

PG&E CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	(Unaudited)			
	Three months ended		Twelve months ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Operating Revenues				
Electric	\$ 1,965	\$ 1,661	\$ 7,867	\$ 7,582
Natural gas	1,015	816	3,213	2,853
Total Operating Revenues	<u>2,980</u>	<u>2,477</u>	<u>11,080</u>	<u>10,435</u>
Operating Expenses				
Cost of electricity	767	496	2,770	2,309
Cost of natural gas	628	427	1,724	1,438
Recognition of regulatory assets	-	-	(4,900)	-
Operating expenses including depreciation	1,009	1,162	4,362	4,185
Reorganization items	-	44	6	160
Total Operating Expenses	<u>2,404</u>	<u>2,129</u>	<u>3,962</u>	<u>8,092</u>
Operating Income	<u>576</u>	<u>348</u>	<u>7,118</u>	<u>2,343</u>
Interest and other expense, net	(275)	(307)	(832)	(1,094)
Income Before Income Taxes	<u>301</u>	<u>41</u>	<u>6,286</u>	<u>1,249</u>
Income tax provision	<u>114</u>	<u>4</u>	<u>2,466</u>	<u>458</u>
Income from Continuing Operations	<u>187</u>	<u>37</u>	<u>3,820</u>	<u>791</u>
Discontinued Operations of NEGT ^(a)	<u>684</u>	<u>-</u>	<u>684</u>	<u>(365)</u>
Net Income Before Cumulative Effect of Changes in Accounting Principles	<u>871</u>	<u>37</u>	<u>4,504</u>	<u>426</u>
Cumulative effect of changes in accounting principles	-	-	-	(6)
Net Income	<u>\$ 871</u>	<u>\$ 37</u>	<u>\$ 4,504</u>	<u>\$ 420</u>
Weighted Average Common Shares				
Outstanding and Participating Securities, Diluted	428	420	426	413
Earnings Per Common Share, Basic ^(b)	<u>\$ 2.07</u>	<u>\$ 0.09</u>	<u>\$ 10.80</u>	<u>\$ 1.04</u>
Earnings Per Common Share, Diluted ^(b)	<u>\$ 2.04</u>	<u>\$ 0.09</u>	<u>\$ 10.57</u>	<u>\$ 1.02</u>

(Unaudited)	Earnings (Loss)		Earnings (Loss) per	
	Three months ended		Common Share, Diluted	
	December 31,		Three months ended	
	2004	2003	2004	2003
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 191	\$ 141	\$ 0.45	\$ 0.34
Holding Company	(5)	(2)	(0.01)	(0.01)
Earnings from Operations	<u>186</u>	<u>139</u>	<u>0.44</u>	<u>0.33</u>
Headroom ^(c)	-	43	-	0.10
Items Impacting Comparability ^(d)	1	(145)	-	(0.34)
NEGT ^(a)	<u>684</u>	<u>-</u>	<u>1.60</u>	<u>-</u>
PG&E Corporation Reported Earnings	<u>\$ 871</u>	<u>\$ 37</u>	<u>\$ 2.04</u>	<u>\$ 0.09</u>

(Unaudited)	Earnings (Loss)		Earnings (Loss) per	
	Twelve months ended		Common Share, Diluted	
	December 31,		Twelve months ended	
	2004	2003	2004	2003
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 931	\$ 616	\$ 2.19	\$ 1.49
Holding Company	(30)	(5)	(0.07)	(0.01)
Earnings from Operations	901	611	2.12	1.48
Headroom ^(c)	-	677	-	1.64
Items Impacting Comparability ^(d)	2,919	(499)	6.85	(1.21)
NEGT ^(a)	684	(369)	1.60	(0.89)
PG&E Corporation Reported Earnings	<u>\$ 4,504</u>	<u>\$ 420</u>	<u>\$ 10.57</u>	<u>\$ 1.02</u>

- (a) On October 29, 2004, National Energy & Gas Transmission, Inc., or NEGT's, plan of reorganization became effective, at which time NEGT emerged from Chapter 11 and PG&E Corporation's equity ownership in NEGT was cancelled. As a result, during the fourth quarter of 2004 PG&E Corporation recognized a one-time non-cash gain on the disposal of NEGT of approximately \$684 million, after-tax.

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 retained significant influence over the ongoing operations of NEGT. Effective July 8, 2003 (the date NEGT filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code), PG&E Corporation no longer consolidated the earnings and losses of NEGT. In addition, the operations of NEGT prior to July 8, 2003, are reflected as discontinued operations in the Consolidated Financial Statements.

- (b) Reflects adoption of the "Two-Class" method of calculating earnings per share for all periods presented.
- (c) As a result of California Public Utilities Commission, or the CPUC, decisions approving the Settlement Agreement and implementing various ratemaking mechanisms, the Utility no longer records frozen electric rates and surcharges, or headroom, directly to earnings as it had in 2003. Instead, the Utility collects cost-of-service based electric rates that are the sum of specific revenue requirements.
- (d) Items impacting comparability for the quarter ending December 31, 2004 include fourth quarter CPUC decisions granting recovery of previously incurred incremental interest costs of \$14 million (\$0.03 per share), after-tax, resulting from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 proceeding, and recovery of approximately \$30 million (\$0.07 per share), after-tax, of previously incurred costs related to the implementation of electric industry restructuring filed by the Utility with the CPUC on April 16, 2004. Offsetting these increases to earnings were approximately \$30 million (\$0.07 per share), after-tax, associated with the early redemption of PG&E Corporation's \$600 million 6 7/8% Senior Secured Notes on November 15, 2004 and approximately \$13 million (\$0.03 per share), after-tax, related to the change in the estimated market value of non-cumulative dividend participation rights included within the Holding Company's \$280 million principal amount of 9.5% Convertible Subordinated Notes.

Items impacting comparability for the quarter ended December 31, 2003 include the net effect of incremental interest costs of \$97 million (\$0.23 per share), after-tax, from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 proceeding; increased costs of \$48 million (\$0.11 per share), after-tax, related to the Utility's and NEGT's Chapter 11 proceedings and generally consisting of external legal consulting and financial advisory fees, and other related costs.

Items impacting comparability for the year-to-date period ending December 31, 2004 include the Utility's recognition of a gain of approximately \$120 million (\$0.28 per share), after-tax, related to the prior year impact and regulatory asset recognition resulting from the CPUC decision approving the 2003 GRC, a fourth quarter CPUC decision granting recovery of approximately \$30 million (\$0.07 per share), after-tax, of previously incurred costs related to the implementation of electric industry restructuring filed by the Utility with the CPUC on April 16, 2004, and a gain of approximately \$2,950 million (\$6.92 per share), after-tax, 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 CPUC to resolve the Utility's Chapter 11 proceeding. In addition, the Utility recognized \$17 million (\$0.04 per share), after-tax, in charges related to obligations to invest in clean energy technology and donate land, included in the Settlement Agreement.

The effect of recognizing the impacts of the Settlement Agreement, cost recoveries and GRC was partially offset by the net effect of incremental interest costs of \$67 million (\$0.15 per share), after-tax, from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$13 million (\$0.03 per share), after-tax, 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; approximately \$30 million (\$0.07 per share), after-tax, associated with the early redemption of PG&E Corporation's \$600 million 6 7/8% Senior Secured Notes on November 15, 2004; and \$54 million (\$0.13 per share), after-tax, related to the change in the estimated market value of non-cumulative dividend participation rights included within the Holding Company's \$280 million principal amount of 9.5% Convertible Subordinated Notes.

Items impacting comparability for the year-to-date period ended December 31, 2003 include the net effect of incremental interest costs of \$370 million (\$0.90 per share), after-tax, from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter

11 proceeding; increased costs of \$123 million (\$0.30 per share), after-tax, related to the Utility's and NEGT's Chapter 11 proceedings and generally consisting of external legal consulting and financial advisory fees, and \$6 million (\$0.01 per share), after-tax, of other costs associated with current year regulatory rulings.

	<u>Year Ended December 31, 2005</u>	
EPS Guidance on an Earnings from Operations Basis	\$ 2.15	\$ 2.25
Estimated Items Impacting Comparability ⁽¹⁾		
Incremental interest expense ⁽²⁾	<u>(0.08)</u>	<u>(0.05)</u>
EPS Guidance on a GAAP Basis	<u>\$ 2.07</u>	<u>\$ 2.20</u>

(1) The range of potential outcomes is developed using a range of dollar estimates and a range of estimated shares outstanding for the items presented.

(2) The net interest expense, after-tax, related to remaining generator disputed claims in the Utility's Chapter 11 proceeding, which are subject to resolution by bankruptcy court.