

OFFICE OF THE SECRETARY
CORRESPONDENCE CONTROL TICKET

To: Dyer, NRR

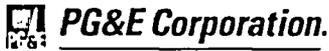
Date Printed: Aug 26, 2005 09:35

PAPER NUMBER: LTR-05-0430 **LOGGING DATE:** 08/26/2005
ACTION OFFICE: EDO
AUTHOR: James Tramuto
AFFILIATION: DC
ADDRESSEE: Nils Diaz
SUBJECT: Forwards summary of PG&E Corporation's Second Annual Corporate Responsibility Report
ACTION: Information
DISTRIBUTION: RF...encls to: EDO
LETTER DATE: 08/22/2005
ACKNOWLEDGED: No
SPECIAL HANDLING:
NOTES:
FILE LOCATION: ADAMS
DATE DUE: **DATE SIGNED:**

cy: EDO
DEDMRS
DEDR
DEDIA
AO
RIZ

Template: secy-017

ERid: secy-01



August 22, 2005

James A. Tramuto
Vice President
Governmental Relations

900 7th Street NW, Suite 950
Washington, DC 20001-3886

202.662.2335
Fax: 202.638.3526
james.tramuto@pge-corp.com

Mr. Nils Diaz
Chairman
Nuclear Regulatory Commission
One White Flint North, 11555 Rockville Pike
Rockville, MD 20852-2738

Dear Chairman. Diaz,

I am proud to share with you the enclosed summary of PG&E Corporation's *Second Annual Corporate Responsibility Report*.

This report is PG&E's way of sharing with our stakeholders the progress we made and the steps we took in 2004 to serve our customers better, to make PG&E a great place to work, to give back to our communities, and to protect the environment. This report contains information on:

- corporate governance,
- corporate philanthropy,
- environmental justice,
- workforce diversity,
- employee benefits and training,
- supplier diversity,
- employee health and safety,
- public safety,
- business ethics and compliance,
- environmental performance, and
- the breadth of our operations.

By communicating our performance across these social, environmental, and economic facets of our business, we aim to provide a better understanding of the character and culture of the company, our vision for the future, and our commitment to acting responsibly for the benefit of our employees, customers, shareholders, and communities.

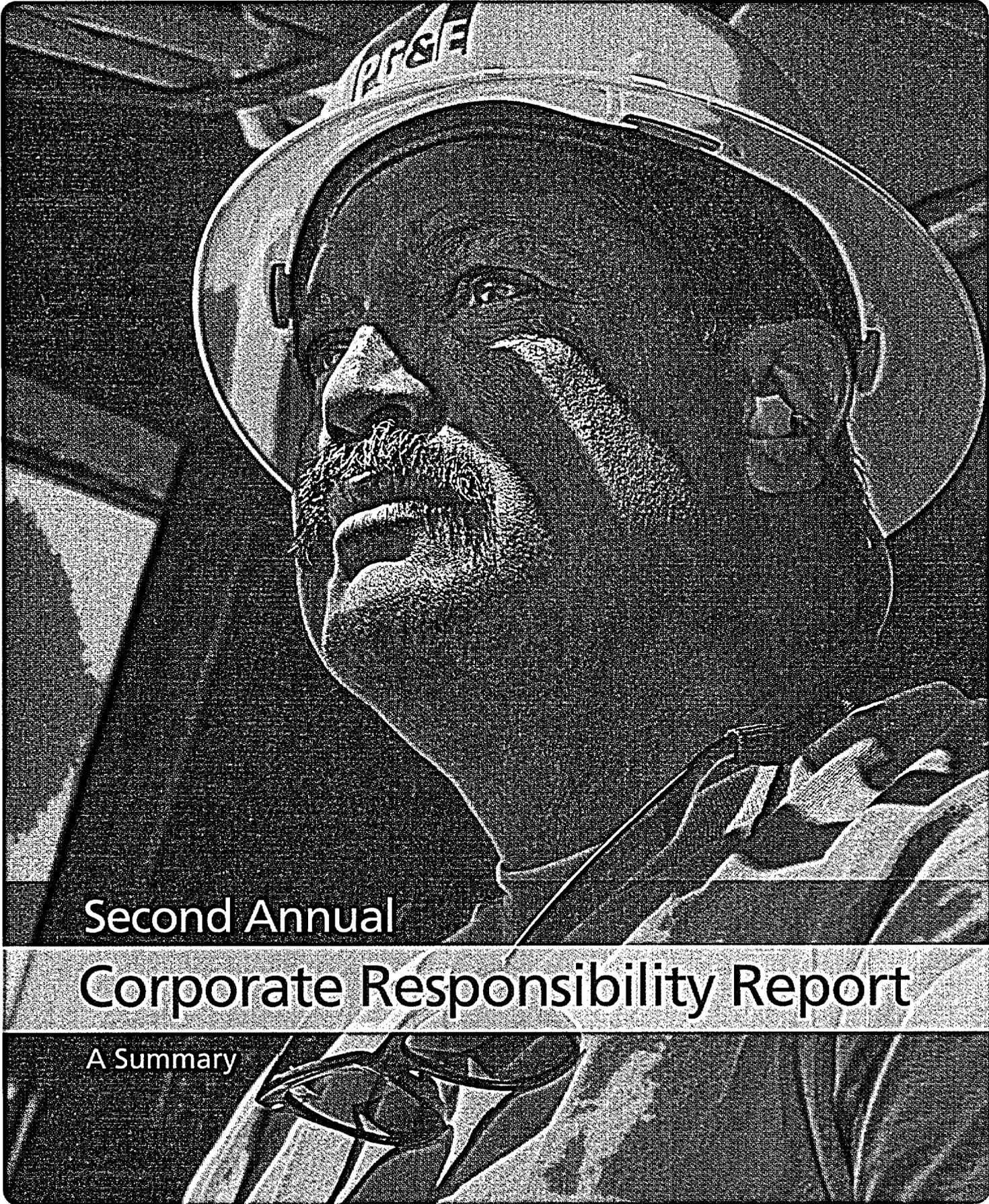
I hope that you find this summary report informative. For more detailed information on our activities and performance across these facets of our business, please visit our website at www.pgecorp.com, where you will find the complete report. Also, if you have any comments about the report, its contents, or suggestions for future additions, please let us know.

Sincerely,

A handwritten signature in cursive script that reads 'James A. Tramuto'.

James A. Tramuto, Vice President

Enclosure



Second Annual

Corporate Responsibility Report

A Summary



PG&E Corporation.

Letter from the Chairman and the CEO

To Our Investors, Customers, Communities, And Other Stakeholders:

In 2005, our core business—Pacific Gas and Electric Company—celebrates the 100th anniversary of its incorporation, a century during which we've helped shape the evolution of California's communities, its economy and its environment.

This role continues today.

As a producer and supplier of energy to nearly 5 percent of Americans, a neighbor in thousands of communities, a provider of essential services, a builder and steward of vital infrastructure, an employer of 20,000 men and women, and a shareholder-owned company—PG&E will continue to be at the center of the environmental, economic, and societal dynamics that will shape California in the next hundred years.

Inevitably, the scope and nature of our business will continue to bring us face to face with choices in these areas that are profoundly important. Our responsibility is to understand and balance these choices in ways that meet our business objectives, respect our stakeholders, and exemplify the values and principles we embrace.

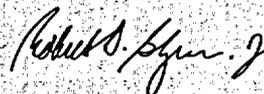
Last year, we became one of the first companies in our industry to begin publishing an annual Corporate Responsibility Report, covering the programs, policies, and actions under way to address this challenge at PG&E.

More now than at any time, our performance and our character are being judged by stakeholders based on how we are meeting this challenge in total, rather than any single facet of it. They recognize—as we do—that, as we make the choices necessary to achieve that balance, our decisions have ramifications that affect their interests.

We share this information out of the desire to be responsive to our stakeholders, a strong commitment to accountability and transparency, and a belief that communicating our performance in these areas is one of the best ways to give stakeholders an understanding of our character and culture as a company.

That character and culture are defined by:

- Putting the health and safety of our employees and the public first—never doing a job if it can't be done safely.



Robert D. Glynn, Jr.
Chairman of the Board
PG&E Corporation

On the cover: Dennis LaChapelle, Equipment Operator, a member of one of our San Francisco-based gas crews.

This Summary Report includes highlights from PG&E's Second Annual Corporate Responsibility Report. PG&E's complete Second Annual Corporate Responsibility Report can be viewed and downloaded at www.pgecorp.com, where stakeholders can also offer comments and suggestions on this and future reports. The information contained in this report is for calendar year 2004.

- Treating employees, customers, neighbors, business partners, and each other the way we would want to be treated—honestly, respectfully, ethically, and fairly.
- Striving to deliver returns that make investors want to put their capital and confidence in our company.
- Working to have a minimal impact on our natural environment and to leave it the same or better than we found it, if possible.
- Providing the public and investors full and accurate disclosure of financial and corporate governance information.
- Valuing the diversity of our communities and fostering it in our workforce and among our suppliers.
- Partnering with and giving back to our communities through philanthropy and volunteer efforts.

We believe our activities and accomplishments in 2004 demonstrate that PG&E is meeting the challenge of fulfilling and balancing these roles and responsibilities in managing our everyday business.

Last year, among other successes, we continued our leadership on environmental issues. We became

California's first investor-owned utility to complete a third-party-certified inventory of its carbon dioxide emissions, under the auspices of the California Climate Action Registry. We continued to contribute to the vitality of our communities, more than doubling the value of our charitable contributions program. We were named one of the 50 best employers for minorities by *FORTUNE* magazine. And we continued taking steps to remain a leader in good corporate governance.

We also know our performance is not without room to do better. This report discusses both successes and areas where we continue to look to improve.

In 2004, we launched a multiyear effort to transform our operations to deliver better, faster, and more cost-effective service. As this process continues in 2005, we are ever mindful of the importance of corporate responsibility as a prerequisite for success. We will continue to dedicate our resources and attention to maintaining leadership in this area.

Thank you for your continuing interest in PG&E. Your feedback on this report and on our performance is always welcome, and we hope you will share it with us.



Peter A. Darbee
President and CEO
PG&E Corporation

Contents

Our Business	2	Our Communities	18
Company Profile	6	Corporate Philanthropy	21
Corporate Governance	7	Supplier Diversity	23
Our Employees	8	Public Safety	25
Health & Safety	11	Environmental Justice	26
Workforce Diversity	12	Our Environment	28
Training & Benefits	14		
Ethics & Compliance	16		

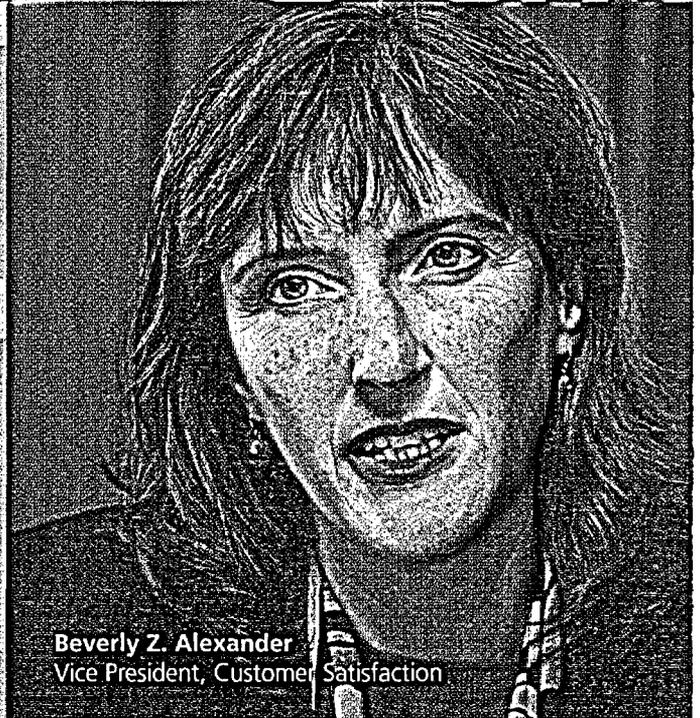


Our

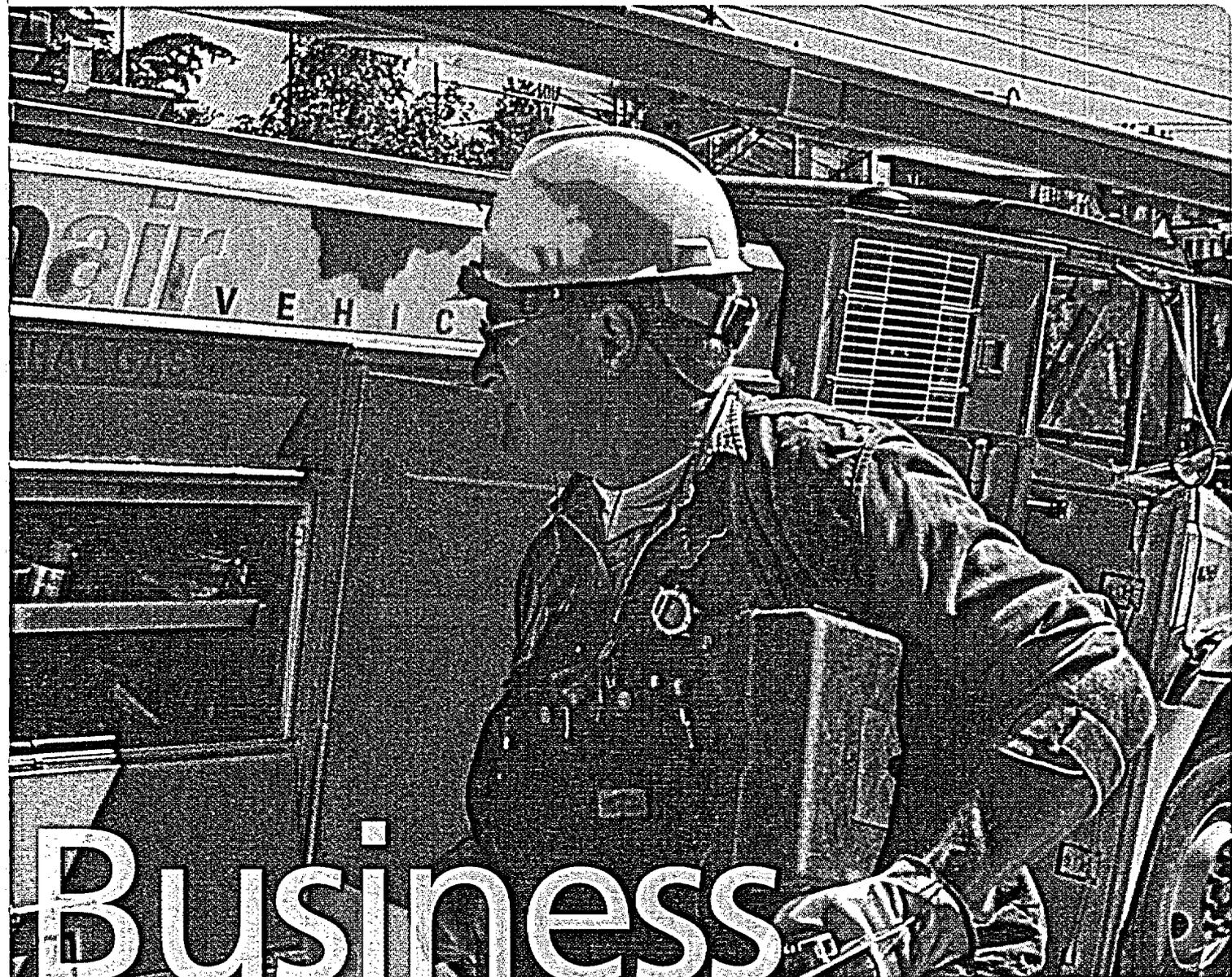
Charlie Boyle (right), Gas Crew Foreman, and Robert Hansen, Fieldman, on assignment in San Francisco with one of PG&E's natural gas-fueled, heavy-duty, gas crew trucks.

"Being a responsible corporation isn't just good from a public relations standpoint, it's good from a business standpoint, and those companies that don't recognize that do so at their own risk."

(continued on page 4)



Beverly Z. Alexander
Vice President, Customer Satisfaction



Business

At PG&E, our goal is to deliver gas and electricity service to our customers safely, reliably, and always with the awareness we affect the lives of 14 million Californians every day. Our success in this pursuit is made possible by nearly 20,000 dedicated employees who work together to satisfy our customers and to find ever more innovative, cost-efficient, and environmentally responsible ways to provide these vital services.



(continued from page 2)

The Meaning of Corporate Responsibility

"Broadly stated, corporate responsibility is a company caring about society and the world in which it operates—and doing something about it. That plays out through saying that you care about the environment and doing something about environmental quality; saying that you care about the earth's dwindling resource base and doing something about using energy more efficiently; saying that you care about the quality of life in our communities and doing something about economic development and corporate philanthropy."

Listening to Customers

"Part of being a responsible company involves listening to your customers. We conduct Voice of the Customer research, which is qualitative research with focus groups with various customer segments throughout our service area to better understand what they expect from an energy company and what products and services they want to see their energy company provide. We then translate that information into action through refining our services to meet the needs of our customers as they've described them to us."

What Customers Expect

"The California customer has extremely high expectations; we see that when we compare benchmarking data from other utilities. For example, when we compare our overall customer satisfaction scores to others', in some cases, our operational performance scores higher than other companies, but our customers are placing a greater, or similar, emphasis on other aspects of our business, and they want us to do more. They want us to do more on the environment, corporate philanthropy, and diversity. Customers are telling us they want that."

"We also have a diverse customer base. For example, we serve Silicon Valley, where customers have the highest expectations in the country with regard to reliability, use of technology, use of the internet, innovation, and choice. We also serve low-income customers who can't afford to pay a penny more for their service. So when we set out to satisfy the customer, it can't just be spend, spend, spend, nor can it be scrimp, scrimp, scrimp. We have to develop programs and options that work for all of our customers. That's part of being a responsible corporate citizen."

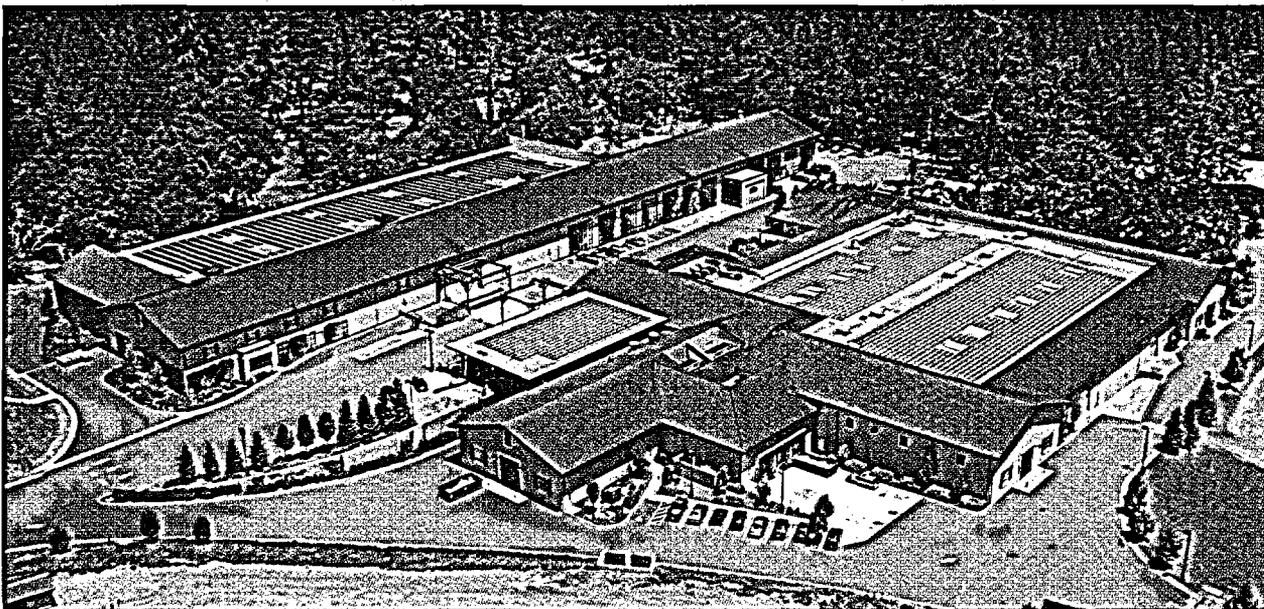
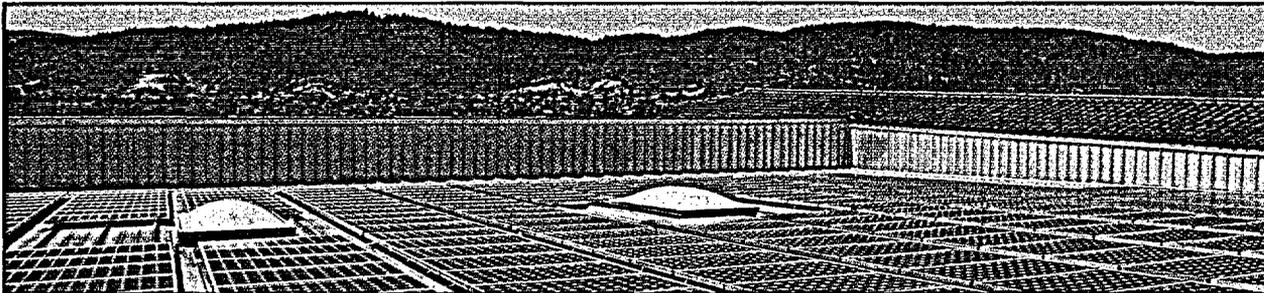
Investing in Better Service and a Better Environment

"One of the areas on which PG&E puts a lot of emphasis is helping our customers use energy more efficiently. For example, we plan to invest more than \$2 billion on energy efficiency initiatives over the next 10 years. What's exciting is that the most recent regulatory approval we received on this was the result of collaboration by a large and broad group of parties, including manufacturers, customer groups, environmental groups, and the state's utilities. That's what I mean by listening to and working with our customers, our communities, and our stakeholders to better meet their needs."

"There are other efforts too. We are planning to replace customers' existing gas and electric meters with high-tech meters that will save time and money, increase the accuracy of our bills, and provide data that allows customers to manage their energy usage in a way that saves them money and helps the environment. We've also invested in a growing fleet of heavy-duty service trucks that run on natural gas. This helps to minimize the impact on local air quality. And we've instituted an online bill payment program that reduces costs, reduces the use of paper and water, and reduces waste." ■



Helping Customers Meet Their Needs, Their Way

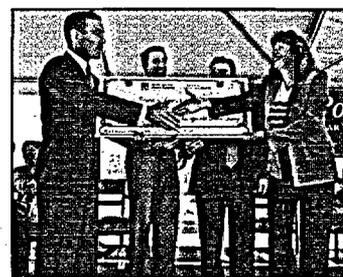


photos courtesy PowerLight Corporation

St. Francis Winery and Vineyards, located in Sonoma County, has a reputation of being a successful and environmentally responsible winemaker. The winery wanted to solidify this reputation and felt an obligation to protect the environmental integrity and natural beauty of the region. We worked with the winery and PowerLight Solar Electric Systems, as part of our Self-Generation Incentive Program (SGIP), to allow them to meet a substantial amount of their energy needs through the use of a 457 kilowatt solar electricity system.

Leveraging an unused asset—the rooftops of the winery and barrelhouse—St. Francis Winery installed an 80,000-square-foot photovoltaic system that will produce enough electricity to meet more than 40 percent of the winery's annual requirements. We worked with the winery to implement a comprehensive energy program that combines on-site solar power generation with lighting upgrades to maximize energy efficiency, minimize environmental impacts, and reduce costs. For example, the lighting upgrades reduced electricity demand at its refrigerated barrel storage and winemaking operations areas by 48 percent; this new lighting system also generates less heat, which reduces the cooling requirements for the wine storage facilities.

By leveraging existing programs, the winery earned a \$1.3 million rebate through the Utility's SGIP to offset costs associated with installing the solar system, as well as an additional rebate of more than \$17,800 associated with installing energy-efficient lighting. And, in addition to helping the winery receive financial benefits, we helped the winery reduce its contribution to global warming and other forms of air pollution by avoiding the purchase of electricity generated using fossil fuels. For example, over the next 30 years, the winery's solar-generated electricity will help to avoid approximately 3,900 tons of carbon dioxide from being released into the atmosphere.



Transforming Our Business to Serve Our Customers Better; and Doing So in a Way That Stays True to Our Core Values

Last year, we launched an intensive, multiyear effort to transform our operations and our culture in order to achieve a new vision to lead the industry.

Corporate responsibility plays a fundamental role as we pursue our goal. We recognize that safety, integrity, the environment, diversity, and community are critical factors for our success. Simply put, we must continue to consistently perform strongly in these areas if we aspire to a leadership position in the industry.

Together with stable financial and regulatory conditions, these factors contribute to a solid platform that allows us to focus our energies on building our team of dedicated people, delivering cost-efficient service, and creating satisfied customers—the three steps we believe will allow us to achieve our vision.

To get there, we're already rethinking and improving operating processes in many areas of the business. We're also identifying smart new investments in infrastructure and technology. And we're taking stock of our culture to strengthen areas where we want to be better, while preserving those elements that will continue to be fundamental to our success.

We'll continue this work over the next three to five years, always with a firm conviction that corporate responsibility is an essential part of the equation.

Where We Operate, What We Do, and Who We Are

PG&E Corporation (PG&E) is an energy-based holding company whose core business is Pacific Gas and Electric Company. Pacific Gas and Electric Company, or the Utility, delivers safe, reliable, and responsive gas, electric, and customer service to a population of approximately 14 million people throughout northern and central California. The Utility had approximately \$34.3 billion in assets as of December 31, 2004, and generated revenues of approximately \$11.1 billion in 2004.

Service Area	70,000 square miles in northern and central California
Service Area Population	14 million people (or about 5 percent of the U.S. population)
Electric Distribution	
Customer Accounts	4.9 million
Natural Gas Distribution	
Customer Accounts	4.1 million
Revenue	\$11.1 billion
Assets	\$34.3 billion
Shareholders	More than 110,000
Employees	19,800 <ul style="list-style-type: none"> ■ 13,700 are covered by collective bargaining agreements with three labor unions (IBEW, ESC, and SEIU/IUSO)
System	141,650 circuit miles of electric transmission and distribution lines and 46,200 miles of natural gas transmission and distribution pipelines; 6,500 megawatts of generation, including the Diablo Canyon nuclear power plant and one of the largest hydroelectric systems in the country
Selected Examples of Major Customers	Albertsons, Inc., Bank of America, Chevron, Intel, Lockheed Martin, New United Motors Manufacturing, FedEx, Safeway, Inc., and Sun Microsystems

To serve our customers better, and to provide service to new customers, during 2004 we invested approximately \$1.6 billion in the infrastructure of the Utility, and we announced our intention to invest at least \$10 billion during the next five years, including approximately \$2.0 billion in 2005.

General Production Statistics

Indicator	2002	2003	2004
Electricity Generated (in net gigawatt-hours, or GWh*)	26,563	28,836	26,412
Fossil Plants (GWh)	845	496	912
Nuclear Plant (GWh)	16,305	17,285	15,210
Hydroelectric Plants (GWh)	9,413	11,055	10,290
Electricity Purchased (GWh)	28,171	30,135	34,553
Other Electric Supplies (GWh)	23,496	21,185	21,971
Electricity Delivered (GWh)	78,230	80,156	82,936
Natural Gas Throughput (in million cubic feet, or MMcf)	789,606	804,203	877,760

*One GWh is one million kilowatt-hours, enough to power one million homes for one hour.

Conducting Business with Integrity, Transparency, and Accountability

At PG&E, our long-standing conviction is that integrity is fundamental to our success. It creates the basis for the trust between our company and the many stakeholders on whom our business depends, from employees to customers, neighbors, government officials, and investors. Because we believe this trust is essential, we consistently strive to hold our conduct to the highest standards of integrity. An example is our strong commitment to transparency and accountability in the way we operate the business.

PG&E's aim is to share timely, accurate information that enables stakeholders to understand our business, including the policies and principles on which we rely in managing our operations, the benefits and costs of our actions, and our plans and intentions for the future. Not only is this approach necessary in today's business world, it is the right thing to do.

It is this belief that drives PG&E to place significant emphasis on our corporate governance policies and practices and to highlight them in this report. Some examples of 2004 activities include the following:

- As required by the Sarbanes-Oxley Act, management of PG&E Corporation and the Utility issued an annual report on internal controls regarding financial reporting in 2004. Management's report and the related attestation report of the companies' independent registered public accounting firm are included in the PG&E Corporation 2004 Annual Report.
- We have expanded the types of information that we provide to the public, and we are making information available more quickly, in accordance with new Securities and Exchange Commission (SEC) rules regarding what must be reported in Current Reports on Form 8-K. This has resulted in shareholders receiving information more quickly regarding, among other things, amendments to company bylaws, compensation arrangements for executives, and certain financial agreements.
- We implemented numerous updates to our Corporate Governance Guidelines to reflect, and in some cases go beyond, leading governance trends as well as new or revised requirements under the Sarbanes-Oxley Act and related SEC and stock exchange regulations. These changes include new or revised guidelines pertaining to the responsibilities of the lead director, independence requirements for Board and committee members, and directors' responsibilities with respect to PG&E Corporation's legal compliance and business ethics program. In many ways, PG&E Corporation's standard for director "independence" as stated in our Corporate Governance Guidelines is more stringent than applicable SEC and stock exchange requirements.

Recognition for Good Corporate Governance Practices

PG&E's corporate governance practices have been evaluated and rated by several institutional shareholder groups and corporate governance organizations. We have received ratings that are well above average compared with other utility companies, as well as general industry companies. For example, in September 2004, GovernanceMetrics International (GMI), a corporate governance research and ratings agency, named PG&E Corporation as one of only 26 companies, out of the more than 2,500 it rated, to receive GMI's highest governance rating (10.0 out of 10.0).

Our Corporate Governance Guidelines are published annually in PG&E's proxy statement and are also posted at www.pgecorp.com, along with our Board Committee Charters, director and employee codes of conduct, and PG&E Corporation's Disclosure Policy.

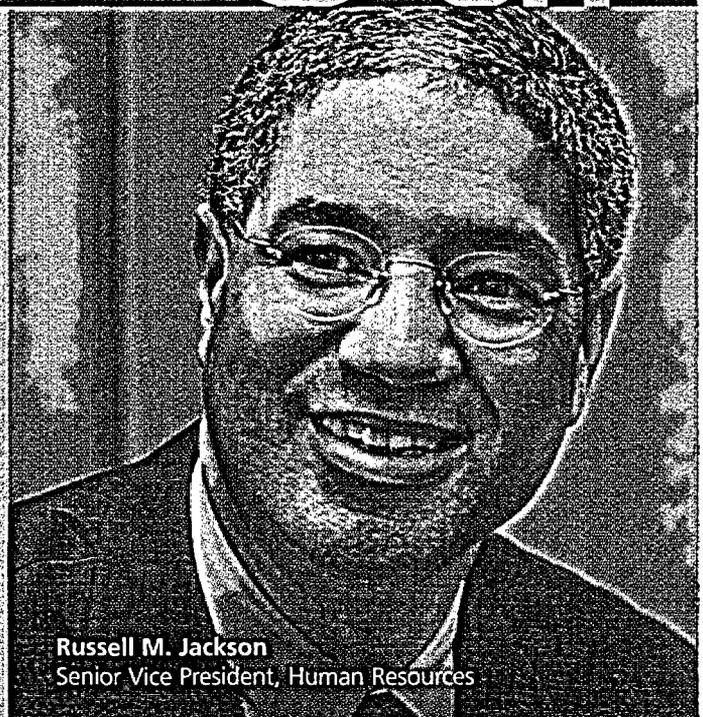


Our

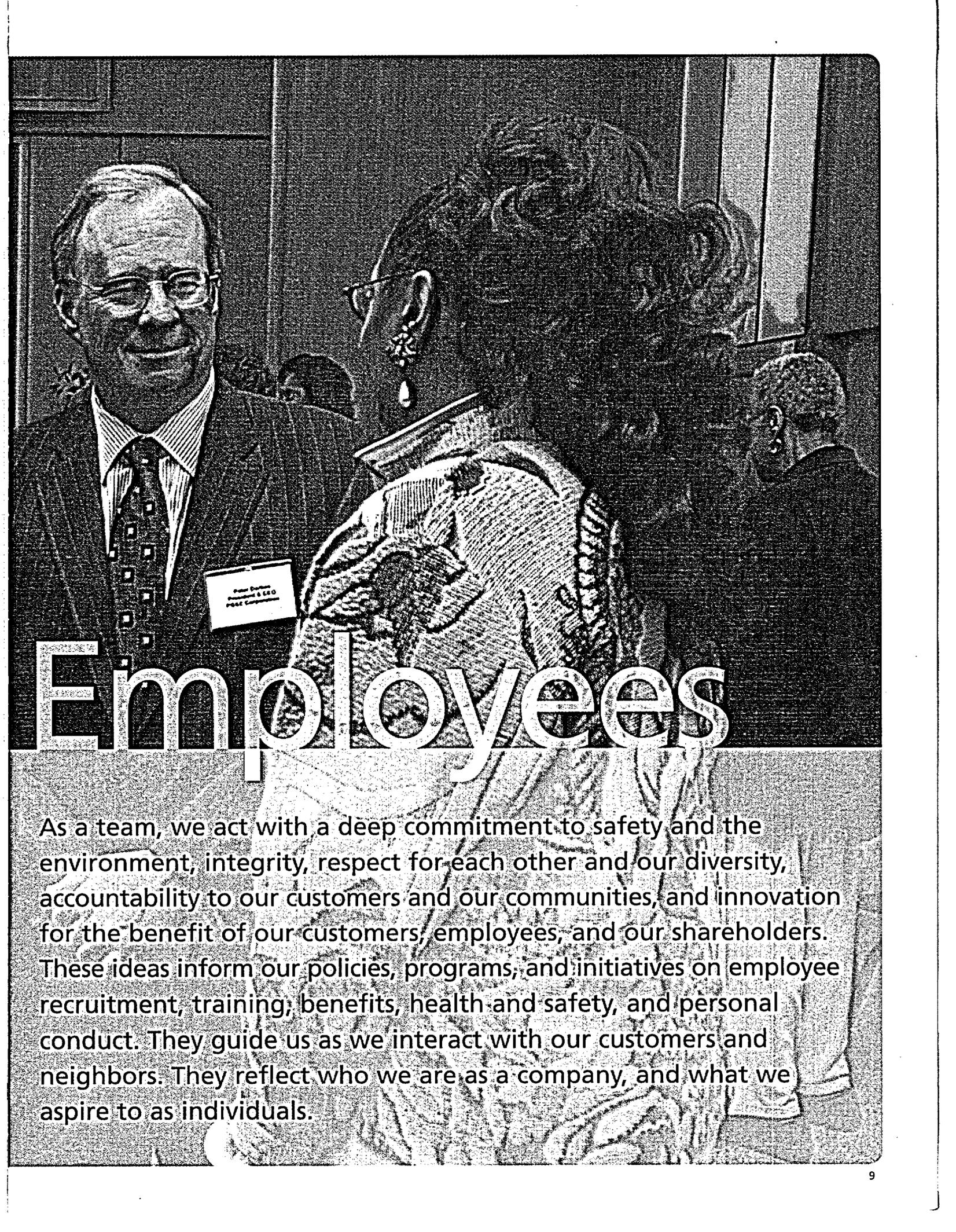
Roy Kuga, Vice President Gas and Electric Supply, and Peter Darbee, CEO, meet with members of our six Employee Associations to share information and exchange ideas.

"We have a lot of employees with long tenures, which is a great thing, because it means that there is a wealth of deep knowledge about the company and our business. And our people stay here because they, like I, think it's a privilege to work here and a privilege to serve our customers. It really is. I've been here 25 years, and I still feel that way."

(continued on page 10)



Russell M. Jackson
Senior Vice President, Human Resources



Peter Durbin
President & CEO
P&G Corporation

Employees

As a team, we act with a deep commitment to safety and the environment, integrity, respect for each other and our diversity, accountability to our customers and our communities, and innovation for the benefit of our customers, employees, and our shareholders. These ideas inform our policies, programs, and initiatives on employee recruitment, training, benefits, health and safety, and personal conduct. They guide us as we interact with our customers and neighbors. They reflect who we are as a company, and what we aspire to as individuals.



(continued from page 8)

The Value of Diversity

"PG&E comes to life through its employees. We understand that, and that's why we try to encourage and foster innovation, ingenuity, and a commitment to performing at the highest level possible. Part of what facilitates that is the diverse backgrounds and experiences of our employees."

"We are fortunate to be headquartered in the most ethnically diverse state in the nation. So we don't have to look far. We primarily focus on California schools, which gives us a well-qualified, talented workforce; an ethnically diverse workforce; and a gender-diverse workforce. We also partner with local organizations that have training programs for positions that we need. We seek out organizations that work with minorities and women. And we work with our employee associations to understand what will be attractive to potential employees in diverse communities and to help foster education in critical areas, like math and science."

Corporate Responsibility Draws Talent

"There is a war for talent—people are going to have a lot of choices in the coming years when you look at the retirement of baby boomers and the pool to replace them. So it is critical that we be able to show potential employees that they're making the right choice. Being known as a responsible company is a part of that and is a competitive advantage in recruiting. PG&E is a very solid company, with immense and diverse opportunities and a commitment to doing the right thing. And that's part of what draws people to want to work here and to stay here."

A Culture of Integrity

"We have programs and procedures similar to a lot of companies when it comes to ethics and compliance: we have a new-employee orientation—employees sign rules of conduct, take refresher courses, are provided with antidiscrimination policies. But there is also a culture piece—the way our people do business, aside from the piece of paper they sign—and that is the piece I'm most proud of."

"For example, our employees understand that we sit on the edge of Silicon Valley, supporting the cutting-edge internet industry, biotechnology industry, and others. And our employees understand that, without the reliable delivery of our vital commodities, these businesses don't run. So they want to do their jobs well, and they want to do them safely, efficiently, and with integrity."

Providing Opportunities for Growth

"Providing opportunities for employees to advance their careers is an imperative for any company that wants to be a leader. At PG&E you can have several different careers without leaving the company—you can be 'reborn' at PG&E. For example, about 67 percent of our first-line supervisors and about 47 percent of the total management population came from the bargaining units—that's a huge talent pool that we can and do tap. We offer our employees management training, educational reimbursement, rotational assignments to learn other parts of our business. This fosters teamwork, dedication, and loyalty, which are all critical to ensuring that we have a well-trained, dedicated workforce for the long term." ■



Working Safely and Staying Healthy

Creating a safe and healthy workplace requires designing and maintaining hazard-free workspaces; identifying and implementing effective, efficient, and responsible work processes; and investing in the appropriate safeguards to protect workers against potentially unsafe conditions. PG&E has put in place a multifaceted Safety and Health Program geared toward achieving these goals. Some examples of these programs include our Occupational Risk Assessment Team, our Employee Wellness Program, our Injury and Illness Prevention Program, and our newly instituted Self-Audit Program. These programs allow us to identify potentially unsafe or unhealthy situations, evaluate alternatives for addressing these situations, and track our progress in avoiding or remedying these situations.

The successful implementation of our Self-Audit Program in 2004 is an example of the importance that PG&E places on establishing an injury- and illness-free workplace. In the program's first year, we completed 40 audits of various field and office organizations. These audits examined compliance with California's Occupational Safety and Health Administration (Cal/OSHA) requirements pertaining to ergonomics, confined space, emergency response and first aid, excavations, incident investigation, inspections, and safety management. Overall, these audits confirmed compliance with regulatory and company requirements. The Self-Audit Program will be augmented in 2005 by an Office Checklist Program, which is specifically designed to evaluate office environments.

These policies, programs, procedures, and audits resulted in a safety record in 2004 that is generally consistent with our performance over the past three years. Total lost workdays are down nearly 17 percent from 2002, and the rate of new lost workday cases, although slightly higher than in 2003, remains near PG&E's 10-year best performance for this metric. The number of OSHA Recordables and the OSHA Recordable Rate both decreased in 2004 after increasing in 2003; the increase in 2003 was in part due to regulatory changes by Cal/OSHA in 2002 and 2003 that effectively expanded the types of incidents that companies are required to record.

Reporting Metric	2002	2003	2004
Total Lost Workdays ¹	73,105	63,638	60,766
Total Lost Workday Cases ²	253	268	284
Lost Workday Case Rate ³	1.33	1.37	1.48
Total OSHA Recordables ⁴	1,267	1,445	1,365
OSHA Recordable Rate ⁵	6.67	7.41	7.09

1 Total Lost Workdays is an internal PG&E metric that counts the number of workdays lost due to occupational injury or illness.

2 Total Lost Workday Cases is the number of nonfatal occupational injury and illness cases that (1) satisfy OSHA requirements for recordability, (2) occur in the current year, and (3) result in at least one day away from work.

3 The Lost Workday Case Rate measures how frequently new Lost Workday Cases occur for every 200,000 hours worked, or for approximately every 100 employees.

4 Total OSHA Recordables is the number of injuries and illnesses that meet OSHA requirements for recordability, i.e., (1) are work-related, (2) are new cases, and (3) meet one or more OSHA general recording criteria.

5 The OSHA Recordable Rate measures how frequently occupational injuries and illnesses occur for every 200,000 hours worked, or for approximately every 100 employees.

PG&E Mourns the Loss of Members of Our Team

We were stunned and saddened when two members of our team lost their lives within a span of 12 days in January 2004. Randy Imai died while working on a pole at a job site near Sacramento. Kevin Knutson was electrocuted while replacing equipment on our Morro Bay-San Luis Obispo transmission line. Our sympathies go out to the families and friends of both Randy and Kevin.

In the wake of a tragic accident, we have a duty to learn any lessons that may help minimize the chance of it occurring again. We investigate these incidents and review our programs and procedures to ensure that our employees, particularly our front-line workers, are receiving the best training available. Safety is our number-one priority—and we are committed to keeping it that way.

A Safe Work Environment Fosters Dedicated Employees and Ensures Reliable Service

Delivering electricity and natural gas is a 24/7 operation that, by the nature of the products and the work required to deliver them, inherently presents safety risks and hazards. Our goal is to have an injury- and illness-free work environment for the benefit of our employees, our customers, and our communities. Our formal Safety and Health Policy forms the foundation of the programs PG&E uses to achieve this goal. This policy requires that:

- Employees do their jobs with the goal of creating a work and business environment free from injury, illness, and property damage for the benefit of employees, customers, and the general public;
- Employees (1) perform work in a way that protects and promotes the safety and health of themselves, coworkers, and the public, and (2) comply with all applicable health and safety laws and regulations; and
- Each officer manage effectively the occupational and public safety and health matters concerning business activities for which he or she is responsible.

Workforce Diversity and Initiatives

California is the most ethnically diverse state in the nation, with a population that supports divergent views on many important business, environmental, and community-related issues. Reflecting this diversity, PG&E's workforce includes approximately 19,800 individuals representing a remarkable range of backgrounds and experience. We believe this diversity makes us a stronger company. It is a source of new and innovative ideas. It empowers us to anticipate, understand, and respond better to the needs of our customers and communities. It enables us to be more flexible and adaptable to change. And it makes PG&E an interesting and engaging place to work.

To foster diversity, we strive to create an inclusive work environment that respects all employees. One way we do this is by instituting human resource policies and practices that go beyond state and federal equal opportunity employment laws and guidelines. We also require management commitment and leadership in communicating that every member of our team is important and must be treated with respect, and that harassment of any sort will not be tolerated.

Our commitment to workforce diversity is also reflected in our recruiting strategies. Whether seeking candidates for an immediate opening or developing a pool of talent from which future needs may be filled, we seek out employee candidates from a broad spectrum of racial and ethnic backgrounds and with other diverse characteristics. For example, in 2004 PG&E formed a partnership with CalWORKS focused on helping the company recruit diverse candidates in targeted communities. We formed a similar partnership with the California Black Chamber of Commerce.

Looking to the future, in 2004, PG&E entered into a three-year partnership with the Math Engineering Science Achievement Program (MESA) to establish the MESA/PG&E Leadership Program. One of the country's most innovative and successful programs, MESA works with thousands of educationally disadvantaged students to help them excel in math and science and graduate with math-based degrees. These are skills that are critical to a company such as PG&E, which is continually trying to find new and better ways to produce, transmit, and deliver energy.

This strategic approach to creating a diverse, highly skilled workforce increases our success in representing the communities we serve. As of the end of 2004, PG&E employed approximately 19,800 people. Based on Equal Employment Opportunity Commission (EEOC) definitions, PG&E's workforce statistics for 2004 are presented in the tables on page 14. The statistics for 2004 are generally consistent with statistics provided for 2003, with slight increases registered in several reported categories.

Sharing Experiences Makes for Stronger Connections

More than 1,325 employees participate in PG&E's six employee associations:

- Asian Employees Association
- Black Employees Association
- Filipino Employees Association
- Hispanic Employees Association
- PrideNetwork Employees Association
- Women's Network Employees Association

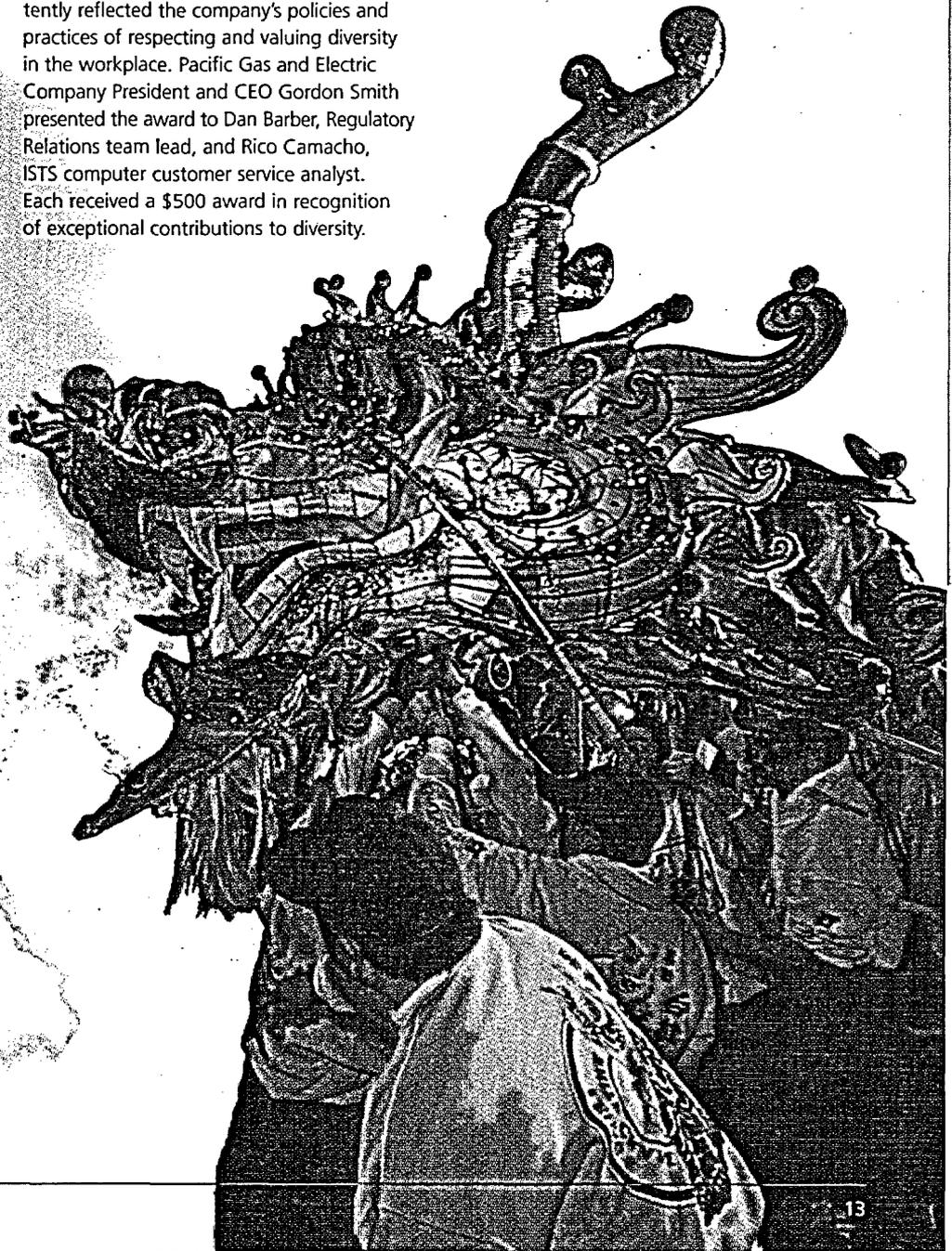
PG&E's employee associations provide more than a forum for employees to gather and share experiences with one another; they are also vital partners in PG&E's overall efforts to connect and work with the communities we serve.

For example, in conjunction with the Asian Employees Association (AEA), PG&E was a major sponsor of San Francisco's Chinese New Year parade, in 2004. More than 50 AEA members donated their time to help with the event.

In addition, in 2004, PG&E's employee associations sponsored a multi-event celebration to showcase the diversity of the company and to provide all employees with information on, and a better understanding of, their colleagues and communities. The 2004 Diversity Celebration, themed "The Power of Diversity—Together We're Stronger," marked the expansion of the annual event from a one-day event to a

three-week, five-event celebration. Under the leadership of Co-Chairs Kathy Hart, President of the Women's Network Employees Association, and Al Thomas, President of the Black Employees Association, the 2004 Celebration showcased employee talent and culture through an art exhibition, panel discussion, international food court, and talent show.

The 10th annual PG&E Diversity Celebration culminated with the presentation of two President's Diversity Champion Awards to employees whose achievements have consistently reflected the company's policies and practices of respecting and valuing diversity in the workplace. Pacific Gas and Electric Company President and CEO Gordon Smith presented the award to Dan Barber, Regulatory Relations team lead, and Rico Camacho, ISTS computer customer service analyst. Each received a \$500 award in recognition of exceptional contributions to diversity.



EEO-1 Category for PG&E Corporation	% Women	% Minority
Officials and Managers	26	25
Professionals	35	36
Technicians	16	32
Total Workforce	26	35

In 2004, PG&E's workforce representation of both women and minorities compared favorably with other electric utilities and combined electric and natural gas utilities, attesting to our efforts to attract and maintain a diverse workforce.

	Total Employment		Officials & Managers	
	% Women	% Minority	% Women	% Minority
PG&E Corporation	26	35	26	25
National Electric Services ¹	23	17	14	10
National Gas & Electric Utilities ²	28	23	20	13

¹ All electric-only utilities. Please see online report for further explanation about percentages.

² All U.S. combined gas and electric utility companies. Please see online report for further explanation about percentages.

To help achieve our goal to increase the number of women employed by PG&E in operational and front-line jobs, PG&E established a partnership with the Center for Training and Careers in San Jose. This program is helping to prepare and train women for careers in nontraditional occupations at PG&E.

For PG&E's efforts and results, the company was named by *FORTUNE* magazine as one of the top 50 companies for minorities in 2004. PG&E's ranking by *FORTUNE* has improved each year, from 45th in 2000 to 11th in 2004.

Employee Training and Benefits

Our people are our greatest asset. PG&E faces competition not only for customers, but also for new talent. Within the next five years, 40 percent of our employee base will become eligible for retirement. Increasingly, we are utilizing metrics to provide accurate and timely profiles of employee demographics in each of our business units, and to help prioritize recruitment and training goals so we have the right people with the right skills in the right place as employees retire. This is especially important for positions such as linemen, where a lengthy apprenticeship is the best way to pass on knowledge acquired through years on the job. Presently we maintain more than 750 active apprentices, almost half of whom are training to become electrical line workers.

To identify the technical and leadership skills needed today and in the future, PG&E is listening closely to customers and employees, and is benchmarking other western utilities. We also are examining how companies in general are attracting and retaining skilled and motivated personnel.

Training is essential to developing the skills we will need to succeed, and to ensuring that our employees have the opportunity to grow while staying at PG&E. To serve our customers well, we understand that we must invest in our employees' development and well-being, in order for them to invest their time, talent, and energy in ensuring PG&E's long-term success.

Our recent employee surveys show that PG&E's programs to foster employee development are one of the key reasons our people stay at PG&E. For example, we have an annual attrition rate of approximately four percent per year, and 47 percent of our total management employees were cultivated from our bargaining units. What this means for PG&E is that we have many employees with long tenures with a deep knowledge of our business and a dedication to serving our customers.

To help employees advance their careers and hone their managerial skills, we provide employees with training and educational opportunities. The following are some examples of these programs:

- Executive Assessment and Professional Development, which provides developmental experience to individuals;
- Leadership Development Initiative, a 15-month comprehensive mentoring and development program designed to accelerate employee leadership and development skills, increase company "bench strength," and enhance company diversity; and
- Tuition Refund Program, which allows employees to be reimbursed, up to a specified amount, for courses and related materials that contribute to overall career development and/or acquisition of specific skills.

In addition to training and career advancement opportunities and programs, PG&E is committed to providing employees with programs and benefits that contribute to employee wellness and satisfaction. This makes sense not only for our employees, but also for our business. It increases employee productivity, reduces employee absence, and contributes to employee loyalty and dedication. PG&E provides our employees with a benefits package that addresses all aspects of life—work, family, and community. We categorize these benefits in the following manner:

Teamwork and Dedication Help Restore Power Quickly and Keep Our Customers Satisfied

Dan Mitchell, Santa Maria electric crew foreman, was ready to wrap up the day. He and his crew had just completed eight hours of prearranged overtime that Saturday, when the phone rang. Santa Maria High School's power was out.

A PG&E transformer was damaged; its replacement was 240 miles away in Fremont. The transformer was so large that it required a crane to lift it into position. Mitchell quickly assembled a crew, arranged for the transformer shipment, secured a crane from a local vendor, and put his team to work.

Meanwhile, account managers on call in San Luis Obispo and Santa Maria stayed in close communication with the customer throughout the evening about progress. At 1:30 a.m., PG&E was able to report that power had been restored.

Reese Thompson, the high school's facilities director, was elated. "Your representatives did an outstanding job of getting our school up and running. This job would not have happened so quickly if it were not for the systems and people in place to handle emergencies. Please extend our thanks to the numerous people that sacrificed their time to take care of Santa Maria High School students."

- **Protect Ourselves and Our Families.** Benefits offered to employees to assist them in taking care of themselves and their families include paid sick leave; medical, dental, and vision plans (including coverage for dependents, spouses, and registered domestic partners); comprehensive disability benefits; life insurance options; flexible spending accounts for health care and dependent care expenses on a pre-tax basis; and counseling and referral assistance for work or family problems.
- **Enhance Our Lives, at Work and at Home.** Benefits offered to employees to enhance overall quality of life for them, their families, and their communities include paid holidays and vacation; flexible work hours (depending on business needs); employee associations that pursue common interests with coworkers and promote a diverse workforce; adoption reimbursement assistance; child and elder care information and referral resources; volunteer opportunities to support civic and community activities; and a matching education/environmental contributions program.
- **Help Prepare for the Future.** Benefits offered to employees to help them live a secure and healthy retirement include a retirement plan that provides monthly pension payments; a 401(k) plan with multiple investment options; a company-matching contribution to an employee's 401(k) account; and retiree medical and life insurance coverage.

For more information on benefits offered to employees, please visit our website at www.pgecorp.com.

A Culture Founded on Integrity

Integrity is the foundation of a responsible company. PG&E fosters integrity among its employees in a variety of ways, one of which is through our compliance and ethics program. Our compliance and ethics program promotes full compliance with all applicable laws and regulations and adherence to high ethical standards in every business decision.

Communicating expectations concerning personal conduct is critical to ensuring that we are a company that acts with integrity. PG&E communicates its expectations to employees through its code of conduct, which is included in PG&E's *Standards for Personal Conduct and Business Decisions* handbook. This handbook was updated in 2004 to reflect changes to some requirements and to clarify others. We expect our employees to perform their work in accordance with the company's Core Ethics Values:

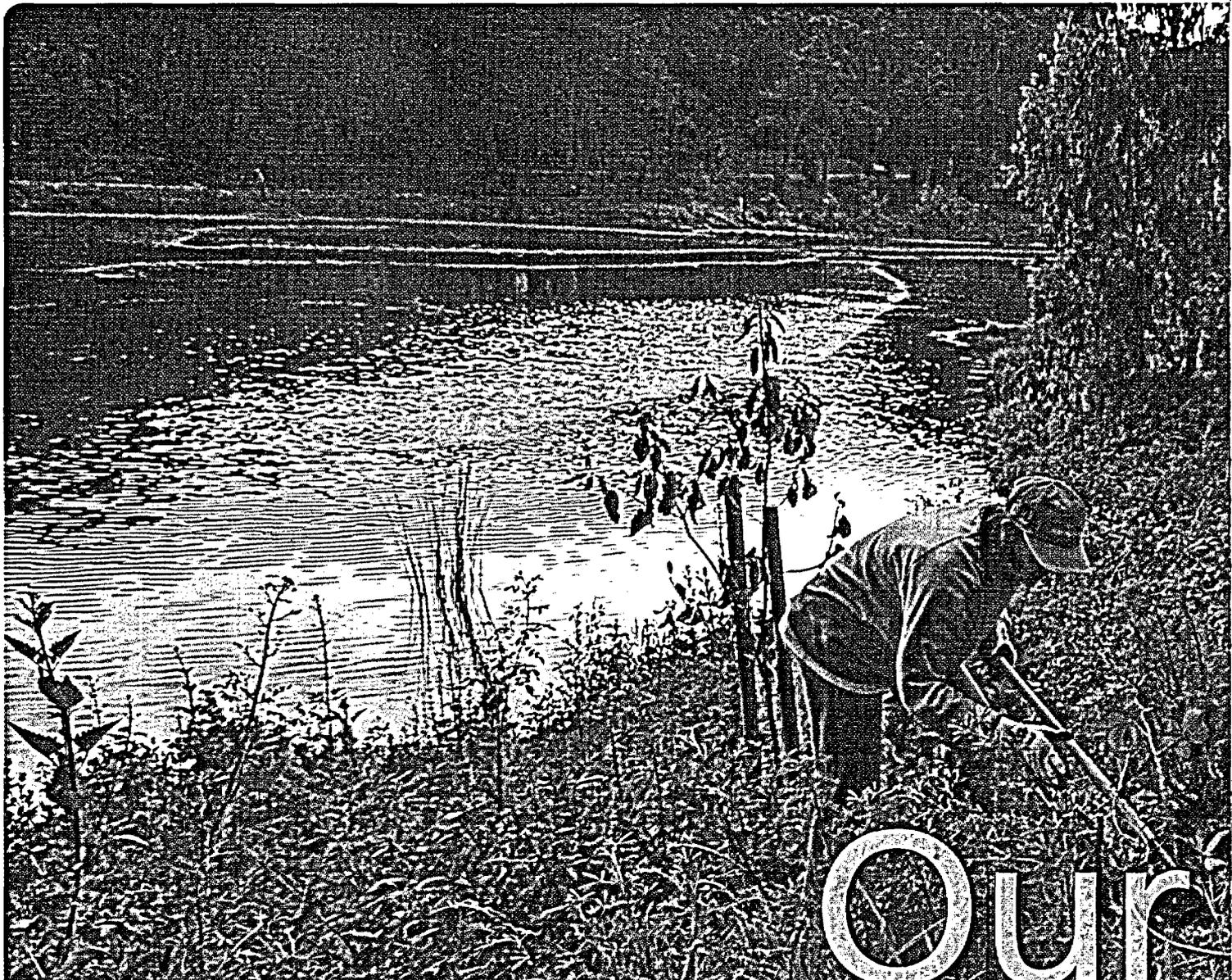
- Demonstrate honesty and fairness.
- Respect others.
- Take responsibility.

Another way that we communicate personal conduct expectations is through our annual compliance and ethics training, which is required for each employee. Our Legal Compliance and Business Ethics Department (LCBE) develops new training each year to address our employees' needs and to respond to their suggestions. LCBE regularly conducts focus group meetings with employees to gather valuable feedback about training and supporting materials. In 2004, 88 percent of employees participating in those focus groups said they believed that PG&E's mandatory annual compliance and ethics training is important and useful.

In addition, LCBE provides opportunities for employees to ask questions and report questionable activities. PG&E's Compliance and Ethics Helpline is available to employees 24 hours a day. It handled almost 500 calls in 2004, a number typical for most years. Calls are handled confidentially, and callers can remain anonymous.

Last, like any large company in a highly regulated industry, PG&E is subject to thousands of laws and regulations. To ensure that we have policies and programs in place to comply with these laws and regulations, PG&E conducts regular, systematic assessments of all requirements, identifies the areas at highest risk for noncompliance, and develops compliance and management plans. The breadth and depth of this approach distinguish PG&E as a leader in our industry in this area. In 2004, fewer than 10 percent of companies in our industry had a comparable compliance assessment and management process in place.



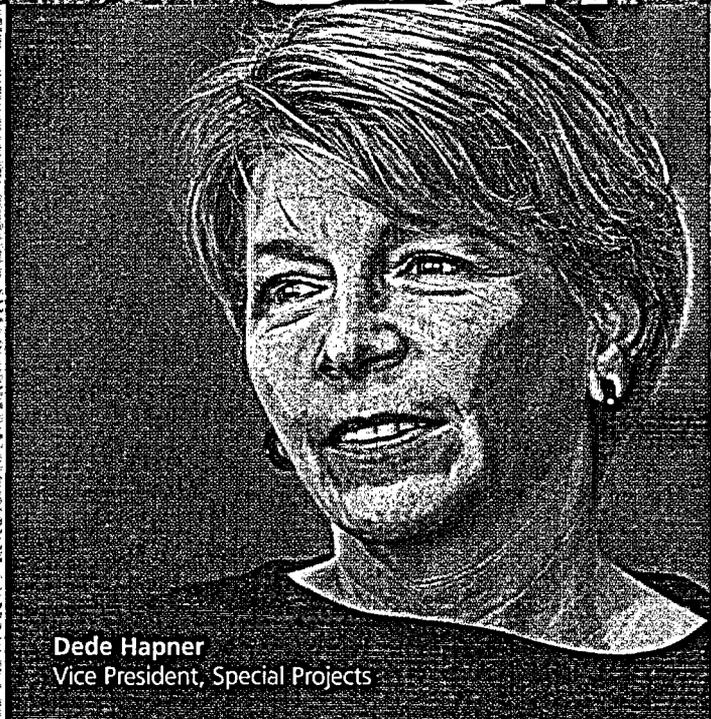


Our

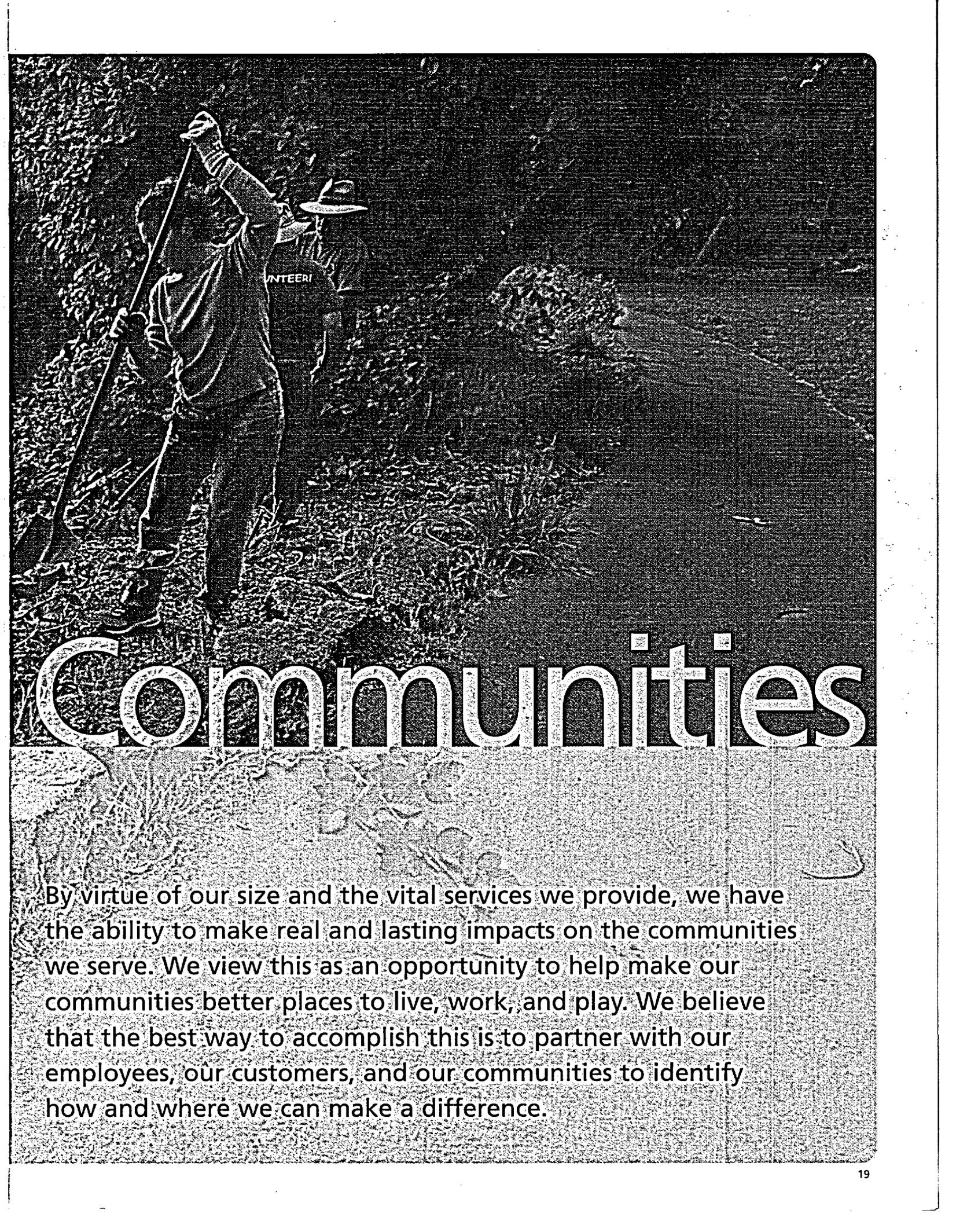
PG&E volunteers at the company's Earth Day cleanup activities in San Francisco's Golden Gate Park.

"Our efforts to take a more active role in our communities are not about having a better reputation, it's part of running our business in the best possible way. Our programs—whether it's converting schools to use solar energy, participating in leadership development in underserved communities, or coordinating volunteer opportunities—make us a better company. It helps make us better leaders and, frankly, empowers us to lead."

(continued on page 20)



Dede Hapner
Vice President, Special Projects



Communities

By virtue of our size and the vital services we provide, we have the ability to make real and lasting impacts on the communities we serve. We view this as an opportunity to help make our communities better places to live, work, and play. We believe that the best way to accomplish this is to partner with our employees, our customers, and our communities to identify how and where we can make a difference.



(continued from page 18)

Changing Views on Corporate Responsibility

"Our views on what it means to be a responsible company have definitely evolved. Where we once focused on complying with laws and regulations, we now look to exceed requirements and raise the bar. Where corporate philanthropy once meant charitable giving, we now understand that it also means volunteering, helping our employees to give back, and targeting our contributions to have lasting and sustainable impacts. Where we once focused on narrow issues related to environmental performance, we now also focus on broader, societal issues, such as global climate change and environmental justice. That's what I mean by evolution. It's much bigger, and it's become part of the PG&E DNA."

Management Setting the Example

"Our commitment to the community extends to the highest reaches of the company. Our most senior leaders sit on many different boards, from the Bay Area Red Cross, to the Monterey Bay Aquarium, Junior Achievement, and other groups. Almost 50 percent of our officers are involved in boards and/or volunteer activities. And when there is a company-wide event, such as events planned around Earth Day, we get well over 500 employees to participate because of that commitment and that example from the highest levels."

Using Our Expertise to Help Communities

"We are refocusing our efforts to identify how and where we can make the most difference, both because of our expertise and because of our reach. A good example is a new partnership with Habitat for Humanity that will focus on not only providing resources to build

and improve housing in underserved communities in our service area, but also on making those homes energy efficient and providing them with solar panels. Not only will people get solid homes, but they will also save on energy bills."

Expanding Our Contributions

"The more we build our infrastructure and expand our presence, the more our obligation grows to contribute to the quality of life in our communities. We've set a goal of increasing our commitment to our communities. Last year our contributions doubled from the year before, to more than \$7 million. In 2005, they will be \$12 million. We're very proud of that. Also, we're spending a lot of time with our community partners and others to help ensure that we target these dollars effectively."

Amplifying Our Positive Impacts

"Our efforts can be powerful inputs in a fairly complex equation that contributes to the overall well-being of our communities. For example, our commitment to using diverse suppliers has a greater impact than just what we provide—in many cases we are an anchor client that allows them to get other jobs or we provide them with the tools to do more in their communities. Another example is our work over the past several years to improve the standards by which our contractors and vendors operate. Ensuring that they share our strong commitment to equality, diversity, safety, environmental protection, and ethics has positive ramifications that go well beyond our direct actions. That is a significant benefit to the overall well-being of our communities and to our state and local economies." ■



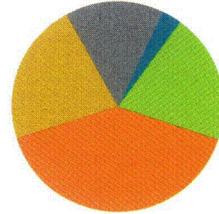
Corporate Philanthropy

One of the ways we are connecting with our communities is through our re-energized charitable contributions program. In 2004, PG&E more than doubled its shareholder-funded charitable contributions, from \$3.6 million in 2003 to nearly \$7.6 million in 2004, and we did it in a way that was responsive to the needs of both the communities and constituencies we serve. PG&E provided cash grants, in-kind contributions, and other forms of support to nonprofit organizations and government agencies throughout northern and central California, as well as to some statewide and national organizations. To do this, we worked with communities and local organizations to identify community needs and develop programs to deliver targeted contributions.

For 2005 and beyond, PG&E is expanding its charitable contributions program. PG&E's goal is to provide corporate gifts of \$60 million over five years and, on an annual basis, the higher of \$12 million or 1 percent of total pretax earnings from operations, starting in 2005.

The chart to the right shows our grant-making divided among five broad areas: education, environment, emergency preparedness, economic development, and civic and community. During 2004, as a result of outreach to and discussion with various nonprofit and civic leaders, PG&E directed 51 percent of our shareholder-funded contributions to nonprofit groups that assist low-income and underserved communities.

2004 Corporate Contributions



- Education 22%
- Environment 15%
- Emergency Preparedness 3%
- Economic Development 20%
- Civic & Community 40%

(For more information on PG&E's corporate contributions policies and program and how to apply for grants, please visit our website at www.pge.com.)

Energizing California's Schools

In 2004, PG&E launched a multiyear initiative aimed at installing photovoltaic systems at schools throughout our service area, allowing participating schools to reduce their energy costs, benefit the environment, and educate their students about alternative energy and environmental protection. In what is known as the PG&E Solar Schools Program, we partnered with solar industry leaders and the Foundation for Environmental Education to install these systems and are working with the National Energy Education Development Project on a grade-specific curriculum focused on solar-related science.

PG&E worked with several schools throughout our service area in 2004, many in underserved communities, to implement this new and innovative initiative. Schools participating in the program received a donation and free installation of a new photovoltaic solar electric system, along with a specialized curriculum and teacher training. Some of the schools with which PG&E worked in 2004 include the following:

- Montezuma Elementary, Stockton Unified School District
- Center for Advanced Research & Technology, Fresno/Clovis School Districts
- DeLaveaga Elementary, Santa Cruz City School District

In 2005, PG&E will expand the program to include up to 20 schools that will receive a donation and free installation of a new 1.3 kilowatt photovoltaic system, train up to 400 teachers in the specialized curriculum, and provide up to 100 schools with grants to fund solar science projects. For more information on the PG&E Solar Schools Program, please go to www.pge.com/solarschools.



Some examples of our 2004 contributions include the following:

- Continuing our commitment to support the economic vitality of the communities we serve by granting more than \$294,000 to 58 local governments and community-based organizations for local economic development projects. Recipients of these grants include the San Benito County Economic Development Corporation's Business Outreach Program, the San Jose Conservation Corps' Hennessy Place Affordable Single-Family Housing Project, and Mariposa County's Business Development Training Program.
- Underwriting the administrative costs of implementing the Relief for Energy Assistance through Community Help (REACH) Program. PG&E funded 100 percent, or \$320,000, of the administrative costs associated with the REACH Program in 2004, which provided more than 12,300 low-income households with approximately \$2.2 million in financial assistance for meeting their energy needs. PG&E also commends our customers for their generosity and good works. In 2004, our customers donated more than \$1.4 million to REACH to help their neighbors and others in their communities.
- Providing outdoor opportunities to school-age children through an \$8,000 grant to Elmer Wood Elementary School in Atwater. The school had a 25-year tradition of sending students to an outdoor camp near Yosemite National Park but, due to budgetary pressures, would have been unable to fund the effort in 2004. Our grant made it possible for the school to continue the tradition.
- Donating \$7,500 to Self Help for the Elderly, located in San Francisco's Chinatown community and serving elderly members of the Chinese-American community in San Francisco, San Mateo, and Santa Clara Counties.
- Supporting the work of the Greater Sacramento Urban League (GSUL) through a \$14,000 contribution to its annual Unity Ball and Dare to Dream event. The GSUL pursues a mission of enabling African Americans, other minorities, and the underserved to secure self-reliance, parity, power, and civil rights.
- Providing a \$170,000 grant to the National Fish and Wildlife Foundation to implement the third year of the Nature Restoration Trust Program, which provides opportunities for K-12 students to participate in wildlife preservation activities.
- Supporting underserved communities through a \$75,000 grant to the Fine Arts Museums of San Francisco, allowing low-income families to attend Mayan Family Day at the Mission Cultural Center for Latino Arts and receive free tickets to the Legion of Honor Museum exhibition of the "Courtly Art of the Ancient Maya."

PG&E leads an employee-funded workplace giving program as well, the annual PG&E Corporation *Campaign for the Community*, which enables employees and retirees to designate a portion of their paychecks and pension checks to charities

of their choice. In 2004, PG&E employees and retirees pledged approximately \$2.5 million in donations through this program—\$500,000 more than in 2003. It was the third year in a row that donations exceeded \$2 million. The funds raised in 2004 through the *Campaign for the Community* will benefit more than 3,000 nonprofit agencies and schools chosen by the 6,800-plus participating employee and retiree donors.

PG&E also encourages our employees to donate their time, enthusiasm, and expertise to their communities and neighbors through volunteer work. PG&E provides opportunities for employees to give back to their communities by sponsoring volunteer initiatives and rewarding exceptional community service. For example, PG&E's Volunteer Stewardship Program (VSP) provided opportunities to more than 500 employees in 2004 to donate time to help preserve and enhance the environment. An example of VSP's good works occurred on Earth Day 2004; PG&E partnered with the California State Parks Foundation and, in addition to providing a \$75,000 grant, coordinated the cleanup efforts of approximately 450 employees at nine state and community parks.

In the area of education, more than 150 PG&E employees volunteered to teach approximately 3,000 children in 123 classrooms in 2004. PG&E partnered with Junior Achievement to target the classrooms, train our employee volunteers, and work with school administrators.

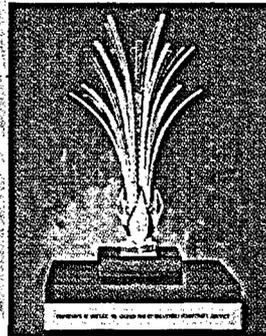
Supplier Diversity

As a major purchaser of goods and services, PG&E has an important opportunity to help other businesses grow and to strengthen the state and local economies in our service area. We believe that providing economic opportunities is especially important when it comes to supporting women-, minority-, and service-disabled veteran-owned business enterprises (WMDVBE, or diverse enterprises). To access this diverse supplier base and to identify and forge relationships with quality, cost-competitive enterprises, PG&E created a Supplier Diversity program 24 years ago. This program, which is part of our overall Supplier Excellence Initiative, provides diverse enterprises with the maximum practicable opportunity to supply products and services required by PG&E.

Through this program, PG&E has not only helped to support local businesses of all sizes and contribute to the overall economic growth and development of California, but we have also been able to tap into innovative and environmentally progressive product supply-chain initiatives. For example, in 2004, PG&E facilitated business relationships between our office product supplier and local diverse firms that helped those diverse enterprises generate additional business and allowed our office products supplier, and us, to take advantage of environmentally responsible supplies.

Recognizing Outstanding Community Service

Building better communities is a core value of the five recipients of the 2004 Frederick W. Mielke, Jr., Award. The Mielke Award, established in 1986, recognizes outstanding community service by the company's employees. It is named for Frederick W. Mielke, Jr., who served as Pacific Gas and Electric Company's Chairman and CEO from 1979 to 1986.



His personal attention to encouraging employees to give back to the communities that PG&E served during his career led to the naming of this award.

In 2004, five employees won the Mielke Award. These five employees epitomize a spirit of partnership, community service, and giving.



Dan Barber
Project Manager,
Regulatory Relations.



Mike Elliott
Subforeman A,
OM&C Substation
Construction.



Helen Fiscaro
Senior Program
Manager, Residential
Energy Management.



Don Franklin
Account Representative,
Account Services Area 1.



Philip Furniss
Senior Account
Manager, Account
Services.

Dan was one of the founding members of the eQuality Scholarship Collaborative (the Collaborative), formed in 1988, and chaired the organization for 10 years. The Collaborative has provided more than \$143,000 in scholarships to approximately 125 graduating high school students in northern and central California who have promoted an understanding of and equality for the lesbian, gay, bisexual, and transgendered community.



Mike founded the Lake County Wildlife Rescue and Rehabilitation Center (the Center) in 2000. The Center operates 24 hours a day, 7 days a week, 365 days a year providing emergency primary and secondary care for sick, injured, or orphaned wildlife in Lake County and provides rescue for large raptors and mammals. In addition to establishing the Center, Mike actively assists in the rescue, treatment, and release of wildlife.



Helen has been a volunteer coordinator with HIP Housing since 1995. HIP Housing enables people to live independently and is recognized as a leading housing resource in San Mateo County. HIP helps to identify, create, and place people in safe and affordable housing. Helen not only coordinates volunteers, but she is also a tireless fundraiser for the organization.



Don is a Personal Service Volunteer with the Rose Resnick Lighthouse for the Blind and Visually Handicapped (the Lighthouse). Don started volunteering with the Lighthouse in 1990. He assists Lighthouse clients with reading, bill organization, and shopping and serves as an exercise partner.



Phil was instrumental in establishing the Delta School (Delta) in Santa Cruz and currently serves as a mentor. In 1994, Phil was approached by the Cities in Schools program to help establish Delta, which serves approximately 55 students who have not had successful experiences in other high schools. Delta's program provides these students with mentors, counseling, job training, a strong academic curriculum, and the ability to earn a high school diploma.



In keeping with California Public Utilities Commission (CPUC) requirements, we report to regulators annually on the success of our Supplier Diversity program. PG&E tracks progress toward supplier diversity goals and objectives using criteria established by the CPUC. Supplier diversity goals are established for all products and service categories. Measured in accordance with CPUC guidelines, the percentage of goods and services purchased from diverse enterprises was 18.5 percent of total purchases in 2004. The chart below provides additional detail on purchases by category.

Category	CPUC Goals %	2004 Results %
Minority Men	12.0	8.9
Minority Women	3.0	2.2
Subtotal Minority Business Enterprise	15.0	11.1
Women Business Enterprise	5.0	6.4
Disabled Veteran Business Enterprise	1.5	1.0
Total WMDVBE	21.5	18.5

Our performance compared with 2003 was comparable in terms of overall percentage of purchases made from diverse enterprises—total WMDVBE purchases in 2004 as a percentage of overall purchases were 18.5 percent as compared with 18.1 percent for 2003. Purchases from minority women business enterprises and women business enterprises both increased slightly, while purchases from disabled veteran businesses and minority men business enterprises decreased slightly.

We continue to support the communities we serve by actively participating in key community-based organizations (e.g., San Francisco Black Chamber of Commerce and Industry Council of Small Business Development) in an advisory capacity or through sponsorship of events that promote local business growth and development. By partnering with these organizations, we are better able to understand their needs and to improve their understanding and access to business opportunities with PG&E, which contributes to the overall vitality of the communities we serve.

Public Safety

Creating a safe environment for our customers and communities is as important to us as the safety of our employees. PG&E has a comprehensive, ongoing Public Safety Information Program (PSIP) focused on increasing awareness of the safe and proper use of gas and electricity, as well as helping the public live and work safely around utility infrastructure.

This comprehensive program focuses not only on creating understandable and usable materials to convey important public safety information, but also on identifying and pursuing innovative and effective ways of communicating this information. For example, to better attract and maintain the attention of our school-age community members, PG&E created a character named "Helmet."

Helmet is featured on the Utility's website and visits community events and other public arenas to distribute educational materials, talk about our many safety programs, and provide helpful safety hints.

Some examples of our programs and 2004 activities include the following:

- **SafeKids School Safety Program.** Over the past five years, PG&E has increased distribution of its SafeKids gas and electric safety materials in elementary schools (grades K through 5) from 160,000 students in more than 5,300 classrooms, to approximately 650,000 students in almost 22,000 classrooms. PG&E's materials, which include booklets, videos, and posters, have reached almost 85 percent of the elementary schools in our service area.
- **Contractor Outreach.** Twice each year, PG&E offers gas and electric safety materials to more than 45,000 contractors. These materials include bilingual brochures, posters, and videos. Over the past four years, more than 100,000 individual workers have received these materials through their employers. In addition, by working with trade associations like the Associated General Contractors of California and the California Groundwater Association, PG&E's safety messages are distributed directly to the organization's members.
- **Agricultural Outreach.** Twice each year, growers and farm labor contractors receive PG&E gas and electric safety materials in Spanish and English. Approximately 15,000 growers have been offered materials, with more than 30,000 agricultural workers receiving brochures, posters, and videos promoting safety around overhead and underground utility lines. PG&E has partnered with industry groups like AgSafe and the California Cotton Ginners Association to distribute our safety messages directly to their members.
- **First Responders Program.** In 2004, PG&E enhanced its training program for fire and police agencies that respond to electric or natural gas incidents. This expanded program provides agency trainers with the knowledge and materials to train their employees effectively in the safe and proper response to downed power lines, incidents involving cars and utility poles, and underground dig-ins.

PG&E's PSIP has been identified as "best in class" by AEGIS Insurance Services, an international insurer of gas and electric utility companies, as well as by numerous peer utilities across the country.

Environmental Justice

In order for us to be responsive to our customers and communities, we must first understand their concerns and they must understand our intentions. Producing, transporting, and distributing natural gas and electricity to 9 million customers

requires power plants, thousands of miles of pipelines and transmission and distribution wires, and hundreds of vehicles and other types of equipment necessary to maintain this infrastructure and deliver this service. Often, these vital facilities are close to population centers and critical electric and natural gas infrastructure in order to ensure reliable power. We recognize that some of our neighbors may have questions about aspects of these facilities and our operations. And we recognize that we must communicate to our neighbors the actions we are taking and why we are taking them, and we must find ways to work cooperatively to resolve concerns as best we can.

It is this responsibility to balance the need to provide these vital services to our electric and natural gas customers, with respect to the needs of our neighbors that led PG&E to develop an Environmental Justice policy and program. These are some of the tools PG&E has to make sure that it not only manages facilities in an environmentally responsible manner, in compliance with all laws and regulations, but also does so in a way that works to minimize impacts on adjacent communities. In 2004, through our Environmental Justice program, we:

- Educated new employees about PG&E's formal Environmental Justice policy and how that policy is put into action;
- Continued to review our facility operations to ensure that we are complying with the spirit of our Environmental Justice policy;
- Continued our active participation on the National Environmental Justice Advisory Council, the National Environmental Policy Council, and the California Environmental Justice Advisory Committee; and
- Enhanced our "good neighbor" outreach efforts to the Bayview Hunters Point neighborhood of San Francisco, where PG&E owns and operates the Hunters Point Power Plant. This included sponsoring and participating in Mayor Gavin Newsom's "March Gladness" basketball tournament, which provided educational scholarships for local youth and gave PG&E a forum to discuss and distribute information on our CARE program, a financial assistance program to help our low-income customers pay their energy bills and manage their energy costs.

In 2005, PG&E will continue working with our neighbors and our regulators to close the Hunters Point Power Plant. In collaboration with community leaders, we will host community meetings to discuss plans for the plant's closure and dismantlement. In addition, we will continue sharing information with the community through newsletters and one-on-one meetings. And finally, in 2005, we will develop metrics for measuring the success of our overall Environmental Justice program.

Working with Our Neighbors and Regulators to Close Hunters Point Power Plant

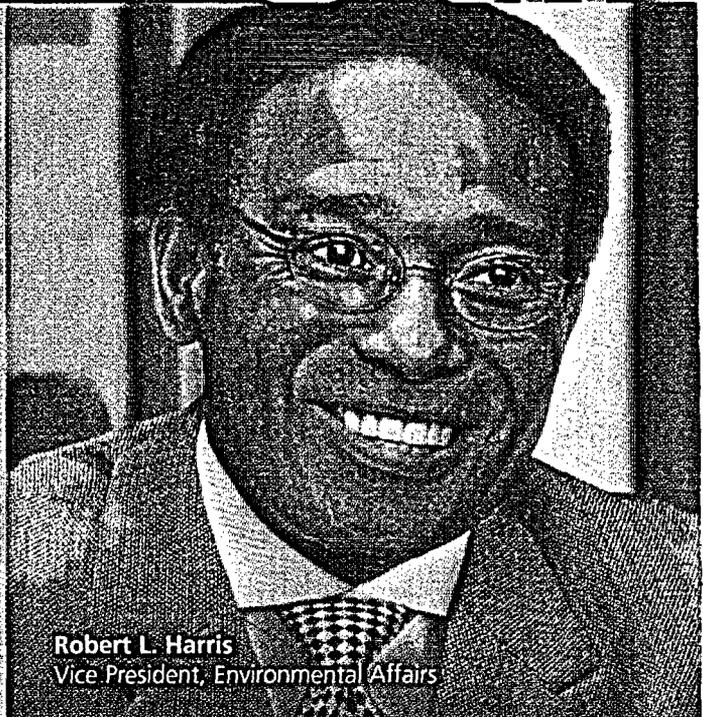
One of our key Environmental Justice efforts has been associated with the local community's concerns about the continued operation of PG&E's Hunters Point Power Plant (HPPP), located in the Bayview Hunters Point neighborhood of San Francisco. In 2004, we made great strides toward ensuring HPPP's ultimate closure. Working cooperatively with the Bay Area Air Quality Management District, the California Independent System Operator (which manages the state's electric transmission grid), the Close-it Coalition, and the community, we were able to obtain the necessary approvals and move forward on nine transmission projects that, once completed, will permit the plant to be closed. PG&E is working diligently to complete these projects by mid-2006, with a goal of closing HPPP shortly thereafter.

Our

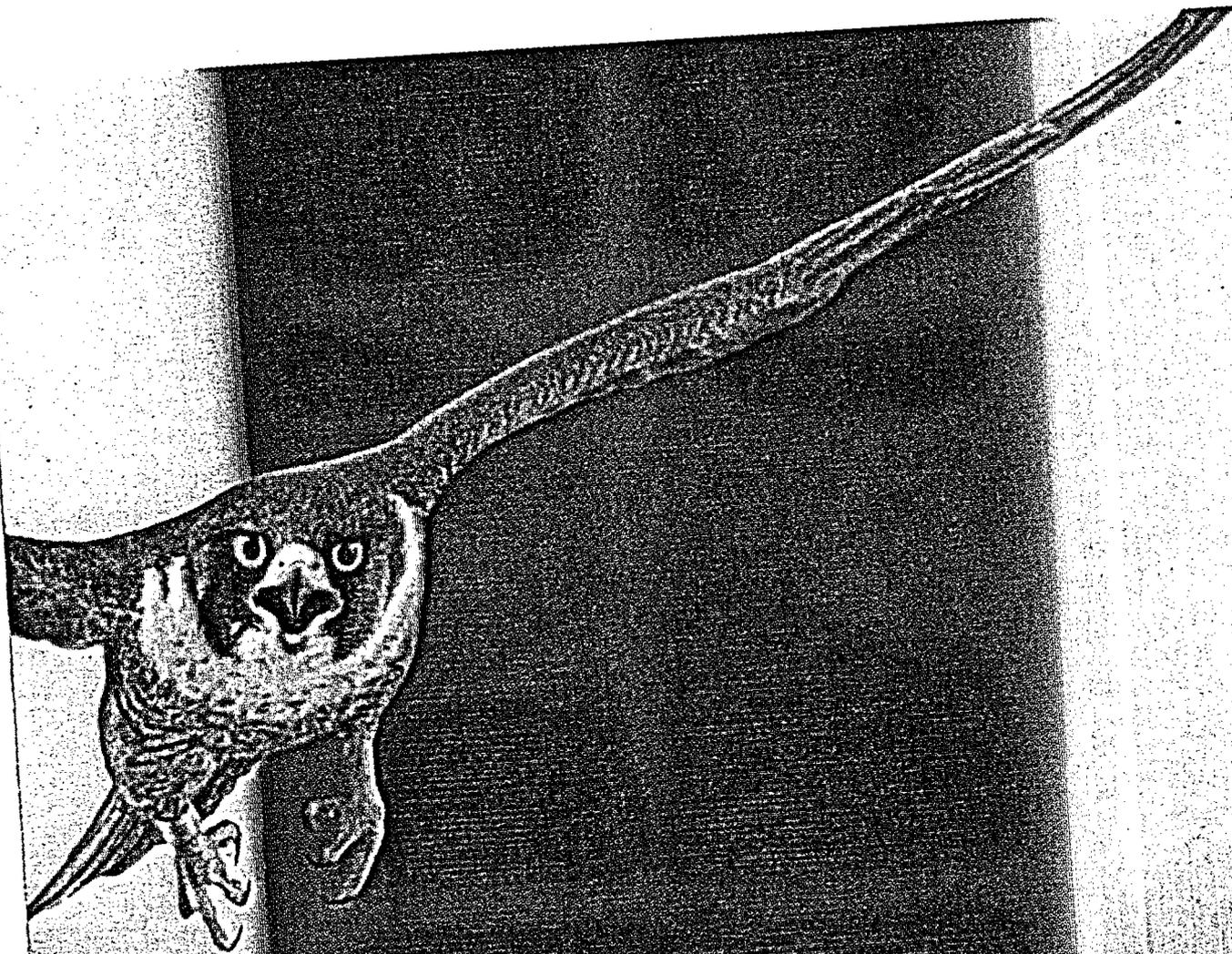
One of the Peregrines that resides at our Utility's headquarters building in downtown San Francisco.

"We encourage employees to have a passion for environmental stewardship—for going above and beyond. That's why so many employees volunteer for our Earth Day program, why we have so many nominees for our Environmental Leadership Award, why we are recognized for innovative approaches to habitat and species protection, and why we have gone to great lengths to provide a home for a family of peregrines."

(continued on page 30)



Robert L. Harris
Vice President, Environmental Affairs



Environment

We recognize that the choices we make about the way we produce and deliver our products and serve our customers can have a direct impact on the environment. Our employees, customers, communities, shareholders, and regulators recognize this too; they have an interest in how we make these choices and in understanding their impacts. We continually strive to find new ways to improve our processes, measure our progress, communicate our performance, and partner with others to find more resource-efficient and more environmentally responsible ways to meet our customers' needs.



(continued from page 28)

The Widening Scope of Corporate Responsibility

"Our view on corporate responsibility has broadened significantly since I joined the company 33 years ago. We initially viewed it as what we do with regard to the environment, or perhaps corporate contributions. Now it is part of everything we do. It encompasses supplier diversity, promoting high ethical standards among our vendors, improving the economic vitality of our communities, doing right by our employees, respecting and improving the environment, being responsive to our customers. Corporate responsibility is really about the sum total of all that we do as a company that touches the lives of 14 million people day in and day out. That's an awesome responsibility—one we take seriously and one we know presents us with an awesome opportunity."

The Meaning of Environmental Leadership

"Looking for new opportunities. Being willing to get involved. Being willing to take a risk. That's what I mean by leadership. We saw the opportunity to lead with Hunters Point Power Plant, with our positions and actions on climate change, and with our approach to habitat conservation. For example, hundreds of endangered and threatened species live in our service area. We developed an innovative approach that will allow us to protect these species over an entire area, while doing our vital work more efficiently and more expeditiously, and improve our relationship with regulators."

Stewardship Starts at the Top

"I see this passion firsthand among our officer corps. For example, Tom King, Chief of Utility Operations, heads up our Environmental Advisory Committee.

Jeff Butler, who is the officer in charge of our distribution and transmission network, consistently talks to his team about the importance of environmental stewardship and environmental protection. Our senior managers understand that being a good environmental steward and an environmental leader improves the bottom line. It's good for our business, it's good for our communities, it's good for our employees."

Doing What It Takes

"A leader steps up to the plate when things are challenging. Our remediation efforts at our Topock Compressor Station is a prime example. We had a choice: one option was to do the minimum we had to, the other was to do whatever it takes to address the issue. We made that choice without hesitation—we are going to do whatever it takes to make sure that groundwater, which was contaminated by actions that occurred almost 50 years ago, is treated and contained so that it does not find its way into the Colorado River and impact drinking water. That is leadership."

Addressing Climate Change

"Climate change is an issue that can pose significant risks and challenges to us as a business, but it also can provide opportunities as a driver for finding new and better ways to generate, procure, and deliver electricity and gas to our customers. We are proud of our efforts to lead on climate change—from supporting policies that would limit the greenhouse gases emitted by our industry, to encouraging customers to reduce their electricity usage, to increasing our fleet of alternative-fueled vehicles." ■



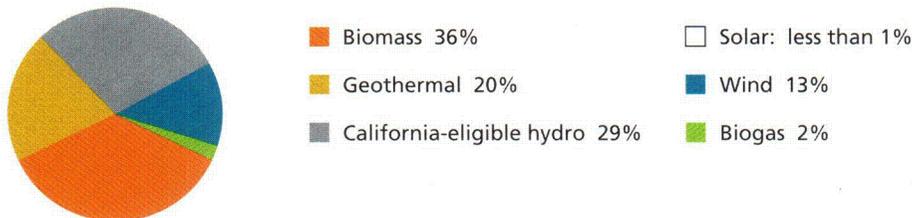
Meeting Our Customers' Electricity Needs

PG&E's 4.9 million electricity customers purchased 73,616,302 megawatt-hours (MWh) in 2004. To meet these needs, our Utility operated its nearly 6,500 MW generation portfolio, producing more than 26,400,000 MWh of electricity for sale, including approximately 1,267,000 MWh of hydroelectric power, which is considered a renewable resource by California standards. To supplement our owned-generation, PG&E purchased more than 46,000,000 MWh from a variety of sources, including approximately 8,590,000 MWh of California-eligible renewable resources, which, when combined with our eligible hydroelectricity, represented approximately 12 percent of our total retail sales.

PG&E's 2004 Retail Electricity Sales by Fuel Type



2004 California Eligible Renewable Representation*



* As defined in Senate Bill 1078, which created California's renewable portfolio standard, an eligible renewable resource includes: geothermal facilities, hydroelectric facilities with a capacity rating of 30 MW or less, biomass, selected municipal solid waste facilities, solar facilities, and wind facilities.

As the chart above indicates, a significant amount of the power used to meet our customers' demand comes from large hydroelectric power stations (which, under California rules, do not qualify as an eligible renewable resource). These large hydroelectric facilities, which are owned and operated by PG&E, emit no greenhouse gases or other air pollutants as part of the power generation process. When these facilities are factored into the power used to serve our customers, PG&E's sales of California-eligible renewable resources plus large hydroelectric were approximately 28 percent in 2004.

In addition, in 2004 our Utility operated the Diablo Canyon Nuclear Power Plant at approximately 80 percent of its available capacity to produce more than 15,200,000 MWh of power, representing approximately 21 percent of our retail electricity sales.

PG&E Continues to Address Climate Change

From a carbon dioxide (CO₂) perspective, PG&E delivers some of the cleanest electricity in America. While we serve almost 5 percent of the U.S. population, we emit less than 1 percent of the U.S. CO₂ emissions associated with the generation of electric power. By continuing to increase the percentage of renewable generation in our purchased power portfolio, as well as applying a "carbon adder" when weighing competitive bids for electricity supply from power generators, we will help to keep PG&E's relative greenhouse gas emissions low.

PG&E worked diligently in 2004, at both the state and federal levels, to advocate for and implement policies and programs that take responsible approaches to addressing climate change and to do so in a way that provides benefits for our customers, our shareholders, and the environment and economy.

For example:

- As a Charter Member of the California Climate Action Registry (Registry), we completed our entity-wide inventory of CO₂ emissions for 2002 and 2003 and became the first investor-owned utility in California to have its inventory of CO₂ emissions certified by an independent third party. In recognition not only of this accomplishment, but also of the efforts of PG&E to help develop the protocol used to measure these emissions, the Registry selected PG&E to be the private sector recipient of the Climate Action Champion Award.
- Our Clean Air Transportation Program continued to facilitate the use of electric and natural gas vehicles both within the company and throughout our service area, which in turn reduces greenhouse gases and other air pollution. For example, the California Air Resources Board reports that using natural gas instead of gasoline results in a 16 percent reduction in vehicular greenhouse gas emissions. In 2004, PG&E increased the representation of natural gas vehicles (NGVs) in its fleet to 882, which represents about

The power generated by Diablo Canyon is critical to ensuring the overall reliability of our electric system and meeting the growing demands of our customers and the state's economy.

Our resource procurement purchasing and investment decisions are informed by California's Energy Action Plan (EAP). The EAP requires California's investor-owned utilities to meet customer needs first by expanding energy efficiency and other demand reduction programs and through additions to the renewable generation portfolio.

Taking this approach to meeting our customers' needs is nothing new to PG&E. In fact, we have long been committed to serving our customers in ways that minimize environmental impacts, whether through promoting the use of renewable generation or through aggressively pursuing energy efficiency and demand reduction programs. One result is that, today, PG&E has among the lowest air pollutant and greenhouse gas emissions of any major electric company in the United States. For example, in 2004 the carbon dioxide (CO₂) emissions rate of our owned electric generation was 47.99 lbs CO₂/MWh, while the CO₂ emissions rate associated with the power we sold to customers was approximately 500 lbs CO₂/MWh. For context, the national average CO₂ emissions rate for all power generation was approximately 1,392lbs CO₂/MWh.

To ensure that our power supply is among the cleanest for the next decade, PG&E took a number of steps in 2004, including the following:

- Submitting to the CPUC a long-term power supply plan that proposed the inclusion of a mechanism that takes into account carbon emissions when comparing the costs and benefits of various supply options. The mechanism, known as a "carbon adder," ascribes a cost to emitting a ton of carbon; and
- Requesting bids from sellers of California-eligible renewable resources in order to allow PG&E to meet its renewable portfolio standard requirements.

In addition to looking for cleaner ways to meet our customers' needs, we also advocated for and implemented policies and programs that reduced our customers' overall electric usage and peak demand, thereby saving energy and avoiding emissions of air pollutants and greenhouse gases. For example, in 2004, we

- Administered 14 statewide, 4 local, and 9 partnership energy efficiency programs that avoided annual environmental impacts of 324,415 tons of CO₂, 187 tons of NO_x, and 114 tons of SO_x; paid customers in excess of \$57 million in energy efficiency rebates; and achieved savings of 117 MW, or 620,000 MWh—enough electricity to power approximately 91,553 homes for a year;
- Expanded PG&E's expenditures for customer energy efficiency programs by \$25 million through integrating energy efficiency into our long-term procurement portfolio; and

- Conducted studies to help support the adoption of new energy efficiency standards for electric appliances. These Codes and Standards Enhancement studies supported the California Energy Commission's adoption of Title 20 appliance standards for the 2005 code upgrade cycle. The annual electricity saved as a result of these new standards will be close to 665 gigawatt-hours statewide, which translates into avoided annual environmental impacts of 397,944 tons of CO₂, 200 tons of NO_x, and 122 tons of SO₂.

Delivering Natural Gas

PG&E's 4.1 million natural gas customers consumed nearly 877,760 million cubic feet in 2004 to heat their homes, cook their meals, drive their manufacturing processes, and fuel their vehicles, among other things. Natural gas is a clean-burning fuel that is used in a wide variety of applications. It can be transported and stored safely and efficiently. PG&E operates one of the largest natural gas distribution networks in the country and takes seriously the responsibility to ensure its integrity and safety.

A potential environmental impact associated with the delivery of natural gas is the emission of methane, a greenhouse gas that is 21 times more potent than CO₂ in terms of its greenhouse impact. PG&E is working toward conducting a formal inventory of our entity-wide methane emissions as part of our membership in the California Climate Action Registry. But, even before this inventory is completed, we are continuing to take steps to reduce our methane emissions. For example, in 2004, as part of our participation in the U.S. Environmental Protection Agency's Natural Gas Star Partnership, we replaced more than 50 miles of pipeline, reducing methane leaks by an estimated 190 tons per year, or 3,981 tons of CO₂-equivalent.

In addition to reducing greenhouse gas emissions associated with the delivery of natural gas, PG&E promotes policies and programs to reduce natural gas demand through weatherization. Now in its twentieth year, the Energy Partners program targets low-income, senior citizen, and disabled members of our communities to help them reduce their energy needs, thereby reducing their energy costs. Over the course of the program, PG&E employees have weatherized more than 800,000 homes, saving approximately 3,443.7 MMcf of natural gas and avoiding more than 138,000 tons of CO₂, 80 tons of NO_x, and 49 tons of SO_x in the process.

Maintaining Reliability in an Environmentally Responsible Way

PG&E employees work 24 hours a day, 7 days a week maintaining, repairing, and operating our generation and delivery systems. Sometimes these activities have an impact on the surrounding natural environment. PG&E has put in place programs, policies, and action plans that enable our employees to do their jobs efficiently and responsibly, while ensuring that when environmental impacts are unavoidable, they are minimized.

PG&E Continues to Address Climate Change (continued)

8 percent of our fleet. Also, in 2004 PG&E worked with the Stanislaus County Public Works Department in Modesto to open a compressed natural gas fueling station, which will serve seven new Orion natural gas-fueled transit buses. PG&E's policy of using company NGVs in its fleet was recognized by the Clean Vehicle Education Foundation and the Natural Gas Vehicle Coalition in the form of the Natural Gas Vehicle Achievement Award.

- As a Charter Member of the U.S. Environmental Protection Agency's Voluntary Sulfur Hexafluoride (SF₆) Emission Reduction Partnership, PG&E continued to identify ways to reduce the leak rate of SF₆ associated with insulating our electrical transmission and distribution equipment. Since 1998, we have reduced our leak rate by more than 50 percent and our absolute emissions of SF₆ by approximately 40 percent. Achieving these reductions is significant because SF₆ is an extremely potent greenhouse gas, approximately 24,000 times as potent as CO₂. PG&E is also working through the Registry to certify our SF₆ emissions for 2004, using the Registry's rigorous protocol and reporting standards. And, finally, in 2004 PG&E lent technical expertise to the United Nations Intergovernmental Panel on Climate Change's SF₆ Work Group, which will inform measurement and reporting activities of country governments as well as international entities.
- PG&E continued its active participation in the Clean Energy Group (CEG), a coalition of energy companies dedicated to promoting environmentally progressive policies at the national and regional levels. The CEG is promoting national standards for reducing emissions from power plants, including CO₂, by taking a market-based, cap-and-trade approach to emissions reductions that rewards efficiency and encourages the use of low- and non-emitting resources.

PG&E Takes Action to Address Historical Environmental Impacts

PG&E's natural gas delivery system is composed of more than 6,100 miles of transmission pipelines, 41 compressors that propel the gas through these pipelines, and almost 41,000 miles of distribution pipelines that deliver the gas to homes and businesses. These 41 compressors are located throughout northern and central California, many in remote areas. From 1951 until 1964, at the Topock Compressor Station located along the Colorado River in San Bernardino County, untreated wastewater from the station's cooling towers, containing the corrosion-inhibitor hexavalent chromium, was discharged into percolation beds near the facility. Beginning in 1964, the wastewater was treated to remove chromium and the treated water was disposed of by various methods over time, including the use of lined evaporation ponds and an injection well. In 1989, the U.S. Environmental Protection Agency completed a RCRA Facility Assessment of the Topock Compressor Station. In 1996, PG&E and the California Department of Toxic Substance Control (DTSC) entered into a Corrective Action Consent Agreement (CACA), whereby, among other things, PG&E agreed to address past waste discharges.

Since the CACA was executed, PG&E has been working cooperatively with local, state, and federal regulators and other interested parties to address and responsibly resolve the issue of groundwater contamination at and around the facility. Most important, PG&E is committed to protecting the Colorado River by ensuring that groundwater does not reach the river. PG&E has been testing water in the Colorado River since 1997, and hexavalent chromium has never been detected there. In March 2000, a Consultative Working Group (CWG) was formed to advise the DTSC, the lead regulatory agency on this project. The CWG currently includes representatives from the Regional Water Quality Control Board, the Metropolitan Water District (MWD), the U.S. EPA, and numerous Department of the Interior agencies.

One of the actions emanating from PG&E's work with the CWG and the DTSC was the installation and implementation of an extensive monitoring system to test groundwater concentrations of hexavalent chromium and to monitor the extent of the plume.

In March 2004, after the monitoring system detected chromium in a well 60 feet from the river, the company quickly constructed a temporary groundwater

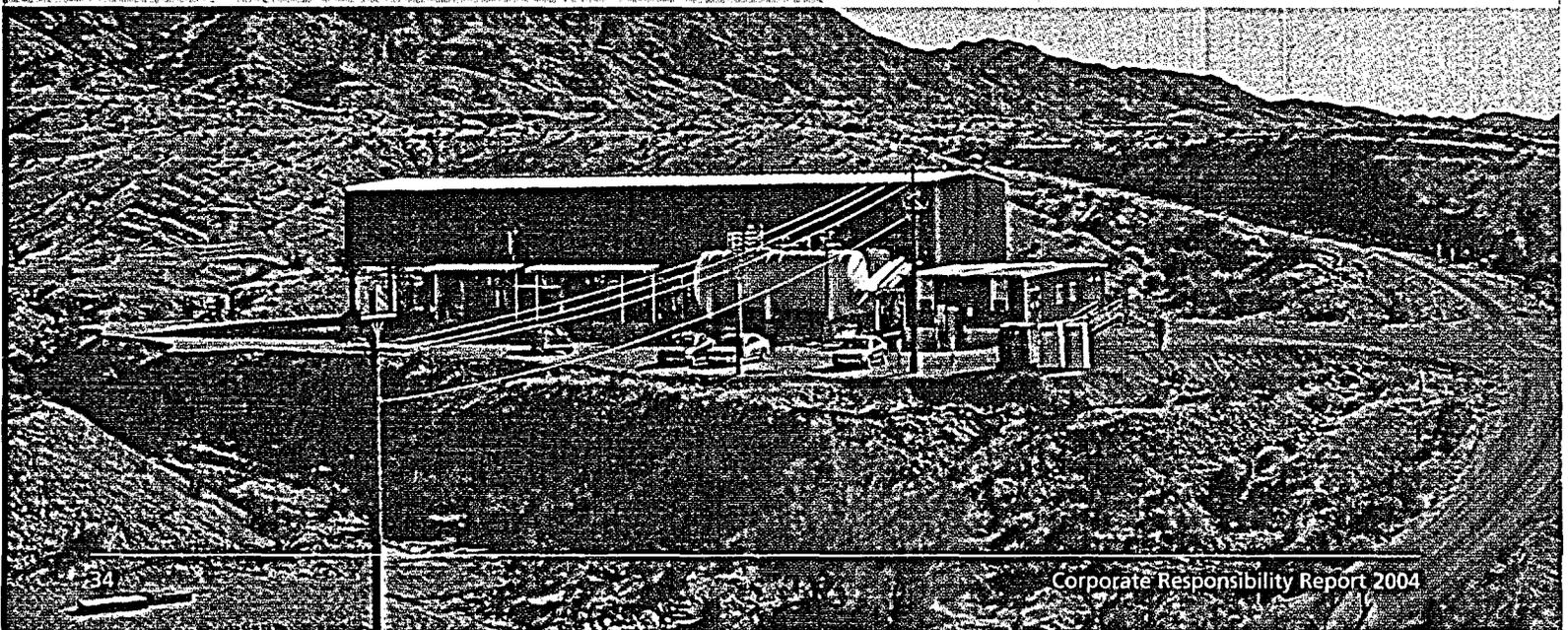
extraction system that began extracting about 20 gallons per minute. Frequent field measurements show the extraction system has been successful in maintaining hydraulic control of the plume.

The company is currently constructing an expanded treatment system to provide for significantly higher rates of extraction of groundwater and ensure continued capture of the groundwater plume during all river conditions. The expanded system, while an interim measure, will help ensure that the groundwater in the area does not reach the Colorado River.

PG&E is continuing to work with the DTSC, the MWD, tribal sovereign nations, and other interested parties to complete the full evaluation of the site and determine the most prudent long-term course of action to complete the groundwater remediation.

PG&E is working diligently with the local, state, and federal agencies and neighboring tribal sovereign nations to complete the treatment system quickly to ensure the ongoing remediation of groundwater near the Colorado River and to prevent any potential that chromium contamination might reach the river. PG&E is also working diligently to address various cultural and religious concerns raised by the Mojave Tribe regarding the remediation facilities.

PG&E's IM3 Groundwater Treatment Facility at Topock.



Pipes and Wires

PG&E's 141,650 miles of electric transmission and distribution lines and 46,200 miles of natural gas lines require that we find innovative and responsible ways to address habitat and natural resource issues. PG&E has forged many partnerships and has worked cooperatively with local, state, and federal agencies responsible for implementing endangered species laws, resource management regulations, and air and effluent emissions. Some examples of activities undertaken in 2004 include the following:

- As part of our Migratory Bird Protection Program, established through a settlement agreement with the U.S. Fish and Wildlife Service (USFWS), PG&E retrofitted 2,023 utility poles with equipment to minimize potential danger to birds, exceeding the settlement agreement target by approximately 24 poles. PG&E also retrofitted approximately 2,200 additional utility poles as a direct result of identifying equipment damage resulting from bird-related activity and/or collisions. This latter accomplishment was made possible as a result of our extensive monitoring and reporting system, which allows us to identify and classify incidents involving birds and take remedial action.
- PG&E worked closely with USFWS and the California Department of Fish and Game to create a safe and appealing alternative nest site for a pair of ospreys that had made a home on a PG&E distribution pole near high voltage lines. The original nest was causing outages on our electric system, affecting nearly 800 customers.
- Public meetings were conducted in conjunction with our proposed Habitat Conservation Plan (HCP) for endangered species in the San Joaquin Valley. These meetings, sponsored by the jurisdictional regulatory agencies, provided opportunities for community members and other interested parties to comment on our comprehensive, multispecies HCP, which covers 66 federally and state-recognized endangered wildlife and plant species. PG&E anticipates final approval of this HCP in 2006, allowing us to more efficiently maintain and enhance our electric and natural gas infrastructure in the San Joaquin Valley, while protecting potentially vulnerable species populations.

Hydroelectric Generation

California's hydroelectric power facilities are vital, non-emitting resources that provide Californians with anywhere from 10 percent to 20 percent of their electricity needs annually (depending on hydrologic conditions). Hydroelectric power facilities also have the potential to affect some of California's most precious resources—its rivers. The management and care of these facilities are, therefore, critical to California's continued economic growth and air quality agenda, as well as the quality of its river environments.

California faces more relicensing of existing hydroelectric projects in the next decade than any other state, with approximately 150 dams with licenses set to

Peregrines Return and PG&E Helps Make Them Feel at Home

Peregrine falcons were pushed almost to the point of extinction in the 1970s, as a result of the heavy use of DDT and other pesticides, which weakened their eggshells. Since DDT was banned in 1972, the peregrine population in California has risen from 2 pairs to more than 220 pairs. PG&E is fortunate to provide habitat to some of these peregrines at the Utility's headquarters building in San Francisco. In 2003, a pair of peregrines created a nest



San Francisco Chronicle

on a ledge of the 33rd floor. This pair produced two offspring, which successfully fledged in 2004. The chicks were banded by the Santa Cruz Predatory Bird Research Group (SCPBRG), which was formed in 1975 to restore the peregrine falcon population in California.

The Utility has teamed with scientists from the SCPBRG to look after the birds, which includes altering some building maintenance and operating practices to maintain a "friendly" environment. The Utility also worked with the SCPBRG to establish a "peregrine cam," which has an associated website that allows the SCPBRG to monitor their activities and the public to view these awesome creatures. In 2005, PG&E will make a \$30,000 donation to the SCPBRG to help offset the operating costs of the "peregrine cam" and the website, and to help fund the SCPBRG's educational outreach program.

Preserving Lands for Future Generations

As a part of an agreement with the California Public Utilities Commission, PG&E created the Pacific Forest and Watershed Lands Stewardship Council.



The Stewardship Council is an independent not-for-profit corporation that will oversee the preservation and the beneficial public use of approximately 140,000 acres of company-owned watershed lands in the Sierra Nevada and Cascade mountains, and approximately 655 acres in the Carizzo Plains. The watershed lands are generally associated with PG&E's hydroelectric generation system and are located in 22 counties from the Hat Creek, Pit, and McCloud rivers in the north to the Kern River in the south.

In 2004, PG&E took steps to begin the process of either donating or creating conservation easements to permanently



expire over that time frame. PG&E is the largest private owner and operator of hydroelectric power in California, as well as in the United States. PG&E holds 26 hydro licenses with the Federal Energy Regulatory Commission (FERC), the second most in the country. When the 30- to 50-year licenses approach the end of their term, a licensee has the option to embark on a rigorous renewal process that requires at least five years, and often much longer, to complete. The relicensing process focuses primarily on assessing and mitigating effects on natural resources. The process is designed to involve resource agencies, nongovernmental organizations, and other stakeholders every step of the way.

In the past four years, the Utility has successfully completed six hydro relicensings. In the process, the Utility has established itself as a national leader in utilizing public collaborative processes to develop sustainable, balanced solutions to complex natural resource issues, while preserving the benefits of hydropower for its electric customers. In addition to these, nine of the Utility's hydroelectric projects are currently in relicensing, including one for which we volunteered to participate in FERC's new Integrated Licensing Process. In a span of a little more than a decade, more than half of the Utility's hydroelectric projects will have received new licenses, bringing them into alignment with current priorities for natural resource use and protection, and substantially enhancing California's river environments.

For example, in 2004, PG&E reached a landmark agreement with resource agencies, conservation organizations, recreation groups, Plumas County, and other stakeholders to enhance fish and wildlife habitat, maintain Lake Almanor water levels, monitor water quality, and develop recreational facilities at the Utility's Upper North Fork Feather River hydroelectric project located in Plumas County. The signing of the negotiated settlement marked an important step toward providing for the electrical needs of PG&E's customers and establishing enhanced flows, which will be beneficial to the fisheries and water levels in Lake Almanor for decades to come.

In addition, at our Hat Creek and Pit 1 hydroelectric projects in Shasta County, PG&E took steps, as a result of relicensing agreements reached in 2002 and 2003, to protect the endangered Shasta crayfish and its habitat. PG&E is working collaboratively in this effort with the Shasta Crayfish Recovery Team, which includes representatives of regulatory agencies, academia, and members of the community.

Efforts such as these and others have garnered prestigious awards, including the National Hydropower Association's Outstanding Stewardship of America's Rivers Award in 2003 and 2004, California Trout, and others. In addition, in 2004, the California Department of Fish and Game adopted a bald eagle survey protocol developed by PG&E biologists in conjunction with the company's hydroelectric relicensing activities.

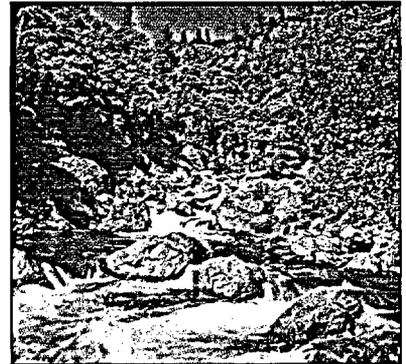
Serving Our Customers More Efficiently and Educating Them About Environmentally Responsible Alternatives

PG&E is committed to finding new and environmentally sensitive ways to meet our customers' energy needs and to serve them better. This includes educating customers about ways to reduce electricity and natural gas demand, providing customers with opportunities to self-supply power using renewable resources and clean energy technologies, and helping customers save time and minimize waste. Efforts to achieve these goals in 2004 included the following:

- Hosting a seminar for almost 100 of PG&E's largest commercial customers at our Pacific Energy Center, in San Francisco, to educate them about the latest advancements in office building technology. Participants included office building managers and engineers who were interested in exploring the most current innovations in energy efficiency, many of whom had previously participated in PG&E rebate programs. The seminar provided these customers with tangible ways to increase the efficiency of their buildings, thereby reducing overall energy consumption, saving money, and helping the environment.
- Working with customers to identify and implement projects through our Self-Generation Incentive Program (SGIP). In 2004, PG&E worked with 118 customers to install more than 27 megawatts of on-site clean and renewable distributed generation. As a result of this program, not only did PG&E enable these customers to self-generate almost 90,571 megawatt-hours of electricity using clean and renewable technologies, but these customers also received cash rebates totaling more than \$52.4 million. For example, Sonoma County's St. Francis Winery and Vineyards installed a 457 kilowatt solar electrical system that will generate more than 40 percent of the winery's energy needs. The solar electrical system qualified for a \$1.3 million rebate under PG&E's SGIP (see page 5 for more details).
- Instituting an online bill presentment, payment, and customer account management service, in response to customer suggestions and employee feedback. Customers can access the following functions from the Utility's website: schedule one-time or automatic payments; view, print, and save monthly statements; view usage and payment history; and analyze bill history. This program not only provides our customers with flexibility, but also saves paper, energy, and water; minimizes waste; and reduces costs. As of the end of 2004, 150,000 customers had enrolled in e-Bills, resulting in a savings of 21 tons of paper (which equates to approximately 504 trees and 23.9 tons of avoided solid waste) and 430,900 gallons of water (as measured by avoided mean effluent flow). PG&E's goal is to double the number of customers participating in e-Bills, with a target of attracting more than 300,000 customers by the end of 2005. (In addition, PG&E has been printing its bills double-sided on 30 percent post-consumer-waste paper for the past six years. To further reduce paper use, in 2004, the weight of the paper used was reduced from 24-pound to 20-pound paper.)

Preserving Lands for Future Generations (continued)

preserve and enhance these lands for future generations of Californians. As we do so, we are also taking into consideration a variety of factors, including the



protection of the natural habitat of wildlife, fish, and plants, the preservation of open space, sustainable forestry, agricultural uses, outdoor recreation by the public, and historic values.

The Stewardship Council is guided by an 18-member advisory body that recommends long-term preservation and enhancement plans for the watershed lands. The board of directors represents a range of diverse interests, including the CPUC, California environmental agencies, organizations representing underserved and minority constituencies, agricultural and business interests, and public officials.



Employee Actions Making a Difference

PG&E encourages and recognizes employees who identify and promote new environmentally superior techniques and practices, and who strive to implement best practices and standards as identified by third parties.

In 2004, the Richard A. Clarke Environmental Leadership Awards were presented to an individual and a team whose actions took the company beyond compliance and enhanced operational performance, and did so in partnership with local, state, and/or federal stakeholders.

Richard A. Clarke was Chairman and CEO of Pacific Gas and Electric Company from 1986 to 1995. He led the company to a new level of corporate environmental leadership at a time when few corporations made environmental considerations a high priority.

Diane Ross-Leech

Diane Ross-Leech, Manager of Species Protection in the Utility's Environmental Affairs Department, is the originator and organizational head of PG&E's effort to develop multi-species Habitat Conservation Plans that will allow PG&E to perform the work necessary to provide reliable and cost-effective service to our customers, and to do so in a way that minimizes the impact on our natural environment. Species protection, as envisioned by Diane, starts with the mastery of underlying laws and regulations and recognizes the importance of both understanding and working with parties affected by and concerned about PG&E's activities. Diane's collaborative and innovative approach to habitat and species protection has positioned PG&E as a leader in the field of creative species protection.

On Diane's behalf, the company made a \$5,000 contribution to the Golden Gate Chapter of the Audubon Society.

Mokelumne Natural Resources Stewardship Team

Environmental leadership and compliance is a major focus of the Utility's hydroelectric team, and includes rigorous public, regulatory, and nonprofit stakeholder partnership efforts. In 2004, the Utility's Mokelumne Natural Resources Stewardship Team was honored with the Richard A. Clarke Environmental Leadership Award for its success in working with Mokelumne River stakeholders to reach an agreement for operating and maintaining our Mokelumne River hydroelectric system.

Key to the team's success was their innovative approach to working collaboratively with stakeholders to achieve environmental and recreational benefits, along with reliable electricity for Californians. The Mokelumne River Natural Resources Stewardship agreement was ultimately approved as part of the Federal Energy Regulatory Commission's relicensing process and received local and national recognition. For example, PG&E was recognized by the National Hydropower Association for outstanding environmental stewardship of the Mokelumne River in 2003 and 2004.

On the team's behalf, the company made a \$5,000 contribution to the Foothill Conservancy. The Foothill Conservancy will use the funds to carry out stream restoration projects on the upper Mokelumne River. This donation makes a significant contribution to Foothill Conservancy's efforts to restore, protect, and sustain the natural and human environment in Amador and Calaveras counties.



- Creating an incentive program that encourages agricultural customers to convert internal-combustion-engine-powered irrigation pumps, which are significant sources of air pollution, to electric-powered alternatives. The program grew out of a collaborative partnership with the agricultural community and local and regional air quality regulators and environmental officials. There are more than 5,700 internal-combustion-engine-powered pumps used for irrigation in California's Central Valley, and they have been identified as significant contributors to the region's poor air quality. For example, during the summer of 2003, the California Air Resources Board estimated that these pumps accounted for almost 23 percent of the total NO_x and 17 percent of the total particulate matter emitted from stationary fuel combustion sources located in the Central Valley. Approval for implementing this program, which will facilitate the early retirement of these pumps and their replacement with electric-powered alternatives, is pending before the California Public Utilities Commission.

Measuring Our Performance

To ensure that we are both meeting current objectives and identifying ways in which we can do better, PG&E's Environmental Affairs team is continually working to find more accurate and understandable metrics to allow us to measure our performance, report on progress, and communicate our efforts. A prime example is our efforts with the California Climate Action Registry. In 2004, we completed a full inventory of our 2002 and 2003 CO₂ emissions and began work on an inventory for our entity-wide methane emissions.

In addition, we are working with the Registry to develop accurate and consistent protocols for reporting on efficiency metrics along with our inventories. One such metric will allow electric companies to present greenhouse gas emissions per megawatt-hour of delivered electricity. This will allow for easy comparison of a power company's climate impact, regardless of the company's size. It will also enable tracking of carbon intensity over time, complementing existing emissions reporting to paint a fuller picture of a company's environmental performance.

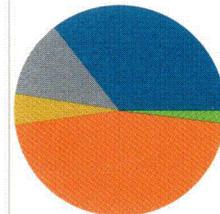
Also in 2005, PG&E will undertake a review of the environmental performance metrics included in this report to determine if there is additional information that can be presented, how best to communicate year-over-year trends, and how to incorporate additional benchmarking.

2002–2004 Environmental Performance Summary

Since 1997, PG&E has tracked its environmental performance across a set of performance metrics on an annual basis to allow us to compare how we are doing from one year to the next and to identify trends. The following tables summarize PG&E's quantitative results in those performance areas. Select environmental performance data are also shown normalized to megawatt-hours generated to provide comparability with others in the industry. These data represent PG&E operations at facilities owned and leased; they do not reflect electricity controlled through contracts or facilities over which we do not have management control.

2003 Entity-Wide CO₂ Emissions

842,000 tons CO₂



- Electric Generation Gas and Oil Use 45.8%
- PG&E's Electricity Use (all depts.) 4.9%
- Mobile Sources (fleet) 11.9%
- Compressor Stations 35.4%
- PG&E's Gas Use 1.8%

CO3

Environmental Performance Summary Tables (2002-2004)

Emissions Statistics

Indicator	2002	2003	2004
Total NO_x Emissions from owned generation (tons)	1,013	512	942
NO_x Emissions Rates (lbs/MWh)			
Fossil Plants	2.22	1.84	1.89
All Plants	0.07	0.03	0.07
Total SO₂ Emissions from owned generation (tons)	8.08	7.29**	7.43
SO₂ Emissions Rates (lbs/MWh)			
Fossil Plants	0.0177	0.026	0.015
All Plants	0.00058	0.00047	0.00054
Total CO₂ Emissions from owned generation (tons)	630,532 *	385,581 *	657,376
CO₂ Emissions Rates (lbs/MWh)			
Fossil Plants	1381.23 *	1389.48 *	1320.03
All Plants	47.47 *	25.01 *	47.99
Total SF₆ Emissions from electrical equipment (pounds)	10,061	9,330	11,552
Total SF₆ Emissions (Tons CO₂-equivalent)	120,229	101,128	125,212

* Information from the *First Annual Corporate Responsibility Report* for 2002 and 2003 was updated based on certification of entity-wide CO₂ emissions inventory, which occurred in 2004.

** Values for 2003 revised based on refinement of previously available data.

Greenhouse Gas (GHG) Emissions Avoided (Tons CO₂-equivalent)

Indicator	2002	2003	2004
Total GHG Avoided	2,847,572	2,956,549	3,170,538
CO ₂ Avoided	2,768,381	2,913,923	3,166,557
Methane Avoided	79,191	42,626	3,981

Energy Savings

Indicator	2002	2003	2004
Energy Savings			
Kilowatts (peak)	1,194	1,243	1,324
Gigawatt-hours (total)	5,291	5,569	6,052
Thousand Therms	159,823	149,513	146,063
Emissions Avoided (Customer Energy Efficiency)			
CO ₂ Avoided (tons)	2,768,381	2,913,923	3,166,557
NO _x Avoided (tons)	1,593	1,676	1,822
SO _x Avoided (tons)	974	1,025	1,114

Clean-Air Transportation

Indicator	2002	2003	2004
Avoided NO _x emissions (tons)	415	474	597
Avoided PM emissions (tons)	27	31	39
Avoided CO ₂ emissions	17,753	20,300	25,562
Equivalent Gasoline Gallons displaced (x 1,000)	10,317.4	11,797.6	14,855.4

Compliance Data

Indicator	2002	2003	2004
Notices of violation (NOVs)	10	11	10
Rate of NOVs (per 100 inspections)	2.7	2.83	2.19
Releases/Exceedances	329	292	255
Penalties Paid	\$1,225	\$5,239,377	\$43,049

Hazardous and Nonhazardous Waste

Indicator	2002	2003	2004
Kilograms PCB Waste >50 ppm PCB			
Incineration	333,272	589,383	544,295
Metal Salvage	33,188	36,617	31,428
Landfill	1,453,857	1,627,063	671,375
Total	1,820,317	2,215,179	1,247,098

Kilograms of PCB Waste <50 ppm PCB			
Incineration	343,598	537,681	371,170
Metal Salvage	6,959,701	7,973,432	7,371,347
Landfill	49,029,339	490,075	113,679
Total	56,332,638	9,001,188*	7,856,196

RCRA Haz Waste Generated (tons)	183	322	14,621
Recycled (tons)	51	93	14,327**
% Recycled	28	29	98
Universal Waste Generated (pounds)	136,880	235,580	237,837
Recycled (pounds)	136,880	235,580	237,837
% Recycled	100	100	100

* Error corrected from 2003 Corporate Responsibility Report Summary Tables. Column was totalled incorrectly.

** More than 97 percent of the hazardous waste generated during 2004 consisted of groundwater extracted to maintain hydraulic control of a chromium-containing plume at PG&E's Topock Compressor Station. The extracted groundwater was treated at a licensed off-site facility to become a nonhazardous waste stream.

In producing this report, we took steps to minimize environmental impacts, promote supplier diversity, and support businesses in our utility service territory. With these goals in mind, we selected:

- Low-VOC soy-based inks and process chlorine-free paper manufactured from 100% post-consumer waste. This paper is produced using wind-generated energy and is certified by Green Seal and by SmartWood, an affiliate of the Rainforest Alliance.

- A printer and graphic designer that are WMDVBE-certified businesses.
- An environmentally sensitive printer that is a Pacific Gas and Electric Company gas customer.



One Market, Spear Tower
Suite 2400
San Francisco, CA 94105
www.pgecorp.com

 100% Post-Consumer Waste.
Copyright © 2005. All rights reserved, PG&E Corporation.

