insurance Indemnity in respect of Deferred Compensation Plan for Directors, Deferred Compensation Plan for Officers, Supplemental Executive Retirement Plan and Retirement Plan for Non-Employee Directors (PG&E's Form 10-K for fiscal year 1991 (File No. 1-2348), Exhibit 10.19).

*10.17 PG&E Corporation Long-Term Incentive Program, as amended and restated effective as of January 1, 1997, including the PG&E Corporation Stock Option Plan, Performance Unit Plan and Restricted Stock Plan for Non-Employee Directors (PG&E Corporation's Form 8-B (File No. 1-12609), Exhibit 10.17).

11. Computation of Earnings Per Common Share.

12.1 Computation of Ratios of Earnings to Fixed Charges.

12.2 Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

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* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of Form 10-K.

13. 1996 Annual Report to Shareholders (portions of the 1996 Annual Report to Shareholders under the headings "Selected Financial Data," "Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition," "Report of Independent Public Accountants," "Statement of Consolidated Income," "Consolidated Balance Sheet," "Statement of Consolidated Cash Flows," "Statement of Consolidated Common Stock Equity, Preferred Stock and Preferred Securities," "Statement of Consolidated Capitalization," "Schedule of Consolidated Segment Information," "Notes to Consolidated Financial Statements" and "Quarterly Consolidated Financial Data," included only) (except for those portions which are expressly incorporated herein by reference, such 1996 Annual Report to Shareholders is furnished for the information of the Commission and is not deemed to be "filed" herein).

21. Subsidiaries of the Registrants.

23. Consent of Arthur Andersen LLP.

24.1 Resolutions of the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company authorizing the execution of the Form 10-K.

24.2 Powers of Attorney.

27. Financial Data Schedule.

The exhibits filed herewith are attached hereto (except as noted) and those indicated above which are not filed herewith were previously filed with the Commission as indicated and are hereby incorporated by reference. Exhibits will be furnished to security holders of the Company upon written request and payment of a fee of $0.30 per page, which fee covers only the Company's reasonable expenses in furnishing such exhibits. The Company agrees to furnish to the Commission upon request a copy of any instrument defining the rights of long-term debt holders not otherwise required to be filed hereunder.

(b) Reports on Form 8-K

Reports on Form 8-K during the quarter ended December 31, 1996 and through the date hereof:

1. October 16, 1996(1)

Item 5. Other Events
— Performance Incentive Plan — Year-to-Date Financial Results
— Common Stock Dividend Reduction

2. November 22, 1996(1)

Item 5. Other Events
— Acquisitions and Dispositions

3. December 20, 1996(1)

Item 5. Other Events
— Performance Incentive Plan — 1997 Target

4. January 2, 1997(1)(2)

Item 5. Other Events
— Holding Company Formation

5. January 7, 1997(1)(2)

Item 5. Other Events
— Electric Industry Restructuring
— 1997 ECAC

6. January 16, 1997(1)(2)

Item 5. Other Events
— Performance Incentive Plan — Year-to-Date Financial Results
— 1996 Consolidated Earnings (unaudited)

7. January 31, 1997(1)(2)

Item 5. Other Events

— Acquisition of Valero Energy Corporation

— Acquisition of Teco Pipeline Company

— Electric Industry Restructuring Cost Recovery Plan

8. February 19, 1997(1)(2)

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

— 1996 Financial Statements

9. March 3, 1997(1)(2)

Item 5. Other Events

— Proposed Decision on Diablo Canyon Ratemaking Proposal

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(1) Filed under Commission File Number 1-2348 (PG&E)

(2) Filed under Commission File Number 1-12609 (PG&E Corporation)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized, in the City and County of San Francisco, on the 4th day of March, 1997.

PG&E CORPORATION (Registrant)	PACIFIC GAS AND ELECTRIC COMPANY (Registrant)
By /s/ GARY P. ENCINAS	By /s/ GARY P. ENCINAS
(Gary P. Encinas, Attorney-in-Fact)	(Gary P. Encinas, Attorney-in-Fact)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
A. Principal Executive Officer or Officers		
*STANLEY T. SKINNER	Chairman of the Board, Chief Executive Officer, and Director (PG&E Corporation) Chairman of the Board, Chief Executive Officer, and Director (Pacific Gas and Electric Company)	March 4, 1997
B. Principal Financial Officer		
*GORDON R. SMITH	Chief Financial Officer (PG&E Corporation) Senior Vice President and Chief Financial Officer (Pacific Gas and Electric Company)	March 4, 1997
C. Principal Accounting Officer		
*CHRISTOPHER P. JOHNS	Controller (PG&E Corporation) Vice President and Controller (Pacific Gas and Electric Company)	March 4, 1997
D. Directors		
*RICHARD A. CLARKE *H. M. CONGER *C. LEE COX *ROBERT D. GLYNN, JR. *DAVID M. LAWRENCE *RICHARD B. MADDEN *MARY S. METZ *REBECCA Q. MORGAN *SAMUEL T. REEVES *CARL E. REICHARDT *JOHN C. SAWHILL *ALAN SEELENFREUND *BARRY LAWSON WILLIAMS	Directors (PG&E Corporation and Pacific Gas and Electric Company)	March 4, 1997

*By /s/ GARY P. ENCINAS

(Gary P. Encinas, Attorney-in-Fact)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors
of PG&E Corporation:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in the PG&E Corporation Annual Report to Shareholders incorporated by reference in this Annual Report on Form 10-K, and have issued our report thereon dated February 10, 1997. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Part IV, Item 14. (a)(3) of this Annual Report on Form 10-K is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

San Francisco, California
February 10, 1997

PACIFIC GAS AND ELECTRIC COMPANY

SCHEDULE II — CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1996, 1995 and 1994

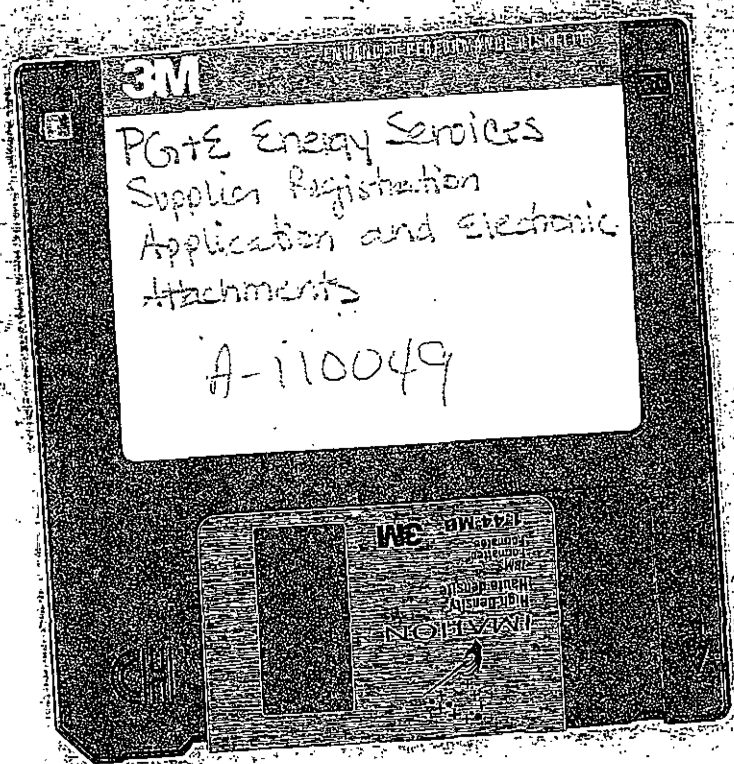
Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
			(in thousands)		
VALUATION AND QUALIFYING ACCOUNTS DEDUCTED FROM ASSETS:					
1996:					
Reserve for deferred project costs	$ 5,710	$ —	$ —	$ 5,710(1)	$ 0
Allowance for uncollectible accounts	$35,520	$55,566	$ 1,836	$35,018(2)	$57,904
Reserve for land costs	$ 4,444	$ —	$ —	$ 4,444(1)	$ 0
1995:					
Reserve for impairment of oil and gas properties	$ 4,341	$ —	$ —	$ 4,341(3)	$ 0
Reserve for deferred project costs	$25,800	$ —	$ —	$20,090(1)	$ 5,710
Allowance for uncollectible accounts	$29,769	$50,327	$ —	$44,576(2)	$35,520
Reserve for land costs	$ 5,960	$ —	$ —	$ 1,516(1)	$ 4,444
1994:					
Reserve for impairment of oil and gas properties	$ 7,924	$ 4,565	$ —	$ 8,148(3)	$ 4,341
Reserve for deferred project costs	$18,689	$ 7,111	$ —	$ —	$25,800
Allowance for uncollectible accounts	$23,647	$44,415	$ —	$38,293(2)	$29,769
Reserve for land costs	$ 6,154	$ —	$ —	$ 194(1)	$ 5,960

(1) Deductions consist principally of write-offs. Reserve for deferred project costs is classified on the balance sheet in other deferred charges. Reserve for land costs is classified on the balance sheet in investment in nonregulated projects.
(2) Deductions consist principally of write-offs, net of collections of receivables previously written off.
(3) Deductions consist principally of write-offs of expired leaseholds on reserved property. Deduction in 1995 results from sale of oil and gas properties.

DOCUMENT
FOLDER

A-110049 **POOR ORIGINAL**

PG&E Energy Services



KJR

COMMONWEALTH OF PENNSYLVANIA

DATE: September 23, 1997

SUBJECT: A-110049

TO: Bureau of Fixed Utility Services

FROM: James J. McNulty, Acting Secretary ddt

Attached is a copy of the Application of PG&E Energy Services Corporation for a license to supply Electricity or Electric Generation Services as a Broker/Marketer engaged in the business of supplying electricity.

This matter is assigned to your Bureau for appropriate action.

Attachment

cc: Law Bureau

ddt

DOCKETED
SEP 23 1997

DOCUMENT
FOLDER

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P. O. BOX 3265, HARRISBURG PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE
Deputy Prothonotary
717-787-8009
A-110049

September 23, 1997

HAROLD T JUDD
CHIEF COUNSEL
PG&E ENERGY SERVICES CORPORATION
ONE CAPITOL STREET
CONCORD NH 03301

Dear Mr. Judd:

The Application and $350.00 filing fee of PG&E Energy Services Corporation, received in this Office on September 19, 1997, to supply Electricity or Electric Generation Services as a Broker/Marketer engaged in the business of supplying electricity, is hereby acknowledged.

Pursuant to the Commission's Final Order, entered February 13, 1997, at M-00960890F0004, Notice of filing of this Application must be published in newspapers of general circulation covering each county in which you intend to provide service.

You have requested state-wide authority. Attached is a list of the six newspapers in which you must publish in order to meet the publication requirement.

Please note that this Application will not be considered complete until the original proof of publication is filed with this Office.

Very truly yours,

James J. McNulty

James J. McNulty
Acting Secretary

JJM:ddt

cc: Douglas A. Oglesby

DOCKETED
SEP 23 1997

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LICENSING OF ELECTRIC GENERATION SUPPLIERS

NEWSPAPER PUBLICATION FOR STATE-WIDE AUTHORITY

Philadelphia Inquirer

Pittsburgh Post Gazette

Harrisburg Patriot News

Scranton Times

Erie Morning News

Williamsport Sun Gazette