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SEMPRA ENERGY TRADING CORP.

50-295/323

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

In re PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, Debtor. Federal I.D. Number 94-0742640	Case No. 01-30923 DM Chapter 11 **REQUEST FOR JUDICIAL NOTICE IN SUPPORT OF MOTION OF SEMPRA ENERGY TRADING CORP. FOR RELIEF FROM STAY AND FOR ADEQUATE PROTECTION** **[Notice of Motion and Motion, and Declaration of Stefanie Katz concurrently filed herewith]** Hearing: DATE: June 20, 2001 TIME: 1:30 p.m. CTRM: 235 Pine Street, 22nd Floor San Francisco, California JUDGE: Hon. Dennis Montali

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In connection with its concurrently-filed Motion for Relief from Stay and for Adequate Protection, Sempra Energy Trading Corp. hereby requests that this Court take judicial notice, pursuant to Rule 201(b) of the Federal Rules of Evidence, of the following documents:

1. PG&E Corporation's October 25, 2000 8-K filing with the Securities and Exchange Commission, a true and correct copy of which is attached hereto as Exhibit "A." See Yuen v. U.S. Stock Transfer Co., 966 F.Supp. 944 (C.D. Cal. 1997) (taking judicial notice of contents of SEC filings); Lovelace v. Software Spectrum, Inc., 78 F.3d 1015 (5th Cir. 1996) (noting court may take judicial notice of public disclosure documents required to be filed by with the SEC); Southmark Prime Plus, L.P. v. Falzone, 776 F.Supp. 888 (D. Del. 1991) (taking judicial notice of contents of SEC filings).

2. PG&E Corporation's November 1, 2000 10-Q Quarterly Report, a true and correct copy of which is attached hereto as Exhibit "B." See id.

3. A November 23, 2000 article published in the San Jose Mercury News, entitled, *Northern California Utility Plans Steady Rate Increases*, a true and correct copy of which (as re-printed by Lexis) is attached hereto as Exhibit "C." See Dockray v. Phelps Dodge Corp., 801 F.2d 1149, 1153, n.3 (9th Cir. 1986) (taking judicial notice of newspaper articles).

4. PG&E Corporation's December 19, 2000 8-K filing with the Securities and Exchange Commission, a true and correct copy of which is attached hereto as Exhibit "D." See Yuen, 966 F.Supp. 944 (taking judicial notice of contents of SEC filings); Lovelace, 78 F.3d 1015 (noting court may take judicial notice of public disclosure documents required to be filed by with the SEC); Southmark Prime Plus, L.P., 776 F.Supp. 888 (taking judicial notice of contents of SEC filings).

5. PG&E Corporation's December 22, 2000 8-K filing with the Securities and Exchange Commission, a true and correct copy of which is attached hereto as Exhibit "E." See id.

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6. A December 24, 2000 article published in the Orange County Register, entitled, *Power Crunch: Events of the Past Week*, a true and correct copy of which (as re-printed by Lexis) is attached hereto as Exhibit "F." See Dockray, 801 F.2d at 1153, n.3 (taking judicial notice of newspaper articles).

7. PG&E Corporation's January 2, 2001 8-K filing with the Securities and Exchange Commission, a true and correct copy of which is attached hereto as Exhibit "G." See Yuen, 966 F.Supp. 944 (taking judicial notice of contents of SEC filings); Lovelace, 78 F.3d 1015 (noting court may take judicial notice of public disclosure documents required to be filed by with the SEC); Southmark Prime Plus, L.P., 776 F.Supp. 888 (taking judicial notice of contents of SEC filings).

8. A January 11, 2001 article published in the Los Angeles Times, entitled, *PG&E, Citing Cash Shortage, Warns of Natural Gas Cutoffs; Energy: Utility's Chief Executive Pleads With Governor To Use Emergency Powers To Help It Through Credit Crisis*, a true and correct copy of which (as re-printed by Lexis) is attached hereto as Exhibit "H." See Dockray, 801 F.2d at 1153, n.3 (taking judicial notice of newspaper articles).

9. PG&E Corporation's January 17, 2001 8-K filing with the Securities and Exchange Commission, a true and correct copy of which is attached hereto as Exhibit "I." See Yuen, 966 F.Supp. 944 (taking judicial notice of contents of SEC filings); Lovelace, 78 F.3d 1015 (noting court may take judicial notice of public disclosure documents required to be filed by with the SEC); Southmark Prime Plus, L.P., 776 F.Supp. 888 (taking judicial notice of contents of SEC filings).

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10. The Stipulation Between Pacific Gas And Electric And Sempra Energy Trading Corp. For (A) Future Gas Deliveries And (B) Administrative Claim; And Order Thereon, a true and correct copy of which is attached hereto as Exhibit "J."

Dated: June 4, 2001

STROOCK & STROOCK & LAVAN LLP
LEWIS KRUGER
ALAN Z. YUDKOWSKY
PETER JAZAYERI

By: _____
Peter Jazayeri
Attorneys for Party-in-Interest
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Exhibit A

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PACIFIC GAS & ELECTRIC CO

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: October 25, 2000

Commission File Number	Exact Name of Registrant as specified in its charter	State or other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, California 94177

PG&E Corporation
One Market, Spear Tower, Suite 2400
San Francisco, California 94105

(Address of principal executive offices) (Zip Code)

Pacific Gas and Electric Company
(415) 973-7000

PG&E Corporation
(415) 267-7000

(Registrant's telephone number, including area code)

Item 5. Other Events

A. Third Quarter 2000 Consolidated Earnings (unaudited)

On October 24, 2000, PG&E Corporation reported diluted earnings per common share of $.67 from continuing operations for the three months ended September 30, 2000. PG&E Corporation's Condensed Statement of Consolidated Income for the three months ended September 30, 2000, is attached hereto as Exhibit 99.

B. Pacific Gas and Electric Company's Wholesale Power Purchase Costs

As previously disclosed, due to the high wholesale power prices at which Pacific Gas and Electric Company (Utility), the California utility subsidiary of PG&E Corporation, purchases power for its electric distribution customers from the California Power Exchange (PX) and the California Independent System Operator (ISO), the Utility has deferred for future recovery the amount of its costs that exceed revenues collected from frozen rates. Continuing the high prices seen since June 2000, the average price the Utility was charged for electric power in the month of September 2000, was approximately 14 cents per kilowatt-hour (kWh), compared to approximately 4 cents per kWh during the same period in 1999.

At September 30, 2000, the under-collected balance of these wholesale power purchase costs recorded in the Utility's regulatory balancing account (the Transition Revenue Account or TRA) was approximately $2.9 billion. The TRA balance does not reflect the Utility's revenues from (i) Utility-owned generation sales to the PX in excess of authorized costs, nor (ii) Utility sales of other generation to the PX from Qualifying Facilities (QFs) and other power providers in excess of the Utility's costs to purchase such power. (Approximately half of the Utility's suppliers under QF contracts have elected to receive PX-based prices for energy in addition to contractual capacity payments. The Utility expects that most remaining QF generators will elect to receive PX prices for their energy payments by summer 2001. The Utility pays these suppliers directly, rather than through the PX, but receives billing credits for energy delivered to the PX from QFs.) For accounting and ratemaking purposes and as required by the California electric industry restructuring law, during the transition period, the amount of PX revenues from Utility-owned generation in excess of authorized costs and from other generation sources in excess of the price the Utility pays to purchase such power, are applied as a credit to the Utility's transition costs (generation-related costs and obligations that prove to be uneconomic under the new market structure) and are not used to offset the TRA under-collection.

The Utility has been required to finance the majority of its net power purchase costs because the Utility's purchased power costs have greatly

exceeded the revenues from the Utility's sales to the PX. Since the purchased power costs are expected to continue to exceed the revenues from the Utility's sales to the PX, the Utility's financing needs are expected to continue to grow until rates are adjusted to permit recovery of these costs. The Utility has fully utilized its existing $1 billion revolving credit facility to support the Utility's commercial paper program and other liquidity requirements. On October 18, 2000, the Utility executed a credit agreement for an additional $1 billion in revolving credit facilities to provide commercial paper backup to support its higher purchased power costs

and the associated increases in the TRA. On October 19, 2000, the CPUC approved the Utility's request to increase its current authorized amount of short-term debt by $1.4 billion, raising the Utility's short-term debt authority to $3.1 billion. The additional $1.4 billion may only be used for the purpose of financing the purchase of wholesale power for delivery to the Utility's retail customers. The Utility also is pursuing up to $1.3 billion of additional short and long-term debt financing in the capital markets. Additionally, the Utility has filed a request with the CPUC requesting authority to issue an additional $2 billion in long-term debt instruments. The Utility's ability to meet its obligations as they come due will depend in significant part upon the extent to which regulatory bodies allow the Utility to recover in rates its wholesale power purchase costs.

As previously disclosed, a prior CPUC decision would prohibit the Utility from collecting after the transition period certain electric costs incurred during the transition period but not recovered from frozen rates during that period, including the under-collected purchased power costs recorded in the TRA. The CPUC decision would also prohibit offsetting these specific under-collected amounts against over-collected transition costs. The Utility's petition for review of this decision by the California Supreme Court is pending. Further, on October 4, 2000, the Utility filed an emergency petition with the CPUC to modify the prior CPUC decision to permit the Utility to carry over beyond the end of the transition period the amounts recorded in the TRA and to recover these amounts over a reasonable period through retail electric rates. On October 17, 2000, the assigned CPUC commissioner and administrative law judge issued a ruling in response to the emergency petition stating they will reconsider the accounting mechanisms established by prior CPUC decisions and adopt a schedule that permits a decision by the end of the year.

In response to the above ruling, on October 25, 2000, the Utility filed its proposals and a procedural schedule that will be considered by the CPUC at a prehearing conference on October 27, 2000. The Utility requested that the CPUC modify its prior decisions to authorize the utilities to transfer any unrecovered balance in the TRA as of the end of the rate freeze into a new balancing account, and authorize recovery of the balance in that new account over a period not to exceed four years, subject to a rate stabilization plan to be addressed in a second phase of the proceeding. The Utility asked the CPUC to adopt an expedited procedural schedule in a second phase that would, not later than March 31, 2001, resolve the following issues: (1) implementation of when and how the rate freeze is to be ended; (2) adoption of post rate freeze tariffs and rates; (3) approval of the rate stabilization plan; and (4) adoption of the retail rate components for recovery of the new balancing account. The Utility indicated that it will submit its detailed proposals on the rate stabilization plan and tariffs by November 15, 2000.

The Utility is reviewing on an ongoing basis the facts and circumstances relating to the TRA under-collections. The applicable accounting standards permit the TRA under-collections to be recorded as a regulatory asset on the balance sheet rather than being charged to earnings if it is probable

that these under-collections will be recovered through the ratemaking process. The Utility currently believes recovery of the TRA under-collection is probable. However, ultimate recovery is dependent upon the favorable outcome of the regulatory matters discussed above, as well as

other factors such as future market prices of electricity and future fuel prices.

The Utility is actively exploring ways to reduce its exposure to the higher power purchase costs and its corresponding TRA balance, including working with interested parties to address power market dysfunctions before appropriate regulatory bodies and hedging a portion of its open procurement position against higher power purchase costs through forward purchases. In October 2000, the Utility entered into bilateral power purchase contracts with several suppliers.

On October 16, 2000, the Utility joined with Southern California Edison and the consumer group The Utility Reform Network (TURN) in filing a petition with the Federal Energy Regulatory Commission (FERC) requesting that the FERC (1) immediately find the California wholesale electricity market to be not workably competitive and the resulting prices to be unjust and unreasonable; (2) immediately impose a cap on the price for energy and ancillary services; and (3) institute further expedited proceedings regarding the market failure, mitigation of market power, structural solutions, and responsibility for refunds. However, the reduced price cap requested, even if approved, would still be above the approximate 5.4 cents per kWh embedded in frozen rates for the payment of the Utility's wholesale power purchase costs. Also, on October 20, 2000, the ISO filed a market stabilization plan with the FERC requesting the FERC to impose a price cap of $100 per megawatt hour (10 cents per kWh) for generators who do not enter into contracts to supply 70 percent of their supply to serve California customers. There are certain other exemptions to the $100 price cap. The existing $250 price cap per megawatt hour would remain in effect for generators who are exempt from the $100 per megawatt hour price cap. The ISO also has recommended that utilities and other buyers be required to contract for 85 percent of their customer requirements for power in advance of when the power is needed.

C. Transition Cost Recovery

The Utility tracks the amount of transition costs that must be recovered during the transition period in a regulatory balancing account called the transition cost balancing account or TCBA. Under the electric industry restructuring law, when the Utility has recovered its eligible transition costs, the conditions for terminating the rate freeze and ending transition period will have been satisfied. At August 31, 2000, consistent with existing transition costs recovery procedures adopted by the CPUC, the Utility credited its TCBA by $2.1 billion, the amount by which the settlement value of the hydroelectric assets exceeded the aggregate book value of such assets. The Utility also established a separate regulatory asset in the same amount to reflect the settlement value. The accounting entries were based on the value used in the proposed settlement filed with the CPUC in August 2000, regarding the valuation and disposition of these assets. Based on the credit made to the TCBA and under current CPUC accounting procedures, the Utility would have completed collection of all transition costs that must be collected during the transition period as of August 2000. If the hydroelectric assets were to be sold or valued at a higher amount, the Utility's transition costs would have been recovered as of an earlier date when the TRA balance was lower. Testimony taken to date in the CPUC proceeding in which valuation is to be established put the range of market values from $2.4 billion to in excess of $3 billion under

operating and market conditions prior to June 2000. The CPUC is not likely to consider the Utility's proposed settlement until next year, and it is uncertain at this time whether the settlement will be approved, modified or rejected, or withdrawn. Further, on October 16, 2000, the CPUC issued a ruling re-opening the hydroelectric valuation proceeding to obtain more information from parties about market valuation in light of the different market conditions experienced during the summer of 2000. That new testimony is to be submitted in December 2000 with further testimony and evidentiary hearings scheduled for next year. The accounting entries discussed above are subject to later adjustment based on the final valuation of the hydroelectric assets adopted by the CPUC.

During the transition period, the Utility is required to continue to use the transition period accounting mechanisms discussed above. This requires that revenues from sales to the PX of Utility-owned generation and generation from QFs and other providers in excess of costs be credited to the TCBA. In addition, the TCBA balance includes a credit for the amount of PX revenues from the Utility's sale of generation from the Diablo Canyon nuclear power plant to the PX that exceed revenues from the fixed Incremental Cost Incentive Price ("ICIP). (During 2000, the ICIP is 3.43 cents per kWh.) After taking into account the credit for the hydroelectric assets described above, at September 30, 2000, the Utility's TCBA had a credit balance of approximately $585 million. The amounts discussed above are subject to adjustment by the CPUC. Further, as mentioned above, the CPUC has issued a ruling indicating that it would reconsider certain of these accounting mechanisms noting that the CPUC has the authority to implement any necessary changes to the electric restructuring accounting provisions and cost recovery consistent with statutory requirements.

D. Earnings Outlook

PG&E Corporation expects its 2000 earnings per share (EPS) will reach between $2.50 and $2.55, exceeding its previously announced annual growth target of 8-10 percent by several percentage points. For 2001, PG&E Corporation expects its EPS to reach between $2.70 to $2.75, reflecting its stated 8-10 percent annual growth rate target. These estimates, which are based on assumptions management believes are reasonable, are forward looking statements that are subject to numerous risks and uncertainties that could cause actual results to differ materially from those estimated or expected. PG&E Corporation can give no assurance that such expectations and assumptions will prove to have been correct. Although PG&E Corporation is unable to identify all the risk factors that could affect future results of operations and financial condition, some of the risk factors include:

- regulatory changes, including the pace and extent of the ongoing restructuring of the electric and natural gas industries across the United States;

- future sales levels and economic conditions;

- the amount and method of recovery from customers of the under-collected electric procurement costs recorded in the Utility's TRA;

- what regulatory, judicial, or legislative actions may be taken to mitigate the higher power prices in California;

- the method and timing of disposition and valuation of the Utility's hydroelectric generation assets;

- the timing of the completion of the Utility's transition cost recovery

and the consequent end of the current electric rate freeze in California;

- any changes in the amount of transition costs the Utility is allowed to recover from its customers;

- future operating performance at the Utility's Diablo Canyon Nuclear Power Plant;

- the method adopted by the CPUC for sharing the net benefits of operating Diablo Canyon with ratepayers and the timing of the implementation of the adopted method;

- the extent of anticipated growth of transmission and distribution services in the Utility's service territory;

- the success of management's strategies to maximize shareholder value in PG&E National Energy Group, which may include acquisitions or dispositions of assets, or investments in emerging companies or new businesses;

- the extent to which our current or planned generation development projects are completed and the pace and cost of such completion;

- generating capacity expansion and retirements by others;

- the outcome of the Utility's various regulatory proceedings, including the proceeding to determine the value of the Utility's hydroelectric generation assets, the electric transmission rate case applications, post-transition period ratemaking proceedings, the 2001 attrition rate adjustment request, the cost of capital application, and the 2002 General Rate Case;

- future market prices for electricity and future fuel prices which, in part, are influenced by future weather conditions and the availability of hydroelectric power;

- fluctuations in commodity, gas, natural gas liquid, and electricity prices and the ability to successfully manage such price fluctuations;

- the pace and extent of competition in the California generation market and its impact on the Utility's costs and resulting collection of transition costs;

- the effect of compliance with existing and future environmental laws, regulations, and policies, the cost of which could be significant; and

- the outcome of pending litigation.

Item 7. Exhibits

Exhibit 99 Condensed Statement of Consolidated Income for the three months ended September 30, 2000

SIGNATURE

Pursuant to the requirements 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.

PG&E CORPORATION

By CHRISTOPHER P. JOHNS

CHRISTOPHER P. JOHNS
Vice President and Controlle

PACIFIC GAS AND ELECTRIC COMPANY

By KENT M. HARVEY

KENT M. HARVEY
Senior Vice President, Treasurer,
Chief Financial Officer, and
Controller

Dated: October 25, 2000

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
99	Condensed Statement of Consolidated Income for the three months ended September 30, 2000

TYPE: EX-99 OTHERDOC
SEQUENCE: 2
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Exhibit 99

PG&E CORPORATION
CONDENSED STATEMENT OF CONSOLIDATED INCOME
(unaudited)

	Three months ended September 30,	Nine Months ended September 30,
(in millions, except per		

share amounts)	2000	1999	2000	1999
Operating Revenues				
Pacific Gas and Electric Company	$ 2,523	$ 2,587	$ 7,037	$ 6,905
PG&E National Energy Group				
PG&E Generating	290	275	883	818
PG&E Gas Transmission				
-Texas	258	177	707	970
-Northwest	64	56	177	166
PG&E Energy Trading	4,777	3,490	10,493	8,145
Eliminations and Other	(408)	(368)	(1,147)	(979)
Total operating revenue	7,504	6,217	18,150	16,025
Operating Expenses				
Cost of energy for Pacific Gas and Electric Company	2,234	864	4,187	2,183
Cost of energy--PG&E National Energy Group	4,618	3,394	10,137	8,415
Deferred electric procurement costs	(2,176)	-	(2,789)	-
Operating expenses, including depreciation	2,199	1,443	4,688	3,970
Total operating expenses	6,875	5,701	16,223	14,568
Operating Income	629	516	1,927	1,457
Interest expense and other	(146)	(170)	(484)	(502)
Income Before Income Taxes	483	346	1,443	955
Income taxes	239	149	671	395
Income before discontinued operations and cumulative effect of a change in accounting principle	244	197	772	560
Discontinued operations				
Loss from operations of PG&E Energy Services (net of applicable income taxes of $9 million and $26 million, respectively)	-	(12)	-	(34)
Loss on disposal of PG&E Energy Services (net of applicable income taxes of $13 million)	(19)	-	(19)	-
Income before cumulative effect of a change in accounting principle	225	185	753	526
Cumulative effect of a change in an accounting principle (net of applicable income taxes of $8 million)	-	-	-	12
Net income	$ 225	$ 185	$ 753	$ 538

Weighted Average Common Shares Outstanding	362	367	361	369
Earnings Per Common Share, Basic				
Income from continuing operations	$ 0.67	$ 0.53	$ 2.14	$ 1.52
Discontinued operations	(0.05)	(0.03)	(0.05)	(0.09)
Cumulative effect of change in accounting principle	-	-	-	0.03
Net Income	$ 0.62	$ 0.50	$ 2.09	$ 1.46
Earnings Per Common Share, Diluted				
Income from continuing operations	$ 0.67	$ 0.53	$ 2.12	$ 1.51
Discontinued operations	(0.05)	(0.03)	(0.05)	(0.09)
Cumulative effect of change in accounting principle	-	-	-	0.03
Net Income	$ 0.62	$ 0.50	$ 2.07	$ 1.45
Dividends Declared Per Common Share	$ 0.30	$ 0.30	$ 0.90	$ 0.90

Earnings and earnings per share for PG&E Corporation's lines of business are as follows:

	Earnings (millions) Three months ended September 30,		Earnings (millions) Nine Months ended September 30,	
	2000	1999	2000	1999
Utility				
Pacific Gas and Electric Company (a)	$ 211	$ 179	$ 655	$ 498
PG&E National Energy Group				
PG&E Generating	16	21	70	77
PG&E Gas Transmission				
-Texas	-	(7)	-	(33)
-Northwest	16	18	43	46
PG&E Energy Trading	5	(17)	27	(19)
PG&E Energy Services	-	(12)	-	(34)
Eliminations and Other	-	3	(10)	(3)
Subtotal - PG&E National Energy Group	37	6	130	34
Earnings from Operations	248	185	785	532
Items impacting				

comparability (b)	(23)	-	(32)	6
Reported Earnings	$ 225	$ 185	$ 753	$ 538

	Earnings per Share (Diluted) Three months ended September 30,		Earnings per Share (Diluted) Nine Months ended September 30,	
	2000	1999	2000	1999
Utility				
Pacific Gas and Electric Company (a)	$ 0.58	$ 0.49	$ 1.80	$ 1.35
PG&E National Energy Group				
PG&E Generating	0.04	0.05	0.19	0.21
PG&E Gas Transmission				
-Texas	-	(0.02)	-	(0.10)
-Northwest	0.04	0.05	0.12	0.12
PG&E Energy Trading	0.02	(0.05)	0.08	(0.05)
PG&E Energy Services	-	(0.03)	-	(0.09)
Eliminations and Other	-	0.01	(0.03)	(0.01)
Subtotal - PG&E National Energy Group	0.10	0.01	0.36	0.08
Earnings from Operations	0.68	0.50	2.16	1.43
Items impacting comparability (b)	(0.06)	-	(0.09)	0.02
Reported Earnings	$ 0.62	$ 0.50	$ 2.07	$ 1.45

(a) 1999 results for Pacific Gas and Electric Company do not include the impacts associated with the delayed decision on the Company's 1999 General Rate Case (GRC), which was resolved in February 2000 and retroactive to January 1, 1999. The effects of the 1999 GRC were recorded in the fourth quarter of 1999 and would have increased 1999 third quarter and year-to-date earnings by $38 ($0.11 per share) and $115 ($0.32 per share).

(b) Items impacting comparability in 2000 include loss on disposal of assets, net of tax, of $19 million ($0.05 per share) resulting from a true-up following sale of the energy services operations and relocation and severance charges related to the restructuring of the PG&E National Energy Group of $4 million ($0.01 per share) in the third quarter and $13 million ($0.04 per share) in the nine months ended September 30, 2000. Items impacting comparability in the nine-month period ending September 30, 1999 include a restructuring charge of $6 million ($0.01 per share) incurred at PG&E Gas Transmission and income from a change in accounting principle at PG&E Generating of $12 million ($0.03 per share).

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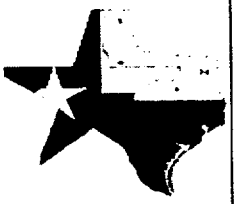

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Exhibit B

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PACIFIC GAS & ELECTRIC CO

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2000

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 or other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

Pacific Gas and Electric Company
77 Beale Street
P.O. Box 770000
San Francisco, California 94177

PG&E Corporation
One Market, Spear Tower
Suite 2400
San Francisco, California 94105

(Address of principal executive offices) (Zip Code)

Pacific Gas and Electric Company
(415) 973-7000

PG&E Corporation
(415) 267-7000

Registrant's telephone number, including area code

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock Outstanding October 26, 2000:

PG&E Corporation	387,095,350 shares
Pacific Gas and Electric Company	Wholly owned by PG&E Corporation

PG&E CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
PG&E CORPORATION
CONDENSED CONSOLIDATED INCOME STATEMENT
(in millions, except per share amounts)
<CAPTION>

	Three months ended September 30, 2000	1999 (1)	Nine Sep 2000
<S>	<C>	<C>	<C>
Operating revenues			
Utility	$ 2,523	$ 2,587	$ 7,037
Energy commodities and services	4,981	3,630	11,113
Total operating revenues	7,504	6,217	18,150
Operating expenses			
Cost of energy for utility	2,234	864	4,187
Deferred electric procurement costs	(2,176)	-	(2,789
Cost of energy commodities and services	4,618	3,394	10,137
Operating and maintenance	960	765	2,420
Depreciation, amortization and decommissioning	1,239	678	2,268
Total operating expenses	6,875	5,701	16,223
Operating income	629	516	1,927
Interest expense, net	191	190	556
Other income, net	45	20	72
Income before income taxes	483	346	1,443
Income taxes	239	149	671
Income from continuing operations	244	197	772
Discontinued operations			
Loss from operations of PG&E Energy Services (net of applicable income taxes of $9 million and $26 million, respectively)	-	(12)	-
Loss on disposal of PG&E Energy Services (net of applicable incomes taxes of $13 million)	(19)	-	(19
Income before cumulative effect of change in accounting principle	225	185	753
Cumulative effect of change in accounting principle (net of applicable income taxes of $8 million)	-	-	-
Net income	$ 225	$ 185	$ 753
Weighted Average Common Shares Outstanding	362	367	361
Earnings per common share, basic			
Income from continuing operations	$ .67	$ .53	$ 2.14
Discontinued operations	(.05)	(.03)	(.05
Cumulative effect of accounting change	-	-	-

	$ .62	$ .50	$ 2.09
Earnings per common share, diluted			
Income from continuing operations	$ .67	$ .53	$ 2.12
Discontinued operations	(.05)	(.03)	(.05
Cumulative effect of accounting change	-	-	-
	$ .62	$ .50	$ 2.07
Dividends declared per common share	$ .30	$ .30	$ .90

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra this statement.

(1) Amounts have been restated to reflect the change in accounting for major mainte overhauls at the PG&E National Energy Group (see Note 1 of the Notes to the Condense Consolidated Financial Statements), and reclassification of PG&E Energy Services ope results to discontinued operations. The accounting change resulted in a cumulative recorded as of January 1, 1999, of $12 million ($0.03 per share), net of income taxe million. Operating income previously reported for the third quarter of 1999 was $492 Net income previously reported for the third quarter of 1999 was $183 million ($0.50
</TABLE

</TABLE>
<TABLE>
PG&E CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET (in millions)
<CAPTION>

	Balance a
	September 30, 2000
<S>	<C>
ASSETS	
Current assets	
Cash and cash equivalents	$ 304
Short-term investments	819
Accounts receivable	
Customers, net	1,641
Energy marketing	1,187
Price risk management	776
Inventories and prepayments	987
Deferred income taxes	-
Total current assets	5,714
Property, plant, and equipment	
Utility	23,201
Non-utility	
Electric generation	1,976
Gas transmission	2,522
Construction work in progress	686
Other	151
Total property, plant, and equipment (at original cost)	28,536
Accumulated depreciation and decommissioning	(11,485)
Property, plant, and equipment, net	17,051
Other noncurrent assets	

Regulatory assets	6,726
Nuclear decommissioning funds	1,385
Other	3,015
Total noncurrent assets	11,126
TOTAL ASSETS	$ 33,891

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra
this statement.
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<TABLE>
PG&E CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET (in millions)
<CAPTION>

	Balance a
	September 30, 2000
<S>	<C>
LIABILITIES AND EQUITY	
Current liabilities	
Short-term borrowings	$ 2,369
Current portion of long-term debt	616
Current portion of rate reduction bonds	290
Accounts payable	
Trade creditors	2,002
Other	315
Regulatory balancing accounts	24
Energy marketing	1,234
Accrued taxes	-
Price risk management	646
Other	1,182
Total current liabilities	8,678
Noncurrent liabilities	
Long-term debt	6,512
Rate reduction bonds	1,817
Deferred income taxes	3,628
Deferred tax credits	162
Other	4,920
Total noncurrent liabilities	17,039
Preferred stock of subsidiaries	480
Utility obligated mandatorily redeemable preferred securities of trust holding solely utility subordinated debentures	300
Common stockholders' equity	
Common stock, no par value, authorized 800,000,000 shares, issued, 386,703,729 and 384,406,113 shares, respectively	5,958
Common stock held by subsidiary, at cost, 23,815,500 shares	(690)
Reinvested earnings	2,126
Total common stockholders' equity	7,394
Commitments and contingencies (Notes 2 and 6)	-

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 33,891

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra
this statement.
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<TABLE>
PG&E CORPORATION
STATEMENT OF CONDENSED CONSOLIDATED CASH FLOWS (in millions)
<CAPTION>

	For the nine mon September 3 2000
<S>	<C>
Cash flows from operating activities	
Net income	$ 753
Adjustments to reconcile net income to net cash provided by operating activities:	
Loss on disposal of businesses	19
Depreciation, amortization and decommissioning	2,268
Deferred electric procurement costs	(2,789)
Deferred income taxes and tax credits-net	545
Other deferred charges and noncurrent liabilities	861
Cumulative effect of change in accounting principle	-
Changes in operating assets and liabilities,net of effect of discontinued operations:	
Short-term investments	(632)
Accounts receivable - trade	(810)
Regulatory balancing accounts payable	(360)
Inventories and prepayments	(194)
Price risk management assets and liabilities, net	(98)
Accounts payable - trade	1,294
Accrued taxes	(211)
Other working capital	536
Other-net	28
Net cash provided by operating activities	1,210
Cash flows from investing activities	
Capital expenditures	(1,220)
Net proceeds from sales of businesses	103
Other-net	(316)
Net cash provided by investing activities	(1,433)
Cash flows from financing activities	
Net borrowings (repayments) under credit facilities	894
Long-term debt matured, redeemed, or repurchased	(432)
Long-term debt issued	57
Common stock issued	52
Common stock repurchased	-
Dividends paid	(325)
Other-net	-
Net cash provided by financing activities	246
Net change in cash and cash equivalents	23
Cash and cash equivalents at January 1	281

Cash and cash equivalents at September 30	$ 304
Supplemental disclosures of cash flow information	
Cash paid for:	
Interest (net of amounts capitalized)	$ 471
Income taxes (net of refunds)	$ 23

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra
this statement.
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</TABLE>
<TABLE>
PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED INCOME STATEMENT (in millions)
<CAPTION>

	Three months ended September 30, 2000	1999	Nine Se 2000
<S>	<C>	<C>	<C>
Operating revenues			
Electric utility	$ 1,999	$ 2,189	$ 5,401
Gas utility	524	398	1,636
Total operating revenues	2,523	2,587	7,037
Operating expenses			
Cost of electric energy	2,056	746	3,544
Deferred electric procurement costs	(2,176)	-	(2,789
Cost of gas	178	118	643
Operating and maintenance,	730	615	1,824
Depreciation, amortization, and decommissioning	1,202	622	2,160
Total operating expenses	1,990	2,101	5,382
Operating income	533	486	1,655
Interest expense, net	150	148	435
Other income, net	30	8	47
Income before income taxes	413	346	1,267
Income taxes	196	161	594
Net income	217	185	673
Preferred dividend requirement	6	6	18
Income available for common stock	$ 211	$ 179	$ 655

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra
this statement.
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<TABLE>

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEET (in millions)
<CAPTION>

	Balance a September 30, 2000 D
<S>	<C>
ASSETS	
Current assets	
Cash and cash equivalents	$ 68
Short-term investments	242
Accounts receivable, net	1,327
Inventories	283
Prepayments	56
Income tax receivable	295
Deferred income taxes	-
Total current assets	2,271
Property, plant, and equipment	
Electric	15,718
Gas	7,483
Construction work in progress	228
Total property, plant, and equipment (at original cost)	23,429
Accumulated depreciation and decommissioning	(10,616)
Property, plant, and equipment, net	12,813
Other noncurrent assets	
Regulatory assets	6,650
Nuclear decommissioning funds	1,385
Other	1,064
Total noncurrent assets	9,099
TOTAL ASSETS	$ 24,183

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra
this statement.
</TABLE>

<TABLE>
PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEET (in millions)
<CAPTION>

	Balance a September 30, 2000 D
<S>	<C>
LIABILITIES AND EQUITY	
Current liabilities	
Short-term borrowings	$ 917
Current portion of long-term debt	399

Current portion of rate reduction bonds	290
Accounts payable	
Trade creditors	1,859
Related parties	27
Regulatory balancing accounts	24
Other	347
Accrued taxes	-
Deferred income taxes	10
Other	644
Total current liabilities	4,517
Noncurrent liabilities	
Long-term debt	4,866
Rate reduction bonds	1,817
Deferred income taxes	2,991
Deferred tax credits	161
Other	3,606
Total noncurrent liabilities	13,441
Preferred stock with mandatory redemption provisions	
6.30% and 6.57%, outstanding 5,500,000 shares, due 2002-2009	137
Company obligated mandatorily redeemable preferred securities of trust holding solely utility subordinated debentures	
7.90%, 12,000,000 shares due 2025	300
Stockholders' equity	
Preferred stock without mandatory redemption provisions	
Nonredeemable - 5% to 6%, outstanding 5,784,825 shares	145
Redeemable - 4.36% to 7.04%, outstanding 5,973,456 shares	142
Common stock, $5 par value, authorized 800,000,000 shares, issued 321,314,760 shares	1,606
Common stock held by subsidiary, at cost, 19,481,213 and 7,627,765 shares, respectively	(475)
Additional paid in capital	1,971
Reinvested earnings	2,399
Total stockholders' equity	5,788
Commitments and contingencies (Notes 2 and 6)	-
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	24,183

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra
this statement.
</TABLE>

<TABLE>
PACIFIC GAS AND ELECTRIC COMPANY
STATEMENT OF CONDENSED CONSOLIDATED CASH FLOWS (in millions)
<CAPTION>

	For the nine mo September 2000
<S>	<C>
Cash flows from operating activities	
Net income	$ 673
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation, amortization, and decommissioning	2,160

Deferred electric procurement costs	(2,789)
Deferred income taxes and tax credits-net	540
Other deferred charges and noncurrent liabilities	640
Net effect of changes in operating assets and liabilities:	
Short-term investments	(221)
Accounts receivable	(117)
Regulatory balancing accounts payable	(360)
Inventories and prepayments	(306)
Accounts payable - trade	1,093
Accrued taxes	(118)
Other working capital	122
Other-net	(20)
Net cash provided by operating activities	1,297
Cash flows from investing activities	
Capital expenditures	(874)
Proceeds from sale of assets	-
Other-net	38
Net cash used by investing activities	(836)
Cash flows from financing activities	
Net borrowings (repayments) under credit facilities	468
Long-term debt matured, redeemed, or repurchased	(291)
Common stock repurchased	(275)
Dividends paid	(375)
Net cash used by financing activities	(473)
Net change in cash and cash equivalents	(12)
Cash and cash equivalents at January 1	80
Cash and cash equivalents at September 30	$ 68
Supplemental disclosures of cash flow information	
Cash paid for:	
Interest (net of amounts capitalized)	$ 295
Income taxes (net of refunds)	$ -

<FN>
The accompanying Notes to Condensed Consolidated Financial Statements are an integra
this statement.
</TABLE

PG&E CORPORATION AND PACIFIC GAS AND ELECTRIC COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: GENERAL

Basis of Presentation

This Quarterly Report on Form 10-Q is a combined report of PG&E Corporation and Pacific Gas and Electric Company (the Utility), a regulated subsidiary of PG&E Corporation. The Notes to Condensed Consolidated Financial Statements apply to both PG&E Corporation and the Utility. PG&E Corporation's condensed consolidated financial statements include the accounts of PG&E Corporation and its wholly owned and controlled subsidiaries, including the Utility (collectively, the Corporation). The Utility's condensed consolidated financial statements include its accounts as well as those of its wholly owned

and controlled subsidiaries.

The Utility's financial position and results of operations are the principal factors affecting the Corporation's consolidated financial position and results of operations. This quarterly report should be read in conjunction with the Corporation's and the Utility's Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements incorporated by reference in their combined 1999 Annual Report on Form 10-K, and the Corporation's and the Utility's other reports filed with the Securities and Exchange Commission since their 1999 Form 10-K was filed.

PG&E Corporation and the Utility believe that the accompanying condensed consolidated statements reflect all adjustments that are necessary to present a fair statement of the condensed consolidated financial position and results of operations for the interim periods. All material adjustments are of a normal recurring nature unless otherwise disclosed in this Form 10-Q. All significant intercompany transactions have been eliminated from the condensed consolidated financial statements.

Certain amounts in the prior year's condensed consolidated financial statements have been reclassified to conform to the 2000 presentation. Results of operations for interim periods are not necessarily indicative of results to be expected for a full year.

Effective January 1, 1999, PG&E Corporation changed its method of accounting for major maintenance and overhauls at PG&E National Energy Group. Beginning January 1, 1999, the costs of major maintenance and overhauls, principally at PG&E Generating Company (PG&E Gen), have been accounted for as incurred. Previously, the estimated cost of major maintenance and overhauls was accrued in advance in a systematic and rational manner over the period between major maintenance and overhauls. The change resulted in PG&E Corporation recording income of $12 million net of income tax of $8 million, reflecting the cumulative effect of the change in accounting principle. The Utility consistently has accounted for major maintenance and overhauls as incurred.

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

PG&E Corporation expects to adopt Statement of Financial Accounting Standards (SFAS) No. 133, as amended by SFAS No. 138, effective January 1, 2001. The Statement will require that the Company recognize all derivatives, as defined in the Statement, on the balance sheet at fair value. Derivatives, or any portion thereof, that are not effective hedges must be adjusted to fair value through income. If derivatives are effective hedges, depending on the nature of the hedges, changes in the fair value of derivatives either will be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or will be recognized in other comprehensive income until the hedged items are recognized in earnings. The Corporation currently is evaluating what the effect of SFAS No. 133 will be on the earnings and financial position of PG&E Corporation. However, the mark-to-market method of accounting is already applied for commodity non-hedging and risk management activities.

NOTE 2: THE CALIFORNIA ELECTRIC INDUSTRY

In 1998, California became one of the first states in the country to implement electric industry restructuring and establish a market framework

for electric generation. Today, most Californians may continue to purchase their electricity from investor-owned utilities such as Pacific Gas and Electric Company, or they may choose to purchase electricity from alternative generation providers (such as independent power generators and retail electricity suppliers such as marketers, brokers, and aggregators). For those customers who have not chosen an alternative generation provider, investor-owned utilities, such as the Utility, continue to be the generation providers. Investor-owned utilities continue to provide distribution services to substantially all customers within their service territories, including customers who choose an alternative generation provider.

An Independent System Operator (ISO) and a Power Exchange (PX) operate in California. The PX provides a process to establish market-clearing prices for electricity in the markets operated by the PX. The ISO schedules delivery of electricity for all market participants and operates the real-time and ancillary services markets for electricity. (Ancillary services are needed to maintain the reliability of the electric grid.) The Utility continues to own and maintain its transmission system, but the ISO controls the operation of the system. During the transition period, the Utility is required to bid or schedule into the PX and ISO markets all of the electricity generated by its power plants and electricity acquired under contractual agreements with unregulated generators. On August 3, 2000, the California Public Utilities Commission (CPUC) authorized the Utility to purchase energy and ancillary services and capacity products for retail customers in wholesale markets outside the PX and to set up memorandum accounts to track related costs. Such transactions are confined to previous limits established for forward market purchases and must expire before December 31, 2005.

Competitive Market Framework

Beginning in June 2000, the Utility has experienced unanticipated and massive increases (above the generation-related costs component embedded in frozen rates) in the wholesale costs of the electric energy that is purchased from the PX on behalf of its retail customers. The average price that the PX charged the Utility for electric power in the months of June, July, August, and September 2000, was approximately 16.3 cents per kilowatt-hour (kWh), 11.0 cents per kWh, 18.7 cents per kWh and 14.0 cents per kWh, respectively, compared to 3.0, 3.9, 4.1 and 4.0 cents per kWh for the same months in 1999. The generation-related cost component that is embedded in frozen rates and available for payment of wholesale electric power costs during those same periods was approximately 5.4 cents per kWh. The forward curve for power prices in the California market suggests that these costs may remain well above the embedded cost component of frozen rates through the end of this year and beyond next summer unless significant changes occur in the wholesale power market.

As a result, the Utility has incurred and continues to incur expenses representing the excess of power purchase costs above the generation component embedded in frozen rates. Such expenses are deferred to a regulatory balancing account called the Transition Revenue Account (TRA). The TRA balance as of September 30, 2000 was approximately $2.9 billion. The TRA balance does not reflect the Utility's revenues from (1) sales of energy from retained generation facilities to the PX in excess of authorized costs or (2) the amount by which the PX prices exceed the purchase price contained in the Utility's long-term contracts to purchase energy from Qualifying Facilities (QF) and other power providers. Approximately half of the Utility's suppliers under QF contracts have elected to receive PX based prices for energy in addition to contractual capacity payments. The Utility expects that most remaining QF generators will elect to receive PX prices for their energy payments by summer 2001. The Utility pays these suppliers directly, rather than through the PX, but receives billing credits for energy delivered to the PX from QFs.

A prior CPUC decision would prohibit the Utility from collecting after the transition period certain electric costs incurred during the transition period but not recovered from frozen rates during that period, including TRA under-collections. The CPUC decision also would prohibit offsetting these specific under-collected balances against over-collected transition costs. The Utility is seeking judicial review by the California Supreme Court. The Utility's petition is pending.

On October 4, 2000, the Utility and Southern California Edison Company filed separate emergency petitions with the CPUC to rescind and modify as necessary prior decisions prohibiting utilities from carrying over costs incurred during the rate freeze to the post-rate freeze period. The utilities noted that many parties have acknowledged that the wholesale electric power market is not workably competitive and that the significant increases in prices were not considered in the CPUC's original rulings. On October 17, 2000, the administrative law judge (ALJ) and the CPUC commissioner assigned to review the emergency petitions issued a joint ruling indicating that they would reconsider the accounting mechanisms established in prior CPUC decisions and adopt a schedule that permits a decision by the end of the year.

In response to the above ruling, the Utility filed its proposals requesting that the CPUC modify its prior decisions to authorize the utilities to transfer any unrecovered balance in the TRA as of the end of the rate freeze into a new balancing account, and authorize recovery of the balance in that new account over a period not to exceed four years, subject to a rate stabilization plan to be addressed in a second phase of the proceeding. The Utility asked the CPUC to adopt an expedited procedural schedule in a second phase that would, not later than March 31, 2001, resolve the following issues: (1) implementation of when and how the rate freeze is to be ended; (2) adoption of post rate freeze tariffs and rates; (3) approval of the rate stabilization plan; and (4) adoption of the retail rate components for recovery of the new balancing account. The Utility indicated that it will submit its detailed proposals on the rate stabilization plan and tariffs by November 15, 2000.

At the prehearing conference held on October 27, 2000, the ALJ indicated that the scope of the proceeding was solely to consider accounting mechanisms to reduce the TRA under-collections and that the Utility's proposals for interim relief were broader than contemplated in the October 17th ruling, were not consistent with the CPUC's prior decisions precluding carryover of under-collected TRA costs, and would not be considered in the proceeding before the end of the year. However, the ALJ indicated that the CPUC would consider proposals made by The Utility Reform Network (TURN), a consumer group, to transfer TRA under-collections to the Transition Cost Balancing Account (TCBA) discussed below. TURN's proposals would treat under-collected electric procurement costs for accounting purposes as if such costs were unrecovered transition costs, the likely effect of which would be to delay the completion of transition cost recovery by the Utility as well as delay the end of the rate freeze. If TURN's proposal were adopted, the Utility would have to write-off any unrecovered transition costs remaining in the TCBA if such costs were not probable of recovery. The ALJ ordered the parties to respond to the utilities' emergency petitions and to TURN's proposal by November 9, 2000.

The Utility reviews on an ongoing basis the facts and circumstances relating to the TRA under-collections. The Utility currently believes recovery of the TRA under-collections is probable. TRA under-collections are recorded as a regulatory asset on the balance sheet rather than being charged to earnings because it is probable that these under-collections will be recovered through the ratemaking process. However, ultimate recovery is dependent upon the favorable outcome of the regulatory actions described above, as well as upon other factors such as future market prices of electricity and future fuel prices that, in part, are influenced by sales level, and economic conditions,

about which there can be no certainty. If regulatory or judicial relief is not forthcoming, and if the Utility determines that its uncollected wholesale power purchase costs are not probable of recovery, then the Utility would be required to write off the unrecoverable portion as a charge against earnings. In addition, the Utility would be unable to continue deferring these costs incurred during the transition period and such expenses would reduce the Utility's future earnings accordingly. With respect to wholesale power purchase costs incurred after the end of the transition period and prior to any adjustment in rates, the Utility may be able to defer these costs if it determines that they are probable of recovery.

The Utility is actively exploring ways to reduce its exposure to the higher power purchase costs and its corresponding TRA balance, including working with interested parties to address power market dysfunction before appropriate regulatory bodies and hedging a portion of its open procurement position against higher purchase power costs through forward purchases. The CPUC only recently authorized the Utility to enter into bilateral power purchase contracts. In October 2000, the Utility entered into bilateral power purchase contracts with several suppliers.

On October 16, 2000, the Utility joined with Southern California Edison and TURN in filing a petition with the Federal Energy Regulatory Commission (FERC) requesting that the FERC (1) immediately find the California wholesale electricity market to be not workably competitive and the resulting prices to be unjust and unreasonable; (2) immediately impose a cap on the price for energy and ancillary services; and (3) institute further expedited proceedings regarding the market failure, mitigation of market power, structural solutions, and responsibility for refunds. However, the reduced price cap requested, even if approved, would still be above the approximate 5.4 cents per kWh embedded in frozen rates for the payment of the Utility's wholesale power purchase costs. Also, on October 20, 2000, the ISO filed a market stabilization plan with the FERC requesting the FERC to impose a price cap of $100 per megawatt-hour (Mwh) (10 cents per kWh) for generators who do not enter into contracts to supply 70 percent of their supply to serve California customers. There are certain other exemptions to the $100 price cap. The existing $250 price cap per Mwh hour (25 cents per kWh) would apply to generators who are exempt from the $100 per Mwh hour price cap. The ISO also has recommended that buyers (utilities) be required to contract for 85 percent of their customer requirements for power in advance of when the power is needed. Further, the ISO has adopted additional load based price caps for the real-time and ancillary service markets which would range between $65 and $250 per Mwh. These price caps would begin as soon as November 3, 2000, and remain in place until real-time and ancillary service markets have demonstrated that they are workably competitive under a variety of load conditions.

A Joint Resolution of the California legislature called on the CPUC to initiate an investigation to review the impact of the current electricity crisis on consumers and California investor-owned utilities with emphasis on the options for correcting the electricity market, methods to eliminate price volatility for consumers, and importantly, methods for cost recovery and cost allocation. In response, the CPUC issued an order on September 7, 2000 expanding an existing investigation into the wholesale electric market and the associated impact on electric rates to include the issues identified by the legislature.

For the three and nine months ended September 30, 2000 and 1999, the cost of electric energy for the Utility, reflected on the Condensed Consolidated Income Statement, is comprised of the cost of fuel for electric generation and QF purchases, the cost of PX purchases, and ancillary services charged by the ISO, net of sales to the PX, as follows:

</TABLE>

<TABLE>

<CAPTION>

	Three months ended September 30, 2000	1999	Nine m Sept 2000
<S>	<C>	<C>	<C>
(in millions)			
Cost of fuel for electric generation and QF purchases	$ 592	$ 409	$ 1,203
Cost of purchases from the PX and ISO	2,132	554	3,492
Proceeds from sales to the PX	(668)	(217)	(1,151)
Total Utility cost of electric energy	$ 2,056	$ 746	$ 3,544

</TABLE>

Transition Period, Rate Freeze, and Rate Reduction

California's electric industry restructuring established a transition period during which electric rates remain frozen at 1996 levels (with the exception that, on January 1, 1998, rates for small commercial and residential customers were reduced by 10 percent and remain frozen at this reduced level) and investor-owned utilities may recover their transition costs. Transition costs are generation-related costs that prove to be uneconomic under the new industry structure. The transition period ends the earlier of December 31, 2001, or when the particular utility has recovered its eligible transition costs.

To pay for the 10 percent rate reduction, the Utility refinanced $2.9 billion (the expected revenue reduction from the rate decrease) of its transition costs with the proceeds from the rate reduction bonds. The bonds allow for the rate reduction by lowering the carrying cost on a portion of the transition costs and by deferring recovery of a portion of these transition costs until after the transition period. During the rate freeze, the rate reduction bond debt service will not increase the Utility customers' electric rates. If the transition period ends before December 31, 2001, the Utility may be obligated to return a portion of the economic benefits of the transaction to customers. The timing of any such return and the exact amount of such portion, if any, have not yet been determined.

Revenues from frozen electric rates provide for the recovery of authorized Utility costs, including transmission and distribution service, public purpose programs, nuclear decommissioning, rate reduction bond debt service, and the cost of procuring electricity for the Utility's retail customers. To the extent the revenues from frozen rates exceed authorized Utility costs, the remaining revenues constitute the competition transition charge (CTC), which recovers the transition costs. These CTC revenues are being recovered from all Utility distribution customers and are subject to seasonal fluctuations in the Utility's sales volumes, fluctuating PX energy prices, and certain other factors. The CTC is collected regardless of the customer's choice of electricity supplier (i.e., the CTC is non-bypassable).

Transition Cost Recovery

Although most transition costs must be recovered during the transition period, certain transition costs can be recovered after the transition period. Except for the transition costs discussed below, at the conclusion of the transition period, the Utility will be at risk to recover

any of its remaining generation costs through market-based revenues.

Transition costs consist of (1) above-market sunk costs (costs associated with utility generating facilities that are fixed and unavoidable and that were included in customers' rates on December 20, 1995) and future sunk costs, such as costs related to plant removal, (2) costs associated with long-term contracts to purchase power at above-market prices from qualifying facilities and other power suppliers, and (3) generation-related regulatory assets and obligations. (In general, regulatory assets are expenses deferred in the current or prior periods, to be included in rates in subsequent periods.)

Above-market sunk costs result when the book value of a facility exceeds its market value. Conversely, below-market sunk costs result when the market value of a facility exceeds its book value. The total amount of generation facility costs to be included as transition costs is based on the aggregate of above-market and below-market values. The above-market portion of these costs is eligible for recovery as a transition cost. The below-market portion of these costs will reduce other unrecovered transition costs. Revenues generated from the Utility's sales to the PX and ISO that exceed authorized costs are also used to offset transition costs.

For nuclear transition costs, revenues provided for transition cost recovery are based on the accelerated recovery of the investment in Diablo Canyon Nuclear Power Plant (Diablo Canyon) over a five-year period ending December 31, 2001.

Costs associated with the Utility's long-term contracts to purchase electric power are included as transition costs. Regulation required the Utility to enter into long-term agreements with non-utility generators to purchase electric power at fixed prices. Prices fixed under these contracts have generally been above prices for power in wholesale markets. Over the remaining life of these contracts, the Utility estimates that it will purchase 299 million MWh of electric power. The contracts expire at various dates through 2028. To the extent that the individual contract prices are above the market price, the Utility is collecting the difference between the contract price and the market price from customers, as a transition cost, over the term of the contract. To the extent that the contracted prices are below the market price, the Utility is using the savings to offset other transition costs during the transition period.

The total costs under long-term contracts are based on several variables, including the capacity factors of the related generating facilities and future market prices for electricity. For the nine months ended September 30, 2000 and 1999, the average price paid under the Utility's long-term contracts for electricity was 7.8 cents and 6.4 cents per kWh, respectively.

At September 30, 2000, and December 31, 1999, the Utility's net generation-related regulatory assets (excluding the TRA) totaled $2.6 billion and $4.0 billion, respectively. Included in the generation-related regulatory assets at September 30, 2000, is $2.1 billion associated with the valuation of the Utility's hydroelectric generation facilities (discussed below), a regulatory asset related to the rate reduction bonds of approximately $1.1 billion, and a credit balance of $0.6 billion in balancing account called the Transition Cost Balancing Account (TCBA) which tracks the amount of transition costs that must be recovered. These generation-related regulatory assets decreased by $1.4 billion for the nine months ended September 30, 2000, and decreased $955 million for the nine months ended September 30, 1999.

Certain transition costs can be recovered through a non-bypassable charge to distribution customers after the transition period. These costs include (1) certain employee-related transition costs, (2) above-market payments under existing long-term contracts to purchase power, discussed above, (3) up to $95 million of transition costs to the extent that the recovery of such

costs during the transition period was displaced by the recovery of electric industry restructuring implementation costs, and (4) transition costs financed by the rate reduction bonds. Transition costs financed by the issuance of rate reduction bonds will be recovered over the term of the bonds. In addition, the Utility's nuclear decommissioning costs are being recovered through a CPUC-authorized charge, which will extend until sufficient funds exist to decommission the nuclear facility. During the rate freeze, the charge for these costs will not increase Utility customers' electric rates. Excluding these exceptions, the Utility will write off any transition costs not recovered during the transition period.

The Utility has been amortizing its transition costs, including most generation-related regulatory assets, over the transition period in conjunction with the available CTC revenues. During the transition period, a reduced rate of return on common equity of 6.77 percent applies to all generation assets, including those generation assets reclassified to regulatory assets. Beginning January 1, 1998, the Utility started collecting these eligible transition costs through the non-bypassable CTC, market valuation of generation assets in excess of book value, and energy sales from the Utility's electric generation facilities prior to market valuation. Further, transition costs are reduced by the amount that contract prices to purchase power from QFs and other providers are lower than the PX price.

During the transition period, the CPUC reviews the Utility's compliance with accounting methods established in the CPUC's decisions governing transition cost recovery and the amount of transition costs requested for recovery. In February 2000, the CPUC approved substantially all non-nuclear transition costs that were amortized during the first six months of 1998. The CPUC currently is reviewing non-nuclear transition costs amortized from July 1, 1998, to June 30, 1999.

Under the electric industry restructuring law, when the Utility has recovered all of its transition costs the conditions for terminating the rate freeze and ending the transition period will have been satisfied. On August 9, 2000, a settlement agreement was filed by the Utility and others with the CPUC regarding the valuation and disposition of the Utility's hydroelectric assets, specifying that the value of those assets for purpose of transition cost calculation is $2.8 billion.

At August 31, 2000, consistent with transition cost recovery procedures adopted by the CPUC, the Utility credited its TCBA by $2.1 billion, the amount by which the value of the hydroelectric generating assets exceeded the aggregate book value of such assets. The Utility also established a separate regulatory asset in the same amount. The accounting entries were based on the value used in the proposed settlement discussed above. Based on the credit made to the TCBA, the Utility would have completed collection of all transition costs that must be collected during the transition period as of August 2000. If the hydroelectric assets were to be sold or valued at a higher amount, the Utility's transition costs would have been recovered as of an earlier date. Testimony taken to date in the CPUC proceeding in which valuation is to be established put the range of market values from $2.4 billion to in excess of $3 billion under operating and market conditions prior to June 2000. On October 16, 2000, the CPUC issued a ruling re-opening the proceeding to obtain more information from parties about market valuation in light of the different market conditions experienced during the summer of 2000. That new testimony is to be submitted in December 2000 with further testimony and evidentiary hearings scheduled for next year. The accounting entries discussed above are subject to later adjustment based on the final valuation of the hydroelectric assets adopted by the CPUC.

Under the electric industry restructuring law, after the Utility recovers its transition costs, the Utility's retail customers assume responsibility for wholesale energy costs. Actual changes in customer rates will not occur

until the Utility files for new retail rates and the CPUC authorizes them.

During the transition period, the Utility is required to continue to use the transition period accounting mechanisms, discussed above. This requires that revenues from sales to the PX of Utility-owned generation and generation from QFs and other providers in excess of costs be credited to the TCBA. In addition, the TCBA balance includes a credit for the amount of PX revenues from the Utility's sale of generation from the Diablo Canyon nuclear power plant to the PX that exceed revenues from the fixed Incremental Cost Incentive Price (ICIP). (During 2000, the ICIP is 3.43 cents per kWh.) After taking into account the credit for the hydroelectric assets described above, at September 30, 2000, the Utility's TCBA had a credit balance of approximately $585 million. As mentioned above, the CPUC has issued a ruling indicating that it would reconsider certain of these accounting mechanisms noting that the CPUC has the authority to implement any necessary changes to the electric restructuring accounting provisions and cost recovery consistent with statutory requirements.

Generation Divestiture

In 1998, the Utility sold three fossil-fueled generation plants for $501 million. These three fossil-fueled plants had a combined book value at the time of the sale of $346 million and a combined capacity of 2,645 megawatts (MW).

On April 16, 1999, the Utility sold three other fossil-fueled generation plants for $801 million. At the time of sale, these three fossil-fueled plants had a combined book value of $256 million and a combined capacity of 3,065 MW.

On May 7, 1999, the Utility sold its complex of geothermal generation facilities for $213 million. At the time of sale, these facilities had a combined book value of $244 million and a combined capacity of 1,224 MW.

The gains from the sale of the fossil-fueled generation plants were used to offset other transition costs. Likewise, the loss from the sale of the complex of geothermal generation facilities is being recovered as a transition cost.

The Utility has retained a liability for required environmental remediation related to any pre-closing soil or groundwater contamination at the plants it has sold.

As discussed above, on August 9, 2000, the Utility and a number of interested parties filed an application with the CPUC requesting that the CPUC approve a settlement agreement reached by these parties in the Utility's proceeding to determine the market value of its hydroelectric generation assets. In this settlement agreement, the Utility indicated that it would transfer its hydroelectric generation assets, at a value of $2.8 billion, to an affiliate (referred to herein as PG&E CalHydro) that would not be subject to cost of service regulation by the CPUC.

PG&E CalHydro would hold and operate the assets, subject to a 40-year revenue sharing agreement (RSA) between PG&E CalHydro and the Utility. Under the RSA, PG&E CalHydro would be allowed to recover an authorized inflation-indexed operations and maintenance allowance, certain other expenses including an allowance for capital additions, and a return on capital investment. The return on equity (ROE) initially would be set at 12.50 percent and would be subject to an indexed adjustment trigger. Under the RSA, 90 percent of the after-tax earnings received in excess of the agreed-upon costs (including the target ROE) would be returned to the Utility to be used as a credit against current costs charged to the Utility's distribution

ratepayers. If market revenues were insufficient to recover the agreed-upon costs of operating the hydroelectric facilities (including the target ROE) over a multi-year period, 90 percent of the revenue shortfalls would be charged to the Utility to be recovered from distribution customers.

The RSA would become effective on the date that the CPUC order approving the settlement and the RSA becomes final and non-appealable, subject to termination by either the Utility or PG&E CalHydro in certain circumstances. The CPUC may accept the settlement or reject it, suggest changes to it, or adopt a different valuation approach. In addition, the transfer of the assets from the Utility to PG&E CalHydro will require the approval of the FERC.

At September 30, 2000, the book value of the Utility's net investment in hydroelectric generation assets was approximately $700 million. The above settlement, if approved, would result in a pre-tax charge of $2.1 billion. If the value of the hydroelectric generation assets is determined by any method other than a sale of the assets to an unrelated third party, a material charge to Utility earnings could result. The timing and nature of any such charge is dependent upon the valuation method and procedure adopted, and the method of implementation. The CPUC is not likely to consider the Utility's proposed settlement until next year, and it is uncertain at this time whether the settlement will be approved, modified or rejected, or withdrawn.

Post-Transition Period

The CPUC has established the Purchased Electric Commodity Account (PECA) for the Utility to track energy costs after the rate freeze and transition period end. In June 2000, the CPUC issued a decision in the second phase of the Utility's post-transition period electric ratemaking proceeding. Among other things, the CPUC determined that the PECA would reflect a pass-through of energy costs, possibly subject to after-the-fact reasonableness reviews.

After the rate freeze ends, Diablo Canyon will be operated as a competitive generator of electricity with revenues generated from prevailing market rates. During the rate freeze, Diablo Canyon's operating costs have been recovered through the incremental cost incentive price (ICIP) mechanism. The ICIP, which has been in place since January 1, 1997, is a performance-based mechanism that establishes a rate per kWh generated by the facility. The ICIP prices for 1999, 2000, and 2001 are 3.37 cents per kWh, 3.43 cents per kWh, and 3.49 cents per kWh, respectively.

As required by a prior CPUC decision on June 30, 2000, the Utility filed an application with the CPUC requesting approval of its proposal for sharing with ratepayers 50 percent of the post-rate freeze net benefits of operating Diablo Canyon. The net benefit sharing methodology proposed in the Utility's application would be effective at the end of the current electric rate freeze for the Utility's customers and would continue for as long as the Utility owned Diablo Canyon. Under the proposal, the Utility would share the net benefits of operating Diablo Canyon based on the audited profits from operations, determined consistent with the prior CPUC decisions. If Diablo Canyon experiences losses, such losses would be accrued and netted against profits in the calculation of the net benefits in subsequent periods (or against profits in prior periods if subsequent profits are insufficient to offset such losses). Any changes to the net sharing methodology must be approved by the CPUC.

Future Competition

Opening California's electric generation to competition has raised certain interest in introducing further competition in the electric industry. The CPUC has opened a rulemaking proceeding to examine the various issues associated with distributed generation. Distributed generation enables the

siting of electric generation technologies in close proximity to electric demand, and raises issues about stranded costs (both within distribution and transmission systems), interconnection charges, and cost allocation. The CPUC staff has issued a report identifying options for possible CPUC consideration regarding the additional unbundling of the electric distribution function and evaluate the investor-owned utilities' role of default provider of electricity.

It is too early to predict what may come of these matters. PG&E Corporation is unable to predict when these issues will be addressed by the CPUC or whether the results will have any impact on the Utility.

NOTE 3: RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The following table is a summary of the contract or notional amounts and maturities of PG&E Corporation's contracts used for non-hedging activities related to commodity risk management as of September 30, 2000 and 1999. Short and long positions pertaining to derivative contracts used for hedging activities as of September 30, 2000 and 1999, are immaterial.

Natural Gas, Electricity, and Natural Gas Liquids Contracts	Purchase (Long)	Sale (Short)	Maximum Term in Years
(billions of MMBtu equivalents (1))			
Non-Hedging Activities - September 30, 2000			
Swaps	2.07	1.91	6
Options	0.45	0.34	8
Futures	0.08	0.12	3
Forward Contracts	3.00	2.03	22
Non-Hedging Activities - September 30, 1999			
Swaps	3.18	3.14	7
Options	1.13	0.99	5
Futures	0.29	0.30	2
Forward Contracts	1.95	1.59	12

(1) One MMBtu is equal to one million British thermal units. PG&E Corporation's electric power contracts, measured in megawatts, were converted to MMBtu equivalents using a conversion factor of 10 MMBtu's per 1 megawatt-hour. PG&E Corporation's natural gas liquids contracts were converted to MMBtu equivalents using an appropriate conversion factor for each type of natural gas liquids product.

Volumes shown for swaps represent notional volumes that are used to calculate amounts due under the agreements and do not represent volumes exchanged. Moreover, notional amounts are indicative only of the volume of activity and are not a measure of market risk.

PG&E Corporation's net gains (losses) on swaps, options, futures, and forward contracts held during the three and nine months ended September 30, 2000 and 1999, are as follows:

<TABLE>

<CAPTION>

	Three months ended September 30,	Nine months ended September 30,

	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
(in millions)	$ 50	$ (7)	$ 129	$ (5)
Options	8	30	70	(5)
Futures	(31)	(3)	(55)	(23)
Forward contras	(4)	(35)	(57)	60
Net gain (loss)	$23	$ (15)	$ 87	$ 27

</TABLE>

The following table discloses the estimated fair values of risk management assets and liabilities as of September 30, 2000, and December 31, 1999. The ending and average fair values and associated carrying amounts of derivative contracts used for hedging purposes are not material as of September 30, 2000, and December 31, 1999.

(in millions)	Average Fair Value	Ending Fair Value
Non-hedging activities - September 30, 2000		
Assets		
Swaps	$ 136	$ 153
Options	102	107
Futures	26	21
Forward Contracts	820	841
Total	$ 1,084	$ 1,122
Noncurrent portion		$ 346
Current portion		$ 776
Liabilities		
Swaps	$ 91	$ 53
Options	48	35
Futures	45	70
Forward Contracts	758	801
Total	$ 942	$ 959
Noncurrent portion		$ 313
Current portion		$ 646
Non-hedging activities - December 31, 1999		
Assets		
Swaps	$ 643	$ 244
Options	106	92
Futures	175	47
Forward Contracts	667	596
Total	$ 1,591	$ 979
Noncurrent portion		$ 372
Current portion		$ 607
Liabilities		
Swaps	$ 592	$ 218
Options	109	81
Futures	201	67
Forward Contracts	561	456

Total	$ 1,463	$ 822
Noncurrent portion		$ 247
Current portion		$ 575

PG&E Corporation, primarily through its subsidiaries, engages in risk management activities for both non-hedging and hedging purposes. Non-hedging activities are conducted principally through its unregulated subsidiary, PG&E Energy Trading (PG&E ET). In compliance with regulatory requirements, the Utility manages risk independently from the activities in PG&E Corporation's unregulated businesses. The Utility primarily engages in hedging activities which were immaterial for the three- and nine-month periods ended September 30, 2000 and 1999.

In valuing its electric power, natural gas, and natural gas liquid portfolios, PG&E Corporation considers a number of market risks and estimated costs, and continuously monitors the valuation of identified risks and adjusts them based on present market conditions. Considerable judgment is required to develop the estimates of fair value; thus, the estimates provided herein are not necessarily indicative of the amounts that PG&E Corporation could realize in the current market.

Generally, exchange-traded futures contracts require deposit of margin cash, the amount of which is subject to change based on market movement and in accordance with exchange rules. Margin requirements for over-the-counter financial instruments are specified by the particular instrument and often do not require margin cash and are settled monthly. Both exchange-traded and over-the-counter options contracts require payment/receipt of an option premium at the inception of the contract. Margin cash for commodities futures and cash on deposit with counterparties was $63.6 million at September 30, 2000.

The credit exposure of the five largest counterparties comprised approximately $548 million of the total credit exposure associated with financial instruments used to manage price risk. Counterparties considered to be investment grade or higher comprise 86 percent of the total credit exposure.

NOTE 4: UTILITY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF TRUST HOLDING SOLELY UTILITY SUBORDINATED DEBENTURES

The Utility, through its wholly owned subsidiary, PG&E Capital I (Trust), has outstanding 12 million shares of 7.90 percent 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 the Utility 371,135 shares of common securities with an aggregate liquidation value of approximately $9 million. The only assets of the Trust are deferrable interest subordinated debentures issued by the Utility with a face value of approximately $309 million, an interest rate of 7.90 percent, and a maturity date of 2025.

NOTE 5: DIVESTITURES

In December 1999, PG&E Corporation's Board of Directors approved a plan to dispose of PG&E Energy Services (PG&E ES), its wholly owned subsidiary, through a sale. In December 1999, the disposal was accounted for as a discontinued operation and PG&E Corporation's investment in PG&E ES was written down to its then estimated net realizable value. In addition, PG&E Corporation provided a reserve for anticipated losses through the anticipated date of sale. The total provision for discontinued operations was $58 million, net of income taxes of $36 million. During the second quarter of

2000, PG&E National Energy Group finalized a transaction related to the disposal of PG&E ES commodity trading assets for $20 million, plus net working capital of approximately $65 million, for a total of $85 million. In addition, the sale of the Value-Added-Services business and various other assets was completed on July 21, 2000, for a total consideration of $18 million. Both of these sales have working capital true-ups which will not be finalized until 2001. For the three- and nine-months ended September 30, 2000, an additional estimated loss of $19 million (or $0.05 per share), net of income taxes of $13 million was recorded. The PG&E ES business segment generated net losses from operations of $34 million, net of income taxes of $26 million for the nine-month period ended September 30, 1999.

On January 27, 2000, PG&E National Energy Group signed a definitive agreement with El Paso Field Services Company (El Paso) providing for the sale to El Paso, a subsidiary of El Paso Energy Corporation, of the stock of PG&E Gas Transmission, Texas Corporation and PG&E Gas Transmission Teco, Inc. (collectively, PG&E GT Texas). The consideration to be received by PG&E National Energy Group includes $279 million in cash, subject to adjustments for working capital, debt repayment, and certain other items, as well as, the assumption by El Paso of liabilities associated with PG&E GT Texas and debt having a book value of $566 million.

In 1999, PG&E Corporation recognized a charge against earnings of $890 million after-tax as follows: (1) an $819 million write-down of net property, plant, and equipment, (2) the elimination of the unamortized portion of goodwill, in the amount of $446 million, and (3) an accrual of $10 million representing selling costs.

Proceeds from the sale will be used to retire short-term debt associated with PG&E GT Texas' operations and for other corporate purposes. Closing of the sale, which is expected in the fourth quarter of 2000, is subject to approval under the Hart-Scott-Rodino Act.

The sale of PG&E GT Texas represents disposal of the PG&E GT Texas business segment and a portion of the PG&E ET business segment. PG&E GT Texas' total assets and liabilities, including the charge noted above, included in the PG&E Corporation Condensed Consolidated Balance Sheet at September 30, 2000, and December 31, 1999, are as follows:

(in millions)	September 30, 2000	December 31, 1999
Assets		
Current assets	$ 266	$ 229
Noncurrent assets	979	988
Total Assets	1,245	1,217
Liabilities		
Current liabilities	589	448
Noncurrent liabilities	504	624
Total Liabilities	1,093	1,072
Net Assets	$ 152	$ 145

NOTE 6: COMMITMENTS AND CONTINGENCIES

Nuclear Insurance

The Utility has insurance coverage for property damage and business interruption losses as a member of Nuclear Electric Insurance Limited (NEIL). Under this insurance, if a nuclear generating facility suffers a loss due to a prolonged accidental outage, the Utility may be subject to maximum retrospective assessments of $12 million (property damage) and $4 million (business interruption), in each case per policy period, in the event losses exceed the resources of NEIL.

The Utility has purchased primary insurance of $200 million for public liability claims resulting from a nuclear incident. The Utility has secondary financial protection which provides an additional $9.3 billion in coverage, which is mandated by federal legislation. It 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, then the Utility may be assessed up to $176 million per incident, with payments in each year limited to a maximum of $20 million per incident.

Environmental Matters

Companies within the PG&E Corporation group may be required to pay for environmental remediation at sites where it has been or may be a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act and similar state environmental laws. These sites include former manufactured gas plant sites, power plant sites, and sites used for the storage or disposal of potentially hazardous materials. Under federal and California laws, the Utility may be responsible for remediation of hazardous substances, even if it did not deposit those substances on the site.

Utility:

The Utility records a liability when site assessments indicate remediation is probable and a range of reasonably likely clean-up costs can be estimated. The Utility reviews its remediation liability quarterly for each identified site. The liability is an estimate of costs for site investigations, remediation, operations and maintenance, monitoring, and site closure. The remediation costs also reflect (1) current technology, (2) enacted laws and regulations, (3) experience gained at similar sites, and (4) the probable level of involvement and financial condition of other potentially responsible parties. Unless there is a better estimate within this range of possible costs, the Utility records the lower end of this range.

The cost of the hazardous substance remediation ultimately undertaken is difficult to estimate. A change in estimate may occur in the near term due to uncertainty concerning responsibility, the complexity of environmental laws and regulations, and the selection of compliance alternatives.

At September 30, 2000, the Utility expects to spend $307 million for hazardous waste remediation costs at identified sites, including divested fossil-fueled power plants. The Utility had an accrued liability of $279 million and $271 million at September 30, 2000, and December 31, 1999, respectively, representing the discounted value of these costs.

Of the $279 million accrued liability discussed above, the Utility has recovered $154 million through rates, including $39 million through depreciation, and expects to recover another $96 million in future rates. Additionally, the Utility is mitigating its costs by obtaining recovery of its costs from insurance carriers and from other third parties as appropriate.

Environmental remediation at identified sites may be as much as $480 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. The Utility estimated this upper limit of the range of costs using assumptions least favorable to the Utility, based upon a range of reasonably possible outcomes. Costs may be higher if the Utility is found to be responsible for clean-up costs at additional sites or outcomes change.

Further, as discussed in the "Generation Divestiture" section of Note 2, the Utility will retain the pre-closing remediation liability associated with divested generation facilities.

The Utility believes the ultimate outcome of these matters will not have a material impact on the Utility's financial position or results of operations.

PG&E National Energy Group:

USGen New England (USGenNE), a subsidiary of the PG&E National Energy Group has a 760 MW coal-fired power plant in Salem, Massachusetts and a 1,586 MW coal-fired in Somerset, Massachusetts (Brayton Point power plant). The Commonwealth of Massachusetts is considering the adoption of more stringent reductions in air emissions from electric generating facilities which is expected to impact those plants. USGen NE, has proposed an emission reduction plan that may include modernization of the plant in Salem and the use of advanced technologies for emissions removal. USGenNE is also studying various advanced technologies for emissions removal for the Brayton Point power plant.

On April 18, 2000, the Conservation Law Foundation (CLF) served various PG&E Gen affiliates, including USGenNE, a notice of its intent to file suit under the citizen suit provision of the Resource Conservation Recovery Act. On September 15, 2000, USGenNE entered into a series of agreements with the Massachusetts Department of Environmental Protection and CLF that address and resolve the potential claims CLF identified in its April 18, 2000 letter. The agreements require, among other things, that USGenNE alter its existing water treatment facilities at both the Salem Harbor and Brayton Point power plants by replacing certain unlined treatment basins; submit and implement a plan for the closure of such basins; and perform certain environmental testing at the facilities. The agreements are incorporated in a complaint, answer and proposed judgment to which USGenNE and CLF agreed. The complaint, answer and proposed judgment have been filed in federal court. On October 19, 2000, the court entered the consent decree in the docket.

In May 2000, USGenNE received a request for information pursuant to Section 114 of the Clean Air Act from the U.S. Environmental Protection Agency (EPA) seeking detailed operating and maintenance history for the Salem Harbor and Brayton Point power plants. The Company believes that this request for information is part of the EPA's industry-wide investigation of coal-fired electric power generators to determine compliance with environmental requirements under the Clean Air Act associated with repairs, maintenance, modifications, and operational changes made to coal-fired facilities over the years. If the EPA were to find that there were physical changes made in the past that were undertaken without first receiving the required permits under the Clean Air Act, then penalties may be imposed and further emission reductions might be necessary at these plants. PG&E Corporation believes the ultimate outcome of these matters will not have a material impact on its financial position or results of operations.

Legal Matters

Chromium Litigation:

Several civil suits are pending against the Utility in California state

court. The suits seek an unspecified amount of compensatory and punitive damages for alleged personal injuries resulting from alleged exposure to chromium in the vicinity of the Utility's gas compressor stations at Hinkley, Kettleman, and Topock, California. Currently, there are claims pending on behalf of approximately 1,000 individuals.

The Utility is responding to the suits and asserting affirmative defenses. The Utility 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.

PG&E Corporation believes that the ultimate outcome of these matters will not have a material adverse impact on its or the Utility's financial position or results of operations.

Texas Franchise Fee Litigation:

In connection with PG&E Corporation's acquisition of Valero Energy Corporation, now known as PG&E Gas Transmission, Texas Corporation (PG&E GTT), PG&E GTT succeeded to the litigation described below.

PG&E GTT and various of its affiliates are defendants in at least two class action suits and five separate suits filed by various Texas cities. Generally, these cities allege, among other things, that (1) owners or operators of pipelines occupied city property and conducted pipeline operations without the cities' consent and without compensating the cities, and (2) the gas marketers failed to pay the cities for accessing and utilizing the pipelines located in the cities to flow gas under city streets. Plaintiffs also allege various other claims against the defendants for failure to secure the cities' consent. Damages are not quantified.

In 1998, a jury trial was held in the separate suit brought by the City of Edinburg (the City). This suit involved, among other things, a particular franchise agreement entered into by a former subsidiary of PG&E GTT (now owned by Southern Union Gas Company (SU)) and the City and certain conduct of the defendants. On December 1, 1998, based on the jury verdict, the court entered a judgment in the City's favor, and awarded damages of $5.3 million, and attorneys' fees of up to $3.5 million plus interest. The court found that various PG&E GTT and SU defendants were jointly and severally liable for $3.3 million of the damages and all the attorneys' fees. Certain PG&E GTT subsidiaries were found solely liable for $1.4 million of the damages. The court did not clearly indicate the extent to which the PG&E GTT defendants could be found liable for the remaining damages. The PG&E GTT defendants are in the process of appealing the judgment.

In one of the class actions, opt-out notices were sent to approximately 159 Texas cities as potential class members and fewer than 20 cities opted out by the deadline in 1997. In November 1999, the court dismissed from the class 42 cities because it determined there was no pipeline presence and no past or present sales activity, leaving 106 cities in the class. Certain of the 106 class members have elected to opt out of the settlement in 2000. In July 2000, the defendants effectuated a settlement with approximately 70 percent of the class members pursuant to which the defendants paid an aggregate of $6.3 million (inclusive of attorney's fees and expenses) in exchange for a comprehensive release from past liabilities and a license to use city rights-of-way for 25 years. In September 2000, the court approved a settlement as to the remaining 21 plaintiffs in this case (who are also class members of another pending class action lawsuit involving a third party). The defendants paid approximately $4 million to these plaintiffs in exchange for a comprehensive release from past liabilities and a license to use city rights-of-way for 25 years. Settlement discussions are continuing with the city of Corpus Christi and other Texas cities.

Efforts also continue in attempts to reach arrangements with other large Texas cities, including San Antonio, Austin and Brownsville, regarding potential liability of PG&E corporation-related Texas entities for the possible unauthorized presence of pipe within city rights-of-way.

PG&E Corporation believes that the ultimate outcome of these matters will not have a material adverse impact on its financial position or its results of operations. In January 2000, PG&E National Energy Group signed a definitive agreement to sell the stock of PG&E Gas Transmission, Texas Corporation and PG&E Gas Transmission Teco, Inc. The buyer will assume all liabilities associated with the cases described above.

Recorded Liability for Legal Matters:

In accordance with Statement of Financial Accounting Standards (SFAS) No. 5, PG&E Corporation makes a provision for a liability when both it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. The following table reflects the current year's activity to the recorded liability for legal matters:

(in millions)	PG&E Corporation	Utility
Beginning balance, January 1, 2000	$ 126	$ 70
Provisions for liabilities	27	27
Payments	(27)	(13)
Ending balance, September 30, 2000	$ 126	$ 84

NOTE 7: SEGMENT INFORMATION

PG&E Corporation has identified four reportable operating segments. The Utility is one reportable operating segment and the other three are part of PG&E National Energy Group. These four reportable operating segments provide different products and services and are subject to different forms of regulation or jurisdictions. PG&E Corporation's reportable segments are described below.

Utility: PG&E Corporation's Northern and Central California energy utility subsidiary, Pacific Gas and Electric Company, provides natural gas and electric service to one of every 20 Americans.

PG&E National Energy Group: PG&E National Energy Group businesses develop, construct, operate, own, and manage independent power generation facilities that serve wholesale and industrial customers through PG&E Generating Company, LLC and its affiliates (collectively, PG&E Gen); own and operate natural gas pipelines, natural gas storage facilities, and natural gas processing plants, primarily in the Pacific Northwest and in Texas, through various subsidiaries of PG&E Corporation (collectively, PG&E Gas Transmission or PG&E GT); and purchase and sell energy commodities and provide risk management services to customers in major North American markets, including the other PG&E National Energy Group non-utility businesses, unaffiliated utilities, marketers, municipalities, and large end-use customers through PG&E Energy Trading - Gas Corporation, PG&E Energy Trading - Power, L.P., and their affiliates (collectively, PG&E Energy Trading or PG&E ET). PG&E Corporation has entered into an agreement to sell its Texas natural gas and natural gas liquids business.

Segment information for the three and nine months ended September 30, 2000 and 1999, respectively, was as follows:

<TABLE>
<CAPTION>

	Utility	PG&E National Energy Group				
			PG&E GT			Elimination
		PG&EGen	NW	Texas	PG&E ET	Other
<S>	<C>	<C>	<C>	<C>	<C>	<C>
(in millions)						
For the three months ended September 30, 2000						
Operating revenues	$ 2,519	$ 287	$ 52	$ 241	$ 4,406	$ (
Intersegment revenues	4	3	12	17	371	(40
Total operating revenues	2,523	290	64	258	4,777	(40
Income from continuing operations	211	16	16	-	1	
For the three months ended September 30, 1999						
Operating revenues	$ 2,584	$ 273	$ 42	$ 161	$ 3,151	$
Intersegment revenues	3	2	14	16	339	(37
Total operating revenues	2,587	275	56	177	3,490	(36
Income from continuing operations	179	21	18	(7)	(17)	
For the nine months ended September 30, 2000						
Operating revenues	$ 7,026	$ 877	$ 140	$ 661	$ 9,457	$ (1
Intersegment revenues	11	6	37	46	1,036	(1,13
Total operating revenues	7,037	883	177	707	10,493	(1,14
Income from continuing operations	655	70	43	-	14	(
Total assets at September 30, 2000	24,183	4,198	1,129	1,245	2,936	2
For the nine months ended September 30, 1999						
Operating revenues	$ 6,898	$ 814	$ 127	$ 871	$ 7,314	$
Intersegment revenues	7	4	39	99	831	(9
Total operating revenues	6,905	818	166	970	8,145	(9
Income from continuing operations	498	77	46	(39)	(19)	
Total assets at September 30, 1999	21,740	3,858	1,162	2,548	2,195	(

<FN>
(1) Net income on intercompany positions recognized by segments using mark-to-market is eliminated. Intercompany transactions are also eliminated.
</TABLE>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

PG&E Corporation is an energy-based holding company headquartered in San Francisco, California. PG&E Corporation's Northern and Central California energy utility subsidiary, Pacific Gas and Electric Company (the Utility), provides natural gas and electric service to one of every 20 Americans. PG&E National Energy Group provides energy products and services throughout North America.

PG&E National Energy Group businesses develop, construct, operate, own, and manage independent power generation facilities that serve wholesale and industrial customers through PG&E Generating Company, LLC (and its affiliates (collectively, PG&E Gen); own and operate natural gas pipelines, natural gas storage facilities, and natural gas processing plants, primarily in the Pacific Northwest and in Texas (collectively, PG&E Gas Transmission or PG&E GT); and purchase and sell energy commodities and provide risk management services to customers in major North American markets, including the other PG&E National Energy Group non-utility businesses, unaffiliated utilities, marketers, municipalities, and large end-use customers through PG&E Energy Trading-Gas Corporation, PG&E Energy Trading-Power, L.P., and their affiliates (collectively, PG&E Energy Trading or PG&E ET). PG&E Corporation has entered into an agreement to sell its Texas natural gas and natural gas liquids business.

This is a combined Quarterly Report on Form 10-Q of PG&E Corporation and Pacific Gas and Electric Company. It includes separate consolidated financial statements for each entity. The condensed consolidated financial statements of PG&E Corporation reflect the accounts of PG&E Corporation, the Utility, and PG&E Corporation's wholly owned and controlled subsidiaries. The condensed consolidated financial statements of the Utility reflect the accounts of the Utility and its wholly owned and controlled subsidiaries. This Management's Discussion and Analysis (MD&A) should be read in conjunction with the condensed consolidated financial statements included herein. Further, this quarterly report should be read in conjunction with the Corporation's and the Utility's Consolidated Financial Statements and Notes to Consolidated Financial Statements incorporated by reference in their combined 1999 Annual Report on Form 10-K.

This combined Quarterly Report on Form 10-Q, including this MD&A, contains forward-looking statements about the future that are necessarily subject to various risks and uncertainties. These statements are based on current expectations and assumptions which management believes are reasonable and on information currently available to management. These forward-looking statements are identified by words such as "estimates," "expects," "anticipates," "plans," "believes," and other similar expressions. Actual results could differ materially from those contemplated by the forward-looking statements.

Factors that could cause future results to differ materially from those expressed in or implied by the forward-looking statements or historical results include:

- legislative or regulatory changes, including the pace and extent of the ongoing restructuring of the electric and natural gas industries across the United States;

- the amount and method of recovery from customers of the under-collected electric procurement costs recorded in the Utility's TRA;

- what regulatory, judicial, and legislative actions may be taken to mitigate the higher power prices;

- future sales levels and economic conditions;

- the method and timing of disposition and valuation of the Utility's hydroelectric generation assets;

- the timing of the completion of the Utility's transition cost recovery and the consequent end of the current electric rate freeze in California.

- any changes in the amount of transition costs the Utility is allowed to collect from its customers;

- future operating performance at the Diablo Canyon Nuclear Power Plant (Diablo Canyon);

- the method adopted by the California Public Utilities Commission (CPUC) for sharing the net benefits of operating Diablo Canyon with ratepayers and the timing of the implementation of the adopted method;

- the extent of anticipated growth of transmission and distribution services in the Utility's service territory;

- future market prices for electricity and future fuel prices which, in part, are influenced by future weather conditions and the availability of hydroelectric power;

- the success of management's strategies to maximize shareholder value in PG&E National Energy Group, which may include acquisitions or dispositions of assets, or investments in emerging companies or new businesses;

- the extent to which our current or planned generation development projects are completed and the pace and cost of such completion;

- generating capacity expansion and retirements by others;

- the outcome of the Utility's various regulatory proceedings, including the proceeding to determine the value of the Utility's hydroelectric generation assets, the electric transmission rate case applications, post-transition period ratemaking proceedings, the 2001 attrition rate adjustment request, the cost of capital application, and the 2002 General Rate Case;

- fluctuations in commodity gas, natural gas liquids, and electric prices and our ability to successfully manage such price fluctuations;

- the pace and extent of competition in the California generation market and its impact on the Utility's costs and resulting collection of transition costs;

- the effect of compliance with existing and future environmental laws, regulations, and policies, the cost of which could be significant; and

- the outcome of pending litigation.

As the ultimate impact of these and other factors is uncertain, these and other factors may cause future earnings to differ materially from results or outcomes we currently seek or expect.

In this MD&A, we first discuss our competitive and regulatory environment. We then discuss earnings and changes in our results of operations for the quarters ended September 30, 2000 and 1999. Finally, we discuss liquidity and financial resources, various uncertainties that could affect future

earnings, and our risk management activities. Our MD&A applies to both PG&E Corporation and the Utility.

THE CALIFORNIA ELECTRIC INDUSTRY

In 1998, California became one of the first states in the country to implement electric industry restructuring and establish a market framework for electric generation. Today, most Californians may continue to purchase their electricity from investor-owned utilities such as Pacific Gas and Electric Company, or they may choose to purchase electricity from alternative generation providers (such as independent power generators and retail electricity suppliers such as marketers, brokers, and aggregators). For those customers who have not chosen an alternative generation provider, investor-owned utilities, such as the Utility, continue to be the generation providers. Investor-owned utilities continue to provide distribution services to substantially all customers within their service territories, including customers who choose an alternative generation provider.

An Independent System Operator (ISO) and a Power Exchange (PX) operate in California. The PX provides a process to establish market-clearing prices for electricity in the markets operated by the PX. The ISO schedules delivery of electricity for all market participants and operates the real-time and ancillary services markets for electricity. (Ancillary services are needed to maintain the reliability of the electric grid.) The Utility continues to own and maintain its transmission system, but the ISO controls the operation of the system. During the transition period, the Utility is required to bid or schedule into the PX and ISO markets all of the electricity generated by its power plants and electricity acquired under contractual agreements with unregulated generators. On August 3, 2000, the California Public Utilities Commission (CPUC) authorized the Utility to purchase energy and ancillary services and capacity products for retail customers in wholesale markets outside the PX and to set up memorandum accounts to track related costs. Such transactions are confined to previous limits established for forward market purchases and must expire before December 31, 2005.

Competitive Market Framework

Beginning in June 2000, the Utility has experienced unanticipated and massive increases (above the generation-related costs component embedded in frozen rates) in the wholesale costs of the electric energy that is purchased from the PX on behalf of its retail customers. The average price that the PX charged the Utility for electric power in the months of June, July, August, and September 2000, was approximately 16.3 cents per kilowatt-hour (kWh), 11.0 cents per kWh, 18.7 cents per kWh and 14.0 cents per kWh, respectively, compared to 3.0, 3.9, 4.1 and 4.0 cents per kWh for the same months in 1999. The generation-related cost component that is embedded in frozen rates and available for payment of wholesale electric power costs during those same periods was approximately 5.4 cents per kWh. The forward curve for power prices in the California market suggests that these costs may remain well above the embedded cost component of frozen rates through the end of this year and beyond next summer unless significant changes occur in the wholesale power market.

As a result, the Utility has incurred and continues to incur expenses representing the excess of power purchase costs above the generation component embedded in frozen rates. Such expenses are deferred to a regulatory balancing account called the Transition Revenue Account (TRA). The TRA balance as of September 30, 2000 was approximately $2.9 billion. The TRA balance does not reflect the Utility's revenues from (1) sales of energy from retained generation facilities to the PX in excess of authorized costs or (2) the amount by which the PX prices exceed the purchase price contained in the

Utility's long-term contracts to purchase energy from Qualifying Facilities (QF) and other power providers. Approximately half of the Utility's suppliers under QF contracts have elected to receive PX based prices for energy in addition to contractual capacity payments. The Utility expects that most remaining QF generators will elect to receive PX prices for their energy payments by summer 2001. The Utility pays these suppliers directly, rather than through the PX, but receives billing credits for energy delivered to the PX from QFs.

A prior CPUC decision would prohibit the Utility from collecting after the transition period certain electric costs incurred during the transition period but not recovered from frozen rates during that period, including TRA under-collections. The CPUC decision also would prohibit offsetting these specific under-collected balances against over-collected transition costs. The Utility is seeking judicial review by the California Supreme Court. The Utility's petition is pending.

On October 4, 2000, the Utility and Southern California Edison Company filed separate emergency petitions with the CPUC to rescind and modify as necessary prior decisions prohibiting utilities from carrying over costs incurred during the rate freeze to the post-rate freeze period. The utilities noted that many parties have acknowledged that the wholesale electric power market is not workably competitive and that the significant increases in prices were not considered in the CPUC's original rulings. On October 17, 2000, the administrative law judge (ALJ) and the CPUC commissioner assigned to review the emergency petition issued a joint ruling indicating that they would reconsider the accounting mechanisms established in prior CPUC decisions and adopt a schedule that permits a decision by the end of the year.

In response to the above ruling, the Utility filed its proposals requesting that the CPUC modify its prior decisions to authorize the utilities to transfer any unrecovered balance in the TRA as of the end of the rate freeze into a new balancing account, and authorize recovery of the balance in that new account over a period not to exceed four years, subject to a rate stabilization plan to be addressed in a second phase of the proceeding. The Utility asked the CPUC to adopt an expedited procedural schedule in a second phase that would, not later than March 31, 2001, resolve the following issues: (1) implementation of when and how the rate freeze is to be ended; (2) adoption of post rate freeze tariffs and rates; (3) approval of the rate stabilization plan; and (4) adoption of the retail rate components for recovery of the new balancing account. The Utility indicated that it will submit its detailed proposals on the rate stabilization plan and tariffs by November 15, 2000.

At the prehearing conference held on October 27, 2000, the ALJ indicated that the scope of the proceeding was solely to consider accounting mechanisms to reduce the TRA under-collections and that the Utility's proposals for interim relief were broader than contemplated in the October 17th ruling, were not consistent with the CPUC's prior decisions precluding carryover of under-collected TRA costs, and would not be considered in the proceeding before the end of the year. However, the ALJ indicated that the CPUC would consider proposals made by The Utility Reform Network (TURN), a consumer group, to transfer TRA under-collections to the TCBA. TURN's proposals would treat under-collected electric procurement costs for accounting purposes as if such costs were unrecovered transition costs, the likely effect of which would be to delay the completion of transition cost recovery by the Utility as well as delay the end of the rate freeze. If TURN's proposal were adopted, the Utility would have to write-off any unrecovered transition costs remaining in the TCBA if such costs were not probable of recovery. The ALJ ordered the parties to respond to the utilities' emergency petitions and to TURN's proposal by November 9, 2000.

The Utility reviews on an ongoing basis the facts and circumstances relating to the TRA under-collections. The Utility currently believes recovery of the

TRA under-collections is probable. TRA under-collections are recorded as a regulatory asset on the balance sheet rather than being charged to earnings because it is probable that these under-collections will be recovered through the ratemaking process. However, ultimate recovery is dependent upon the favorable outcome of the regulatory actions described above, as well as upon other factors such as future market prices of electricity and future fuel prices that, in part, are influenced by sales level, and economic conditions, about which there can be no certainty. If regulatory or judicial relief is not forthcoming, and if the Utility determines that its uncollected wholesale power purchase costs are not probable of recovery, then the Utility would be required to write off the unrecoverable portion as a charge against earnings. In addition, the Utility would be unable to continue deferring these costs incurred during the transition period and such expenses would reduce the Utility's future earnings accordingly. With respect to wholesale power purchase costs incurred after the end of the transition period and prior to any adjustment in rates, the Utility may be able to defer these costs if it determines that they are probable of recovery.

The Utility is actively exploring ways to reduce its exposure to the higher power purchase costs and its corresponding TRA balance, including working with interested parties to address power market dysfunction before appropriate regulatory bodies and hedging a portion of its open procurement position against higher purchase power costs through forward purchases. The CPUC only recently authorized the Utility to enter into bilateral power purchase contracts. In October 2000, the Utility entered into bilateral power purchase contracts with several suppliers.

On October 16, 2000, the Utility joined with Southern California Edison and TURN in filing a petition with the Federal Energy Regulatory Commission (FERC) requesting that the FERC (1) immediately find the California wholesale electricity market to be not workably competitive and the resulting prices to be unjust and unreasonable; (2) immediately impose a cap on the price for energy and ancillary services; and (3) institute further expedited proceedings regarding the market failure, mitigation of market power, structural solutions, and responsibility for refunds. However, the reduced price cap requested, even if approved, would still be above the approximate 5.4 cents per kWh embedded in frozen rates for the payment of the Utility's wholesale power purchase costs. Also, on October 20, 2000, the ISO filed a market stabilization plan with the FERC requesting the FERC to impose a price cap of $100 per megawatt-hour (Mwh) (10 cents per kWh) for generators who do not enter into contracts to supply 70 percent of their supply to serve California customers. There are certain other exemptions to the $100 price cap. The existing $250 price cap per Mwh hour (25 cents per kWh) would apply to generators who are exempt from the $100 per Mwh hour price cap. The ISO also has recommended that buyers (utilities) be required to contract for 85 percent of their customer requirements for power in advance of when the power is needed. Further, the ISO has adopted additional load based price caps for the real-time and ancillary service markets which would range between $65 and $250 per Mwh. These price caps would begin as soon as November 3, 2000, and remain in place until real-time and ancillary service markets have demonstrated that they are workably competitive under a variety of load conditions.

A Joint Resolution of the California legislature called on the CPUC to initiate an investigation to review the impact of the current electricity crisis on consumers and California investor-owned utilities with emphasis on the options for correcting the electricity market, methods to eliminate price volatility for consumers, and importantly, methods for cost recovery and cost allocation. In response, the CPUC issued an order on September 7, 2000 expanding an existing investigation into the wholesale electric market and the associated impact on electric rates to include the issues identified by the legislature.

For the three and nine months ended September 30, 2000 and 1999, the cost of electric energy for the Utility, reflected on the Condensed Consolidated

Income Statement, is comprised of the cost of fuel for electric generation and QF purchases, the cost of PX purchases, and ancillary services charged by the ISO, net of sales to the PX, as follows:
<TABLE>

<CAPTION>

	Three months ended September 30, 2000	1999	Nine m Sept 2000
<S>	<C>	<C>	<C>
(in millions)			
Cost of fuel for electric generation and QF purchases	$ 592	$ 409	$ 1,203
Cost of purchases from the PX and ISO	2,132	554	3,492
Proceeds from sales to the PX	(668)	(217)	(1,151)
Total Utility cost of electric energy	$ 2,056	$ 746	$ 3,544

</TABLE>

Transition Period, Rate Freeze, and Rate Reduction

California's electric industry restructuring established a transition period during which electric rates remain frozen at 1996 levels (with the exception that, on January 1, 1998, rates for small commercial and residential customers were reduced by 10 percent and remain frozen at this reduced level) and investor-owned utilities may recover their transition costs. Transition costs are generation-related costs that prove to be uneconomic under the new industry structure. The transition period ends the earlier of December 31, 2001, or when the particular utility has recovered its eligible transition costs.

To pay for the 10 percent rate reduction, the Utility refinanced $2.9 billion (the expected revenue reduction from the rate decrease) of its transition costs with the proceeds from the rate reduction bonds. The bonds allow for the rate reduction by lowering the carrying cost on a portion of the transition costs and by deferring recovery of a portion of these transition costs until after the transition period. During the rate freeze, the rate reduction bond debt service will not increase the Utility customers' electric rates. If the transition period ends before December 31, 2001, the Utility may be obligated to return a portion of the economic benefits of the transaction to customers. The timing of any such return and the exact amount of such portion, if any, have not yet been determined.

Revenues from frozen electric rates provide for the recovery of authorized Utility costs, including transmission and distribution service, public purpose programs, nuclear decommissioning, rate reduction bond debt service, and the cost of procuring electricity for the Utility's retail customers. To the extent the revenues from frozen rates exceed authorized Utility costs, the remaining revenues constitute the competition transition charge (CTC), which recovers the transition costs. These CTC revenues are being recovered from all Utility distribution customers and are subject to seasonal fluctuations in the Utility's sales volumes, fluctuating PX energy prices, and certain other factors. The CTC is collected regardless of the customer's choice of electricity supplier (i.e., the CTC is non-bypassable).

Transition Cost Recovery

Although most transition costs must be recovered during the transition period, certain transition costs can be recovered after the transition period. Except for the transition costs discussed below, at the conclusion of the transition period, the Utility will be at risk to recover any of its remaining generation costs through market-based revenues.

Transition costs consist of (1) above-market sunk costs (costs associated with utility generating facilities that are fixed and unavoidable and that were included in customers' rates on December 20, 1995) and future sunk costs, such as costs related to plant removal, (2) costs associated with long-term contracts to purchase power at above-market prices from qualifying facilities and other power suppliers, and (3) generation-related regulatory assets and obligations. (In general, regulatory assets are expenses deferred in the current or prior periods, to be included in rates in subsequent periods.)

Above-market sunk costs result when the book value of a facility exceeds its market value. Conversely, below-market sunk costs result when the market value of a facility exceeds its book value. The total amount of generation facility costs to be included as transition costs is based on the aggregate of above-market and below-market values. The above-market portion of these costs is eligible for recovery as a transition cost. The below-market portion of these costs will reduce other unrecovered transition costs. Revenues generated from the Utility's sales to the PX and ISO that exceed authorized costs are also used to offset transition costs.

For nuclear transition costs, revenues provided for transition cost recovery are based on the accelerated recovery of the investment in Diablo Canyon Nuclear Power Plant (Diablo Canyon) over a five-year period ending December 31, 2001.

Costs associated with the Utility's long-term contracts to purchase electric power are included as transition costs. Regulation required the Utility to enter into long-term agreements with non-utility generators to purchase electric power at fixed prices. Prices fixed under these contracts have generally been above prices for power in wholesale markets. Over the remaining life of these contracts, the Utility estimates that it will purchase 299 million MWh of electric power. The contracts expire at various dates through 2028. To the extent that the individual contract prices are above the market price, the Utility is collecting the difference between the contract price and the market price from customers, as a transition cost, over the term of the contract. To the extent that the contracted prices are below the market price, the Utility is using the savings to offset other transition costs during the transition period.

The total costs under long-term contracts are based on several variables, including the capacity factors of the related generating facilities and future market prices for electricity. For the nine months ended September 30, 2000 and 1999, the average price paid under the Utility's long-term contracts for electricity was 7.8 cents and 6.4 cents per kWh, respectively.

At September 30, 2000, and December 31, 1999, the Utility's net generation-related regulatory assets (excluding the TRA) totaled $2.6 billion and $4.0 billion, respectively. Included in the generation-related regulatory assets at September 30, 2000, is $2.1 billion associated with the valuation of the Utility's hydroelectric generation facilities (discussed below), a regulatory asset related to the rate reduction bonds of approximately $1.1 billion, and a credit balance of $0.6 billion in balancing account called the Transition Cost Balancing Account (TCBA) which tracks the amount of transition costs that must be recovered. These generation-related regulatory assets decreased by $1.4 billion for the nine months ended September 30, 2000, and decreased $955 million for the nine months ended September 30, 1999.

Certain transition costs can be recovered through a non-bypassable charge

to distribution customers after the transition period. These costs include (1) certain employee-related transition costs, (2) above-market payments under existing long-term contracts to purchase power, discussed above, (3) up to $95 million of transition costs to the extent that the recovery of such costs during the transition period was displaced by the recovery of electric industry restructuring implementation costs, and (4) transition costs financed by the rate reduction bonds. Transition costs financed by the issuance of rate reduction bonds will be recovered over the term of the bonds. In addition, the Utility's nuclear decommissioning costs are being recovered through a CPUC-authorized charge, which will extend until sufficient funds exist to decommission the nuclear facility. During the rate freeze, the charge for these costs will not increase Utility customers' electric rates. Excluding these exceptions, the Utility will write off any transition costs not recovered during the transition period.

The Utility has been amortizing its transition costs, including most generation-related regulatory assets, over the transition period in conjunction with the available CTC revenues. During the transition period, a reduced rate of return on common equity of 6.77 percent applies to all generation assets, including those generation assets reclassified to regulatory assets. Beginning January 1, 1998, the Utility started collecting these eligible transition costs through the non-bypassable CTC, market valuation of generation assetsin excess of book value, and energy sales from the Utility's electric generation facilities prior to market valuation. Further, transition costs are reduced by the amount that contract prices to purchase power from QFs and other providers are lower than the PX price.

During the transition period, the CPUC reviews the Utility's compliance with accounting methods established in the CPUC's decisions governing transition cost recovery and the amount of transition costs requested for recovery. In February 2000, the CPUC approved substantially all non-nuclear transition costs that were amortized during the first six months of 1998. The CPUC currently is reviewing non-nuclear transition costs amortized from July 1, 1998, to June 30, 1999.

Under the electric industry restructuring law, when the Utility has recovered all of its transition costs the conditions for terminating the rate freeze and ending the transition period will have been satisfied. On August 9, 2000, a settlement agreement was filed by the Utility and others with the CPUC regarding the valuation and disposition of the Utility's hydroelectric assets, specifying that the value of those assets for purpose of transition cost calculation is $2.8 billion.

At August 31, 2000, consistent with transition cost recovery procedures adopted by the CPUC , the Utility credited its TCBA by $2.1 billion, the amount by which the value of the hydroelectric generating assets exceeded the aggregate book value of such assets. The Utility also established a separate regulatory asset in the same amount. The accounting entries were based on the value used in the proposed settlement discussed above. Based on the credit made to the TCBA, the Utility would have completed collection of all transition costs that must be collected during the transition period as of August 2000. If the hydroelectric assets were to be sold or valued at a higher amount, the Utility's transition costs would have been recovered as of an earlier date. Testimony taken to date in the CPUC proceeding in which valuation is to be established put the range of market values from $2.4 billion to in excess of $3 billion under operating and market conditions prior to June 2000. On October 16, 2000, the CPUC issued a ruling re-opening the proceeding to obtain more information from parties about market valuation in light of the different market conditions experienced during the summer of 2000. That new testimony is to be submitted in December 2000 with further testimony and evidentiary hearings scheduled for next year. The accounting entries discussed above are subject to later adjustment based on the final valuation of the hydroelectric assets adopted by the CPUC.

Under the electric industry restructuring law, after the Utility recovers its transition costs, the Utility's retail customers assume responsibility for wholesale energy costs. Actual changes in customer rates will not occur until the Utility files for new retail rates and the CPUC authorizes them.

During the transition period, the Utility is required to continue to use the transition period accounting mechanisms, discussed above. This requires that revenues from sales to the PX of Utility-owned generation and generation from QFs and other providers in excess of costs be credited to the TCBA. In addition, the TCBA balance includes a credit for the amount of PX revenues from the Utility's sale of generation from the Diablo Canyon nuclear power plant to the PX that exceed revenues from the fixed Incremental Cost Incentive Price (ICIP). (During 2000, the ICIP is 3.43 cents per kWh.) After taking into account the credit for the hydroelectric assets described above, at September 30, 2000, the Utility's TCBA had a credit balance of approximately $585 million. As mentioned above, the CPUC has issued a ruling indicating that it would reconsider certain of these accounting mechanisms noting that the CPUC has the authority to implement any necessary changes to the electric restructuring accounting provisions and cost recovery consistent with statutory requirements.

Generation Divestiture

In 1998, the Utility sold three fossil-fueled generation plants for $501 million. These three fossil-fueled plants had a combined book value at the time of the sale of $346 million and a combined capacity of 2,645 megawatts (MW).

On April 16, 1999, the Utility sold three other fossil-fueled generation plants for $801 million. At the time of sale, these three fossil-fueled plants had a combined book value of $256 million and a combined capacity of 3,065 MW.

On May 7, 1999, the Utility sold its complex of geothermal generation facilities for $213 million. At the time of sale, these facilities had a combined book value of $244 million and a combined capacity of 1,224 MW.

The gains from the sale of the fossil-fueled generation plants were used to offset other transition costs. Likewise, the loss from the sale of the complex of geothermal generation facilities is being recovered as a transition cost.

The Utility has retained a liability for required environmental remediation related to any pre-closing soil or groundwater contamination at the plants it has sold.

As discussed above, on August 9, 2000, the Utility and a number of interested parties filed an application with the CPUC requesting that the CPUC approve a settlement agreement reached by these parties in the Utility's proceeding to determine the market value of its hydroelectric generation assets. In this settlement agreement, the Utility indicated that it would transfer its hydroelectric generation assets, at a value of $2.8 billion, to an affiliate (referred to herein as PG&E CalHydro) that would not be subject to cost of service regulation by the CPUC.

PG&E CalHydro would hold and operate the assets, subject to a 40-year revenue sharing agreement (RSA) between PG&E CalHydro and the Utility. Under the RSA, PG&E CalHydro would be allowed to recover an authorized inflation-indexed operations and maintenance allowance, certain other expenses including an allowance for capital additions, and a return on capital investment. The return on equity (ROE) initially would be set at 12.50 percent and would be subject to an indexed adjustment trigger. Under the

RSA, 90 percent of the after-tax earnings received in excess of the agreed-upon costs (including the target ROE) would be returned to the Utility to be used as a credit against current costs charged to the Utility's distribution ratepayers. If market revenues were insufficient to recover the agreed-upon costs of operating the hydroelectric facilities (including the target ROE) over a multi-year period, 90 percent of the revenue shortfalls would be charged to the Utility to be recovered from distribution customers.

The RSA would become effective on the date that the CPUC order approving the settlement and the RSA becomes final and non-appealable, subject to termination by either the Utility or PG&E CalHydro in certain circumstances. The CPUC may accept the settlement or reject it, suggest changes to it, or adopt a different valuation approach. In addition, the transfer of the assets from the Utility to PG&E CalHydro will require the approval of the FERC.

At September 30, 2000, the book value of the Utility's net investment in hydroelectric generation assets was approximately $700 million. The above settlement, if approved, would result in a pre-tax charge of $2.1 billion. If the value of the hydroelectric generation assets is determined by any method other than a sale of the assets to an unrelated third party, a material charge to Utility earnings could result. The timing and nature of any such charge is dependent upon the valuation method and procedure adopted, and the method of implementation. The CPUC is not likely to consider the Utility's proposed settlement until next year, and it is uncertain at this time whether the settlement will be approved, modified or rejected, or withdrawn.

Post-Transition Period

The CPUC has established the Purchased Electric Commodity Account (PECA) for the Utility to track energy costs after the rate freeze and transition period end. In June 2000, the CPUC issued a decision in the second phase of the Utility's post-transition period electric ratemaking proceeding. Among other things, the CPUC determined that the PECA would reflect a pass-through of energy costs, possibly subject to after-the-fact reasonableness reviews.

After the rate freeze ends, Diablo Canyon will be operated as a competitive generator of electricity with revenues generated from prevailing market rates. During the rate freeze, Diablo Canyon's operating costs have been recovered through the incremental cost incentive price (ICIP) mechanism. The ICIP, which has been in place since January 1, 1997, is a performance-based mechanism that establishes a rate per kWh generated by the facility. The ICIP prices for 1999, 2000, and 2001 are 3.37 cents per kWh, 3.43 cents per kWh, and 3.49 cents per kWh, respectively.

As required by a prior CPUC decision on June 30, 2000, the Utility filed an application with the CPUC requesting approval of its proposal for sharing with ratepayers 50 percent of the post-rate freeze net benefits of operating Diablo Canyon. The net benefit sharing methodology proposed in the Utility's application would be effective at the end of the current electric rate freeze for the Utility's customers and would continue for as long as the Utility owned Diablo Canyon. Under the proposal, the Utility would share the net benefits of operating Diablo Canyon based on the audited profits from operations, determined consistent with the prior CPUC decisions. If Diablo Canyon experiences losses, such losses would be accrued and netted against profits in the calculation of the net benefits in subsequent periods (or against profits in prior periods if subsequent profits are insufficient to offset such losses). Any changes to the net sharing methodology must be approved by the CPUC.

Future Competition

Opening California's electric generation to competition has raised certain

interest in introducing further competition in the electric industry. The CPUC has opened a rulemaking proceeding to examine the various issues associated with distributed generation. Distributed generation enables the siting of electric generation technologies in close proximity to electric demand, and raises issues about stranded costs (both within distribution and transmission systems), interconnection charges, and cost allocation. The CPUC staff has issued a report identifying options for possible CPUC consideration regarding the additional unbundling of the electric distribution function and evaluate the investor-owned utilities' role of default provider of electricity.

It is too early to predict what may come of these matters. PG&E Corporation is unable to predict when these issues will be addressed by the CPUC or whether the results will have any impact on the Utility.

PG&E NATIONAL ENERGY GROUP

PG&E National Energy Group has been formed to pursue opportunities created by the gradual restructuring of the energy industry across the nation. PG&E National Energy Group integrates our national power generation, gas transmission, and energy trading businesses. PG&E National Energy Group contemplates increasing PG&E Corporation's national market presence through a balanced program of acquisition and development of energy assets and businesses, while at the same time undertaking ongoing portfolio management of its assets and businesses. PG&E National Energy Group's ability to anticipate and capture profitable business opportunities created by restructuring will have a significant impact on PG&E Corporation's future operating results.

Independent Power Generation

Through PG&E Gen and its affiliates, we participate in the development, construction, operation, ownership, and management of non-utility electric generating facilities that compete in the United States power generation market. In September 1998, PG&E Corporation, through its indirect subsidiary USGen New England, Inc. (USGenNE), completed the acquisition of a portfolio of electric generation assets and power supply contracts from the New England Electric System (NEES). The purchased assets include hydroelectric, coal, oil, and natural gas generation facilities with a combined generating capacity of about 4,000 MW.

As part of the New England electric industry restructuring, the local utility companies were required to offer Standard Offer Service (SOS) to their retail customers. Retail customers may select alternative suppliers at any time. The SOS is intended to provide customers with a price benefit (the commodity electric price offered to the retail customer is expected to be less than the market price) for the first several years, followed by a price disincentive that is intended to stimulate the retail market.

Retail customers may continue to receive SOS through June 30, 2002, in New Hampshire (subject to early termination on December 31, 2000, at the discretion of the New Hampshire Public Service Commission), through December 31, 2004, in Massachusetts, and through December 31, 2009, in Rhode Island. However, if customers choose an alternate supplier, they are precluded from going back to the SOS.

In connection with the purchase of the generation assets, USGenNE entered into wholesale agreements with certain of the retail companies of NEES to supply at specified prices the electric capacity and energy requirements necessary for their retail companies to meet their SOS obligations. These companies are responsible for passing on to us the revenues generated from

the SOS. USGenNE currently is indirectly serving a large portion of the SOS electric capacity and energy requirements for these companies, except in New Hampshire. For the nine months ended September 30, 2000, the contract SOS price paid to generators was $.38 per kWh for generation. On March 1, 1999, Constellation Power Source, Inc. won the New Hampshire component of the SOS through a competitive bidding solicitation. On January 7, 2000, USGenNE paid approximately $15 million to a third party for this third party's assumption of 10 percent of the Massachusetts Electric Company/Nantucket Electric Company SOS and 40 percent of the Narragansett SOS.

Like other utilities, New England utilities previously entered into agreements with unregulated companies (e.g., qualifying facilities under the Public Utility Regulatory Policies Act of 1978 (PURPA)) to provide energy and capacity at prices that are anticipated to be in excess of market prices. We assumed NEES' contractual rights and duties under several of these power purchase agreements. At September 30, 2000, these agreements provided for an aggregate 470 MW of capacity. However, NEES will make support payments to us toward the cost of these agreements. The support payments by NEES total $0.9 billion in the aggregate (undiscounted) and are due in monthly installments from September 1998 through January 2008. In certain circumstances, with our consent, NEES may make a full or partial lump sum accelerated payment.

Initially, approximately 90 percent of the acquired operating capacity, including capacity and energy generated by other companies and provided to us under power purchase agreements, is dedicated to servicing SOS customers. Currently, approximately 60 percent to 70 percent of the capacity is dedicated to serving SOS customers. To the extent that customers eligible to receive SOS choose alternate suppliers, or as these obligations are sold to other parties, this percentage will continue to decrease. As customers choose alternate suppliers, or the SOS obligations are sold, a greater proportion of the output of the acquired operating capacity will be subject to market prices.

Gas Transmission Operations

PG&E Corporation participates in the "midstream" portion of the gas business through PG&E GT NW. PG&E GT NW owns and operates gas transmission pipelines and associated facilities which extend over 612 miles from the Canada-U.S. border to the Oregon-California border. PG&E GT NW provides firm and interruptible transportation services to third party shippers on an open-access basis. Its customers are principally retail gas distribution utilities, electric utilities that use natural gas to generate electricity, natural gas marketing companies, natural gas producers, and industrial consumers.

On January 27, 2000, PG&E National Energy Group signed a definitive agreement providing for the sale of the stock of PG&E Gas Transmission, Texas Corporation and PG&E Gas Transmission Teco, Inc. (collectively, PG&E GT Texas). The consideration to be received by PG&E National Energy Group includes $279 million in cash, subject to adjustments for working capital, as well as the assumption by El Paso of liabilities associated with PG&E GT Texas and debt having a book value of approximately $566 million.

In 1999, PG&E Corporation recognized a charge against earnings of $890 million after tax, or $2.42 per share, to reflect PG&E GT Texas' assets at their fair market value. The composition of the pre-tax charge is as follows: (1) an $819 million write-down of net property, plant, and equipment, (2) the elimination of the unamortized portion of goodwill, in the amount of $446 million, and (3) an accrual of $10 million representing selling costs.

Proceeds from the sale will be used to retire short-term debt associated with PG&E GT Texas' operations and for other corporate purposes. Closing of

the sale, which is expected in the fourth quarter of 2000, is subject to approval under the Hart-Scott-Rodino Act.

Energy Trading

Through PG&E ET, we purchase bulk volumes of power and natural gas from PG&E Corporation affiliates and the wholesale market. We then schedule, transport, and resell these commodities, either directly to third parties or to other PG&E Corporation affiliates. PG&E ET also provides risk management services to PG&E Corporation's other businesses (except the Utility) and to wholesale customers. (See "Price Risk Management Activities" below; and Note 3 of the Notes to Condensed Consolidated Financial Statements.)

Energy Services

In December 1999, PG&E Corporation's Board of Directors approved a plan to dispose of PG&E ES, its wholly owned subsidiary, through a sale. The disposal has been accounted for as a discontinued operation and PG&E Corporation's investment in PG&E ES was written down to its then estimated net realizable value. In addition, PG&E Corporation provided a reserve for anticipated losses through the anticipated date of sale. The total provision for discontinued operations was $58 million, net of income taxes of $36 million. During the second quarter of 2000, PG&E National Energy Group finalized the transactions related to the disposal of PGE ES for $20 million, plus net working capital of approximately $65 million, for a total of $85 million. In addition, the sale of the Value-Added Services business and various other assets was completed on July 21, 2000, for a total consideration of $18 million. Both of these sales have working capital true-ups, which will not be finalized until 2001. For the three and nine months ended September 30, 2000, an additional estimated loss of $19 million (or $0.05 per share), net of income taxes of $13 million was recorded as actual and anticipated losses in connection with the disposition. The PG&E ES business segment generated net losses from operations of $34 million, net of income taxes of $26 million for the nine-month period ended September 30, 1999.

REGULATORY MATTERS

A significant portion of PG&E Corporation's operations are regulated by federal and state regulatory commissions. These commissions oversee service levels and, in certain cases, PG&E Corporation's revenues and pricing for its regulated services. The Utility is the only subsidiary with significant regulatory proceedings at this time. Any change in authorized electric revenues resulting from any of the electric proceedings discussed below would not impact the Utility's customer electric rates during the transition period because these rates are frozen. However, any change would affect the amount of revenues available for the recovery of transition costs. Any change in authorized gas revenues resulting from gas proceedings would result in a change in the Utility's customer gas rates. The Utility's pending proceedings to determine the method for sharing the net benefits of operating Diablo Canyon with ratepayers after the rate freeze and the value of its hydroelectric generation assets and how such valuation will affect the Utility's ability to recover its generation-related transaction costs are discussed above.

The 1999 General Rate Case (GRC)

The CPUC's final decision issued in February 2000 in the Utility's 1999 GRC application increased annual electric distribution revenues by $163 million and annual gas distribution revenues by $93 million, as compared to revenues authorized for 1998. Although the increase in electric and gas distribution

revenues was retroactive to January 1, 1999, prior quarters were not restated. Instead, the entire increase was reflected in the fourth quarter of 1999. Had the Utility restated prior quarters, 1999 net earnings for the nine months ended September 30, 1999, would have been $115 million higher than reported.

In March 2000, two intervenors filed applications for rehearing of the GRC decision, alleging that the CPUC committed legal errors by approving funding in certain areas that were not adequately supported by record evidence. In April 2000, the Utility filed its response to these applications for rehearing, defending the GRC decision against the allegations of error. A CPUC decision on the applications for rehearing is expected by the end of 2000.

The 2002 General Rate Case (GRC)

Also in the 1999 GRC final decision, the CPUC ordered the Utility to file a 2002 GRC. In July 2000, the CPUC issued a decision requiring the Utility to file a Notice of Intent with the CPUC by May 1, 2001, a delay of nine months compared to the procedural timetable in effect for the 1999 GRC. The CPUC decision affirms that rates would still become effective on January 1, 2002, although the CPUC decision may not be rendered until late 2002.

The 2001 Attrition Rate Adjustment (ARA)

In July 2000, the Utility filed an ARA application with the CPUC to increase its 2001 electric distribution revenues by $189 million, effective January 1, 2001, to reflect inflation and the growth in capital investments necessary to serve customers. The Utility did not request an increase in gas distribution revenues. The Utility has requested expedited treatment of the application and has proposed a schedule to ensure that the 2001 ARA decision is issued before January 1, 2001. The assigned commissioner has issued a ruling that requires hearings on a number of issues and indicated that a final decision would be issued no later than January 2002. However, that ruling stated that the CPUC will consider an interim order that would allow the final decision to be effective on an earlier date. The Utility intends to file a request for an interim order granting the full attrition relief requested subject to refund or adjustment when the final decision is issued.

The Year 2000 Cost of Capital Proceeding

In June 2000, the CPUC issued a final decision in the Utility's 2000 cost of capital proceeding, adopting a return on common equity (ROE) of 11.22 percent on electric and gas distribution operations, retroactive to February 17, 2000, as compared to the Utility's former authorized ROE of 10.6 percent. The decision also affirmed the existing authorized Utility capital structure of 46.2 percent long-term debt, 5.8 percent preferred stock, and 48.0 percent common equity.

The decision results in an authorized 9.12 percent overall rate of return (ROR) on Utility electric and gas distribution rate base. The Utility's 2000 electric and gas revenues will increase by approximately $37 million and $12 million, respectively, for the period February 17, 2000, through December 31, 2000.

The Year 2001 Cost of Capital Proceeding

In May 2000, the Utility filed an application with the CPUC to establish its authorized ROR for electric and gas distribution operations for 2001. The application requests a ROE of 12.4 percent, and an overall ROR of 9.75

percent. The Utility's proposal for test year 2001 ROE for its electric distribution and gas distribution lines of business is 1.18 percent higher than the 2000 ROE of 11.22 percent. If granted, the requested ROR would increase electric distribution revenues by approximately $72 million and gas distribution revenues by approximately $23 million. The application also requests authority to implement an Annual Cost of Capital Adjustment Mechanism for 2002 through 2006 that would replace the annual cost of capital proceedings. The proposed adjustment mechanism would modify the Utility's cost of capital based on changes in an interest rate index. The Utility also proposes to maintain its currently authorized capital structure of 46.2 percent long-term debt, 5.8 percent preferred stock, and 48.0 percent common equity.

FERC Transmission Rate Cases

Since April 1998, electric transmission revenues have been authorized by the FERC, including various rates to recover transmission costs from the Utility's former bundled retail transmission customers. The FERC has not yet acted upon a settlement filed by the Utility that, if approved, would allow the Utility to recover $345 million in electric transmission rates for the 14-month period of April 1, 1998, through May 31, 1999. During this period, somewhat higher rates have been collected, subject to refund.

In the current year, the FERC has approved two settlements. In April 2000, the FERC approved a settlement that permits the Utility to recover $264 million in electric transmission rates retroactively for the 10-month period from May 31, 1999 to March 31, 2000. In September 2000, the FERC approved another settlement that permits the Utility to recover $340 million annually in electric transmission rates and made this retroactive to April 1, 2000.

In October 2000, the Utility filed a request to increase future revenues by $57 million annually to $397 million in electric transmission rates. The Utility does not expect a material impact on its financial position or results of operations resulting from these matters.

The CPUC's Gas Strategy Investigation, Phase 2

In January 1998, the CPUC opened a rulemaking proceeding to explore alternative market structures in the natural gas industry in California. In January 2000, the Utility and a broad-based coalition of shippers, consumer groups, marketers, and others filed a settlement with the CPUC which reaffirmed the basic structure of the Gas Accord and would continue the Gas Accord through its original term of December 31, 2002. In May 2000, the CPUC approved the uncontested settlement.

Performance-Based Ratemaking (PBR) Application

In June 2000, the CPUC granted the Utility's request to withdraw its PBR application filed in November 1998. The Utility had requested the withdrawal in accordance with the 1999 General Rate Case decision issued in February 2000, which required a 2002 GRC before a PBR revenue/rate indexing mechanism could be implemented. In closing the PBR proceeding, the CPUC ordered the Utility to file a new PBR application by September 2000, for financial rewards/penalties associated with utility performance in meeting prescribed standards on measures such as electric reliability and customer service.

In September 2000, the Utility filed an application with the CPUC to establish (1) performance standards and associated financial rewards and penalties for electric and gas distribution service (2) a revenue-sharing mechanism for new categories of non-tariffed products and services (NTP&S) offered by the Utility and (3) ratemaking for proceeds from sales or transfers

of certain non-generation related land. The total maximum annual reward or penalty is $54 million per year, consisting of $52 million for electric distribution and $2 million for gas distribution. The revenue-sharing mechanism proposes to share net positive after-tax revenues from new categories of NTP&S equally between ratepayers and shareholders. Finally, the Utility requests that the CPUC establish basic rules about the allocation of gains and losses from the Utility's non-generation-related land sales.

RESULTS OF OPERATIONS

The table below presents for the three and nine months ended September 30, 2000 and 1999, certain items from our Condensed Consolidated Income Statement detailed by Utility and PG&E National Energy Group operations of PG&E Corporation. (In the Total column, the table shows the consolidated results of operations for these groups.) The information for PG&E Corporation (the Total column) includes the appropriate intercompany elimination. Following this table we discuss our results of operations.

<TABLE>
<CAPTION>

	Utility	PG&E National Energy Group					
			PG&E GT			Elimi-nations &	
		PG&EGen	NW	Texas	PG&E ET	Other (1)	T
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
(in millions)							
For the three months ended September 30, 2000							
Operating revenues	$ 2,523	$ 290	$ 64	$ 258	$ 4,777	$ (408)	$
Operating expenses	1,990	257	28	224	4,766	(390)	
Operating income							
Other income, net							
Interest expense, net							
Income taxes							
Income from continuing operations							
Net income							$
EBITDA (2)	$ (446)	$ 58	$ 46	$ 28	$ 13	$ (19)	$
For the three months ended September 30, 1999							
Operating revenues	$ 2,587	$ 275	$ 56	$ 177	$ 3,490	$ (368)	$
Operating expenses	2,101	255	26	174	3,521	(376)	
Operating income							
Other income, net							
Interest expense, net							
Income taxes							
Income from continuing operations							
Net income							$
EBITDA (2)	$ 1,096	$ 43	$ 47	$ 17	$ (29)	$ 10	$
For the nine months ended September 30, 2000							
Operating revenues	$ 7,037	$ 883	$ 177	$ 707	$ 10,493	$ (1,147)	$ 1
Operating expenses	5,382	763	77	657	10,468	(1,124)	1

Operating income							
Other income, net							
Interest expense, net							
Income taxes							
Income from continuing operations							
Net income							$
EBITDA (2)	$ 1,006	$ 187	$ 131	$ 37	$ 32	$ (24)	$
For the nine months ended September 30, 1999							
Operating revenues	$ 6,905	$ 818	$ 166	$ 970	$8,145	$ (979)	$ 1
Operating expenses	5,545	742	76	1,001	8,181	(977)	1
Operating income							
Other income, net							
Interest expense, net							
Income taxes							
Income from continuing operations							
Net income							$
EBITDA (2)	$ 2,841	$ 157	$ 128	$ 22	$ (29)	$ 1	$

<FN>
(1) Net income on intercompany positions recognized by segments using mark-to-market eliminated. Intercompany transactions are also eliminated.

(2) EBITDA measures earnings (after preferred dividends) before interest expense (ne income), income taxes, depreciation, and amortization.
</TABLE>

Overall Results

PG&E Corporation's net income for the third quarter of 2000 increased 21.6 percent to $225 million from $185 million in the prior year's third quarter. Of the $40 million increase, PG&E National Energy Group accounted for $8 million of the increase and the Utility's third quarter net income available for common stock accounted for $32 million of the increase.

Net income for the nine-month period ended September 30, 2000, increased 40.0 percent to $753 million from $538 million for the same period in 1999. Of the $215 million increase, PG&E National Energy Group accounted for $58 million of the increase and the Utility's net income available for common stock for the first nine months of 2000 accounted for $157 million of the increase.

The increase in performance is attributable to the following factors:

- In the first quarter of 2000, the Utility received the final order on its general rate case. Although the increase in revenue requirements was retroactive to January 1, 1999, the prior quarters were not restated and the entire increase was reflected in the fourth quarter of 1999. If the prior year's quarterly periods had been restated for the general rate case outcome, the rate order would have increased the 1999 third quarter Utility net earnings by approximately $38 million ($0.11 per share) and increased 1999 year-to-date earnings by approximately $115 million ($0.32 per share).

- In the second quarter of 2000, the Utility received a final decision from the CPUC increasing its authorized cost of capital from 10.6 percent to 11.22 percent, retroactive to February 2000, resulting in an approximate $7 million ($0.02 per share) and $18 million ($0.05 per share) increase in the 2000 third quarter and year-to-date earnings, respectively, as compared to

similar periods in 1999.

- PG&E Energy Trading's (PG&E ET) third quarter 2000 net income before restructuring charges increased $22 million over 1999 third quarter results due to across the board improvements in gas and power trading, asset management, and structured transactions. This increase was offset by a $4 million after-tax ($.01 per share) charge associated with the restructuring of PG&E National Energy Group. PG&E ET's net income for the first nine months of 2000, net of restructuring charges of $13 million after-tax ($0.04 per share), increased $33 million compared to the same period of 1999.

- At the end of 1999, PG&E Corporation also announced its plans to dispose of PG&E GT Texas and these assets were written down to estimated fair value. PG&E GT Texas has operated at a breakeven basis in 2000 and reported losses of $7 million ($0.02 per share) and $33 million ($0.10 per share) for the three and nine months ended September 30, 1999, respectively.

- Effective the first quarter of 1999, PG&E Corporation changed its method of accounting for major maintenance and overhauls at PG&E National Energy Group. Beginning January 1, 1999, the cost of major maintenance and overhauls, principally at the PG&E Gen business segment, has been accounted for as incurred. The change resulted in PG&E Corporation recording income of $12 million after-tax ($0.03 per share), reflecting the cumulative effect of the change in accounting principle for the first nine months of 1999.

- At the end of 1999, PG&E Corporation announced its plans to dispose of PG&E Energy Services (PG&E ES) and these assets were written down to net realizable value. PG&E ES has operated at a breakeven basis in 2000 and reported losses of $12 million ($0.03 per share) and $34 million ($0.09 per share) for the three and nine months ended September 30, 1999, respectively. Additionally, during the third quarter of 2000, the Company recorded an after-tax charge of $19 million ($0.05 per share) to reflect the closing of transactions to dispose of the retail energy services business and related commodity portfolio.

Operating Revenues

Utility operating revenues decreased $64 million and increased $132 million in the third quarter and first nine months of 2000, respectively, compared to similar periods of the prior year. The decrease for the third quarter of 2000, as compared to the same period in 1999, is principally attributable to the effect of higher wholesale power market prices and resulting credits issued to direct access customers. These customers, principally large industrial companies, procure electricity from independent generators under long-term contracts and receive a credit on their utility bills at prevailing market prices.

The increase in operating revenues for the nine-month period ended September 30, 2000, as compared to the same period in 1999, relates to higher gas and electric sales to commercial and industrial customers due to their higher usage. Additionally, increases in the price of gas have increased revenues.

PG&E National Energy Group operating revenues increased $1,351 million and $1,993 million in the third quarter and first nine months of 2000, respectively, compared to similar periods of 1999. PG&E National Energy Group has focused its trading efforts on asset management, structured transactions, and higher-margin trades, resulting in increased trading volume principally in the Northeast. In addition, increases in the price of power and gas in the second and third quarters resulted in increased revenues.

Operating Expenses

Utility operating expenses decreased $111 million and $163 million in the three and nine month periods ended September 30, 2000, respectively, compared to similar periods of the prior year.

The tables below summarize the changes in the Utility's operating expenses:

<TABLE>
<CAPTION>

	Three months ended September 30, 2000	1999	Increase (Decrease
<S>	<C>	<C>	<C>
(in millions)			
Utility operating expenses:			
Cost of electric energy	$ 2,056	$ 746	$ 1,310
Deferred electric procurement costs	(2,176)	-	(2,176
Cost of gas	178	118	60
Operating and maintenance, net	730	615	115
Depreciation, amortization and decommissioning	1,202	622	580
Total	$ 1,990	$ 2,101	$ (111

	Nine months ended September 30, 2000	1999	Increase (Decrease
(in millions)			
Utility operating expenses:			
Cost of electric energy	$ 3,544	$ 1,681	$ 1,863
Deferred electric procurement costs	(2,789)	-	(2,789
Cost of gas	643	502	141
Operating and maintenance, net	1,824	1,849	(25
Depreciation, amortization and decommissioning	2,160	1,513	647
Total	$ 5,382	$ 5,545	$ (163

</TABLE>

The overall decrease in operating expenses is attributable to the deferral of increased wholesale energy prices during the third quarter of 2000. To the extent that current operating costs, including the cost of electric energy, exceed frozen utility electric revenues, wholesale energy costs are deferred in accordance with California's transition plan.

The increase in depreciation expense of $580 million and $647 million, for the three and nine month period ended September 30, 2000, respectively, as compared to the same periods in the prior year, is attributable to the accelerated amortization arising from proceeds from sales to the PX being applied to offset transition costs in accordance with California's transition plan.

The increase in operating and maintenance expense reflects the impact in 2000 of an unscheduled 10-day outage at Diablo Canyon with no such outage in the same period of the prior year. The cost of electric energy and the cost of gas both increased for the quarter and year-to-date over comparable prior year periods because of increases in the volume of gas purchased and increases to the price of power and gas.

Operating expenses at PG&E National Energy Group increased $1,285 million and $1,818 million in the third quarter and first nine months of 2000, respectively, compared to the similar periods of the prior year. The increase results from the increased trading volumes discussed above, increases in the cost of power and gas, partially offset by reduced depreciation and amortization expense at PG&E GT Texas reflective of the disposal of the PG&E GT Texas assets.

EBITDA

PG&E Corporation's EBITDA has decreased $1,504 million and $1,751 million to ($320) million and $1,369 million for the third quarter and first nine months of 2000, respectively. The decreases are principally attributable to the impact of higher fuel prices at the Utility during the third quarter of 2000. The Utility defers the increased fuel costs in excess of the generation component in frozen rates through its regulatory balancing account mechanism in accordance with California's transition plan.

Income Taxes

The effective tax rate for the Corporation has increased to 46.5 percent in the first nine months of 2000 compared to 41.4 percent in the prior year's first nine months as a result of (1) electric industry restructuring which has resulted in the reversal of temporary tax differences at the Utility whose tax benefits were originally flowed through to customers independent of pre-tax income, and (2) higher state taxes.

Dividends

We base our common stock dividend on a number of financial considerations, including sustainability, financial flexibility, and competitiveness with investment opportunities of similar risk. Our current quarterly common stock dividend is $.30 per common share, which corresponds to an annualized dividend of $1.20 per common share. We continually review the level of our common stock dividend, taking into consideration the impact of the changing regulatory environment throughout the nation, the resolution of asset dispositions, the operating performance of our business units, and our capital and financial resources in general.

The CPUC requires the Utility to maintain its CPUC-authorized capital structure, potentially limiting the amount of dividends the Utility may pay PG&E Corporation. The Utility has been in compliance with its CPUC-authorized capital structure. PG&E Corporation and the Utility believe that this requirement will not affect PG&E Corporation's ability to pay common stock dividends. However, depending on the timing and outcome of the valuation of the Utility's hydroelectric facilities discussed in "Generation Divestiture" above, certain valuation methods could necessitate a waiver of the CPUC's authorized capital structure in order to permit PG&E Corporation or the Utility to continue paying common stock dividends at the current level. In addition, a material write-off of net generation-related regulatory assets, including deferred electric procurement costs, or the Utility's inability to continue to defer future electric procurement costs, as discussed above, could necessitate a waiver of the CPUC's authorized capital structure in order to permit PG&E Corporation or the Utility to continue to pay common stock dividends at the current level.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows from Operating Activities

Net cash provided by PG&E Corporation's operating activities totaled $1,210 million and $2,023 million during the nine months ended September 30, 2000 and 1999, respectively.

Utility:

Net cash provided by the Utility's operating activities totaled $1,297 million and $1,923 million during the nine months ended September 30, 2000 and 1999, respectively. High PX prices in the third quarter of 2000 have adversely impacted the amount of cash generated by the Utility from operations during these months. However, monthly payments to the ISO and PX are due 90 days after the end of the month of service increasing the Utility's accounts payable balance. The significant extent to which costs have exceeded revenues in recent months and are expected to continue to exceed current revenues, has caused the Utility to obtain additional sources of financing.

On October 19, 2000, the CPUC approved the Utility's request to increase its current authorized amount of short-term debt by $1.4 billion, raising the Utility's short-term debt authority to $3.1 billion. The additional $1.4 billion may only be used for the purpose of financing the purchase of wholesale power for delivery to the Utility's retail customers. The Utility has executed a credit agreement for an additional $1 billion in revolving credit facilities to provide commercial paper backup to support its higher purchased power costs and the associated increases in the TRA. The Utility is in the process of completing the sale of $670 million of 364-day Floating Rate Notes and $680 million of Senior Notes due on November 1, 2005 to meet financing needs under existing authorities. Additionally, the Utility has filed a request with the CPUC requesting authority to issue an additional $2 billion in long-term debt instruments. The Utility's liquidity will depend in significant part upon the extent to which regulatory bodies allow the Utility to recover in rates the deferred energy procurement costs discussed above.

PG&E National Energy Group:

We have entered into tolling agreements with several counterparties giving PG&E ET the rights to sell electricity generated by facilities owned and operated by another party. Under such arrangements, PG&E ET supplies the fuel to the power plant, and then sells the plant's output in the competitive market. At September 30, 2000, the annual estimated committed payments under such contracts range from approximately $1 million to $151 million, resulting in total committed payments over the next 22 years of approximately $2.5 billion.

Cash Flows from Financing Activities

We fund investing activities from cash provided by operations after capital requirements and, to the extent necessary, external financing. Our policy is to finance our investments with a capital structure that minimizes financing costs, maintains financial flexibility, and, with regard to the Utility, complies with regulatory guidelines. Based on cash provided from operations and our investing and disposition activities, we may repurchase equity and long-term debt in order to manage the overall size and balance of our capital structure.

PG&E Corporation maintains two $500 million revolving credit facilities, one of which expires in November 2000 and the other in 2002. These credit facilities are used to support the commercial paper program and other short-term liquidity needs. The facility expiring in 2000 may be extended annually for additional one-year periods upon agreement with the lending institutions. There was $587 million of commercial paper outstanding at September 30, 2000.

PG&E Corporation introduced a $200 million Extendible Commercial Note (ECN) program during the third quarter of 1999. The ECN program supplements our short-term borrowing capability and is not supported by the credit facilities. There were $200 million of ECNs outstanding at September 30, 2000. Also, at September 30, 2000, PG&E Corporation has $819 million of short-term investments.

During the nine-month period ended September 30, 2000, we issued $52 million of common stock, primarily through the Dividend Reinvestment Plan and the stock option plan component of the Long-Term Incentive Program. During the nine-month period ended September 30, 2000, we paid dividends on our common stock of $325 million.

During the nine-month period ended September 30, 1999, we repurchased $534 million of our common stock. The 1999 repurchases were executed through accelerated share repurchase programs. Under the agreement, PG&E Corporation purchased 16.6 million shares of its common stock from a counterparty and entered into a forward contract with the counterparty. PG&E Corporation retained the risk of increases and the benefit of decreases in the price of the common shares purchased by the counterparty. PG&E Corporation had the option to settle its obligations under the forward contract with either cash or shares of its common stock. For the three- and nine-month periods ended September 30, 1999, this agreement caused the none and $0.01 dilution, respectively, reflected in PG&E Corporation's diluted earnings per share. This dilution was eliminated when the associated forward contract was settled.

In October 1999, the Board of Directors of PG&E Corporation authorized an additional $500 million for the purpose of repurchasing shares of the Corporation's common stock on the open market. This authorization supplements the approximately $40 million remaining from the amount previously authorized by the Board of Directors on December 17, 1997. The authorization for share repurchase extends through September 30, 2001. As of September 30, 2000, through our wholly owned subsidiary, we repurchased 7.2 million shares, at a cost of $159 million under this authorization.

Utility:

During the nine months ended September 30, 2000, the Utility paid dividends on its common stock of $375 million. In April 2000, the Utility repurchased from PG&E Corporation 11.9 million shares of its common stock at a cost of $275 million.

The Utility's long-term debt that either matured, was redeemed, or was repurchased during the nine months ended September 30, 2000, totaled $291 million. Of this amount, $213 million related to the Utility's rate reduction bonds maturing, and $78 million related to the maturities of various of the Utility's medium-term notes and other debt. As discussed above, The Utility is in the process of completing the sale of $1,350 million of Floating Rate and Senior Notes. On October 18, 2000, it filed a request with the CPUC requesting authority to issue an additional $2 billion in long-term debt. Although there can be no assurance, the Utility believes it will be able to obtain additional financing on acceptable terms and conditions.

The Utility maintains a $1 billion revolving credit facility, which expires in 2002. The Utility may extend the facility annually for additional one-year periods upon agreement with the banks. This facility is used to support the Utility's commercial paper program and other liquidity requirements. The total amount outstanding at September 30, 2000, backed by this facility, was $917 million in commercial paper. The next payments to the ISO and PX are due October 31, 2000. In the third quarter the Utility requested and received permission from the CPUC to increase its short-term borrowing authority by $1.4 billion to $3.1 billion. On October 18, 2000, it executed a credit agreement

for an additional $1 billion in revolving credit facilities to provide commercial paper backup to support the higher purchased power costs experienced since June 2000. The Utility also introduced a $200 million ECN program which is not supported by the credit facilities. At September 30, 2000 there were no amounts outstanding under this program. At September 30, 2000, the Utility also had $242 million in short-term investments.

PG&E National Energy Group:

During the nine months ended September 30, 2000, PG&E National Energy Group retired $385 million of long-term debt.

PG&E Gen maintains two $550 million revolving credit facilities to support commercial paper programs, letters of credit and other short-term liquidity requirements. One facility expires in August 2001 and the other expires in 2003. The total amount of commercial paper outstanding at September 30, 2000 was $1 billion, with $500 million classified as noncurrent in the Condensed Consolidated Balance Sheet of PG&E Corporation.

In 1998, USGenNE, a subsidiary of PG&E Gen, established a $100 million revolving credit facility that expires in 2003. As of September 30, 2000, there was no outstanding balance on this facility.

PG&E GT NW maintains a $100 million revolving credit facility that expires in 2002, but has an annual renewal option allowing the facility to maintain a three-year duration. PG&E GT NW also maintains a $50 million 364-day credit facility that expires in 2001, but can be extended for successive 364-day periods. At September 30, 2000, PG&E GT NW had an outstanding commercial paper balance of $29 million, which is classified as noncurrent in the Condensed Consolidated Balance Sheet of PG&E Corporation.

PG&E GTT maintains four separate credit facilities that total $250 million and are guaranteed by PG&E Corporation. At September 30, 2000, PG&E GTT had $215 million of outstanding short-term bank borrowings related to these credit facilities. These lines are cancelable upon demand and bear interest at each respective bank's quoted money market rate. The borrowings are unsecured and unrestricted as to use.

Cash Flows from Investing Activities

Utility:

The primary uses of cash for investing activities are additions to property, plant, and equipment, unregulated investments in partnerships, and acquisitions.

The Utility's estimated capital spending for 2000 is approximately $1.3 billion, excluding capital expenditures for divested fossil and geothermal power plants. The Utility's capital expenditures for the nine months ended September 30, 2000, was $874 million.

PG&E National Energy Group:

Four natural gas-fueled combined-cycle power plants are currently under construction which when completed will be owned or leased by PG&E National Energy Group. These power plants, referred to as "merchant power plants," will sell power as a commodity in the competitive marketplace. The electricity generated by these plants will be sold on a wholesale basis to local utilities and power marketers, including PG&E ET, which, in turn, will sell it to industrial, commercial, and other electricity customers.

Millennium Power, a 360-MW power plant located in Massachusetts, is expected to begin commercial service in the last quarter of 2000. Lake Road Generating Plant (Lake Road), an approximately 790-MW power plant located in Connecticut, is expected to begin commercial service in 2001. La Paloma Generating Plant (La Paloma), an approximately 1,050-MW power plant located in California, is expected to begin commercial service in 2002. On September 28, 2000, PG&E National Energy Group purchased the Attala Power Project. Attala is a 500 MW gas-fired combined cycle project, which is approximately 50 percent complete, located in Mississippi and is expected to begin commercial service by summer 2001. During the second quarter critical environmental permits were obtained for the Athens Generating Plant, an approximately 1,080-MW power plant located in New York, and the approximately 1,040-MW Harquahala generating project located in Arizona. Both plants are expected to begin commercial service in 2003.

Lake Road and La Paloma are being financed through synthetic leases with a third-party owner. PG&E National Energy Group will operate the plants under operating leases. The estimated cost to construct these plants is approximately $1.4 billion.

PG&E National Energy Group broke ground for the Madison Wind Power Project in New York in April 2000. This 11.5 MW project will be the largest wind generating facility in the Eastern United States and began commercial operation in October 2000.

In addition to the above projects under construction, PG&E National Energy Group has an additional 9,000 to 10,000 MW in development for commercial operation in the next five years. The expected commercial operation dates of the projects discussed above and the completion of future projects is subject to many factors, including but not limited to various regulatory and environmental approvals, adequate financing on satisfactory terms, competitive conditions including the expansion and retirement plans of others, market prices for electricity, future fuel prices, delays by third party contractors, and the availability of required equipment.

ENVIRONMENTAL MATTERS

We are subject to laws and regulations established to both maintain and improve the quality of the environment. Where our properties contain hazardous substances, these laws and regulations require us to remove those substances or remedy effects on the environment. (See Note 6 of Notes to Condensed Consolidated Financial Statement for further discussion of these matters.)

RISK MANAGEMENT ACTIVITIES

We have established a risk management policy that allows derivatives to be used for both hedging and non-hedging purposes (a derivative is a contract whose value is dependent on or derived from the value of some underlying asset). We use derivatives for hedging purposes primarily to offset underlying commodity price risks. We also participate in markets using derivatives to gather market intelligence, create liquidity, and maintain a market presence. Such derivatives include forward contracts, futures, swaps, and options. Net open positions often exist or are established due to PG&E Corporation's assessment of its response to changing market conditions. To the extent that PG&E Corporation has an open position, it is exposed to the risk that fluctuating market prices may adversely impact its financial results. Our risk management policy and the trading and risk management policies of our subsidiaries prohibit the use of derivatives whose payment formula includes a multiple of some underlying asset.

We prepare a daily assessment of our portfolio market risk exposure using value-at-risk and other methodologies that simulate future price movements in the energy markets to estimate the size and probability of future potential losses. The quantification of market risk using value-at-risk provides a consistent measure of risk across diverse energy markets and products. The use of this methodology requires a number of important assumptions, including the selection of a confidence level for losses, volatility of prices, market liquidity, and a holding period. PG&E Corporation's daily value-at-risk for commodity price sensitive derivative instruments as of September 30, 2000, was $2.8 million for trading activities and $12.2 million for non-trading activities.

Value-at-risk has several limitations as a measure of portfolio risk, including, but not limited to, underestimation of the risk of a portfolio with significant options exposure, inadequate indication of the exposure of a portfolio to extreme price movements, and the inability to address the risk resulting from intra-day trading activities.

PG&E Corporation expects to adopt Statement of Financial Accounting Standards (SFAS) No. 133, as amended by SFAS No. 138, effective January 1, 2001. The Statement will require us to recognize all derivatives, as defined in the Statement, on the balance sheet at fair value. Derivatives, or any portion thereof, that are not effective hedges must be adjusted to fair value through income. If derivatives are effective hedges, depending on the nature of the hedges, changes in the fair value of derivatives either will be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or will be recognized in other comprehensive income until the hedged items are recognized in earnings. We currently are evaluating what the effect of SFAS No. 133 will be on the earnings and financial position of PG&E Corporation. However, we already use the mark-to-market method of accounting for our commodity non-hedging and risk management activities.

LEGAL MATTERS

In the normal course of business, both the Utility and PG&E Corporation are named as parties in a number of claims and lawsuits. (See Note 6 of Notes to Condensed Consolidated Financial Statements for further discussion of significant pending legal matters.)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PG&E Corporation's and Pacific Gas and Electric Company's primary market risk results from changes in energy prices and interest rates. We engage in price risk management activities for both non-hedging and hedging purposes. Additionally, we may engage in hedging activities using futures, options, and swaps to hedge the impact of market fluctuations on energy commodity prices, interest rates, and foreign currencies. (See Risk Management Activities, above.)

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a description of material legal proceedings, see Note 6 of the PG&E Corporation and Pacific Gas and Electric Company Notes to Condensed Consolidated Financial Statements under Part I, Item 1 above, as well as the Annual Report on Form 10-K filed by PG&E Corporation and Pacific Gas and Electric Company for the year ended December 31. 1999, and the Quarterly Report on Form 10-Q filed by PG&E Corporation and Pacific Gas and Electric

Company for the quarter ended March 31, 2000.

Item 5. Other Information

Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

Pacific Gas and Electric Company's earnings to fixed charges ratio for the nine months ended September 30, 2000, was 3.72. Pacific Gas and Electric Company's earnings to combined fixed charges and preferred stock dividends ratio for the nine months ended September 30, 2000, was 3.53. The statement of the foregoing ratios, together with the statements of the computation of the foregoing ratios filed as Exhibits 12.1 and 12.2 hereto, are included herein for the purpose of incorporating such information and exhibits into Registration Statement Nos. 33-62488, 33-64136, 33-50707, and 33-61959, relating to Pacific Gas and Electric Company's various classes of debt and first preferred stock outstanding.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 3.1	Bylaws of PG&E Corporation, dated as of August 22, 2000
Exhibit 3.2	Bylaws of Pacific Gas and Electric Company, dated as of August 22, 2000
Exhibit 11	Computation of Earnings Per Common Share
Exhibit 12.1	Computation of Ratios of Earnings to Fixed Charges for Pacific Gas and Electric Company
Exhibit 12.2	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends for Pacific Gas and Electric Company
Exhibit 27.1	Financial Data Schedule for the quarter ended September 30, 2000, for PG&E Corporation
Exhibit 27.2	Financial Data Schedule for the quarter ended September 30, 2000, for Pacific Gas and Electric Company

(b) The following Current Reports on Form 8-K were filed during the third quarter of 2000 and through the date hereof (2):

1. August 9, 2000
   Item 5. Other Events
   Pacific Gas and Electric Company's
   Hydroelectric Generation Assets

2. September 14, 2000
   Item 5. Other Events
   Pacific Gas and Electric Company's
   Attrition Rate Adjustment Application

3. October 25, 2000
   Item 5. Other Events
   Third Quarter 2000 Consolidated Earnings,
   Pacific Gas and Electric Company's
   Wholesale Power Purchase Costs, and Other Matters

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(2) Unless otherwise noted, all Current Reports on Form 8-K were filed under both Commission File Number 1-12609 (PG&E Corporation) and Commission File Number 1-2348 (Pacific Gas and Electric Company).

SIGNATURE

Pursuant to the requirements 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.

PG&E CORPORATION

CHRISTOPHER P. JOHNS

By CHRISTOPHER P. JOHNS
Vice President and Controller

PACIFIC GAS AND ELECTRIC COMPANY

KENT M. HARVEY

By KENT M. HARVEY
Senior Vice President-Chief Financial Officer, Controller and Treasurer

Dated: October 31, 2000

Exhibit Index

Exhibit No.	Description of Exhibit
3.1	Bylaws of PG&E Corporation, dated as of August 22, 2000
3.2	Bylaws of Pacific Gas and Electric Company, dated as of August 22, 2000
11	Computation of Earnings Per Common Share
12.1	Computation of Ratio of Earnings to Fixed Charges for Pacific Gas and Electric Company
12.2	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends for Pacific Gas and Electric Company
27.1	Financial Data Schedule for the quarter ended September 30, 2000 for PG&E Corporation
27.2	Financial Data Schedule for the quarter ended September 30, 2000 for Pacific Gas and Electric Company

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Exhibit 3.1

Bylaws
of
PG&E Corporation
amended as of August 22, 2000

Article I.
SHAREHOLDERS.

1. Place of Meeting. All meetings of the shareholders shall be held at the office of the Corporation in the City and County of San Francisco, State of California, or at such other place, within or without the State of California, as may be designated by the Board of Directors.

2. Annual Meetings. The annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors.

Written notice of the annual meeting shall be given not less than ten (or, if sent by third-class mail, thirty) nor more than sixty days prior to the date of the meeting to each shareholder entitled to vote thereat. The notice shall state the place, day, and hour of such meeting, and those matters which the Board, at the time of mailing, intends to present for action by the shareholders.

Notice of any meeting of the shareholders shall be given by mail or telegraphic or other written communication, postage prepaid, to each holder of record of the stock entitled to vote thereat, at his address, as it appears on the books of the Corporation.

At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the annual meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of the annual meeting (or any supplement thereto) given by or at the direction of the Board, or (ii) otherwise properly brought before the annual meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, including the nomination of any person (other than a person nominated by or at the direction of the Board) for election to the Board, the shareholder must have given timely and proper written notice to the Corporate Secretary of the Corporation. To be timely, the shareholder's written notice must be received at the principal executive office of the Corporation not less than forty-five days before the date corresponding to the mailing date of the notice and proxy materials for the prior year's annual meeting of shareholders; provided, however, that if the annual meeting to which the shareholder's written notice relates is to be held on a date that differs by more than thirty days from the date of the last annual meeting of shareholders, the shareholder's written notice to be timely must be so received not later than the close of business on the tenth day following the date on which public disclosure of the date of the annual meeting is made or given to shareholders. To be proper, the shareholder's written notice must set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, (b) the name and address of the shareholder as they appear on the Corporation's books, (c) the class and number of shares of the Corporation that are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. In addition, if the shareholder's written notice relates to the nomination at the annual meeting of any person for election to the Board, such notice to be proper must also set forth (a) the name, age, business address, and residence address of each person to be so nominated, (b) the principal occupation or employment of each such person, (c) the number of shares of capital stock of the Corporation beneficially owned by each such person, and (d) such other information concerning each such person as would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting

proxies for the election of such person as a Director, and must be accompanied by a consent, signed by each such person, to serve as a Director of the Corporation if elected. Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section.

3. Special Meetings. Special meetings of the shareholders shall be called by the Corporate Secretary or an Assistant Corporate Secretary at any time on order of the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, or the President. Special meetings of the shareholders shall also be called by the Corporate Secretary or an Assistant Corporate Secretary upon the written request of holders of shares entitled to cast not less than ten percent of the votes at the meeting. Such request shall state the purposes of the meeting, and shall be delivered to the Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, the President, or the Corporate Secretary.

A special meeting so requested shall be held on the date requested, but not less than thirty-five nor more than sixty days after the date of the original request. Written notice of each special meeting of shareholders, stating the place, day, and hour of such meeting and the business proposed to be transacted thereat, shall be given in the manner stipulated in Article I, Section 2, Paragraph 3 of these Bylaws within twenty days after receipt of the written request.

4. Attendance at Meetings. At any meeting of the shareholders, each holder of record of stock entitled to vote thereat may attend in person or may designate an agent or a reasonable number of agents, not to exceed three to attend the meeting and cast votes for his or her shares. The authority of agents must be evidenced by a written proxy signed by the shareholder designating the agents authorized to attend the meeting and be delivered to the Corporate Secretary of the Corporation prior to the commencement of the meeting.

5. Shareholder Action by Written Consent. Subject to Section 603 of the California Corporations Code, any action which, under any provision of the California Corporations Code, may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Any party seeking to solicit written consent from shareholders to take corporate action must deliver a notice to the Corporate Secretary of the Corporation which requests the Board of Directors to set a record date for determining shareholders entitled to give such consent. Such written request must set forth as to each matter the party proposes for shareholder action by written consents (a) a brief description of the matter and (b) the class and number of shares of the Corporation that are beneficially owned by the requesting party. Within ten days of receiving the request in the proper form, the Board shall set a record date for the taking of such action by written consent in accordance with California Corporations Code Section 701 and Article IV, Section 1 of these Bylaws. If the Board fails to set a record date within such ten-day period, the record date for determining shareholders entitled to give the written consent for the matters specified in the notice shall be the day on which the first written consent is given in accordance with California Corporations

Code Section 701.

Each written consent delivered to the Corporation must set forth (a) the action sought to be taken, (b) the name and address of the shareholder as they appear on the Corporation's books, (c) the class and number of shares of the Corporation that are beneficially owned by the shareholder, (d) the name and address of the proxyholder authorized by the shareholder to give such written consent, if applicable, and (d) any material interest of the shareholder or proxyholder in the action sought to be taken.

Consents to corporate action shall be valid for a maximum of sixty days after the date of the earliest dated consent delivered to the Corporation. Consents may be revoked by written notice (i) to the Corporation, (ii) to the shareholder or shareholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the Corporation (the "Soliciting Shareholders"), or (iii) to a proxy solicitor or other agent designated by the Corporation or the Soliciting Shareholders.

Within three business days after receipt of the earliest dated consent solicited by the Soliciting Shareholders and delivered to the Corporation in the manner provided in California Corporations Code Section 603 or the determination by the Board of Directors of the Corporation that the Corporation should seek corporate action by written consent, as the case may be, the Corporate Secretary shall engage nationally recognized independent inspectors of elections for the purpose of performing a ministerial review of the validity of the consents and revocations. The cost of retaining inspectors of election shall be borne by the Corporation.

Consents and revocations shall be delivered to the inspectors upon receipt by the Corporation, the Soliciting Shareholders or their proxy solicitors, or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. The inspectors shall keep such count confidential and shall not reveal the count to the Corporation, the Soliciting Shareholder or their representatives, or any other entity. As soon as practicable after the earlier of (i) sixty days after the date of the earliest dated consent delivered to the Corporation in the manner provided in California Corporations Code Section 603, or (ii) a written request therefor by the Corporation or the Soliciting Shareholders (whichever is soliciting consents), notice of which request shall be given to the party opposing the solicitation of consents, if any, which request shall state that the Corporation or Soliciting Shareholders, as the case may be, have a good faith belief that the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents has been received in accordance with these Bylaws, the inspectors shall issue a preliminary report to the Corporation and the Soliciting Shareholders stating: (a) the number of valid consents, (b) the number of valid revocations, (c) the number of valid and unrevoked consents, (d) the number of invalid consents, (e) the number of invalid revocations, and (f) whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the Corporation and the Soliciting Shareholders shall agree to a shorter or longer period, the Corporation and the Soliciting Shareholders shall have forty-eight hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an

intention to challenge the preliminary report is received within forty-eight hours after the inspectors' issuance of the preliminary report, the inspectors shall issue to the Corporation and the Soliciting Shareholders their final report containing the information from the inspectors' determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the Corporation or the Soliciting Shareholders issue written notice of an intention to challenge the inspectors' preliminary report within forty-eight hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final report to the Soliciting Shareholders and the Corporation, which report shall contain the information included in the preliminary report, plus all changes in the vote totals as a result of the challenge and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents. A copy of the final report of the inspectors shall be included in the book in which the proceedings of meetings of shareholders are recorded.

Unless the consent of all shareholders entitled to vote have been solicited in writing, the Corporation shall give prompt notice to the shareholders in accordance with California Corporations Code Section 603 of the results of any consent solicitation or the taking of the corporate action without a meeting and by less than unanimous written consent.

Article II.
DIRECTORS.

1. Number. As stated in paragraph I of Article Third of this Corporation's Articles of Incorporation, the Board of Directors of this Corporation shall consist of such number of directors, not less than seven (7) nor more than thirteen (13). The exact number of directors shall be eleven (11) until changed, within the limits specified above, by an amendment to this Bylaw duly adopted by the Board of Directors or the shareholders.

2. Powers. The Board of Directors shall exercise all the powers of the Corporation except those which are by law, or by the Articles of Incorporation of this Corporation, or by the Bylaws conferred upon or reserved to the shareholders.

3. Committees. The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate and appoint one or more committees as the Board deems appropriate, each consisting of two or more directors, to serve at the pleasure of the Board; provided, however, that, as required by this Corporation's Articles of Incorporation, the members of the Executive Committee (should the Board of Directors designate an Executive Committee) must be appointed by the affirmative vote of two-thirds of the authorized number of directors. Any such committee, including the Executive Committee, shall have the authority to act in the manner and to the extent provided in the resolution of the Board of Directors designating such committee and may have all the authority of the Board of Directors, except with respect to the matters set forth in California Corporations Code Section 311.

4. Time and Place of Directors' Meetings. Regular meetings of

the Board of Directors shall be held on such days and at such times and at such locations as shall be fixed by resolution of the Board, or designated by the Chairman of the Board or, in his absence, the Vice Chairman of the Board, or the President of the Corporation and contained in the notice of any such meeting. Notice of meetings shall be delivered personally or sent by mail or telegram at least seven days in advance.

5. Special Meetings. The Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, the President, or any five directors may call a special meeting of the Board of Directors at any time. Notice of the time and place of special meetings shall be given to each Director by the Corporate Secretary. Such notice shall be delivered personally or by telephone to each Director at least four hours in advance of such meeting, or sent by first-class mail or telegram, postage prepaid, at least two days in advance of such meeting.

6. Quorum. A quorum for the transaction of business at any meeting of the Board of Directors or any committee thereof shall consist of one-third of the authorized number of directors or committee members, or two, whichever is larger.

7. Action by Consent. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors.

8. Meetings by Conference Telephone. Any meeting, regular or special, of the Board of Directors or of any committee of the Board of Directors, may be held by conference telephone or similar communication equipment, provided that all Directors participating in the meeting can hear one another.

Article III.
OFFICERS.

1. Officers. The officers of the Corporation shall be a Chairman of the Board, a Vice Chairman of the Board, a Chairman of the Executive Committee (whenever the Board of Directors in its discretion fills these offices), a President, a Chief Financial Officer, a General Counsel, one or more Vice Presidents, a Corporate Secretary and one or more Assistant Corporate Secretaries, a Treasurer and one or more Assistant Treasurers, and a Controller, all of whom shall be elected by the Board of Directors. The Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, and the President shall be members of the Board of Directors.

2. Chairman of the Board. The Chairman of the Board, if that office be filled, shall preside at all meetings of the shareholders and of the Directors, and shall preside at all meetings of the Executive Committee in the absence of the Chairman of that Committee. He shall be the chief executive officer of the Corporation if so designated by the Board of Directors. He shall have such duties and responsibilities as may be prescribed by the Board of Directors or the Bylaws. The Chairman of the Board shall have authority to sign on behalf of the Corporation agreements and instruments of every character, and, in the absence or disability of the President, shall exercise the President's duties and responsibilities.

3. Vice Chairman of the Board. The Vice Chairman of the Board,

if that office be filled, shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, or the Bylaws. He shall be the chief executive officer of the Corporation if so designated by the Board of Directors. In the absence of the Chairman of the Board, he shall preside at all meetings of the Board of Directors and of the shareholders; and, in the absence of the Chairman of the Executive Committee and the Chairman of the Board, he shall preside at all meetings of the Executive Committee. The Vice Chairman of the Board shall have authority to sign on behalf of the Corporation agreements and instruments of every character.

4. Chairman of the Executive Committee. The Chairman of the Executive Committee, if that office be filled, shall preside at all meetings of the Executive Committee. He shall aid and assist the other officers in the performance of their duties and shall have such other duties as may be prescribed by the Board of Directors or the Bylaws.

5. President. The President shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, or the Bylaws. He shall be the chief executive officer of the Corporation if so designated by the Board of Directors. If there be no Chairman of the Board, the President shall also exercise the duties and responsibilities of that office. The President shall have authority to sign on behalf of the Corporation agreements and instruments of every character.

6. Chief Financial Officer. The Chief Financial Officer shall be responsible for the overall management of the financial affairs of the Corporation. He shall render a statement of the Corporation's financial condition and an account of all transactions whenever requested by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, or the President.

The Chief Financial Officer shall have such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws.

7. General Counsel. The General Counsel shall be responsible for handling on behalf of the Corporation all proceedings and matters of a legal nature. He shall render advice and legal counsel to the Board of Directors, officers, and employees of the Corporation, as necessary to the proper conduct of the business. He shall keep the management of the Corporation informed of all significant developments of a legal nature affecting the interests of the Corporation.

The General Counsel shall have such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws.

8. Vice Presidents. Each Vice President, if those offices are filled, shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws. Each Vice President's authority to sign agreements and instruments on behalf of the Corporation shall be as prescribed by the Board of Directors. The Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, or the President may confer a special title upon any Vice President.

9. Corporate Secretary. The Corporate Secretary shall attend all meetings of the Board of Directors and the Executive Committee, and all meetings of the shareholders, and he shall record the minutes

of all proceedings in books to be kept for that purpose. He shall be responsible for maintaining a proper share register and stock transfer books for all classes of shares issued by the Corporation. He shall give, or cause to be given, all notices required either by law or the Bylaws. He shall keep the seal of the Corporation in safe custody, and shall affix the seal of the Corporation to any instrument requiring it and shall attest the same by his signature.

The Corporate Secretary shall have such other duties as may be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws.

The Assistant Corporate Secretaries shall perform such duties as may be assigned from time to time by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Corporate Secretary. In the absence or disability of the Corporate Secretary, his duties shall be performed by an Assistant Corporate Secretary.

10. Treasurer. The Treasurer shall have custody of all moneys and funds of the Corporation, and shall cause to be kept full and accurate records of receipts and disbursements of the Corporation. He shall deposit all moneys and other valuables of the Corporation in the name and to the credit of the Corporation in such depositaries as may be designated by the Board of Directors or any employee of the Corporation designated by the Board of Directors. He shall disburse such funds of the Corporation as have been duly approved for disbursement.

The Treasurer shall perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, the Chief Financial Officer, or the Bylaws.

The Assistant Treasurers shall perform such duties as may be assigned from time to time by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, the Chief Financial Officer, or the Treasurer. In the absence or disability of the Treasurer, his duties shall be performed by an Assistant Treasurer.

11. Controller. The Controller shall be responsible for maintaining the accounting records of the Corporation and for preparing necessary financial reports and statements, and he shall properly account for all moneys and obligations due the Corporation and all properties, assets, and liabilities of the Corporation. He shall render to the officers such periodic reports covering the result of operations of the Corporation as may be required by them or any one of them.

The Controller shall have such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, the Chief Financial Officer, or the Bylaws. He shall be the principal accounting officer of the Corporation, unless another individual shall be so designated by the Board of Directors.

Article IV.
MISCELLANEOUS.

1. Record Date. The Board of Directors may fix a time in the future as a record date for the determination of the shareholders

entitled to notice of and to vote at any meeting of shareholders, or entitled to receive any dividend or distribution, or allotment of rights, or to exercise rights in respect to any change, conversion, or exchange of shares. The record date so fixed shall be not more than sixty nor less than ten days prior to the date of such meeting nor more than sixty days prior to any other action for the purposes for which it is so fixed. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at the meeting, or entitled to receive any dividend or distribution, or allotment of rights, or to exercise the rights, as the case may be.

2. Transfers of Stock. Upon surrender to the Corporate Secretary or Transfer Agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, and payment of transfer taxes, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books. Subject to the foregoing, the Board of Directors shall have power and authority to make such rules and regulations as it shall deem necessary or appropriate concerning the issue, transfer, and registration of certificates for shares of stock of the Corporation, and to appoint and remove Transfer Agents and Registrars of transfers.

3. Lost Certificates. Any person claiming a certificate of stock to be lost, stolen, mislaid, or destroyed shall make an affidavit or affirmation of that fact and verify the same in such manner as the Board of Directors may require, and shall, if the Board of Directors so requires, give the Corporation, its Transfer Agents, Registrars, and/or other agents a bond of indemnity in form approved by counsel, and in amount and with such sureties as may be satisfactory to the Corporate Secretary of the Corporation, before a new certificate may be issued of the same tenor and for the same number of shares as the one alleged to have been lost, stolen, mislaid, or destroyed.

Article V.
AMENDMENTS.

1. Amendment by Shareholders. Except as otherwise provided by law, these Bylaws, or any of them, may be amended or repealed or new Bylaws adopted by the affirmative vote of a majority of the outstanding shares entitled to vote at any regular or special meeting of the shareholders.

2. Amendment by Directors. To the extent provided by law, these Bylaws, or any of them, may be amended or repealed or new Bylaws adopted by resolution adopted by a majority of the members of the Board of Directors.

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Exhibit 3.2

Bylaws
of
Pacific Gas and Electric Company
amended as of August 22, 2000

Article I.
SHAREHOLDERS.

1. Place of Meeting. All meetings of the shareholders shall be held at the office of the Corporation in the City and County of San Francisco, State of California, or at such other place, within or without the State of California, as may be designated by the Board of Directors.

2. Annual Meetings. The annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors.

Written notice of the annual meeting shall be given not less than ten (or, if sent by third-class mail, thirty) nor more than sixty days prior to the date of the meeting to each shareholder entitled to vote thereat. The notice shall state the place, day, and hour of such meeting, and those matters which the Board, at the time of mailing, intends to present for action by the shareholders.

Notice of any meeting of the shareholders shall be given by mail or telegraphic or other written communication, postage prepaid, to each holder of record of the stock entitled to vote thereat, at his address, as it appears on the books of the Corporation.

At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the annual meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of the annual meeting (or any supplement thereto) given by or at the direction of the Board, or (ii) otherwise properly brought before the annual meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, including the nomination of any person (other than a person nominated by or at the direction of the Board) for election to the Board, the shareholder must have given timely and proper written notice to the Corporate Secretary of the Corporation. To be timely, the shareholder's written notice must be received at the principal executive office of the Corporation not less than forty-five days before the date corresponding to the mailing date of the notice and proxy materials for the prior year's annual meeting of shareholders; provided, however, that if the annual meeting to which the shareholder's written notice relates is to be held on a date that differs by more than thirty days from the date of the last annual meeting of shareholders, the shareholder's written notice to be timely must be so received not later than the close of business on the tenth day following the date on which public disclosure of the date of the annual meeting is made or given to shareholders. To be proper, the shareholder's written notice must set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, (b) the name and address of the shareholder as they appear on the Corporation's books, (c) the class and number of shares of the Corporation that are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. In

addition, if the shareholder's written notice relates to the nomination at the annual meeting of any person for election to the Board, such notice to be proper must also set forth (a) the name, age, business address, and residence address of each person to be so nominated, (b) the principal occupation or employment of each such person, (c) the number of shares of capital stock of the Corporation beneficially owned by each such person, and (d) such other information concerning each such person as would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such person as a Director, and must be accompanied by a consent, signed by each such person, to serve as a Director of the Corporation if elected. Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section.

3. Special Meetings. Special meetings of the shareholders shall be called by the Secretary or an Assistant Secretary at any time on order of the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, or the President. Special meetings of the shareholders shall also be called by the Secretary or an Assistant Secretary upon the written request of holders of shares entitled to cast not less than ten percent of the votes at the meeting. Such request shall state the purposes of the meeting, and shall be delivered to the Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, the President or the Secretary.

A special meeting so requested shall be held on the date requested, but not less than thirty-five nor more than sixty days after the date of the original request. Written notice of each special meeting of shareholders, stating the place, day, and hour of such meeting and the business proposed to be transacted thereat, shall be given in the manner stipulated in Article I, Section 2, Paragraph 3 of these Bylaws within twenty days after receipt of the written request.

4. Attendance at Meetings. At any meeting of the shareholders, each holder of record of stock entitled to vote thereat may attend in person or may designate an agent or a reasonable number of agents, not to exceed three to attend the meeting and cast votes for his shares. The authority of agents must be evidenced by a written proxy signed by the shareholder designating the agents authorized to attend the meeting and be delivered to the Secretary of the Corporation prior to the commencement of the meeting.

5. No Cumulative Voting. No shareholder of the Corporation shall be entitled to cumulate his or her voting power.

Article II.
DIRECTORS.

1. Number. The Board of Directors of this Corporation shall consist of such number of directors, not less than nine (9) nor more than seventeen (17). The exact number of directors shall be twelve (12) until changed, within the limits specified above, by an amendment to this Bylaw duly adopted by the Board of Directors or the shareholders.

2. Powers. The Board of Directors shall exercise all the powers of the Corporation except those which are by law, or by the Articles of Incorporation of this Corporation, or by the Bylaws

conferred upon or reserved to the shareholders.

3. Committees. The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate and appoint one or more committees as the Board deems appropriate, each consisting of two or more directors, to serve at the pleasure of the Board; provided, however, that, as required by this Corporation's Articles of Incorporation, the members of the Executive Committee (should the Board of Directors designate an Executive Committee) must be appointed by the affirmative vote of two-thirds of the authorized number of directors. Any such committee, including the Executive Committee, shall have the authority to act in the manner and to the extent provided in the resolution of the Board of Directors designating such committee and may have all the authority of the Board of Directors, except with respect to the matters set forth in California Corporations Code Section 311.

4. Time and Place of Directors' Meetings. Regular meetings of the Board of Directors shall be held on such days and at such times and at such locations as shall be fixed by resolution of the Board, or designated by the Chairman of the Board or, in his absence, the Vice Chairman of the Board, or the President of the Corporation and contained in the notice of any such meeting. Notice of meetings shall be delivered personally or sent by mail or telegram at least seven days in advance.

5. Special Meetings. The Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, the President, or any five directors may call a special meeting of the Board of Directors at any time. Notice of the time and place of special meetings shall be given to each Director by the Secretary. Such notice shall be delivered personally or by telephone to each Director at least four hours in advance of such meeting, or sent by first-class mail or telegram, postage prepaid, at least two days in advance of such meeting.

6. Quorum. A quorum for the transaction of business at any meeting of the Board of Directors or any committee thereof shall consist of one-third of the authorized number of directors or committee members, or two, whichever is larger.

7. Action by Consent. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors.

8. Meetings by Conference Telephone. Any meeting, regular or special, of the Board of Directors or of any committee of the Board of Directors, may be held by conference telephone or similar communication equipment, provided that all Directors participating in the meeting can hear one another.

Article III.
OFFICERS.

1. Officers. The officers of the Corporation shall be a Chairman of the Board, a Vice Chairman of the Board, a Chairman of the Executive Committee (whenever the Board of Directors in its discretion fills these offices), a President, one or more Vice Presidents, a Secretary and one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers, a General Counsel, a General Attorney

(whenever the Board of Directors in its discretion fills this office), and a Controller, all of whom shall be elected by the Board of Directors. The Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, and the President shall be members of the Board of Directors.

2. Chairman of the Board. The Chairman of the Board, if that office be filled, shall preside at all meetings of the shareholders, of the Directors, and of the Executive Committee in the absence of the Chairman of that Committee. He shall be the chief executive officer of the Corporation if so designated by the Board of Directors. He shall have such duties and responsibilities as may be prescribed by the Board of Directors or the Bylaws. The Chairman of the Board shall have authority to sign on behalf of the Corporation agreements and instruments of every character, and in the absence or disability of the President, shall exercise his duties and responsibilities.

3. Vice Chairman of the Board. The Vice Chairman of the Board, if that office be filled, shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, or the Bylaws. He shall be the chief executive officer of the Corporation if so designated by the Board of Directors. In the absence of the Chairman of the Board, he shall preside at all meetings of the Board of Directors and of the shareholders; and, in the absence of the Chairman of the Executive Committee and the Chairman of the Board, he shall preside at all meetings of the Executive Committee. The Vice Chairman of the Board shall have authority to sign on behalf of the Corporation agreements and instruments of every character.

4. Chairman of the Executive Committee. The Chairman of the Executive Committee, if that office be filled, shall preside at all meetings of the Executive Committee. He shall aid and assist the other officers in the performance of their duties and shall have such other duties as may be prescribed by the Board of Directors or the Bylaws.

5. President. The President shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, or the Bylaws. He shall be the chief executive officer of the Corporation if so designated by the Board of Directors. If there be no Chairman of the Board, the President shall also exercise the duties and responsibilities of that office. The President shall have authority to sign on behalf of the Corporation agreements and instruments of every character.

6. Vice Presidents. Each Vice President shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws. Each Vice President's authority to sign agreements and instruments on behalf of the Corporation shall be as prescribed by the Board of Directors. The Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, or the President may confer a special title upon any Vice President.

7. Secretary. The Secretary shall attend all meetings of the Board of Directors and the Executive Committee, and all meetings of the shareholders, and he shall record the minutes of all proceedings in books to be kept for that purpose. He shall be responsible for maintaining a proper share register and stock transfer books for all classes of shares issued by the Corporation. He shall give, or cause to be given, all notices required either by law or the Bylaws. He shall keep the seal of the Corporation in safe custody, and shall affix the seal of the Corporation to any instrument requiring it and shall attest the same by his signature.

The Secretary shall have such other duties as may be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws.

The Assistant Secretaries shall perform such duties as may be assigned from time to time by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Secretary. In the absence or disability of the Secretary, his duties shall be performed by an Assistant Secretary.

8. Treasurer. The Treasurer shall have custody of all moneys and funds of the Corporation, and shall cause to be kept full and accurate records of receipts and disbursements of the Corporation. He shall deposit all moneys and other valuables of the Corporation in the name and to the credit of the Corporation in such depositaries as may be designated by the Board of Directors or any employee of the Corporation designated by the Board of Directors. He shall disburse such funds of the Corporation as have been duly approved for disbursement.

The Treasurer shall perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws.

The Assistant Treasurer shall perform such duties as may be assigned from time to time by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Treasurer. In the absence or disability of the Treasurer, his duties shall be performed by an Assistant Treasurer.

9. General Counsel. The General Counsel shall be responsible for handling on behalf of the Corporation all proceedings and matters of a legal nature. He shall render advice and legal counsel to the Board of Directors, officers, and employees of the Corporation, as necessary to the proper conduct of the business. He shall keep the management of the Corporation informed of all significant developments of a legal nature affecting the interests of the Corporation.

The General Counsel shall have such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws.

10. Controller. The Controller shall be responsible for maintaining the accounting records of the Corporation and for preparing necessary financial reports and statements, and he shall properly account for all moneys and obligations due the Corporation and all properties, assets, and liabilities of the Corporation. He shall render to the officers such periodic reports covering the result of operations of the Corporation as may be required by them or any one of them.

The Controller shall have such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the President, or the Bylaws. He shall be the principal accounting officer of the Corporation, unless another individual shall be so designated by the Board of Directors.

Article IV.
MISCELLANEOUS.

1. Record Date. The Board of Directors may fix a time in the future as a record date for the determination of the shareholders entitled to notice of and to vote at any meeting of shareholders, or entitled to receive any dividend or distribution, or allotment of rights, or to exercise rights in respect to any change, conversion, or exchange of shares. The record date so fixed shall be not more than sixty nor less than ten days prior to the date of such meeting nor more than sixty days prior to any other action for the purposes for which it is so fixed. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at the meeting, or entitled to receive any dividend or distribution, or allotment of rights, or to exercise the rights, as the case may be.

2. Transfers of Stock. Upon surrender to the Secretary or Transfer Agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, and payment of transfer taxes, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books. Subject to the foregoing, the Board of Directors shall have power and authority to make such rules and regulations as it shall deem necessary or appropriate concerning the issue, transfer, and registration of certificates for shares of stock of the Corporation, and to appoint and remove Transfer Agents and Registrars of transfers.

3. Lost Certificates. Any person claiming a certificate of stock to be lost, stolen, mislaid, or destroyed shall make an affidavit or affirmation of that fact and verify the same in such manner as the Board of Directors may require, and shall, if the Board of Directors so requires, give the Corporation, its Transfer Agents, Registrars, and/or other agents a bond of indemnity in form approved by counsel, and in amount and with such sureties as may be satisfactory to the Secretary of the Corporation, before a new certificate may be issued of the same tenor and for the same number of shares as the one alleged to have been lost, stolen, mislaid, or destroyed.

Article V.
AMENDMENTS.

1. Amendment by Shareholders. Except as otherwise provided by law, these Bylaws, or any of them, may be amended or repealed or new Bylaws adopted by the affirmative vote of a majority of the outstanding shares entitled to vote at any regular or special meeting of the shareholders.

2. Amendment by Directors. To the extent provided by law, these Bylaws, or any of them, may be amended or repealed or new Bylaws adopted by resolution adopted by a majority of the members of the Board of Directors.

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PG&E CORPORATION
COMPUTATION OF EARNINGS PER COMMON SHARE

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September 30, September 30, (in millions, except per share amounts)	Three Months Ended 2000	1999	Nine Months 2000	1
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BASIC EARNINGS PER SHARE (EPS) (1)				
Earnings available for common stock	$ 225	$ 185	$ 753	$
Average common shares outstanding	362	367	361	
Basic EPS	$ .62	$ .50	$2.09	$
DILUTED EARNINGS PER SHARE (EPS) (1)				
Earnings available for common stock	$ 225	$ 185	$ 753	$
Average common shares outstanding	362	367	361	
Add: outstanding options, reduced by the number of shares that could be repurchased with the proceeds from such exercise (at average market price)	3	1	2	
Average common shares outstanding as adjusted	365	368	363	
Diluted EPS	$ .62	$ .50	$2.07	$

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(1) This presentation is submitted in accordance with Item 601(b)(11) of Regulation
Statement of Financial Accounting Standards No. 128.
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PACIFIC GAS AND ELECTRIC COMPANY
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

<CAPTION>

Nine months Year ended December 31,

(dollars in millions)	ended September 30, 2000	1999	1998	1997	19
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Earnings:					
Net income	$ 673	$ 788	$ 729	$ 768	$
Adjustments for minority interests in losses of less than 100% owned affiliates and the Company's equity in undistributed losses (income) of less than 50% owned affiliates	-	-	-	-	
Income tax expense	594	648	629	609	
Net fixed charges	465	637	673	628	
Total Earnings	$ 1,732	$ 2,073	$ 2,031	$ 2,005	$ 1
Fixed Charges:					
Interest on long-term debt, net	$ 375	$ 523	$ 585	$ 485	$
Interest on short-term borrowings	66	81	50	101	
Interest on capital leases	1	2	2	2	
AFUDC debt	5	8	12	17	
Earnings required to cover the preferred stock dividend and preferred security distribution requirements of majority owned trust	18	24	24	24	
Total Fixed Charges	$ 465	$ 638	$ 673	$ 629	$
Ratios of Earnings to Fixed Charges	3.72	3.25	3.02	3.19	2

<FN>
Note: For the purpose of computing Pacific Gas and Electric Company's ratios of ea fixed charges, "earnings" represent net income adjusted for the minority int losses of less than 100% owned affiliates, cash distributions from and equit undistributed income or loss of Pacific Gas and Electric Company's less than affiliates, income taxes and fixed charges (excluding capitalized interest). charges" include interest on long-term debt and short-term borrowings (inclu representative portion of rental expense), amortization of bond premium, dis expense, interest of subordinated debentures held by trust, interest on capi earnings required to cover the preferred stock dividend requirements.
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EXHIBIT 12.2
PACIFIC GAS AND ELECTRIC COMPANY
COMPUTATION OF RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVI

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(dollars in millions)	Nine months ended September 30, 2000	Year ended December 31, 1999	1998	1997	
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Earnings:					
Net income	$ 673	$ 788	$ 729	$ 768	$
Adjustments for minority interests in losses of less than 100% owned affiliates and the Company's equity in undistributed losses (income) of less than 50% owned affiliates	-	-	-	-	
Income tax expense	594	648	629	609	
Net fixed charges	465	637	673	628	
Total Earnings	$ 1,732	$ 2,073	$ 2,031	$ 2,005	$ 1,
Fixed Charges:					
Interest on long-term debt, net	$ 375	$ 523	$ 585	$ 485	$
Interest on short term borrowings	66	81	50	101	
Interest on capital leases	1	3	2	2	
AFUDC debt	5	7	12	17	
Earnings required to cover the preferred stock dividend and preferred security distribution requirements of majority owned trust	18	24	24	24	
Total Fixed Charges	$ 465	$ 638	$ 673	$ 629	$
Preferred Stock Dividends:					
Tax deductible dividends	$ 6	$ 9	$ 9	$ 10	$
Pretax earnings required to cover non-tax deductible preferred stock dividend requirements	20	27	31	39	
Total Preferred Stock Dividends	$ 26	$ 36	$ 40	$ 49	$
Total Combined Fixed Charges and Preferred Stock Dividends	$ 491	$ 674	$ 713	$ 678	$
Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends	3.53	3.08	2.85	2.96	2

<FN>
Note: For the purpose of computing Pacific Gas and Electric Company's ratios of ea

combined fixed charges and preferred stock dividends, "earnings" represent n
adjusted for the minority interest in losses of less than 100% owned affilia
distributions from and equity in undistributed income or loss of Pacific Gas
Company's less than 50% owned affiliates, income taxes and fixed charges (ex
capitalized interest). "Fixed charges" include interest on long-term debt a
borrowings (including a representative portion of rental expense), amortizat
premium, discount and expense, interest on capital leases, interest of subor
debentures held by trust, and earnings required to cover the preferred stock
requirements of majority owned subsidiaries. "Preferred stock dividends" rep
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Exhibit C

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Copyright 2000 Knight Ridder/Tribune Business News
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San Jose Mercury News

November 23, 2000, Thursday

KR-ACC-NO: SJ-UTILITY

LENGTH: 1034 words

HEADLINE: Northern California Utility Plans Steady Rate Increases

BYLINE: By Steve Johnson

BODY:

Beginning Jan. 1, the typical Bay Area resident's electric bill could rise $ 9 a month -- a 16.5 percent jump that could be followed by several more over the next few years.

That's the plan Pacific Gas & Electric Co. filed with state regulators Wednesday, as part of the company's blueprint for ending the government-imposed cap on electricity rates.

While PG&E officials have talked generally in the past about wanting to end the freeze, which has been in effect for nearly three years, Wednesday's proposal provides the most detailed glimpse yet of the effect that might have on consumers.

The company urged the Public Utilities Commission to quickly approve the plan, claiming it soon could be "forced into bankruptcy" otherwise. And even though the plan would bill consumers for the $ 3.4 billion in unanticipated electricity costs that PG&E incurred last summer, the officials said it actually gives customers a break, by continuing to partially protect them from the extraordinarily volatile wholesale power prices.

"From the beginning of this energy crisis, we promised to shield our customers from the rate shock experienced by San Diego residents this summer," said Gordon R. Smith, PG&E's president and chief executive officer, in a prepared statement. "This proposal delivers on that promise, by holding the line on power costs our customers must pay, until state and federal officials can fix the broken wholesale electricity markets."

But consumers advocates immediately blasted the idea.

Calling the proposal "obscene," Doug Heller, of the Santa Monica-based Foundation for Taxpayer and Consumer Rights, said "it should be summarily denied by the PUC." Heller was incensed by PG&E's contention that the plan was beneficial to consumers. "That's just offensive," he said. "How dare they suggest that?"

Nettie Hoge, executive director of the Utility Reform Network in San Francisco, agreed. "I think this is really incredible spin -- PG&E posing as our savior," she scoffed. "It's fairly outrageous."

Efforts to reach Public Utilities Commission president Loretta Lynch were unsuccessful, but Hoge said she considered it highly unlikely that the commission would approve such a plan. In fact, although state law requires the rate freeze to end no later than March 31, 2002, she predicted that the commission would resist lifting it at all because to do so would be "political suicide."

The state law that deregulated California's electricity markets in 1998 allows utility firms to seek an end to the rate freeze for their customers once the companies have paid off their old power plant debts and other long-term power contracts. As a result, PG&E officials argue that their freeze should be declared over retroactive to August of this year, when they claim those debts were paid off.

But PG&E officials said they don't want to immediately expose their customers to the full wholesale cost of power, because of the experience of consumers in San Diego, where the freeze ended in 1999. There, retail electricity prices tripled this summer and the public outrage is still reverberating in Sacramento and in other states that also are considering deregulating their electricity markets.

So PG&E's plan would let its customers pay off the $ 3.4 billion in electricity costs from this summer -- as well the high wholesale prices it is now paying -- gradually over five years, through an arrangement similar to a car loan or mortgage.

Under this idea, the average monthly residential bill would increase from $ 54.50 a month to $ 63.50 a month in the first year. While that would amount to a 16.5 percent rate increase, it would be less painful than if PG&E passed on the full wholesale rate, which it estimated could boost those monthly bills by nearly 100 percent to $ 108. PG&E officials did not have estimates for how much bills might increase after the first year, and noted that the rates could be adjusted down by the company if wholesale prices drop.

PG&E spokesman Ron Low said that under the plan, "we are essentially going to act like a bank," by lending its customers the money to pay down the cost of electricity slowly. Five years from now, when more power plants are likely to have been built in California, he said, competition among those plants should drive down the wholesale price of electricity to the point where PG&E's customers can pay the full cost of that power themselves.

Nonetheless, the proposal gives PG&E considerable leeway to raise its rates over that five-year period if the price of wholesale power goes up, as some energy experts fear it might. PG&E officials insist that they need the flexibility to boost rates because they are facing severe financial hardship.

Since deregulation went into effect, PG&E and other utilities have sold off many of their power plants and bought electricity from wholesale suppliers. PG&E estimates that it has paid $ 3.4 billion more for electricity so far this year than it was able to collect from customers under the freeze.

So far, PG&E has had little luck persuading state regulators to force consumers to reimburse it for those bills. The Public Utilities Commission has balked at making consumers pay on several occasions and a lawsuit filed by PG&E in state court also has flopped. On Wednesday, the California Supreme Court

refused to overturn a lower court's decision denying PG&E's request to have consumers pay the $ 3.4 billion tab.

PG&E officials said they hadn't reviewed the court's decision and couldn't comment. A similar lawsuit filed by PG&E in federal court is pending.

Given the amount of bills it has incurred, PG&E officials said in their proposal Wednesday that the company faces the potential of not being able to borrow enough money to continue operating, which could plunge it into financial ruin.

"If creditors lose confidence in the company they would be reluctant to provide any new money," its proposal said. As a result, "PG&E would likely become insolvent...and be forced into bankruptcy."

To see more of the San Jose Mercury News, or to subscribe to the newspaper, go to http://www.sjmercury.com

JOURNAL-CODE: SJ

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Exhibit D

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: December 18, 2000

Commission File Number	Exact Name of Registrant as specified in its charter	State or other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, California 94177

PG&E Corporation
One Market, Spear Tower, Suite 2400
San Francisco, California 94105

(Address of principal executive offices) (Zip Code)

Pacific Gas and Electric Company
(415) 973-7000

PG&E Corporation
(415) 267-7000

(Registrant's telephone number, including area code)

Item 5. Other Events

A. Recent Regulatory Actions Addressing the California Energy Market

On December 13, 2000, the President and a commissioner of the California Public Utilities Commission (CPUC), issued a press release stating that certain revisions had been made to the item on the CPUC's agenda for its December 21, 2000 meeting regarding post-transition period electric ratemaking mechanisms. As revised, the agenda item proposes that the CPUC address at its December 21, 2000 meeting, the extraordinary financial situation facing Pacific Gas and Electric Company (Utility) and Southern California Edison as a result of current problems in the wholesale electric market and includes an assessment of accounting changes and adjustments previously proposed in the proceeding. The revised agenda item proposes that the CPUC expedite its review of market valuation proceedings to determine the feasibility of lifting the rate freeze as expeditiously as possible, and to evaluate the need for reasonable rate increases. The press release noted that the CPUC need not act on this item on December 21, 2000, but the fact that it is on the agenda allows the CPUC to act if necessary. The press release stated that the financial stability of California's utilities is of paramount importance to California and to the CPUC and that the CPUC stands ready to act to protect the financial viability of the California utilities. The press release urges the Federal Energy Regulatory Commission (FERC) to act immediately to solve the underlying market failure so that all energy consumers are assured of reliable delivery of power and protected from exorbitant energy costs.

On December 14, 2000, the United States Secretary of Energy issued an order pursuant to Section 202(c) of the Federal Power Act finding that an emergency exists in California by reason of a shortage of electric energy and ordered certain electric generators and marketers who had previously sold power into California to sell their available power to the California Independent System Operator (ISO) upon the request of the ISO. The order is in effect until December 21, 2000.

On December 15, 2000, the FERC issued an order adopting remedies for what the FERC characterized as the seriously flawed electric power markets in California. Included in the key actions announced by the FERC are:

- Elimination of the requirement that the California investor-owned utilities (IOUs) sell all of their generation into and buy all of their energy needs from the California Power Exchange (PX), which results in over reliance on spot market (i.e., real-time) purchases. The order permits the IOUs, effective December 15, 2000, to sell the power produced by generation owned by or under contract to the IOUs, which the state had required to be sold at wholesale into the PX, to be sold directly at retail by the IOUs, subject to California

regulation, if any, of the price the IOUs charge. The order states that California is free to regulate this power on a cost-of-service basis, subject to a price cap, or in any other way. The order also eliminates the requirement that IOUs meet their power needs through the PX and encourages them to meet their purchase power needs through bilateral, long-term contracts of two years or more and to adopt a balanced portfolio of contracts to mitigate cost exposure. However, the order recognizes that the CPUC must also eliminate its requirement that the IOUs buy only through the PX. The order notes that is

critical for the CPUC to give timely and predictable approval of the prudence of a balanced portfolio of short and long-term contracts. To encourage the execution of bilateral contracts, the order requires the PX's rate schedules to terminate effective at the close of business on April 30, 2001.

- Although the FERC decided not to require that generators enter into bilateral contracts, it did adopt a price benchmark at $74 per megawatt hour (MWh) for assessing prices of five-year energy supply contracts to be used by the FERC in assessing any complaints regarding justness and reasonableness of pricing long-term contracts. The FERC also orders all sellers with market based authority to report the bilateral contracts they are offering to the California market.

- Permits penalties to be imposed on market participants who do not schedule at least 95 percent of their load in advance of the ISO's real-time market (through self scheduling, bilateral contracts, or through the PX markets), to reduce the reliance on the ISO's real-time market to meet supply. A penalty charge will be assessed when more than 5 percent of a market participant's load is scheduled into the ISO's real-time market. Penalties are to be disbursed to other market participants who schedule their load properly. The FERC order does not contain provisions for penalties to be imposed on suppliers who do not schedule in advance.

- Directs the FERC staff to develop a comprehensive and systematic monitoring and price mitigation program for the ISO and PX spot markets to ensure there is no abuse of market power. The proposed plan is to be submitted by March 1, 2001, so that measures can be in place by May 1, 2001. The monitoring will rely on several threshold elements including the outage rates of sellers' resources; the failure to bid unsold megawatts into the ISO's real-time market; and, variations in bidding patterns for the same or similar resources. The monitoring will continue until a more comprehensive approach can be developed.

- Establishes an interim $150 per MWh modification ("soft cap") of the single price auction so that bids above $150 MWh will not set the market clearing prices paid to all bidders at or below $150 per MWh. Bids above the $150 MWh level will trigger certain weekly reporting requirements and FERC monitoring. These price provisions will be in effect until April 30, 2001. The FERC had originally proposed that this price cap be in effect until December 31, 2001.

- The period for potential refund liability continues until December 31, 2002. However, with respect to specific transactions, unless the FERC issues written notification to the seller that its transaction is still under review, refund potential on a transaction will close after 60 days. The FERC deferred until later the consideration of retroactive refund issues linked to protective orders associated with the volatile prices experienced in California this past summer.

- Requires the replacement of the ISO Board of Governors with a non-stakeholder board who are independent of market participants. The order requires the ISO Board of Governors to relinquish their decision-making power and operating control to the ISO management on

January 29, 2001, although they may continue as a stakeholder advisory committee to provide input to ISO management until there is a new board, or until April 27, 2001, whichever occurs first. The FERC intends to issue a further order on the manner of selection for the new board after receiving input from various California representatives.

In addition, the FERC announced plans to hold a technical conference on December 19, 2000, with market participants to facilitate forward contracting by California IOUs.

PG&E Corporation and the Utility believe the actions outlined in the order will not provide a solution that ensures reliability of the state's electric supply and relief from future price increases, particularly since the FERC order fails to require sellers to enter into forward contracts at reasonable prices, and fails to provide an effective price cap. In addition, the FERC order does not address issues associated with retroactive refund and retroactive remedial authority issues.

B. Pacific Gas and Electric Company's Wholesale Power Purchase Costs

Higher than forecasted power prices in November and October 2000 have caused the Utility's under-collected balance of wholesale power purchase costs recorded in its regulatory balancing account (the Transition Revenue Account or TRA) to increase to $4.5 billion at November 30, 2000 from $3.4 billion at October 31, 2000. Wholesale power prices for December have been even higher than the November 2000 prices, in part due to a sharp increase in natural gas prices paid by generators in producing electricity and reflected in the price of power charged by the generators. Further, a large number of generating plants that serve the California market were not operating for maintenance and other related reasons. There also has been a dramatic increase in the wholesale price of power since December 8, 2000, when the FERC, at the request of the ISO, issued an order lifting the interim $250 per megawatt hour price cap for energy purchased by the ISO. The FERC order issued on December 15, 2000, states that effective January 1, 2001, the interim $250 price cap will be superceded by the new $150 price cap on bids that can set the market clearing price.

C. Liquidity and Financial Impacts

As previously reported, the Utility has been required to finance the majority of its net wholesale power purchase costs because the Utility's wholesale power purchase costs have greatly exceeded revenues collected from customers through frozen rates and the revenues from the Utility's generation sales to the PX and the ISO. The current forward price curve indicates that wholesale power prices are expected to remain high unless there are immediate and significant changes made to the wholesale electric market. Therefore, it is necessary that the Utility continue financing its wholesale power purchase costs.

On December 11, 2000, Moody's Investor Services, Inc., a principal credit rating agency, has placed the securities of PG&E Corporation and the Utility under review for possible downgrade. On December 13, 2000, another credit rating agency, Standard & Poor's, has placed the securities of PG&E Corporation, the Utility, and related entities on "CreditWatch" with negative implications. The credit agencies cited concerns about the

escalating financial burdens placed on the Utility and the absence of short-term or long-term regulatory or legislative mechanisms for recovery of the under-collections. In addition, some third party power suppliers have requested credit assurances or immediate payment from the Utility before supplying power to the ISO and PX.

The Utility has fully utilized its existing CPUC short-term debt authorization by issuing $1.7 billion in commercial paper and drawings under its existing revolving credit facilities to support the Utility's higher purchased power costs and the associated increases in the TRA as well as other liquidity requirements. On November 1, 2000, the Utility issued $1 billion of short-term floating rate notes and $680 million of five-year notes. On November 22, 2000, the Utility issued an additional $240 million of short-term floating rate notes. The Utility's application requesting authority to issue an additional $2 billion in long-term debt instruments is pending at the CPUC and a decision is on the agenda for the CPUC's meeting on December 21, 2000. Although the Utility currently has approximately $1.2 billion of short-term investments, without obtaining additional financing, the Utility will be unable to continue paying its net power purchase costs. There is no assurance that the Utility will be able to obtain such additional financing.

The Utility will continue to work with interested parties to create an effective solution to the state's broken wholesale electric market that ensures fair prices for customers and maintains the reliability of the state's electric system. If, based upon the timing and extent of such discussions, the Utility were unable to conclude that its current TRA under-collection is probable of future recovery, the Utility would be required to write-off such amount resulting in a material charge to earnings. If the Utility were unable to continue deferring its future wholesale power purchase costs there would be a significant adverse affect on the Utility's and PG&E Corporation's future earnings, assuming the high prices continue as the current forward price curve suggests. Finally, absent adequate assurance as to future recovery, the resulting financial condition of the Utility may be such that it may be unable to pay dividends to PG&E Corporation, which in turn could adversely impact PG&E Corporation's ability to pay dividends in the future.

SIGNATURE

Pursuant to the requirements 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.

PG&E CORPORATION

By CHRISTOPHER P. JOHNS

CHRISTOPHER P. JOHNS
Vice President and Controller

PACIFIC GAS AND ELECTRIC COMPANY

By DINYAR B. MISTRY

DINYAR B. MISTRY

Vice President and Controller

Dated: December 18, 2000

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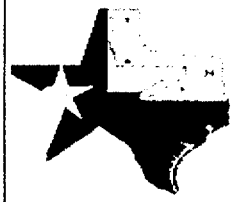

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: December 22, 2000

Commission File Number	Exact Name of Registrant as specified in its charter	State or other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, California 94177

PG&E Corporation
One Market, Spear Tower, Suite 2400
San Francisco, California 94105

(Address of principal executive offices) (Zip Code)

Pacific Gas and Electric Company
(415) 973-7000

PG&E Corporation
(415) 267-7000

(Registrant's telephone number, including area code)

Item 5. Other Events.

A. California Energy Crisis

On December 20, 2000, Standard & Poor's, a major credit rating agency, warned during a public conference call with the financial community, that it must see dramatic action by California decision makers within 24 to 48 hours in order to prevent a downgrade of the Utility's credit rating to a speculative grade to reflect the likelihood of imminent default. On December 21, 2000, Standard & Poor's issued a press release that stated if the California utilities can avoid bankruptcy, Standard & Poor's will likely still lower its corporate credit ratings on the utilities to speculative grade levels.

At its meeting on December 21, 2000, the California Public Utilities Commission (CPUC) issued an order in the post transition period electric ratemaking proceedings of Pacific Gas and Electric Company (Utility) and Southern California Edison. The CPUC stated its intent to take expedited actions to fulfill the CPUC's statutory obligations to ensure that utilities can provide service at just and reasonable rates and avoid continuing conditions that may jeopardize the utilities' creditworthiness and their ability to continue to procure energy on behalf of consumers. The CPUC stated that it believes that retail rates must begin to rise.

The CPUC ordered emergency hearings to be held on December 27 and 28, 2000, to enable the CPUC to issue orders at its scheduled meeting on January 4, 2001. The CPUC stated that the hearings should be held to determine (1) when the rate freeze will end, (2) any necessary adjustments to the utilities' current transition cost recovery plans, (3) if the rate freeze has ended, determine what adjustments to rates are appropriate to maintain the utilities' ability to provide adequate service, (4) address the statutory requirement for notice of a rate increase, (5) evaluate whether it is in the public interest for the utilities to divest remaining generation facilities, and (6) evaluate whether power produced from retained generation assets should serve the utilities' customers and the ratemaking such actions entail.

The CPUC ordered its Energy Division to engage an independent auditor to conduct an audit of the books and records of the utilities to evaluate the utilities' Transition Cost Balancing Accounts (TCBA) (a regulatory balancing account used to track recovery of the utilities' transition costs), Transition Revenue Accounts (TRA) (a regulatory balancing account in which the utilities' under-collected power purchase costs are recorded), and the impacts of a proposal made by The Utility Reform Network (TURN) to transfer the under-collected balance of the utilities' wholesale power purchase costs

recorded
in their respective TRA to their respective TCBA. The CPUC stated that the audit will also thoroughly assess the utilities' claims, the revenues and costs accrued by the utilities, their affiliates, and parent companies over the entire rate freeze period.

B. PG&E Corporation Shareholder Rights Plan

On December 20, 2000, the Board of Directors of PG&E Corporation (Company) declared a distribution of one Right for each outstanding share of the Company's common stock, no par value, to shareholders of record at the close of business on January 2, 2001, and for each share of common stock issued by the Company thereafter and before the Distribution Date (as such term is defined below). Each Right entitles the registered holder, in the circumstances described below, to purchase from the Company one one-hundredth of a share (a Unit) of the Company's Series A Preferred Stock, par value $100 per share (Preferred Stock), at a purchase price of $95 per Unit, subject to adjustment. The description and terms of the Rights will be set forth in the Rights Agreement to be entered into between the Company and a rights agent. The Board of Directors determined that it was in the best interests of the Company and its shareholders that steps be taken to preserve for the Company's shareholders the long-term value of the Company in the event of a potential takeover which appears to the Board of Directors to be inadequate or coercive or otherwise not in the best interests of the Company's shareholders.

The Rights will become exercisable only upon the "Distribution Date" which will occur upon the earlier of (i) 10 days following a public announcement (the date of such announcement being the Stock Acquisition Date) that a person or group of affiliated or associated persons (other than the Company, any subsidiary of the Company or any employee benefit plan of the Company or such subsidiary) (referred to as an Acquiring Person) has acquired, obtained the right to acquire, or otherwise obtained beneficial ownership of 15 percent or more of the then-outstanding shares of the Company's common stock and (ii) 10 business days (or such later date as may be determined by action of the Board of Directors before such time as any person becomes an Acquiring Person) following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 15 percent or more of the then-outstanding shares of the Company's common stock.

Until the Distribution Date, (i) the Rights will be evidenced by common stock certificates and will be transferred with and only with such common stock certificates, (ii) new common stock certificates issued after January 2, 2001 will contain a notation incorporating the Rights Agreement by reference and (iii) the surrender for transfer of any certificates representing outstanding common stock will also constitute the transfer of the Rights associated with the common stock represented by such certificates. After the Distribution Date, the Rights will be evidenced by separate certificates that will be mailed, as soon as practicable after the Distribution Date, to holders of record of the Company's common stock as of the close of business on the Distribution Date. After the Distribution Date the separate Rights Certificates alone will represent the Rights.

The Rights are not exercisable until the Distribution Date and will expire at the close of business on the tenth anniversary of the Rights Agreement, unless earlier redeemed by the Company as described below.

If, as set forth in Section 11(a)(iii) of the Rights Agreement, (i) the Company is the surviving corporation in a merger with an Acquiring Person and shares of the Company's common stock shall remain outstanding, (ii) a Person becomes an Acquiring Person, (iii) an Acquiring Person engages in one or more "self-dealing" transactions as set forth in the Rights Agreement, or (iv) during such time as there is an Acquiring Person, an event occurs which results in such Acquiring Person's ownership interest being increased by more than 1 percent (e.g., by means of a reverse stock split or recapitalization) (each such event being a Section 11(a)(iii) Event), then, in each such case, each holder of a Right will thereafter have the right to receive, upon exercise, Units of Preferred Stock (or, in certain circumstances, Company common stock, cash, property or other securities of the Company) having a value equal to two times the exercise price of the Right. The exercise price is the purchase price multiplied by the number of Units of Preferred Stock issuable upon exercise of a Right before the events described in this paragraph. Notwithstanding any of the foregoing, following the occurrence of any of the events set forth in this paragraph, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person will be null and void.

In the event that, at any time following the Stock Acquisition Date, (i) the Company is acquired in a merger (other than a merger described in the preceding paragraph) or other business combination and the Company is not the surviving corporation, (ii) any Person consolidates or merges with the Company and all or part of the Company's common stock is converted or exchanged for securities, cash or property of any other Person or (iii) 50% or more of the Company's assets or earning power is sold or transferred, each holder of a Right (except Rights which previously have been voided as described above) shall thereafter have the right to receive, upon exercise, common stock of the Acquiring Person having a value equal to two times the exercise price of the Right.

The purchase price payable, and the number of Units of Preferred Stock issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) if holders of the Preferred Stock are granted certain rights or warrants to subscribe for Preferred Stock or convertible securities at less than the current market price of the Preferred Stock, or (iii) upon the distribution to the holders of the Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments amount to at least 1 percent of the purchase price. The Company is not required to issue fractional Units. In lieu thereof, an adjustment in cash may be made based on the market price of the Preferred Stock prior to the date of exercise.

At any time before the earlier of (i) ten business days following the Stock Acquisition Date or (ii) the Final Expiration Date, a majority of the Company's Board of Directors may redeem the Rights in whole, but not in part, at a price of $.01 per Right, payable, at the election of such majority of the Company's Board of Directors, in cash or shares of common stock. Immediately upon the action of the Company's Board of Directors ordering the redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the redemption price.

The Board of Directors, at its option, may exchange each Right for (i) one Unit of Preferred Stock or (ii) such number of Units of Preferred Stock as will equal (x) the difference between the aggregate market price of the number of Units of Preferred Stock to be received upon a Section 11(a)((iii) Event and the purchase price divided by (y) the market price per Unit of Preferred Stock upon the Section 11(a)(iii) Event.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends. While the distribution of the Rights will not be taxable to shareholders or to the Company, shareholders may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable for Units of Preferred Stock (or other consideration).

The Rights Agreement may be amended in any way by the Board of Directors at any time before the Distribution Date. After the Distribution Date, the Company may supplement or amend the Rights Agreement without the approval of Rights holders in order (a) to cure any ambiguity, (b) to correct or supplement any defective or inconsistent provision, (c) to shorten or lengthen any time period as permitted by the Rights Agreement or (d) to change or supplement the Rights Agreement in any manner which shall not adversely affect the interests of Rights holders.

A total of 5,000,000 shares of Preferred Stock will be reserved for issuance upon exercise of the Rights. The Units of Preferred Stock that may be acquired upon exercise of the Rights will be nonredeemable and subordinate to any other shares of preferred stock that may be issued by the Company. Each Unit of Preferred Stock will have a minimum preferential quarterly dividend rate of $.01 per Unit but will, in any event, be entitled to a dividend equal to the per share dividend declared on the common stock. In the event of liquidation, the holder of a Unit of Preferred Stock will receive a preferred liquidation payment equal to the greater of $1.00 per Unit and the per share amount paid in respect of a share of common stock. Each Unit of Preferred Stock will have one vote, voting together with the common stock. The holders of Units of Preferred Stock, voting as a separate class, shall be entitled to elect two directors if dividends on the Preferred Stock are in arrears for six fiscal quarters.

In the event of any merger, consolidation or other transaction in which shares of the Company's common stock are exchanged, each Unit of Preferred Stock will be entitled to receive the per share amount paid in respect of each share of the Company's common stock. The rights of holders of the Preferred Stock to dividends, liquidation and voting, and in the event of mergers and consolidations, are protected by customary anti-dilution provisions. Because of the nature of the Preferred Stock's dividend, liquidation and voting rights, the economic value of one Unit of Preferred Stock that may be acquired upon the exercise of each Right should approximate the economic value of one share of the Company's common stock.

The Rights may have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company's Board of Directors unless the offer is conditioned on a substantial number of Rights being acquired. However, the Rights should not interfere with any merger or other business combination approved by the Company's Board of Directors

because the Rights may be redeemed by the Board, at its option, at a nominal price of $.01 per Right at any time on or before the tenth day after a public announcement made by either the Company or by the Acquiring Person or group that such person or group has acquired beneficial ownership of 15% or more of the Company's common stock following the Stock Acquisition Date (subject to extension by the Company's Board of Directors). Thus, the Rights are intended to encourage persons who may seek to acquire control of the Company to initiate such an acquisition through negotiations with the Board of Directors. However, the effect of the Rights may be to discourage a third party from making a partial tender offer or otherwise attempting to obtain a substantial equity position in the equity securities of, or seeking to obtain control of, the Company. To the extent any potential acquirors are deterred by the Rights, the Rights may have the effect of preserving incumbent management in office.

SIGNATURE

Pursuant to the requirements 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.

PG&E CORPORATION

By LESLIE H. EVERETT

LESLIE H. EVERETT
Vice President and Secretary

PACIFIC GAS AND ELECTRIC COMPANY

By LESLIE H. EVERETT

LESLIE H. EVERETT
Vice President and Secretary

Dated: December 21, 2000

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Exhibit F

1ST STORY of Level 1 printed in FULL format.

Copyright 2000 Orange County Register
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December 24, 2000, Sunday

SECTION: NEWS

LENGTH: 363 words

HEADLINE: Power crunch: events of the past week

BYLINE: CHRIS REED

BODY:
-- CHRIS REED /The Register

With energy demand up and supply limited, California's electric utilities have been forced to spend sky-high sums on the spot-electricity market -- without being able to pass on the extra costs to consumers.

The fallout from the mess has been varied, from statewide power alerts to desperate pleas from utilities for rate increases to cries of outrage from consumer advocates who wonder how electricity deregulation could have gone so haywire.

A look at some headlines from the past week:

Monday: Consumer groups demand access to private meetings being held by Southern California Edison and Pacific Gas & Electric executives, state and federal regulators, and Gov. Gray Davis on how the utilities can avoid adding to the $8 billion in debt they've piled up since May.

Federal regulators set an unusual soft cap'' on wholesale electricity prices in California.

Tuesday: SCE and PG&E warn they could go bankrupt without rate hikes of as much as 30 percent. Operators of the state's electricity grid use an emergency federal order to force suppliers in the Northwest to sell to California's utilities.

Wednesday: Wall Street credit-rating agency Standard & Poor's warns SCE's and PG&E's bondholders that the utilities could go broke in two months without a rate increase.

The warning is seen as an attempt to sway regulators.

A statewide Stage 2 power alert -- meaning electricity reserves have fallen below 5 percent of demand -- is called.

Thursday: Against the backdrop of another Stage 2 power alert, the state Public Utilities Commission puts SCE's and PG&E's request for rate increases on the fast track for approval, perhaps by early January.

Gov. Gray Davis indicates he might support a rate increase of 10 percent -- but only if several consumer-friendly conditions are attached.

Friday: SCE lays off 400 linemen employed by outside contractors, and SCE parent Edison International announces that it will cancel its fourth-quarter dividend, saving $100 million.

The prospect of rate increases pushes Edison stock up nearly 9 percent.

Saturday: Stage 1 and 2 alerts declared in Northern California only.

LOAD-DATE: December 30, 2000

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PACIFIC GAS & ELECTRIC CO

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: December 29, 2000

Commission File Number	Exact Name of Registrant as specified in its charter	State or other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, California 94177

PG&E Corporation
One Market, Spear Tower, Suite 2400
San Francisco, California 94105

(Address of principal executive offices) (Zip Code)

Pacific Gas and Electric Company
(415) 973-7000

PG&E Corporation
(415) 267-7000

(Registrant's telephone number, including area code)

Item 5. Other Events.

California Energy Crisis

On December 27, 2000, emergency hearings began in the post transition period electric ratemaking proceedings of Pacific Gas and Electric Company (Utility) pending before the California Public Utilities Commission (CPUC). In connection with the hearings, the Utility submitted additional testimony in support of its rate stabilization plan filed with the CPUC on November 22, 2000.

Current Financial Condition. In the testimony, the Utility stated that based on existing cash reserves, estimated receipts from customer bills and power market transactions, and normal payment schedules, it expects to utilize all of its cash reserves within the next three to seven weeks, and run out of cash by late January or early February 2001, assuming no electric rate increase or additional financing. The Utility also stated that it does not expect that it will be able to borrow funds absent clear CPUC actions to ensure recovery of the Utility's power procurement costs. The Utility's most recent estimate is that December 2000 prices will average more than $400 per megawatt hour (MWh). The Utility estimates that spot power market (i.e., real time energy) prices for 2001 will average over $180 MWh. The Utility noted that it expects this increase will cause the price the Utility pays qualifying generators (QFs) under long-term power purchase contracts to rise, as more QFs elect to receive PX prices instead of their short-term avoided cost payments otherwise due under the contracts.

In the testimony, the Utility noted that although it has current cash reserves of $1.2 billion, it has payments due to the California Independent System Operator (ISO) on January 3 and February 1, 2001 for real-time energy purchases of $438 million and $583 million, respectively. In addition, the Utility estimates that its payment to the California Power Exchange (PX), due on February 15, 2001 for day-ahead energy purchases, will be $431 million. The Utility estimates that its payment to the ISO for energy purchases in December 2000, which is due on March 2, 2001, will be $1.7 billion. The Utility also noted that its monthly gas procurement disbursements are more than $200 million. (Although gas costs are recovered in full from customers, there is a lag of time between when the Utility pays for the gas and when the Utility receives revenues from customers for such gas costs.) The Utility noted that creditors have begun to demand advance payment in return for deliveries of natural gas and power, and that if such demands continue, the Utility expects to completely exhaust its cash reserves by the third week of January 2001. The Utility is evaluating what additional steps it would need to take to preserve its ability to continue serving its customers. The Utility must either raise substantial sums of new capital or default on its payment obligations.

The Utility's cash deficit will total $4.8 billion through the end of the first quarter of 2001, assuming no electric rate increase, continued access to normal trade credit, and retention of its credit facilities. Excluding the $1.2 billion cash on hand, this would result in a financing requirement of $3.6 billion. If the Utility were unable to access its credit facilities because of an event of default, such as a significant ratings downgrade, the Utility would need to raise an additional approximate amount of $2 billion to pay maturing commercial paper and repay draws on its facilities.

End of Rate Freeze. The Utility's testimony also notes that because the Utility's revenues from its generation facilities has been credited to its transition cost balancing account (TCBA) and generation memorandum accounts which track the recovery of the Utility's transition costs, the

Utility will have recovered all of its transition costs by the end of December 2000, even assuming the value of the Utility's hydroelectric generation assets is equal to book value (approximately $700 million). To the extent the value of the hydroelectric assets is greater, the transition period would have ended sooner. Assuming a value of $4 billion (as supported by the Utility's updated testimony in the proceeding to value the hydroelectric assets), the transition period would have ended in April 2000. Therefore, the Utility does not believe that the CPUC needs to wait for a final market valuation of the Utility's hydroelectric assets before finding that the rate freeze has ended.

Requested Rate Increase. The Utility submitted revised testimony on December 22, 2000, in its rate stabilization plan requesting an initial average rate increase of 26 percent, reflecting a rate component for current net power purchase costs for residential and small commercial customers capped at approximately 6.5 cents per kilowatt hour. This initial rate increase also reflects larger customers paying the Utility's actual cost of power, estimated in the rate stabilization plan based on recorded data through September 2000. Under the Utility's rate stabilization plan, this initial rate increase and subsequent rate increases are intended to recover the Utility's future power procurement costs and the under-collected power procurement costs. The initial rate increase is subject to an automatic increase of up to a maximum of 2 cents per Kwh per year as well as an additional annual upward adjustment, if actual power cost under-collections are higher than expected. The increased revenues from customers which would be collected under the rate stabilization plan would improve the Utility's ability to pay its ongoing net power purchase costs. However, based on current forward prices in the wholesale power market, the Utility would be required to obtain financing to pay the difference between the amount of revenues collected and the amount the Utility pays for power.

Retained Generation Facilities. Finally, the Utility's testimony included the Utility's proposals with respect to its retained generation facilities to address the CPUC's question, raised in its December 22, 2000 order, whether power produced from retained generation assets should serve the utilities' customers and, if so, what ratemaking such actions would entail. The Utility proposed that for the next two years (after which the Utility expects the current supply shortage will be less critical), the Utility retain its generation facilities and sell the output of these facilities directly to its bundled customers on an incentive ratemaking basis to lower the costs of procured power for such customers. (Bundled customers are those that continue to choose the Utility as their generation provider, in contrast to direct access customers who have chosen an alternative generation provider.)

For the hydroelectric facilities, the Utility has proposed to modify its rate stabilization plan proposal for these facilities to sell the output directly to retail customers for two years at a cost of service price, derived using the revenue sharing agreement (RSA)(submitted in connection with the application for approval of a settlement agreement involving the valuation and disposition of the hydroelectric assets which the Utility no longer supports) as a framework. The RSA would be modified to eliminate the revenue sharing concept for this two-year period but the method for determining cost of service and return would be retained. During this two-year period, the 10 percent shareholder share of foregone market revenues will be tracked in a regulatory balancing account by imputing revenues (in excess of costs) that would have been earned under a reasonably-based market price benchmark. These foregone revenues would be recaptured from market revenues or future sales to bundled customers. Following the two-year period, the 90/10

sharing would resume under the RSA. At that point, assuming the market is functioning properly, the Utility would sell its generation into the market and share with ratepayers 90 percent of net market revenues. During the initial two-year period, the Utility proposed that the settlement value of $2.8 billion be used as minimum valuation to calculate the hydroelectric cost of service under the RSA, provided that the rates for hydroelectric power are trued-up to reflect the final value of the assets (and to recover any additional depreciation and return).

With respect to the Utility's Diablo Canyon Nuclear Power Plant (Diablo Canyon), the Utility proposed to continue to sell its power from Diablo Canyon directly to its retail customers at the 2001 Incremental Cost Incentive Price (ICIP), 3.49 per KWh, for the next two years. Similar to the proposal made in the Utility's rate stabilization plan, the Utility has proposed that during this two-year period, the 50 percent shareholder share of foregone market revenues will be tracked in a regulatory balancing account by imputing net revenues (in excess of costs) that would have been earned under a reasonably-based market price benchmark. These foregone revenues will be recaptured from market revenues or future sales to bundled customers. Following the two-year period of ICIP pricing, assuming the market is functioning properly, the Utility would sell into the market and share with ratepayers 50 percent of net market revenues.

During the hearings, testimony was also given regarding PG&E Corporation's financial liquidity. PG&E Corporation currently has cash reserves of $307 million. If PG&E Corporation's and the Utility's credit ratings were to suffer a downgrade below investment grade, such a downgrade would constitute an event of default under PG&E Corporation's $ 436 million short-term and $500 million long-term revolving credit facilities and would constitute an event of default under the Utility's $850 million short-term revolving credit facility. Such a default would entitle the lenders to accelerate approximately $185 million of debt outstanding under PG&E Corporation's facilities. In addition, the downgrade of PG&E Corporation's long-term debt below investment grade by both Standard & Poor's and Moody's Investor Service, Inc., and the failure by PG&E
Corporation to provide an acceptable letter of credit in the required amounts within the required time periods, would constitute an event of default under various capital infusion agreements. Upon an event of default under these agreements, PG&E Corporation would be obligated to pay an aggregate amount of at least $1 billion. The ratings downgrade would also adversely affect other PG&E Corporation and Utility outstanding debt securities, financing agreements and relationships. PG&E Corporation and the Utility believe that a ratings downgrade would

preclude the ability of PG&E Corporation and the Utility to issue commercial paper and similar financial instruments. In addition, PG&E Corporation is the guarantor of obligations of its energy trading subsidiaries, PG&E Energy Trading-Power, L.P., PG&E Energy Trading-Gas Corporation, and PG&E Energy Trading-Canada Corporation, in the aggregate amount of up to $2.8 billion. Under many of the underlying trading agreements, the downgrade of PG&E Corporation's long-term debt below investment grade would entitle the counter-parties to demand substitute credit support from the energy trading subsidiaries. If the subsidiaries were unable to provide adequate substitute credit support, the counter-parties may declare a default, terminate the agreement, and make a claim under the parent guarantee. If claims were made under a substantial portion of the outstanding guarantees, PG&E Corporation may be unable to timely honor the guarantees.

SIGNATURE

Pursuant to the requirements 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.

PG&E CORPORATION

By BRUCE R. WORTHINGTON

BRUCE R. WORTHINGTON
Senior Vice President and General Counsel

PACIFIC GAS AND ELECTRIC COMPANY

By DINYAR B. MISTRY

DINYAR B. MISTRY
Vice President and Controller

Dated: December 29, 2000

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Exhibit H

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January 11, 2001, Thursday, Home Edition

SECTION: Business; Part C; Page 1; Financial Desk

LENGTH: 836 words

HEADLINE: PG&E, CITING CASH SHORTAGE, WARNS OF NATURAL GAS CUTOFFS;
ENERGY: UTILITY'S CHIEF EXECUTIVE PLEADS WITH GOVERNOR TO USE EMERGENCY POWERS TO HELP IT THROUGH CREDIT CRISIS.

BYLINE: NANCY RIVERA BROOKS, TIMES STAFF WRITER

BODY:

Pacific Gas & Electric Co., the state's largest utility, on Wednesday warned Gov. Gray Davis that it may begin running out of natural gas in a few days unless he steps in to help it out of its latest credit crunch.

Detailing its financial meltdown in a filing with the Securities and Exchange Commission and a beseeching letter to Davis, the utility arm of PG&E Corp. said it has nearly run out of cash to make payments for both natural gas and electricity for its customers.

The utility's chief executive pleaded with the governor to invoke emergency powers that would allow the state to buy natural gas on its behalf or to provide credit guarantees to reassure gas suppliers that are refusing to sell to it without immediate cash payment.

"Our customers will need your help," CEO Gordon R. Smith said in a three-page letter.

"We are very concerned that the current credit crisis is about to devolve into an unprecedented emergency in the gas industry, which could lead to curtailments (gas outages) to high-priority users during these winter months," he said, referring to residential and small-business customers.

"That emergency will result in a gas shortage, which will threaten the health and safety of millions of Californians in the northern and central portions of the state," Smith said, adding that the shortage could begin in the next few days.

Davis, at a news conference on his proposed budget, said he is taking PG&E's dilemma seriously and considering what actions to take.

"Since this is a credit problem, the forbearance the generators are offering may well solve it," Davis said, alluding to an agreement reached late Tuesday under which electricity producers have agreed to give PG&E and Southern California Edison more time to pay the billions of dollars they owe for wholesale electricity purchased on the expensive spot market.

The governor expressed surprise at the latest development, noting: "I was with the chairman of PG&E until 12:15 last night and he didn't mention anything about it to me."

PG&E told the SEC on Wednesday that it has only $ 500 million in cash left and faces a payment to the California Independent System Operator of $ 583 million Feb. 1 as well as a $ 431-million payment Feb. 15 to the California Power Exchange. An estimated $ 1.2 billion is due March 2 to the system operator, which oversees the state's power grid.

PG&E of San Francisco and SCE, the utility arm of Edison International of Rosemead, have warned that a credit crunch has pushed them to within weeks of being forced to file for bankruptcy-law protection because they are paying much more for electricity than they can pass along to customers, who are protected by a rate freeze.

PG&E went further Wednesday, warning that it is only a few days away from being unable to buy natural gas because of suppliers' demands for cash.

The utility said it may need to cut off supplies to big industrial users, primarily electricity plants that use gas for fuel, so that it can minimize any cuts it would have to make for residential and small-business customers. Such an action would "decrease the level of electric generation in the utility's service territory and lead to worsening outages on the electric system," PG&E said.

PG&E said it can't borrow money, so it will default on its upcoming electricity payments "absent immediate regulatory, legislative or judicial relief."

News of the filing sent shares of PG&E and Edison plunging on the New York Stock Exchange. But the issues recovered later in the day, with Edison closing at $ 11.25 per share, up 13 cents, and PG&E at $ 13.56, up 6 cents.

To conserve cash, PG&E on Wednesday suspended its fourth-quarter dividend of 30 cents a share.

An Edison spokesman declined to reveal how much cash the utility has on hand, and Edison filed no documents Wednesday with the SEC. The utility is receiving about $ 98 million a week from electricity customers but is paying about twice that amount for power to serve those customers.

Southern California Gas is having no credit problems with its suppliers, spokeswoman Denise King said. PG&E said it may ask the Los Angeles-based utility to share some natural gas with it, but King said her company, a unit of Sempra Energy, has received no such request and would have to make sure its customers are supplied first.

Reliant Energy stopped selling to PG&E two weeks ago, and Duke Energy will not supply natural gas to the utility past March 1, spokesmen for those Houston-based companies said. Both companies also own power plants in California but get the gas to run them from their own sources, not PG&E.

"This is because of the responsibility that we have to our shareholders, and it stems from the credit-worthiness of the utility," Richard Wheatley of Reliant said. "We do sympathize with their situation, and we hope that the credit

standards will be met and we can resume sales."

Times staff writer Jenifer Warren in Sacramento contributed to this report.

LOAD-DATE: January 11, 2001

Exhibit I

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: January 17, 2001

Commission File Number	Exact Name of Registrant as specified in its charter	State or other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

Pacific Gas and Electric Company
77 Beale Street, P.O. Box 770000
San Francisco, California 94177

PG&E Corporation
One Market, Spear Tower, Suite 2400
San Francisco, California 94105

(Address of principal executive offices) (Zip Code)

Pacific Gas and Electric Company
(415) 973-7000

PG&E Corporation
(415) 267-7000

(Registrant's telephone number, including area code)

Item 5. Other Events.

A. Ratings Downgrades

On January 16, 2001, Standard & Poor's (S&P) rating agency reduced the long-term corporate credit ratings of PG&E Corporation and its California subsidiary, Pacific Gas and Electric Company (Utility), to CC from BBB-. S&P stated that the downgrades reflect the heightened probability of the Utility's imminent insolvency and the resulting negative financial implications for affiliated companies because, among other reasons, (1) some of the Utility's principal trade creditors are demanding that sizeable cash payments be made as a pre-condition to the purchase of natural gas and electric power necessary for on going business operations; (2) neither legislative nor negotiated solutions to the California utilities' financial meltdown appear to be forthcoming in a timely manner, which continues to impede access to financial markets for the working capital needed to avoid insolvency; and (3) Southern California Edison's (SCE) decision to default on its obligation to pay principal and interest due on January 16, 2001 diminishes the prospects for the Utility's access to capital markets.

The current S&P credit ratings, compared to the prior ratings, are as follows:

PG&E Corporation:
Corporate credit rating: CC/C from BBB-/A-3
Commercial paper: C from A-3
Pacific Gas and Electric Company
Corporate credit rating: CC/C from BBB-/A-3
Commercial paper: C from A-3
Senior secured debt: CCC from BBB
Senior unsecured debt: CC from BBB-
Preferred stock: D from BB
Shelf senior secured/unsecured: CCC/CC from BBB/A-3
Shelf debt preferred stock (preliminary): D from BB
PG&E Capital I, II, III, IV
Corporate credit rating: CC from BB
Preferred Stock: C from BB

Each of the above ratings is listed on S&P's CreditWatch with negative implications, reflecting expectations that the ratings will be further downgraded as the Utility's financial condition deteriorates.

S&P stated that "[a]lthough there is still a possibility that federal or state officials will act to rehabilitate the state's utilities' financial health, such prospects appear increasingly remote." S&P further noted that the Utility's "risk of insolvency is directly related to the mechanisms underlying California's restructuring of its electric industry. The legislative and regulatory framework for that

restructuring led to sizable imbalances between Pacific Gas and Electric Company's operating expenses and revenues. An immediate plan that provides sufficient confidence to the capital markets that lenders will be repaid for existing and future debt obligations remains the only way to restore the state's utilities to a sound financial footing."

On January 17, 2001, Moody's Investor Service, Inc. (Moody's) reduced the Utility's senior unsecured debt rating to Caa2 from Baa3 and reduced its short term rating for commercial paper and extendible commercial notes to Not Prime from Prime-3. Moody's also reduced PG&E Corporation's issuer rating to Caa3 from Baa3 and its short term commercial paper rating to Not Prime from Prime-3.

Ratings downgraded by Moody's and under review for possible downgrade include the Utility's first mortgage bonds and secured pollution control bonds, lowered to B3 from Baa2; the issuer rating, the senior unsecured notes, the unsecured debentures, and the unsecured pollution control bonds of the Utility, lowered to Caa2 from Baa3; the preferred stock of PG&E Capital I, lowered to "caa" from "ba1"; and a shelf registration for the Utility's issuance of senior secured debt and senior unsecured debt lowered to (P)B3 and (P)Caa2, from (P)Baa2, (P)Baa3, and (P)"ba1", respectively. The Utility's preferred stock and a shelf registration for preferred stock rated "caa" and (P)"caa", respectively, remain under review by Moody's for possible downgrade.

In its press release announcing its actions, Moody's stated:

While Pacific Gas and Electric's fragile liquidity position increases the specter of a bankruptcy filing, Moody's maintains its view that the key constituencies, including the Governor and the legislature, would not find an Pacific Gas and Electric bankruptcy a reasonable alternative. For one, a Pacific Gas and Electric bankruptcy would reduce the role of the Governor, the legislature, and the CPUC as many substantive actions would be under the direction of the bankruptcy court. Second, a Pacific Gas and Electric Company bankruptcy would do little to fix the underlying problem, which in Moody's opinion, relates to a dysfunctional market and a supply/demand imbalance. If anything, a bankruptcy of Pacific Gas and Electric Company would greatly complicate the state's power problems. Third, a utility bankruptcy would likely cause customer's rates to increase above the current level and would raise reliability issues for the state making rolling brownouts a common occurrence for some period of time. Notwithstanding these very compelling reasons, key constituencies, to date, continue to respond cautiously and even skeptically to Pacific Gas and Electric Company's financial woes. Unfortunately, given the company's very tight liquidity position, time is running out which hastens the need for a prompt and supportive response by all parties involved in the process, if a bankruptcy of Pacific Gas and Electric Company and PG&E Corporation is to be avoided.

S&P's minimum investment grade rating is BBB-. Moody's minimum investment grade rating is Baa3. Thus, the ratings downgrade by both S&P and Moody's result in below minimum investment grade ratings for PG&E Corporation and the Utility.

B. Liquidity Impacts and Financial Condition

For liquidity purposes, the Utility maintains two credit facilities; a five year $1 billion facility and a $850 million 364-day facility. The downgrade of the Utility's ratings below investment grade constitutes an

event of default under the Utility's $850 million revolving credit facility. Although there are currently no borrowings under the agreement, such a default would entitle the lenders to accelerate any debt outstanding under this facility. The existence of a default also entitles the banks to refuse a loan request under this facility (including draws to repay commercial paper backed by this facility). The Utility's $850 million facility is fully utilized as back-up for the Utility's outstanding commercial paper. The Utility has $873 million of commercial paper outstanding, of which $437 million will mature by January 31, 2001. As the Utility's commercial paper matures, the Utility has been drawing on its $1 billion facility to pay the commercial paper. As of January 16, 2001, the Utility has draw down $938 million under this facility. Although the Utility's $1 billion facility does not provide that a ratings downgrade below investment grade is an event of default, the banks nevertheless refused a borrowing request on January 16, 2001. On January 17, 2001, $33 million of the Utility's commercial paper came due and the Utility failed to pay the maturing debt.

The Utility has current cash reserves of $700 million. As previously disclosed, the Utility has payments due to the California Independent System Operator (ISO) on February 1, 2001 for real-time energy purchases of $583 million. In addition, the Utility estimates that its payment to the California Power Exchange (PX), due on February 15, 2001 for day-ahead energy purchases through January 15, 2001, will be in excess of $100 million. On January 16, 2001, the PX notified the Utility that the ratings downgrade requires the Utility to post collateral for all transactions in the PX day-ahead market. Since the Utility is unable to post such collateral, the PX will suspend the Utility's trading privileges effective January 19, 2001 in the day-ahead market. Therefore the PX payment estimate has been substantially reduced from an earlier disclosed estimate of $431 million.

The payments due to the ISO and the PX are based on market price assumptions that are subject to change until the Utility receives the bill from the ISO and PX. These estimates are net of the Utility's expected generation revenues from deliveries of the Utility's generation to the ISO and the PX.

The Utility also has payments of $420 million due to qualifying generators (QFs) in early February 2001 and estimated payments of $410 million due to QFs in early March 2001. The Utility is currently negotiating an agreement with a group of QFs requesting that they forbear from demanding payment for power delivered through January 2001 until March 31, 2001 with payment due in full on April 1, 2001. The agreement is subject to a number of conditions, including legislative and regulatory actions. There is no assurance that such conditions will be met. As previously disclosed, the Utility estimates that its payment to the ISO for energy purchases in December 2000, which is due on March 2, 2001, will be $1.2 billion. Further, the Utility's average monthly gas procurement disbursements are approximately $300 million, based on normal trade terms.

PG&E Corporation has current cash reserves of $347 million. The downgrade of PG&E Corporation's ratings below investment grade constitutes an event of default under PG&E Corporation's $436 million short-term and $500 million long-term revolving credit facilities, entitling the lenders to accelerate approximately $434 million of debt outstanding under the $500 million facility. There are no borrowings under the $436 million facility, although the facility is fully utilized to back up PG&E Corporation commercial paper program. The existence of a default also entitles the banks to refuse a loan request under the facilities (including further draws to repay maturing commercial paper). PG&E Corporation has $501 million of commercial paper outstanding, of

which $263 million will mature by January 31, 2001. On January 16, 2001, the banks refused a borrowing request under the $500 million PG&E Corporation credit facility. On January 17, 2001, $43 million of PG&E Corporation's commercial paper came due and PG&E Corporation failed to pay the maturing debt.

In addition, PG&E Corporation is the guarantor of obligations of its energy trading subsidiaries, PG&E Energy Trading-Power, L.P., PG&E Energy Trading-Gas Corporation, and PG&E Energy Trading-Canada Corporation, in the aggregate amount of up to $ 1.9 billion. Under many of the underlying trading agreements, the downgrade of PG&E Corporation's long-term debt below investment grade would entitle the counterparties to demand substitute credit support from the energy trading subsidiaries. PG&E Corporation is in the process of replacing these guarantees with guarantees from an alternate investment-grade subsidiary of PG&E National Energy Group, Inc., but to the extent this process is not complete, certain of the counterparties may have the right to demand substitute credit support, and if the support is not provided, declare a default, terminate the agreement, and make a claim under the parent guarantee. If claims are made under a substantial portion of the outstanding guarantees, PG&E Corporation may be unable to timely honor the guarantees.

In addition, the downgrade of PG&E Corporation's long-term debt (or its implied rating) below investment grade by S&P and/or Moody's, and the failure by PG&E Corporation to provide an acceptable letter of credit in the required amounts within the required time periods, would trigger PG&E Corporation's infusion obligations under various capital infusion agreements in an aggregate amount of at least $1 billion. As PG&E Corporation may be unable to provide the acceptable credit support, the capital infusion obligations would be triggered. As PG&E Corporation may be unable to make such capital infusions, PG&E Corporation would be in default under these agreements.

Various legislative, regulatory, and legal remedies to the California crisis are being pursued, but their outcome is uncertain and the solution is not likely to be immediate. The Utility and PG&E Corporation are attempting to avoid bankruptcy. It is the Utility's intention to continue to pay employees, vendors, suppliers, and other creditors to maintain essential distribution and transmission services, including continuing to pay suppliers of natural gas under normal payment terms. However, the Utility is not in a position to pay maturing or accelerated obligations, including accelerated payments under gas supply contracts, nor is the Utility in a position to pay the ISO, PX, and the QFs, the massive amounts due for the Utility's power purchases above the amount included in rates for power purchase costs. If the Utility or PG&E Corporation fail to make certain debt payments of $100 million or more, additional defaults may be triggered under both of the Utility's and PG&E Corporation's facilities. The Utility's current actions are intended to allow the Utility to continue to operate while efforts to reach a regulatory or legislative solution continue. It is possible that PG&E Corporation or the Utility could be forced into bankruptcy proceedings. If this were to occur, payments to trade vendors, suppliers and creditors would be subject to significant delays associated with the lengthy bankruptcy court process.

SIGNATURE

Pursuant to the requirements 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.

PG&E CORPORATION

By: CHRISTOPHER P. JOHNS

CHRISTOPHER P. JOHNS
Vice President and Controller

PACIFIC GAS AND ELECTRIC COMPANY

By: DINYAR B. MISTRY

DINYAR B. MISTRY
Vice President and Controller

Dated: January 17, 2001

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Exhibit J

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01 MAY 29 AM 9:34
KEENAN G. CASADY, CLERK
U.S. BANKRUPTCY COURT
NORTHERN DIST. OF CA.
SAN FRANCISCO, CA.

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

In re PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, Debtor.	Case No. 01-30923 DM Chapter 11 Case **STIPULATION BETWEEN PACIFIC GAS AND ELECTRIC COMPANY AND SEMPRA ENERGY TRADING CORP. FOR (A) FUTURE GAS DELIVERIES AND (B) ADMINISTRATIVE CLAIM; ORDER THEREON** [NO HEARING REQUESTED]

This stipulation is entered into by and between Pacific Gas & Electric Company, the debtor and debtor in possession herein ("PG&E") and Sempra Energy Trading Corp. ("SET" and, together with PG&E, the "Parties") with respect to the following:

A. PG&E filed this chapter 11 case on April 6, 2001 (the "Petition Date"). Prior to the Petition Date, SET and PG&E entered into several agreements and transactions thereunder relating to, among other things, the purchase and sale of natural

gas and the parking, lending and storage of natural gas on or from PG&E's natural gas pipeline system. Among these were various transactions pursuant to a certain Gas Transmission Service Agreement executed by the Parties in January 1998 and related exhibits and schedules thereto, including, without limitation, Schedules G-BAL, G-LEND and G-PARK (collectively, the "GTSA"). Pursuant to the GTSA, *inter alia*, each of the Parties entered into "park" and "lend" transactions and was required to return natural gas to the other at various times. The "park" and "lend" transactions, when aggregated, provide that SET was to return a greater volume of gas to PG&E than PG&E was to return to SET. Additionally, SET and PG&E entered into a certain Master Gas Purchase and Sale Agreement, dated January 1, 1998 (the "Master Gas Agreement") pursuant to which SET sold natural gas to PG&E and PG&E sold natural gas to SET, and a certain ISDA Master Agreement and Schedule to the Master Agreement, dated July 29, 1999 (collectively, the "ISDA Agreement"), pursuant to which, *inter alia*, the Parties financially settled natural gas price swap transactions between them.

B. As set forth in correspondence from SET to PG&E dated January 18, 2001, SET asserts that, as a result of defaults by PG&E under the Master Gas Agreement and the ISDA Agreement, SET terminated the Master Gas Agreement and the ISDA Agreement and the transactions thereunder. SET asserts that upon the occurrence of such defaults, SET also setoff all obligations and claims between SET and PG&E. SET contends that such setoffs were authorized by the Master Gas Agreement and the ISDA Agreement. SET contends the ISDA Agreement specifically permits SET, upon PG&E's default, to offset all "sums and obligations, whether matured or unmatured," extinguishing any obligations SET had to deliver natural gas to PG&E.

C. As set forth in various correspondence from PG&E to SET (including correspondence dated January 25, 2001), PG&E disputes SET's purported termination of the Master Gas Agreement and the ISDA Agreement. PG&E asserts that, as set forth in various correspondence from PG&E to SET (including correspondence dated January 30,

2001, February 28, 2001, March 19, 2001, March 22, 2001, April 18, 2001 and April 23, 2001), SET remains obligated to comply with its obligations under the GTSA and demands that SET comply with such obligations, including without limitation return of natural gas to PG&E and payment of certain market center imbalance charges and market center commodity cash out and reimbursement charges (collectively, the "Charges") which PG&E asserts are owed by SET pursuant to the GTSA. PG&E also asserts that additional Charges are due for other delivery months not covered in the correspondence referred to above. PG&E also disputes the validity of the setoffs that SET asserts that it made in January 2001. PG&E asserts that, notwithstanding such setoffs asserted by SET, SET remains obligated to perform its obligations under the GTSA, including, without limitation, (i) SET's obligation to pay the Charges owed to PG&E for prior natural gas deliveries required under the GTSA which SET failed to make, and (ii) to deliver natural gas to PG&E from and after June 1, 2001 in accordance with other gas lend transactions entered into pursuant to the GTSA.

D. Although SET reserves its assertion that it is not obligated to make any deliveries of natural gas or payments with respect thereto to PG&E under the GTSA because its prior setoffs have extinguished its obligations to do so, SET is willing to deliver such natural gas to PG&E and PG&E is willing to accept such gas for delivery months from and after June, 2001 in accordance with the transactions previously entered into pursuant to the GTSA and which PG&E asserts still require SET to make deliveries to PG&E. PG&E agrees to pay SET for the natural gas delivered under this Stipulation, but only in the event that it is finally determined by a forum of competent jurisdiction that SET was not obligated to return such natural gas to PG&E.

NOW THEREFORE, based upon the foregoing the Parties hereto stipulate and agree as follows:

1. This Stipulation relates only to natural gas that SET would be obligated to deliver to PG&E on or after June 1, 2001 pursuant to transactions previously entered into

under the GTSA, assuming for purposes of this Stipulation only (and subject to paragraph 5 herein) that such transactions are still in effect. This Stipulation shall not apply to and shall have no effect on any other transactions between SET and PG&E, including transactions under the GTSA providing for the delivery by SET to PG&E of natural gas on any date prior to June 1, 2001.

2. SET shall make all deliveries of natural gas that would have been required of it from and after June 1, 2001, pursuant to transactions entered into under the GTSA in accordance with the terms of such transactions assuming for this purpose that such transactions are still in effect, including any applicable extensions and grace periods, or in accordance with such other terms as may be agreed upon between SET and PG&E. The Parties intend such deliveries to be made on an equal, pro rata basis during each day of the month in which delivery was originally provided in the applicable transaction.

3. Within ten (10) days after a final determination, if any (for which the time to appeal or make a similar challenge has expired), by a forum of competent jurisdiction that SET is not obligated to make some or all of the deliveries of natural gas referred to in paragraph 1 above or make payment with respect thereto, PG&E agrees to pay to SET an amount equal to the fair market value of such deliveries of the natural gas delivered by SET pursuant to this stipulation, plus interest thereon at an annual rate of LIBOR plus 0.50%, calculated from the 15th day of each delivery month until the date paid. For this purpose, the fair market value per MMBtu of each month's deliveries for each location provided in the applicable transaction will be determined as follows: (i) For PG&E Topock, NGI's Bid Week Survey, California, Southern Border, PG&E plus $0.05; and (ii) for PG&E Citygate, NGI's Bid Week Survey, California, PG&E, Citygate plus $0.05. This obligation of PG&E shall be entitled to priority as an expense of administration of PG&E's chapter 11 case as defined by sections 503(b) and 507(a)(1) of the Bankruptcy Code. In the event that SET and PG&E do not agree upon the terms of what the

transactions referred to in paragraph 2 hereof would have required of SET, assuming for this purpose that such transactions are still in effect, then such disagreement may be resolved by a forum of competent jurisdiction and SET and PG&E, pursuant to paragraph 5 hereof, reserve all rights, claims, and defenses and make no admissions respecting the issues related to such disagreement.

4. In the event of a determination that SET is obligated to return some, but not all, of the gas which SET agrees to deliver to PG&E under this stipulation, the Parties agree that they will deem the gas SET is obligated to return as the first gas delivered, or to be delivered, under this stipulation and the gas SET is not obligated to return is the last gas delivered, or to be delivered, hereunder.

5. Nothing herein shall be construed as or deemed (i) a waiver by PG&E and/or SET of any of their rights, claims or defenses arising from or under any agreement or transaction between them or any alleged default thereunder, all of which are expressly reserved or (ii) an admission by any party as to any matter.

6. This stipulation shall become effective upon entry of an Order by the Bankruptcy Court approving such stipulation.

STIPULATED AND AGREED:

Dated: May 17th, 2001

HENNIGAN, BENNETT & DORMAN

By: _____
Michael A. Morris
Attorneys for Sempra Energy Trading Corp.

Dated: May ___, 2001

STROOCK & STROOCK & LAVAN LLP

By: _____
Alan Z. Yudkowsky
Attorneys for Sempra Energy Trading Corp.

Dated: May ___, 2001

HOWARD, RICE, NEMEROVSKI, CANADY, FALK & RABKIN

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STIPULATED AND AGREED:

Dated: May ___, 2001

HENNIGAN, BENNETT & DORMAN

By: _____
Michael A. Morris
Attorneys for Sempra Energy Trading Corp.

Dated: May 17, 2001

STROOCK & STROOCK & LAVAN LLP

By: _____
Alan Z. Yudkowsky
Attorneys for Sempra Energy Trading Corp.

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6. This stipulation shall become effective upon entry of an Order by the Bankruptcy Court approving such stipulation.

STIPULATED AND AGREED:

Dated: May ___, 2001

HENNIGAN, BENNETT & DORMAN

By: _____
Michael A. Morris
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Dated: May ___, 2001

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Dated: May 17, 2001

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A Professional Corporation

By: _____
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Attorneys for Pacific Gas & Electric Company

21864/v1

APPROVED AS TO FORM AND CONTENT

Dated: May ___, 2001 MILBANK, TWEED, HADLEY & MCCLOY LLP

By _____
Robert J. Moore

Attorneys for Unsecured Creditors Committee

ORDER

Based upon the foregoing stipulation and good cause appearing therefore, it is SO ORDERED.

Dated: _____

_____
HONORABLE DENNIS MONTALI
UNITED STATES BANKRUPTCY JUDGE

A Professional Corporation

By: _____
Gary M. Kaplan

Attorneys for Pacific Gas & Electric Company

21864/v1

APPROVED AS TO FORM AND CONTENT

Dated: May 21 hl, 2001 MILBANK, TWEED, HADLEY & MCCLOY LLP

By _____
Robert J. Moore

Attorneys for Unsecured Creditors Committee

ORDER

Based upon the foregoing stipulation and good cause appearing therefore, it is SO ORDERED.

Dated: MAY 26 2001

DENNIS MONTALI

_____
HONORABLE DENNIS MONTALI
UNITED STATES BANKRUPTCY JUDGE

WD 051701/1-1419909/916504/v8

PROOF OF SERVICE

STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is Stroock & Stroock & Lavan LLP, 2029 Century Park East, Suite 1800, Los Angeles, California 90067-3086.

On June 4, 2001, I served the foregoing document described as **REQUEST FOR JUDICIAL NOTICE IN SUPPORT OF MOTION OF SEMPRA ENERGY TRADING CORP. FOR RELIEF FROM STAY AND FOR ADEQUATE PROTECTION** on the interested parties in this action by placing a true copy thereof enclosed in sealed envelopes addressed as follows:

SEE ATTACHED SERVICE LIST

XX (BY MAIL) In accordance with the regular mail collection and processing practices of this business office, with which I am readily familiar, by means of which mail is deposited with the United States Postal Service at Los Angeles, California that same day in the ordinary course of business, I deposited such sealed envelope, with postage thereon fully prepaid, for collection and mailing on this same date following ordinary business practices.

___ (BY PERSONAL SERVICE)

___ By personally delivering such envelope to the addressee.

___ By causing such envelope to be delivered by messenger to the office of the addressee.

___ By causing such envelope to be delivered to the office of the addressee by overnight delivery via Federal Express or by other similar overnight delivery service.

___ By causing such document to be delivered to the office of the addressee via facsimile.

FEDERAL

XX I declare under penalty of perjury that the above is true and correct (and that I am employed in or by the office of a member of the bar of this Court at whose direction the service was made). Executed on June 4, 2001, at Los Angeles, California.

Regina Harcourt
[Type or Print Name]

[Signature]

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