

## LETTER FROM THE CHAIRMAN

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### **To our Customers, Shareholders, and the Communities in which we operate —**

PG&E Corporation's environmental programs cover a broad range. They extend from our participation in national policy discussions, research, and demonstration projects on air emissions, renewable energy resources, and energy conservation, to hands-on community projects like the annual Russian River Cleanup, in which employee volunteers last year removed more than 14,000 pounds of trash from the river's shore.

Our business today is growing dramatically. As we strive to meet our business objectives, our goal is to ensure that as our operations grow, our environmental footprint stays small.

We are pleased to share with you the progress of our environmental stewardship efforts through the highlights contained in this report.

Our accomplishments in 1999 and some significant achievements in early 2000 make this commitment clear. Here are a few highlights:

- We reduced air emissions from our two largest fossil-fueled power generating facilities in New England. And in April 2000, we announced that we will meet new, aggressive emissions-reductions goals in cooperation with Massachusetts Governor Paul Cellucci's administration. The reductions will bring nitrogen oxides (NOx) and sulfur dioxide (SO<sub>2</sub>) emissions to levels significantly below legal requirements.
- In upstate New York, as this report went to press, we began construction on one of the first wind power generating facilities built to serve competitive power markets in the Eastern United States.
- Corporate-wide, we performed more than 550 environmental audits at our facilities to gauge our performance and identify those areas where we can do better.
- We initiated an ecosystem restoration project in Northern California that will restore 42 miles of unique stream habitat in Battle Creek for Chinook salmon and steelhead, while preserving a valuable, renewable hydroelectric resource. Five hydroelectric dams will be decommissioned and removed as part of the project, which was recognized by California Governor Gray Davis with his Environmental and Economic Leadership Award.
- Our customer energy efficiency programs led to electricity savings equal to the annual needs of 32,000 households, and natural gas savings equal to the needs of 7,500 households.
- Each month, more than 8,000 visitors logged on to our website to learn about energy-efficient products and find vendors who sell them in our utility unit's service area.

While we are proud of our environmental performance in 1999, we always believe we can do better. PG&E Corporation's commitment to environmental excellence remains a constant force shaping how we evolve as a company and grow as a national energy business.

We will continue to do our part to protect the air, water, and other natural resources we all value and depend on, and at the same time work to ensure that future generations have access to affordable, clean, efficient energy. On behalf of the more than 20,000 men and women of PG&E Corporation, we look forward to making that happen in 2000 and beyond.

**Robert D. Glynn, Jr.**

Chairman of the Board, Chief Executive Officer, and President

PG&E Corporation

May 5, 2000

## ENVIRONMENTAL POLICY

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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.

All of our businesses are responsible for implementing and complying with these policies and establishing appropriate environmental management programs.

## FOCUS ON PERFORMANCE

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**By measuring our results and refining our management systems, we continually strive to identify and act on opportunities to improve PG&E Corporation's environmental performance.**

**Rewarding Excellence On The Job**

PG&E Corporation recognizes that an added way to drive continuous improvement is to reward employees for going above and beyond compliance. We provide bonuses and incentives to plant teams or individuals based in part on their facilities' environmental performance. To that end in 1999, our competitive generating unit launched its first-ever environmental stewardship awards program, which rewards individuals or plant teams who best exemplify Company environmental values.



Environmental responsibilities at PG&E Corporation are defined and addressed in our Environmental Management Systems (EMS). Our utility unit and our competitive generating and gas transmission units each maintain an EMS that establishes policies, procedures, training programs, audit programs, and incentives to manage environmental risks effectively.

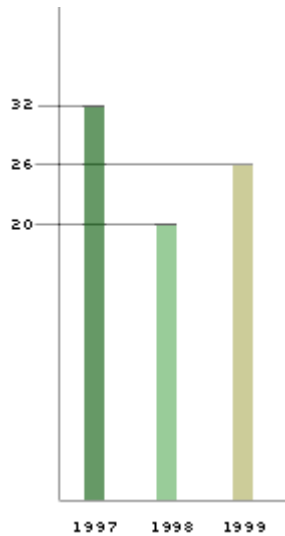
Regulators ranging from the U.S. Environmental Protection Agency to state environmental agencies in New Jersey and Pennsylvania have all embraced EMS programs for the value they provide in managing and improving environmental performance. Within PG&E Corporation, these programs are helping us achieve and maintain compliance, reduce fines and penalties, lower insurance costs, and continuously improve our environmental performance.

In our competitive generating unit in 1999, efforts to refine existing EMS programs included revising and updating policies and guidance documents at our competitive generating facilities to reflect the latest regulatory requirements and to create a framework for documenting facility-specific processes for implementing the EMS. Each facility will prepare and implement site-specific environmental management plans in 2000 that spell out how the goals of the EMS program are being met. The utility conducted a comprehensive review of its strategic EMS plans and goals to map out next steps for furthering its environmental program. And our gas transmission unit launched an integrated EMS assessment for its operations.

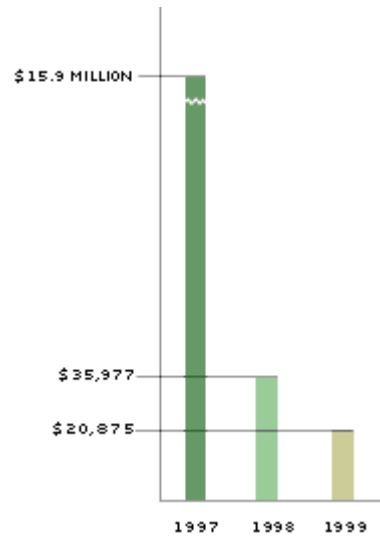
## 1999 Compliance Performance

PG&E Corporation received 26 Notices of Violation (NOVs) across all business units in 1999, compared with 20 NOVs in 1998. Our penalty payments were lower in 1999, totaling \$20,875, compared with \$35,977 in 1998. As part of our effort to continuously drive down NOVs, we investigate these incidents and, where necessary, we take corrective actions and implement new approaches aimed at preventing such occurrences in the future. Following is a summary of the NOVs received in each of our business units for the year:

- Our competitive generating unit received seven NOVs at four facilities in 1999, all for air-related emissions issues. This unit paid a total of \$14,850 in fines in 1999, including some fines paid for noncompliance events that occurred in previous years.
- Two NOVs were issued to our gas transmission unit for administrative violations of permit conditions at two compressor stations in Oregon. No penalties were assessed.
- The utility received a total of 17 NOVs in 1999 resulting in fines of \$6,025. The majority of these NOVs were issued by local air districts for violations related to gasoline dispensing equipment and associated storage tanks at the utility's service center maintenance yards.



Number of Notices of Violations (NOVs) Received by PG&E Corporation



Amount of Penalties Paid by PG&E Corporation

## Employee Training Initiatives

PG&E Corporation fully recognizes that its environmental reputation rests with the day-to-day conduct of its employees. To ensure that we have a highly trained workforce committed to our goal of environmental excellence, PG&E Corporation conducts a number of environmental training programs focused primarily on compliance with permits and regulations. Other training initiatives in 1999 included:

- Incorporating business goals and objectives into our environmental awareness training program to emphasize the direct link between our financial growth and our environmental performance;
- Sponsoring workshops and seminars for our transmission and hydroelectric operators and tree-trimming contractors on protecting and avoiding the disruption of sensitive environments and habitats;
- Training on new or revised compliance procedures such as permit conditions, waste and hazardous materials handling, spill response, reporting requirements, and recordkeeping;
- Expanding the availability of environmental policies and procedures to employees through the company Intranet sites; and
- Developing waste contractor protocols to assist sites in their audits of such service providers.

## Rating Our Results

In 1999, a study by Innovest, a group that rates companies' environmental performance for investors, ranked PG&E Corporation among the highest companies it examined. Ranking is based on demonstration of strong environmental performance, implementation of a sound environmental management system, aggressive efforts to reduce emissions and waste, and a focus on environmental stewardship.



## Measuring Our Performance

Each year, PG&E Corporation conducts a series of audits to assess our facilities' compliance, as well as to identify areas for improvement. In keeping with our environmental policy, these audits are conducted by independent auditors and results are reported to management.

The utility completed 30 audits at 20 facilities in 1999 covering air quality, water quality, PCBs, hazardous materials and waste, and underground storage tank compliance. In addition, utility field environmental specialists conducted 498 self-audits, exceeding our annual target of 450. The audits evaluate compliance with environmental laws and regulations.

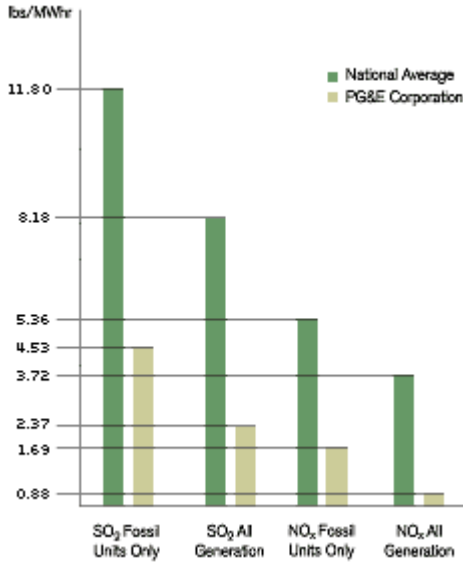
The utility also completed an assessment of its audit program in early 1999. Based on the results, we implemented improvements to the program that included changes to ensure more concise reporting and trend analyses for individual operating units. Ongoing evaluation of the new program and its effectiveness will continue in 2000.

Our gas transmission unit instituted a formal internal audit system in 1999 and conducted 13 comprehensive audits by an internal team. The goal of the program is to audit each site once every three years. The findings were administrative in nature, primarily associated with inconsistencies in policy or program implementation.

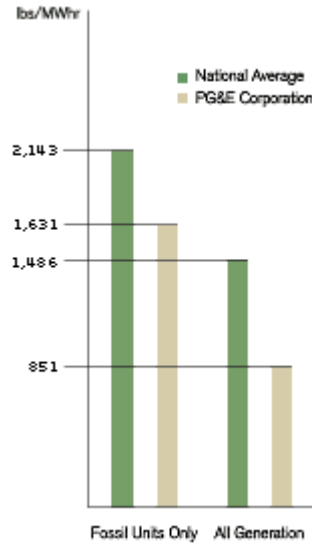
Our competitive generating unit conducted 22 third-party audits covering all operating facilities during 1999. Nine of the audits were part of the Company's risk-based environmental audit program, of which six were comprehensive compliance audits and three were focused on the prevention of spills and releases. The Company's pollution liability insurance carrier conducted the remaining 13 audits, which included environmental risk assessment surveys and storage tank system evaluations. Most of the findings were administrative in nature. The remainder included more substantive findings requiring corrective actions to address regulatory or policy requirements. Action plans and corrective measures to address these findings are reviewed by senior management on a regular basis.

In addition to internal efforts to track and measure its performance, in 1999 our competitive generating unit also participated in a benchmarking study conducted by the Research Triangle Institute. The resulting report ranked our competitive generating unit among the best performers, compared with other energy producers, in terms of air emissions of nitrogen oxides (NO<sub>x</sub>) and sulfur dioxide (SO<sub>2</sub>). We also ranked highly for our success in reusing ash from our facilities for beneficial purposes, such as land reclamation and recycling as concrete. Our operations also

received the best possible score for oil spills, as we had no federally reportable oil spills in the reporting year. Areas for improvement included reducing chemical releases and amounts of hazardous waste generated, and reaching a goal of no enforcement actions or penalties paid in a year.



1999 SO<sub>2</sub> and NO<sub>x</sub> Emissions Rates from PG&E Corporation Compared with National Average



1999 CO<sub>2</sub> Emissions Rates from PG&E Corporation Compared with National Average

## STRIVING FOR CONTINUOUS IMPROVEMENT

Among our basic values at PG&E Corporation is a dedication to seeking cleaner, more efficient ways to operate. As a result of this commitment, we are finding ways to reduce wastes and emissions through both innovative operational changes and investments in new technologies.

**Success In Pollution Prevention**

Our New England hydroelectric operations received the 1999 Vermont Governor's Award for Environmental Excellence in Pollution Prevention for a cumulative 10-year program that ended in 1999, called the OUR (Oil Use Reduction) Project. Under the program, we eliminated 15,000 gallons of lubricating oil used for operations at the five hydroelectric facilities in Vermont. "The company's award-winning projects stand out as models. Everyone should be inspired to find innovative approaches to conserve natural resources and to prevent pollution before it is generated," said Vermont Governor Howard Dean, M.D.



## Improving Operational Efficiency

PG&E Corporation continued progress in 1999 to reduce and better manage the waste associated with our operations.

At two of our National Energy Group generating facilities, we embarked on an employee-driven pilot program in 1999 to explore new waste reduction and pollution prevention options. The program seeks to identify those measures that offer meaningful environmental improvements together with efficiencies or cost savings. These measures are identified through a formal, systematic process that effectively challenges employees to reassess the direct and indirect environmental effects of facility operations.

At our electric generating facility in Northampton, Pennsylvania, new operational approaches were found to reduce the amount of limestone and ammonia used by the plant for emissions control. The program also helped identify a new technology with the potential to treat the facility's incoming raw water using fewer chemicals. In addition, employees found a way to use fewer disposable air filters. The change reduced disposal of the filters and generated a savings of roughly \$17,000 a year.

As part of ongoing operations assessments at the Northampton plant, the team there also made important adjustments to the plant's boilers and fuel-handling procedures in 1999. The adjustments are enabling the plant to burn new fuel mixes, which will ultimately allow the facility to play a role in the cleanup of additional waste-coal sites in the state.

At our Salem Harbor Station in Massachusetts, our team is using the program to screen opportunities for additional environmental benefits. Station employees have reduced the plant's demand on the city's valuable water resources and are evaluating innovative technologies that could reduce onsite chemical use.

The pilot studies are being used to develop a pollution prevention process that will be the basis for implementing pollution prevention programs at all of our competitive generating facilities.

Also in Massachusetts, our Brayton Point Station in 1999 began using water recycled from its wastewater treatment system to wash its boilers and electrostatic precipitators. The station estimates that this will save about 10 million gallons of drinking water annually.

In California, we continued to cut our total quantity of routinely generated hazardous wastes.

Since 1997, the utility has reduced hazardous wastes by almost 7,000 tons, an 84 percent reduction resulting in an approximate annual savings of \$500,000. The cuts have been achieved through a variety of measures such as using rechargeable batteries and flashlights, draining and recycling oil filters, laundering and reusing oily rags and absorbents, and reusing spent automotive antifreeze. Setting internal waste reduction targets and quantifying economic impact by performing life-cycle cost analyses on waste reduction options helped build awareness and drive these reductions.

PG&E Corporation continues its commitment to cost-effective recycling. For example, in 1999 our utility unit salvaged and recycled nearly 17 tons of metals valued at more than \$4 million. Other waste reduction successes at the utility included a 46 percent reduction in the landfilling of wooden cable reels, which were replaced with reusable steel reels. This program will ultimately eliminate the disposal of wooden reels as a waste product.

At our gas transmission unit in 1999, we found additional ways to reduce or eliminate the generation of wastes by purchasing water-based parts-washing equipment at three of our facilities. In so doing, we eliminated the need to use petroleum-based solvents for cleaning parts.

Additionally, our utility unit earned the distinction of being a 1999 Waste Reduction Awards Program winner. The California Environmental Protection Agency issued the award to the utility for recycling more than 98 percent of its “green waste”— tree trimming wastes generated by the unit’s Vegetation Management Program. Approximately 735,000 cubic yards of green waste was diverted from local landfills by reusing the waste material for beneficial purposes such as landscaping for homes, golf courses, and farms, among other uses.

## **Controlling Emissions**

PG&E Corporation is meeting the challenge of providing cost-effective, reliable electricity while effectively managing emissions from its facilities. At our existing facilities, we are finding innovative ways to further drive down emissions. And at the new natural gas-fueled facilities we are developing around the country, we are proposing to achieve air emissions rates that are among the lowest in the world for fossil-fueled electric generation.

Among our most important initiatives in 1999 was the launch of an aggressive three-year program to reduce air emissions at our coal-fueled Brayton Point and Salem Harbor Stations in New England. Since acquiring these facilities in 1998, we have sought new ways to improve their air emissions performance. The program initiated in 1999 will cut emissions of NO<sub>x</sub>, SO<sub>2</sub>, soot, and fly ash through the installation of new technologies and equipment, strategic operational changes, and increased expenditures to retire emissions allowances. These two plants reduced onsite NO<sub>x</sub> emissions in 1999 by nearly 20 percent during the sensitive summer ozone season, and reduced SO<sub>2</sub> emissions by 10 percent.

At Salem Harbor, on the facility’s oil-fueled unit, our team installed a new burner technology called the REACH system. The \$1.9 million investment has greatly reduced soot fallout, and fly ash production has been reduced by 75 percent. The improvement also reduced the annual bill for fly ash disposal from \$400,000 to less than \$100,000.

And at our gas transmission unit, replacement of two gas-fueled turbine compressor units with low-NO<sub>x</sub> units has reduced NO<sub>x</sub> emissions by 250 tons per year.

**FOCUS ON ENERGY EFFICIENCY**

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**PG&E Corporation's utility unit creates and manages programs designed to promote energy efficiency. From supporting cleaner transportation vehicles to raising customer awareness, our utility unit helps to make energy efficiency an easier goal to reach for its customers and business partners.**

### **Creating Efficient Workplaces**

Visa International and Oracle Corporation recently benefited from the utility's commercial new construction program. Visa participated in the program during the design and construction of its new world headquarters in Foster City, California. Working with utility engineers, Visa implemented a lighting design that resulted in a 40-percent energy savings and almost \$350,000 in rebates for the company. Oracle was also able to save energy in its new buildings in Redwood City, California. By installing various efficiency systems, Oracle cut its energy consumption by 1.9 million kilowatt-hours and received approximately \$250,000 in financial incentives.



### **Promoting Cleaner Transportation Technologies**

Our utility unit researches and promotes new technologies that hold the promise of helping to reduce emissions associated with motor vehicles.

In cooperation with other California utilities, our utility unit entered into a research and development project to create a pilot low-cost liquefied natural gas (LNG) production facility in California. LNG offers a clean-burning substitute for diesel fuel and, as a result, can significantly reduce emissions from medium- and heavy-duty trucks. This facility will provide truck fleet operators testing LNG vehicles with an affordable, in-state source for the fuel. The pilot plant could deliver as much as 10,000 gallons of LNG per day, at a cost that would make it competitive with diesel fuel.

In 1999, the utility's Clean Air Transportation program again provided education services to customers regarding the superior environmental and economic performance of electric vehicles (EV) and natural gas vehicles (NGV). The Natural Gas Vehicle Coalition recognized our utility unit with a 1999 Achievement Award for the quality of the educational materials it developed, which included a set of fact sheets for the refuse collection industry, a primer for school transportation providers, and customized studies for public transit districts.

As a result of the program, the City of San Jose has worked with its franchise operator, Waste Management, Inc., to bring 14 natural gas-fueled refuse collection vehicles to the city in early 2000, and plans to place an additional 150 such vehicles in service in Northern California during 2000.

Our utility unit also maintains electric and natural gas vehicles in its own fleet. Since 1995, approximately 15 percent of the utility's light-duty vehicle fleet has been comprised of electric and natural gas vehicles. In 1999, the utility operated 32 EVs and 641 NGVs out of a total of 4,490

fleet vehicles used in such applications as mail delivery and meter-reading. Last year, the utility also began evaluating clean technologies for medium- and heavy-duty vehicle applications.

### Online Energy Efficiency Resources

SmarterEnergy is our utility unit's gateway to energy efficiency information on the World Wide Web. It features a searchable listing of vendors of energy-efficient products within the utility's service area, purchasing guidelines for customers, and information to help customers select appropriate energy-efficient technologies. The website ([www.pge.com/smarterenergy](http://www.pge.com/smarterenergy)) has become one of the most visited pages on our utility unit's website, with 8,000 visits per month.



### Making Buildings More Energy Efficient

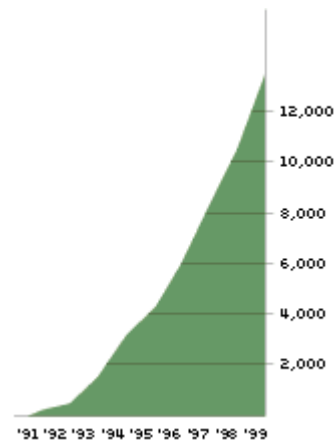
The utility's energy efficiency programs also include efforts to promote the design and construction of energy-efficient buildings, and the use of such technologies as high-efficiency lighting, heating, ventilation, and air conditioning systems.

In 1999, the commercial new construction team provided free training on new California energy standards to more than 600 building design professionals. Our residential new construction team also trained and assisted builders, subcontractors, and builder sales agents on the construction and availability of energy-efficient homes and on ways to improve a home's efficiency through our courses on high-performance windows, enhanced ducts, and other emerging technologies.

### Promoting Energy Efficiency Among Consumers

The utility continued its partnership with the U.S. Environmental Protection Agency (EPA) and the Department of Energy in 1999 to create an easily recognized symbol for energy-efficient products, the ENERGY STAR®. The utility, EPA, and First Financial Funding Group have designed and implemented the first ENERGY STAR® financing program for residential energy-efficient retrofits. We provide incentives for homeowners to replace furnaces, air conditioners, and heat pumps with ENERGY STAR® models.

Our utility unit worked with the EPA in 1999 to sponsor events where consumers could trade their inefficient halogen floor lamps for discounted ENERGY STAR® fluorescent models. The ENERGY STAR® models consume 80 percent less energy than halogen models, and last three to four times longer.



Cumulative Tons of CO2 Emissions Avoided through Customer Energy Efficiency Programs

Finally, in partnership with the City of Sonora's Economic Development Corporation, Rebuild America/DOE, and the local water waste management boards, our utility unit established the first rural community-based energy efficiency information center in the state in 1999.

These programs, coupled with consumer education efforts, resulted in more efficient use of energy, as well as the avoidance of significant air emissions.

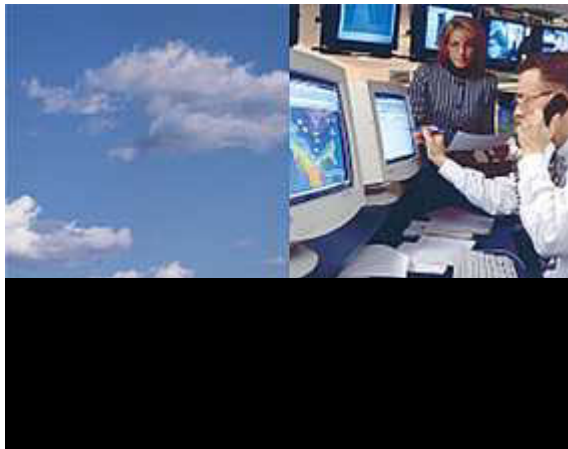
## FOCUS ON GROWTH

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**PG&E Corporation is growing its business today in new regions of the country and in new operational areas. As we capture the opportunities in emerging competitive power markets, we are also leading our industry in exploring creative, sustainable solutions to the demand for cleaner energy sources.**

### **Creative Ways To Reduce Emissions**

To commemorate Earth Day 1999, PG&E Corporation transferred 10,000 greenhouse gas reduction credits to the Barnard/Columbia University Earth Coalition, through Natsource, LLC, an environmental emissions broker. Each tradable unit is equal to one ton of CO<sub>2</sub> or CO<sub>2</sub>-equivalent reduced. The transaction was the first of its kind between private industry and an environmental nonprofit group, and was one of only a handful of trades performed worldwide for greenhouse gas emissions. The student coalition retired the credits, ensuring that they could not be used to create future emissions.



### **Raising The Bar With New Technologies**

Our competitive generating unit is developing and building a large portfolio of new, highly efficient, natural gas-fueled competitive generating plants. At each site, we are finding ways to minimize the impact of these facilities on the environment, from achieving unprecedented low emissions rates to preserving local natural resources.

In 1999, PG&E Corporation partnered with regulators to explore the use of a promising new emissions-control technology in one or more of the electric generating facilities we are developing. Known as SCONOx, the technology effectively absorbs NOx, a major contributor to ground-level ozone, or smog, and releases it as harmless elemental nitrogen. PG&E Corporation hopes to be the first to apply this technology and, in so doing, to build the cleanest natural gas-fueled power plant in the country.

We took a major step in early 2000 to demonstrate that new renewable energy sources have a place in the competitive power business. Specifically, our competitive generating unit completed

the permitting on the largest wind generation facility in the Eastern United States built expressly to serve emerging competitive power markets. The project is scheduled to begin commercial operations in fall 2000.

Located in upstate New York, the 11.5-megawatt Madison Windpower facility will not burn any fuel or generate emissions. In fact, in an average wind year, Madison Windpower will save 12,000 tons of CO<sub>2</sub>, 65 tons of SO<sub>2</sub>, and 19 tons of NO<sub>x</sub>, compared with the average emissions from other generating facilities in New York state. In addition, the Corporation has created a program for others to share in the environmental benefits of the Madison project and demonstrate their commitment to supporting new, clean renewable sources of electricity. The initiative, known as Pure Wind™, enables partners—such as large industrial, commercial, retail, institutional, and “green” energy marketing companies—to purchase Pure Wind™ certificates that represent the air emissions avoided with each megawatt-hour of wind-generated power.

## **Creating Credits Through Emissions Reductions**

PG&E Corporation is responding to the challenge of global climate change by taking early, voluntary action to reduce greenhouse gas emissions from our operations.

The 1992 Energy Policy Act established a voluntary program for reporting actions taken to reduce, avoid, or sequester greenhouse gas emissions. In 1999, PG&E Corporation business units reported emission reductions equivalent to approximately 5.2 million tons of CO<sub>2</sub> from activities such as fuel switching, end-use energy efficiency improvements, and forestry programs. The total amount of greenhouse gas reductions reported by PG&E Corporation since the inception of the program in 1994 now totals 28.4 million tons of CO<sub>2</sub>-equivalent.

Emissions trading programs have been among the nation’s most successful air pollution control efforts. These programs “cap” emissions and grant tradable allowances to the owners and operators of the sources. PG&E Corporation promotes the use of these market-based programs to manage the challenges associated with growth in our industry.

Under cap-and-trade programs, our facilities have the incentive and flexibility to create their own innovative emission-reduction strategies, in some cases combining operational and technological improvements with the trading of allowances for SO<sub>2</sub> and NO<sub>x</sub> emissions. In addition to SO<sub>2</sub> and NO<sub>x</sub> allowances, we also participate in trading programs designed to manage emissions of volatile organic compounds, particulate matter, and CO<sub>2</sub>.

In 1999, our Scrubgrass Generating Plant in Pennsylvania installed selective non-catalytic reduction (SNCR) technology to reduce the plant’s emissions of NO<sub>x</sub>. The plant installed the emissions reduction equipment voluntarily, in anticipation of more stringent emissions requirements by 2003. Adopting the technology early not only reduced NO<sub>x</sub> emissions by 50 percent or more, it enabled the plant to operate below its current permit levels and generate valuable emissions credits. Revenue from the sale of emissions credits is expected to more than offset the installation and operation costs of the SNCR system.

In Southern California in 1999, we also developed an innovative approach to managing emissions associated with our proposed electric generating facility in San Diego County. In this region, air quality management concerns dictate that new sources of air emissions must be offset by emissions reductions from other sources. Our competitive generating unit is committing significant resources to convert local diesel-fueled fleet vehicles to clean-burning natural gas or low-NO<sub>x</sub> diesel vehicles, thereby reducing vehicle emissions and creating offsets to operate our facility. The emissions offsets are known as mobile emission reduction credits. To monitor and implement the program, we are working in partnership with the California Energy Commission, San Diego County Air Pollution Control District, EPA, and the California Air Resources Board.

## FOCUS ON CONSERVATION

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**By helping to protect wildlife and vital habitats, we can help ensure that valuable natural resources are preserved for future generations. PG&E Corporation cooperates with and encourages broad-based conservation efforts to preserve unspoiled lands and resources and, in many cases, to restore those that have been depleted or degraded.**

In December 1999, California Governor Gray Davis and state environmental officials honored our utility unit with the California Governor's Environmental and Economic Leadership Award for Ecosystem Restoration for the Battle Creek Salmon and Steelhead Restoration Project. The project will restore 42 miles of valuable stream habitat for the natural reproduction of Chinook salmon and steelhead. The California EPA praised the project for helping to rebuild the once-great salmon and steelhead habitat along the Sacramento River system, while maintaining a pollution-free renewable energy resource.



### Resource Restoration

In 1999, PG&E Corporation and the National Fish and Wildlife Foundation committed to provide approximately \$1 million over a three-year period in support of a partnership called the Nature Restoration Trust. The trust will administer matching grants to qualified Northern and Central California communities in our utility unit's service territory that seek to restore natural habitats for fish, plants, and wildlife. Projects range from cleaning up creeks and restoring wetlands to reviving spawning grounds in streams.

In Vermont, PG&E Corporation helped to reintroduce 1,700 native brook trout into the Deerfield River just below our Harriman Dam in Whitingham. The trout reintroduced in 1999 constituted the second phase of a multiyear restocking project, a joint effort of PG&E Corporation, the Vermont Fish and Wildlife Department, and the Green Mountain National Forest. The project is one of a number of conservation initiatives provided for under the Deerfield River hydroelectric system's operating license. Close monitoring of the river indicates that the fish are thriving and reproducing. For this and other efforts, the Deerfield River hydroelectric system made the National Hydropower Association's Outstanding Stewardship of America's Rivers list in 1999.

Our Northwest gas transmission pipelines traverse numerous environmentally sensitive areas, such as the Moyie River in Idaho, and the Lindsay Prairie Preserve, the John Day River Canyon, and the Newberry National Volcanic Monument in Oregon. In each of these pipeline corridors, we have worked to ensure that these locations are not only preserved, but also enhanced if possible. In 1999, we supported the Columbia Blue Mountain Resource Conservation

and Development Area, a nonprofit organization working to educate the public about the effects of noxious weeds, which if untreated can infest and damage native ecosystems and cropland. We also worked to restore the native perennial bunchgrass habitat at the Columbia Hills Storage Project in South Central Washington.

PG&E Corporation joined the Pine Hollow Watershed Enhancement Project in the sensitive John Day River Canyon area in Oregon. The group is working to decrease the frequency of flooding in the 130-square-mile Pine Hollow drainage basin. The project will ultimately help alleviate chronic pipeline maintenance problems, which disrupt stream and riparian habitats.

## Protecting Wildlife

Protecting sensitive species in our operating areas often means training our teams to recognize sensitive resources and taking appropriate steps to modify plans for construction and maintenance projects. For example, during an upgrade to a transmission power line in 1999, utility crews discovered kestrels, also called sparrow hawks, nesting inside hollow brackets that were scheduled for removal. The utility's biologist used a fiber-optic video camera to determine signs of eggs or young. We postponed the construction for several months to allow the birds to finish nesting.

During a utility pole replacement project in 1999 in Oakhurst, California, employees discovered the endangered valley elderberry longhorn beetle, which nests in the elderberry shrub indigenous to the region. To compensate for any disruptions to the beetle's habitat, two acres of elderberry shrubs were planted on land adjacent to the Herndon Substation along the San Joaquin River in Fresno.

And in Lone, California, we helped federal and state agencies manage the recovery of the federally protected and rare lone manzanita plant, after our employees found the plant during maintenance on a local transmission line. Our staff biologists mapped local populations of the manzanita and the unique soil types in the lone area to assist in the recovery of the plant.

## Reducing Environmental Impact

As a charter member of the Avian Powerline Interaction Committee (APLIC), PG&E Corporation in 1999 earned the distinguished Conservation Service Award from the U.S. Fish and Wildlife Service for developing methods to protect raptors, cranes, and other birds that come into contact with utility structures. APLIC's chairman accepted the award at a presentation by President Clinton and Department of the Interior Secretary Bruce Babbitt in March 1999. PG&E Corporation received a Citation for Conservation Service, the highest honor given to private citizens and groups by the Department of the Interior for conservation achievements.



## Protecting And Enhancing Recreational Lands

In 1999, PG&E Corporation continued efforts aimed at protecting and enhancing lands associated with our operations. In New England, the Federal Energy Regulatory Commission (FERC) accepted the Corporation's plan to restrict future development on 18,000 acres of open territory surrounding our hydroelectric facilities. Use will now be limited exclusively to recreation and the protection of threatened and endangered species and habitats.

The Deerfield River hydroelectric system in New England was one of the first hydro systems to enter into a landmark hydroelectric relicensing settlement agreement with 12 environmental and recreational organizations. Under the agreement, nearly \$30 million was committed for environmental enhancements, including construction of fish passage facilities, education projects, and conservation easements.

FERC approved our plan in 1999 to establish a \$100,000 environmental enhancement and mitigation fund in accordance with our recently renewed FERC operating license for qualifying projects in the Deerfield River Basin in Vermont and Massachusetts. The fund will support watershed conservation, development of low-impact recreational and educational facilities, and planning, design, maintenance, and monitoring of such facilities in the Deerfield River Watershed.

PG&E Corporation's New England hydroelectric system completed a number of recreation enhancements during 1999 to benefit the half a million recreational visitors it hosts each year. Projects along the Deerfield River system include wheelchair accessibility improvements, upgraded picnic areas and hiking trails, and improvements for safer access to the river for rafters and kayakers.

PG&E Corporation undertook similar efforts at its hydroelectric facilities in California. Our utility unit made approximately \$380,000 in improvements to public areas throughout the system. We rehabilitated a U.S. Forest Services picnic area with a new boat ramp, restroom facilities, and improved parking, and made similar improvements to our Fuller Lake property. We created a new access trail to the Eel River at Trout Creek and a water well at the Sunset Point Campground. In addition, we began a process of cleaning and clearing underbrush from the North Battle Creek Reservoir shoreline and also began restoration of a popular fishing trail.

In 1999, more than 354,000 visitors, including 174,000 overnight guests, took advantage of the 93 recreational facilities throughout the utility's service territory in California.

The utility's Sierra Discovery Trail was honored by the Sierra Club's Mother Lode Chapter as the site of its National Trails Day on June 5, 1999. Located northeast of Nevada City, the Sierra Discovery Trail is one of few trails originally designed to be accessible to the physically handicapped. The condensed one-mile trail passes by a river, wetlands, grasslands, and forest areas and includes an information kiosk at the trailhead and 13 interpretive signs along the path. A sighted guide is available to accompany blind visitors and read the inscriptions aloud.

## FOCUS ON COMMUNITY LEADERSHIP

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**PG&E Corporation recognizes the importance of sharing our environmental commitment, knowledge, and expertise with the communities we serve. From lending our know-how in the area of emergency preparedness to helping educate youth on how they can preserve natural resources, we plan to lead by example into the 21st century.**

## Volunteers For Conservation

In 1999, PG&E Corporation celebrated its tenth anniversary as a major sponsor of the annual Russian River Cleanup effort in the North Coast region of California. In September, hundreds of volunteers, including many utility unit employees, cleaned 50 miles of river by canoe and foot. In one day, they removed 154 tires, 1,054 pounds of glass, 36.5 pounds of aluminum cans, 43 pounds of class 1 and 2 plastic bottles, 2,220 pounds of assorted metal, and 14,040 pounds of miscellaneous trash.



## Sharing Our Expertise

Implementing effective emergency response programs is a top priority at all of our generating stations. In 1999, two of our generating stations had the opportunity to lend their emergency response expertise to neighboring communities to reduce the impact of environmental spills.

In 1999, the Deerfield River Watershed in New England was the site of two hazardous releases: one of liquid latex and one of sulfuric acid, the latter of which did not extend into the Deerfield River proper. While the spills were unrelated to our facilities, these releases to the watershed brought our employees together with state hazardous responders, watershed stewards, and local community members to form a task force to seek ways to protect the river from future accidental releases. The task force is developing a regional watershed-based response plan for the area, and we offered our FERC-approved Emergency Action Plan as an emergency notification procedure to be adapted for the region's use in future situations.

At Salem Harbor Station in Massachusetts, well-rehearsed emergency response plans paid off in 1999 when a barge spilled approximately 200 gallons of fuel oil into the harbor as it was unloading fuel for a neighboring petroleum company. While the barge owner was responsible for the spill, our employees assisted in isolating the source, containing the fuel oil in the water, ensuring the safety of station and cleanup personnel, and protecting sensitive coastal areas.

Our gas transmission unit also initiated outreach efforts regarding pipeline safety in 1999. We participated with other regional natural gas companies in Washington state's task force to examine pipeline safety issues and reviewed the environmental consequences of pipeline ruptures.

We also participated in emergency preparedness planning in communities near our pipelines. Further, we've worked with emergency responders and communities to raise public awareness of precise pipeline locations and how to respond in case of a failure. Through mailings and other public notices to residents and businesses, we reminded the community to call our toll-free number before digging.

## Supporting Environmental Education

In 1999, the Corporation supported more than 100 environmental and conservation groups with grants totaling \$671,000.



In New England last year, we awarded a total of \$100,000 to 20 schools, environmental groups, and other recipients through our new Environmental Education Grant Program. Now in its second year, the program was established to further the reach and success of conservation-focused programs aimed at young people in New England.

The grants advanced local educational programs and conservation efforts. For example, one recipient, the Ipswich River Watershed Association in Massachusetts, used its grant to turn the Ipswich River into an outdoor classroom, teaching youngsters how to preserve the local land and water. The program, which has continued beyond the life of the grant, has served as a springboard for further local outreach and educational efforts.

In San Francisco, California, our utility unit joined other utilities, Bay Area nonprofit groups, and the California Public Utilities Commission in hosting the first annual Environmental Awareness Day. As part of the exhibit, the utility demonstrated its natural gas vehicles and electric vehicles, and put on entertaining skits to help turn local kindergarten through fifth grade students into “energeniuses” — teaching them how to use energy wisely and safely.

Both the utility and our competitive generating unit support programs that encourage employees to help improve air quality. In 1999, our utility unit participated for the seventh year in a row in the Bay area “Spare the Air” program designed to reduce air emissions. The utility encouraged employees to delay refueling of cars until dusk and reduce the use of emissions-generating equipment such as gasoline-powered gardening equipment, among other activities.

In the Washington, D.C. metropolitan area, where our National Energy Group is headquartered, we are a founding member of a coalition that urges individuals to take steps to reduce ground-level ozone pollution on days conducive to ozone formation. On “Code Red” summer days, we encourage employees to carpool, use public transportation, and avoid the use of lawnmowers and other sources of emissions. We also offer free public transportation passes to encourage employees to ride rather than drive.

## **Energy Conservation And Pollution Prevention**

PG&E Corporation supports a variety of programs aimed at encouraging individuals to take simple steps that help conserve energy and reduce pollution. In 1999, we undertook or participated in a number of such efforts.

The Northern California Hearth Products Association, in conjunction with area air pollution control agencies, conducted a large rebate program to encourage homeowners to replace old wood-burning stoves and fireplace inserts with new, lower-emitting wood- or gas-burning appliances. The utility provided free advertising on the back of bill-return envelopes, as well as \$75 rebates to the first 100 buyers of natural gas stoves and inserts within the greater San Francisco Bay Area. According to the association, sales of cleaner natural gas stoves and inserts doubled in 1999 compared with 1998. It is estimated that 136 tons per year of particulate matter air emissions in Northern California will be reduced as a result of the program, a 61 percent greater reduction than the program achieved in 1998. The American Lung Association, for the second year in a row, presented the utility with a Clean Air ENVY Award for its successful contribution to this program.

The utility also contributed funds to the Bay Area Air Quality Management District to help promote the use of electric lawnmowers. Gasoline-powered mowers generate large amounts of hydrocarbon emissions, which are major contributors to ground-level ozone, or smog. Rebates of \$75 were given to those who purchased electric lawnmowers and turned in operable gasoline mowers.

The utility’s 1999 “Express Efficiency” program offered rebates to nonresidential customers

for installing energy-efficient lighting, refrigeration, food service, and gas equipment. In addition, the utility offered rebates to air conditioner and motor distributors for sales of high-efficiency equipment to business customers in the utility's service territory. Incentive payments were made for more than 30,000 tons of air conditioning equipment and 2,400 motors, which will generate annual energy savings of 5,200 megawatt-hours and 2,000 megawatt-hours, respectively, for the next 15 years.

## FOCUS ON COLLABORATION

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**Through strategic partnerships and advancing critical policy decisions, PG&E Corporation is collaborating with numerous entities to promote the value of growth through sustainable business practices that ensure better environmental quality.**

### Steps For A Sustained Environment

Millennium Power employees have partnered with EPA, U.S. Fish and Wildlife, Massachusetts Department of Environmental Protection, the University of Massachusetts Amherst, and others to protect a threatened and endangered species during plant construction. Work was finished in August 1999 to restore vernal pools that will become a viable habitat for the indigenous marbled salamander. University graduate students who are monitoring the area predict that the project will result in the first habitat to have been successfully recreated specifically for a species. The recreated wetland already has vegetation, frog larvae, and many other indicators of success.



### Helping To Set Environmental Standards

In 1999, our competitive generating unit was one of 14 companies, environmental groups, and nongovernmental organizations throughout the United States and Canada to collaborate with the Northeast States for Coordinated Air Use Management (NESCAUM). The interstate association serves to exchange technical information and promote cooperation and coordination of technical and policy issues regarding air quality control among the member states in the Northeast.

We volunteered the use of our Brayton Point electric generating plant and our landfill gas recovery project in New Hampshire for the association's demonstration project. The group reviewed early greenhouse gas (GHG) reduction actions undertaken, explored practical issues surrounding the potential crediting and trading of these reductions, and worked on how to best realize reductions quickly and cost effectively.

Our Salem Harbor Station joined with NESCAUM on an additional project in 1999 to test emissions control devices on heavy-duty construction equipment. The pilot project involved adapting or installing equipment such as particulate filters and oxidation catalysts on five of Salem Harbor's heavy-duty vehicles. The results were impressive—air emissions from these machines dropped by as much as 95 percent. Based on the pilot project, a landmark Clean Air Construction Initiative was announced in late 1999 to leverage the technological achievements of the pilot effort into a significant large-scale public project.

Also in 1999, PG&E Corporation joined with EPA on the Sulfur Hexafluoride (SF6) Emissions Reduction Partnership for Electric Power Systems, to achieve environmental and economic benefits by reducing emissions of SF6.

A dense dielectric gas, SF6 is used in high-voltage electrical switchgear and breakers and has been identified as a potent GHG when emitted during the operation and maintenance of electric transmission and distribution equipment. The EPA believes that reducing emissions of this air pollutant will decrease atmospheric pollution and help address climate change. We have agreed to develop a baseline of SF6 emissions, inventory those emissions annually, and develop and implement a companywide policy for the proper handling of SF6.

## **Sharing Information**

In 1999, our competitive generating unit partnered with members of the Clean Energy Group (CEG), the Natural Resources Defense Council (NRDC), and the U.S. EPA to make a voluntary, early public disclosure of our Toxic Release Inventory (TRI) data. Under the TRI program, industrial facilities file annual reports with the EPA on their releases of various chemicals to air, water, and land. 1999 was the first year that the electric power generation industry was required to report under the program.

In July 1999, the CEG released its report at a press conference with the NRDC and the EPA, making the data available to the public nearly a full year ahead of its official release by the EPA. Carol Browner, EPA administrator, applauded the CEG for its efforts, which went above and beyond EPA's requirements by including additional data on releases of substances not covered under TRI. The CEG report also included data on releases that would otherwise be exempt from TRI reporting requirements because their quantities were below regulatory thresholds.

The report showed that for our fossil-fueled generating facilities, the emission rate for each of the eight TRI substances was well below the average emissions rates for the 50 largest electric generators in the eastern United States.

## **Environmental Studies**

PG&E Corporation is also active in current efforts to gather information on mercury emissions from coal-fueled power plants. Last year, our Scrubgrass facility was selected by the EPA for a research program on mercury emissions. In addition, we volunteered to provide fuel samples and conduct stack testing for mercury at our other coal-fueled generating plants, including our Carneys Point and Logan Generating Plants in New Jersey and our Brayton Point and Salem Harbor Stations in Massachusetts. In conjunction with data from unaffiliated utility plants, the information will help EPA evaluate the mercury content in various types of coal to determine how effectively various boilers control or limit mercury emissions.

At our Millennium Power Plant, currently in construction in Charlton, Massachusetts, we have collaborated with partners on two environmental studies to help ensure that indigenous resources and species will be protected on the plant site.

In 1999, Millennium Power also initiated a study with the EPA, the Connecticut and

Massachusetts Departments of Environmental Protection, the Massachusetts Division of Fish and Wildlife, and the Army Corps of Engineers to ensure the continued stability of the Quinebaug River near the plant site. Our competitive generating unit has set aside \$1 million to protect the river and the recreational needs of the communities surrounding the East Brimfield Reservoir.

Study results will help researchers determine what projects will improve water quality in Massachusetts and Connecticut and how best to implement them. Professors and students of the University of Massachusetts and Cornell University are also researching river basin flows to determine how the river flow affects indigenous species.

We also have partnered with University of California at Davis biology students to aid the development of wildlife-friendly agricultural practices. We have offered a 17,500-acre portion of its property in the Sacramento Valley area called Conaway Ranch, which is leased to 20 tenant farmers, along with \$25,000 to help fund the student project. The focus of the project is the native California wood duck. Students monitor nest boxes, band ducks, and ducklings, and use telemetry to track brood survival. Students have discovered the unique ways in which the farmers can share space with the native species without disturbing a neighboring wildlife habitat.