

PG&E Corporation
Consolidated Statements of Income
(in millions, except per share amounts)

	Year ended December 31,		
	2006	2005	2004
Operating Revenues			
Electric	\$ 8,752	\$ 7,927	\$ 7,867
Natural gas	3,787	3,776	3,213
Total operating revenues	12,539	11,703	11,080
Operating Expenses			
Cost of electricity	2,922	2,410	2,770
Cost of natural gas	2,097	2,191	1,724
Operating and maintenance	3,703	3,397	2,871
Recognition of regulatory assets	-	-	(4,900)
Depreciation, amortization, and decommissioning	1,709	1,735	1,497
Total operating expenses	10,431	9,733	3,962
Operating Income	2,108	1,970	7,118
Interest income	188	80	63
Interest expense	(738)	(583)	(797)
Other expense, net	(13)	(19)	(98)
Income Before Income Taxes	1,545	1,448	6,286
Income tax provision	554	544	2,466
Income From Continuing Operations	991	904	3,820
Discontinued Operations			
Gain on disposal of NEGT (net of income tax benefit of \$13 million in 2005 and income tax expense of \$374 million in 2004)	-	13	684
Net Income	\$ 991	\$ 917	\$ 4,504
Weighted Average Common Shares Outstanding, Basic	346	372	398
Earnings Per Common Share from Continuing Operations, Basic	\$ 2.78	\$ 2.37	\$ 9.16
Net Earnings Per Common Share, Basic	\$ 2.78	\$ 2.40	\$ 10.80
Earnings Per Common Share from Continuing Operations, Diluted	\$ 2.76	\$ 2.34	\$ 8.97
Net Earnings Per Common Share, Diluted	\$ 2.76	\$ 2.37	\$ 10.57
Dividends Declared Per Common Share	\$ 1.32	\$ 1.23	\$ -

Source: PG&E Corporation's and Pacific Gas and Electric Company's Consolidated Financial Statements and Notes thereto included in PG&E Corporation's and Pacific Gas and Electric Company's combined Annual Report on Form 10-K for the year ended December 31, 2006.

Reconciliation of PG&E Corporation's Earnings from Operations to Consolidated Net Income in Accordance with Generally Accepted Accounting Principles (GAAP)
Fourth Quarter and Year-to-Date, 2006 vs. 2005
(in millions, except per share amounts)

	Three months ended December 31,				Twelve months ended December 31,			
	Earnings (Loss)		Earnings (Loss) per Common Share Diluted		Earnings (Loss)		Earnings (Loss) per Common Share Diluted	
	2006	2005	2006	2005	2006	2005	2006	2005
PG&E Corporation Earnings from Operations (1)	\$ 170	\$ 179	\$ 0.48	\$ 0.49	\$ 922	\$ 906	\$ 2.57	\$ 2.34
Items Impacting Comparability (2)								
Scheduling Coordinator Cost Recovery	-	-	-	-	77	-	0.21	-
Environmental Remediation Liability	-	-	-	-	(18)	-	(0.05)	-
Recovery of Interest on PX Liability	-	-	-	-	28	-	0.08	-
Energy Crisis/Chapter 11 Interest Costs	-	-	-	-	-	(3)	-	(0.01)
AEAP Settlement	-	93	-	0.25	-	93	-	0.24
Chromium Litigation Settlement Adjustment	-	(91)	-	(0.25)	-	(91)	-	(0.23)
Severance Costs	(18)	-	(0.05)	-	(18)	-	(0.05)	-
Other	-	(1)	-	-	-	(1)	-	-
Total	(18)	1	(0.05)	-	69	(2)	0.19	-
Discontinued Operations - NEGT (3)	-	-	-	-	-	13	-	0.03
PG&E Corporation Earnings on a GAAP basis	\$ 152	\$ 180	\$ 0.43	\$ 0.49	\$ 991	\$ 917	\$ 2.76	\$ 2.37

- Earnings from operations exclude items impacting comparability as noted in the following discussion.
- Items impacting comparability reconcile earnings from operations with consolidated net income as reported in accordance with GAAP.
- During the third quarter of 2005, PG&E Corporation received additional information from its former subsidiary, National Energy & Gas Transmission, Inc. or NEGT, regarding income to be included in PG&E Corporation's 2004 federal income tax return. This information was incorporated in the 2004 tax return, which was filed with the IRS in September 2005. As a result, the 2004 federal income tax liability was reduced by approximately \$19 million. NEGT also provided additional information with respect to amounts previously included in PG&E Corporation's 2003 federal income tax return. This change resulted in PG&E Corporation's 2003 federal income tax liability increasing by approximately \$6 million. These two adjustments, netting to \$13 million, were recognized in income from discontinued operations in the third quarter of 2005.

Reconciliation of Pacific Gas and Electric Company's Earnings from Operations to Consolidated Net Income in Accordance with GAAP
Fourth Quarter and Year-to-Date, 2006 vs. 2005
(in millions)

	Three months ended December 31,		Twelve months ended December 31,	
	Earnings (Loss)		Earnings (Loss)	
	2006	2005	2006	2005
Pacific Gas and Electric Company Earnings from Operations (1)	\$ 173	\$ 181	\$ 902	\$ 919
Items Impacting Comparability (2)				
Scheduling Coordinator Cost Recovery	-	-	77	-
Environmental Remediation Liability	-	-	(18)	-
Recovery of Interest on PX Liability	-	-	28	-
Energy Crisis/Chapter 11 Interest Costs	-	-	-	(3)
AEAP Settlement	-	93	-	93
Chromium Litigation Settlement Adjustment	-	(91)	-	(91)
Severance Costs	(18)	-	(18)	-
Total	(18)	2	69	(1)
Pacific Gas and Electric Company Earnings on a GAAP basis	\$ 155	\$ 183	\$ 971	\$ 918

-
- Earnings from operations exclude items impacting comparability as noted in the following discussion.
 - Items impacting comparability reconcile earnings from operations with consolidated net income as reported in accordance with GAAP.
-

DISCUSSION RELATED TO EARNINGS SUMMARY:

Items impacting comparability for the three months ended December 31, 2006 include:

- a) Severance costs of approximately \$18 million (\$0.05 per common share), after-tax, to reflect consolidation of various positions in connection with the Utility's continued effort to streamline processes and achieve cost and operating efficiencies through implementation of various initiatives.

Items impacting comparability for the three months ended December 31, 2005 include:

- a) Annual Earnings Assessment Proceeding, or AEAP, revenues of approximately \$93 million (\$0.25 per common share), after-tax, as a result of an October 27, 2005 California Public Utilities Commission, or CPUC, decision allowing the Utility to recover shareholder incentives for successful implementation of certain public purpose programs; and
- b) An additional accrual of \$91 million (\$0.25 per common share), after-tax, to reflect both the February 3, 2006 settlement of most of the claims in the "chromium litigation" pending against the Utility and an accrual for the remaining unresolved claims.

Items impacting comparability for the twelve months ended December 31, 2006 include:

- a) The recovery of approximately \$77 million (\$0.21 per common share), after-tax, of Scheduling Coordinator, or SC, costs, incurred from April 1998 through September 2006, based on a Federal Energy Regulatory Commission, or FERC, order;
- b) An increase of approximately \$18 million (\$0.05 per common share), after-tax, in the estimated cost of environmental remediation associated with the Utility's gas compressor station located near Hinkley, California, as a result of changes in the California Regional Water Quality Control Board's imposed remediation levels;
- c) The recovery of approximately \$28 million (\$0.08 per common share), after-tax, of previously recorded net interest expense on the Power Exchange Corporation, or PX, liability from April 12, 2004 to February 10, 2005, in the Energy Recovery Bond Balancing Account as a result of completion of the verification audit by the CPUC in the Utility's 2005 annual electric true-up proceeding; and
- d) Severance costs of approximately \$18 million (\$0.05 per common share), after-tax, to reflect consolidation of various positions in connection with the Utility's continued effort to streamline processes and achieve cost and operating efficiencies through implementation of various initiatives.

Items impacting comparability for the twelve months ended December 31, 2005 include:

- a) The net effect of incremental interest costs of approximately \$3 million (\$0.01 per common share), after-tax, incurred by the Utility through February 10, 2005 related to generator disputed claims in the Utility's Chapter 11 proceeding, which were not considered recoverable;
 - b) AEAP revenues of approximately \$93 million (\$0.24 per common share), after-tax, as a result of an October 27, 2005 CPUC decision allowing the Utility to recover shareholder incentives for successful implementation for certain public purpose programs; and
 - c) An additional accrual of \$91 million (\$0.23 per common share), after-tax, to reflect both the February 3, 2006 settlement of most of the claims in the "chromium litigation" pending against the Utility and an accrual for the remaining unresolved claims.
-

PG&E Corporation Earnings per Common Share from Operations
Fourth Quarter 2006 vs. Fourth Quarter 2005
(\$/Share, Diluted)

Q4 2005 EPS from Operations (1)	\$ 0.49
Share variance	0.02
Effect of increase in authorized return on equity	0.01
Diablo Canyon refueling outage (2)	0.07
Reduction in litigation settlements (2)	0.02
AEAP Settlement (3)	(0.05)
Employee benefit plans	(0.01)
ERB Series 2 equity carrying cost credit	(0.01)
Miscellaneous items	(0.06)
Q4 2006 EPS from Operations (1)	<u>\$ 0.48</u>

Year-to-Date 2006 vs. Year-to-Date 2005
(\$/Share, Diluted)

2005 YTD EPS from Operations (1)	\$ 2.34
Share variance	0.19
Effect of increase in authorized return on equity	0.03
Electric transmission revenue	0.01
Diablo Canyon refueling outage timing	0.01
Employee benefit plans	0.02
Gas transmission revenue	0.05
Recovery of energy supplier litigation costs	0.03
Tax benefit for capital loss utilization	0.05
Environmental remediation (2)	0.03
Reduction in litigation settlements (2)	0.04
Refund of overcollection (2)	0.03
AEAP Settlement (3)	(0.05)
Earnings on the settlement regulatory asset (3)	(0.04)
ERB Series 2 equity carrying cost credit	(0.13)
Miscellaneous	(0.04)
2006 YTD EPS from Operations (1)	<u>\$ 2.57</u>

1. See prior tables for a reconciliation of earnings per common share, or EPS, from operations to EPS on a GAAP basis.
 2. Cost incurred in 2005 with no similar cost in 2006.
 3. Benefit received in 2005 with no similar benefit in 2006.
-

PG&E Corporation Earnings per Common Share (EPS) Guidance

2007 EPS Guidance

	Low	High
EPS Guidance on an Earnings from Operations Basis	\$ 2.70	\$ 2.80
Estimated Items Impacting Comparability	\$ 0.00	\$ 0.00
EPS Guidance on a GAAP Basis	\$ 2.70	\$ 2.80

Management's statements regarding 2007 guidance for earnings from operations per common share for PG&E Corporation, estimated rate base for 2007, and general sensitivities for 2007 earnings, constitute forward-looking statements that are based on current expectations and assumptions which management believes are reasonable, including that the Utility earns its authorized rate of return. These statements and assumptions are necessarily subject to various risks and uncertainties. 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 CPUC and the 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 effect 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 operations;
- . 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, or 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, or the CAISO'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 incurs costs 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 factors discussed in PG&E Corporation's and Pacific Gas and Electric Company's SEC reports.