



# Delivering Value

**Peter A. Darbee**  
**Senior Vice President & CFO**

Lehman Brothers CEO Energy/Power Conference

Waldorf=Astoria

September 7, 2004

# Cautionary Statement Regarding Forward-Looking Information

This presentation contains forward-looking statements regarding estimated earnings for 2005, anticipated cash flows in 2005, and management's projected uses of cash in 2005 including anticipated payment of dividends and targeted stock repurchases. These statements are based on current expectations and assumptions which management believes are reasonable and on information currently available to management but are necessarily subject to various risks and uncertainties. Actual results could differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause future results to differ materially include:

The timing and resolution of the petitions for review that were filed in the California Court of Appeal seeking review of the California Public Utility Commission's (CPUC) December 18, 2003 decision approving Pacific Gas and Electric Company's Settlement Agreement and the CPUC's March 16, 2004 denial of applications for rehearing of the December 18, 2003 decision;

The timing and resolution of the pending appeals of the bankruptcy court's order confirming the Utility's Plan of Reorganization;

Whether the conditions to securitizing the \$2.21 billion after-tax regulatory asset established under the Settlement Agreement are met, and if so, the timing and amount of the securitization;

Whether the CPUC approves the Utility's long-term electricity resource plan and adopts the Utility's related ratemaking proposals, whether the assumptions and forecasts underlying the long-term resource plan prove to be accurate, and what terms and conditions are included in the long-term resource commitments the Utility enters into in connection with its long-term resource plan;

Anticipated changes in operating expenses or capital expenditures affecting the Utility's ability to earn its authorized rate of return;

The level and volatility of wholesale electricity and natural gas prices and supplies, the Utility's ability to manage and respond to the levels and volatility successfully, and the extent to which the Utility is able to timely recover increased costs related to such volatility;

The extent to which the Utility's residual net open position (*i.e.*, that portion of the Utility's electricity customers' demand not satisfied by electricity that the Utility generates or has under contract, or by electricity provided under the California Department of Water Resources electricity contracts allocated to the Utility's customers) increases or decreases;

The operation of the Utility's Diablo Canyon Nuclear Power Plant (Diablo Canyon) which exposes the Utility to potentially significant environmental and capital expenditure outlays and the extent the Utility is unable to increase its spent fuel storage capacity by 2007 or find an alternative depository, the risk that the Utility may be required to close Diablo Canyon and purchase electricity from more expensive sources;

The impact of current and future ratemaking actions of the CPUC, including the risk of material differences between forecasted costs used to determine rates and actual costs incurred;

The extent to which the CPUC or the Federal Energy Regulatory Commission delays or denies recovery of the Utility's costs from customers due to a regulatory determination that such costs were not reasonable or prudent or for other reasons resulting in write-offs of regulatory balancing accounts;

How the CPUC administers the capital structure, stand-alone dividend and first priority conditions of the CPUC's decisions permitting the establishment of holding companies for California investor-owned electric utilities;

The impact of future legislative or regulatory actions or policies;

Increased competition;

The outcome of pending litigation; and

Other factors discussed in PG&E Corporation's and Pacific Gas and Electric Company's SEC reports.

# New Business Environment

---

- Reorganization structure with supporting safeguards
- Multi-year rate agreements with annual revenue adjustments
- Collective bargaining agreement with all unions through 2007
- Constructive regulatory backdrop
- Variety of Utility investment opportunities to drive growth

# Financial Restoration

Rate Base in 2004: Approximately \$17 billion

- Authorized 11.22% ROE on average 49% equity ratio

Rate Base in 2005 assumes securitization

- \$1.8 billion in Energy Recovery Bonds (ERB) replace the Reg Asset, reducing the rate base to \$15 billion
- \$1.1 billion of proceeds retire Utility debt
- Minimum authorized 11.22% ROE on average 52% equity ratio
- \$1.2 billion available from Utility for stock repurchases and dividends

Anticipated resumption of dividend

# Distributing Value to Shareholders

**\$1.55 Billion in dividends and share repurchases in 2005**

## Holding Company Sources and Uses

(\$ Millions)

	<b>Sources</b>		<b>Uses</b>	
Cash at June 30, 2004	\$	1,220	Senior Secured Notes	\$ 650
Estimated Distributions from Utility		1,200	NEGT Settlement Fee	30
			NEGT Taxes	100
			<b>Dividends and Share Repurchases</b>	<b>1,550</b>
			Cash on Hand at Corp	<b>90</b>
		<u>2,420</u>		<u>2,420</u>

## Earnings Guidance for 2004 and 2005\*

---

- 2004 EPS from operations: \$2.00 - \$2.10
- 2005 EPS from operations: \$2.15 - \$2.25

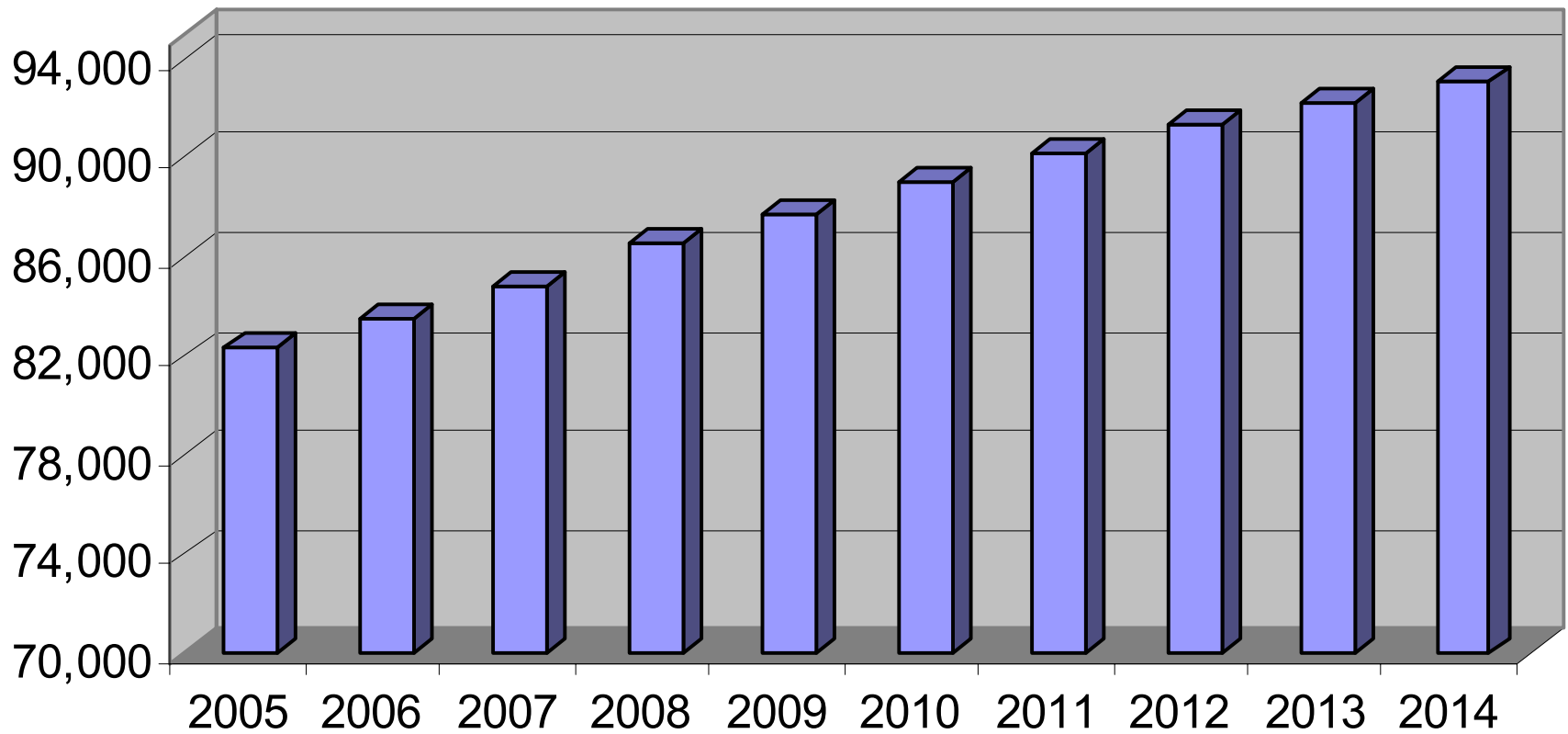
# Our Focus: Customers, Operations, Employees

---

- Continually evaluating opportunities to improve operational efficiency and cost effectiveness
- New business environment presents opportunity for renewed vigor and effectiveness
- Customers, shareholders and employees benefit from developing better ways to operate the business

# California Energy Outlook

## Total PG&E Projected Energy Usage (GWH)



# California Energy Outlook - Two Key Issues

- Resource Adequacy
  - We propose that all Load Serving Entities (LSE) be required to plan for their customers power needs
  - We propose specific rules for building and owning power plants
- Retail Customer Choice
  - PG&E continues to support customer choice
  - Non-bypassable charges for long-term commitments

# Summary

---

- Better customer care
- Strengthen relationship with our customers and regulators
- Great opportunities and cash flow to fund investments for growth in the Utility



***PG&E Corporation***

---

# Appendix: Non-GAAP to GAAP Reconciliation

## Reconciliation of Guidance for Earnings from Operations for 2004

Year Ended December 31, 2004

Earnings from Operations EPS Guidance <sup>(1)</sup>	\$	2.00	\$	2.10
Estimated Items Impacting Comparability <sup>(2)</sup>				
Incremental interest expense		(0.20)		(0.14)
Utility Chapter 11 Settlement Agreement assets and obligations <sup>(3)</sup>		6.88		6.91
2003 GRC settlement <sup>(4)</sup>		0.28		0.28
Mark-to-market dividend participation rights <sup>(5)</sup>		(0.10)		(0.09)
Utility and NEGТ Chapter 11 related expenses		(0.05)		(0.03)
Gain on disposition of NEGТ <sup>(6)</sup>		1.55		1.92
GAAP EPS Guidance	\$	<u>10.36</u>	\$	<u>10.95</u>

(1) Excludes the results of NEGТ.

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

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

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

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

(6) Impact resulting from the reversal of PG&E Corporation's investment in NEGТ, certain deferred tax assets, and accumulated other comprehensive income related to NEGТ. The resulting gain will be offset by the \$30M payment pursuant to the NEGТ settlement and the impact of any estimated tax liabilities.

# Appendix: Non-GAAP to GAAP Reconciliation

## Reconciliation of Guidance for Earnings from Operations for 2005

	Year Ended December 31, 2005	
	<hr/>	
Earnings from Operations EPS Guidance	\$ 2.15	\$ 2.25
Estimated Items Impacting Comparability <sup>(1)</sup>		
Incremental interest expense	(0.05)	(0.04)
Costs to retire, renegotiate, or partially refinance Holding Company Senior Secured Notes	(0.07)	-
GAAP EPS Guidance	<u>\$ 2.03</u>	<u>\$ 2.21</u>

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