



PG&E Corporation: Energy Supply in a Carbon-Constrained World

Sanford Bernstein CO₂ Conference
June 14, 2007
New York, NY

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Cautionary Statement Regarding Forward-Looking Information

This presentation contains forward-looking statements regarding PG&E Corporation's potential energy-related investment opportunities, projected future electric resources, and the anticipated financial impact of future climate change legislation and policies. These statements are based on current expectations and various assumptions which management believes are reasonable. These statements and assumptions are necessarily subject to various risks and uncertainties, the realization or resolution of which are outside of management's control. Actual results may differ materially. Factors that could cause actual results to differ materially include:

- the Utility's ability to timely recover costs through rates;
- the outcome of regulatory proceedings, including ratemaking proceedings pending at the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC);
- the adequacy and price of electricity and natural gas supplies, and the ability of the Utility to manage and respond to the volatility of the electricity and natural gas markets;
- the effects of weather, storms, earthquakes, fires, floods, disease, other natural disasters, explosions, accidents, mechanical breakdowns, acts of terrorism, and other events or hazards that could affect the Utility's facilities and operations, its customers, and third parties on which the Utility relies;
- the potential impacts of climate change on the Utility's electricity and natural gas business;
- changes in customer demand for electricity and natural gas resulting from unanticipated population growth or decline, general economic and financial market conditions, changes in technology including the development of alternative energy sources, or other reasons;
- operating performance of the Utility's Diablo Canyon nuclear generating facilities (Diablo Canyon), the occurrence of unplanned outages at Diablo Canyon, or the temporary or permanent cessation of operations at Diablo Canyon;
- the ability of the Utility to recognize benefits from its initiatives to improve its business processes and customer service;
- the ability of the Utility to timely complete its planned capital investment projects;
- the impact of changes in federal or state laws, or their interpretation, on energy policy and the regulation of utilities and their holding companies;
- the impact of changing wholesale electric or gas market rules, including the California Independent System Operator's new rules to restructure the California wholesale electricity market;
- how the CPUC administers the conditions imposed on PG&E Corporation when it became the Utility's holding company;
- the extent to which PG&E Corporation or the Utility incur costs and liabilities in connection with pending litigation that are not recoverable through rates, from third parties, or through insurance recoveries;
- the ability of PG&E Corporation and/or the Utility to access capital markets and other sources of credit;
- the impact of environmental laws and regulations and the costs of compliance and remediation;
- the effect of municipalization, direct access, community choice aggregation, or other forms of bypass; and
- other risks and factors disclosed in PG&E Corporation's and Pacific Gas and Electric Company's SEC reports.



Energy Supply in a Carbon-Constrained World

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Climate Change Requires Global Solutions

Successful carbon reduction solutions will:

- Engage the United States
- Require economy-wide compliance
- Support economic sustainability
- Facilitate the best allocation of infrastructure investment and new technology development

Federal Action is Required

- State and regional legislation is an important catalyst to greenhouse gas reductions, AND
- Broad national emissions trading market is needed to:
 - Encourage investment
 - Deploy new technologies

Keys to Effective Federal Carbon Reduction Policy

- Long-term emissions reduction trajectory
- Flexible, market-based compliance to support innovation and market opportunities
- Encourage/recognize early action
- Accelerate “Energy Independence” legislation

Expected “Energy Independence” Measures

Near-term legislation creates a foundation for climate change solutions:

- Energy Efficiency
- Renewable generation
 - PTC (Wind, Biomass, Geothermal, Hydro, Solid Waste, Refined Coal)
 - ITC (Solar, Fuel Cell, Geothermal, Distributed Generation)
 - Renewable Portfolio Standard (RPS)
- Technology
 - Accelerated depreciation for advanced metering technology
 - Clean fuels (Plug-in Hybrids, Electric and Natural Gas Vehicles)

Climate Change – Big Picture

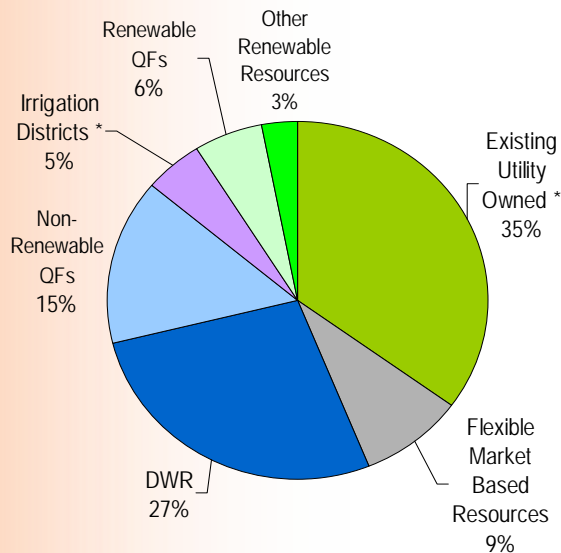
- Fundamental change in the way energy is produced, delivered and consumed
- Quantum leap – from 30 years ago to 30 years from now
- Tremendous change and tremendous opportunity
- PG&E's business is aligned with the new industry direction

California Energy Policy

- Statewide Energy Strategy
 - California Energy Action Plan/“Preferred Loading Order”
 - Renewable Portfolio Standard
 - AB32 Greenhouse Gas Legislation
- Constructive Regulatory Environment
 - Decoupling/balancing account treatment
 - Purchased power and fuel costs pass-through
 - Pre-approved CapEx

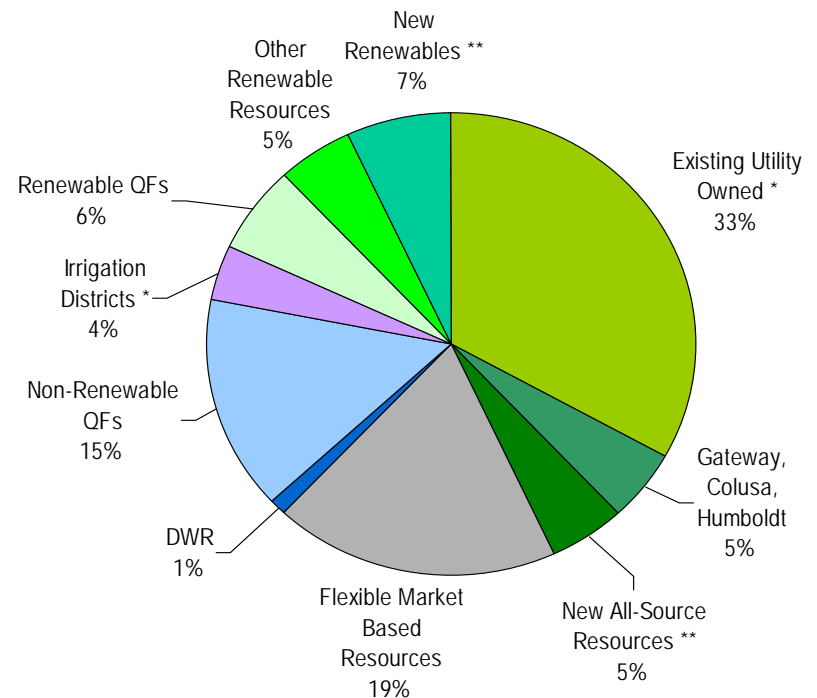
PG&E: Supplier of Clean, Secure, Reliable Energy

2007 Projected Sources of Energy 85,500 GWh



* Approximately 13% of total retail sales expected to be eligible renewable resources coming from utility-owned, QFs, Irrigation Districts and other sources.

2012 Projected Sources of Energy 89,900 GWh



* Over 20% of total retail sales expected to be eligible renewable resources coming from utility-owned, QFs, Irrigation Districts, and other sources.

** May include utility-owned resources.

Mandatory CO₂ Legislation Implications for PG&E

- Customer rate impacts must be managed
- Low-emitting generation portfolio and supply sources limit compliance risk
- “Energy Independence” legislation creates earnings and investment opportunities

Core Business Investment Opportunities

- Electric and gas distribution
 - Advanced metering technology
- Electric transmission
 - System reliability and generation substitutes
 - Growth to reach renewable resources
- Natural gas transmission and storage
- Electric resource requirements
 - Energy efficiency
 - Conventional generation

New Investment Opportunities

- Utility-owned renewable generation
- Distributed generation and energy storage
- Smart Energy Web/real-time price technology
- Infrastructure for plug-in hybrid and alternative fuel vehicles

Climate Change Action Summary – PG&E Perspective

- Federal, economy-wide action required
- Clean portfolio minimizes risk
- Customers should not pay twice
- “Energy Independence” legislation means opportunities
- PG&E is well positioned