



PG&E Corporation:

Strong Core Growth and Future Demand-Side Earnings

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Lehman Brothers

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Cautionary Statement Regarding Forward-Looking Information

This presentation contains forward-looking statements regarding management's guidance for PG&E Corporation's 2007 and 2008 earnings per share from operations, targeted average annual growth rate for earnings per share from operations, as well as management's projections regarding Pacific Gas and Electric Company's (Utility) capital expenditures, and energy efficiency incentives. These statements are based on current expectations and various assumptions which management believes are reasonable, including that substantial capital investments are made in Utility business over the 2007-2011 period, Utility rate base averages \$17 billion in 2007 and \$18.7 billion in 2008, that the Utility earns at least its authorized rate of return on equity, and that the Utility's ratemaking capital structure is maintained at 52 percent equity. These statements and assumptions are necessarily subject to various risks and uncertainties, the realization or resolution of which are outside of management's control. Actual results may differ materially. Factors that could cause actual results to differ materially include:

- the Utility's ability to timely recover costs through rates;
- the outcome of regulatory proceedings, including ratemaking proceedings pending at the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission;
- the adequacy and price of electricity and natural gas supplies, and the ability of the Utility to manage and respond to the volatility of the electricity and natural gas markets;
- the effect of weather, storms, earthquakes, fires, floods, disease, other natural disasters, explosions, accidents, mechanical breakdowns, acts of terrorism, and other events or hazards that could affect the Utility's facilities and operations, its customers, and third parties on which the Utility relies;
- the potential impacts of climate change on the Utility's electricity and natural gas business;
- changes in customer demand for electricity and natural gas resulting from unanticipated population growth or decline, general economic and financial market conditions, changes in technology including the development of alternative energy sources, or other reasons;
- operating performance of the Utility's Diablo Canyon nuclear generating facilities (Diablo Canyon), the occurrence of unplanned outages at Diablo Canyon, or the temporary or permanent cessation of operations at Diablo Canyon;
- the ability of the Utility to recognize benefits from its initiatives to improve its business processes and customer service;
- the ability of the Utility to timely complete its planned capital investment projects;
- the impact of changes in federal or state laws, or their interpretation, on energy policy and the regulation of utilities and their holding companies;
- the impact of changing wholesale electric or gas market rules, including the California Independent System Operator's new rules to restructure the California wholesale electricity market;
- how the CPUC administers the conditions imposed on PG&E Corporation when it became the Utility's holding company;
- the extent to which PG&E Corporation or the Utility incur costs and liabilities in connection with pending litigation that are not recoverable through rates, from third parties, or through insurance recoveries;
- the ability of PG&E Corporation and/or the Utility to access capital markets and other sources of credit;
- the impact of environmental laws and regulations and the costs of compliance and remediation;
- the effect of municipalization, direct access, community choice aggregation, or other forms of bypass, and
- other risks and factors disclosed in PG&E Corporation's and the Utility's SEC reports.

Key Takeaways From Today's Discussion

- PCG is a core utility holding delivering 1st quartile earnings growth at low risk.
- Pre-approved rate base infrastructure investment supports strong earnings growth.
- Energy efficiency and demand response / AMI present additional upside.

Agenda For Today

- PG&E core investment and earnings outlook
- Demand-side earnings opportunities
 - Energy efficiency incentives
 - AMI upgrades

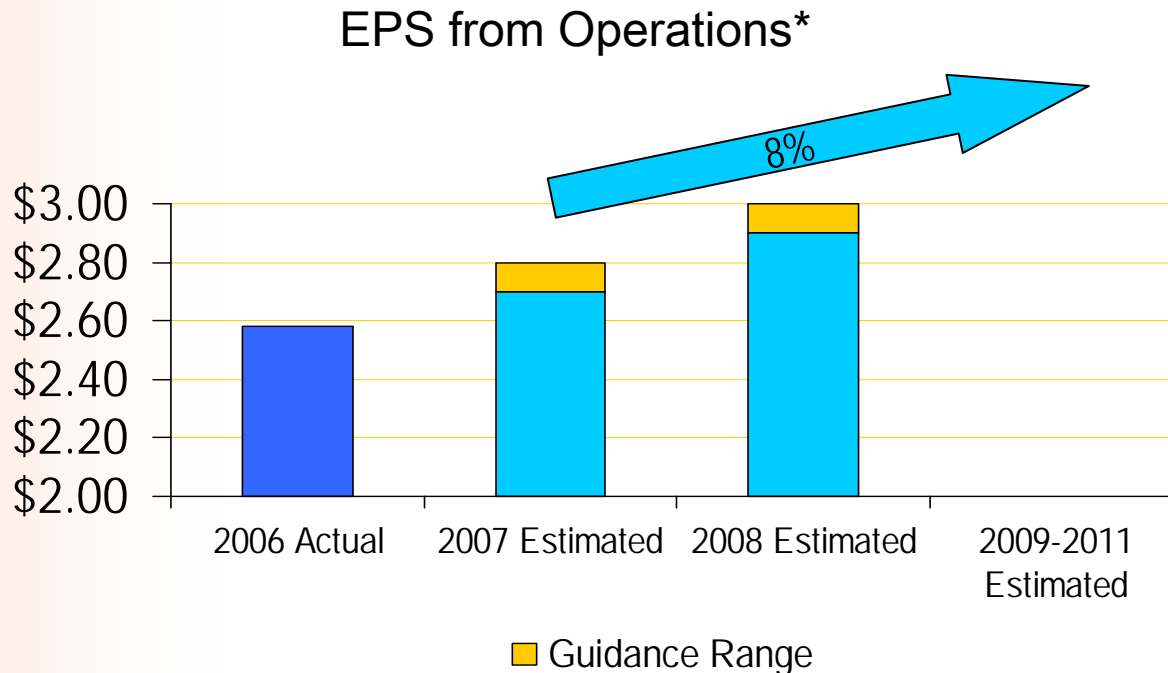
Capital Expenditures Drive Core Growth

2007-2011 CapEx totals more than \$14 B (\$2.8 B/yr.)

Investment Driver	Cap Ex	Example Projects
Electric Generation Resources	~\$1.3 Billion	<ul style="list-style-type: none">• Gateway Generation Station• Humboldt• Colusa
Electric and Gas Delivery System	~\$7 Billion	<ul style="list-style-type: none">• Distribution Maintenance and Upgrades• McDonald Island Gas Storage Pipeline• New Customer Connections• AMI
Electric Transmission	> \$3 Billion	<ul style="list-style-type: none">• Central California Clean Energy Transmission (Midway – Gregg)• System Automation• Line Upgrades for Renewables

EPS Guidance

EPS from Operations*: 2007 guidance of \$2.70-\$2.80 per share
2008 guidance of \$2.90-\$3.00 per share



* Reg G reconciliation to GAAP for 2006 EPS from Operations and 2007 and 2008 EPS Guidance available in Appendix and at www.pge-corp.com

Earnings Upsides Not in Guidance

- Additional transmission and generation investments
- Energy efficiency incentives
- AMI upgrades and related products and services

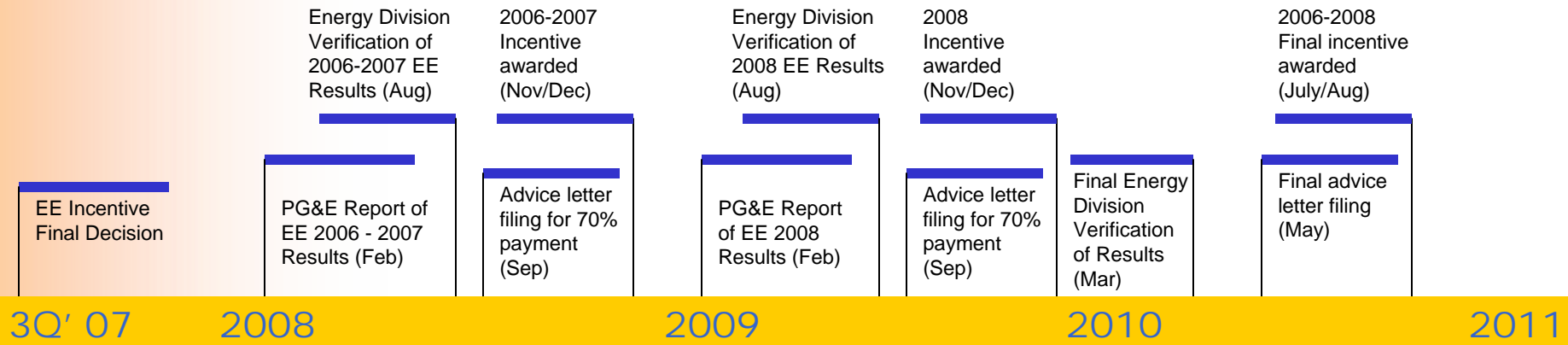
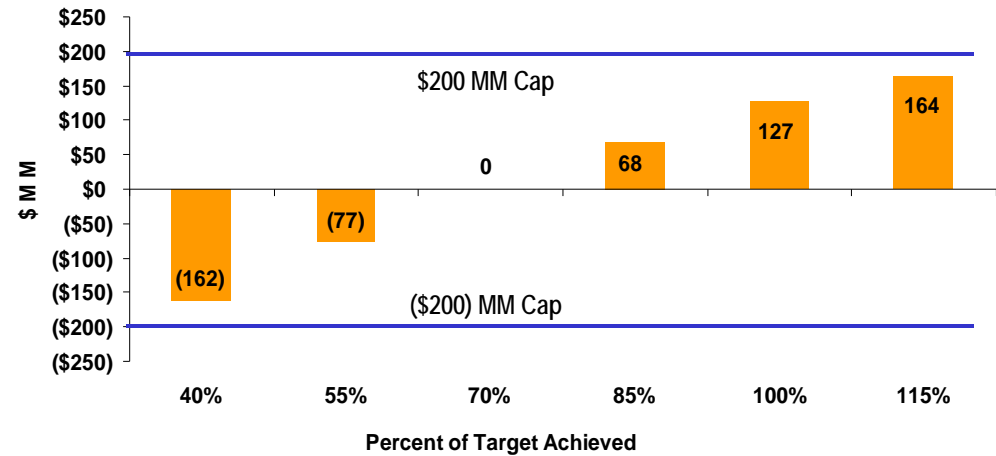
Additional Transmission and Generation Investments

- Proposed Pacific Connector Gas Pipeline (PCGP)
 - 1.0 -1.5 Bcf/d, 230 mile LNG pipeline
 - \$1.1 B (33% PG&E share)
- 2006 Long-Term Procurement Plan
 - 2,300 MW proposed post-2011
- Proposed BC Wind Transmission
 - \$14 M approved to study options
 - Coordination between BC government – WA, OR, CA
 - Q1 2008 – Report due to CPUC

CPUC Proposed Energy Efficiency Incentives

- Symmetrical “risk/reward” mechanism with \$200 MM cap
- 70% of earned incentives awarded annually, with true-up at end of cycle
- Effective for 2006-2008 and 2009-2011 EE program cycles

Example 2006 - 2008 Shareholder Incentives*

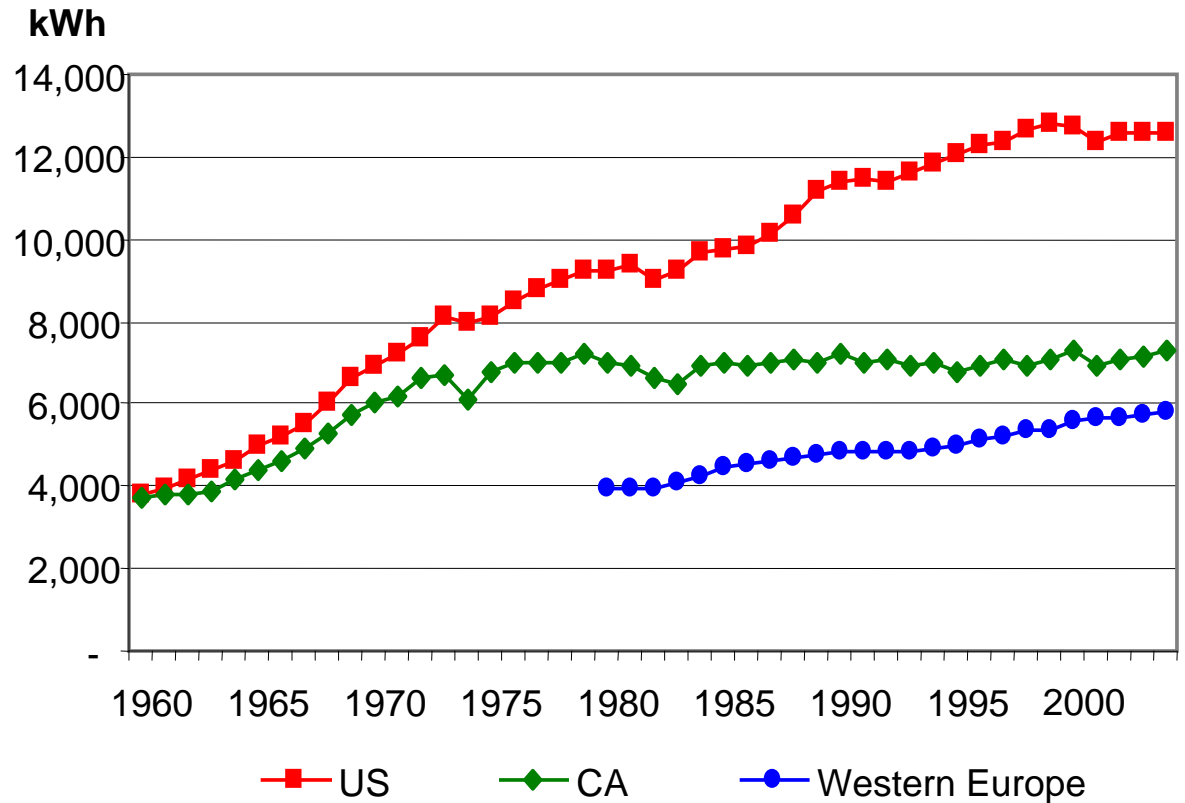


*All amounts are pre-tax and cumulative for the three-year cycle

EE is California's Least-Cost Resource

Per Capita Energy Usage – California, US and Europe

Resource Type	Ave 2006 Cost (kWh)*
Energy Efficiency	\$.025
Diablo Canyon	\$.039
Utility, Irrigation Districts, Other Wholesale	\$.048
QFs and Renewables	\$.084
DWR	\$.085



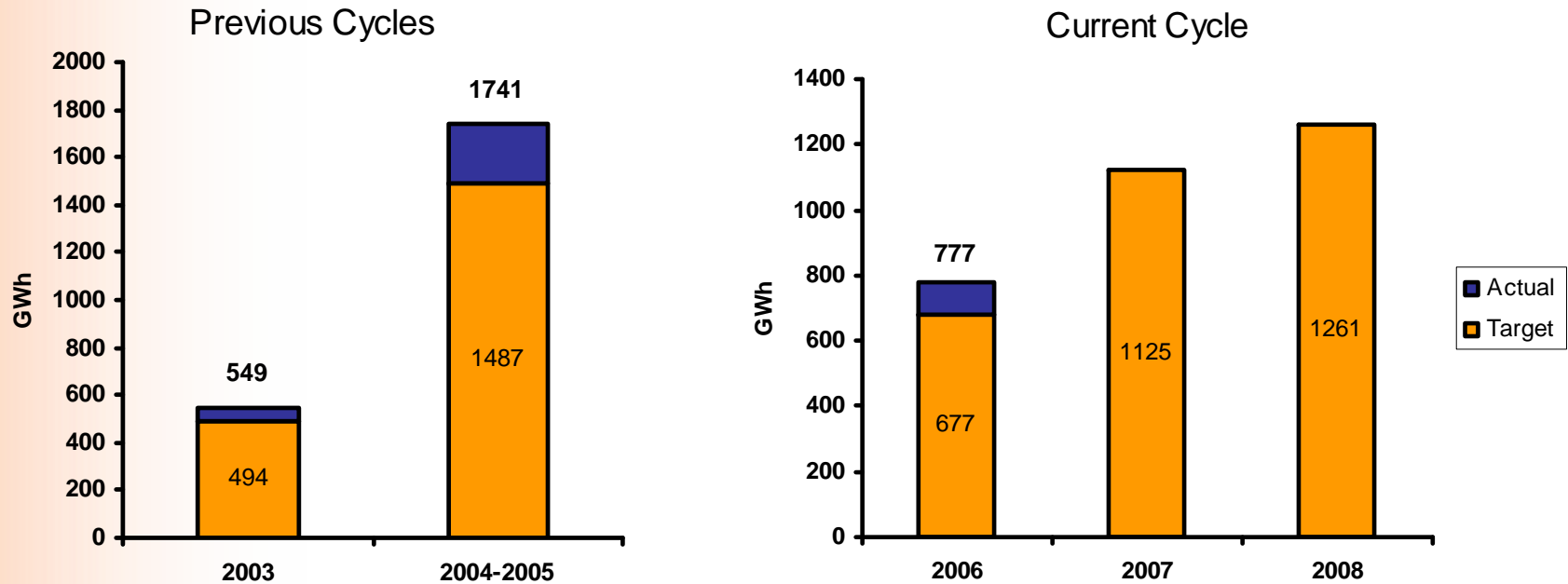
* Costs represent 2006 average price per kilowatt hour

Source: California Energy Commission

PG&E's Energy Efficiency Programs

- PG&E's 2006-2008 EE goals: 3,063 GWh; 47 MM therms
- Programs extend into 2009-2011

Energy Efficiency Savings: Achieved and Target



Note: 2007 and 2008 are PG&E targets. CPUC target is 2,826 GWh for 2006-2008.

Energy Efficiency Target Markets and Initiatives

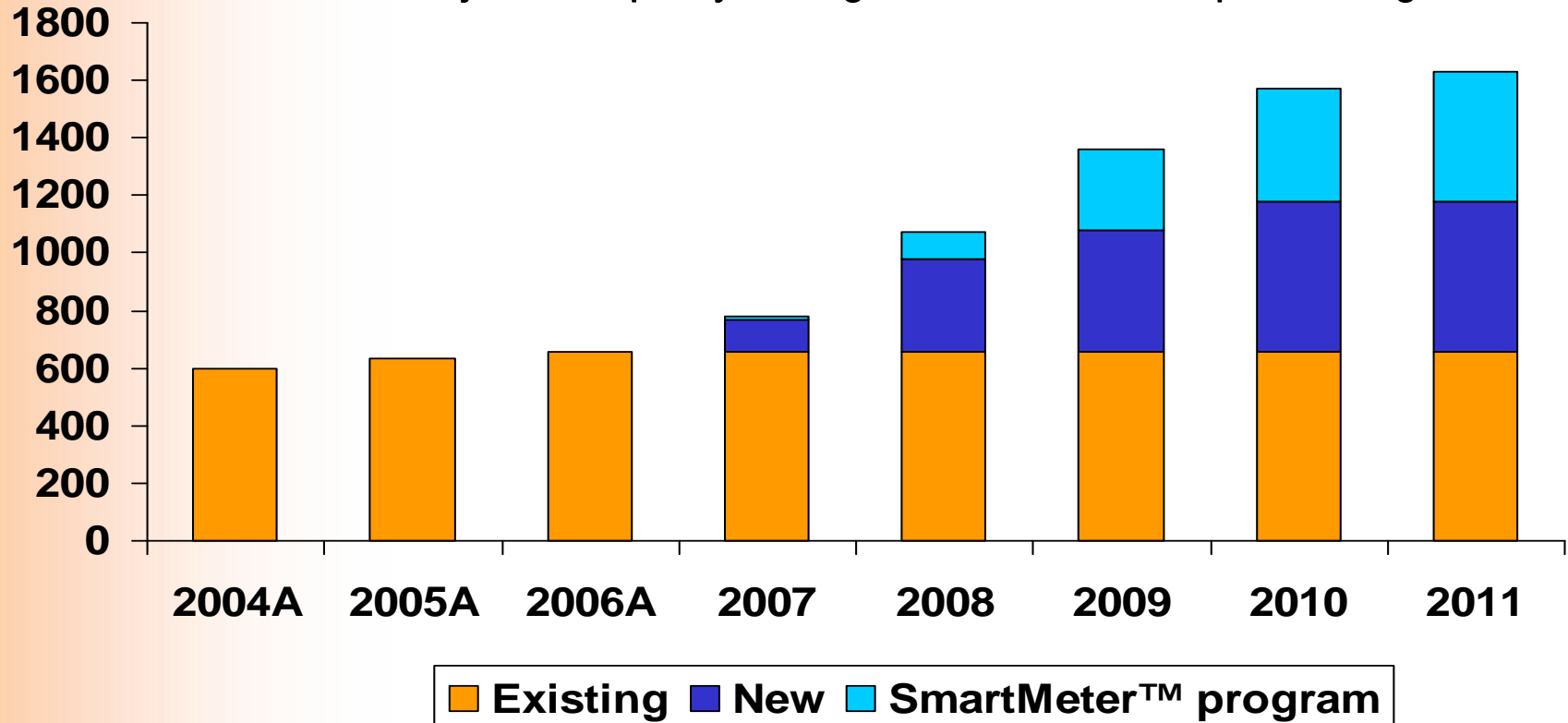
Market	Example Initiatives
High Tech	Data Center Efficiency
Residential New Construction	New Solar Homes Partnership
Agricultural and Food Processing	Bio-Energy Recovery Systems
Schools and Colleges	University Research Center Efficiency
Large Commercial	“More-than-a-Million” Retro-commissioning Program
Other Programs, including mass market and third-party programs	Compact Fluorescent Bulbs, Appliances and Air Conditioning Equipment, Enhancements to New Buildings, etc.

Demand Response Programs

Demand response impacts expected to double from 2007

MWs

Actual and Projected Capacity Savings from Demand Response Programs

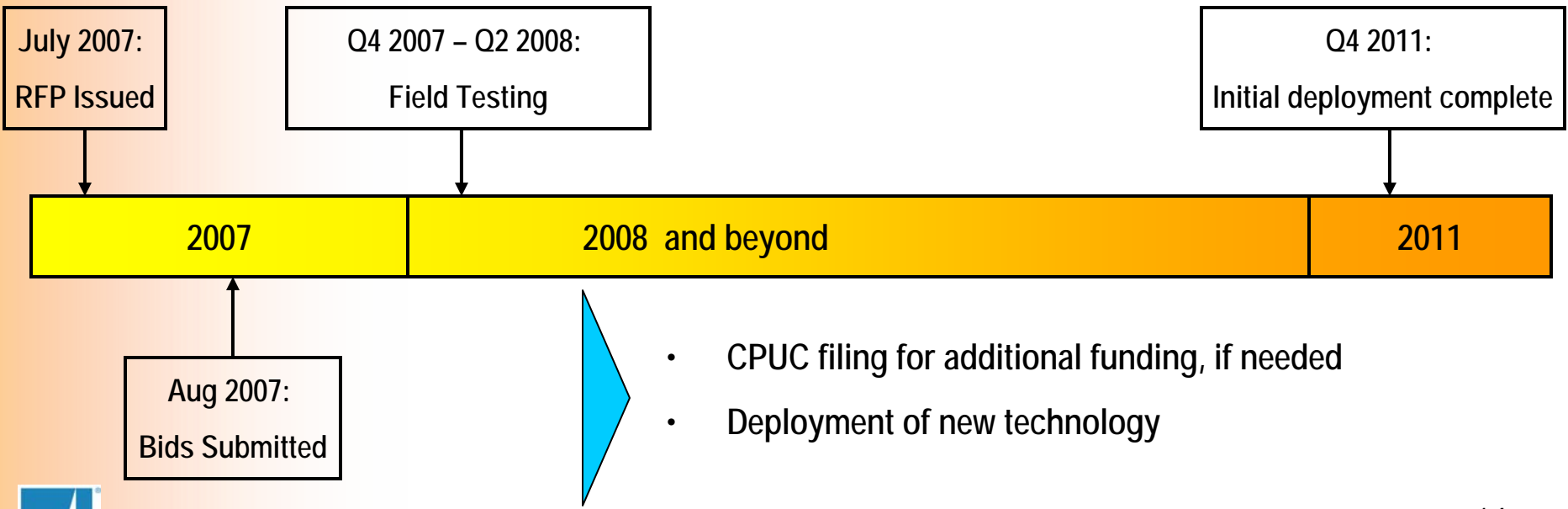


Potential Technology Upgrade for *SmartMeter*TM Project

Platform for next-generation initiatives

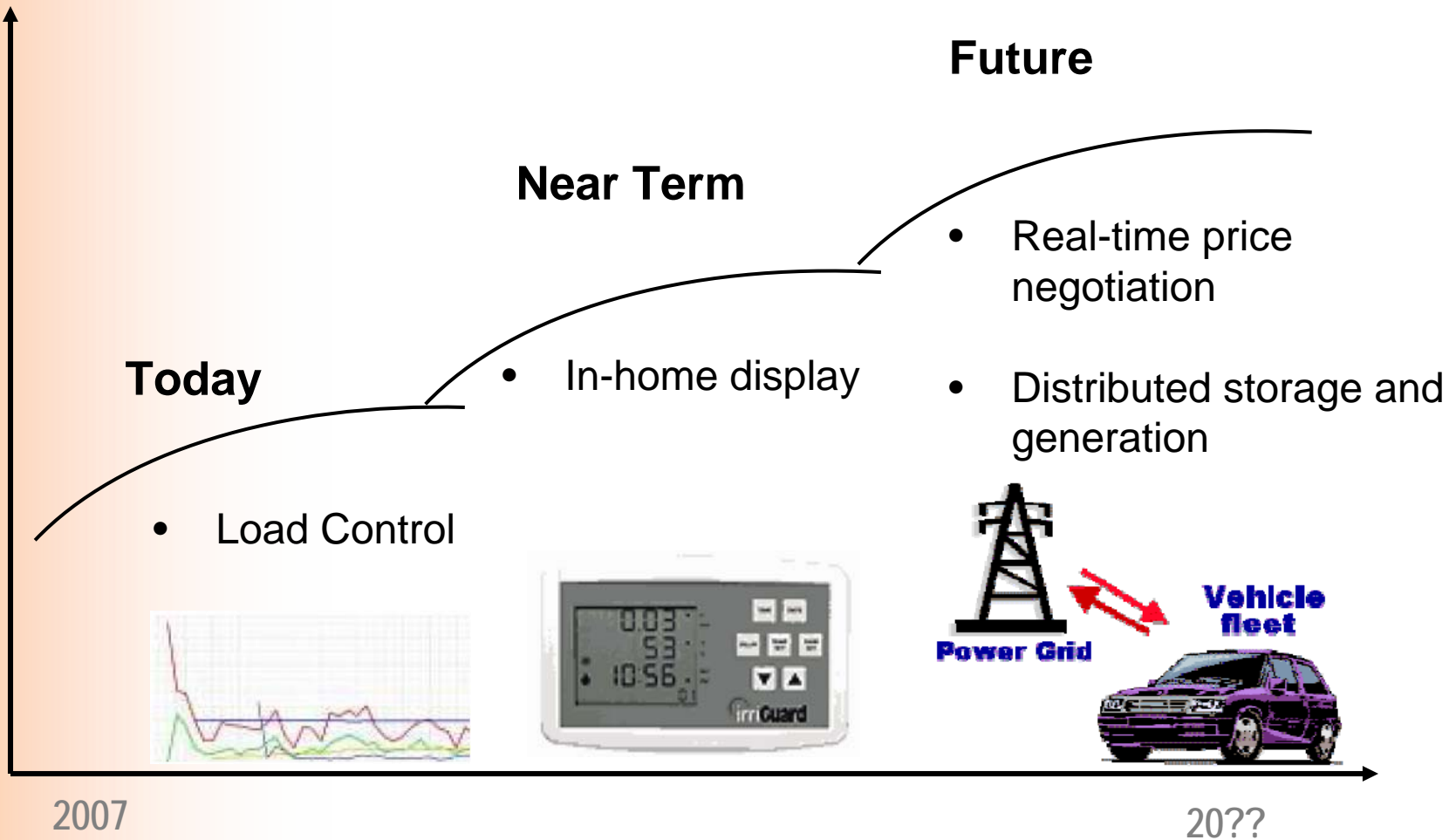
- Distribution automation
- Home / premise energy management systems

Approximate timeline for SmartMeter Program Upgrade*



**SmartMeter Program Upgrade subject to results of bid evaluation, successful field testing, and obtaining any necessary CPUC approval. SmartMeter is a trademark of SmartSynch, Inc. and is used by permission.*

Smart Energy Web



PCG Investment Opportunity Summary

- First quartile EPS growth at low risk
 - Approved infrastructure investment
- Potential upsides not in guidance
 - Additional transmission and generation investment
 - Energy efficiency incentives
 - AMI related products and services



Appendix

Lehman Brothers
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PG&E Vision



Rating Agency Outlook

- Current Ratings
 - Utility issuer rating: BBB+⁽¹⁾ / Baa1⁽²⁾
 - Utility unsecured debt: BBB+⁽¹⁾ / Baa1⁽²⁾
 - Utility short-term rating: A2 / P2
- Average Utility Metrics (2007-2011)⁽³⁾
 - S&P Business Profile Rating: 5
 - Total Debt to Capitalization (EOY): 53.6%
 - Funds from Operations Cash Interest Coverage: 5.1x
 - Funds from Operations to Average Total Debt: 22%

(1) S&P upgraded the Utility to BBB+ from BBB on May 31, 2007

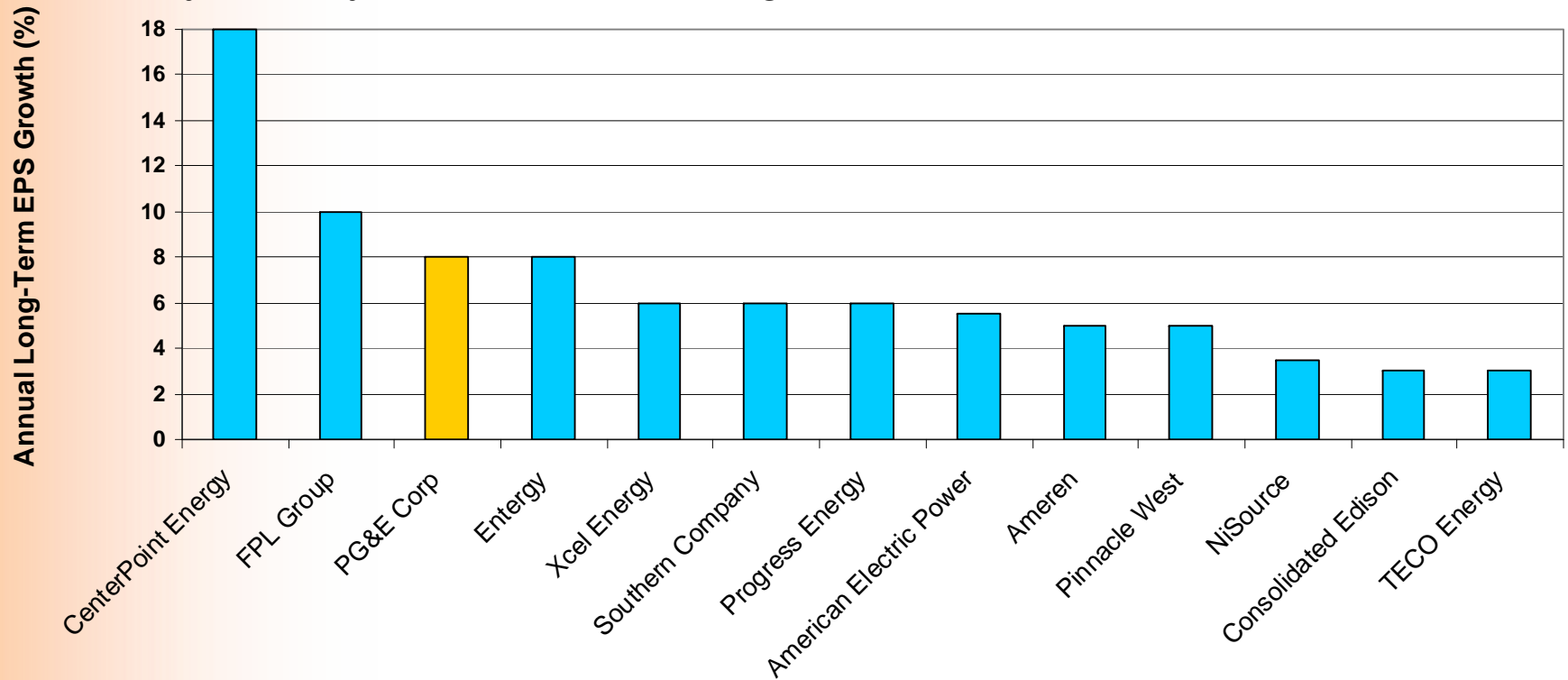
(2) Moody's placed the Utility's rating under review for possible upgrade on April 9, 2007

(3) Metrics include debt equivalents for long-term power purchase contracts

EPS Growth – Comparator Group

EPS from operations annual growth targeted to average 8% for 2007 – 2011

Survey of analyst estimates of EPS growth:



2006 EPS - Reg G Reconciliation

2006

EPS on an Earnings from Operations Basis*	\$2.57
Items Impacting Comparability:	
Scheduling Coordinator Cost Recovery	0.21
Environmental Remediation Liability	(0.05)
Recovery of Interest on PX Liability	0.08
Severance Costs	<u>(0.05)</u>
EPS on a GAAP Basis	\$2.76

* Earnings per share from operations is a non-GAAP measure. This non-GAAP measure is used because it allows investors to compare the core underlying financial performance from one period to another, exclusive of items that do not reflect the normal course of operations.

EPS Guidance - Reg G Reconciliation

2007

	<u>Low</u>	<u>High</u>
EPS Guidance on an Earnings from Operations Basis*	\$2.70	\$2.80
Estimated Items Impacting Comparability	0.00	0.00
EPS Guidance on a GAAP Basis	\$2.70	\$2.80

2008

	<u>Low</u>	<u>High</u>
EPS Guidance on an Earnings from Operations Basis*	\$2.90	\$3.00
Estimated Items Impacting Comparability	0.00	0.00
EPS Guidance on a GAAP Basis	\$2.90	\$3.00

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