

PACIFIC GAS & ELECTRIC CO

Form DEF 14A

March 13, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Pacific Gas and Electric Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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PG&E Corporation and Pacific Gas and Electric Company

Joint Notice of 2007 Annual Meetings Joint Proxy Statement

March 13, 2007

To the Shareholders of PG&E Corporation and Pacific Gas and Electric Company:

You are cordially invited to attend the 11th annual meeting of PG&E Corporation and the 101st annual meeting of Pacific Gas and Electric Company. The meetings will be held concurrently on Wednesday, April 18, 2007, at 10:00 a.m., at the San Ramon Valley Conference Center, 3301 Crow Canyon Road, San Ramon, California.

The accompanying Joint Proxy Statement contains information about matters to be considered at both the PG&E Corporation and Pacific Gas and Electric Company annual meetings. At the annual meetings, PG&E Corporation and Pacific Gas and Electric Company shareholders will be asked to vote on the election of directors and ratification of the appointment of the independent registered public accounting firm for 2007 for each company. The Boards of Directors and management of PG&E Corporation and Pacific Gas and Electric Company recommend that you vote **FOR** the nominees for directors and the ratification of the appointment of Deloitte & Touche LLP as each company's independent registered public accounting firm for 2007, as set forth in the Joint Proxy Statement.

PG&E Corporation shareholders also will be asked to vote on the proposals submitted by individual PG&E Corporation shareholders described in the Joint Proxy Statement. For the reasons stated in the Joint Proxy Statement, the PG&E Corporation Board of Directors and management recommend that PG&E Corporation shareholders vote **AGAINST** these proposals.

Your vote on the business at the annual meetings is important. For your convenience, we offer you the option of submitting your proxy and voting instructions over the Internet, by telephone, or by mail. Whether or not you plan to attend, please vote as soon as possible so that your shares can be represented at the annual meetings.

Sincerely,

Peter A. Darbee
Chairman of the Board, Chief Executive Officer,
and President of PG&E Corporation
Chairman of the Board of
Pacific Gas and Electric Company

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Joint Notice of Annual Meetings of Shareholders
of PG&E Corporation and Pacific Gas and Electric Company

March 13, 2007

To the Shareholders of PG&E Corporation and Pacific Gas and Electric Company:

The annual meetings of shareholders of PG&E Corporation and Pacific Gas and Electric Company will be held concurrently on Wednesday, April 18, 2007, at 10:00 a.m., at the San Ramon Valley Conference Center, 3301 Crow Canyon Road, San Ramon, California, for the purpose of considering the following matters:

1. For PG&E Corporation and Pacific Gas and Electric Company shareholders, to elect the following 10 and 11 directors, respectively, to each Board for the ensuing year:

David R. Andrews
Leslie S. Biller
David A. Coulter
C. Lee Cox

Peter A. Darbee
Maryellen C. Herringer
Thomas B. King*
Richard A. Meserve

Mary S. Metz
Barbara L. Rambo
Barry Lawson Williams

* Thomas B. King is a nominee for director of Pacific Gas and Electric Company only.

2. For PG&E Corporation and Pacific Gas and Electric Company shareholders, to ratify each Audit Committee's appointment of Deloitte & Touche LLP as the independent registered public accounting firm for 2007 for PG&E Corporation and Pacific Gas and Electric Company,
3. For PG&E Corporation shareholders only, to act upon proposals submitted by PG&E Corporation shareholders and described on pages 34 through 36 of the Joint Proxy Statement, and
4. For PG&E Corporation and Pacific Gas and Electric Company shareholders, to transact any other business that may properly come before the meetings and any adjournments or postponements of the meetings.

The Boards of Directors have set the close of business on February 20, 2007 as the record date for determining which shareholders are entitled to receive notice of and to vote at the annual meetings.

By Order of the Boards of Directors of
PG&E Corporation and Pacific Gas and Electric Company,
Linda Y.H. Cheng
Vice President, Corporate Governance and Corporate Secretary
PG&E Corporation and
Pacific Gas and Electric Company

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PG&E Corporation and Pacific Gas and Electric Company

Joint Proxy Statement

The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company (Boards) are soliciting proxies for use at the companies' annual meetings of shareholders, including any adjournments or postponements.

This Joint Proxy Statement describes certain matters that management expects will be voted on at the annual meetings, gives you information about PG&E Corporation and Pacific Gas and Electric Company and their respective Boards and management, and provides general information about the voting process and attendance at the annual meetings.

A Joint Proxy Statement and a proxy card were sent to anyone who owned shares of common stock of PG&E Corporation and/or shares of preferred stock of Pacific Gas and Electric Company at the close of business on February 20, 2007. This date is the record date set by the Boards to determine which shareholders may vote at the annual meetings.

The Joint Proxy Statement and proxy cards, together with the PG&E Corporation and Pacific Gas and Electric Company 2006 annual report to shareholders, were mailed to shareholders beginning on or about March 13, 2007.

Questions and Answers**When and where will the annual meetings be held?**

The annual meetings will be held concurrently on Wednesday, April 18, 2007, at 10:00 a.m., at the San Ramon Valley Conference Center, 3301 Crow Canyon Road, San Ramon, California.

A map and directions to the meeting venue can be found at the back of this Joint Proxy Statement.

How do I vote?

You can attend and vote at the annual meetings, or the proxyholders will vote your shares as you indicate on your proxy. There are three ways to submit your proxy:

1. Over the Internet at <http://www.proxyvoting.com/pgc>.
2. By telephone by calling toll-free 1-866-540-5760, and
3. By completing your proxy card and mailing it in the enclosed postage-paid envelope.

If you submit your proxy over the Internet or by telephone, your vote must be received by 11:59 p.m., Eastern time, on Tuesday, April 17, 2007. These Internet and telephone voting procedures comply with California law.

If you submit your proxy by mail, your vote must be received by 10:00 a.m., Pacific time, on Wednesday, April 18, 2007.

What am I voting on and what are each Board's voting recommendations?

PG&E Corporation shareholders will be voting on the following items:

Item No.	Description	Board's Voting Recommendation
1	Election of Directors	For all nominees
2	Ratification of Appointment of the Independent Registered Public Accounting Firm	For this proposal
3-4	Shareholder Proposals	Against these proposals

Pacific Gas and Electric Company shareholders will be voting on the following items:

Item No.	Description	Board's Voting Recommendation
1	Election of Directors	For all nominees

2 Ratification of Appointment of the Independent Registered Public
Accounting Firm

For this proposal

What vote is required to approve each item?

To elect directors:

The 10 nominees for director of PG&E Corporation and the 11 nominees for director of Pacific Gas and Electric Company receiving the greatest number of votes will be elected. Votes against a nominee or votes withheld will have no legal effect.

To approve other items described in the Joint Proxy Statement:

For each proposal, a majority of the shares represented and voting on the proposal must approve the proposal. The approval votes also must be greater than 25 percent of the shares entitled to vote. Abstentions will have the same effect as a vote against a proposal. Broker non-votes (see definition below)

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will not be considered in determining whether or not a proposal is approved.

What is a broker non-vote?

If you hold your shares indirectly through a broker, bank, trustee, nominee, or other third party, that party is the registered holder of your shares and submits the proxy to vote your shares. You are the beneficial owner of the shares and typically you will be asked to provide the registered holder with instructions as to how you want your shares to be voted.

Broker non-votes occur when brokers or nominees have voted on some of the matters to be acted on at a meeting, but do not vote on certain other matters because, under the rules of the New York Stock Exchange, they are not allowed to vote on those other matters without instructions from the beneficial owners of the shares. Broker non-votes are counted when determining whether the necessary quorum of shareholders is present or represented at each annual meeting.

Will shareholders be asked to vote on matters other than those described in the Joint Proxy Statement?

Shareholders may be asked to vote on certain administrative matters, as permitted by law. The companies did not receive timely advance written notice of any other matters that will be introduced at the annual meetings.

What shares are included on my proxy card?

For PG&E Corporation registered shareholders, the shares included on your proxy card represent all the shares of PG&E Corporation common stock in your account as of February 20, 2007, including shares in the Investor Services Program for Shareholders of PG&E Corporation. For Pacific Gas and Electric Company registered shareholders, the shares included on your proxy card represent all the shares of Pacific Gas and Electric Company preferred stock in your account as of February 20, 2007.

If you are a registered shareholder of both PG&E Corporation common stock and Pacific Gas and Electric Company preferred stock, you will receive a separate proxy card for each company. If you receive more than one proxy card for either company, it means that your shares are held in more than one account. You should vote the shares on all your proxy cards. If you would like to consolidate your accounts, please contact our transfer agent, Mellon Investor Services LLC, toll-free at 1-800-719-9056.

How many copies of the Joint Proxy Statement and annual report will I receive?

If you are a registered shareholder of PG&E Corporation common stock and/or Pacific Gas and Electric Company preferred stock, you will receive one Joint Proxy Statement and one annual report to shareholders for each account. If you are a beneficial owner of PG&E Corporation common stock and/or Pacific Gas and Electric Company preferred stock and you receive your proxy materials through ADP Investor Communication Services (ADP), and there are multiple beneficial owners at the same address, you may receive fewer Joint Proxy Statements and annual reports than the number of beneficial owners at that address. Securities and Exchange Commission rules permit ADP to deliver only one Joint Proxy Statement and annual report to multiple beneficial owners sharing an address, unless we receive contrary instructions from any beneficial owner at that same address.

If you receive your proxy materials through ADP and (1) you wish to receive a separate copy of this Joint Proxy Statement and the 2006 annual report to shareholders, or any future proxy statement or annual report, or (2) you share an address with other beneficial owners who also receive their proxy materials through ADP and wish to request delivery of a single copy of annual reports or proxy statements to the shared address, please contact the office of the Corporate Secretary of PG&E Corporation or Pacific Gas and Electric Company, as appropriate, at One Market, Spear Tower, Suite 2400, San Francisco, CA 94105, or call 1-415-267-7070.

What if I return my proxy but I do not specify how I want my shares voted?

The PG&E Corporation proxyholders will vote those shares For Items 1 and 2, and Against Items 3 and 4. The Pacific Gas and Electric Company proxyholders will vote those shares For Items 1 and 2.

What if I do not submit my proxy?

Your shares will not be voted if you do not provide a proxy or vote at the annual meetings.

Can I change my proxy vote?

Yes. You can change your proxy vote or revoke your proxy any time before it is exercised by (1) returning a signed proxy card with a later date, (2) entering a new vote over the Internet or by telephone, (3) notifying the Corporate Secretary in writing, or (4) submitting a written ballot at the meetings.

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Is my vote confidential?

Yes. PG&E Corporation and Pacific Gas and Electric Company each have adopted a confidential voting policy under which shareholder votes are revealed only to a non-employee proxy tabulator or an independent inspector of election, except (1) as necessary to meet legal requirements, (2) in a dispute regarding authenticity of proxies and ballots, (3) in the event of a proxy contest if the other party does not agree to comply with the confidential voting policy, and (4) where disclosure may be necessary for either company to assert or defend claims.

Who will count the votes?

Mellon Investor Services LLC will act as the proxy tabulators and the inspectors of election for the 2007 annual meetings. Mellon Investor Services LLC is independent of PG&E Corporation and Pacific Gas and Electric Company and the companies' respective directors, officers, and employees.

How many shares are eligible to vote at the annual meetings?

On February 20, 2007, there were 350,817,275 shares of PG&E Corporation common stock, without par value, outstanding and entitled to vote. Each share is entitled to one vote.

On February 20, 2007, there were 10,319,782 shares of Pacific Gas and Electric Company preferred stock, \$25 par value, and 279,624,823 shares of Pacific Gas and Electric Company common stock, \$5 par value, outstanding and entitled to vote. Each share is entitled to one vote.

May I attend the annual meetings?

All shareholders of record as of the close of business on February 20, 2007 may attend the annual meetings of PG&E Corporation and Pacific Gas and Electric Company. You must have an admission ticket to attend the annual meetings. Also, shareholders will be asked to present valid photo identification, such as a driver's license or passport, before being admitted to the meetings.

If you are a registered shareholder, you will receive an admission ticket along with your proxy card. Please bring the admission ticket to the meetings. If a broker, bank, trustee, nominee, or other third party holds your shares, please inform that party that you plan to attend the annual meetings and ask for a legal proxy. Bring the legal proxy to the shareholder registration area when you arrive at the meetings and we will issue an admission ticket to you. If you cannot get a legal proxy in time, we will issue you an admission ticket if you bring a copy of your brokerage or bank account statement showing that you owned PG&E Corporation or Pacific Gas and Electric Company stock as of February 20, 2007.

Cameras, tape recorders, and other electronic recording devices will not be allowed in the meetings, other than for PG&E Corporation and Pacific Gas and Electric Company purposes. No items will be allowed into the meetings that might pose a safety or security risk.

Real-time captioning services and assistive listening devices will be available at the meetings. Please contact an usher if you wish to be seated in the real-time captioning section or if you need an assistive listening device.

May I bring a guest to the annual meetings?

Each registered shareholder or beneficial owner may bring up to a total of three of the following individuals to the annual meetings: (1) a spouse or domestic partner, (2) legal proxies, (3) qualified representatives presenting the shareholder's proposal, or (4) financial or legal advisors.

Shareholders must notify the Corporate Secretary of the appropriate company in advance if they intend to bring any legal proxy, qualified representative, or advisor to the annual meeting. The notice must include the name and address of the legal proxy, representative, or advisor, and must be received at the principal executive office of the appropriate company by 5:00 p.m., Pacific time, on April 11, 2007, in order to allow enough time for the issuance of additional admission tickets. We recommend that shareholders send their notice by a method that allows them to determine when the notice was received at the principal executive office of the appropriate company.

How will the annual meetings be conducted?

The Chairman of the Board of PG&E Corporation and Pacific Gas and Electric Company has the authority necessary to preside over the meetings and to make any and all determinations regarding the conduct of the meetings.

All items of business described in this Joint Proxy Statement will be deemed presented at the annual meetings.

For each shareholder proposal, a qualified representative will have an opportunity to discuss that item. Shareholders will have an opportunity to raise other comments and questions regarding that proposal.

There also will be a general question and answer period. Questions and comments should pertain to corporate performance, items for consideration at the meeting, or other matters of interest to shareholders

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generally. The meeting is not a forum to present general economic, political, or other views that are not directly related to the business of PG&E Corporation or Pacific Gas and Electric Company.

Shareholders will be recognized on a rotating basis. If you wish to speak, please raise your hand and wait to be recognized. When you are called upon, please direct your questions and comments to the company officer chairing the meetings. Each person called upon during the meetings will have a maximum of three minutes on any one question or comment.

How do PG&E Corporation and Pacific Gas and Electric Company select nominees for director?

The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company each select nominees based on recommendations received from the PG&E Corporation Nominating, Compensation, and Governance Committee. The Committee's recommendations are based upon a review of the qualifications of Board candidates, and consultation with the PG&E Corporation Chairman of the Board or the Pacific Gas and Electric Company Chairman of the Board, as applicable, and the PG&E Corporation Chief Executive Officer.

The Committee receives recommendations for director nominees from a variety of sources, including shareholders, management, and Board members. The Committee reviews all recommended candidates at the same time and uses the same review criteria for all candidates.

What are the qualifications for director?

Board members should be qualified, dedicated, ethical, and highly regarded individuals who have experience relevant to the company's operations and understand the complexities of that company's business environment. The Nominating, Compensation, and Governance Committee reviews the appropriate skills and characteristics required of Board members in the context of the current composition of each company's Board, and submits its recommendations to the applicable Board for review and approval.

In conducting this review, the Nominating, Compensation, and Governance Committee considers the requirements for director independence contained in each company's Corporate Governance Guidelines, as well as diversity, age, skills, and any other factors that it deems appropriate, given the current needs of the Board and that company.

May I recommend someone for PG&E Corporation and Pacific Gas and Electric Company to consider as a director nominee?

Shareholders may recommend a person to be a director of PG&E Corporation or Pacific Gas and Electric Company, as applicable, by writing to that company's Corporate Secretary. Each recommendation must include:

1. A brief description of the candidate,
2. The candidate's name, age, business address, and residence address,
3. The candidate's principal occupation and the class and number of shares of the company's stock owned by the candidate, and
4. Any other information that would be required under the rules of the Securities and Exchange Commission in a proxy statement listing the candidate as a nominee for director.

Recommended candidates may be required to provide additional information.

May I nominate someone to be a director during the annual meetings?

If you would like to nominate an individual for director of either PG&E Corporation or Pacific Gas and Electric Company during the annual meetings, you must provide timely and proper advance written notice of the nomination in the manner described in the Bylaws of the appropriate company.

While you should consult the Bylaws for specific requirements, your notice generally should include:

1. A brief description of your nomination,
2. Your name and address, as they appear in the company's records,
3. The class and number of shares of the company's stock that you own,

4. Any material interest you may have in the nomination,
5. The nominee's name, age, business address, and residence address,
6. The nominee's principal occupation and the class and number of shares of the company's stock owned by the nominee, and
7. Any other information that would be required under the rules of the Securities and Exchange Commission in a proxy statement listing the nominee as a candidate for director.

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Advance notices of director nominations that shareholders wish to bring before the 2008 annual meetings of PG&E Corporation or Pacific Gas and Electric Company must be received at the principal executive office of the appropriate company no later than 5:00 p.m., Pacific time, on January 28, 2008. If you wish to submit a nomination for a director candidate, we recommend that you use a method that allows you to determine when the nomination was received at the principal executive office of the appropriate company.

For a copy of either company's Bylaws, send a written request to that company's Corporate Secretary.

Where can I obtain information about the PG&E Corporation or Pacific Gas and Electric Company Corporate Governance Guidelines and Code of Conduct?

The Corporate Governance Guidelines for PG&E Corporation and Pacific Gas and Electric Company are included in this Joint Proxy Statement on pages 7 through 12.

The following documents are available in the Corporate Governance section of PG&E Corporation's website, www.pgecorp.com, or Pacific Gas and Electric Company's website, www.pge.com:

PG&E Corporation's and Pacific Gas and Electric Company's codes of conduct and ethics that apply to each company's directors and employees, including executive officers,

PG&E Corporation's and Pacific Gas and Electric Company's Corporate Governance Guidelines, and

Charters of key Board committees, including charters for the companies' Audit Committees, Executive Committees, the PG&E Corporation Finance Committee, the PG&E Corporation Nominating, Compensation, and Governance Committee, and the PG&E Corporation Public Policy Committee.

Shareholders also may obtain print copies of these documents by sending a written request to the Corporate Secretary of the appropriate company.

When are shareholder proposals (including director nominations) due for the 2008 annual meetings?

If you would like to submit a proposal to be included in either company's proxy statement for the 2008 annual meetings, that company's Corporate Secretary must receive your proposal by 5:00 p.m., Pacific time, on November 14, 2007.

If you would like to introduce any other business at either company's 2008 annual meeting, you must provide timely and proper advance written notice of the matter in the manner described in the Bylaws of the appropriate company.

For a copy of either company's Bylaws, send a written request to that company's Corporate Secretary.

For any other business that shareholders wish to bring before the 2008 annual meetings of PG&E Corporation or Pacific Gas and Electric Company, advance notices of that business must be received at the principal executive office of the appropriate company no later than 5:00 p.m., Pacific time, on January 28, 2008. However, if the 2008 annual meeting of either company is scheduled on a date that differs by more than 30 days from the anniversary date of the 2007 annual meetings, the shareholder's advance notice will be timely if it is received no later than the tenth day after the date on which that company publicly discloses the date of its 2008 annual meeting.

If you wish to submit a shareholder proposal or advance notice of other business to be brought before the 2008 annual meetings, we recommend that you use a method that allows you to determine when the shareholder proposal or advance notice of other business was received at the principal executive office of the appropriate company.

How much did this proxy solicitation cost?

PG&E Corporation and Pacific Gas and Electric Company hired D.F. King & Co., Inc. to assist in the distribution of proxy materials and solicitation of votes. The estimated fee is \$11,500 plus reasonable out-of-pocket expenses. In addition, PG&E Corporation and Pacific Gas and Electric Company will reimburse brokerage houses and other custodians, nominees, and fiduciaries for reasonable out-of-pocket expenses for forwarding proxy and solicitation material to shareholders.

What is the address of the principal executive office of PG&E Corporation or Pacific Gas and Electric Company?

PG&E Corporation

One Market, Spear Tower, Suite 2400

San Francisco, CA 94105
Pacific Gas and Electric Company
77 Beale Street, 32nd Floor
San Francisco, CA 94105

How do I contact the directors or officers of PG&E Corporation or Pacific Gas and Electric Company?

Correspondence to the PG&E Corporation and Pacific Gas and Electric Company Boards of Directors or any individual directors (including the non-employee directors as a whole, or the Chair of the PG&E

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Corporation Nominating, Compensation, and Governance Committee, who serves as lead director) or officers should be sent in care of the Corporate Secretary to the principal executive office of the appropriate company. Correspondence addressed to either company's Board of Directors as a body, or to all of the directors in their entirety, will be sent to the Chair of the Nominating, Compensation, and Governance Committee. The Corporate Secretary will regularly provide each Board with a summary of all such shareholder communications that the Corporate Secretary receives on behalf of that Board. A majority of the independent members of the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company have approved this process for shareholders to send communications to the Boards of Directors.

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Corporate Governance Guidelines
December 20, 2006

Corporate Governance Commitment

PG&E Corporation and Pacific Gas and Electric Company have a commitment to good corporate governance practices. These practices provide a framework within which the Boards of Directors and management of PG&E Corporation and Pacific Gas and Electric Company can pursue the business objectives of those companies. Their foundation is the independent nature of the Board and its fiduciary responsibility to the company's shareholders. Our corporate governance practices are documented in Corporate Governance Guidelines that are adopted by the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company and that are updated from time to time as appropriate, and as recommended by the PG&E Corporation Nominating, Compensation, and Governance Committee.

The PG&E Corporation Corporate Governance Guidelines are reprinted below. The Pacific Gas and Electric Company Corporate Governance Guidelines are identical to the PG&E Corporation Corporate Governance Guidelines in all material respects.

Corporate Governance Guidelines

1. Election of Directors

All members of the Board of Directors of PG&E Corporation (the Corporation) are elected each year and serve one-year terms. Directors are not elected for multiple-year, staggered terms.

2. Composition of the Board

The Board's membership is composed of qualified, dedicated, ethical, and highly regarded individuals who have experience relevant to the Corporation's operations and understand the complexities of the Corporation's business environment. The Board seeks to include a diversity of backgrounds, perspectives, and skills among its members. No member of the Board of Directors may be an employee of the American Stock Exchange or a floor member of that exchange.

3. Independence of Directors

All members of the Board have a fiduciary responsibility to represent the best interests of the Corporation and all of its shareholders.

At least 75 percent of the Board is composed of independent directors, defined as directors who (1) are neither current nor former officers or employees of nor consultants to the Corporation or its subsidiaries, (2) are neither current nor former officers or employees of any other corporation on whose board of directors any officer of the Corporation serves as a member, and (3) otherwise meet the definition of independence set forth in applicable stock exchange rules. The Board must affirmatively determine whether a director is independent, and may develop categorical standards to assist the Board in determining whether a director has a material relationship with the Corporation, and thus is not independent. Such standards are set forth in Exhibit A to these Corporate Governance Guidelines. As provided in Article III, Section 1 of the Corporation's Bylaws, the Chairman of the Board and the President are members of the Board.

4. Selection of Directors

The Board nominates directors for election at the annual meeting of shareholders and selects directors to fill vacancies which occur between annual meetings. The Nominating, Compensation, and Governance Committee, in consultation with the Chairman of the Board and the Chief Executive Officer (CEO) (if the Chairman is not the CEO), reviews the qualifications of the Board candidates and presents recommendations to the full Board for action.

5. Characteristics of Directors

The Nominating, Compensation, and Governance Committee annually reviews with the Board, and submits for Board approval, the appropriate skills and characteristics required of Board members in the context of the current composition of the Board. In conducting this assessment, the Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current needs of the Board and the Corporation.

6. Selection of the Chairman of the Board and the Chief Executive Officer

The Chairman of the Board and the Chief Executive Officer are elected by the Board.

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Based on the circumstances existing at a time that there is a vacancy in the office of either the Chairman of the Board or the Chief Executive Officer, the Board will consider whether the role of Chief Executive Officer should be separate from that of Chairman of the Board, and, if the roles are separate, whether the Chairman should be selected from the independent directors or should be an employee of the Corporation.

7. Assessing the Board's and Committees' Performance

The Nominating, Compensation, and Governance Committee oversees the process for evaluating and assessing the performance of the Board, including Board committees. The Board conducts an evaluation at least annually to determine whether it and its committees are functioning effectively. The Board evaluation includes an assessment of the Board's contribution as a whole and specific areas in which the Board and/or management believes a better contribution could be made. The purpose of the review is to increase the effectiveness of the Board as a whole, not to discuss the performance of individual directors. The Audit Committee and the Nominating, Compensation, and Governance Committee conduct annual evaluations, and any other permanent Board committee that meets on a regular basis conducts periodic evaluations. The Board committees provide the results of any evaluation to the Nominating, Compensation, and Governance Committee, which will review those results and provide them to the Board for consideration in the Board's evaluation.

8. Size of the Board

As provided in paragraph I of Article Third of the Corporation's Articles of Incorporation, the Board is composed of no less than 7 and no more than 13 members. The exact number of directors is determined by the Board based on its current composition and requirements, and is specified in Article II, Section 1 of the Corporation's Bylaws.

9. Advisory Directors

The Board may designate future directors as advisory directors in advance of their formal election to the Board. Advisory directors attend Board and committee meetings, and receive the same compensation as regular directors. They do not, however, vote on matters before the Board. In this manner, they become familiar with the Corporation's business before assuming the responsibility of serving as a regular director.

10. Directors Who Change Responsibilities

Directors shall offer their resignations when they change employment or the major responsibilities they held when they joined the Board. This does not mean that such directors should leave the Board. However, the Board, via the Nominating, Compensation, and Governance Committee, should have the opportunity to review the appropriateness of such directors' nomination for re-election to the Board under these circumstances.

Directors who are officers of the Corporation also shall offer their resignations upon retirement or other termination of active PG&E Corporation employment.

11. Retirement Age

The Board may not designate any person as a candidate for election or re-election as a director after such person has reached the age of 70.

12. Compensation of Directors

The Board sets the level of compensation for directors, based on the recommendation of the Nominating, Compensation, and Governance Committee, and taking into account the impact of compensation on director independence. Directors who are also current employees of the Corporation receive no additional compensation for service as directors.

The Nominating, Compensation, and Governance Committee reviews periodically the amount and form of compensation paid to directors, taking into account the compensation paid to directors of other comparable U.S. companies. The Committee conducts its review with the assistance of outside experts in the field of executive compensation.

13. Director Stock Ownership Guidelines

In order to more closely align the interests of directors and the Corporation's shareholders, directors are encouraged to own a significant equity interest in the Corporation within a reasonable time after election to the Board. A director should own shares of the Corporation's common stock having a dollar value of at least \$200,000, measured

at the time the stock is acquired or on the first business day of January 2007, whichever is later. A director should achieve this ownership target within five years from the date of his or her election to the Board or the adoption of these guidelines (December 20, 2006), whichever is later. For

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purposes of calculating a director's level of share ownership, the following are included: (1) shares of PG&E Corporation common stock beneficially owned by the director (as determined in accordance with the rules of the Securities and Exchange Commission), and (2) PG&E Corporation restricted stock units and common stock equivalents held by the director.

14. Meetings of the Board

As provided in Article II, Section 4 of the Corporation's Bylaws, the Board meets regularly on previously determined dates. Board meetings shall be held at least quarterly. As provided in Article II, Section 5 of the Bylaws, the Chairman of the Board, the President, the Chair of the Executive Committee, or any five directors may call a special meeting of the Board at any time.

Each Board member is expected to regularly attend Board meetings and meetings of the committees on which the director serves (either in person or by telephone or other similar communication equipment), and to attend annual meetings of the Corporation's shareholders. Pursuant to proxy disclosure rules, the Corporation's proxy statement identifies each director who during the last fiscal year attended fewer than 75 percent of the aggregate of the total number of meetings of the Board and each Board committee on which the director served.

15. Lead Director

The Chair of the Nominating, Compensation, and Governance Committee shall be the lead director, and shall be selected by the independent directors. The lead director shall act as a liaison between the Chairman of the Board and the independent directors, and shall preside at all meetings at which the Chairman is not present. The lead director approves the agendas and schedules for meetings of the Board, and approves information sent to the members of the Board. The lead director has authority to call special meetings of the independent directors.

16. Meetings of Independent Directors

The independent directors meet at each regularly scheduled Board meeting in executive session. These executive session meetings are chaired by the lead director. Following each such meeting, the lead director, or one or more other independent directors designated by the lead director, has a discussion with the Chairman of the Board (if the Chairman is not an independent director) and the Chief Executive Officer (if the Chairman is not the CEO) regarding the executive session meeting.

The Chair of the Nominating, Compensation, and Governance Committee, as lead director, establishes the agenda for each executive session meeting of independent directors, and also determines which, if any, other individuals, including members of management and independent advisors, should attend each such meeting.

17. Board Agenda Items

The Chairman of the Board, in consultation with the Chief Executive Officer (if the Chairman is not the CEO), establishes the agenda for each meeting.

Board members are encouraged to suggest the inclusion of items on the agenda.

18. Board Materials and Presentations

The agenda for each meeting is provided in advance of the meeting, together with written materials on matters to be presented for consideration, for the directors' review prior to the meeting. As a general rule, written materials are provided in advance on all matters requiring Board action. Written materials are concise summaries of the relevant information, designed to provide a foundation for the Board's discussion of key issues and make the most efficient use of the Board's meeting time. Directors may request from the Chairman of the Board and the Chief Executive Officer (if the Chairman is not the CEO) any additional information they believe to be necessary to perform their duties.

19. Regular Attendance of Non-Directors at Board Meetings

Members of management, as designated by the Chairman of the Board and the Chief Executive Officer (if the Chairman is not the CEO), attend each meeting of the Board.

20. Board Committees

The Board establishes committees to assist the Board in overseeing the affairs of the Corporation.

Currently, there are five committees. The Executive Committee exercises all powers of the Board (subject to the provisions of law and limits imposed by the Board) and meets only at such times as it is infeasible to convene a meeting of the full Board. The Audit Committee, the Finance Committee, the Nominating, Compensation, and Governance Committee, and the Public Policy

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Committee are each responsible for defined areas delegated by the Board.

21. Membership of Board Committees

All permanent Board committees, other than the Executive Committee, are chaired by independent directors. Each independent committee chair shall act as a liaison between the Chairman of the Board and the respective committee, and shall preside at all meetings of that committee. Each independent committee chair approves the agendas and schedules for meetings of the respective committee, and approves information sent to the committee members. Each independent committee chair has authority to call special meetings of the respective committee.

The Audit Committee, the Finance Committee, the Nominating, Compensation, and Governance Committee, and the Public Policy Committee are composed entirely of independent directors, as defined in Section 3 of these guidelines.

Members of the Audit Committee also must satisfy the audit committee independence and qualification requirements established by the Securities and Exchange Commission and any stock exchange on which securities of the Corporation or Pacific Gas and Electric Company are listed. If an Audit Committee member simultaneously serves on the audit committees of three or more public companies other than the Corporation and its subsidiaries, that Committee member must inform the Corporation's Board of Directors and, in order for that member to continue serving on the Corporation's Audit Committee, the Board of Directors must affirmatively determine that such simultaneous service does not impair the ability of that member to serve effectively on the Corporation's Audit Committee.

22. Appointment of Committee Members

The composition of each committee is determined by the Board of Directors.

The Nominating, Compensation, and Governance Committee, after consultation with the Chairman of the Board and the Chief Executive Officer (if the Chairman is not the CEO) and with consideration of the wishes of the individual directors, recommends to the full Board the chairmanship and membership of each committee.

23. Committee Agenda Items

The chair of each committee, in consultation with the appropriate members of management, establishes the agenda for each meeting.

At the beginning of the year, each committee issues a work plan of subjects to be discussed during the year, to the extent such subjects can be foreseen. Copies of these annual work plans are provided to all directors.

24. Committee Materials and Presentations

The agenda for each committee meeting is provided in advance of the meeting, together with written materials on matters to be presented for consideration, for the committee members' review prior to the meeting. As a general rule, written materials are provided in advance on all matters to be presented for committee action.

25. Attendance at Committee Meetings

The chair of each committee, after consultation with the Chairman of the Board and the Chief Executive Officer (if the Chairman is not the CEO), determines the appropriate members of management to attend each meeting of the Committee.

Any director or advisory director may attend any meeting of any committee with the concurrence of the committee chair.

26. Formal Evaluation of the Chief Executive Officer

The independent directors annually review and evaluate the performance of the Chief Executive Officer. The review is based upon objective criteria, including the performance of the business and accomplishment of objectives previously established in consultation with the Chief Executive Officer.

The results of the review and evaluation are communicated to the Chief Executive Officer by the Chair of the Nominating, Compensation, and Governance Committee, and are used by that Committee and the Board when considering the compensation of the CEO.

27. Management Development and Succession Planning

The Chief Executive Officer reports annually to the Board on management development and succession planning. This report includes the CEO's recommendation for a successor should the CEO become unexpectedly disabled.

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28. Communications with External Entities

The Chief Executive Officer is responsible for all communications with the media, the financial community, or other external entities pertaining to the affairs of the Corporation. Directors refer any inquiries from such entities to the CEO for handling.

29. Access to Independent Advisors

The Board of Directors and its committees have the right to retain independent outside financial, legal, or other advisors, as necessary and appropriate. The Corporation shall bear the costs of retaining such advisors.

30. Director Orientation and Continuing Education

The Corporation provides information to new directors on subjects that would assist them in discharging their duties, and periodically provides briefing sessions or materials for all directors on such subjects.

31. Communications with Shareholders

The Chair of the Nominating, Compensation, and Governance Committee shall be designated as the director who receives written communications from the Corporation's shareholders, in care of the Corporate Secretary. The Corporate Secretary shall forward to the Chair of the Nominating, Compensation, and Governance Committee any shareholder communications addressed to the Board of Directors as a body or to all the directors in their entirety, and such other communications as the Corporate Secretary, in his or her discretion, determines is appropriate.

32. Legal Compliance and Business Ethics

The Board of Directors is responsible for exercising reasonable oversight with respect to the implementation and effectiveness of the Corporation's legal compliance and ethics program. In that role, the Board of Directors shall be knowledgeable about the content and operation of the Corporation's compliance and ethics program, but may delegate more detailed oversight to a committee of the Board of Directors.

Exhibit A

PG&E Corporation

Corporate Governance Guidelines

Categorical Standards for Identifying Material

Relationships That May Affect Director Independence

Adopted: December 17, 2003

Amended as of February 18, 2004, December 15, 2004, and December 20, 2006

The following categories of relationships between a director and PG&E Corporation shall be considered material. The existence of a material relationship provides a rebuttable presumption that the affected director is not independent, absent a specific determination by the Board of Directors to the contrary.

A director has a material relationship with the Corporation in the following circumstances:

Employment

If a director is a current or former employee of the Corporation.

If a member of the director's immediate family is or was employed as a Section 16 Officer of the Corporation, unless such employment ended more than three years ago.

Direct Compensation from the Corporation

If a director is a consultant to the Corporation.

If a director or his or her immediate family member receives, or during the past three years received, more than \$100,000 per year or rolling 12-month period in direct compensation from the Corporation. Direct compensation does not include director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on

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continued service) or compensation received by a director's immediate family member for service as an employee (unless the immediate family member received compensation for services as a Section 16 Officer, in which case the director has a material relationship with the Corporation).

Internal or External Auditors

If a director or his or her immediate family member is, or during the past three years was, affiliated with, or employed by, a firm that serves or served during the past three years as the Corporation's internal or external auditor.

Director Interlock

If a director is a current or former officer or employee of any other company on whose board of directors any officer of the Corporation serves as a member.

If a director's immediate family member is, or during the past three years was, employed by another company where any of the Corporation's present Section 16 Officers concurrently serves on that company's compensation committee.

Business Relationships

If a director is a current Section 16 Officer or employee, or his or her immediate family member is a current Section 16 Officer, of a company (which does not include charitable, non-profit, or tax-exempt entities) that makes payments to, or receives payments from, the Corporation for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2 percent of such other company's consolidated gross revenues, during any of the past three years. The director is not independent until three years after falling below such threshold. (Both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year. The look-back provision for this test applies solely to the financial relationship between the Corporation and the director's or immediate family member's current employer; the Corporation need not consider former employment of the director or immediate family member.)

Charitable Relationships

If the director (or a relative) is a trustee, director, or employee of a charitable or non-profit organization that receives grants or endowments from the Corporation or its affiliates exceeding the greater of \$200,000 or 2 percent of the recipient's gross revenues during the Corporation's or the recipient's most recent completed fiscal year.

Notes

Immediate family member includes a person's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers-and sisters-in-law, and anyone (other than domestic employees) who shares such person's home, or is financially dependent on such person.

Corporation includes any consolidated subsidiaries or parent companies.

Section 16 Officer means officer as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, and includes the president, the principal financial officer, the principal accounting officer, any vice president in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policymaking function, or any other person who performs similar policymaking functions for that company.

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Item No. 1:

Election of Directors of PG&E Corporation and
Pacific Gas and Electric Company

Shareholders are being asked to elect 10 directors to serve on the Board of Directors of PG&E Corporation and 11 directors to serve on the Board of Directors of Pacific Gas and Electric Company. If elected as director, those individuals will hold office until the next annual meetings or until their successors shall be elected and qualified, except in the case of death, resignation, or removal of a director.

The 10 nominees for director of PG&E Corporation and the 11 nominees for director of Pacific Gas and Electric Company whom the respective Boards propose for election are the same, except for Thomas B. King, who is a nominee for the Pacific Gas and Electric Company Board only.

The composition of the PG&E Corporation and Pacific Gas and Electric Company slates of director nominees are consistent with the policy set forth in each company's Corporate Governance Guidelines that at least 75 percent of the Board shall be composed of independent directors, as defined in the Corporate Governance Guidelines, and as set forth on pages 7 through 12 of this Joint Proxy Statement.

Information is provided on the following pages about the nominees for director, including their principal occupations for the past five years, certain other directorships, age, and length of service as a director of PG&E Corporation and/or Pacific Gas and Electric Company. Membership on Board committees, attendance at Board and committee meetings, and ownership of stock of PG&E Corporation and Pacific Gas and Electric Company are provided in separate sections following the biographical information on the nominees.

All of the nominees have agreed to serve if elected. If any of the nominees become unavailable at the time of the annual meetings to accept nomination or election as a director, the proxyholders named on the enclosed PG&E Corporation or Pacific Gas and Electric Company proxy card will vote for substitute nominees at their discretion.

The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company Unanimously Recommend the Election of the Nominees for Director Presented in This Joint Proxy Statement.

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Nominees for Directors of PG&E Corporation and
Pacific Gas and Electric Company

Biographical Information

David R. Andrews

Mr. Andrews is retired Senior Vice President, Government Affairs, General Counsel, and Secretary of PepsiCo, Inc. (food and beverage businesses). He held that position from February 2002 to November 2004. Prior to joining PepsiCo, Inc., Mr. Andrews was a partner in the law firm of McCutchen, Doyle, Brown & Enersen, LLP from May 2000 to January 2002 and from 1981 to July 1997. From August 1997 to April 2000, he served as the legal advisor to the U.S. Department of State. Mr. Andrews, 65, has been a director of PG&E Corporation and Pacific Gas and Electric Company since 2000. He also is a director of the James Campbell Company LLC and UnionBanCal Corporation.

Leslie S. Biller

Mr. Biller is retired Vice Chairman and Chief Operating Officer of Wells Fargo & Company (financial services and retail banking). Mr. Biller held that position from November 1998 until his retirement in October 2002. Mr. Biller, 58, was an advisory director of PG&E Corporation and Pacific Gas and Electric Company from January 2003 to February 2004, and has been a director of PG&E Corporation and Pacific Gas and Electric Company since February 2004. He also is a director of Ecolab Inc., Knowledge Schools Inc., and Knowledge Universe Education.

David A. Coulter

Mr. Coulter is Managing Director and Senior Advisor of Warburg Pincus LLC (global private equity firm) and has held that position since November 2005. Prior to joining Warburg Pincus LLC, Mr. Coulter was Vice Chairman of JPMorgan Chase & Co. (financial services and retail banking) from January 2001 until his retirement in September 2005. Prior to the merger with J.P. Morgan & Co. Incorporated, he was Vice Chairman of The Chase Manhattan Corporation (bank holding company) from August 2000 to December 2000. He was a partner in the Beacon Group, L.P. (investment banking firm) from January 2000 to July 2000, and was Chairman and Chief Executive Officer of BankAmerica Corporation and Bank of America NT&SA from May 1996 to October 1998. Mr. Coulter, 59, has been a director of PG&E Corporation and Pacific Gas and Electric Company since 1996. He also is a director of First Data Corporation and Strayer Education, Inc.

C. Lee Cox

Mr. Cox is retired Vice Chairman of AirTouch Communications, Inc. and retired President and Chief Executive Officer of AirTouch Cellular (cellular telephone and paging services). He was an executive officer of AirTouch Communications, Inc. and its predecessor, PacTel Corporation, from 1987 until his retirement in April 1997. Mr. Cox, 65, has been a director of PG&E Corporation and Pacific Gas and Electric Company since 1996.

Peter A. Darbee

Mr. Darbee is Chairman of the Board, Chief Executive Officer, and President of PG&E Corporation and Chairman of the Board of Pacific Gas and Electric Company and has held those positions since January 2006. He was President and Chief Executive Officer of PG&E Corporation from January 2005 to December 2005 and Senior Vice President and Chief Financial Officer of PG&E Corporation from September 1999 to December 2004. Mr. Darbee, 54, has been a director of PG&E Corporation and Pacific Gas and Electric Company since January 2005.

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Maryellen C. Herringer

Ms. Herringer is an attorney-at-law. She held various executive positions at APL Limited (intermodal shipping and rail transportation company) from 1991 until it was acquired by Neptune Orient Lines in December 1997, most recently serving as Executive Vice President, General Counsel, and Secretary. Prior to joining APL Limited, Ms. Herringer was a partner in the law firm of Morrison & Foerster. Ms. Herringer, 63, has been a director of PG&E Corporation and Pacific Gas and Electric Company since October 2005. She also is a director of ABM Industries Incorporated and Wachovia Corporation.

Thomas B. King*

Mr. King is Chief Executive Officer of Pacific Gas and Electric Company and a Senior Vice President of PG&E Corporation, and has held those positions since January 1, 2006. He held various executive positions at Pacific Gas and Electric Company from November 2003 to December 2005, most recently serving as President and Chief Executive Officer. Prior to joining Pacific Gas and Electric Company, he was a Senior Vice President of PG&E Corporation from January 1999 to October 2003. From July 2000 to July 2003, he also held various executive positions at PG&E National Energy Group, Inc., a former subsidiary of PG&E Corporation. Mr. King, 45, has been a director of Pacific Gas and Electric Company since January 2006.

Richard A. Meserve

Dr. Meserve is President of the Carnegie Institution of Washington (scientific research institution) and has held that position since April 2003. He also has served as Senior Of Counsel to the law firm of Covington & Burling LLP since April 2004 and was a partner in that firm from 1984 through 1999. Prior to joining the Carnegie Institution of Washington, Dr. Meserve was Chairman of the U.S. Nuclear Regulatory Commission from October 1999 to March 2003. Dr. Meserve, 62, has been a director of PG&E Corporation and Pacific Gas and Electric Company since December 2006.

Mary S. Metz

Dr. Metz is retired President of S. H. Cowell Foundation and held that position from January 1999 to March 2005. She is Dean Emerita of University Extension of the University of California, Berkeley, and President Emerita of Mills College. Dr. Metz, 69, has been a director of Pacific Gas and Electric Company since 1986 and a director of PG&E Corporation since 1996. She also is a director of AT&T Inc., Longs Drug Stores Corporation, and UnionBanCal Corporation.

Barbara L. Rambo

Ms. Rambo is Vice Chairman of Nietech Corporation (payments technology company) and has held that position since October 2006. Ms. Rambo joined Nietech in November 2002 as President and Chief Executive Officer. Prior to joining Nietech, she served as Chairman and Chief Executive Officer of OpenClose Technologies (financial services company) from July 2001 to

December 2001 and January 2000 to June 2001, respectively. Ms. Rambo served as Group Executive Vice President of Bank of America from 1993 to 1998 and held various positions of responsibility with the Bank since 1974. Ms. Rambo, 54, has been a director of PG&E Corporation and Pacific Gas and Electric Company since January 2005. She also is a director of The Gymboree Corporation.

* Thomas B. King is a nominee for director of Pacific Gas and Electric Company only.

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Barry Lawson Williams

Mr. Williams is President of Williams Pacific Ventures, Inc. (business investment and consulting) and has held that position since 1987. He also served as interim President and Chief Executive Officer of the American Management Association (management development organization) from November 2000 to June 2001.

Mr. Williams, 62, has been a director of Pacific Gas and Electric Company since 1990 and a director of PG&E Corporation since 1996. He also is a director of CH2M Hill Companies, Ltd., The Northwestern Mutual Life Insurance Company, R.H. Donnelley Corporation, The Simpson Manufacturing Company Inc., and SLM Corporation.

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Information Regarding the
Boards of Directors of PG&E Corporation and
Pacific Gas and Electric Company

The following section describes (1) the composition of the Boards of Directors and key Board committees of PG&E Corporation and Pacific Gas and Electric Company, (2) the functioning of the Boards and key Board committees, (3) qualifications and compensation of directors, and (4) other information regarding the director nominees.

Director Independence

What independence guidelines apply to the Boards of Directors?

The PG&E Corporation Corporate Governance Guidelines set forth a policy that 75 percent of the directors should be independent, as defined in the Guidelines. The Board of Directors of PG&E Corporation also is subject to New York Stock Exchange rules, which require that a majority of the directors be independent, as defined in the stock exchange rules, and that independent directors meet regularly.

The Pacific Gas and Electric Company Corporate Governance Guidelines also set forth a policy that 75 percent of the directors should be independent, as defined in the Guidelines. In addition, the Board of Directors of Pacific Gas and Electric Company is subject to American Stock Exchange rules requiring that the independent directors meet regularly. The Pacific Gas and Electric Company Board is not subject to American Stock Exchange rules requiring that at least a majority of the directors meet the stock exchange's definition of independent director. Pacific Gas and Electric Company is exempt from these requirements because PG&E Corporation and a subsidiary hold approximately 96 percent of the voting power in Pacific Gas and Electric Company, and Pacific Gas and Electric Company is a controlled subsidiary.

Are the directors independent?

The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company each have affirmatively determined that the following directors are independent: David R. Andrews, Leslie S. Biller, David A. Coulter, C. Lee Cox, Maryellen C. Herringer, Richard A. Meserve, Mary S. Metz, Barbara L. Rambo, and Barry Lawson Williams. These independent directors:

Do not have any material relationship with either PG&E Corporation or Pacific Gas and Electric Company that would interfere with the exercise of independent judgment,

Are independent as defined by applicable New York Stock Exchange and American Stock Exchange rules, and

Satisfy each of the categorical standards adopted by the Boards for determining whether a specific relationship is material and a director is independent. Those categorical standards are set forth as Exhibit A to the Corporate Governance Guidelines, which can be found on pages 11 and 12 of this Joint Proxy Statement and in the Corporate Governance section of PG&E Corporation's website, www.pgecorp.com, or Pacific Gas and Electric Company's website, www.pge.com.

Only independent directors may serve on PG&E Corporation's Audit Committee, Finance Committee, Nominating, Compensation, and Governance Committee, and Public Policy Committee, and on Pacific Gas and Electric Company's Audit Committee. Independent directors also must serve as chairs of any key committees of the PG&E Corporation or Pacific Gas and Electric Company Board of Directors, with the exception of the Executive Committees.

In assessing the independence of individual directors, the Boards of Directors considered transactions for legal and related services provided by the law firm of Covington & Burling LLP to either PG&E Corporation or Pacific Gas and Electric Company. Dr. Richard A. Meserve is employed by Covington & Burling LLP on a part-time basis as Senior Of Counsel. Each of these transactions with Covington & Burling LLP involved services that were initiated prior to Dr. Meserve's election to the Boards of Directors. The Boards of Directors also considered amounts owed by the Carnegie Institution of Washington to Pacific Gas and Electric Company for departing load charges related to operations in Palo Alto, California. Dr. Meserve is the President of the Carnegie Institution of Washington. This relationship does not require disclosure in the Related Person Transactions section on pages 27 and 28 of this Joint

Proxy Statement because such charges are fixed in conformity with law or governmental authority.

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Do the Boards of Directors have an independent lead director?

PG&E Corporation and Pacific Gas and Electric Company have each had an independent lead director since 2003. The lead director is selected by the independent directors of the applicable company. Currently, the Chair of the PG&E Corporation Nominating, Compensation, and Governance Committee serves as independent lead director of both PG&E Corporation and Pacific Gas and Electric Company. The lead director acts as a liaison between the Chairman of the Board and the independent directors. Among other things, the lead director approves the agendas and schedules for meetings of the Board, and also determines which, if any, other individuals, including members of management and independent advisors, should attend each executive session meeting (see below). The lead director currently is C. Lee Cox.

Do the independent directors meet without the other directors?

The independent directors of PG&E Corporation and Pacific Gas and Electric Company meet in executive session without the other directors at each regularly scheduled Board meeting. The independent lead director establishes the agenda for each executive session meeting of independent directors, and presides over these executive session meetings. At the end of each executive session meeting, the independent lead director has a discussion with the PG&E Corporation Chairman of the Board or the Pacific Gas and Electric Company Chairman of the Board, as applicable, and the PG&E Corporation Chief Executive Officer regarding the executive session meeting.

Table of Contents**Board Committees****What are the key committees of the PG&E Corporation and Pacific Gas and Electric Company Boards of Directors?**

The key committees of the PG&E Corporation Board of Directors are the Executive Committee, the Audit Committee, the Finance Committee, the Nominating, Compensation, and Governance Committee, and the Public Policy Committee.

The Pacific Gas and Electric Company Board of Directors has two key committees, the Executive Committee and the Audit Committee.

All committee members are directors of PG&E Corporation or Pacific Gas and Electric Company, as appropriate. To ensure that all committee members can perform their duties in a fully informed manner, committee members and other directors have access to all of PG&E Corporation's and Pacific Gas and Electric Company's books, records, and other documents. The current membership and duties of these committees are described below.

	Executive Committees	Audit Committees	Finance Committee	Nominating, Compensation, and Governance Committee	Public Policy Committee
<i>Non-Employee Directors:</i>					
D. R. Andrews		X			X
L. S. Biller			X		X
D. A. Coulter	X		X*	X	
C. L. Cox	X		X	X*(1)	
M. C. Herringer		X			X
R. A. Meserve					X
M. S. Metz	X	X			X*
B. L. Rambo			X	X	
B. L. Williams	X	X*(2)	X	X	
<i>Employee Directors:</i>					
P. A. Darbee	X*				
T. B. King	X ⁽³⁾				
	0/0	4/4	5	5	3

Number of Meetings in
2006 (PG&E
Corporation/ Pacific Gas
and Electric Company
where applicable)

* Committee Chair

- (1) Lead director
- (2) Audit Committee financial expert as defined by the Securities and Exchange Commission
- (3) Member of the Pacific Gas and Electric Company Executive Committee only

Committee Charters

Each company's Board of Directors has adopted a formal charter for each of the above Board committees. A copy of the charter for each of the listed PG&E Corporation Board Committees can be found in the Corporate Governance section of the corporation's website, at www.pgecorp.com. A copy of the charter for each of the listed Pacific Gas and Electric Company Board Committees can be found through the Corporate Governance section of the company's website, at www.pge.com. Shareholders also may obtain a print copy of any committee's charter by sending a written request to the appropriate company's Corporate Secretary.

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Executive Committees

What are the Executive Committees' responsibilities?

Each Executive Committee may exercise any of the powers and perform any of the duties of the PG&E Corporation Board or the Pacific Gas and Electric Company Board (as the case may be). This authority is subject to provisions of law and certain limits imposed by the PG&E Corporation Board or the Pacific Gas and Electric Company Board (as the case may be). The Executive Committees meet as needed.

Each company's Chairman of the Board serves as the Chair of that company's Executive Committee.

Audit Committees

What are the Audit Committees' responsibilities?

The Audit Committees of PG&E Corporation and Pacific Gas and Electric Company advise and assist the appropriate Board of Directors in fulfilling its responsibilities in connection with financial and accounting practices, internal controls, external and internal auditing programs, business ethics, and compliance with laws, regulations, and policies that may have a material impact on the consolidated financial statements of PG&E Corporation, Pacific Gas and Electric Company, and their respective subsidiaries.

The Audit Committees' responsibilities are set forth in each Committee's charter. Among other things, the Audit Committees:

Are responsible for the selection, appointment, compensation, and oversight of the work of the independent registered public accounting firm that PG&E Corporation and Pacific Gas and Electric Company, as applicable, employ to prepare or issue audit reports or perform related work,

Satisfy themselves as to the independence and competence of the appropriate company's independent registered public accounting firm,

Pre-approve all auditing and non-auditing services that the independent registered public accounting firm provides to PG&E Corporation and Pacific Gas and Electric Company, as applicable,

Review and discuss with the independent registered public accounting firm, and with the appropriate company's officers and internal auditors, the scope and results of the independent registered public accounting firm's audit work, consolidated quarterly and annual financial statements, the quality and effectiveness of internal controls, and compliance with laws, regulations, policies, and programs, and

Make further inquiries as they deem necessary or desirable to inform themselves of the affairs of the companies and their subsidiaries.

One member of each Audit Committee is appointed by the appropriate Board of Directors as the Committee's Chair.

Do special requirements apply to members of the Audit Committees?

Independence. Each member of the PG&E Corporation and Pacific Gas and Electric Company Audit Committees must be independent, as defined in the Corporate Governance Guidelines, in Securities and Exchange Commission rules regarding audit committee independence, and in applicable New York Stock Exchange and American Stock Exchange rules.

Each Board of Directors has determined that all members of each company's Audit Committee are independent under applicable regulations.

Financial literacy and expertise. Each member of the PG&E Corporation and Pacific Gas and Electric Company Audit Committees must be financially literate, as defined in the applicable New York Stock Exchange and American Stock Exchange rules. All members of the Audit Committees are financially literate.

One member of each Audit Committee also must be an audit committee financial expert or otherwise have accounting or related financial management expertise. The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company each have determined that Barry Lawson Williams, the independent chair of each company's Audit Committee, is an audit committee financial expert, as defined by the Securities and Exchange Commission.

Service on other audit committees. Each company's Corporate Governance Guidelines set forth a policy regarding the number of other public company audit committees on which an Audit Committee member may serve. If an Audit Committee member simultaneously serves on the audit committees of three or more public companies other than PG&E Corporation, Pacific Gas and Electric Company, and their subsidiaries, that Committee member must inform the appropriate company's Board of Directors. In order for that member to continue serving on the Audit Committee, the Board of Directors must affirmatively determine that the simultaneous service does not impair that committee member's ability to serve effectively on the Audit Committee.

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No member of the Audit Committees currently serves on three or more additional public company audit committees.

Finance Committee

What are the Finance Committee's responsibilities?

The Finance Committee of PG&E Corporation advises and assists the Board with respect to the financial and capital investment policies and objectives of PG&E Corporation and its subsidiaries, including specific actions required to achieve those objectives. The Finance Committee's responsibilities are set forth in the Committee's charter. Among other things, the Committee reviews:

Long-term financial and investment plans and strategies,

Annual financial plans,

Dividend policy,

Short-term and long-term financing plans,

Proposed capital projects,

Proposed divestitures,

Strategic plans and initiatives,

Major commercial banking, investment banking, financial consulting, and other financial relationships of PG&E Corporation or its subsidiaries, and

Risk management activities.

Each year the Finance Committee also presents for the Board of Directors' review and approval (1) a five-year financial plan for PG&E Corporation and its subsidiaries that incorporates, among other things, the Corporation's business strategy goals, and (2) an annual budget that reflects elements of the approved five-year plan. Members of the Board of Directors receive a monthly report that compares the Corporation's performance to the budget and provides other information about financial performance.

One member of the Committee is appointed by the Board of Directors as the Committee's Chair.

Do special requirements apply to members of the Finance Committee?

The Finance Committee must be composed entirely of independent directors, as defined in the Corporate Governance Guidelines and in the New York Stock Exchange rules. All Committee members meet these independence requirements.

Nominating, Compensation, and Governance Committee

What are the Nominating, Compensation, and Governance Committee's responsibilities?

The Nominating, Compensation, and Governance Committee of PG&E Corporation advises and assists the Boards of PG&E Corporation and Pacific Gas and Electric Company with respect to:

The selection and compensation of directors,

Employment, compensation, and benefits policies and practices,

The development, selection, and compensation of policy-making officers, and

Corporate governance matters, including the performance and effectiveness of the Boards and the companies' governance principles and practices.

The PG&E Corporation Board of Directors has delegated its authority to administer the PG&E Corporation 2006 Long-Term Incentive Plan (LTIP), under which equity-based awards are made, to the Nominating, Compensation, and Governance Committee. The Board of Directors also has delegated to the Chief Executive Officer of PG&E Corporation the authority to make LTIP awards to certain eligible participants within the guidelines adopted by the Nominating, Compensation, and Governance Committee. The Nominating, Compensation, and Governance Committee may delegate its authority with respect to ministerial matters under the LTIP to the Chief Executive Officer or the Senior Vice President of Human Resources. The Nominating, Compensation, and Governance Committee also oversees other employee benefit plans.

The Nominating, Compensation, and Governance Committee's responsibilities are set forth in the Committee's charter. Among other things, the Committee:

Reviews and acts upon the compensation of officers of PG&E Corporation and its subsidiaries, although the Committee has delegated to the PG&E Corporation Chief Executive Officer the authority to approve compensation for certain officers,

Recommends to the independent members of the appropriate Board of Directors the compensation of the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company,

Reviews long-range planning for executive development and succession,

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Reviews the composition and performance of the Boards of PG&E Corporation and Pacific Gas and Electric Company, and

Reviews the Corporate Governance Guidelines of PG&E Corporation and Pacific Gas and Electric Company. One member of the Committee is appointed by the independent members of the Board of Directors as the Committee's Chair. The Chair of the Nominating, Compensation, and Governance Committee is the lead director of PG&E Corporation and Pacific Gas and Electric Company, and chairs executive session meetings of the independent directors of both companies.

Do special requirements apply to members of the Nominating, Compensation, and Governance Committee?

The Nominating, Compensation, and Governance Committee must be composed entirely of independent directors, as defined in the Corporate Governance Guidelines and in the New York Stock Exchange rules. All Committee members meet these independence requirements.

Because PG&E Corporation and a subsidiary hold approximately 96 percent of the voting power in Pacific Gas and Electric Company, that company is a controlled subsidiary of PG&E Corporation and will not be subject to certain American Stock Exchange rules that otherwise would require that all members of the Committee meet the American Stock Exchange definition of independent director and would impose requirements on Pacific Gas and Electric Company's director nomination process and methods for determining executive compensation.

What is the compensation setting process?

The PG&E Corporation Nominating, Compensation, and Governance Committee (Committee) is responsible for overseeing and establishing officer compensation policies for PG&E Corporation and its subsidiaries, including Pacific Gas and Electric Company. The Committee also administers the LTIP under which equity-based awards are made, and oversees other employee benefit plans.

The Board of Directors of PG&E Corporation or Pacific Gas and Electric Company (as the case may be) is responsible for approving compensation for the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company based on the Committee's recommendations.

The Committee retains an independent consulting firm, Hewitt Associates (Hewitt), to help evaluate PG&E Corporation's compensation policies, to provide information about industry compensation practices and competitive compensation levels at companies within selected comparator groups, and to recommend compensation alternatives that are consistent with PG&E Corporation's compensation policies.

Each year, the Committee (and with respect to the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company, the independent members of the applicable Board of Directors based on the Committee's recommendation) approves the amounts of total target compensation for executive officers, based on a review of comparative data as well as management's recommendations (and Hewitt's recommendations with respect to Chief Executive Officer compensation only). In addition, the Committee uses comparative data throughout the year to set the total target compensation of new executive officers, whether they are promoted internally or new hires.

In determining specific compensation amounts for individual officers, the Committee (or the independent members of the applicable Board of Directors, in the case of the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company) considers such factors as (1) the officer's experience, (2) individual performance, (3) the officer's role in achieving corporate objectives established at the beginning of the year, (4) the officer's compensation compared to individuals in similar positions in the comparator group of companies used for purposes of setting officer compensation, as well as compared to other officers internally, and (5) when appropriate, other relevant factors.

Public Policy Committee

What are the Public Policy Committee's responsibilities?

The Public Policy Committee of PG&E Corporation advises and assists the Board of Directors with respect to public policy issues that could affect significantly the interests of the customers, shareholders, or employees of PG&E Corporation, Pacific Gas and Electric Company, and their respective subsidiaries.

The Public Policy Committee's responsibilities are set forth in the Committee's charter. Among other things, the Committee reviews the policies and practices of PG&E Corporation and its subsidiaries with respect to:

Protection and improvement of the quality of the environment,

Charitable and community service organizations and activities,
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Political contributions,

Equal opportunity in hiring and promoting employees, and

Development of minority-owned and women-owned businesses as suppliers to PG&E Corporation, Pacific Gas and Electric Company, and their subsidiaries.

One member of the Committee is appointed by the Board of Directors as the Committee's Chair.

Do special requirements apply to members of the Public Policy Committee?

The Public Policy Committee must be composed entirely of independent directors, as defined in the Corporate Governance Guidelines and in the New York Stock Exchange rules. All Committee members meet these independence requirements.

Attendance at Board and Committee Meetings and at the 2006 Annual Meetings of Shareholders

How many Board and committee meetings did the directors attend during 2006?

During 2006, there were 6 meetings of the PG&E Corporation Board of Directors and 17 meetings of the PG&E Corporation Board committees. Overall attendance of incumbent directors at those meetings was 98 percent. Each PG&E Corporation director attended at least 87 percent of the total number of Board and Board committee meetings held during the period of their service on the Board and Board committees during 2006.

During 2006, there were 7 meetings of the Pacific Gas and Electric Company Board of Directors and 4 meetings of the Pacific Gas and Electric Company Board committees. Overall attendance of incumbent directors at those meetings was 98 percent. For Pacific Gas and Electric Company, all directors except David A. Coulter attended at least 75 percent of the total number of Board and Board committee meetings held during the period of their service on the Board and Board committees during 2006.

How many directors attended the 2006 annual meetings?

Each member of the Board of Directors of PG&E Corporation or Pacific Gas and Electric Company is expected to attend that company's annual meeting of shareholders.

Eight directors attended PG&E Corporation's 2006 annual meeting of shareholders.

Nine directors attended Pacific Gas and Electric Company's 2006 annual meeting of shareholders.

Compensation of Directors

The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company each establish the level of compensation for that company's directors, based on the recommendation of the PG&E Corporation Nominating, Compensation, and Governance Committee (Committee), and taking into account the impact of compensation on director independence. Directors who are also current employees of either company receive no additional compensation for service as directors.

The Committee periodically reviews the amount and form of compensation paid to directors of PG&E Corporation and Pacific Gas and Electric Company, taking into account the compensation paid to directors of other comparable U.S. companies. The Committee conducts its review with the assistance of outside experts in the field of executive compensation.

In February 2003, the Committee approved the following approach for determining Board of Directors compensation levels:

Target total compensation (i.e., retainer, meeting fees, chairperson retainer, and equity) should be equal to the average of the comparator group;

Director compensation should be set for two-year periods, to achieve the preceding objective at the midpoint of each period; and

Target total compensation for the Audit Committees and their Chair should reflect a premium to account for their growing responsibility and accountability due to new stock exchange requirements and legislation.

In addition, in June 2004, the Committee and the PG&E Corporation and Pacific Gas and Electric Company Boards agreed that target total compensation for the Chair of the Nominating, Compensation, and Governance Committee,

who also serves as lead director, should reflect the same premium as the Chair of the Audit Committees. The following provides additional information regarding compensation paid to the non-employee directors of PG&E Corporation and Pacific Gas and Electric Company during the past year.

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This table summarizes the principal components of compensation paid or granted during 2006, or the compensation cost of equity-based grants for 2006, to the non-employee directors of PG&E Corporation and Pacific Gas and Electric Company.

Name	Fees Earned or Paid in Cash (\$)⁽¹⁾	Stock Awards (\$)⁽²⁾	Option Awards (\$)⁽³⁾	All Other Compensation (\$)⁽⁴⁾	Total (\$)
D. R. Andrews	\$ 73,500	\$ 18,000	\$ 51,849	\$ 95	\$ 143,444
L. S. Biller	\$ 78,750	\$ 38,000	\$ 27,090	\$ 95	\$ 143,935
D. A. Coulter	\$ 78,750	\$ 48,000	\$ 0	\$ 95	\$ 126,845
C. L. Cox	\$ 126,500	\$ 48,000	\$ 0	\$ 95	\$ 174,595
M. C. Herringer	\$ 73,500	\$ 9,750	\$ 5,077	\$ 95	\$ 88,422
R. A Meserve ⁽⁵⁾	\$ 3,217	\$ 0	\$ 0	\$ 3	\$ 3,220
M. S. Metz	\$ 81,000	\$ 48,000	\$ 0	\$ 2,555	\$ 131,555
B. L. Rambo	\$ 76,500	\$ 30,000	\$ 0	\$ 95	\$ 106,595
B. L. Williams	\$ 137,500	\$ 18,000	\$ 51,849	\$ 2,595	\$ 209,944

- (1) Each non-employee director received \$45,000 in annual retainers, except that Dr. Meserve (who was elected as a director on December 20, 2006) received a pro-rated retainer of \$1,467. The Chairs of the Finance Committee (Mr. Coulter) and the Public Policy Committee (Dr. Metz) each received an additional \$7,500 in annual retainers. The Chair of the Audit Committees (Mr. Williams) and the Chair of the Nominating, Compensation, and Governance Committee, who is the lead director (Mr. Cox), each received an additional \$50,000 in annual retainers. Non-employee directors also received a fee of \$1,750 for each Board or Board committee meeting attended, except that members of the Audit Committees received a fee of \$2,750 for each Audit Committee meeting attended. Total meeting fees were: Mr. Andrews \$28,500, Mr. Biller \$33,750, Mr. Coulter \$26,250, Mr. Cox \$31,500, Ms. Herringer \$28,500, Dr. Meserve \$1,750, Dr. Metz \$28,500, Ms. Rambo \$31,500, and Mr. Williams \$42,500.
- (2) Represents the 2006 compensation cost of restricted stock, phantom stock, and restricted stock units granted in 2006 and prior years, measured in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R, without taking into account an estimate of forfeitures related to service conditions. In 2006, each non-employee director except Dr. Meserve (who was elected as a director on December 20, 2006) received 800 shares of restricted stock with a grant date value of \$29,976. Mr. Biller, Mr. Coulter, Mr. Cox, Dr. Metz, and Ms. Rambo each received 801 restricted stock units with a grant date value of \$30,000. Ms. Herringer received 400 restricted stock units with a grant date value of \$15,000. The aggregate number of stock awards outstanding for each non-employee director at December 31, 2006 was: Mr. Andrews 2,926, Mr. Biller 3,617, Mr. Coulter 11,007, Mr. Cox 6,132, Ms. Herringer 1,210, Dr. Meserve 0, Dr. Metz 8,530, Ms. Rambo 3,309, and Mr. Williams 3,421.
- (3) Represents the 2006 compensation cost of stock options granted in 2006 and prior years, measured in accordance with SFAS No. 123R, without taking into account an estimate of forfeitures related to service conditions. Assumptions used in determining the grant date fair value are set forth in the Stock Options section of Note 14 to the Consolidated Financial Statements in the 2005 and 2006 Annual Reports to Shareholders of PG&E Corporation and Pacific Gas and Electric Company. In 2006, Mr. Andrews and Mr. Williams each received 4,983 stock options with a grant date value of \$40,626 and Ms. Herringer received 2,491 stock options with a grant date value of \$20,309. The exercise price of the stock options, \$37.47, is the closing price of PG&E Corporation common stock on the January 3, 2006 grant date. The aggregate number of option awards outstanding for each non-employee director at December 31, 2006 was: Mr. Andrews 24,167, Mr. Biller 9,290, Mr. Coulter 0, Mr. Cox

26,971, Ms. Herringer 2,491, Dr. Meserve 0, Dr. Metz 15,626, Ms. Rambo 0, and Mr. Williams 38,802.

- (4) Represents (i) premiums paid for accidental death and dismemberment insurance, and (ii) matching gifts to qualified educational and environmental nonprofit organizations pursuant to the PG&E Corporation Matching Gifts Program, which each year establishes a set fund for matching eligible gifts made by employees and directors on a dollar-for-dollar basis, up to a total of \$2,500 per calendar year per individual (Dr. Metz \$2,460 and Mr. Williams \$2,500).
- (5) Dr. Meserve was elected as a director of PG&E Corporation and Pacific Gas and Electric Company on December 20, 2006.

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What retainers and fees do directors receive as compensation?

During 2006, each director who is not an officer or employee of PG&E Corporation or Pacific Gas and Electric Company received a quarterly retainer of \$11,250 (or a pro-rated amount if the individual did not serve as a non-employee director during the entire quarter). Effective January 1, 2007, that quarterly retainer was increased to \$12,500. The non-employee directors who chair the Finance Committee and the Public Policy Committee each receive an additional quarterly retainer of \$1,875. The non-employee director who chairs the Audit Committees and the non-employee director who chairs the Nominating, Compensation, and Governance Committee (who is the lead director) each receive an additional quarterly retainer of \$12,500.

Non-employee directors also receive a fee of \$1,750 for each Board or Board committee meeting attended, except that members of the Audit Committees receive a fee of \$2,750 for each Audit Committee meeting attended.

Do directors receive stock-based compensation?

Under the PG&E Corporation 2006 Long-Term Incentive Plan, each year on the first business day of January, each non-employee director of PG&E Corporation is entitled to receive stock-based grants. During 2006, such grants had a total aggregate equity value of \$60,000, composed of:

Restricted shares of PG&E Corporation common stock valued at \$30,000 (based on the closing price of PG&E Corporation common stock on the first business day of the year), and

A combination, as elected by the director, of non-qualified stock options and restricted stock units with a total value of \$30,000, based on increments valued at \$5,000.

The per-option value is based on the Black-Scholes stock option valuation method, discounting the resulting value by 20 percent. The exercise price of stock options is the market value of PG&E Corporation common stock (i.e., the closing price) on the date of grant. The value of each restricted stock unit is based on the closing price of PG&E Corporation common stock on the first business day of the year.

Restricted stock and stock options vest over the five-year period following the date of grant, except that restricted stock and stock options will vest immediately upon mandatory retirement from the Board, upon a director's death or disability, or in the event of termination related to a change in control. If a director ceases to be a member of the Board for any other reason, any unvested restricted stock and unvested stock options will be forfeited.

Restricted stock units awarded to non-employee directors are payable only in the form of PG&E Corporation common stock following a director's retirement from the Board after five consecutive years of service or upon reaching mandatory retirement age, upon a director's death or disability, or in the event of termination related to a change in control. If a director ceases to be a member of the Board for any other reason, all restricted stock units will be forfeited.

A non-employee director's awards also will vest or accelerate in full if there is a change in control and the successor company fails to continue those previously granted awards in a manner that preserves the value of the awards. Effective January 1, 2007, the total aggregate value of such stock-based grants was increased to \$80,000, consisting of \$40,000 in restricted stock and the remaining \$40,000 in a combination of stock options or restricted stock units, in \$5,000 increments at the director's election.

The increase in total director compensation (retainers, fees, and equity grants) that became effective on January 1, 2007 reflected an increase in target total compensation of approximately 16 percent. This increase is expected to place total compensation for non-employee directors at the average of the comparator group over the next two-year period during which the current compensation levels will apply. This is consistent with the approach adopted by the Committee for determining director compensation levels.

How much stock-based compensation did directors receive during 2006?

During 2006, non-employee directors received the following stock-based compensation under the PG&E Corporation 2006 Long-Term Incentive Plan. On January 3, 2006, each non-employee director received 800 restricted shares of PG&E Corporation common stock. In addition, directors who were granted stock options received options to purchase 831 shares of PG&E Corporation common stock for each \$5,000 increment of value (subject to a \$30,000 limit) at an exercise price of \$37.47 per share, and directors who were granted restricted stock units received 133

restricted stock units for each \$5,000 increment of value (subject to a \$30,000 limit).

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Are directors paid for attending meetings of both PG&E Corporation and Pacific Gas and Electric Company?

Directors who serve on both the PG&E Corporation and Pacific Gas and Electric Company Boards and corresponding committees do not receive additional compensation for concurrent service on Pacific Gas and Electric Company's Board or its committees. However, separate meeting fees are paid for each meeting of the Pacific Gas and Electric Company Board, or a Pacific Gas and Electric Company Board committee, that is not held concurrently or sequentially with a meeting of the PG&E Corporation Board or a corresponding PG&E Corporation Board committee. It is the usual practice of PG&E Corporation and Pacific Gas and Electric Company that meetings of the companies' Boards and corresponding committees are held concurrently and, therefore, that a single meeting fee is paid to each director for each set of meetings.

May directors defer receiving retainers and fees?

Under the 2005 Deferred Compensation Plan for Non-Employee Directors, directors of PG&E Corporation or Pacific Gas and Electric Company may elect to defer all or part of their retainers and fees. Directors who participate in the Deferred Compensation Plan may elect either to (1) convert their deferred compensation into common stock equivalents, the value of which is tied to the market value of PG&E Corporation common stock, or (2) have their deferred compensation invested in the Utility Bond Fund.

Are the directors reimbursed for travel and other expenses?

Directors of PG&E Corporation or Pacific Gas and Electric Company are reimbursed for reasonable expenses incurred for participating in Board meetings, committee meetings, or other activities undertaken on behalf of PG&E Corporation or Pacific Gas and Electric Company.

Do directors receive retirement benefits from PG&E Corporation or Pacific Gas and Electric Company?

The PG&E Corporation Retirement Plan for Non-Employee Directors was terminated effective January 1, 1998. Directors who had accrued benefits under the Plan were given a one-time option of either (1) receiving the benefit accrued through 1997, upon their retirement, or (2) converting the present value of their accrued benefit into a PG&E Corporation common stock equivalent investment held in the Deferred Compensation Plan for Non-Employee Directors. The payment of accrued retirement benefits, or distributions from the Deferred Compensation Plan relating to the conversion of retirement benefits, cannot be made until the later of age 65 or retirement from the Board.

Legal Proceedings

California Attorney General Complaint

On January 10, 2002, the California Attorney General filed a complaint in the Superior Court for the County of San Francisco (Superior Court) against PG&E Corporation and its directors, the directors of Pacific Gas and Electric Company, and other parties, alleging unfair or fraudulent business acts or practices in violation of California Business and Professions Code Section 17200. The claims are based on alleged violations of conditions established in the California Public Utilities Commission's (CPUC) holding company decisions, caused by PG&E Corporation's alleged failure to provide adequate financial support to Pacific Gas and Electric Company during the California energy crisis. The complaint seeks injunctive relief, the appointment of a receiver, civil penalties of \$2,500 against each defendant for each violation of Section 17200, a total penalty of not less than \$500 million, and costs of suit. The complaint also seeks restitution of assets allegedly wrongfully transferred to PG&E Corporation from Pacific Gas and Electric Company.

The complaint was filed after the CPUC issued two decisions in its investigative proceeding commenced in April 2001 into whether the California investor-owned electric utilities, including Pacific Gas and Electric Company, complied with past CPUC decisions, rules, and orders regarding holding company formations, affiliate transactions, and applicable statutes.

The CPUC order states that the CPUC would, among other matters, investigate the utilities' transfer of money to their holding companies, including during times when their utility subsidiaries were experiencing financial difficulties, the failure of the holding companies to financially assist the utilities when needed, the holding companies' transfer of assets to unregulated subsidiaries, and the holding companies' actions to ringfence their unregulated subsidiaries. In May 2005, the CPUC closed this investigation without making any findings.

PG&E Corporation believes that the intercompany transactions challenged by the Attorney General fully complied with applicable law and CPUC conditions. The challenged transactions forming the bulk of the restitution claims were

regular quarterly dividends and stock repurchases. As part of its annual cost of capital proceedings, Pacific Gas and Electric Company advised the CPUC in advance of its forecast stock

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repurchases and dividends. The CPUC did not challenge or question those payments.

In January 2006, the U.S. Court of Appeals for the Ninth Circuit (Ninth Circuit) issued a decision on the parties' appeals of various rulings by the U.S. Bankruptcy Court for the Northern District of California and the U.S. District Court for the Northern District of California (District Court) concerning jurisdictional issues. The Ninth Circuit found that the Superior Court had jurisdiction over the Attorney General's restitution claims. (In October 2006, the U.S. Supreme Court declined to grant PG&E Corporation's request to review the Ninth Circuit's decision.) The Ninth Circuit did not address the Attorney General's underlying allegations that PG&E Corporation and the other defendants violated Section 17200. The Ninth Circuit also did not decide who would be entitled to receive the proceeds, if any, of a restitution award. PG&E Corporation continues to believe that any such proceeds would be the property of Pacific Gas and Electric Company. Pursuant to the December 19, 2003 Settlement Agreement to resolve Pacific Gas and Electric Company's proceeding under Chapter 11 of the U.S. Bankruptcy Code, the CPUC released all claims against PG&E Corporation or Pacific Gas and Electric Company arising out of or in any way related to the energy crisis, including the CPUC's investigation into past PG&E Corporation actions during the energy crisis. Accordingly, PG&E Corporation believes that any claims for such proceeds by the CPUC would be precluded.

While the Ninth Circuit appeal was pending, the Superior Court held a trial in December 2004 to consider the appropriate standard to determine what constitutes a separate violation of Section 17200 in order to determine the magnitude of potential penalties under Section 17200 (up to \$2,500 per separate violation). The Superior Court did not address the question of whether any violations occurred. In March 2005, the Superior Court issued a decision rejecting the per victim and per [customer] bill approaches advocated by the Attorney General, which standards potentially could have resulted in millions of separate violations. The Superior Court found that the appropriate standard was each transfer of money from Pacific Gas and Electric Company to PG&E Corporation that the Attorney General alleges violated Section 17200. In July 2005, the California Court of Appeal summarily denied a petition filed by the Attorney General seeking to overturn this decision. The Attorney General has resumed discovery in the Superior Court action. The next case management conference is scheduled for April 17, 2007.

Related Person Transactions

The entity Goldman Sachs Asset Management L.P. (GSAM) owns 6.6 percent of PG&E Corporation's common stock.

Upon Pacific Gas and Electric Company's emergence from Chapter 11 in April 2004, the company placed into the Goldman Sachs FS Federal Fund 520 (Goldman Fund) a portion of the total funds placed in escrow at Deutsche Bank for possible payment to members of Class 6 in the company's Chapter 11 case. This investment was made before GSAM obtained greater than 5 percent of PG&E Corporation's stock. As of December 31, 2006, Pacific Gas and Electric Company held \$242.7 million in the Goldman Fund, out of the total \$1.25 billion in Class 6 settlement funds placed in escrow at Deutsche Bank. For 2006, it is estimated that GSAM earned approximately \$500,000 from management of Pacific Gas and Electric Company's investment in the Goldman Fund. The company's investment in the Goldman Fund will be reduced to the extent that (i) Class 6 claims are settled, or (ii) alternate investment funds are selected.

GSAM manages the Goldman Sachs Asset Management Core Flex Fund (Goldman Core Fund). Approximately \$270 million in the PG&E Corporation Retirement Master Trust and approximately \$35 million in the Pacific Gas and Electric Company Post-Retirement Medical Trust for Bargaining-Unit Employees are invested in the Goldman Core Fund. Investment decisions for these pension trusts are made by the PG&E Corporation Employee Benefit Committee, which is comprised of officers from PG&E Corporation and Pacific Gas and Electric Company. For 2006, it is estimated that GSAM earned approximately \$1 million in fees from management of this investment. Such management services are expected to continue in the future.

The fees for managing these funds are calculated in accordance with the management fee formula stated in the applicable fund's prospectus to investors. As such, the terms of engagement for these services are comparable to those that could be obtained in arm's-length dealings with an unrelated third party.

During 2006, several affiliates of GSAM provided investment banking-related services to PG&E Corporation and Pacific Gas and Electric Company, with a value of approximately \$1.23 million. It is contemplated that affiliates of

GSAM may provide other investment banking-related services to PG&E Corporation and Pacific Gas and Electric Company during 2007. These services are provided under customary terms and conditions. As such, the terms of engagement for t