



PG&E Corporation: Opportunities in Renewable Energy

Investor Meetings

Morgan Stanley

Electric Utilities Corporate Access Day

October 9, 2007 – Chicago, IL



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, rate base and rate base growth, future electricity resources, and potential investments in transmission, generation and renewable energy resources. 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:

- 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 SEC reports.

Key Takeaways From Today's Discussion

- PCG is a core utility holding delivering 1st quartile earnings growth at low risk.
- PG&E is aligned with regulators/policy leaders to increase the supply of cost-effective renewable generation.
- Evolving renewables policy creates attractive investment opportunities.

Agenda for Today

- PG&E's core investment strategy and upside earnings outlook
- PG&E's position on renewable energy
 - Current position
 - Future investment opportunities

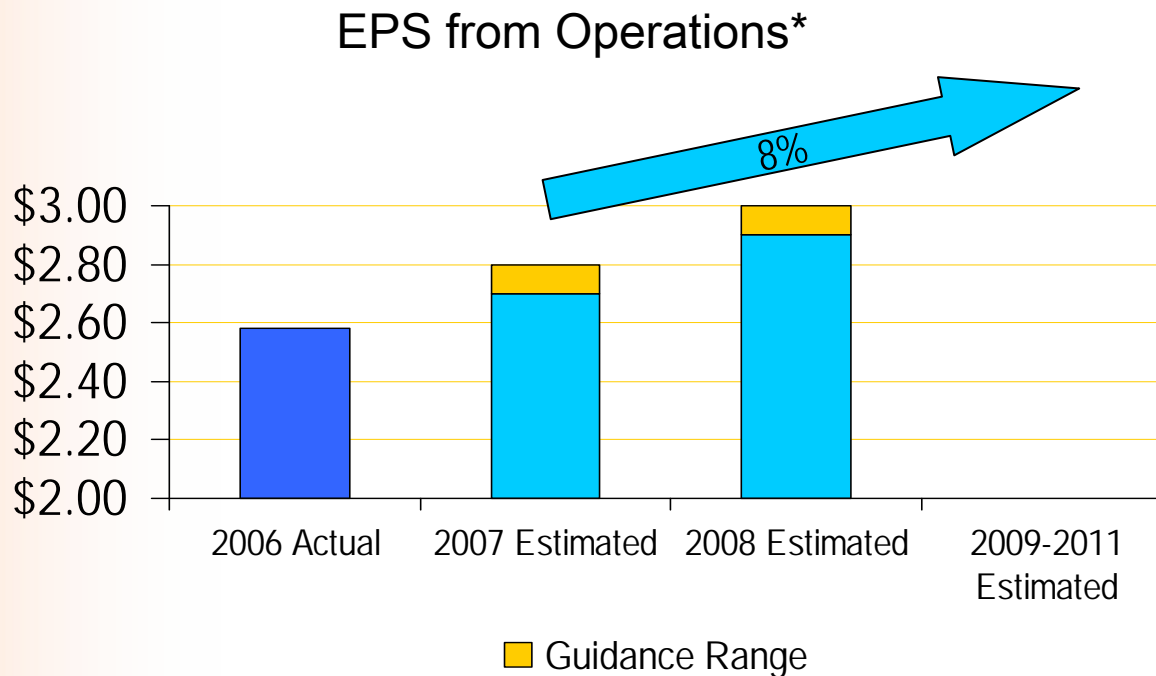
Capital Expenditures Drive Core Growth

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

Investment Driver	Cap Ex	Notable Projects
Common Plant	~\$1.3 Billion	<ul style="list-style-type: none"> • Building Investment • Technology Infrastructure • General Use Fleet
Electric and Gas Transmission	~\$3.8 Billion	<ul style="list-style-type: none"> • Central California Clean Energy Transmission Line (formerly Midway-Gregg) • Line Upgrades for Renewables • McDonald Island Gas Storage Pipeline
Generation	~\$2.9 Billion	<ul style="list-style-type: none"> • Gateway Generating Station • Humboldt Power Plant • Colusa Power Plant • DCPD Steam Generator Replacement
Distribution	~\$6.2 Billion	<ul style="list-style-type: none"> • Distribution maintenance and upgrades • New Customer Connections • AMI

EPS Guidance

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



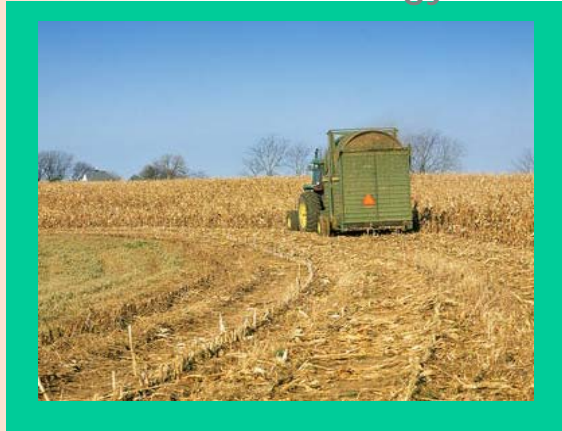
* Reg G reconciliation to GAAP for 2006 EPS from Operations and 2007 and 2008 EPS Guidance available in Appendix and at www.pgecorp.com

Additional Investment Opportunities Provide Upside

- 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
 - Up to 2,300 MW proposed post-2011
- Potential BC Renewables Transmission Project
 - \$14 M approved to study feasibility
 - Coordination between BC, WA, OR, CA
 - Q1 2008 – Report to CPUC
- PG&E Owned Renewables

RPS Eligible Renewable Resources - Traditional

Biomass Energy



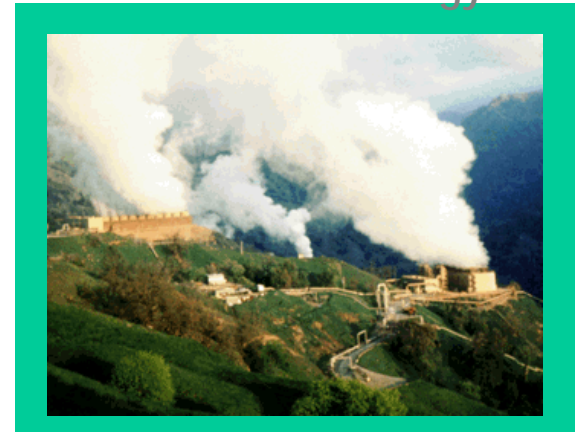
Wind Energy



Small Hydropower (<30MW)



Geothermal Energy



Eligible Renewables - Emerging

Central Solar Energy



Biogas



Ocean Power



PG&E's Renewable Contracts Signed

18% of Projected 2010 Load Currently Signed*

Year Signed	Project	Max GWh/yr	Technology
Pre 2002	Various Projects	~7500 ¹	Various
2002	Calpine Geysers 13 & 20	722	Geothermal
2002	Wheelabrator #4	25	Biomass
2003	CBEA Projects (3)	305	Biomass
2004	Big Valley Lumber	41	Biomass
2004	Diablo Winds	65	Wind
2005	FPL Energy-Montezuma Winds	102	Wind
2005	Buena Vista Energy LLC	108	Wind
2005	Pacific Renewable Energy	280	Wind
2005	Shiloh 1 Wind Project LLC	225	Wind
2006	Military Pass Rd.	840	Geothermal
2006	HFI Silvan	142	Biomass
2006	Liberty Biofuels	70	Biofuels
2006	Bottle Rock USRG	385	Geothermal
2006	IAE Truckhaven	366	Geothermal
2006	Global Common - Chowchilla	72	Biomass

Year Signed	Project	Max GWh/yr	Technology
2006	Global Common – El Nido	72	Biomass
2006	Newberry	840	Geothermal
2006	Calpine Geysers	922	Geothermal
2006	Tunnel Hydro	2.1	Hydro
2006	Buckeye Hydro	1.4	Hydro
2006	Eden Vale Dairy	1.3	Biogas
2006	Microgy	TBD	Biogas
2006	Bio_Energy LLC	TBD	Biogas
2006	Palco	36	Biomass
2007	Solel	1388	Solar Thermal
2007	Western GeoPower	212	Geothermal
2007	PPM-Klondike	265	Wind
2007	CalRenew	9	PV
2007	Green Volts	5	PV



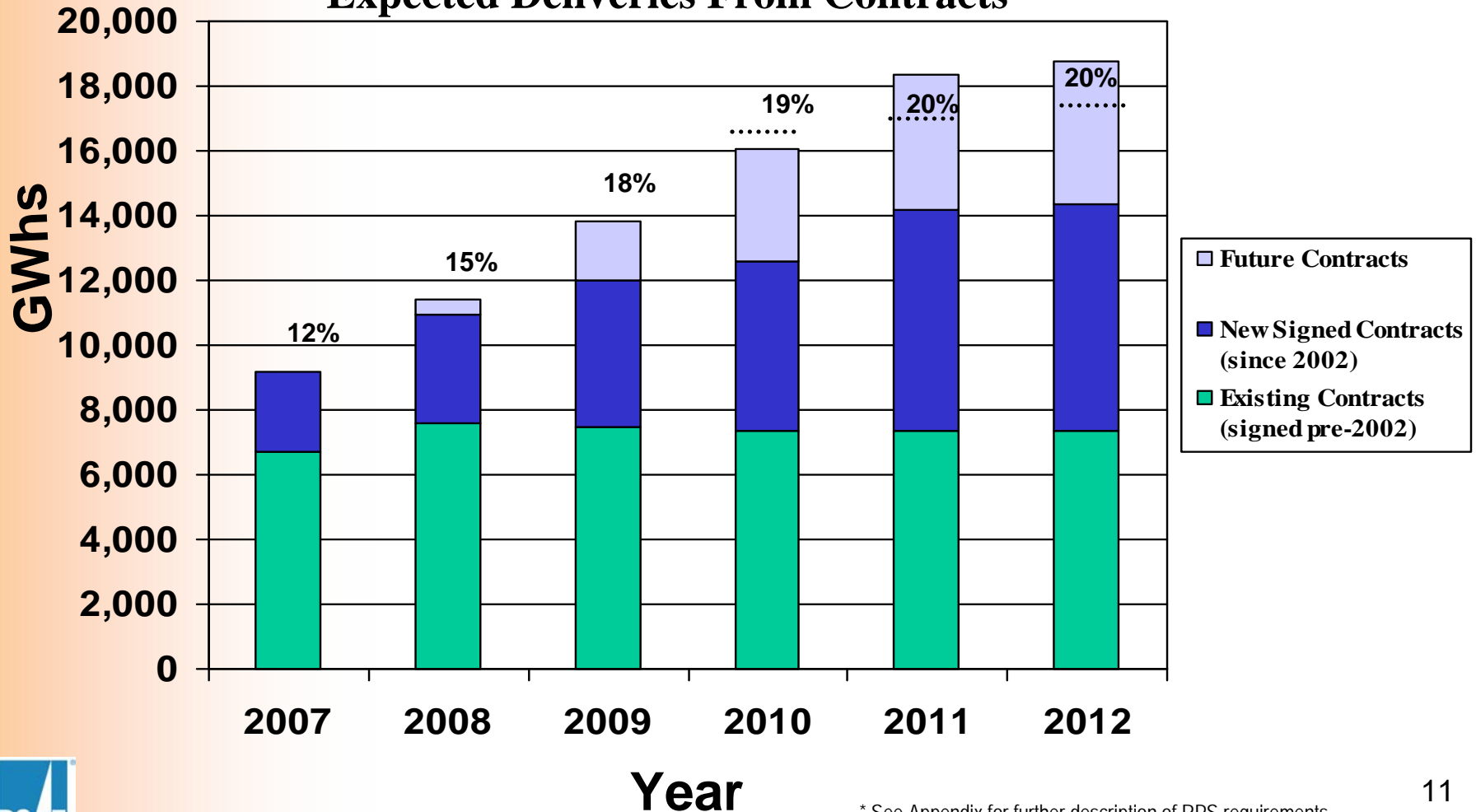
1) Average delivered energy over multiple years: pre-RPS baseline

*Based on contracts signed through August 2007

PG&E's RPS Compliance Outlook

Renewable Portfolio Standard target is 20% by 2010*

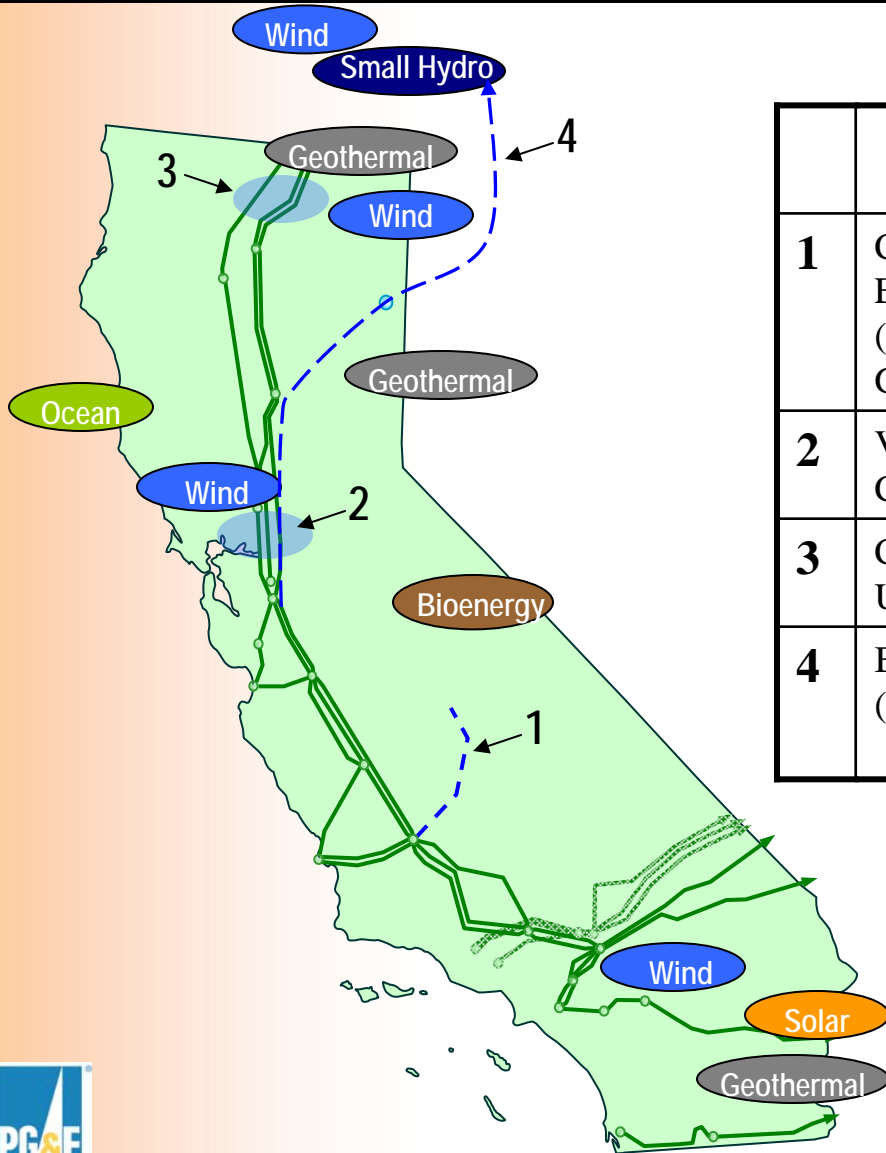
Expected Deliveries From Contracts



Challenges to Meeting RPS Goal

- Increasing competition for renewables projects from other states/countries/utilities
- Many renewable resources are located in areas requiring either new transmission or transmission upgrades
- Uncertain whether contracts will perform as projected
- System integration of intermittent resources becomes more challenging at higher volumes

New Transmission Investment is Necessary



	Transmission Line Project	Renewable Resources
1	Central California Clean Energy Transmission (previously Midway-Gregg)	Resources to the south
2	Vaca Dixon – Contra Costa Upgrade	Solano County wind resources
3	California – Oregon Upgrade	Renewable resources from the Pacific Northwest
4	B.C. Renewable Line (possible)	Proposed to bring British Columbia renewable resource energy to California

Renewable Investment Landscape

Increasing opportunities for utilities in renewable development

- Renewable Provisions in Federal Energy Bill
 - PTC (Wind, Biomass, Geothermal, Hydro, Solid Waste)
 - ITC (Solar, Geothermal, Distributed Generation)
 - Federal Renewable Portfolio Standard (RPS)
- PG&E's 2007/2008 solicitation open to offers for utility ownership
- CPUC provides incentive ROE on utility-owned renewables

PG&E Investment Opportunities

- PG&E is in the early stages of feasibility analysis
- Includes system-wide survey of land holdings and assets for renewable potential
- Technologies include wind, solar and small hydro

PCG Value Summary

- PG&E is a core holding, delivering strong investment opportunities and low risk.
- Renewables and related transmission investments provide potential earnings “upsides” in 2008 and beyond which are not currently included in long-term guidance.



Appendix



Pacific Gas and Electric Company (PG&E)

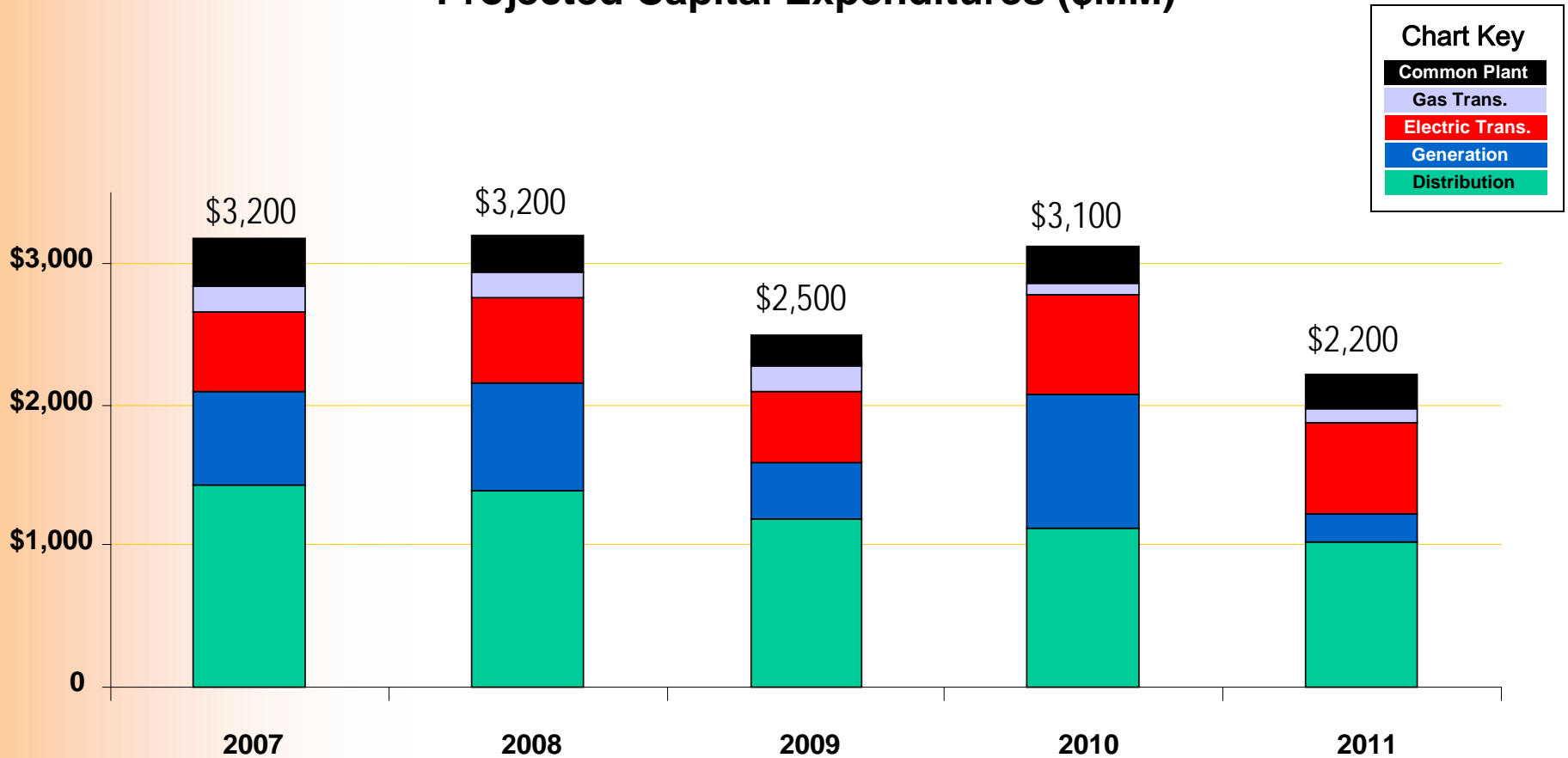


- \$12.5 B in Revenues
- \$34.8 B in Assets
- 5.1 MM Electric/4.2 MM Gas Customers
- \$16 B+ Market Capitalization

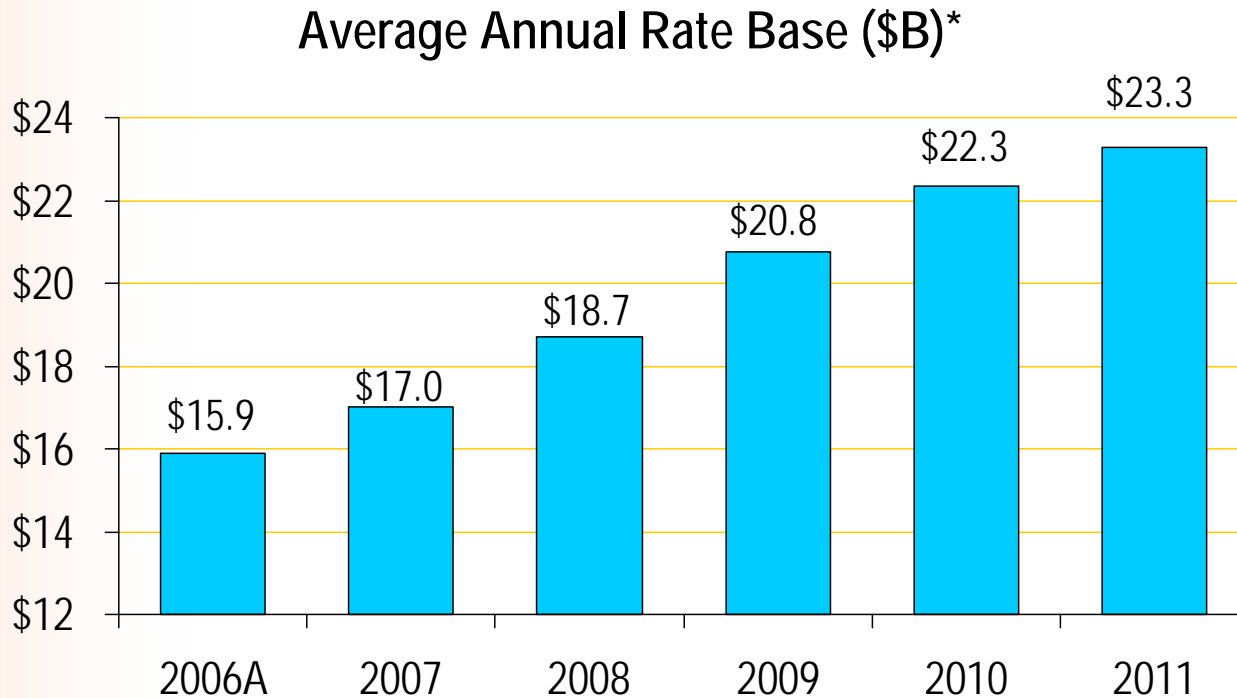
Business Unit	2006 Rate Base (\$B)	Regulation
Electric and gas distribution	\$10.3	CPUC
Electric generation	\$1.8	CPUC
Gas transmission	\$1.5	CPUC
Electric transmission	\$2.3	FERC
PCG Total Business	\$15.9	85% CPUC/15% FERC

Capital Expenditure Outlook

Projected Capital Expenditures (\$MM)



Rate Base Growth



* Projected 2007-2011 rate base is not adjusted for the impact of the carrying cost credit that primarily results from the second series of the Energy Recovery Bonds. Earnings will be reduced by an amount equal to the deferred tax balance associated with the Energy Recovery Bonds regulatory asset, multiplied by the utility's equity ratio and by its equity return. The carrying cost credit declines to zero when the taxes are fully paid in 2012.

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

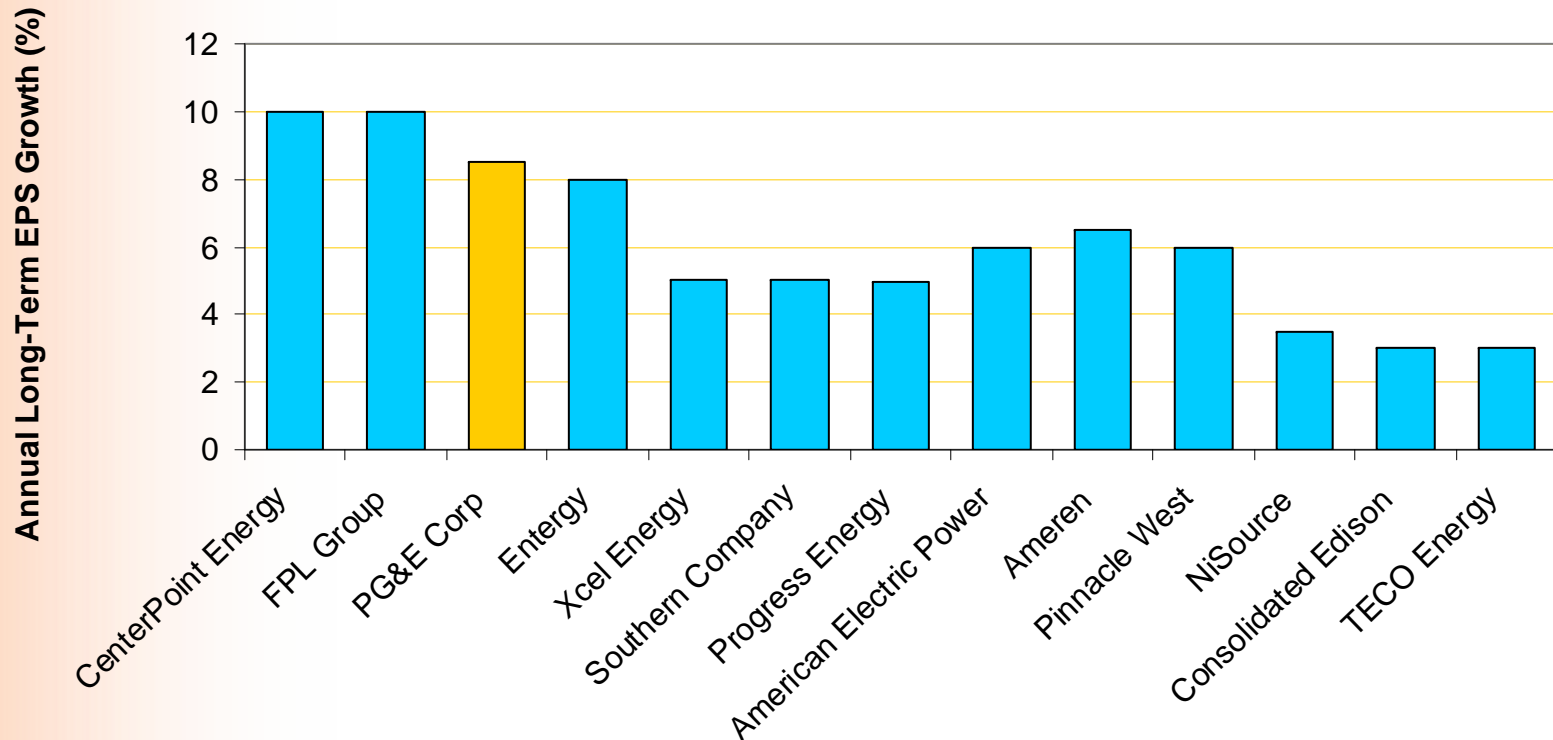
	<u>Low</u>	<u>High</u>
EPS Guidance on an Earnings from Operations Basis*	\$2.90	\$3.00
Estimated Items Impacting Comparability	0.00	0.00
EPS Guidance on a GAAP Basis	\$2.90	\$3.00

* 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 Growth – Comparator Group

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

Consensus of analyst estimates of EPS growth:



Source: Thomson IBIS long-term EPS Growth Consensus Estimate Median October 1, 2007

California's RPS Program

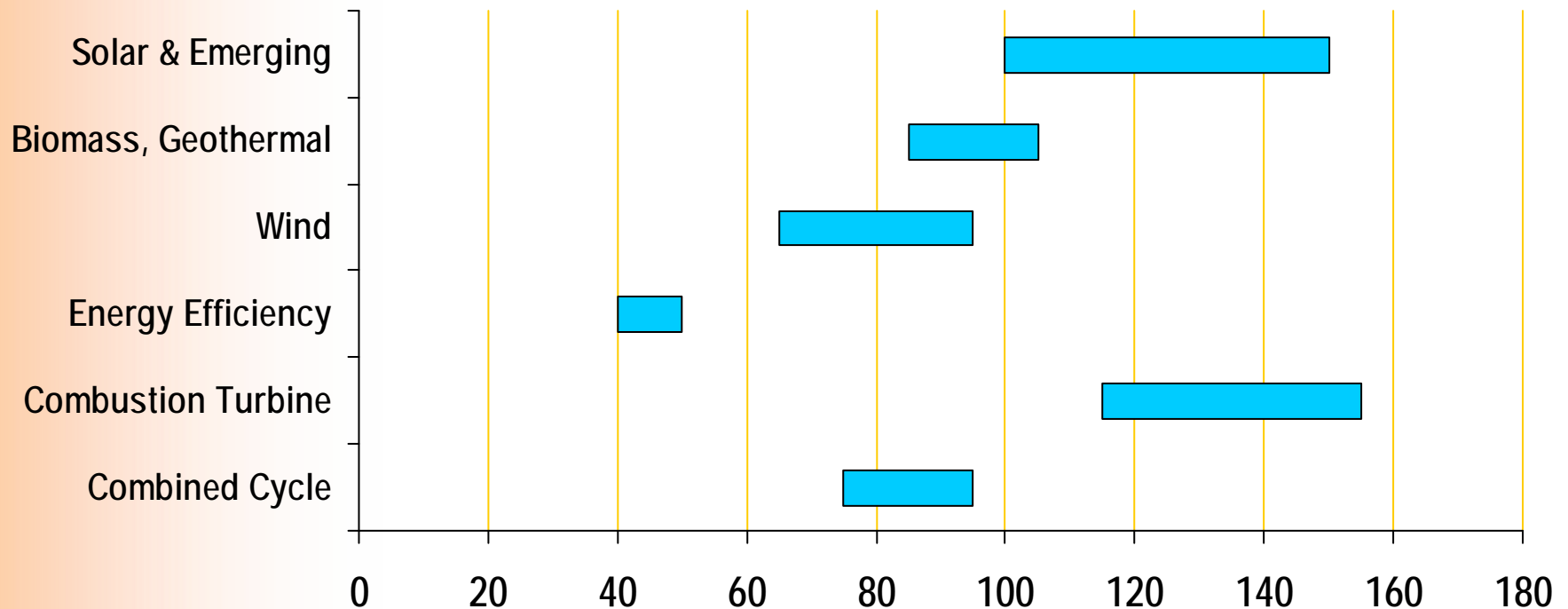
- | | |
|---------------------|---|
| Mandate | <ul style="list-style-type: none">• Deliveries of 20% of load from eligible renewables by 2010. Large hydro (>30 MW) doesn't qualify. |
| Purpose | <ul style="list-style-type: none">• Fuel Diversity• GHG Reduction• Economic Development |
| Penalty | <ul style="list-style-type: none">• \$50/MWhr, up to \$25 million per year |
| Exceptions | <ol style="list-style-type: none">1) Contract failure2) Insufficient public goods funds3) Insufficient offers4) Lack of transmission |
| Flexible Compliance | <ul style="list-style-type: none">• Allows shortfalls to be made up within following three years. |

RPS Procurement Process

- PG&E conducts annual renewable RFOs, targeting 1 – 2% increases in supply
- Projects are evaluated on:
 - Market value
 - Creditworthiness
 - Transmission availability
 - Portfolio fit
 - Commercial and technical feasibility
- Bilateral contracts allow PG&E to negotiate unique renewable opportunities outside the RFO process. Projects are evaluated against the same metrics.
- PG&E continually examines new opportunities for utility ownership both via the RFO process and outside it.

Illustrative Energy Procurement Costs

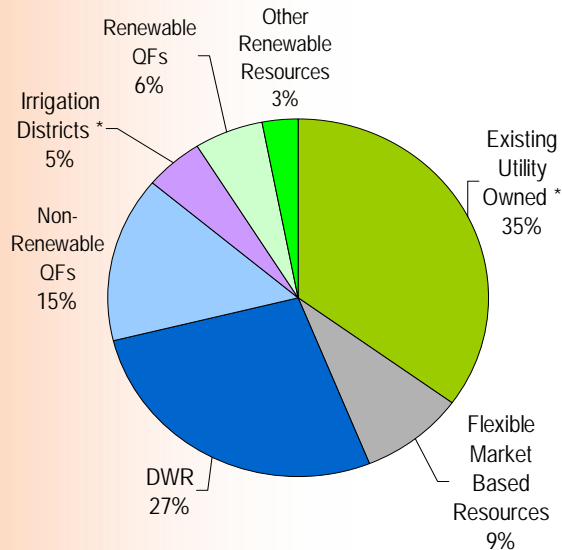
New Build Energy Procurement Cost (\$/MWh)



Long-Term Electricity Resources

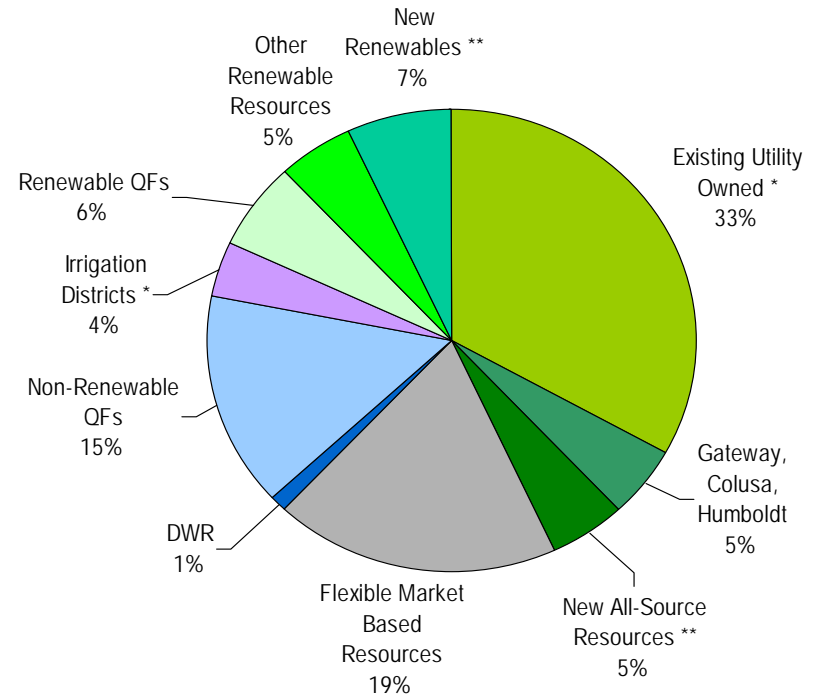
- Energy efficiency expected to meet half of future load growth
- Growth in renewable resources and resources with operating flexibility
- Growth in utility ownership

2007 Projected Sources of Energy
85,500 GWh



* Approximately 13% of total retail sales expected to be eligible renewable resources coming from utility-owned, QFs, Irrigation Districts and other sources.

2012 Projected Sources of Energy
89,900 GWh



* Over 20% of total retail sales expected to be eligible renewable resources coming from utility-owned, QFs, Irrigation Districts, and other sources.

** May include utility-owned resources.