

PG&E CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(in millions, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Operating Revenues				
Electric	\$ 2,042	\$ 2,509	\$ 5,902	\$ 5,921
Natural gas	581	553	2,198	2,037
Total Operating Revenues	2,623	3,062	8,100	7,958
Operating Expenses				
Cost of electricity	792	661	2,003	1,813
Cost of natural gas	239	234	1,096	1,011
Operating expenses including depreciation	1,083	990	(1,547)	3,023
Reorganization items	-	16	6	116
Total Operating Expenses	2,114	1,901	1,558	5,963
Operating Income	509	1,161	6,542	1,995
Interest and other expense, net	(140)	(320)	(557)	(787)
Income Before Income Taxes	369	841	5,985	1,208
Income tax provision	141	333	2,352	454
Income from Continuing Operations	228	508	3,633	754
Discontinued Operations of NEGT ^(a)	-	2	-	(365)
Net Income Before Cumulative Effect of Changes in Accounting Principles	228	510	3,633	389
Cumulative effect of changes in accounting principles	-	-	-	(6)
Net Income	\$ 228	\$ 510	\$ 3,633	\$ 383
Weighted Average Common Shares				
Outstanding and Participating Securities, Diluted	427	416	425	410
Earnings Per Common Share, Basic ^(b)	\$ 0.55	\$ 1.26	\$ 8.73	\$ 0.95
Earnings Per Common Share, Diluted ^(b)	\$ 0.53	\$ 1.23	\$ 8.55	\$ 0.93

	Earnings (Loss) Three months ended September 30,		Earnings (Loss) per Common Share, Diluted Three months ended September 30,	
	2004	2003	2004	2003
	Pacific Gas and Electric Company and Holding Company			
Pacific Gas and Electric Company	\$ 252	\$ 174	\$ 0.59	\$ 0.42
Holding Company	(10)	-	(0.02)	-
Earnings from Operations	242	174	0.57	0.42
Headroom ^(c)	-	495	-	1.19
Items Impacting Comparability ^(d)	(14)	(154)	(0.04)	(0.37)
NEGT ^(a)	-	(5)	-	(0.01)
PG&E Corporation Reported Earnings	\$ 228	\$ 510	\$ 0.53	\$ 1.23

	Earnings (Loss)		Earnings (Loss) per	
	Nine months ended		Common Share, Diluted	
	September 30,		Nine months ended	
	2004	2003	2004	2003
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 740	\$ 475	\$ 1.74	\$ 1.16
Holding Company	(25)	(2)	(0.06)	(0.01)
Earnings from Operations	<u>715</u>	<u>473</u>	<u>1.68</u>	<u>1.15</u>
Headroom ^(c)	-	635	-	1.55
Items Impacting Comparability ^(d)	2,918	(356)	6.87	(0.87)
NEGT ^(a)	-	(369)	-	(0.90)
PG&E Corporation Reported Earnings	<u>\$ 3,633</u>	<u>\$ 383</u>	<u>\$ 8.55</u>	<u>\$ 0.93</u>

- (a) In anticipation of NEGT's Chapter 11 filing, PG&E Corporation's representatives, who previously served on the NEGT Board of Directors, resigned on July 7, 2003 and were replaced with Board members who are not affiliated with PG&E Corporation. As a result, PG&E Corporation no longer retains significant influence over the ongoing operations of NEGT. Effective July 8, 2003 (the date NEGT filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code), PG&E Corporation no longer consolidates the earnings and losses of NEGT and has reflected its ownership interest in NEGT utilizing the cost method of accounting, under which PG&E Corporation's investment in NEGT is reflected as a single amount on the Consolidated Balance Sheets of PG&E Corporation at September 30, 2004 and December 31, 2003. In addition, the operations of NEGT prior to July 8, 2003, are reflected as discontinued operations in the Consolidated Financial Statements.

On October 29, 2004, NEGT's plan of reorganization, under the provisions of Chapter 11, became effective, at which time NEGT emerged from Chapter 11 and PG&E Corporation's equity interest in NEGT was cancelled.

- (b) Reflects PG&E Corporation's adoption of the "Two-Class" method of calculating earnings per share for all periods presented.
- (c) As a result of CPUC decisions approving the Settlement Agreement and implementing various ratemaking mechanisms, the Utility no longer records frozen electric rates and surcharges, or headroom, directly to earnings as it had in 2003. Instead, the Utility collects cost-of-service based electric rates that are the sum of specific revenue requirements.
- (d) Items impacting comparability for the quarter ending September 30, 2004 include the effect of the incremental interest costs of \$7 million (\$0.02 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$4 million (\$0.01 per share) related to the NEGT's Chapter 11 filing and generally consisting of external legal consulting fees, financial advisory fees and other related costs; and \$3 million (\$0.01 per share) related to the change in the estimated market value of non-cumulative dividend participation rights included within the Holding Company's \$280 million principal amount of 9.5% Convertible Subordinated Notes.

Items impacting comparability for the quarter ended September 30, 2003 include the net effect of incremental interest costs of \$130 million (\$0.31 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$24 million (\$0.06 per share) related to the Utility's and NEGT's Chapter 11 filings and generally consisting of external legal consulting and financial advisory fees, and other related costs.

Items impacting comparability for the year-to-date period ending September 30, 2004 include the Utility's recognition of a gain of approximately \$120 million (\$0.28 per share), after-tax, related to the prior year impact and regulatory asset recognition resulting from the CPUC decision approving the 2003 GRC, and a gain of approximately \$2,950 million (\$6.94 per share) related to the establishment of regulatory assets contemplated in the December 19, 2003 settlement agreement, or Settlement Agreement, entered into between the Utility, PG&E Corporation and the CPUC to resolve the Utility's Chapter 11 proceeding. In addition, the Utility recognized \$17 million (\$0.04 per share) in charges related to obligations to invest in clean energy technology and donate land, included in the Settlement Agreement.

The effect of recognizing the impacts of the Settlement Agreement and GRC was partially offset by the net effect of incremental interest costs of \$80 million (\$0.18 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$14 million (\$0.03 per share) related to the Utility's and NEGT's Chapter 11 filings and generally consisting of external legal consulting fees, financial advisory fees and other related costs; and \$41 million (\$0.10 per share) related to the change in the estimated market value of non-cumulative dividend participation rights included within the Holding Company's \$280 million principal amount of 9.5% Convertible Subordinated Notes.

Items impacting comparability for the year-to-date period ended September 30, 2003 include the net effect of incremental interest costs of \$275 million (\$0.67 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 proceeding; increased costs of \$75 million (\$0.18 per share) related to the Utility's and NEGT's Chapter 11 filings and generally consisting of external legal consulting and financial advisory fees, and \$6 million (\$0.02 per share) of other costs associated with current year regulatory rulings.

Reconciliation of EPS Guidance on an Earnings from Operations Basis to EPS Guidance on a GAAP Basis

	<u>Year Ended December 31, 2004</u>	
EPS Guidance on an Earnings from Operations Basis ⁽¹⁾	\$ 2.00	\$ 2.10
Estimated Items Impacting Comparability ⁽²⁾		
Incremental interest expense	(0.22)	(0.16)
Utility Chapter 11 Settlement Agreement assets and obligations ⁽³⁾	6.89	6.90
2003 GRC settlement ⁽⁴⁾	0.28	0.28
Dividend participation rights ⁽⁵⁾	(0.10)	(0.10)
Utility and NEGT Chapter 11 related expenses	(0.05)	(0.03)
Disposition of NEGT ⁽⁶⁾	1.60	1.60
Premium to retire Holding Company Senior Secured Notes	(0.07)	(0.07)
EPS Guidance on a GAAP Basis	<u>\$ 10.33</u>	<u>\$ 10.52</u>

(1) Excludes the results of NEGT.

(2) The range of potential outcomes is developed using a range of dollar estimates and a range of estimated shares outstanding for the items presented.

(3) Impact of recognizing \$2.2 billion after-tax regulatory asset authorized in the Settlement Agreement and a \$700 million after-tax regulatory asset for the Utility's retained generation as authorized by the Settlement Agreement. These regulatory assets are offset by \$17 million related to obligations to invest in clean energy technology and donate land, included in the Settlement Agreement.

(4) Impact of recording, as a result of the CPUC's approval of the 2003 GRC, additional 2003 natural gas revenues and various regulatory assets and liabilities associated with the recovery of retained generation assets, unfunded taxes, depreciation and decommissioning.

(5) Reflects the change in estimated market value of dividend participation rights, which entitle the holders of PG&E Corporation's 9.50% Convertible Subordinated Notes to participate in any dividends declared and paid on PG&E Corporation's common shares based upon their equity conversion ratio.

(6) Impact of recognizing the reversal of PG&E Corporation's investment in NEGT and related amounts in deferred income taxes and accumulated other comprehensive income as a result of the implementation of NEGT's plan of reorganization eliminating PG&E Corporation's equity interest, offset by the \$30 million payment made by PG&E Corporation to NEGT pursuant to the parties' settlement of certain tax-related litigation.

	<u>Year Ended December 31, 2005</u>	
EPS Guidance on an Earnings from Operations Basis ⁽¹⁾	\$ 2.15	\$ 2.25
Estimated Items Impacting Comparability ⁽²⁾		
Incremental interest expense	(0.06)	(0.03)
EPS Guidance on a GAAP Basis	<u>\$ 2.09</u>	<u>\$ 2.22</u>

(1) Excludes the results of NEGT.

(2) The range of potential outcomes is developed using a range of dollar estimates and a range of estimated shares outstanding for the items presented.