

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

(in millions, except per share amounts)	Three months ended March 31,	
	2004	2003
Operating Revenues		
Electric	\$ 1,791	\$ 1,305
Natural gas	931	828
Total operating revenues	2,722	2,133
Operating Expenses		
Cost of electricity	561	544
Cost of natural gas	578	471
Operating expenses including depreciation, amortization and decommissioning	1,128	1,021
Recognition of regulatory assets	(4,900)	-
Reorganization items	2	35
Total operating expenses (gain)	(2,631)	2,071
Operating Income	5,353	62
Interest expense, net and other	(244)	(235)
Income (Loss) Before Income Taxes	5,109	(173)
Income tax provision (benefit)	2,076	(90)
Income (Loss) from Continuing Operations	3,033	(83)
Discontinued Operations of NEGT ^(a)	-	(265)
Net Income (Loss) Before Cumulative Effect of Changes in Accounting Principles	3,033	(348)
Cumulative effect of changes in accounting principles	-	(6)
Net Income (Loss)	\$ 3,033	\$ (354)
Weighted Average Common Shares Outstanding, Diluted	424	382
Earnings (Loss) Per Common Share, Basic	\$ 7.36	\$ (0.93)
Earnings (Loss) Per Common Share, Diluted	\$ 7.21	\$ (0.93)

	Earnings (Loss) Three months ended March 31,		Earnings (Loss) per Share (Diluted) Three months ended March 31,	
	2004	2003	2004	2003
	Pacific Gas and Electric Company and Holding Company			
Pacific Gas and Electric Company	\$ 180	\$ 171	\$ 0.42	\$ 0.45
Holding Company	(5)	1	(0.01)	-
Earnings from Operations	175	172	0.41	0.45
Headroom	-	(181)	-	(0.47)
Items Impacting Comparability ^(b)	2,858	(84)	6.80	(0.22)
Reported Earnings	3,033	(93)	7.21	(0.24)
NEGT ^(a)	-	(261)	-	(0.69)
PG&E Corporation Reported Earnings	\$ 3,033	\$ (354)	\$ 7.21	\$ (0.93)

- (a) On July 8, 2003, PG&E National Energy Group, Inc., or PG&E NEG, and certain of its subsidiaries filed voluntary petitions for relief under the provisions of Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Maryland, Greenbelt Division. On October 3, 2003, the bankruptcy court for the District of Maryland authorized PG&E NEG to change its company name to National Energy and Gas Transmission, Inc., or NEGT.

In anticipation of NEGT's Chapter 11 filing, PG&E Corporation's representatives, who previously served on the NEGT Board of Directors, resigned on July 7, 2003 and were replaced with Board members who are not affiliated with PG&E Corporation. As a result, PG&E Corporation no longer retains significant influence over the ongoing operations of NEGT. On May 3, 2004, the bankruptcy court approved NEGT's plan of reorganization, which eliminates PG&E Corporation's equity interest. Effective July 8, 2003, PG&E Corporation no longer consolidates the earnings and losses of NEGT and has reflected its ownership interest in NEGT utilizing the cost method of accounting, under which PG&E Corporation's investment in NEGT is reflected as a single amount on the Consolidated Balance Sheets of PG&E Corporation at March 31, 2004 and December 31, 2003. In addition, the operations of NEGT prior to July 8, 2003, are reflected as discontinued operations in the Consolidated Financial Statements.

- (b) Items impacting comparability for the quarter ending March 31, 2004 include the Utility's recognition of a gain of approximately \$2,950 million (\$6.96 per share) related to the establishment of regulatory assets contemplated in the December 19, 2003 settlement agreement, or Settlement Agreement, entered into between the Utility, PG&E Corporation and the California Public Utilities Commission, or CPUC, to resolve the Utility's Chapter 11 proceeding, as executed by the CPUC and confirmed by the U.S. Bankruptcy Court for the Northern District of California. In addition, the Utility recognized \$17 million (\$0.04 per share) in charges related to obligations to invest in clean energy technology and donate land, included in the Settlement Agreement.

The effect of recognizing the impact of the Settlement Agreement was partially offset by the net effect of incremental interest costs of \$52 million (\$0.11 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$4 million (\$0.01 per share) related to the Utility's and NEGT's Chapter 11 filings and generally consisting of external legal consulting fees, financial advisory fees and other related costs and payments; and \$19 million related to the change in the market value of non-cumulative dividend participation rights included within the Holding Company's \$280 million of 9.5% Convertible Subordinated Notes.

Items impacting comparability for the quarter ended March 31, 2003 include the net effect of incremental interest costs of \$71 million (\$0.19 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; and increased costs of \$21 million (\$0.05 per share) related to the Utility's Chapter 11 filing and generally consisting of external legal consulting and financial advisory fees, partially off-set by a net gain of \$8 million (\$0.02 per share) principally associated with previously reserved costs of involuntary terminations of gas transportation hedges, resulting from the Utility's Chapter 11 filing, which due to a subsequent regulatory ruling were considered recoverable.

To enable accurate comparison to current period, certain previously disclosed items impacting comparability have been reclassified to the related operating entity in the prior period.

Reconciliation of Guidance for Earnings from Operations

	<u>Year Ended December 31, 2004</u> ⁽¹⁾	
Earnings from Operations EPS Guidance ⁽²⁾	\$ 2.00	\$ 2.10
Estimated Items Impacting Comparability		
Incremental interest expense	(0.21)	(0.14)
Utility Chapter 11 related expenses	(0.02)	(0.01)
Utility Chapter 11 Settlement Agreement assets and obligations ⁽³⁾	6.88	6.92
2003 GRC settlement ⁽⁴⁾	0.28	0.28
NEGT Chapter 11 related expenses	(0.05)	(0.03)
Gain on disposition of NEGT ⁽⁵⁾	0.88	1.74
Reported EPS Guidance ⁽²⁾	<u>\$ 9.76</u>	<u>\$ 10.86</u>

⁽¹⁾ Estimates include a range of shares outstanding.

⁽²⁾ Excludes the results of NEGT.

- ⁽³⁾ Impact of recognizing \$2.2 billion after-tax regulatory asset and a \$700 million after-tax regulatory asset for the Utility's retained generation as provided for in the Utility's Plan of Reorganization. These regulatory assets are offset by \$17 million related to obligations to invest in clean energy technology and donate land, included in the Settlement Agreement.
- ⁽⁴⁾ Impact of additional 2003 natural gas revenues to be recognized in 2004 upon implementation of 2003 General Rate Case, or GRC, proposed settlement agreement and recognition of a regulatory asset associated with the recovery of unfunded taxes.
- ⁽⁵⁾ Impact of recognizing the reversal of PG&E Corporation's investment in NEGT and related amounts in deferred income taxes and accumulated other comprehensive income as a result of the implementation of NEGT's plan of reorganization eliminating PG&E Corporation's equity interest.