

100 electric generating facilities

95 service centers



1,000 substations

**2000
ENVIRONMENTAL
REPORT**

6,900 miles of natural gas pipelines

23 natural gas compressor stations

14,000 miles of electric transmission lines

142,000 miles of local distribution lines

22,000 people

1 environment

**WHO
WE ARE**

PG&E Corporation is the parent company of Pacific Gas and Electric Company, the Northern and Central California utility that serves about one out of every 20 Americans, and the PG&E National Energy Group, which markets wholesale energy products and services nationwide. The Corporation's businesses employ 22,000 people and operate facilities throughout the United States, including 100 electric generating facilities, among them 83 hydroelectric facilities and one windpower facility; two solid fuel handling and processing facilities; more than 6,900 miles of natural gas pipelines; 23 natural gas compressor stations; 14,000 miles of electric transmission lines; 142,000 miles of gas and electric local distribution lines; 95 service centers; and more than 1,000 substations.

**OUR
ENVIRONMENTAL
POLICY**

PG&E Corporation is committed to being an environmental leader by providing safe, economical, and reliable products and services in a responsible and environmentally sensitive manner. It is our policy to:

- Comply fully with the letter and spirit of applicable environmental laws and regulations, and seek innovative ways to exceed current standards of environmental protection, while achieving success in competitive markets;**
- Develop standards and programs that foster environmental excellence as a contributor to shareholder value, and incorporate such policies into business plans;**
- Develop and implement a risk-based audit plan that ensures that periodic independent reviews of all aspects of environmental performance are conducted; and**
- Actively engage the talents, dedication, and commitment of our employees by encouraging them to contribute innovative and thoughtful solutions for improving environmental performance.**

LETTER
FROM THE
CHAIRMAN

**To Our Customers,
Shareholders and Neighbors:**

Across PG&E Corporation, we continued to build on a solid record of environmental performance in 2000.

Our commitment to sound environmental practices and to protecting the air, land, water, wildlife and other natural resources remained firm in 2000, even with the challenges of the California energy crisis.

This report details a number of our specific accomplishments from the past year, and it highlights areas in which we are continuing to direct our efforts for the future. It also illustrates the scope of our environmental programs and initiatives and the depth of the commitment behind them.

Our performance is guided by the belief that compliance is a starting point, and leadership is going beyond that which is expected or required.

There are many examples demonstrating this leadership throughout this year's report – ranging from our use of innovative technologies and strategies to reduce emissions and waste, to our customer energy efficiency programs which achieved substantial energy and emissions savings, to our many partnerships that created various education and conservation opportunities in our communities.

In 2001, national attention to energy and the environment is perhaps greater than ever before. PG&E Corporation is working hard to help shape and invest in a sustainable energy future.

We will always have business challenges, and our commitment to environmental performance will remain undiminished. We will maintain high standards of performance; we will make the investments that ensure we meet those standards; and we will continue to lead.

On behalf of our 22,000 team members,

A handwritten signature in black ink, appearing to read "Robert D. Glynn, Jr.", written in a cursive style.

Robert D. Glynn, Jr.

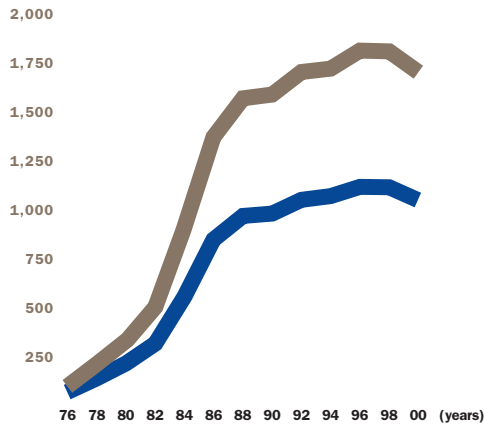
Chairman of the Board, Chief Executive Officer and President
PG&E Corporation, May 22, 2001

12,000 tons of carbon dioxide
65 tons of sulfur dioxide
19 tons of nitrogen oxides

The seven-turbine, 11.5-megawatt Madison Windpower facility in upstate New York, operating at wind speeds between just eight and 20 miles per hour, can generate enough electricity to power 10,000 homes.

In an average year, Madison will avoid 12,000 tons of carbon dioxide, 65 tons of sulfur dioxide, and 19 tons of nitrogen oxides, compared with the emissions of the average power plant in New York to produce the same amount of energy.

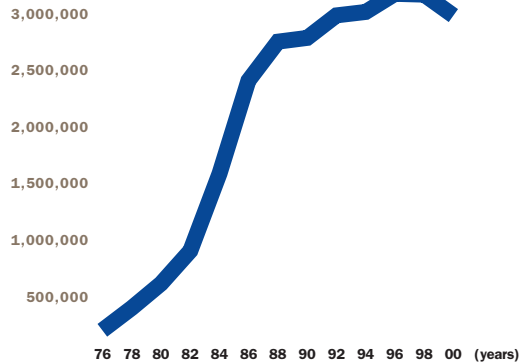
avoiding NO_x and SO_x emissions through energy efficiency



Annual Emissions Avoided through Customer Energy Efficiency Programs (SO_x / NO_x in tons)

Each year our customer energy efficiency programs prevent thousands of tons of nitrogen oxides and sulfur oxides emissions from ever occurring.

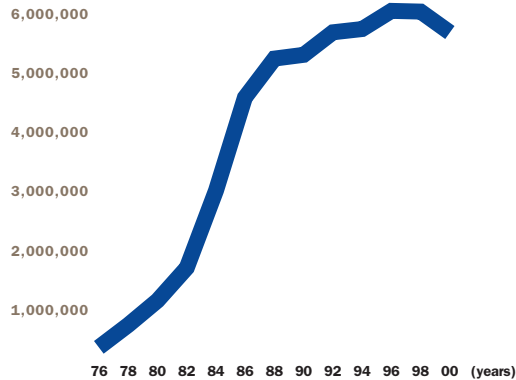
preventing CO₂ emissions by saving energy



Annual Emissions Avoided through Customer Energy Efficiency Programs (CO₂ in tons)

Over the past 25 years, our customer energy efficiency programs have kept a cumulative total of over 50 million tons of carbon dioxide out of the atmosphere.

saving more energy year over year



Annual Electricity Savings through Customer Energy Efficiency Programs (in megawatt-hours)

**Our 25 years of promoting energy efficiency have saved
135 million megawatt-hours of electricity, enough power
to supply 1.7 million homes for an entire year.**

**ENVIRONMENTAL
COMMITMENTS
DRIVE DECISION
MAKING**

At PG&E Corporation, our environmental commitments help drive our business decisions. By focusing on environmental issues early on, we can plan for using fewer natural resources and proactively manage environmental risks while serving our customers effectively and efficiently. We also gain strategic advantages that pay dividends as we work to grow our business and maintain our position as a leader in the industry.

We integrate environmental priorities into our decision making in a number of formal and informal ways in accordance with the company's overall policy direction set by management. In 2000, we made a number of strategic decisions involving environmental priorities, including an emphasis on conservation of natural resources, the acceleration of our power plant development and acquisition efforts while adhering to some of the lowest emission targets in the industry, and the formal adoption of a new environmental justice policy.

**Making Energy
Efficiency
a Priority**

PG&E Corporation, through its utility unit, has been a national leader in energy efficiency for more than 25 years.

Energy efficiency improvements installed through our programs since 1976 have reduced the demand for power by more than 1,000 megawatts – the amount produced by a major power plant. Over the life of the installed measures, savings to our customers have exceeded 135 billion kilowatt-hours (kWh) of electricity and 11 billion therms of natural gas. This is enough gas and electricity to supply more than 1.7 million homes for one year. These energy efficiency improvements also represent the avoidance of over 50 million tons of carbon dioxide (CO₂) emissions that would otherwise have entered our atmosphere.

In 2000, we reaffirmed and strengthened this longstanding commitment to energy efficiency. We ran more than 30 energy efficiency programs, designed to lower business and residential customers' bills, create more efficient new buildings, and help the environment. These programs, including rebates for energy efficient appliances, free educational efforts, the toll-free "Smarter Energy Line" and programs designed especially for low income customers, resulted in first year savings of 441 million kWh of electricity (equal to the usage of 65,000 households) and 9.5 million therms of natural gas (equal to the annual space heating requirements of 15,000 households). The programs offset the need for 89 megawatts of electric generating capacity.

These programs are now more important than ever. In California and throughout much of the western U.S., energy supply is struggling to keep pace with growing demand. Our energy efficiency and demand reduction programs are vital tools to help our customers through these times. By reducing demand for electricity among our customers, we are working to help California meet this challenge.

We also succeeded last year in ensuring that these kinds of programs will have the continuing support they need going forward. Working with the Natural Resources Defense Council and others, we won approval from the state of California for the continued funding of public purpose energy efficiency, renewable energy, and research and development programs over the next 10 years.

**In-House
Energy
Efficiency**

Energy efficiency was also a priority at our facilities in 2000. Plant operators at our Scrubgrass power plant in western Pennsylvania sought to implement a way to reduce energy use at the plant. They had long been frustrated with the operation of two blowers that supply compressed air to the boilers. After investigating several different methods, operators struck upon a plan to use just one blower for both the plant's boilers, with the second unit available for back-up. The cost of linking the two blowers was \$50,000. That investment will yield more than \$50,000 annually in energy savings alone. Running only one blower will also avoid 1,000 tons of CO₂ emissions.

At our Carneys Point power plant, the reverse air fans were eliminated, but the capability of the system was preserved through creative engineering. This led to a reduction in house load, saving more than \$76,000 and an equivalent of 2,060 tons of CO₂ annually.

In 1998, we began implementing the sustainable energy efficiency plan for our utility facilities in California. The effort included more than three years of auditing, planning and engineering projects that would reduce energy use at many of our facilities, as well as providing training to our building supervisors so they could operate building systems more efficiently. The program included facilities at 55 sites totaling approximately 4.6 million square feet.

As a result of this effort, in 2000, we completed renovations at 20 of our facilities. Projects ranged from installing more efficient lighting, heating and air conditioning systems at our headquarters in San Francisco and at our San Jose offices, to including energy efficient equipment with a seismic retrofit project at one of our facilities in Hayward, California. All told, we've been able to save about 5,800 megawatt-hours (MWh) per year, which translates to about \$700,000 annually.

**Environmental
Strategies Shape
Development Choices**

We are developing and building new power plants and natural gas pipelines in markets across the country. In fact, we now have more facilities in construction than at any time in the history of our national business. While the challenges associated with each of these projects are unique by virtue of a facility's size, location, regulatory requirements and other factors, in every case environmental considerations are a priority. Ultimately, sound environmental strategies have been essential to our ability to execute these plans on an accelerated time table in keeping with our growth goals.

In developing a 1,040-megawatt natural gas-fueled power plant in Arizona's Harquahala Valley, for example, we initially considered putting the plant much closer to a regional substation, where it would connect with the power grid. However, during preliminary meetings, local citizens and officials raised concerns about preserving limited local groundwater resources. In response, we made groundwater resource utilization a key siting consideration and changed our location to the Harquahala Valley, which has more available surface water supplies.

We were able to contract for water from the Central Arizona Project (CAP), a 336-mile aqueduct that runs from the Colorado River to south central Arizona. Using CAP water as our primary water source reduces the plant's impact on groundwater supplies. We volunteered to follow strict limitations on any groundwater withdrawals we make. We are further reducing our use of water by installing a zero discharge system that will continuously recycle the water used in the plant. We also took strong steps to minimize air emissions, using new technology to limit nitrogen oxides (NO_x) emissions to 2.5 parts per million (ppm), making the plant among the cleanest new power plants proposed. In addition to the environmental benefits, these choices also enabled us to expedite our permitting and construction process, which will speed the start-up of commercial operation.

Environmental priorities also helped make us more competitive this year as we worked to develop the 1,050-megawatt Badger Generating plant in Wisconsin, the state's first true merchant power plant. We worked closely with citizens and regulators to learn more about local environmental priorities and to find ways that we could address these concerns.

For example, to reduce air quality impact, we installed carbon monoxide (CO) oxidation catalysts that were not specifically mandated by existing regulations. This technology will reduce CO emissions by nearly 80 percent, as well as reducing emissions of volatile organic compounds. Local groups and state regulators strongly supported this decision. The plant will also take municipal sewage as its water source and use a state-of-the-art system to purify water for use in the plant, resulting in less strain on local water sources. By incorporating this system, we made the process for getting the plant's water permits much easier, which, like the emissions controls, will keep the plant on a fast track to commercial operation.

In the case of our North Baja Pipeline project, we recognized that among the project's strengths would be its ability to help spur environmental improvements in the region. The 215-mile pipeline (of which the 80 miles in the U.S. will be built and operated by the National Energy Group) will be capable of carrying 500 million cubic feet of natural gas per day from Arizona to Southern California and Mexico's fast-growing Northern Baja region, providing customers with a much-needed natural gas source. With energy consumption growing at more than 10 percent annually in this area, the pipeline also will help ensure that other facilities will have access to natural gas as a clean source of fuel for generating electricity.

**ENVIRONMENTAL
JUSTICE POLICY**

PG&E Corporation formally adopted an Environmental Justice policy statement in 2000 assuring stakeholders that the company will conduct its operations in a manner that is consistent with and promotes environmental justice principles.

Our policy affirms our commitment to:

- Comply with the letter and spirit of environmental justice laws and regulations in our operations.
- Set high standards of environmental performance to minimize environmental impacts from our operations.

**Setting High
Standards
for Acquisitions**

Acquiring energy facilities is also part of our strategy for growth in our business. Just like new facilities, prospective acquisitions also go through rigorous environmental scrutiny before we consider adding them to our portfolio. We pay particular attention to the need for any retrofits to bring a plant up to our “best-in-class” standards.

Last year we acquired a 500-megawatt plant in Attala County, Mississippi, which is planned for operations in 2001. This combined-cycle natural gas-fueled plant met our high standards for emissions control. However, to guard against the potential for oil and chemical spills in a region that experiences heavy rain fall, we’re incorporating some design changes before the plant is operational. For example, we are improving the control mechanism to prevent oil or other chemicals from mixing with water in the catch basins. We’re also enhancing secondary containments to prevent any potential releases from reaching the environment.

In some cases, our environmental standards extend to facilities we do not even own or operate. A portion of the power we sell comes through so-called tolling agreements, where we contract for long-term rights to sell the power from a power plant owned and operated by another company. In signing these agreements, we look for opportunities to contract with facilities that also have solid environmental performance consistent with our standards.

In 2000, we signed a 10-year tolling agreement with DTE Energy Services for capacity from its 16-megawatt natural gas-fueled peaking plant near Indianapolis. In considering the agreement, we were attracted by the year-old plant’s environmental systems, which ensure relatively low emissions for a facility that runs only during times of high electricity demand.

- ▣ Work diligently to address all environmental justice issues.
 - ▣ Incorporate environmental justice considerations in the purchase of existing facilities and the planning and development of new facilities.
 - ▣ Work with stakeholders to ensure that future development around our facilities is compatible with our existing and planned facility use.
 - ▣ Maintain open and responsive communications with all stakeholders.
 - ▣ Communicate and reinforce our environmental justice values within the corporation.
 - ▣ Accept responsibility for our operations, and in so doing work collaboratively with our neighbors and surrounding communities.
-

Introducing Windpower to our Competitive Energy Mix

We also seek a mix of generation sources in our asset portfolio so that we can deploy the most competitive and environmentally sound resources available. In the past several years, for instance, consumer demand for “green” power has helped drive a growing market for new renewable energy sources.

Our seven-turbine, 11.5-megawatt Madison Windpower facility entered commercial operation in October 2000 in upstate New York, becoming the state’s first windpower facility built to sell power in a competitive market. Operating at wind speeds between just eight and 20 miles per hour, the facility can generate enough electricity to power 10,000 homes.

In an average year, Madison will avoid emissions of 12,000 tons of CO₂, 65 tons of sulfur dioxide (SO₂) and 19 tons of NO_x, compared with the emissions of the average power plant in New York producing the same amount of electricity. Our Pure WindSM program allows others to purchase a share of these benefits. Each Pure WindSM certificate represents the environmental benefits associated with generating a specific amount of electricity through windpower as compared to the emissions created by an average New York power plant generating the same amount of electricity.

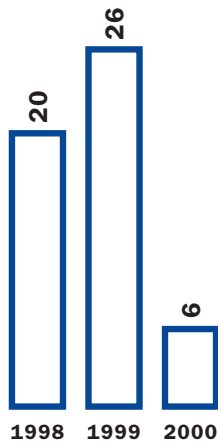
By selling electricity and the environmental attributes of wind generation separately, Pure WindSM certificates are an effort to create a market for environmental benefits and thereby enhance the competitiveness of renewable generating technologies. We believe this concept breaks new ground, and we are encouraged at the initial response. Environmentally minded organizations, including Kinko's and Natural Resources Defense Council, were among the first purchasers of Pure WindSM certificates.

Beginning this year, we will also be providing power from the 44-megawatt wind farm in Riverside County, California, which we bought from Seawest WindPower, Inc., in 2000. The 74-turbine facility, which is planned for operation in mid-2001, will generate enough emission-free electricity to power 25,000 homes.

Environmental Justice Policy Sets a New Standard

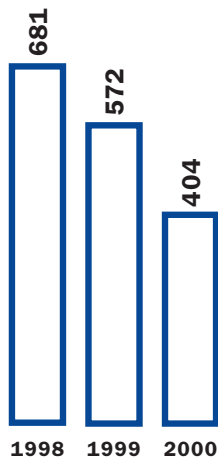
In addition to our corporate Environmental Policy, in 2000, we decided to make explicit our adherence to environmental justice principles by issuing an Environmental Justice Policy. This policy (see sidebar on page 16) articulates a philosophy that already existed informally as part of our culture. It explicitly seeks to minimize environmental impacts from our operations, set high standards with regard to the development of new facilities and the purchase of existing facilities, and diligently address environmental justice issues. Fundamentally, implementing environmental justice principles also means reaching out to low-income and minority populations.

improving regulatory compliance



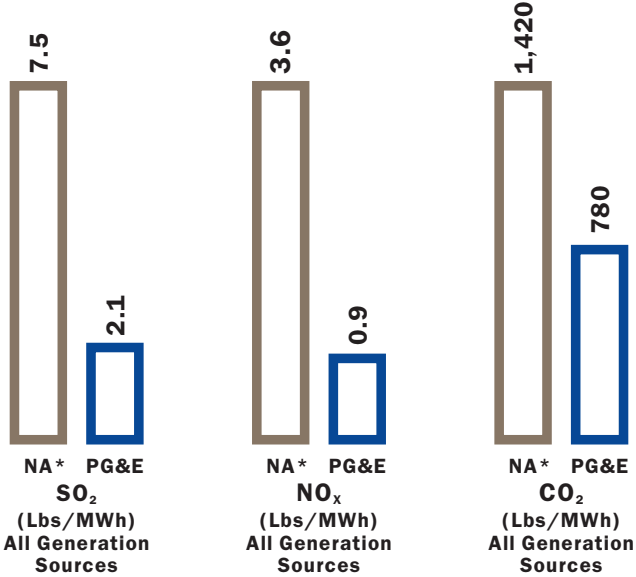
PG&E Corporation received a total of six notices of violation during 2000, down significantly from the 26 received in 1999.

releases/exceedances



PG&E Corporation's operating subsidiaries reported a total of 404 releases to the environment and permit exceedances, down 29 percent from 1999.

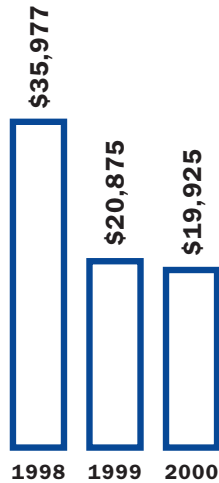
low emission rates



Average emission rates from PG&E Corporation facilities continue to fall well below national averages.

*National Average

penalties and settlements



PG&E Corporation paid a total of \$19,925 in various enforcement penalties and settlements during 2000, including a \$15,000 contribution to an environmental organization as part of a settlement under which we are accelerating the phase-out of several waste water treatment basins and landfills at two power plants.

**ENVIRONMENTAL
COMMITMENTS
DRIVE
PERFORMANCE**

Closely monitoring and reporting our environmental performance is an integral part of our operations and management culture. Our people routinely report to management on their environmental challenges and their progress in addressing environmental issues. This information is factored into our budget and resource allocation decisions. Based on plant performance input, we decided in 2000 to target reducing air exceedances and accidental releases. This decision led to the inclusion of these goals as benchmarks in our incentive program, as well as the “focused audits” that we undertook of our National Energy Group units. By identifying and correcting root causes associated with air exceedances and releases, we have seen a dramatic improvement in our environmental performance.

**Setting High
Standards
for Operations**

The Corporation’s environmental compliance performance in 2000 showed significant progress. Improvements were seen in all measured categories.

PG&E Corporation	1997	1998	1999	2000
Notices of Violation (NOVs)	32	20	26	6
Releases/Exceedances	726	681	572	404
Rate of NOVs (per 100 inspections)	7.37	4.42	5.42	1.37
Penalties and Settlements	\$ 15.9 M	\$ 35,977	\$ 20,875	\$ 19,925

**Enforcement Actions –
Notices of Violation (NOVs)**

PG&E Corporation received a total of six NOVs during 2000, down significantly from the 26 received in 1999. Four of the NOVs were for air-related violations and two were for water-related violations. Of the four air-related incidents, three occurred at our New Jersey power plants and involved a failed stack test on a seldom-run auxiliary boiler, an opacity violation, and a self-reported incident in which the facility discovered it had received and burned coal with a sulfur content greater than that specified in its permit. The fourth air-related incident was associated with a self-reported excess gas generator speed and related record-keeping error at one of our gas transmission facilities.

The two water-related enforcement actions were taken in response to incidents in our utility business in California, involving a minor oil spill at a power plant and an error in groundwater monitoring at a gas compressor station.

Releases to the Environment and Permit Exceedances

PG&E Corporation's operating subsidiaries reported to various government agencies a total of 404 releases to the environment and permit exceedances, down 29 percent from 1999. This continues the positive trend of the past four years with releases down 44 percent since 1997. Approximately 30 percent of these releases involved exceedances of air permit emission limits, which were identified through the Corporation's extensive monitoring programs. Sixty-six events (16 percent) involved exceedances of water quality permits. Other releases were spill events reportable under numerous local, state and federal "emergency" release reporting requirements, which typically have low thresholds and mandate the reporting of most releases to the environment.

Agency Inspections and Rate of NOVs

PG&E Corporation's rate of NOVs (per 100 agency inspections) also declined, from 5.42 in 1999 to 1.37 last year. The company's facilities were inspected 437 times by various government agencies in 2000, down from 480 inspections in 1999. Seventy-eight percent of these inspections were at California facilities operated by our utility. Another 10 percent were routine monthly inspections conducted by the Department of Environmental Protection in Pennsylvania at two solid-fuel handling and processing facilities. In addition, the number of NOVs resulting from outside agency inspections dropped dramatically.

Enforcement Penalties and Settlements

PG&E Corporation paid a total of \$19,925 in various enforcement penalties and settlements during 2000, including \$15,000 in the form of a contribution to the Conservation Law Foundation made as part of a settlement under which we are accelerating the phase-out of several wastewater treatment basins and landfills at two power plants in New England.

Audit Program

PG&E Corporation's environmental policy includes a provision requiring the Corporation to develop and implement a risk-based audit plan to ensure periodic independent review of all aspects of environmental performance. We continued to refine the auditing program's reporting and communication structure in order to provide better compliance information to facility and senior management.

Our internal environmental auditing program performed audits at 30 of our utility facilities during 2000. The audits assessed performance with regard to air and water quality, PCBs, hazardous materials and waste management, and underground storage compliance. Audit findings involved primarily administrative matters, such as labeling and record-keeping. Two pre-agency inspections were performed at the request of facility managers. Also, 22 hazardous waste vendors (e.g., disposal sites, recyclers) were audited.

Eleven third-party audits were conducted by independent consultants at our National Energy Group facilities. Four were multi-media in scope and six focused on air quality compliance and management. One additional audit was performed by an insurance carrier. For the second year in a row, none of the audits identified any Level I (the most serious) findings. Level II and Level III findings dropped by approximately 50 percent, as well.

Emission Rates

Emission rates from PG&E Corporation facilities continue to fall well below national averages.

Average emissions in pounds per megawatt-hour	PG&E Corporation	National Average¹
SO₂ from Fossil-Fuel Units Only	4.0	10.6
SO₂ from all Generation Sources	2.1	7.5
NO_x from Fossil-Fuel Units Only	1.7	5.0
NO_x from all Generation Sources	0.9	3.6
CO₂ from Fossil-Fuel Units Only	1,506	2,004
CO₂ from all Generation Sources	780	1,420

¹ National averages from U.S. EPA's GRID Database (March 2001 release)

In May 2000, a Clean Air Task Force-funded study alleged a link between serious health impacts and the air emissions from our Brayton Point and Salem Harbor power plants in Massachusetts. While we raised substantial concerns regarding the methodology used in the report, we continued to pursue efforts already under way to reduce power plant emissions. In fact, that same month, we completed an agreement on a voluntary emissions reduction plan with the governor of Massachusetts. We plan to cut by more than half the emissions of SO₂ and NO_x from Brayton Point and Salem Harbor Stations.

**TRACK TO
ENVIRONMENTAL
EXCELLENCE**

Our Indiantown Generating Plant and our New England hydroelectric operations became charter members of the U.S. Environmental Protection Agency (EPA) National

Environmental Achievement Track in December 2000. The plants are among the only energy-related businesses out of the 221 industrial facilities that have committed to minimizing pollution and reaching environmental goals beyond regulatory compliance levels.

Our management efforts toward operational improvements have greatly decreased the number and duration of excess emissions experienced not only at Brayton Point and Salem Harbor, but at all our facilities. Our goal is to have zero excess emissions caused by human error.

**Management
Systems
Set the Stage**

One of the ways we raise the bar of environmental performance is by striving for continuous improvement in our operations. Toward this goal, we've instituted several programs aimed at proactively guiding and driving operational improvements.

At our utility, we maintain a compliance management system that enables us to identify and address new environmental performance needs. During 2000, for example, the compliance management system helped us identify the need for and create a new program to protect various habitats and species. Our Habitat and Species Protection Program was successful in developing a new comprehensive training package and training more than 300 employees. The ability to rapidly develop and implement the program was due in large part to the existing compliance management system. Under the system, designated teams monitor new regulatory requirements, develop written guidance on these requirements, train field personnel, and provide for both self-audits and formal audits.

Key among the EPA's requirements for Performance Track members is having a fully implemented EMS program. Like PG&E Corporation, the EPA recognizes EMS as an effective tool for identifying and managing environmental risk.

The EPA reports that this environmental commitment pays off both environmentally and economically. As a group, the charter members alone will reduce their energy consumption by 500,000 megawatt-hours in the next four years. They also will reduce their waste generation by nearly half and their water consumption by a third.

In a letter to award recipients, the EPA recognized the facilities and their employees for their "visionary leadership." Because of their demonstrated commitment to environmental stewardship, the EPA says the charter members will receive recognition, flexible reporting, and streamlined administrative requirements.

At our National Energy Group operations, we maintain our Environmental Management System (EMS) to manage environmental obligations and challenges, and promote continuous improvement. In 2000, we required each of our facilities to define plant-specific approaches to EMS implementation in a Site Environmental Management Plan (SEMP). In the SEMPs, plants identified significant site-specific environmental risks and impacts, as well as corresponding targets and objectives for reducing those impacts and taking corrective measures to improve performance. These targets and objectives are then tied to the company's business plans.

Several of our power plant operations received awards last year that testify to the effectiveness of our approach to environmental management. In New Jersey, the state named our Carneys Point and Logan plants as Silver Track award recipients in recognition of their outstanding environmental performance, demonstrated commitment to continuous improvement, and working EMS. Our Indiantown plant in Florida and our New England hydroelectric systems earned the U.S. Environmental Protection Agency's prestigious National Environmental Achievement Track Awards.

In the coming year, we will be conducting assessments to ensure the effectiveness of our EMS at all our National Energy Group operating facilities. Specifically, we will focus on how well each facility has identified its environmental risks, what plans and procedures team members have established to mitigate and control these risks, and how each facility's team has organized the roles and responsibilities related to their environmental plans. We will also assess their management review process and progress in meeting their established targets and objectives for improved environmental performance.

**Pollution Prevention
Drives Continuous
Improvement**

An outgrowth of our EMS program has been the implementation of a Pollution Prevention (P2) program in our National Energy Group business. P2 is designed to reduce a plant's environmental impact or footprint through such efforts as energy efficiency, reduced water and chemical use, and increased recycling and beneficial reuse of wastes. Our P2 material-flow based approach is a systematic process through which our plants identify and evaluate opportunities to reduce, and even eliminate, wastes at their source and improve operational efficiency.

While our hydroelectric systems are among the cleanest industrial facilities, they do generate some waste through their operations and maintenance. As part of their P2 efforts, the hydro stations in New England instituted a new turbine cleaning system that avoids using solvents and eliminates oily rags and debris. Now, they blast grime off the turbines using dry ice pellet guns. Equipment is cleaned faster, and dirt falls to the plant floor, where it can be collected and disposed properly, all without adding rags and other cleaning materials to the waste stream. They also replaced creosote coating of the three-mile-long wooden Searsburg pipeline with more environmentally friendly linseed oil. In total, their P2 initiatives in 2000 resulted in \$30,000 of savings and substantial avoided wastes.

Although our Lake Road plant in Connecticut is still in construction, the team is already implementing P2 programs, especially in the area of materials and waste minimization. They are reducing the types of lube oils and greases that the plant equipment will require. By working with the equipment suppliers and petroleum engineers, they have been able to reduce the number of specified products on site to 12 types. (Similar combined-cycle plants can have up to 50 types of lubricants on site.) The plant staff also negotiated “just-in-time” deliveries to minimize large quantity storage requirements. This will limit the exposure for accidental spills and reduce the overall inventory costs to the company.

Even as plants reach the end of their useful lives, we apply P2 programs that can minimize waste. In 2000, for example, when we demolished Geysers Unit 15 in California, through an active P2 program, we were able to recycle 5,607 tons of concrete, 420 tons of rebar, 2,600 tons of scrap metal and 2,300 tons of asphalt. By recycling this material, we avoided both the cost and the environmental impact of disposal in valuable landfills.

We operate 68 garages throughout our utility service territory in Northern and Central California. Cleaning grimy engine parts and tools are daily rituals at these garages, but a new piece of equipment is making the process a lot cleaner, more economical – and is reducing hazardous waste. The unit, called SystemOne, recycles used cleaning solvent so employees always have pristine recycled solvent to clean parts and tools. The recycling occurs automatically inside the unit in a closed-loop system. The units not only eliminate the waste stream and the emissions from hundreds of annual trips to dispose of it, but also the need for additional aerosol cleaners that were used to clean the residue left on parts by the dirty solvent. By pushing a button on the unit at the end of the workday, the machine does its recycling at night, making fresh solvent available for reuse the next morning.

During 2000, the company purchased and installed 82 of these new units as replacements for older, less efficient units. The result is an annual savings of \$164,000 and elimination of more than 15 tons of waste solvent.

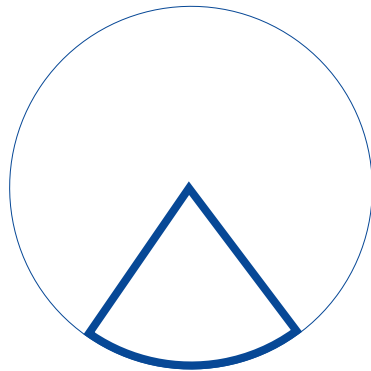
**Metrics to Improve
Accountability
and Reduce Impacts
to the Environment**

In our National Energy Group, one of our major goals in the next year is to capitalize on the momentum created by the EMS and P2 programs to drive continuous improvements and to reduce our environmental footprint. By tracking air emissions, water use, waste generation, energy use and raw materials, we will benchmark our performance and set new targets for improvement.

6.5 million kilowatt-hours

Research by our PowerSaving Partnership Program prompted the California Department of Transportation to switch more than 2,000 traffic intersections in our utility service area from incandescent to LED lighting. The upgrades save 6.5 million kilowatt-hours of electricity and approximately \$645,000 in energy costs annually.

20% net air quality benefit



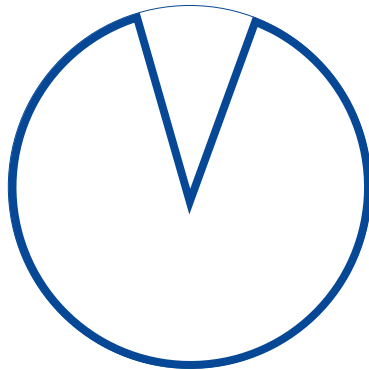
When the Otay Mesa power plant begins operation in San Diego, it will bring a 20 percent benefit to local air quality. That's because we are offsetting its emissions by a ratio of 1 to 1.2. We're doing it in part through a partnership to replace diesel refuse trucks with natural-gas-fueled models – the first time ever offsets for a plant have come from reductions in mobile sources.

potential to reduce NO_x and CO emissions by more than 70%



As part of our efforts to reduce emissions associated with ground-level ozone and global climate change, we have systematically replaced older equipment on our natural gas transmission system with lower emission technologies. New engines on the system can reduce nitrogen oxides and carbon monoxide emissions by more than 70 percent.

90%
less electricity



In 2000, we demonstrated to the California Energy Commission that LED exit signs – which use 90 percent less electricity than traditional signs – should be standard in new construction and replacement applications. Over the next decade, this technology could save 30 megawatts of electricity.

**ENVIRONMENTAL
COMMITMENTS
DRIVE
INNOVATION**

Our employees are innovators when it comes to fulfilling PG&E Corporation’s environmental commitments. To us, that means combining our know-how and expertise with a willingness to be first and to think beyond the constraints of what is tried and tested, or simply what is required. It shows in our approach to policy, our sound operating practices, our use of technologies and the programs we develop and implement. Our successes in each of these areas, aside from achieving our own operations goals, help set the pace and raise the bar for others in our industry.

**Being Willing
to Go First**

Throughout our history, we’ve been a company willing to “go first” in implementing environmental technologies, including emerging technologies, and promoting new or broader applications for existing technologies. During the early and mid-1990s, for example, we pioneered the application of emissions control technologies (known as selective catalytic reduction and selective non-catalytic reduction systems) to cut NO_x emissions from a number of our coal- and waste-coal-fueled power plants. Our facilities using these systems became the cleanest power plants of their kind in the world. These technologies have since become widely used, standard air quality control technologies in the industry.

We've also been a leader in testing mercury emissions and control technologies. In 2000, the U.S. Department of Energy (DOE) selected our proposal to be one of a handful of companies partnering with DOE to demonstrate new mercury control technologies. Starting in 2001, our Brayton Point and Salem Harbor Stations will test a new system under development for injecting sorbents into the plants' airflow systems to remove residual mercury. Sorbents can be a variety of substances that react with the mercury and enable it to be collected in existing downstream particulate control equipment. While the injection concept is not new, the partners plan to test several different kinds of sorbents to find the best mercury-reduction technique. According to DOE, such new applications could reduce mercury emissions by an additional 50 to 70 percent below the reductions achieved by current systems.

Innovation that Overcomes Challenges

The energy crisis in California and the western U.S. has spotlighted the importance of conserving energy, as well as the need for new power plants. Finding ways to permit new plants and minimize the impact on the environment often requires creative approaches.

San Diego, like most of California, maintains strict air quality regulations, particularly with respect to new sources of emissions. Siting a new power plant in the area requires a developer to offset a facility's net emissions by arranging for reductions in emissions elsewhere. Traditionally, these offsetting reductions have come from other stationary sources, such as manufacturing plants or other power plants.

In planning for our Otay Mesa project, however, we've taken a new path. We offset the plant's emissions by reducing local mobile-source emissions. Working together with state and local environmental officials and with Waste Management, Inc., we made possible the first stationary/mobile emissions swap in the country. In partnership with Waste Management, we arranged to replace 120 diesel-fueled refuse collection trucks with vehicles that run on clean-burning natural gas. The project will reduce the fleet's air emissions by 50 percent, including NO_x reductions of more than 35 tons per year.

Through the agreement, we're also funding construction of a liquefied natural gas (LNG) fuel station that will serve Waste Management's trucks, as well as other clean-technology industrial fleets. By providing a resource for LNG, we believe the project could spur additional companies to consider emissions-reducing technologies.

We're also acquiring emissions offsets from San Diego Harbor Excursions, a local cruise-ship company we've worked with on another stationary/mobile emissions swap. Through that arrangement, we're helping modify two local excursion tour boats from marine diesel to ultra-clean diesel. This effort will offset another 30 tons of emissions annually.

Together, the Waste Management project and the San Diego Harbor Excursions project will provide about half of Otay Mesa's emissions offsets. The rest will come from traditional stationary offsets.

In addition to clearing the way for the first new power plant in the San Diego area in almost 30 years, this innovative approach will deliver a net air quality benefit to the region. Rather than one-to-one offsets, the emissions reduction credits will exchange at a 1.2 to 1 ratio, offsetting 20 percent more emissions than the plant will produce.

Thanks to the success of this effort, other air districts throughout the western United States are now considering establishing mobile-source emissions offsets as a viable alternative to offsets from stationary sources.

In 2000, our gas transmission facilities joined the Natural Gas Star Program, a voluntary partnership with EPA that encourages facilities to adopt cost-effective technologies and practices to reduce methane emissions and improve operational efficiency. Our estimated reduction in methane emissions since 1993 totals more than 7 million cubic feet at an estimated savings of \$15 million.

In addition, as part of its overall emissions reduction strategy and commitment to reduce our impact on acid rain, global warming and ground-level ozone, our gas transmission system has systematically replaced older high NO_x emitting engines with low NO_x types. These newer engines have the potential to reduce NO_x and CO emissions by more than 70 percent. Implementing these improvements and participating in the Natural Gas Star Program affirm our continued efforts to search for new and innovative ways to improve air quality.

In 1999, PG&E Corporation joined with EPA and other electric power companies as a charter member of the SF6 Emissions Reduction Partnership for Electric Power Systems. Enclosed within sealed electrical equipment, sulfur hexafluoride (SF6) is an effective gaseous dielectric that insulates circuit breakers, enabling faster and safer switching of electric energy flows. But when it is released into the atmosphere, each pound of SF6 is estimated to have the same effect on global climate change as almost 12 tons of CO₂. We have voluntarily committed to reducing emissions from equipment containing 15+ pounds of SF6 by 50 percent by 2002, and by an additional 10 percent by 2007. During calendar year 2000, we reported that our SF6 emissions were 18 percent below the 1998 baseline level and on track to meet the 2001 reduction target.

Innovations at Existing Facilities

Innovation is the key to incremental gains as well as dramatic breakthroughs. As such, it is an essential part of our pursuit of continuous operational improvement.

At our Manchester Street power plant in Rhode Island, our team sought a way to overcome the common problem of diminished power output during the summer months. The goal was to recapture the loss without resorting to measures that would have an environmental impact. As at many natural gas-fueled plants, summer heat caused the plant's combustion turbines to operate at a lower capacity, during the very times that demand tends to rise in New England. On days over 90 degrees Fahrenheit, the plant's capacity would fall from its cold-weather high of 496 megawatts to just 420 megawatts. The goal was to recapture as much of this lost efficiency as practical.

The Manchester Street team investigated a number of options, including chillers and other mechanical cooling systems, but the cost of putting such systems in place, not to mention the electricity and chemicals associated with running them, ruled out their use.

Instead, the team turned to “inlet fogging,” a technology that had been used successfully at other natural gas plants, but wasn’t specifically designed for use at Manchester Street. An inlet-fogging system cools air as it enters the plant. The system sprays a fog of water on the plant’s air inlets, cooling the air through evaporation. As a result, the plant can operate more efficiently. On hot days, the new system recaptures capacity by 5 percent. The improved efficiency puts 20 megawatts on the grid during high-demand times, without increasing emissions. This is particularly beneficial during the summer ozone season.

The chemist at our Logan power plant in New Jersey looked beyond traditional practices to improve the plant’s zero-liquid discharge water treatment system. The plant uses a lime/soda ash softener to maintain low calcium levels, which the plant’s designers and water treatment consultants suggested was necessary for the remainder of the water treatment system to run properly. Adding the recommended lime and soda ash dosages resulted in high chemical usage and created a waste filter cake by-product that had high disposal costs.

Logan's team worked to determine what would happen to their operations by reducing their lime and soda ash use and allowing calcium levels to rise. The answer soon became clear: no negative effects. But the change resulted in the reduction of more than 2 million pounds of treatment chemicals and 986 tons of filter cake in the last two years. The end savings were more than \$200,000 in chemical usage and filter cake disposal costs. Furthermore, there were added benefits in reduced maintenance costs and extended life of the water treatment equipment.

The use of an improved on-line condenser cleaning system at our Brayton Point Station in Massachusetts has resulted in a 50 percent reduction in the amount of sodium hypochlorite needed to control micro-biological growth on the condenser tubes. Not only does this represent a direct environmental improvement, but the facility expects to save over \$717,000 because of the significantly reduced manual cleaning required and improved heat rate on Unit No. 3. The station anticipates adding this system to the remaining generating units in 2001 to save \$1.35 million.

At our gas transmission facilities in the Northwest, an employee committee helped identify and implement pollution prevention opportunities. Initiatives included replacement of mercury instrumentation with non-mercury type equipment; initiation of a battery replacement program to substitute gel-cell batteries for lead-acid types; and implementation of a chemical substitution initiative that identified environmentally sound alternatives to hazardous chemicals used in heater/coolers, parts cleaners, and other equipment.

**Innovating to
Save Energy
in California**

Key to securing energy savings is educating our utility customers about how they can save energy and be more energy efficient. In 2000, for example, we launched an outreach campaign designed to alert customers to the benefits of using Energy Star® technologies. We divided the campaign into two parts: one aimed at new housing construction and one aimed at lighting and appliance use. In the new housing project, we created “Selling the Green,” a Telly Award-winning sales video and brochure explaining Energy Star’s financial benefits to contractors. For the lighting and appliance campaign, one of our television commercial spots, won Best Creative Spot from *Adweek*. In recognition of these efforts, as well as our outreach to Hispanic and Chinese audiences, the U.S. Environmental Protection Agency (EPA) awarded the utility the prestigious EnergyStar Award for 2000.

We also continued to provide specialized training to customers as a means of generating energy savings. For example, in 2000, our commercial new construction team trained well over 600 building design professionals on the new California energy standards for buildings implemented on July 1, 1999. Many design professionals were unaware that the standards had changed and appreciated the free training.

In October, we teamed up with the EPA and the U.S. Consumer Product Safety Commission to urge consumers to replace their inefficient halogen floor lamps during the Great Energy Star® Lighting Change-Out. We participated in several events held around the state where consumers could turn in their halogen lamps in exchange for discounted prices on safer, more efficient Energy Star® fluorescent models. According to the EPA, removing all 50 million halogen lamps in use today would prevent as much air pollution as taking more than 2 million cars off the road.

Through our PowerSaving Partnership Program, we've demonstrated that switching traffic signals from incandescent lights to light-emitting diodes (LED) also can save energy and money. Research done through the program convinced the California Department of Transportation to switch more than 2,000 traffic intersections in our utility service area from incandescent to LED lighting. The upgrades save 6.5 million kWh of electricity and approximately \$645,000 in energy costs annually.

One of the mainstays of our energy efficiency work is the Pacific Energy Center (PEC). Since its opening in December 1991, the PEC has provided energy efficiency training, education and information to more than 100,000 people, resulting in significant environmental benefits.

The PEC was the first full service energy center in the country that went beyond demonstrating technology to serving as a “toolbox,” where design professionals could use the PEC’s equipment, resource materials, and staff to expand

Reduced lighting cost is just one aspect of the benefits of using the technology. LED equipment lasts 10 times longer than incandescent traffic lights, which means it uses less landfill space. It also creates fewer zinc and mercury deposits, which results in less hazardous waste. The LED lights are safer as well. LED intersections can operate easily on back-up power, reducing traffic accidents in high-risk intersections by 90 percent during power interruptions.

The company will continue to research and promote new and more efficient lighting technologies. In 2000, for example, we demonstrated to the California Energy Commission that LED exit signs – which use 90 percent less electricity than traditional signs – should be standard in new construction and replacement applications. Over the next decade, this technology could save 30 megawatts of electricity in California.

Promoting the Use of Clean-Fueled Vehicles

In 2000, our Clean Air Transportation program continued to provide education services to customers regarding the superior environmental and economic performance of electric and natural gas vehicles. The education materials focused on customers with large vehicle fleets and included a set of fact sheets for the refuse collection industry, a primer for school transportation providers and customized studies for public transit districts. Our educational efforts earned us the 2000 Achievement Award from the Natural Gas Vehicle Coalition.

their energy efficiency building-design horizons. Building-design professionals, architects, engineers and lighting designers have attended more than 250 programs and training sessions to learn about and identify opportunities to incorporate energy efficiency

into building-design projects. The PEC's technical staff of architects, engineers and lighting professionals consult on a wide range of commercial building projects. The Tool Lending Library has received more than 1,300 requests for data

collection and monitoring instruments. The PEC's Library, staffed full time by an energy information resource specialist, has responded to more than 9,450 requests for energy efficiency information.

In 2000, our employees' innovations led to the creation of a heavy-duty service truck that runs on compressed natural gas. The trucks – which we developed and placed into service – are among the first energy-efficient heavy-duty trucks available, reducing fuel consumption and emissions. The new vehicle will save more than \$4,000 a year in fuel costs alone. The truck's efficiency also reduces environmental impacts associated with maintenance. The new vehicle requires service every 30,000 miles, rather than every 2,000, which cuts down on oil use and hazardous wastes that need to be disposed. The American Lung Association's San Francisco Bay Chapter recognized the importance of this new truck by selecting our company to receive the Association's Year 2000 "Clean Air Envy Award."

Specifically, our technical experts combined a John Deere natural gas engine with a Freightliner truck representing a creative approach to securing an ultra-low-emission, heavy-duty vehicle. The John Deere natural gas engine represents the state-of-the-art in the heavy-duty natural gas vehicle engines, while earning an EPA Ultra Low Emission Vehicle rating and maintaining diesel-like fuel efficiency. This innovative engine is certified to the California Air Resources Board's optional low-NO_x standard. This vehicle's NO_x emissions are about half and particulate emissions are about 5 percent compared with a conventional heavy-duty diesel powered vehicle.

Some projects that improve the environment also present opportunities for us to enter new ventures that support our customers' interests. In 1999, we joined with a coalition of truckers, environmentalists, and clean fuel advocates to increase the use of natural gas vehicles in California. We worked with local groups in California's San Joaquin Valley to create interest in natural gas vehicles and to educate potential participants about the environmental and cost benefits of switching from diesel to natural gas. One of the first companies to start switching its fleet was Harris Ranch, one of the state's largest agribusinesses – and one of our big customers. Last year, Harris replaced 12 aging diesel-powered trucks with trucks running on liquefied natural gas (LNG) and placed another 14 trucks on order. As part of our work on the project, we transport natural gas to Harris's LNG fueling station.

The Harris LNG trucks could reduce emissions by more than 10 tons of particulate matter and six tons of NO_x per year. Per mile, the LNG trucks save from eight to 11 cents compared to diesel trucks – a savings of between \$11,000 and \$15,000 annually at 140,000 miles per year.

3,100 pounds of metal
6,300 pounds of trash
2,175 pounds of glass

**Above is what our employee volunteers collected in the
annual Russian River Cleanup in Northern California.
During 2000, we met our long-term goal of removing
100 tons of trash from this scenic river.**

8 environmental awards

California Conservation Corps Sponsor of the Year

Coastal America's 2000 Partnership Award

New Jersey's Silver Track environmental performance award

U.S. EPA's Environmental Achievement Track Award

U.S. EPA's Energy Star Award

Natural Gas Vehicle Coalition's 2000 Achievement Award

American Lung Association's Clean Air Envy Award

**The POWER Award from the Public Officials
for Water and Environmental Reform**

21 environmental education grants

We maintain environmental education initiatives in New England and in California. Our program in New England provides annual grants to local schools and other organizations to support hands-on environmental education projects. Last year, we supported 21 such programs aimed at furthering conservation in New England.

15,000 acres of pristine land

Our Deerfield River hydroelectric system in New England consists of seven power stations that together generate 84 megawatts of clean, renewable electricity. Our federal relicensing effort for the system included an agreement with the Vermont Land Trust to permanently safeguard more than 15,000 acres of pristine land along the river.

**ENVIRONMENTAL
COMMITMENTS
DRIVE
STEWARDSHIP**

In the communities in which we operate, we often have the unique opportunity – by virtue of the scope and nature of our operations – to lead by example, and support, encourage or partner with others in protecting and enhancing the environment. As a result, we look for ways to share our resources and environmental expertise with local community groups and environmental organizations.

**Collaborating with
Diverse Stakeholders
to Produce Lasting Results**

In 2000, we successfully completed multi-year collaborative negotiations with a variety of stakeholder groups regarding the future operations of our hydropower facilities on the Mokelumne and Feather Rivers in California. The comprehensive agreements we reached with environmental groups, whitewater rafting groups, state and federal resource agencies, and other stakeholders will become part of the license we receive from the Federal Energy Regulatory Commission to operate our hydro facilities for the next 30 years.

The Mokelumne River Project begins at Blue Lakes in Alpine County, California, and includes several powerhouses and reservoirs capable of generating more than 1.1 million kWh of power (enough electricity for approximately 200,000 homes). Recreational opportunities at project reservoirs and affected river reaches are enjoyed by thousands of visitors each year.

The agreement balances continued hydropower generation with environmental protections and public recreation. It includes extensive resource monitoring and an adaptive management program. The adaptive management program provides for adjustment of minimum streamflows, pulse flows, recreation streamflows and minimum reservoir levels over the term of the license based on monitoring results.

To protect wildlife, we will maintain specific water temperature and water oxygen levels, as well as limit power-generation activities and maintenance when they could adversely affect aquatic life. Recreational river users will benefit from a streamflow system that will accommodate whitewater boating, as well as improved boat-launch facilities.

Our collaborative relicensing efforts on the Mokelumne earned us the prestigious POWER Award at the 10th Annual California Water Policy Conference. The conference and the award are sponsored by Public Officials for Water and Environmental Reform (POWER). The POWER Award “honors those individuals, public and nonprofit agencies, and private companies who have integrated science, technology, economics, community, efficiency, and/or ecosystem restoration; that have learned from the past what works and what doesn’t; and are implementing an integrated program that serves as a model to others.”

On the North Fork of the Feather River, we reached agreement with numerous environmental stakeholders on a plan to enhance fish, wildlife and riverside habitat at our Rock Creek-Cresta Hydroelectric Project. That agreement includes year-round river flow increases to enhance fish, wildlife and riverside habitats; limits on some power-generation activity to protect aquatic resources; and continuing studies to evaluate the possibility of drawing cold water from nearby Lake Almanor to improve downstream resources.

Sharing our Expertise and Resources

For the second consecutive year, the National Hydropower Association named our Deerfield River hydroelectric system in New England as one of eight “Outstanding Stewards of American Rivers” in recognition of the collaborative process the company led on its federal relicensing effort. The Deerfield River hydroelectric system consists of seven power stations along the river that together can generate 84 megawatts of clean, renewable electricity.

In accordance with the license, we signed an agreement with the Vermont Land Trust in 2000 to permanently safeguard more than 15,000 acres of pristine land along the Deerfield River. The resulting conservation deal protects black bear habitat, deer wintering areas, loon and peregrine falcon habitat, and some of Vermont’s rarest plants. We continue to work with state and federal agencies, environmental and recreational groups to ensure that all stakeholders have a voice in decisions that affect the river.

Along the Connecticut River, the National Audubon Society designated Herricks Cove near Bellows Falls, Vermont, a recreation area owned by our hydroelectric facilities, as an official Important Birding Area, in recognition of the site’s unique habitat for over 200 species of birds.

In 2000, we executed an agreement transferring title and placing a conservation easement on approximately 7,700 acres of land in Shasta County, California, known as the “McArthur Swamp.” This agreement is the culmination of several years of negotiations that will allow the property to be donated to the California Waterfowl Association (CWA) under the provisions that the land would be managed for wetland habitat, allow for continued public recreation on the property, and guarantee permanent free public access to the Ahjumawi Lava Springs State Park. We worked with CWA and numerous resource agencies to develop a management plan for the McArthur Swamp, which is home to several sensitive species, including the Shasta crayfish, bald eagle and sandhill cranes. These species, as well as many species of waterfowl, raptors and other wildlife, will benefit from the management program developed for the property. Transfer of the title to the property and implementation of the management plan is pending approval by the Federal Energy Regulatory Commission and the California Public Utilities Commission.

Other times, we offer our facilities to support local emergency planning and environmental response efforts. Manchester Street Station, for instance, stores an oil skimmer on-site for the state of Rhode Island. The plant, which has its own boat launch on the Providence River, provides easy access to the water for quick emergency response time in case of an oil spill in the area.

Promoting Sustainable Communities

Since 1989, we have committed more than \$90 million toward 26 affordable housing projects resulting in nearly 3,000 homes for moderate- and low-income families, seniors and physically challenged persons. These investments in affordable housing are key to creating vibrant local economies, which in turn attract new businesses and help retain existing industries, small businesses and firms. These projects also benefit the environment by reducing negative impacts associated with suburban sprawl, such as destruction of open space and increased traffic congestion.

In 2000, as part of a multi-year commitment to support low-income housing, we broke ground on a 38-unit housing project in Oakland, California. In addition to providing much-needed housing in the San Francisco Bay Area, the project helps introduce new energy-efficient appliances and technologies. Also, because the units are designed as living/working spaces, they help reduce costs and energy use associated with commuting to work.

In addition, we serve on two federal environmental justice commissions, the National Environmental Policy Commission and the National Environmental Justice Advisory Council. Both commissions include members from a cross section of the public, including representatives from business and industry, health organizations, academia, environmental justice and community groups, as well as tribal, state and local governments.

In 2000, we became one of only four electric companies nationwide to be named a "Tree Line USA Utility" by the National Arbor Day Foundation for six years in a row. The Tree Line USA program is sponsored by the Foundation in

**Supporting
Environmental
Education in
Our Communities**

Another commitment is helping others, especially young people, learn about the environment and ways to promote stewardship and conservation.

PG&E Corporation maintains two substantial environmental education initiatives, one in New England and one in California. Our program in New England has been in place for several years, providing annual grants to local schools and conservation organizations to support hands-on environmental education projects. We find that we can help teachers make programs possible that would otherwise have no funding. Last year, we supported 21 educational programs. One such project helped a middle school in Connecticut build a school-yard habitat to allow students to observe the life cycle of butterflies, birds and insects.

In California, the Nature Restoration Trust is a new partnership with the National Fish and Wildlife Foundation. The program is aimed at getting middle and high school students involved in efforts to improve and enhance plant, fish and wildlife habitats, especially in areas adjacent to public lands in Northern and Central California. We also plan to work with the Foundation to help raise local awareness of these important habitat restoration projects.

cooperation with the National Association of State Foresters and distinguishes utilities that have a program of quality tree care and provide for annual worker training, tree planting and public education. The award recognizes the Company

for the variety of its programs and support of the urban forest. This includes training for utility workers when trenching for underground construction near trees and vegetation, participation at arboricul-

tural events in the community, public education for planting the right tree in the right place, and for its use and promotion of directional trimming, considered by arboriculturists to be healthiest for trees.

One such project is along the Palomares Creek Watershed (PCW), located in the rural outskirts of Castro Valley, east of San Francisco Bay. The variety of natural habitats that surround Palomares Elementary School and the creek make this location ideal for environmental education activities for students and other community members. The PCW project focuses on riparian restoration and trail improvement, and is intended to result in a model watershed with cleaner water, improved wildlife habitat, and a community of aware and involved watershed stewards.

At our Lake Road power plant, which is presently under construction in Connecticut, we were required to implement a reforestation plan to reestablish trees that were sacrificed during construction. Through a unique partnership between our plant, the state Division of Forestry, and the forestry teacher from the local high school vocational/agricultural program, we agreed to a joint venture. The first of 9,000 seedlings were planted on the school's agricultural field, and our facility assisted in providing an irrigation system that will remain in place for the school's future use. In exchange, students will work under the supervision of forestry experts with Lake Road staff and other local groups to plant the seedlings at our facility.

The 4th Annual American River Salmon Festival at the Nimbus Fish Hatchery was an incredible opportunity for families to view the return of King Salmon to their spawning grounds, and learn about the salmon life cycle and the conservation of the supporting ecosystem. We were again a sponsor of the festival as part of our commitment to responsible stewardship of California rivers. We share a common goal of protecting anadromous fisheries, while at the same time delivering safe and reliable electricity to customers, and honoring commitments to water users and community stakeholders.

Forming Alliances

Our long-standing support of the California Conservation Corps (CCC) received regional recognition in 2000 when we were named Sponsor of the Year for CCC's Los Padres Service District. Each year, CCC officials nominate a work sponsor whom they believe has shown dedication and commitment in training and developing its youth and providing work projects for the organization and its members. According to the CCC, we stepped in at a time when budget constraints threatened to close the district facility in San Luis Obispo. We became one of the leading supporters of the San Luis Obispo center and contributed funds and technical assistance to produce a brochure used to attract new sponsors.

In New England last year, we were recognized with Coastal America's 2000 Coastal America Partnership Award for our leadership and participation in the Corporate Wetlands Restoration Partnership, a public-private partnership that has brought together the state of Massachusetts, U.S. EPA, U.S. Army Corps of Engineers, and more than 20 companies in the Northeast to restore wetlands and other aquatic habitats. We joined the partnership as a founding partner in late 1999. The company's financial contributions have gone to fund wetlands restoration projects in regional coastal areas identified by the partnership.

In addition to broader company efforts, a number of our individual facilities also participate in various environmental partnerships. For example, in New England at our MASSPOWER plant, our participation on the board of directors of the Chicopee River Watershed Council has led other industrial facilities near the plant to become interested in protecting water quality. MASSPOWER bought lab equipment used for a river quality monitoring project, helped prepare the council’s Earth Day presentation material, and is now supporting a documentary film being produced about the river. One of the plant’s neighbors has joined in maintaining a river monitoring station, and local workers are encouraged to participate in the annual riverbank cleanup.

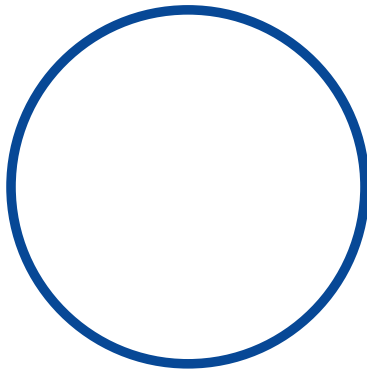
The team at our Millennium power plant in Massachusetts is working on a “rails-to-trails” project along the Quinebaug River. Our employees at the plant are donating their labor to convert former railroad beds into recreational trails. Our Carneys Point power plant built a similar “environmental interpretive trail” at Ft. Mott State Park in New Jersey last year. Working with local rangers, plant employees have helped clear a trail and build kiosks that provide background on local ecology.

Our employees also participated again last year in the annual Russian River Cleanup in Northern California. Forty employee volunteers collected 3,100 pounds of metal, 6,300 pounds of trash and 2,175 pounds of glass. During 2000, we met our long-term goal of removing 100 tons of trash from the river. In addition to our volunteer efforts, we funded habitat restoration along Lytton Creek, one of the Russian River tributaries. Lytton Creek is known to have supported and may still support runs of Coho salmon and steelhead trout, and we are working to restore native riparian habitat along 15 miles of the creek. Experienced restoration ecologists are supervising the work.

We are also exploring international opportunities for carbon sequestration as part of a voluntary commitment to help mitigate global climate change. As a member of the Utilitree Carbon Company, we're supporting global forest carbon management activities that create more than 2.5 million tons of low-cost CO₂ offsets while saving valuable rain forests.

As a founding member of the Clean Energy Group, we continue to advocate for national policies related to clean energy and improved air quality. The group, which is a coalition of companies dedicated to environmentally and economically sustainable projects, also provides us with an opportunity to build alliances within industry and shape policy for the future.

100% commitment to environmental excellence



PG&E Corporation's commitment to environmental excellence is part of our culture and a cornerstone of the way we do business. This commitment remains paramount whether we are striving to undertake new business opportunities or face challenges in areas where we have long served our customers. We expect to continue this leadership in the future by enhancing efforts at continuous improvement and environmental stewardship, and maintaining the highest standards of environmental excellence.

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