

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

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2006                           | 2005     | 2006                         | 2005     |
| <b>Operating Revenues</b>                         |                                |          |                              |          |
| Electric  | \$ 2,214                       | \$ 1,780 | \$ 4,077                     | \$ 3,439 |
| Natural gas                                       | 803                            | 718      | 2,088                        | 1,727    |
| Total operating revenues                          | 3,017                          | 2,498    | 6,165                        | 5,166    |
| <b>Operating Expenses</b>                         |                                |          |                              |          |
| Cost of electricity                               | 781                            | 487      | 1,311                        | 884      |
| Cost of natural gas                               | 368                            | 347      | 1,241                        | 967      |
| Operating and maintenance                         | 982                            | 670      | 1,844                        | 1,436    |
| Depreciation, amortization and decommissioning    | 421                            | 454      | 835                          | 839      |
| Total operating expenses                          | 2,552                          | 1,958    | 5,231                        | 4,126    |
| Operating Income                                  | 465                            | 540      | 934                          | 1,040    |
| Interest income                                   | 41                             | 16       | 64                           | 37       |
| Interest expense                                  | (164)                          | (131)    | (318)                        | (292)    |
| Other income (expense), net                       | 28                             | (2)      | 28                           | (3)      |
| Income Before Income Taxes                        | 370                            | 423      | 708                          | 782      |
| Income tax provision                              | 138                            | 156      | 262                          | 297      |
| Net Income  | \$ 232                         | \$ 267   | \$ 446                       | \$ 485   |
| Weighted Average Common Shares Outstanding, Basic | 346                            | 370      | 345                          | 379      |
| Net Earnings Per Common Share, Basic              | \$ 0.65                        | \$ 0.70  | \$ 1.26                      | \$ 1.25  |
| Net Earnings Per Common Share, Diluted            | \$ 0.65                        | \$ 0.70  | \$ 1.25                      | \$ 1.23  |
| Dividends Declared Per Common Share               | \$ 0.33                        | \$ 0.30  | \$ 0.66                      | \$ 0.60  |

Source: PG&E Corporation's and Pacific Gas and Electric Company's Condensed Consolidated Financial Statements and Notes thereto included in PG&E Corporation's and Pacific Gas and Electric Company's combined Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

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

|   | Three months ended June 30, |        |  |         | Six months ended June 30, |        |  |         |
|---|-----------------------------|--------|--|---------|---------------------------|--------|--|---------|
|   | 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 <sup>1</sup>                        | \$ 228                      | \$ 262 | \$ 0.64                                    | \$ 0.69 | \$ 442                    | \$ 488 | \$ 1.24                                    | \$ 1.24 |
| Items Impacting Comparability <sup>2</sup>                                    |                             |        |  |         |                           |        |  |         |
| Scheduling Coordinator Cost Recovery <sup>3</sup>                             | 22                          | -      | 0.06                                       | -       | 22                        | -      | 0.06                                       | -       |
| Environmental Remediation Liability <sup>4</sup><br>Energy Crisis/ Chapter 11 | (18)                        | -      | (0.05)                                     | -       | (18)                      | -      | (0.05)                                     | -       |
| Interest Costs <sup>5</sup>   | -                           | 5      | -  | 0.01    | -                         | (3)    | -  | (0.01)  |
| Total   | 4                           | 5      | 0.01                                       | 0.01    | 4                         | (3)    | 0.01                                       | (0.01)  |
| PG&E Corporation Earnings on a GAAP basis                                     | \$ 232                      | \$ 267 | \$ 0.65                                    | \$ 0.70 | \$ 446                    | \$ 485 | \$ 1.25                                    | \$ 1.23 |

<sup>1</sup> Earnings from operations exclude items impacting comparability.

<sup>2</sup> Items impacting comparability reconcile earnings from operations with consolidated net income as reported in accordance with GAAP.

<sup>3</sup> Items impacting comparability for the three and six months ended June 30, 2006 reflect the recognition of approximately \$22 million (\$0.06 per common share), after tax, of a regulatory asset related to certain scheduling coordinator, or SC, costs incurred from 1998 to 2005 and a reversal of a reserve for SC costs under the Scheduling Coordinator Services, or SCS, Tariff offset by SCS refunds to certain existing wholesale transmission customers.

<sup>4</sup> Items impacting comparability for the three and six months ended June 30, 2006 reflect 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.

<sup>5</sup> Items impacting comparability for the three months ended June 30, 2005 include the recovery of net incremental interest costs incurred by the Utility after February 10, 2005, the date of issuance of the first series of Energy Recovery Bonds, through March 31, 2005 of approximately \$5 million (\$0.01 per common share), after-tax, related to remaining generator disputed claims in the Utility's Chapter 11 proceeding. These costs were recoverable as a result of a California Public Utilities Commission, or CPUC, decision on May 4, 2005.

Items impacting comparability for the six months ended June 30, 2005 include 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.

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

|  | Three months ended June 30, |        | Six months ended June 30, |        |
|--|-----------------------------|--------|---------------------------|--------|
|  | Earnings (Loss)             |        | Earnings (Loss)           |        |
|  | 2006                        | 2005   | 2006                      | 2005   |
| Pacific Gas and Electric Company Earnings from Operations <sup>1</sup> | \$ 223                      | \$ 267 | \$ 437                    | \$ 494 |
| Items Impacting Comparability <sup>2</sup>                             |                             |        |                           |        |
| Scheduling Coordinator Cost Recovery <sup>3</sup>                      | 22                          | -      | 22                        | -      |
| Environmental Remediation Liability <sup>4</sup>                       | (18)                        | -      | (18)                      | -      |
| Energy Crisis/ Chapter 11 Interest Costs <sup>5</sup>                  | -                           | 5      | -                         | (3)    |
| Total  | 4                           | 5      | 4                         | (3)    |
| Pacific Gas and Electric Company Earnings on a GAAP basis              | \$ 227                      | \$ 272 | \$ 441                    | \$ 491 |

<sup>1</sup> Earnings from operations exclude items impacting comparability.

<sup>2</sup> Items impacting comparability reconcile earnings from operations with consolidated net income as reported in accordance with GAAP.

<sup>3</sup> Items impacting comparability for the three and six months ended June 30, 2006 reflect the recognition of approximately \$22 million, after-tax, of a regulatory asset related to certain SC costs incurred from 1998 to 2005 and a reversal of a reserve for SC costs under the SCS Tariff offset by SCS refunds to certain existing wholesale transmission customers.

<sup>4</sup> Items impacting comparability for the three and six months ended June 30, 2006 reflect an increase of approximately \$18 million, 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.

<sup>5</sup> Items impacting comparability for the three months ended June 30, 2005 include the recovery of net incremental interest costs incurred by the Utility after February 10, 2005, the date of issuance of the first series of Energy Recovery Bonds, through March 31, 2005 of approximately \$5 million, after-tax, related to remaining generator disputed claims in the Utility's Chapter 11 proceeding. These costs were recoverable as a result of a California Public Utilities Commission, or CPUC, decision on May 4, 2005.

Items impacting comparability for the six months ended June 30, 2005 include the net effect of incremental interest costs of approximately \$3 million, after-tax, incurred by the Utility through February 10, 2005 and related to generator disputed claims in the Utility's Chapter 11 proceeding, which were not considered recoverable.

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PG&E Corporation Earnings per Common Share from Operations

Second Quarter 2006 vs. Second Quarter 2005  
(\$/Share, Diluted)

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|   |    |             |
|---|----|-------------|
| Q2 2005 EPS from Operations <sup>1</sup>          | \$ | 0.69        |
| Share variance                                    |    | 0.05        |
| Effect of increase in authorized return on equity |    | 0.01        |
| Gas transmission revenue                          |    | 0.01        |
| Miscellaneous items                               |    | 0.02        |
| Diablo Canyon refueling outage                    |    | (0.07)      |
| ERB Series 2 equity carrying cost credit          |    | (0.04)      |
| Scheduling Coordinator settlements (Q2 of 2005)   |    | (0.03)      |
| Q2 2006 EPS from Operations <sup>1</sup>          | \$ | <u>0.64</u> |

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

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|   |    |             |
|---|----|-------------|
| Q2 2005 YTD EPS from Operations <sup>1</sup>                            | \$ | 1.24        |
| Share variance  |    | 0.13        |
| Effect of increase in authorized return on equity                       |    | 0.02        |
| Environmental remediation (Q1 of 2005)                                  |    | 0.04        |
| Gas transmission revenue  |    | 0.03        |
| Diablo Canyon refueling outage  |    | (0.07)      |
| Elimination of earnings on the settlement regulatory asset <sup>2</sup> |    | (0.04)      |
| ERB Series 2 equity carrying cost credit                                |    | (0.08)      |
| Scheduling Coordinator settlements (Q2 of 2005)                         |    | (0.03)      |
| Q2 2006 YTD EPS from Operations <sup>1</sup>                            | \$ | <u>1.24</u> |

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- <sup>1</sup> See attached tables for a reconciliation of earnings per common share, or EPS, from operations to EPS on a GAAP basis.  
<sup>2</sup> The Utility earned a return on equity on the settlement regulatory asset only through February 10, 2005 (when the first series of Energy Recovery Bonds was issued to refinance the after-tax portion of the settlement regulatory asset).

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

2006 EPS Guidance

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|   | <u>Low</u>     | <u>High</u>    |
|---|----------------|----------------|
| EPS Guidance on an Earnings from Operations Basis | \$ 2.40        | \$ 2.50        |
| Estimated Items Impacting Comparability:          |                |                |
| Scheduling Coordinator Cost Recovery              | \$ 0.06        | \$ 0.06        |
| Environmental Remediation Liability               | <u>(0.05)</u>  | <u>(0.05)</u>  |
| EPS Guidance on a GAAP Basis                      | <u>\$ 2.41</u> | <u>\$ 2.51</u> |

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2007 EPS Guidance

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|   | <u>Low</u>     | <u>High</u>    |
|---|----------------|----------------|
| EPS Guidance on an Earnings from Operations Basis | \$ 2.65        | \$ 2.75        |
| Estimated Items Impacting Comparability           | <u>\$ 0.00</u> | <u>\$ 0.00</u> |
| EPS Guidance on a GAAP Basis                      | <u>\$ 2.65</u> | <u>\$ 2.75</u> |

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Management's statements regarding 2006 and 2007 guidance for earnings from operations per common share for PG&E Corporation 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 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:

- Unanticipated changes in operating expenses or capital expenditures, which may affect the Utility's ability to earn its authorized rate of return;
- How the Utility manages its responsibility to procure electric capacity and energy for its customers;
- The adequacy and price of natural gas supplies, the ability of the Utility to manage and respond to the volatility of the natural gas market for its customers;
- The operation of the Utility's Diablo Canyon nuclear power plant, which could cause the Utility to incur potentially significant environmental costs and capital expenditures, and the extent to which the Utility is able to timely increase its spent nuclear fuel storage capacity at Diablo Canyon;
- Whether the Utility is able to recognize the anticipated cost benefits and savings to result from its efforts to improve customer service through implementation of specific initiatives to streamline business processes and deploy new technology;
- The outcome of proceedings pending at the Federal Energy Regulatory Commission (FERC) and the CPUC, including the Utility's 2007 General Rate Case and the Utility's application for approval of new long-term generation resource commitments;
- How the CPUC administers the capital structure, stand-alone dividend, and first priority conditions of the CPUC's decisions permitting the establishment of holding companies for the California investor-owned electric utilities, and the outcome of the CPUC's new rulemaking proceeding concerning the relationship between the California investor-owned energy utilities and their holding companies and non-regulated affiliates;
- The impact of the recently adopted Energy Policy Act of 2005 and future legislative or regulatory actions or policies affecting the energy industry;
- Increased municipalization and other forms of bypass in the Utility's service territory; and
- Other factors discussed in PG&E Corporation's SEC reports.