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U.S. ATOMIC ENERGY COMMISSION
Regulatory
Mail Section

UNITS 1 AND 2

DIABLO CANYON SITE

OPERATING LICENSE APPLICATION

DOCKET NOS. 50-275, 50-323

5327

BEFORE THE UNITED STATES ATOMIC ENERGY COMMISSION

In the Matter of PACIFIC GAS AND ELECTRIC COMPANY Units 1 and 2 Diablo Canyon Site	)	Docket Nos. 50-275 50-323

In accordance with the Atomic Energy Act of 1954, as amended, and the rules and regulations issued thereunder, PACIFIC GAS AND ELECTRIC COMPANY (hereinafter called "PGandE") herein seeks from the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called "AEC") (i) a 40-year Class 104 b. license to operate Units 1 and 2 at its Diablo Canyon Site, San Luis Obispo County, California (hereinafter called "the Units"), and (ii) appropriate source, byproduct, and special nuclear material licenses for the Units. In support of this application PGandE alleges as follows:

1. PGandE, a California corporation, 77 Beale Street, San Francisco, California 94106, is an operating public utility engaged principally in the business of furnishing electric and natural gas service throughout most of northern and central California. PGandE is not owned, controlled, or dominated by an alien, a foreign corporation, or a foreign government. All of PGandE's directors and principal officers are citizens of

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[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

the United States. The names of PGandE's principal officers, all but one of whom* are located at 77 Beale Street, San Francisco, California 94106, are as follows:

Name	Title
S. L. Sibley	Chairman of the Board and Chief Executive Officer
John F. Bonner	President
Richard H. Peterson	Vice Chairman of the Board
Robert H. Gerdes	Chairman of the Executive Committee
J. D. Worthington	Senior Vice President
D. L. Bell	Vice President - Finance
H. P. Braun	Vice President - Electric Operations
Joseph Y. De Young	Vice President - Commercial Operations
Robert R. Gros	Vice President - Public Relations
Ellis B. Langley	Vice President - Division Operations
F. F. Mautz	Vice President - Engineering
F. W. Mielke, Jr.	Vice President and Assistant to the Chairman of the Board
R. K. Miller	Vice President - Personnel and General Services
F. A. Peter	Vice President and Comptroller
John F. Roberts, Jr.	Vice President - Rates and Valuation
F. T. Searls	Vice President and General Counsel
C. H. Sedam	Vice President - General Construction
B. W. Shackelford	Vice President - Planning and Research
E. F. Sibley	Vice President - Gas Operations
John A. Sproul	Vice President - Gas Supply
J. F. Taylor	Secretary
T. M. Welp	Treasurer

*Mr. Sproul's office is located at 245 Market Street San Francisco, California 94106.

The names and addresses of PGandE's directors are as follows:

Name	Address
John F. Bonner	77 Beale Street, San Francisco, California 94106
Ransom M. Cook	464 California Street, San Francisco, California 94120
C. Raymond Dahl	1 Bush Street, San Francisco, California 94119
Charles de Bretteville	400 California Street, San Francisco, California 94120
Rudolph J. Drews	Crocker Plaza, 1 Post Street, San Francisco, California 94104

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to

Name	Address
Alfred W. Eames, Jr.	215 Fremont Street, San Francisco, California 94119
Robert H. Gerdes	77 Beale Street, San Francisco, California 94106
Walter A. Haas	98 Battery Street, San Francisco, California 94104
James M. Hait	P. O. Box 760, San Jose, California 95106
Leon S. Peters	2510 Southeast Avenue, Fresno, California 93706
Richard H. Peterson	77 Beale Street, San Francisco, California 94106
Porter Sesnon	2 Pine Street, San Francisco, California 94105
S. L. Sibley	77 Beale Street, San Francisco, California 94106
Emmett G. Solomon	1 Montgomery Street, San Francisco, California 94120

2. The thermal power ratings of the Units are 3338 MWt and 3411 MWt, respectively. The corresponding net electrical outputs are 1084 MWe and 1106 MWe, respectively. The scheduled completion date for Unit 1 is August 1, 1974, and the anticipated commercial operation date is March 1, 1975. The corresponding dates for Unit 2 are August 1, 1975 and March 1, 1976, respectively.

3. The Units are to be used for the generation of electric energy. Other licenses, except operators' licenses, herewith applied for include whatever source, byproduct, and special nuclear material licenses are required to operate the Units.

4. The estimated annual operating cost of the Units, exclusive of fixed charges on capital investment, is $34 million. The estimated cost of permanently shutting down the Units and

maintaining them in a safe condition, based upon present costs and assuming a minimum of equipment removal, is $20 million. Attached hereto as Exhibit A is a copy of PGandE's 1972 Annual Report. PGandE believes that the financial information contained therein indicates that PGandE possesses or has reasonable assurance of obtaining the funds necessary to pay the above costs.

5. The technical information required by 10 CFR 50.34 is set forth in eight volumes entitled

"Final Safety Analysis Report
Units 1 and 2
Diablo Canyon Site
Pacific Gas and Electric Company"

forwarded separately as Exhibit B and made a part hereof.

6. This application does not contain any Restricted Data. PGandE will not permit any individual to have access to Restricted Data until the Civil Service Commission shall have made an investigation and report to the AEC on the character, associations, and loyalty of such individual, and the AEC shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security.

7. An environmental report covering the Units was filed August 9, 1971, and three supplements thereto were filed November 9, 1971, July 28, 1972, and August 25, 1972 to comply with Appendix D to 10 CFR 50. Appendix X to the Environmental Report was filed June 13, 1973. The matters described in paragraphs A. 1-5 of Appendix D to 10 CFR 50 were included in the

Environmental Report as supplemented. No significant change requiring additional coverage of such matters has since occurred, and the Environmental Report as supplemented is hereby incorporated by reference.

8. It is requested that all orders, notices, papers, or other communications issued by the AEC in connection with this application be mailed or delivered to:

Frederick T. Searls
Vice President and General Counsel
Pacific Gas and Electric Company
77 Beale Street
San Francisco, California 94106

WHEREFORE, PGandE prays that the AEC issue (i) a license authorizing PGandE to operate Units 1 and 2 at its Diablo Canyon Site and (ii) such byproduct, source, and special nuclear material licenses as may be necessary to operate the Units.

Subscribed in San Francisco, California, this

______ day of __________, 1973.

Respectfully submitted,

PACIFIC GAS AND ELECTRIC COMPANY

By______________________________
J. D. Worthington
Senior Vice President

FREDERICK T. SEARLS
JOHN C. MORRISSEY
PHILIP A. CRANE, JR.
Attorneys for Pacific Gas
and Electric Company

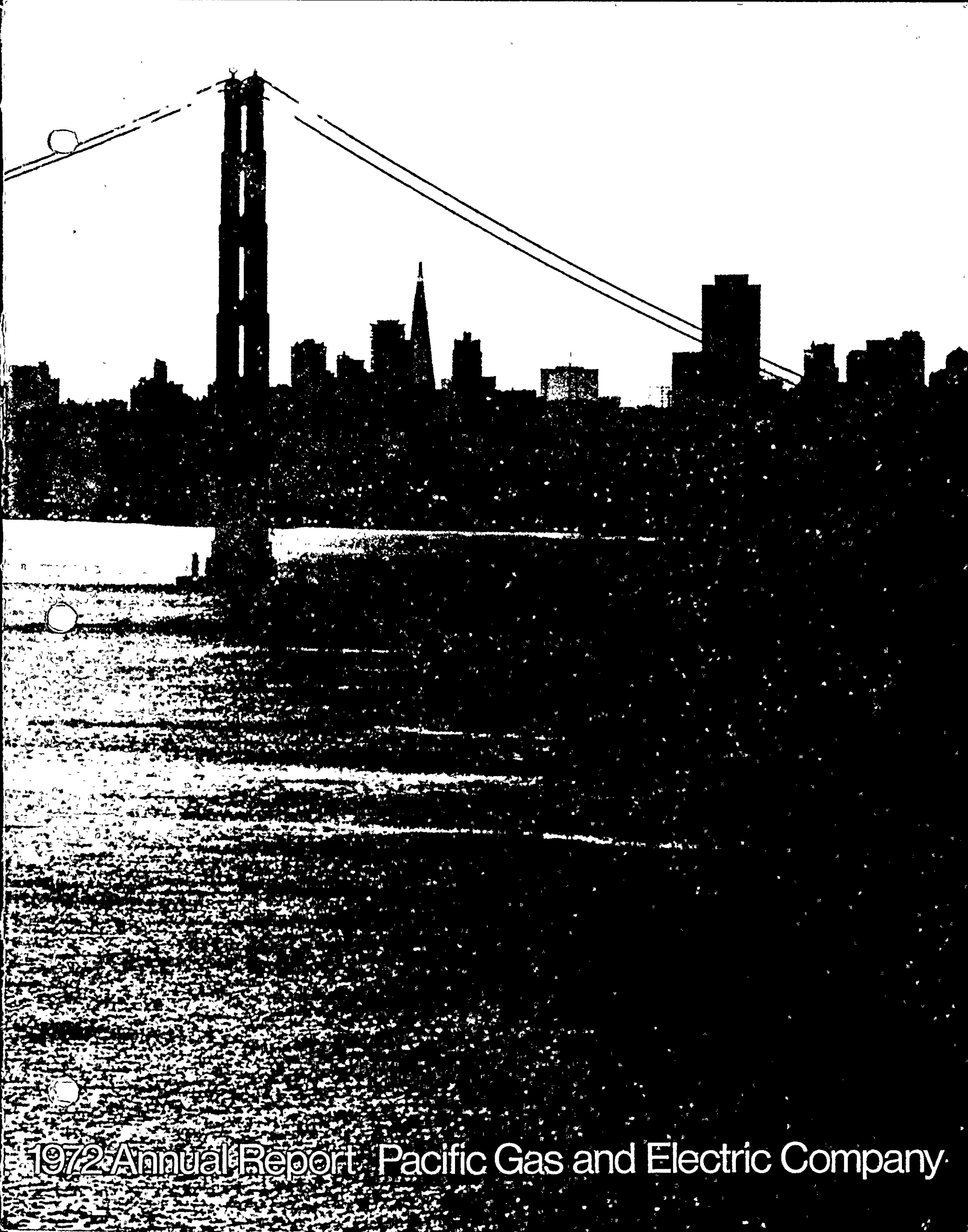
By_______________________
Philip A. Crane, Jr.

Subscribed and sworn to before me
this ______ day of _________, 1973

_____________________________(SEAL)
Theodora Cooke, Notary Public in
and for the City and County of
San Francisco, State of California

My Commission expires January 28, 1977

EXHIBIT A



1972 Annual Report Pacific Gas and Electric Company

COVER

A golden dawn breaks over the Bay Area, commercial center of PG&E's service territory, silhouetting San Francisco and the Golden Gate Bridge.

CONTENTS

1

To Stockholders:

Earnings per share of common stock for 1972 were $3.02, an increase of 27 cents, or 10%, over 1971. In recognition of the increased earnings and the higher investment per share on the part of the common stockholders, the common stock dividend was increased in January to 44½ cents per share, effective with the April 16, 1973 payment. This was an increase of 1½ cents per share over the quarterly rate in effect since the first quarter of last year, bringing the annual rate to $1.78 per share.

The Board of Directors on January 17, 1973 authorized the issuance, on a rights basis, of 4,072,409 shares of common stock in the ratio of one share for each 15 held as of March 6.

In February 1972 the Company applied to the California Public Utilities Commission for authority to increase its gas rates in order to meet increased operating expenses and provide a reasonable return on the Company's investment in gas facilities. In December 1972 the Commission authorized the Company to increase its gas rates by $48.2 million annually. The new rates became effective January 3, 1973.

In February 1973 the Commission authorized the Company to incorporate in its electric rate schedules a provision permitting adjustments to reflect changes in the cost of fuel.

A new electric system peak demand of 10.5 million kilowatts occurred on July 14, 1972, and during the year the total system output reached a record total of 59.1 billion kilowatt hours. The daily sendout of natural gas reached a record 3.9 billion cubic feet, and the total gas sendout for the year was about one trillion cubic feet.

The Company continued to meet its growing electric power demands with adequate reserves. At the time of the peak last summer, the Company had approximately 1,600,000 kilowatts of generating capacity in reserve. In the latter half of the year, the Company completed a 735,000 kilowatt fossil-fueled addition to its Pittsburg plant and two units totaling 106,000 kilowatts of geothermal generating capacity. The Company has about 3 million kilowatts currently under construction or scheduled for completion by the end of 1977, including two 1,060,000 kilowatt nuclear units, on which good progress is being made. With the completion of this program, together with purchases from others under existing contracts, our electric demands for the next several years will be well provided for.

The challenge that we face in respect to providing adequate and reliable sources of power relates to the last years of this decade, and the next. Difficulties will undoubtedly be encountered in securing sites for large, modern plants with adequate supplies of cooling water and, in the case of fossil-fueled plants, adequate fuel supplies as well. As explained in our letter to stockholders for the fourth quarter, the Company in January of 1973 withdrew its application for construction of two large nuclear units at its Mendocino coastal site, which were scheduled for completion in 1979 and 1980 (see page 10). Studies are currently under way to replace this capacity with other types of plants which can be completed in the time required.

For the 1980's, construction of additional nuclear, fossil-fuel and geothermal units, and a pumped-storage hydroelectric project are planned. The Company believes that the development of nuclear power generation, preferably at coastal sites where unlimited supplies of cooling water are available, is the most promising long-range solution to the problem of meeting the major part of our growing power demands with a minimum impact on the environment.

S. L. Sibley, Chairman of the Board and Chief Executive Officer

A shortage of natural gas exists in many parts of the United States, and is now affecting the availability of gas to our fossil-fueled generating plants and our interruptible industrial customers. However, the Company has adequate supplies for its residential and other firm customers for the next several years. Through its subsidiaries, the Company is seeking additional sources of natural gas in the Rocky Mountain area of the United States, in Canada and in Alaska. The Company is also studying the feasibility of synthesizing natural gas from petroleum feedstocks, investigating the possibility of importing liquefied natural gas, and supporting joint industry-government research to develop improved methods of gasifying coal. Each of these potential incremental supplies of gas will be far more costly than present supplies because of the great distances or new technologies involved in bringing this gas to market. It is anticipated that these higher costs will be reflected in customer rates in a timely manner.

The rich and varied resources of Northern and Central California have long sustained a diverse and healthy economy in the Company's service area. The abundant and reliable sources of energy which PG&E has developed have been an important element in the economic strength of this area. To maintain and develop adequate and environmentally desirable sources of electric energy, the Company, in addition to carrying out an extensive research program with its own scientists and engineers, is supporting an expanded research and development program by the electric industry. An important part of the industry program is the development of a commercial "fast breeder" nuclear reactor.

The Company will continue the timely development of additional energy supplies provided unrealistic barriers are not placed in the way. These supplies will be required to meet the energy needs of the Company's new customers and the additional demands for energy of its existing customers. In meeting these growing requirements for energy, the Company will continue to be aware of its environmental responsibilities. PG&E is confident that, with the understanding of the public and the cooperation of government, it will be able to strike a proper balance between environmental protection and energy supply, and will be able to maintain the same high degree of reliable service that it has furnished in the past.

In the July Board of Directors meeting the undersigned was elected Chairman of the Board and Chief Executive Officer; John F. Bonner, formerly Executive Vice President, was elected President and Chief Operating Officer; and Richard H. Peterson, formerly Executive Vice President, was elected Vice Chairman of the Board.

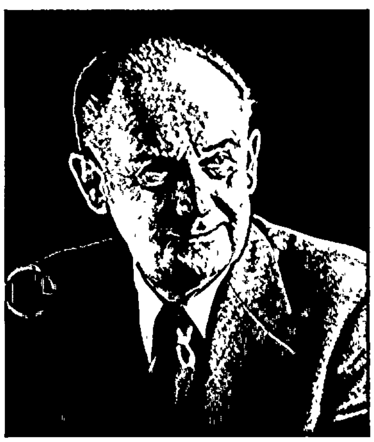
It is a pleasure to acknowledge the dedication and outstanding performance of our employees which greatly contributed to our successful year.

A more detailed review of financial matters and operations during 1972 follows, with audited financial statements beginning on page 20.

For the Board of Directors

February 28, 1973

S L Sibley

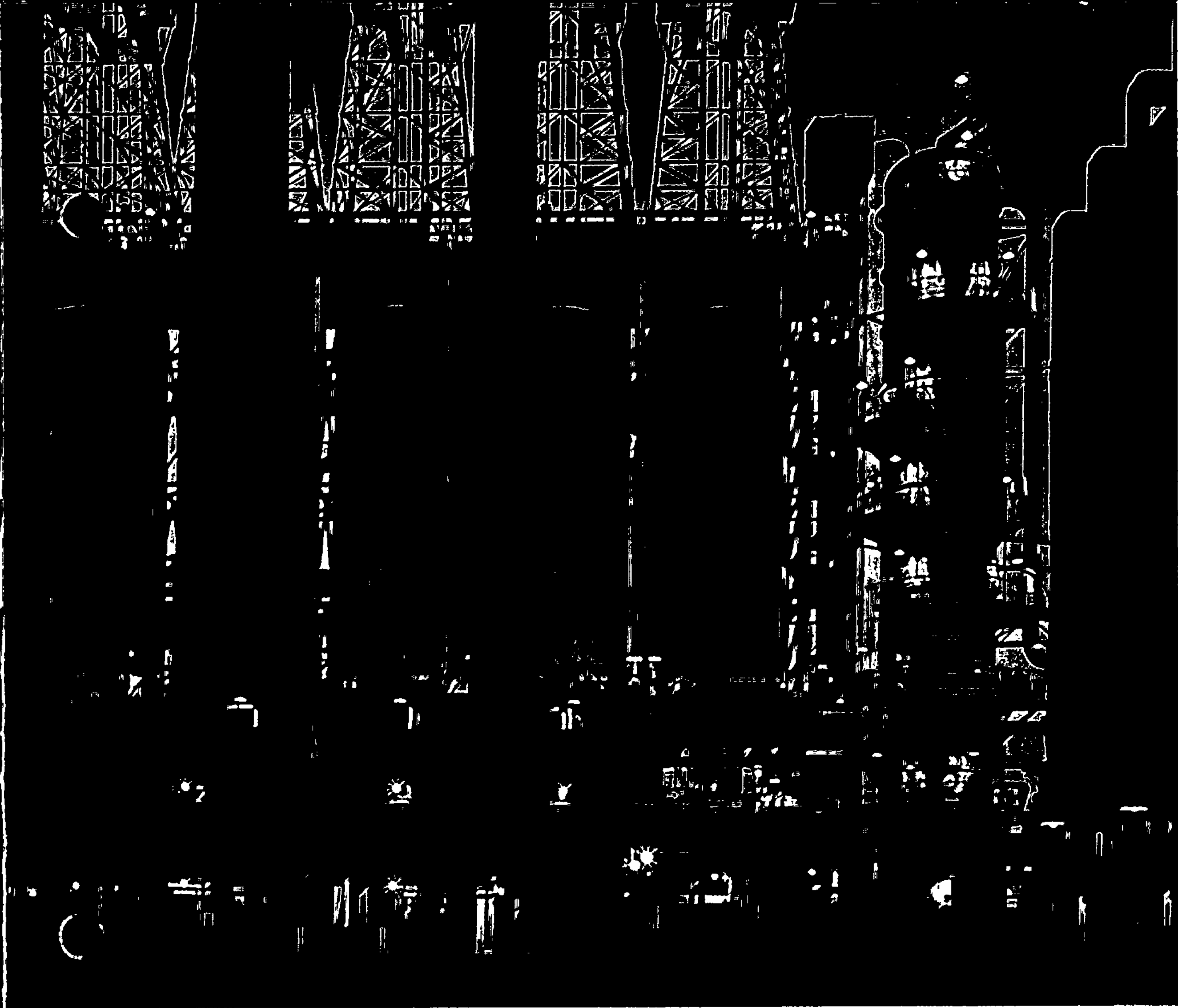


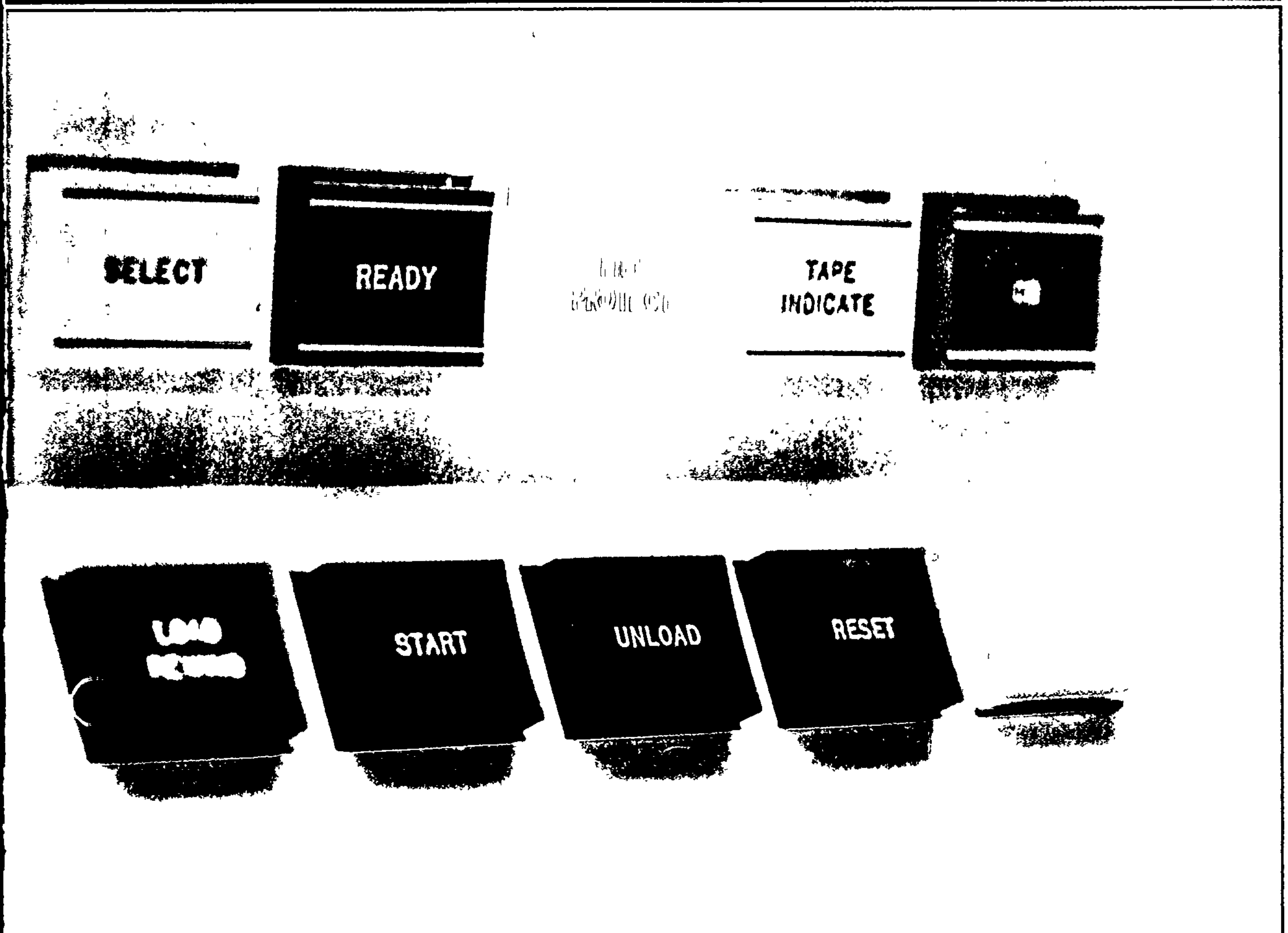
John F. Bonner, President and Chief Operating Officer

Richard H. Peterson, Vice Chairman of the Board

Robert H. Gerdes, Chairman of the Executive Committee

The economy of our service area is so diversified that no customer accounts for more than 2% of our $1.3 billion of revenues.





The agricultural, petroleum and electronics industries illustrate the wide range of customers served by PG&E.

Financial

Operating revenues for 1972 were $1 billion 351 million, an increase of $90 million, or 7.2%, over 1971. Electric revenues contributed 63.3% of the total, gas revenues 36.5%, and water and steam sales the small remainder. The $90 million increase in revenues resulted principally from increased electric sales, as well as somewhat higher gas and electric rates reflecting higher prices of purchased gas. As shown in detail on page 17, total sales of electricity increased 5.2%. Sales to industrial customers increased 14.4% because of the high level of economic activity, and agricultural power sales increased 12.4% as a result of less precipitation in 1972 than in the prior year. Gas sales to residential customers declined 2.1% because of normal weather during 1972, compared to the colder-than-normal weather of 1971.

Operating expenses amounted to $1 billion 70 million, an increase of $76 million, or 7.7%, above the prior year. Nearly half of this increase resulted from increases in the cost of gas purchased by the Company.

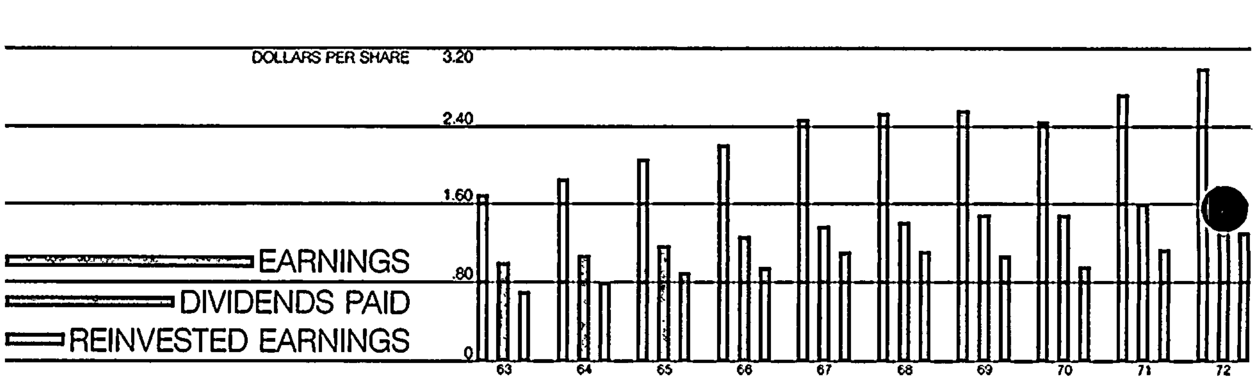
Net income for 1972 was $215.3 million, an increase of $22.2 million over the prior year. In accordance with current accounting practice, $5.7 million of undistributed earnings of subsidiaries in prior years was included in net income for 1972. After preferred dividend requirements, there remained $184.2 million available for the common stockholders, equivalent to $3.02 per share, an increase of 27 cents over the prior year.

The common stock dividend was raised by 2 cents per share in the first quarter of 1972 to 43 cents, and in the first quarter of 1973 to 44½ cents, effective with the April 16, 1973 payment. The annual dividend rate now in effect is $1.78 per share.

As previously reported to stockholders by letter, 41.7% of the common stock dividends received by stockholders in 1972 is excludable from taxable income for Federal income tax purposes. As a result of the 1969 Tax Reform Act, the exclusion of the Company's common dividends from taxable income will be substantially reduced or eliminated beginning in 1973.

Nearly half of the funds for the Company's $544 million plant expansion program in 1972 was derived from reinvested earnings and depreciation charges. The balance was financed with the proceeds of three security issues and short-term notes. In March the Company sold 2,000,000 shares of $25 par value preferred stock on a negotiated basis at a cost of 7.26%. In July the Company sold $125 million of 32-year bonds at competitive bidding at a cost of 7.58%. In December an additional 2,000,000 shares of $25 par value preferred stock were sold on a negotiated basis at a cost of 7.31%. At year end the Company had $54 million of short-term notes outstanding.

At the close of 1972, the Company's total capitalization was $4.6 billion, consisting of 52.3% mortgage bonds, 12.4% preferred stock, and 35.3% common stock equity. The 22,598,000 shares of outstanding preferred stock were owned by 91,303 stockholders, and the 61,086,000 shares of outstanding common stock were owned by 167,081 stockholders.



Rates

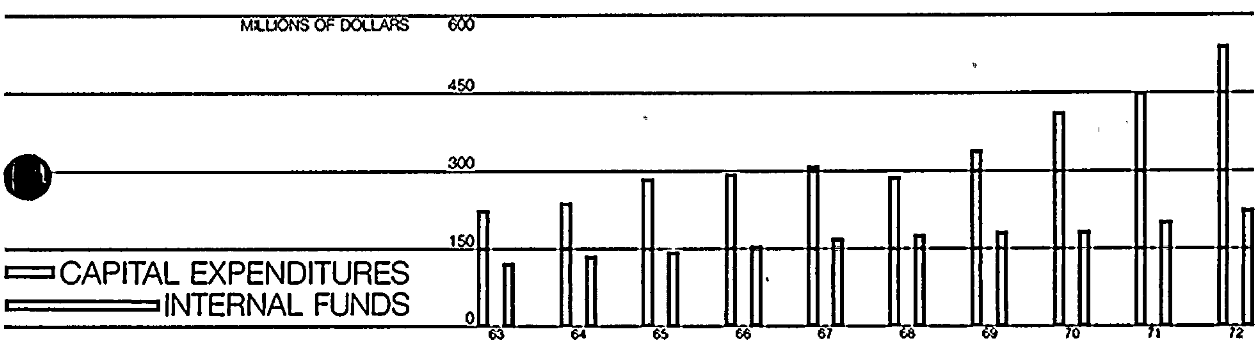
The Company must earn a fair rate of return on its investment in utility plant in order to maintain the high quality of its securities and to sustain a reasonable earnings growth —both necessary if the Company is to attract the capital to build the facilities needed to serve its customers.

As reported previously, the Company applied for an increase in gas rates on February 1, 1972 to meet continuing increases in financing and operating costs other than the costs of natural gas. On December 19, 1972, the California Public Utilities Commission authorized the Company to increase its gas rates by $48.2 million annually, effective January 3, 1973. The Commission stated that this increase was designed to permit the Company in 1973 to earn, after all operating expenses, an 8.0% rate of return on its investment in gas facilities.

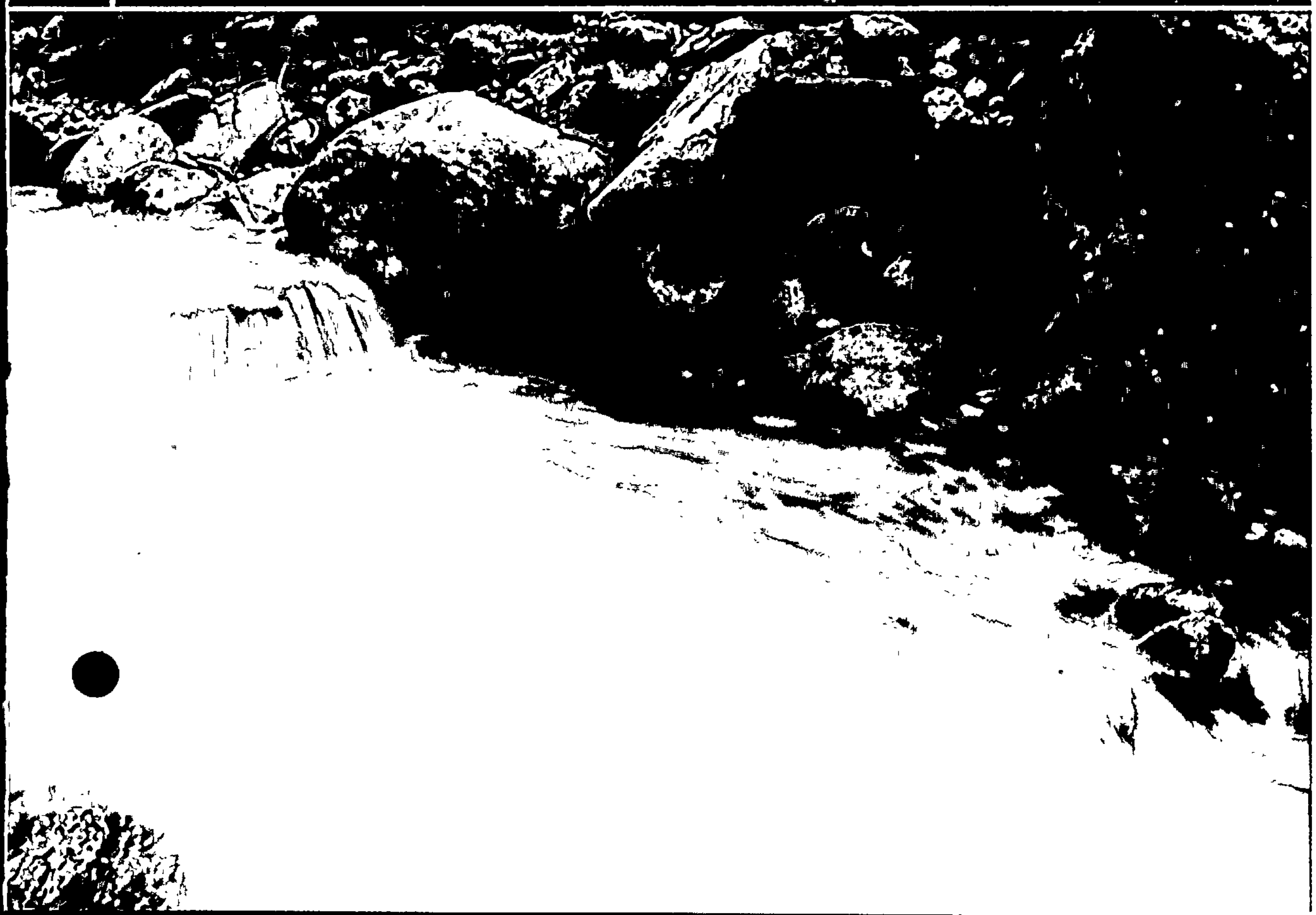
The prices the Company pays for natural gas from its three sources of supply were increased by $15 million on an annual basis during 1972. The Company obtained the Commission's authorization to increase its gas rates to offset these increased gas costs.

On February 21, 1973 the Commission authorized the Company to incorporate in its electric rate schedules a fuel cost adjustment clause to adjust the Company's rates periodically by amounts commensurate with increases or decreases in the cost of natural gas or fuel oil consumed for electric generation. These rate adjustments will help to stabilize earnings in the face of rising costs of both fuel oil and natural gas, as well as the progressively greater consumption of fuel oil, the more expensive of the two fuels, resulting from the diminishing supply of natural gas.

In September the Company applied to the Federal Power Commission for an increase of $2.4 million annually in electric rates to its wholesale customers. This increase is necessary to offset higher operating costs and to raise the rate of return on investment in this segment of the Company's business. Affected by this rate increase application are three other utility companies and several cities which buy power from the Company for resale to their own customers. The new rates will become effective in April 1973, subject to possible modification and refund in accordance with the Commission's final decision.



The resources available to provide electricity for our customers are balanced between hydroelectric and thermal electric generation.



The fiery interior of a fossil-fueled boiler, a geothermal-steam field and a mountain stream typify the diversity of PG&E's sources of electric generation. Thermal electric generation accounted for 53% of electric system output in 1972. Hydroelectric generation produced the remainder.

Electric The Company's electric system output was 59.1 billion kilowatt hours during 1972, an increase of 8% over the prior year. Of this total, 53% was produced in the Company's thermal electric generating plants. The remaining 47% was generated by the Company's 65 hydroelectric plants or purchased under agreements with other hydroelectric producers, principally public water conservation agencies within the Company's service area.

Generating capacity available to the Company to serve its 2,768,000 electric customers was 12,958,000 kilowatts at year end, consisting of 10,417,000 kilowatts from Company plants and 2,541,000 kilowatts available from other producers under firm contracts.

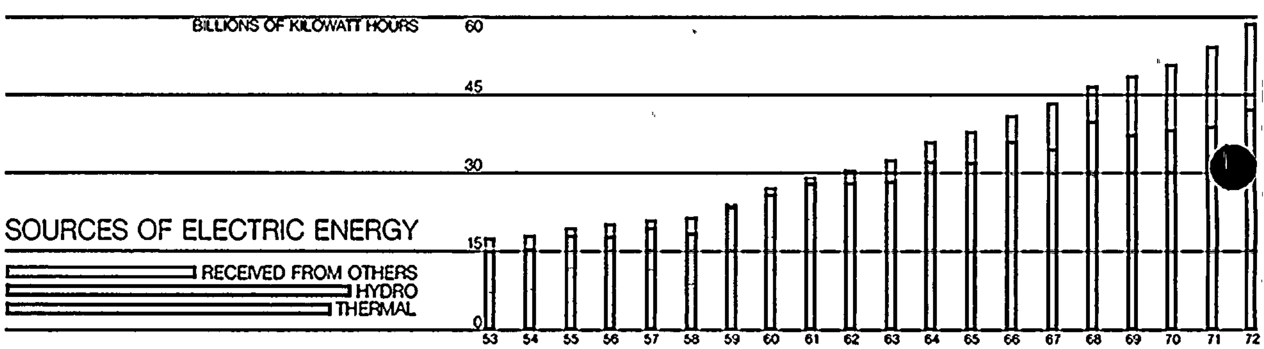
In January of 1973, the Company withdrew its applications for the construction of a nuclear power plant at its Mendocino site because of unresolved geological and seismological questions recently raised by the U.S. Geological Survey (USGS) and further uncertainties caused by the California Coastal Zone Conservation Act of 1972. This Act established temporary land-use regulations and created the Coastal Zone Conservation Commission to draft and submit to the Legislature in 1976 a proposal for the controlled development of the California coastline. The USGS expressed its opinion that in the present state of the art of offshore geophysical techniques, and, because of the physical characteristics of the Mendocino site, it is not possible at this time to resolve all questions as to site suitability. Until all reasonable doubts regarding the suitability of the site have been resolved, PG&E has no desire to proceed and has stopped all work at the Mendocino site, except for completing geologic and seismic investigations already in progress. The Company withdrew the applications without prejudice to its resubmitting them at such time as it may be able to resolve the present uncertainties.

In order to replace this generating capacity, the Company is planning other types of plants which can be completed in the time required. As shown below, the Company has 3,001,000 kilowatts of generating capacity currently under construction or scheduled for completion by the end of 1977. The largest additions to plant capacity will be two nuclear units at the Diablo Canyon site, 170 miles south of San Francisco. The first 1,060,000 kilowatt unit is approximately 70% completed, and the second unit is approximately 30% completed.

PLANNED CAPACITY ADDITIONS—KW

Completion Date	Geothermal	Fossil	Nuclear	Total
1973	106,000			106,000
1974	106,000	52,000		158,000
1975	106,000	52,000	1,060,000	1,218,000
1976	245,000	52,000	1,060,000	1,357,000
1977	110,000	52,000		162,000
Total	673,000	208,000	2,120,000	3,001,000

In addition to the above capacity additions, Sacramento Municipal Utility District's Rancho Seco nuclear unit is expected to begin operation in 1974. A substantial part of its 830,000 kilowatt capacity will be available to the PG&E system for several years through an exchange and integration agreement, which provides for purchase by the Company of the unit's capacity and energy that is surplus to the District's needs.

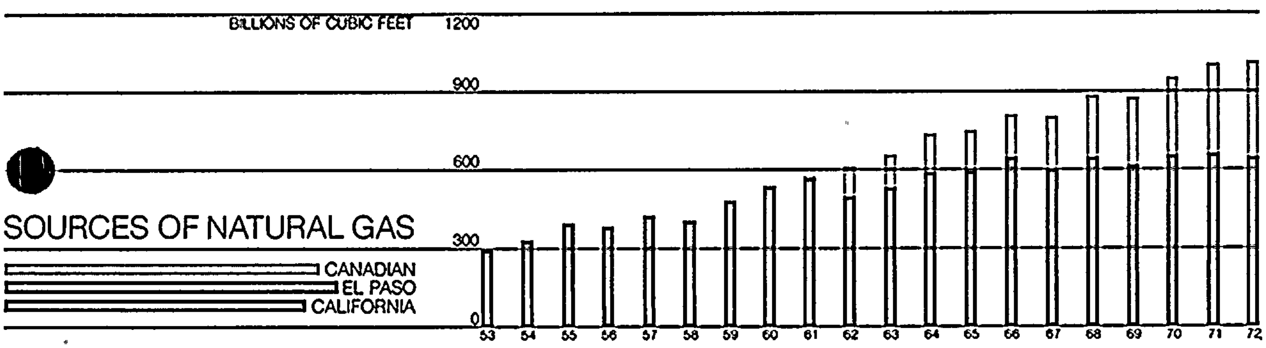


Gas In 1972 the Company purchased a total of 1 trillion 15 billion cubic feet of natural gas for its customers and for use as fuel in its thermal-electric generating plants. Of the total, 40% was obtained from the Southwest and delivered at the Arizona-California border by El Paso Natural Gas Company. The Alberta-California pipeline delivered 36% from Canadian fields, and the remainder came from California producers. The average price paid for gas from these three sources was 37.2 cents per MCF, an increase of 8.5% over the price paid in 1971.

The Company's gas customers, who totaled 2,384,000 at the end of 1972, required a record daily sendout of 3.9 billion cubic feet of gas on January 3. The Company currently has an adequate supply of natural gas to serve the requirements of its residential and other firm customers, including anticipated load growth, for several years. However, interruptible customers and the Company's thermal-electric generating plants will be subject to increasing curtailment in the years ahead.

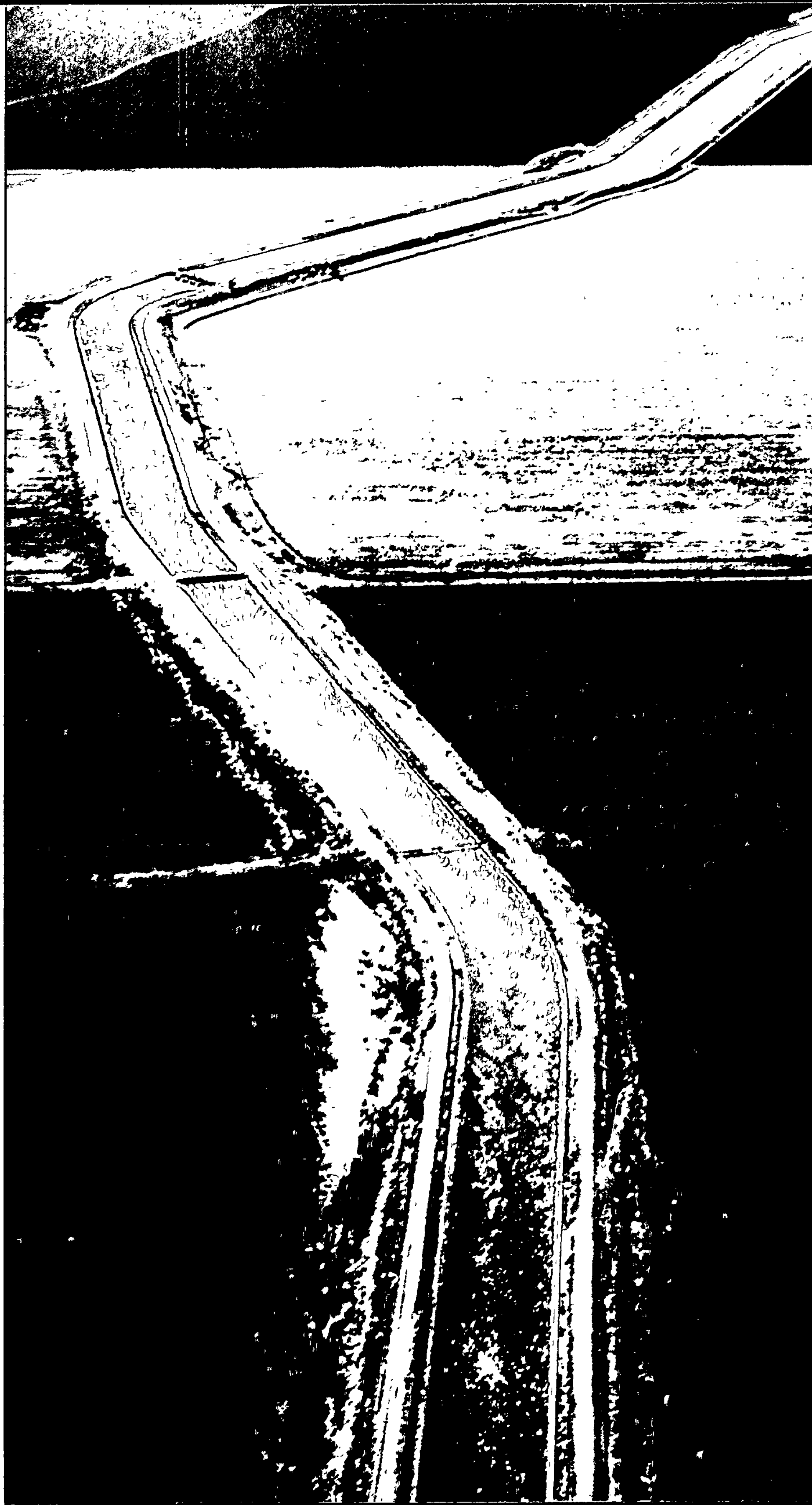
On October 31, 1972, the Federal Power Commission issued interim emergency regulations to cover the curtailment of deliveries of natural gas by El Paso Natural Gas Company. The order establishes customer curtailment priorities in time of gas shortages and will be in effect until October 31, 1973, or until a permanent plan is finally approved by the Commission, whichever occurs first. The Company considers that this order deprives it of a fair allocation of gas from El Paso, and is urging the Commission to adopt a more equitable method of allocation.

This recent ruling by the FPC reflects the current concern by both the government and private industry over diminishing natural gas availability. In order to supplement its existing gas supply, the Company, through its subsidiaries, is participating in a number of exploratory ventures. Our principal effort continues to be in the western Provinces and northern Territories of Canada. The search for gas has recently been extended into northern Alaska. Extensive exploratory efforts are also being made in the Rocky Mountain area of the United States. In addition, the Company is participating with other gas utilities in research projects to develop more economic processes to convert some of the nation's ample coal reserves to gas, as well as investigating the conversion of petroleum feed-stocks to synthetic natural gas and the importation of liquefied natural gas carried by tankers from overseas sources. All of the Company's prospective new gas supplies will be far more costly than its present supplies.



SOURCES OF NATURAL GAS

The diverse geography of Northern and Central California makes PG&E's vast service area uniquely attractive and productive.



The Central Valley, the Sierra and the Pacific Ocean combine to make our 94,000-square-mile service area one of the most scenic and prosperous regions in the world.

Environment

The Company's long-established environmental program has been expanded in recent years. It embraces air and water quality, recreation, design of facilities, and research into more ways of providing energy in an environmentally sensitive fashion.

Capital expenditures for aesthetic and environmental purposes in 1972 were approximately $48 million. Projections indicate that such outlays will approach $300 million for the period 1973 through 1976. This investment will enable the Company to sustain established programs and to undertake new commitments to minimize the environmental impact of its operations.

The Company has traditionally given careful attention to the appearance of its offices, service centers, substations, transmission towers and other facilities. Architecture typically reflects local tradition, while building materials are chosen to harmonize with both man-made and natural surroundings. This same care extends to selection of trees and plants used in landscaping.

Similar aesthetic concern underlies the Company's continuing program of removing utility poles and placing electric distribution lines underground in certain areas. Over the past five years, $45 million has been devoted to this program in communities throughout the PG&E system. The 1972 budget included $10 million for this purpose.

Since 1959, the Company has created recreational opportunities in its 275 square miles of alpine watershed, the locale of its 65 hydroelectric generating plants. Some 500 Company campsites, 200 picnic areas and 225 miles of stream are available to sportsmen and other recreation seekers.

While careful land management is the watchword in mountain watersheds, preservation of air and water quality is the primary environmental concern in operating thermal generating plants. In 1972 the Company completed an $11 million self-contained spray cooling system for its 735,000 kilowatt addition at its Pittsburg Power Plant. This system allows cooling water to be recycled through the condenser and eliminates the need to discharge warmed water into the adjacent Sacramento River.

In 1968 the Company instituted a program to reduce the emission of nitrogen oxides from its generating plants. This program has been completed at the plants located on the coast and is now being carried out at the plants located in the San Francisco Bay Area. This program will cost approximately $18 million.

For many years the Company has maintained a cadre of well-qualified specialists in such varied disciplines as marine biology, hydrology, meteorology, oceanography, geology, soil chemistry and engineering. A sound environmental program depends in large measure upon encouragement and intelligent utilization of both basic science and new technologies.

Personnel

During the past 12 months, the Company has lost the services of two outstanding Board members. In July James F. Crafts, a Board member for 22 years and a member of the Executive Committee, resigned. On the same date C. Raymond Dahl, President and Chief Executive Officer of Crown Zellerbach Corporation was elected to the Board.

In January of 1973 Elliott McAllister, a member of the Board of Directors for 22 years and a member of the Executive Committee, died. Mr. McAllister was succeeded on the Executive Committee by Charles de Bretteville.

On April 1 C. Elliot Ginochio, Senior Vice President, retired after a 42-year career with the Company. At the April meeting, the Board elected Ellis B. Langley, Jr. Vice President—Division Operations.

At the end of 1972, the Company had 25,661 employees, of whom approximately 72% are represented by the International Brotherhood of Electrical Workers, AFL-CIO. During the year the Company negotiated with this union a two-step general wage increase of 6%, effective June 25, 1972, with an additional increase of 6% to become effective April 1, 1973. A similar wage adjustment was negotiated with the Engineers and Scientists of California, who represent approximately 7% of the employees. Wage and salary adjustments were also made for employees not covered by the bargaining units. As a result, wages and other benefits increased by $16.4 million annually from the first step of these increases, of which about 60% is chargeable to operations, and the balance to construction.

The Company continues its affirmative action efforts to increase the number and improve the utilization of women and minorities in all job categories and organizational units of our Company. At the end of 1972, 18% of PG&E employees were of a minority background, almost four times the number at the end of 1965. A significant upward movement of our minority employees has occurred since 1965, resulting in a threefold increase in the number of minority journeymen and professional employees, and a fivefold increase in the number of minorities in supervisory and managerial positions.

Opportunities for women in our Company are also being continuously expanded, and, in our recruitment efforts, women are encouraged to apply for all categories of work. Through our appraisal and employee development programs, a number of women employees have been identified for training and placement in managerial positions in a wide range of functions such as accounting, computer applications, customer services, engineering and personnel.

In professional fields, our recruiting visits to more than forty colleges and universities have brought increasing numbers of academically trained women and minorities into our Company. As they acquire experience and develop their capabilities, they will provide an important source of management talent for the future.

Five Years in Brief Pacific Gas and Electric Company

	Thousands				
	1972	1971	1970	1969	1968
SOURCES OF INCOME:					
Electric Revenues	$ 854,446	$ 790,046	$ 703,204	$ 671,990	$ 646,8[illegible]
Gas Revenues	493,789	467,963	397,907	380,197	356,374
Water and Steam Revenues	2,378	2,336	2,147	2,124	2,010
Other Income—Net	64,355	42,896	35,608	23,062	21,251
TOTAL	$1,414,968	$1,303,241	$1,138,866	$1,077,373	$1,026,466
DISPOSITION OF INCOME:					
Natural Gas Purchased	$ 373,528	$ 337,675	$ 292,222	$ 259,781	$ 254,470
Power Purchased	52,007	49,171	36,785	25,084	15,087
Other Production	40,323	30,602	25,511	26,845	31,580
Transmission	15,627	14,471	12,855	11,331	10,823
Distribution	60,415	54,611	50,318	46,770	43,869
Customer Accounts	46,719	42,848	38,205	34,722	32,071
Marketing	10,282	10,474	10,187	9,884	9,372
Administrative and General	69,922	60,615	50,838	45,935	41,383
Maintenance	66,913	62,980	56,430	53,066	45,995
Depreciation	142,461	131,326	122,218	115,474	109,063
Federal Income Taxes	60,905	75,637	52,774	73,251	72,076
State Income Taxes	12,869	8,136	10,872	10,680	11,123
Property Taxes	107,957	107,036	105,480	103,381	99,661
Other Taxes	9,774	7,850	7,271	6,799	6,254
Interest	129,922	116,695	100,681	84,621	75,815
Preferred Dividends	31,109	25,399	18,559	18,336	18,3[illegible]
Common Dividends	105,068	100,181	89,868	88,106	85,168
Reinvested Earnings	79,167	67,534	57,792	63,307	64,320
TOTAL	$1,414,968	$1,303,241	$1,138,866	$1,077,373	$1,026,466
AVERAGE COMMON SHARES OUTSTANDING (Thousands)	61,086	61,086	59,728	58,737	58,737
EARNINGS PER COMMON SHARE	$3.02	$2.75	$2.47	$2.58	$2.55
DIVIDENDS PER COMMON SHARE:					
Declared	$1.72	$1.64	$1.50	$1.50	$1.45
Paid	1.70	1.60½	1.50	1.50	1.42½

Revenues and Sales

Pacific Gas and Electric Company

ELECTRIC DEPARTMENT	1972 (Thousands)	1971 (Thousands)	Increase (Decrease) Amount	Increase (Decrease) Percent
REVENUES:				
Residential	$321,692	$297,784	$23,908	8.0 %
Commercial	304,537	278,541	25,996	9.3
Industrial (1000 KW demand or over)	120,743	107,293	13,450	12.5
Agricultural Power	63,197	56,427	6,770	12.0
Public Street and Highway Lighting	14,896	13,892	1,004	7.2
Other Electric Utilities	11,695	20,077	(8,382)	(41.7)
Miscellaneous	17,686	16,032	1,654	10.3
TOTAL	$854,446	$790,046	$64,400	8.2 %
SALES—KWH:				
Residential	14,574,577	13,700,235	874,342	6.4 %
Commercial	15,265,100	14,066,023	1,199,077	8.5
Industrial (1000 KW demand or over)	12,581,962	10,993,780	1,588,182	14.4
Agricultural Power	4,125,328	3,670,930	454,398	12.4
Public Street and Highway Lighting	381,453	360,372	21,081	5.8
Other Electric Utilities	1,426,603	3,186,852	(1,760,249)	(55.2)
Total Sales to Customers	48,355,023	45,978,192	2,376,831	5.2
Delivered for the Account of Others	5,130,406	4,879,495	250,911	5.1
TOTAL	53,485,429	50,857,687	2,627,742	5.2 %

GAS DEPARTMENT	1972	1971	Amount	Percent
REVENUES:				
Residential	$236,698	$229,755	$ 6,943	3.0 %
Commercial	60,987	59,088	1,899	3.2
Industrial	169,761	155,253	14,508	9.3
Other Gas Utilities	25,861	23,640	2,221	9.4
Miscellaneous	482	227	255	112.3
TOTAL	$493,789	$467,963	$25,826	5.5 %
SALES—MCF:				
Residential	253,631	259,130	(5,499)	(2.1)%
Commercial	78,558	79,952	(1,394)	(1.7)
Industrial	353,270	350,216	3,054	0.9
Other Gas Utilities	50,777	56,621	(5,844)	(10.3)
Total Sales to Customers	736,236	745,919	(9,683)	(1.3)
Company Use (Electric generation)	255,500	215,942	39,558	18.3
TOTAL	991,736	961,861	29,875	3.1 %

Comparative Statistics

Pacific Gas and Electric Company

PER COMMON SHARE:	1972	1971	1970	1969
Earnings	$ 3.02	$ 2.75	$ 2.47	$ 2[illegible]
Dividends Declared	$ 1.72	$ 1.64	$ 1.50	$ 1.50
Dividend Payout Ratio	57.0%	59.7%	60.9%	58.2%
Book Value (End of Year)	$26.36	$24.91	$23.66	$22.79
Market Price—High	33⅜	36⅜	35	39½
Market Price—Low	26⅜	28⅜	22½	29½
Market Price—Close	32⅝	32⅜	34⅝	32¾

CAPITAL EXPENDITURES (Thousands):				
Electric Department	$432,781	$355,242	$297,930	240,468
Gas Department	71,345	60,432	68,320	61,428
Other	39,514	36,177	49,081	38,094
TOTAL	$543,640	$451,851	$415,331	$339,990

ELECTRIC STATISTICS:				
Net System Output (Millions of KWH)	59,124	54,665	51,277	48,885
Net System Output—Percent				
Hydroelectric Plants	19.8%	25.6%	26.9%	31.4%
Thermal Electric Plants	52.7	46.5	48.6	45.2
Other Producers	27.5	27.9	24.5	23.4
Total	100.0%	100.0%	100.0%	100.0%
System Capability—KW				
Hydroelectric Plants	2,529,300	2,514,300	2,514,300	2,514,300
Thermal Electric Plants	7,888,000	7,062,000	6,942,400	6,962,400
Other Producers	2,540,600	2,444,400	2,110,800	1,551,6[illegible]
Total	12,957,900	12,020,700	11,567,500	11,028,300
Net System Peak Demand—KW	10,469,800	9,713,000	8,807,700	8,227,100
Average Annual Residental Consumption—KWH	6,213	6,048	5,697	5,545
Total Customers (End of Year)	2,767,978	2,675,942	2,597,314	2,536,703
Customers Per Mile of Distribution Line	36.0	35.4	34.8	34.5

GAS STATISTICS:				
Gas Purchased (Thousands of MCF)	1,015,319	1,004,547	950,652	878,484
Sources of Gas Purchased—Percent				
From California	23.5%	24.8%	25.2%	25.2%
From Other States	40.3	41.2	43.7	45.3
From Canada	36.2	34.0	31.1	29.5
Total	100.0%	100.0%	100.0%	100.0%
Average Cost of Gas Purchased—MCF				
From California	33.7¢	31.7¢	30.2¢	29.9¢
From Other States (at Calif.-Ariz. border)	39.4	37.5	33.9	31.4
From Canada (at Calif.-Ore. border)	36.9	32.7	30.4	28.2
Average	37.2¢	34.3¢	31.9¢	30.1¢
Peak Day Sendout—MCF	3,918,844	3,798,462	3,633,341	3,445,626
Average Annual Residential Consumption—MCF	115.7	121.7	107.7	116.2
Total Customers (End of Year)	2,383,609	2,317,686	2,258,285	2,208,046
Customers Per Mile of Distribution Main	95.6	95.0	94.1	9[illegible]

1968	1967	1966	1965	1964	1963	1962
$ 2.55	$ 2.49	$ 2.23	$ 2.08	$ 1.87	$ 1.70	$ 1.64
$ 1.45	$ 1.40	$ 1.30	$ 1.20	$ 1.10	$ 1.00	$ 1.00
57.0%	56.3%	58.4%	57.8%	58.9%	59.0%	61.2%
$21.71	$20.62	$19.53	$18.44	$17.54	$16.23	$15.51
38⅞	38	36¾	40⅜	35⅜	34⅝	36⅞
30¾	31⅝	27	33⅞	30⅝	30⅛	25
38⅛	35⅝	35¾	36½	34¼	31¼	31⅞
$200,763	$235,707	$220,241	$218,479	$181,810	$167,438	$147,379
58,834	50,536	55,596	46,057	40,484	43,568	46,337
29,803	24,748	21,292	22,172	17,777	15,070	16,009
$289,400	$310,991	$297,129	$286,708	$240,071	$226,076	$209,725
46,994	43,663	41,392	38,190	36,204	32,739	30,821
23.8%	32.9%	26.6%	34.1%	24.9%	33.4%	35.2%
62.2	47.1	61.4	50.3	64.7	54.0	57.1
14.0	20.0	12.0	15.6	10.4	12.6	7.7
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
2,397,300	2,429,800	2,371,300	2,365,600	2,067,000	2,067,000	1,966,500
7,064,600	6,289,600	5,447,300	5,447,300	5,244,300	4,596,800	4,210,600
1,146,600	1,131,900	1,007,400	790,600	825,200	600,000	550,000
10,608,500	9,851,300	8,826,000	8,603,500	8,136,500	7,263,800	6,727,100
8,126,200	7,757,900	7,146,500	6,686,400	6,144,600	5,750,400	5,345,700
5,181	5,000	4,661	4,454	4,249	4,038	3,828
2,483,480	2,429,306	2,383,907	2,323,896	2,254,267	2,177,610	2,103,569
34.3	34.0	33.8	33.5	33.2	32.5	31.9
888,075	802,221	808,062	749,410	736,598	653,787	611,983
27.5%	26.3%	31.0%	29.1%	31.0%	34.7%	28.6%
45.5	48.3	48.6	50.7	49.3	45.9	52.1
27.0	25.4	20.4	20.2	19.7	19.4	19.3
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
30.3¢	30.2¢	30.1¢	29.8¢	30.0¢	30.0¢	30.2¢
27.9	28.4	29.4	29.6	30.1	33.3	34.6
28.0	29.3	31.2	33.6	34.4	37.1	35.4
28.6¢	29.1¢	30.0¢	30.5¢	30.9¢	32.9¢	33.5¢
3,338,669	3,363,503	3,032,844	3,110,309	2,775,582	2,779,629	2,497,276
109.7	112.4	107.5	110.6	113.1	108.3	108.1
2,160,569	2,110,510	2,064,045	2,008,623	1,944,503	1,874,743	1,803,989
93.8	93.5	93.5	93.3	92.8	92.5	91.3

Statement of Income

Pacific Gas and Electric Company
For the Years Ended December 31, 1972 and 1971

	Thousands	
	1972	1971
OPERATING REVENUES:		
Electric	$ 854,446	$ 790,0[illegible]6
Gas	493,789	467,963
Other	2,378	2,336
TOTAL	1,350,613	1,260,345
OPERATING EXPENSES:		
Operation:		
Natural Gas Purchased	373,528	337,675
Power Purchased	52,007	49,171
Other Production	40,323	30,602
Transmission	15,627	14,471
Distribution	60,415	54,611
Customer Accounts	46,719	42,848
Marketing	10,282	10,474
Administrative and General	69,922	60,615
Total	668,823	600,467
Maintenance	66,913	62,980
Depreciation (Note 1)	142,461	131,326
Federal Income Taxes (Note 1)	60,905	75,637
State Income Taxes (Note 1)	12,869	8,136
Other Taxes	117,731	114,886
TOTAL	1,069,702	993,[illegible]
OPERATING INCOME	280,911	266,913
OTHER INCOME AND INCOME DEDUCTIONS:		
Allowance for Funds Used During Construction (Note 1)	38,084	25,888
Gain on Bonds Purchased for Sinking Fund (Note 1)	9,819	9,767
Other—net (Note 2)	16,452	7,241
TOTAL	64,355	42,896
INCOME BEFORE INTEREST CHARGES	345,266	309,809
INTEREST CHARGES:		
Interest on Mortgage Bonds	127,633	114,898
Miscellaneous Interest and Amortization of Bond Discount, Premium and Expense (Note 1)	2,289	1,797
TOTAL	129,922	116,695
NET INCOME	215,344	193,114
PREFERRED DIVIDEND REQUIREMENTS	31,109	25,399
EARNINGS AVAILABLE FOR COMMON	$ 184,235	$ 167,715
AVERAGE COMMON SHARES OUTSTANDING (Thousands)	61,086	61,086
EARNINGS PER COMMON SHARE	$3.02	$2.75
DIVIDENDS DECLARED PER COMMON SHARE	$1.72	$[illegible]

The accompanying notes to financial statements are an integral part of this statement.

Balance Sheet

Pacific Gas and Electric Company
December 31, 1972 and 1971

	Thousands 1972	Thousands 1971
ASSETS		
UTILITY PLANT—At Original Cost (Note 1):		
Electric	$4,073,748	$3,796,512
Gas	1,218,016	1,155,013
Other Departments and Common	334,273	322,966
Construction Work in Progress	607,764	459,855
Total Utility Plant	6,233,801	5,734,346
Accumulated Depreciation (Note 1)	1,518,239	1,403,462
UTILITY PLANT—NET	4,715,562	4,330,884
INVESTMENTS:		
Subsidiaries (Notes 1, 2 and 4)	39,123	31,969
Nonutility Property and Other—at cost	4,112	4,083
TOTAL INVESTMENTS	43,235	36,052
CURRENT ASSETS:		
Cash	25,604	25,464
Temporary Cash Investments—at cost	—	46,812
Accounts Receivable (less allowance for uncollectible accounts: 1972, $2,567; 1971, $2,188)	122,997	109,325
Materials and Supplies—at average cost	25,680	27,375
Fuel Oil—at average cost	14,711	9,643
Gas Stored Underground—at average cost	23,863	23,663
Prepayments	14,702	14,221
TOTAL CURRENT ASSETS	227,557	256,503
DEFERRED DEBITS:		
Unamortized Bond Expense (Note 1)	5,527	6,140
Other	1,213	1,246
TOTAL DEFERRED DEBITS	6,740	7,386
TOTAL	$4,993,094	$4,630,825
LIABILITIES		
CAPITALIZATION:		
Common Stock (Schedule I) (Note 3)	$ 610,861	$ 610,861
Excess of Premiums Over Discounts and Expenses on Outstanding Shares (Note 3)	208,704	200,216
Reinvested Earnings	790,460	710,450
Common Stock Equity	1,610,025	1,521,527
Preferred Stock (Schedule I) (Note 3)	564,951	464,951
Total	2,174,976	1,986,478
Mortgage Bonds (Schedule II) (Notes 1 and 4)	2,389,973	2,301,043
TOTAL CAPITALIZATION	4,564,949	4,287,521
CURRENT LIABILITIES:		
Short-term Notes	54,000	—
Accounts Payable	90,279	76,908
Taxes Accrued	41,018	46,297
Dividends Payable	26,267	25,045
Mortgage Bonds—current portion (Schedule II) (Note 4)	14,720	11,021
Other	37,312	34,851
TOTAL CURRENT LIABILITIES	263,596	194,122
CUSTOMER ADVANCES FOR CONSTRUCTION	31,442	24,980
RESERVES AND DEFERRED CREDITS	10,100	7,352
CONTRIBUTIONS IN AID OF CONSTRUCTION	73,744	64,641
ACCUMULATED DEFERRED TAXES ON INCOME—Accelerated Amortization	49,263	52,209
TOTAL	$4,993,094	$4,630,825

The accompanying notes to financial statements are an integral part of this statement.

Statement of Reinvested Earnings

Pacific Gas and Electric Company • For the Years Ended December 31, 1972 and 1971

	Thousands 1972	Thousands 1971
BALANCE, JANUARY 1	$710,450	$641,[illegible]
NET INCOME	215,344	193,114
TOTAL	925,794	834,629
DIVIDENDS DECLARED ON CAPITAL STOCK—CASH:		
Preferred	30,266	23,998
Common	105,068	100,181
TOTAL	135,334	124,179
BALANCE, DECEMBER 31	$790,460	$710,450

Statement of Changes in Financial Position

Pacific Gas and Electric Company • For the Years Ended December 31, 1972 and 1971

	Thousands 1972	Thousands 1971
FUNDS PROVIDED:		
Funds Derived from Operations:		
Net Income	$215,344	$193,114
Non-fund Items in Net Income:		
Depreciation (including charges to other accounts)	150,855	139,070
Gain on Bonds Purchased for Sinking Fund	(9,819)	(9,7[illegible])
Other—net	(8,674)	(2,354)
Total Funds Derived from Operations*	347,706	320,063
Preferred Stock Sold—net	108,488	104,077
Mortgage Bonds Sold—net	123,610	273,353
Utility Plant Sold and Salvaged	17,193	18,214
Increase in Short-term Borrowing	54,000	—
Decrease in Other Working Capital Items	40,721	—
Other Changes—net	8,473	2,690
TOTAL	$700,191	$718,397
FUNDS APPLIED:		
Capital Expenditures*	$543,640	$451,851
Mortgage Bonds Retired (at cost)	21,217	44,246
Dividends—preferred and common stocks	135,334	124,179
Decrease in Short-term Borrowing	—	63,550
Increase in Other Working Capital Items	—	34,571
TOTAL	$700,191	$718,397

*Includes allowance for funds used during construction
( ) Denotes deduction

The accompanying notes to financial statements are an integral part of these statements.

Schedule I Capital Stock

Pacific Gas and Electric Company
December 31, 1972

	Redemption Price	Shares Authorized (Thousands)	Outstanding - Held by Public: Shares (Thousands)	Outstanding - Held by Public: Amount (Thousands)
COMMON, PAR VALUE $10 PER SHARE		75,000	61,086	$610,861
PREFERRED, CUMULATIVE, PAR VALUE $25 PER SHARE: (Note 3)				
REDEEMABLE:				
9.28%	$28.00	707	707	$ 17,674
9%	29.875	881	881	22,027
8.16%	29.375	3,000	3,000	75,000
8%	30.00	2,000	2,000	50,000
7.84%	29.50	2,000	2,000	50,000
5%	26.75	2,861	2,861	71,524
5% — Series A	26.75	1,750	1,719	42,985
4.80%	27.25	1,517	1,517	37,934
4.50%	26.00	1,128	1,128	28,186
4.36%	26.00	1,000	1,000	25,000
Unclassified in Series		7,371	—	—
TOTAL REDEEMABLE		24,215	16,813	420,330
NON-REDEEMABLE:				
6%		4,212	4,212	105,292
5.50%		1,173	1,173	29,329
5%		400	400	10,000
TOTAL NON-REDEEMABLE		5,785	5,785	144,621
TOTAL PREFERRED		30,000	22,598	$564,951

Schedule II Mortgage Bonds

Pacific Gas and Electric Company
December 31, 1972

Maturity	Interest Rate (%)	Series	Held in Treasury (Thousands)	Outstanding Held by Public (Thousands)
1974	3	L		$109,101
1975	3	O		2,000
1976	2⅞	T		43,522
1977	3	N		47,962
1978	3¾	CC		56,860
1979	3	M		73,635
1980	2⅞	Q		52,701
1981	2¾	P		21,387
1982	3⅛	R		64,673
1983	3	S	$ 57	58,439
1984	3⅛	X	736	41,219
1984	3⅛	W	1,799	27,841
1985	3⅜	U	826	29,167
1986	4½	AA		29,283
1987	3⅜	Y	548	25,735
1988	3⅜	Z	1,231	10,038
1989	5	BB		57,700
1990	4½	DD		49,302
1991	5	EE		59,815
1992	4⅝	FF		51,494
1993	4½	GG		$ 56,232
1994	4⅜	HH	$ 536	55,509
1995	4¼	II	1,045	46,191
1996	4½	JJ	1,117	60,927
1996	4½	KK	1,414	59,734
1997	4⅝	LL	95	68,795
1998	5⅜	MM		72,000
1998	5¾	NN		75,750
1999	5½	OO		77,000
1999	6⅞	PP		80,000
2000	6⅝	QQ		50,000
2000	6¾	RR		60,000
2001	7½	SS		80,000
2001	9	TT		80,000
2002	8⅝	UU		75,000
2002	8⅞	VV		100,000
2003	8	WW		150,000
2003	7½	XX		125,000
2004	7½	YY		125,000
TOTAL MORTGAGE BONDS			$9,404	2,409,012
Mortgage Bonds Included in Current Liabilities (Note 4)				14,720
Unamortized (Premium) Discount				4,319
Mortgage Bonds Included in Capitalization				$2,389,973

The accompanying notes to financial statements are an integral part of these schedules.

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the Federal Power Commission and adopted by the California Public Utilities Commission.

The cost of additions to utility plant and replacements of retirement units of property is capitalized. Cost includes labor, material and similar items and indirect charges for such items as engineering, supervision and transportation. The Company capitalizes an allowance for funds used during construction approximately equivalent to the cost of capital devoted to plant under construction. Research and development costs related to specific construction projects and a portion of general engineering research are capitalized. Other research and development costs are charged to expense as incurred. Replacement of minor items of property is included in maintenance expenses. Costs of depreciable units of plant retired are eliminated from utility plant accounts and such costs plus removal expenses and less salvage are charged to accumulated depreciation.

Investment tax credits (1972, $11,530,000; 1971, $3,697,000) are applied currently as a reduction of Federal income tax expense. For financial statement purposes, depreciation of utility plant is computed on a straight-line remaining life basis at rates based on the estimated useful lives of properties. For Federal income tax purposes the Company computes depreciation using the most liberalized methods allowed by the Treasury Department. In accordance with requirements of the California Public Utilities Commission, the Company includes in net income the current tax differences arising from timing differences which are principally depreciation, allowance for funds used during construction, overhead costs of construction and gain on bonds purchased for sinking fund. Such tax differences are reflected in customer rates authorized by the Commission.

Bond issuance premium or discount and related expenses are being amortized over the lives of the issues to which they pertain. Gain on reacquisition of bonds to satisfy sinking fund requirements is credited to Other Income and Income Deductions in the year of acquisition. Federal income taxes on such gain are recognized over the average life of remaining property. The Federal Power Commission has initiated proposed accounting rulemaking that would change the accounting for such gains. This proposal would require, among other things, that the gain or loss from reacquisition of long-term debt be amortized over the remaining life of the related debt securities.

Investments in subsidiaries are stated at the equity method (cost adjusted for equity in undistributed earnings). Prior to 1972, investments in subsidiaries were stated, generally, at cost and income was realized as dividends were received.

NOTE 2 ACCOUNTING CHANGE AND INVESTMENT IN SUBSIDIARIES: In 1972, the Company changed its method of accounting for investments in subsidiaries from the cost to the equity method. The change in method was made to comply with an opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants. The assets, revenues, and earnings of the subsidiaries are not material in relation to those of the Company. The equity in undistributed earnings was not material and the equity in income, including undistributed earnings for prior years, is included in Other Income and Income Deductions for the year 1972.

NOTE 3 CAPITAL STOCK: The redeemable preferred stock outstanding is subject to redemption, in whole or in part, at the option of the Company upon payment of the redemption price plus accumulated and unpaid dividends to the date fixed for redemption. The redemption premium per share declines in accordance with terms of the specific issue. The involuntary liquidation preference of the preferred stock is par value ($25) plus accrued dividends.

During 1972, 2,000,000 shares of 7.84% redeemable preferred stock with a par value of $50,000,000 were sold in April and 2,000,000 shares of 8% redeemable preferred stock with a par value of

$50,000,000 were sold in December. During 1971, 3,881,074 shares of redeemable preferred stock with a par value of $97,027,000 were sold.

Additions to the excess of premiums over discounts and expenses on outstanding shares consisted of: 1972—$8,488,000; 1971—$7,050,000, representing the excess of net proceeds over par value of preferred stock sold.

On January 17, 1973 the Board of Directors announced a plan to offer 4,072,409 additional common shares for sale to common shareholders of record March 6, 1973 in the ratio of one new share for every fifteen shares held at a price to be determined on March 5, 1973. The subscription period opens March 12 and closes March 27, 1973.

NOTE 4 MORTGAGE BONDS: The first and refunding mortgage bonds are issued in series, bear annual interest from 2¾% to 9% and mature from June 1, 1974 to June 1, 2004. Subject to indenture provisions as to earnings coverages and bondable property available for security, additional bonds may be issued up to an aggregate of $3,000,000,000. The Board of Directors may from time to time increase the amount authorized. All real properties and substantially all personal properties are subject to the lien of the mortgage. Securities representing investments in subsidiaries are pledged as collateral for the bonds.

The Company is required, according to provisions of the First and Refunding Mortgage, to make semiannual sinking fund payments on February 1 and August 1 of each year for the retirement of the bonds equal to ½ of one percent of the aggregate bonded indebtedness outstanding on the preceding November 30 and May 31, respectively. Bonds of any series may be used to satisfy this requirement. Sinking fund payments due in 1973 for bonds outstanding at December 31, 1972, amounted to $24,124,000. This amount, less treasury bonds of $9,404,000, is included in current liabilities. During the year 1972, the principal amounts of bonds issued and retired were $125,000,000 and $31,036,000, respectively.

NOTE 5 COMMITMENTS AND CONTINGENT LIABILITIES: Capital expenditures for the year 1973 are estimated at $608 million.

The Company provides retirement and savings fund plans for substantially all employees. The cost of these plans, charged to expense and utility plant, was $20,715,000 and $18,688,000 for the years 1972 and 1971, respectively. At December 31, 1972 the Company had fully funded the actuarially computed value of all vested benefits and past service costs provided under the retirement plan.

Accountants' Opinion

The Shareholders and the Board of Directors of
Pacific Gas and Electric Company:

HASKINS & SELLS

We have examined the balance sheet of Pacific Gas and Electric Company as of December 31, 1972 and 1971 and the related statements of income, reinvested earnings, and changes in financial position for each of the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1972 and 1971 and the results of its operations and the changes in its financial position for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

San Francisco, California
February 12, 1973

Haskins & Sells

Board of Directors

John F. Bonner	San Francisco
Ransom M. Cook*	San Francisco
C. Raymond Dahl	San Francisco
Charles de Bretteville	San Francisco
Rudolph J. Drews	San Francisco
Alfred W. Eames, Jr.	San Francisco
Robert H. Gerdes*	San Francisco
Walter A. Haas*	San Francisco
James M. Hait	San Jose
Elliot McAllister*†	San Francisco
Leon S. Peters	Fresno
Richard H. Peterson	San Francisco
Porter Sesnon*	San Francisco
S. L. Sibley*	San Francisco
Emmett G. Solomon	San Francisco

*Member Executive Committee
†Deceased January 20, 1973, succeeded by Charles de Bretteville on the Executive Committee

Executive Officers

S. L. Sibley	Chairman of the Board and Chief Executive Officer
John F. Bonner	President and Chief Operating Officer
Richard H. Peterson	Vice Chairman of the Board
Robert H. Gerdes	Chairman of the Executive Committee
J. Dean Worthington	Senior Vice President
Donald L. Bell	Vice President—Finance
H. P. Braun	Vice President—Electric Operations
Joseph Y. De Young	Vice President—Commercial Operations
Robert R. Gros	Vice President—Public Relations
Ellis B. Langley, Jr.	Vice President—Division Operations
F. F. Mautz	Vice President—Engineering
Frederick W. Mielke, Jr.	Vice President and Assistant to the Chairman of the Board
Richard K. Miller	Vice President—Personnel and General Services
Frank A. Peter	Vice President and Comptroller
John F. Roberts, Jr.	Vice President—Rates and Valuation
Frederick T. Searls	Vice President and General Counsel
C. H. Sedam	Vice President—General Construction
Barton W. Shackelford	Vice President—Planning and Research
E. F. Sibley	Vice President—Gas Operations
John A. Sproul	Vice President—Gas Supply
John F. Taylor	Secretary
Theodore M. Welp	Treasurer

* * * * * * * * * * * *

A. H. Catherall	Assistant Secretary and Assistant Treasurer
A. J. Duffy	Assistant Treasurer
D. B. Allison	Assistant Secretary
J. N. Gehre	Assistant Secretary

Departmental Organization January 1, 1973

ELECTRIC OPERATIONS

Managers:
[illegible]. Colwell, System Protection
H. R. Daniels, Hydro Generation
T. R. Ferry, Communications
Elmer F. Kaprielian, Power Control
Paul Matthew, Steam Generation
H. J. Stefanetti, Transmission and Distribution
J. N. Ylarraz, Substations

GAS OPERATIONS

Managers:
E. C. Drew, Gas Utilization
J. A. Fairchild, Gas Distribution
S. A. Haavik, Natural Gas Production
I. C. Odom, Gas System Planning
F. J. Parsons, Gas Control
H. P. Prudhomme, Pipe Line Operations
C. J. Tateosian, Gas System Design

GAS SUPPLY

Manager:
Robert W. Brooks, Gas Procurement

ENGINEERING

Thomas A. Bettersworth, Chief Electric Distribution Engineer
Richard V. Bettinger, Chief Civil Engineer
Kenneth L. C. Dorking, Chief, Design-Drafting
[illegible]am R. Johnson, Chief Electric Generation and Transmission Engineer
Douglas V. Kelly, Chief Mechanical and Nuclear Engineer
James J. McCann, Chief, Engineering Services

PLANNING AND RESEARCH

R. F. Cayot, Chief Engineering Research
Elmer E. Hall, Chief Siting Engineer
G. A. Maneatis, Chief Computer Application Engineer
H. R. Perry, Chief Planning Engineer

RATES AND VALUATION

Managers:
S. M. Andrew, Economics and Statistics
H. E. Crowhurst, Jr., Valuation
W. M. Gallavan, Rate

COMPTROLLER

J. W. Hall, Assistant Comptroller
K. S. Taylor, Assistant Comptroller
Managers:
R. W. Beck, Corporate Accounting
F. Cortese, Jr., Disbursement Accounting
H. W. Gleason, Income Tax
L. M. Gustafson, Computer Operations
N. D. Hennings, Plant Accounting
R. E. Palmer, Property Tax
E. M. Schroeder, Customer Accounting

CLAIMS AND SAFETY DEPARTMENT

Raymond W. White, Manager

MATERIALS DEPARTMENT

Raymond P. Benton, Manager

PUBLIC RELATIONS

Managers:
A. J. McCollum, Public Information
R. W. Newell, Public Activities

INFORMATION SYSTEMS

John R. Kleespies, General Information Systems Manager
Managers:
Roger W. Barbey, Information Systems Development
Ho-Nien Liu, Computerized Systems Technology
Dexter Stoner, Computer Support Services

FINANCE

Managers:
J. A. Crockwell, Insurance
Earl C. Suess, Internal Auditing

TREASURER

Managers:
A. H. Catherall, Treasury Operations
J. T. Doudiet, Financial Planning and Analysis
E. C. Paddock, Credit and Collection

PERSONNEL AND GENERAL SERVICES

Managers:
Thomas V. Adams, Personnel Relations
I. Wayland Bonbright, Industrial Relations
Nolan H. Daines, Land
Gerald P. Larson, Automotive and Equipment

GENERAL CONSTRUCTION

Managers:
M. H. Chandler, Station Construction
Hugo Irons, General Construction Services
Robert F. Irons, Field Office Operations
Joe Pirtz, Civil-Hydro and Gas Construction
C. Gordon Sparrowe, Line Construction

COMMERCIAL OPERATIONS

Managers:
Stanley O. Blois, Commercial, Industrial and Agricultural Marketing
Walter Blumst, Marketing Research and Services
W. Carl Brune, Jr., Area Services
John S. Cooper, Commercial
Allen D. Owen, Customer Services
R. L. Sawyier, Jr., Residential Marketing

LAW DEPARTMENT

John C. Morrissey, Associate General Counsel
Assistant General Counsel:
William B. Kuder
Malcolm H. Furbush
Malcolm A. MacKillop
William E. Johns
Charles T. Van Deusen
Philip A. Crane, Jr.

OFFICE OF THE CHAIRMAN OF THE BOARD

Ralph B. Dewey, Assistant to the Chairman of the Board

GOVERNMENTAL AND PUBLIC AFFAIRS DEPARTMENT

A. R. Todd, Manager

Division Managers

COAST VALLEYS
W. L. Murray, Salinas

COLGATE
[illegible]t N. Radford, Marysville

DE SABLA
C. Robert Martin, Chico

DRUM
Robert E. Metzker, Auburn

EAST BAY
W. D. Skinner, Oakland

HUMBOLDT
V. C. Novarino, Eureka

NORTH BAY
J. Galen Foster, San Rafael

SACRAMENTO
Stanley E. Howatt, Sacramento

SAN FRANCISCO
John H. Black, San Francisco

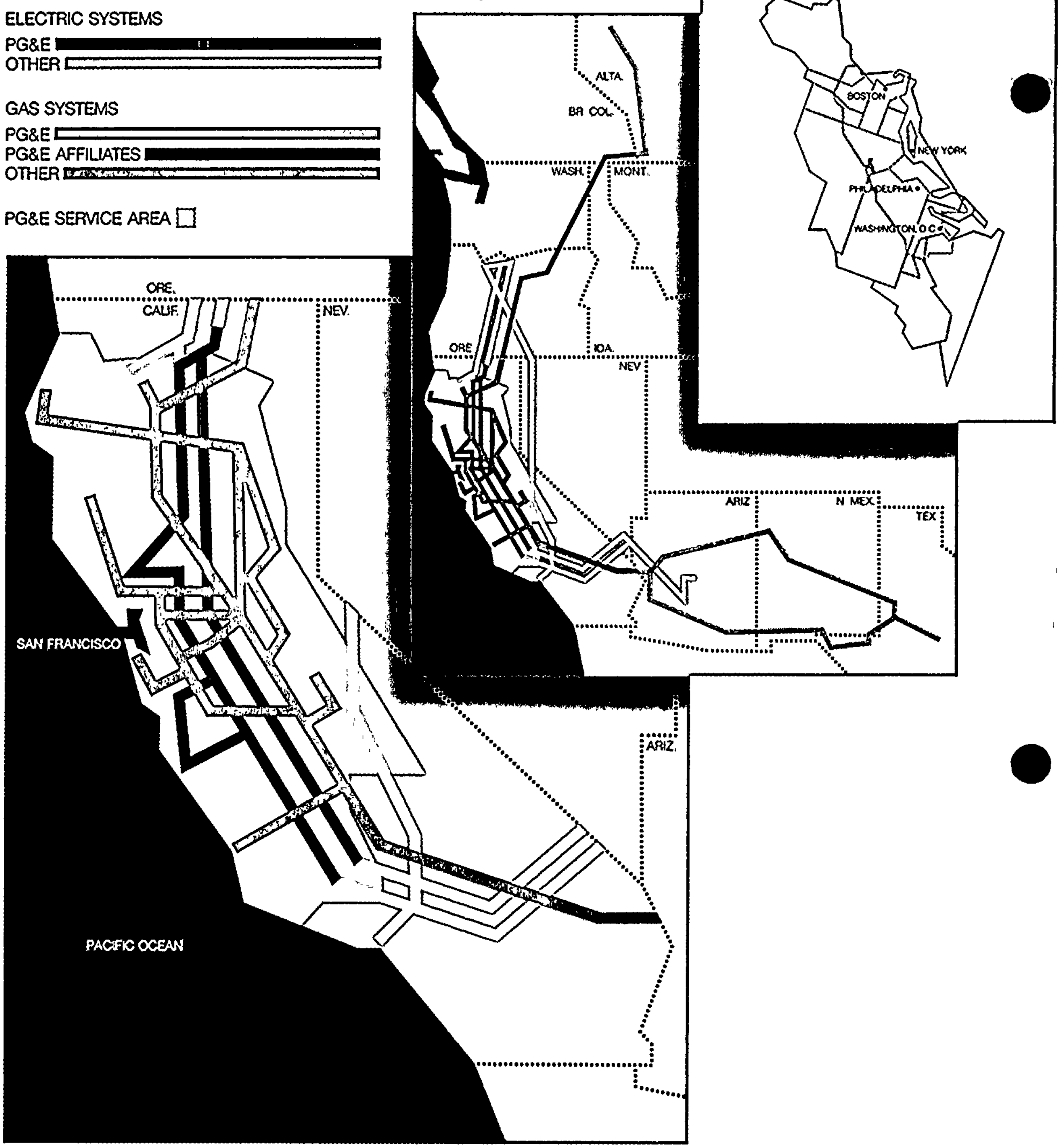
SAN JOAQUIN
Earl E. Foley, Fresno

SAN JOSE
Vernon H. Lind, San Jose

SHASTA
Floyd C. Marks, Red Bluff

STOCKTON
Howard M. McKinley, Stockton

Service Area and Energy Interties



PG&E's service territory covers more than 94,000 square miles in Northern and Central California with a population of more than 8 million. As shown on the lower map, the San Francisco Bay Area is centrally located in the Company's extensive service area.

PG&E has ranged far afield to secure the energy required for both the present and future, as indicated on the middle map. To supplement natural gas from California fields, pipelines reach 1,400 miles northward into Canada and almost the same distance southeasterly to New Mexico and Texas. PG&E's own vast electric generating system is likewise augmented by major interconnections with other sources. The Pacific Intertie links the hydroelectric generating resources of the Northwest with the diverse electric generating resources of California.

The size of PG&E's service territory in relation to the eastern seaboard is indicated by the top map. When viewed in this manner, PG&E's service territory would extend from north of Boston to south of Washington, D.C.

1973 DIVIDEND PAYMENTS

COMMON STOCK	PREFERRED STOCK
January 15	February 15
April 16	May 15
July 16	August 15
October 15	November 15

STOCK EXCHANGE LISTINGS

Common stock of the Company is listed on the New York, Pacific Coast and Honolulu Stock Exchanges. Preferred stocks of the Company are listed on the American and Pacific Coast Stock Exchanges.

ANNUAL MEETING

The Management will solicit proxies for the annual meeting to be held at the office of the Company, 77 Beale Street, San Francisco, California, on Tuesday, April 24, 1973 at 2:00 p.m. In connection with such solicitation, it is expected that the proxy statement and form of proxy will be mailed to stockholders on or about March 26, 1973.

STOCK TRANSFER AGENT

Office of the Company (W. Roby, Transfer Agent), San Francisco

REGISTRAR OF STOCK

Wells Fargo Bank, N.A., San Francisco

EXECUTIVE OFFICE

Pacific Gas and Electric Company,
77 Beale Street, San Francisco,
California 94106

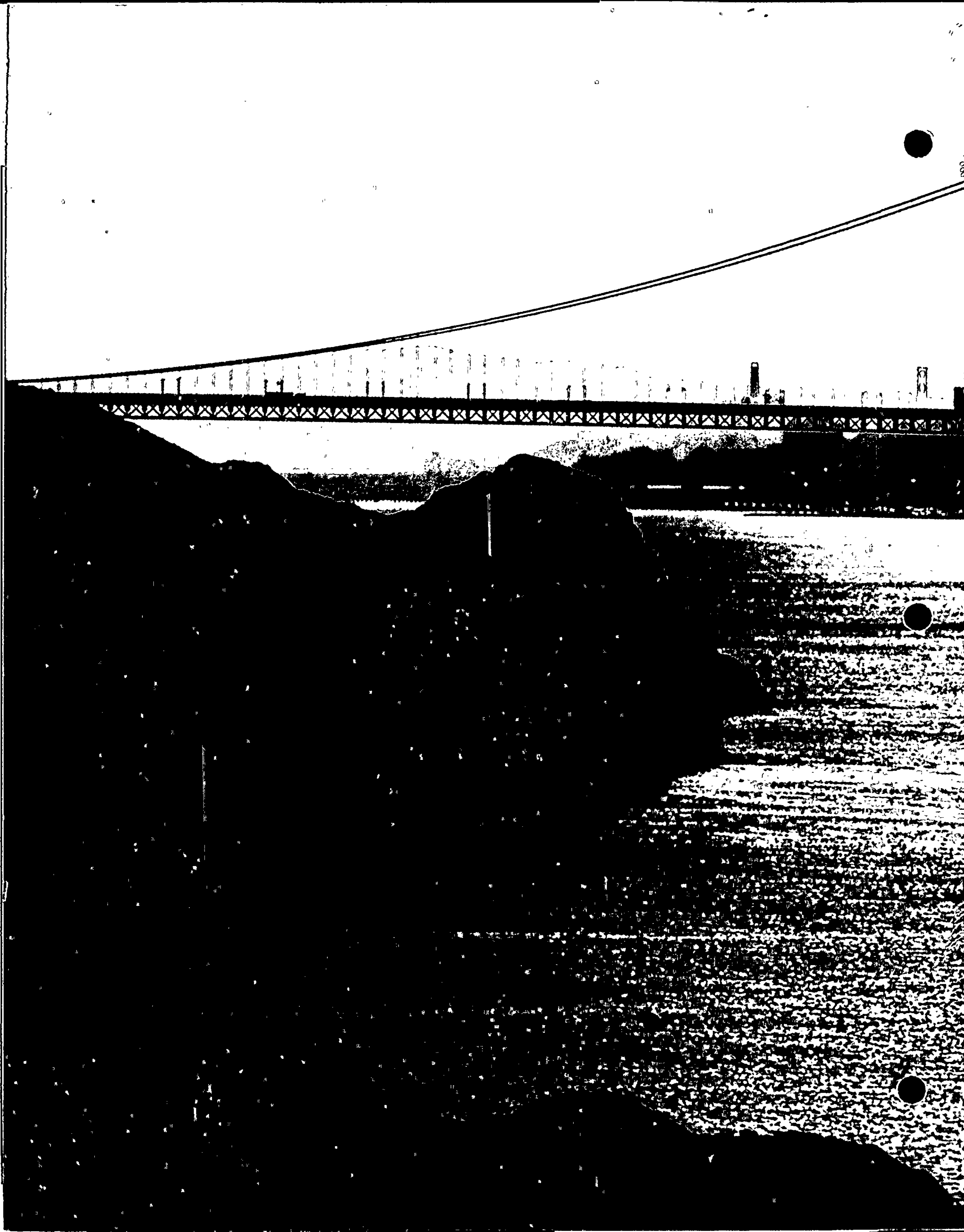


EXHIBIT B

UNITS 1 AND 2

DIABLO CANYON SITE

PACIFIC GAS AND ELECTRIC COMPANY

FINAL SAFETY ANALYSIS REPORT

(Separate Volumes)