

**CONDENSED STATEMENT OF CONSOLIDATED INCOME**  
(Unaudited)

(in millions, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
<b>Operating Revenues</b>				
Electric	\$ 2,524	\$ 2,483	\$ 5,823	\$ 6,454
Natural gas	579	464	2,074	1,654
Total Operating Revenues	3,103	2,947	7,897	8,108
<b>Operating Expenses</b>				
Cost of electricity	679	550	1,725	874
Cost of natural gas	233	108	1,010	586
Operating expenses including depreciation	1,002	1,179	3,020	3,161
Reorganization items	16	41	116	75
Total Operating Expenses	1,930	1,878	5,871	4,696
<b>Operating Income</b>	1,173	1,069	2,026	3,412
Interest expense, net and other	(332)	(291)	(818)	(852)
<b>Income Before Income Taxes</b>	841	778	1,208	2,560
Income tax provision	333	299	454	1,028
<b>Income from Continuing Operations</b>	508	479	754	1,532
<b>Discontinued Operations of NEGT, Inc. <sup>(a)</sup></b>	2	(13)	(365)	(156)
<b>Net Income Before Cumulative Effect of Changes in Accounting Principles</b>	510	466	389	1,376
Cumulative effect of changes in accounting principles	-	-	(6)	(61)
<b>Net Income</b>	\$ 510	\$ 466	\$ 383	\$ 1,315
<b>Weighted Average Common Shares Outstanding, Diluted</b>	416	395	410	378
<b>Earnings Per Common Share, Basic</b>	\$ 1.32	\$ 1.25	\$ 1.00	\$ 3.57
<b>Earnings Per Common Share, Diluted</b>	\$ 1.24	\$ 1.19	\$ 0.96	\$ 3.49

	Earnings		Earnings per Share (Diluted)	
	Three months ended September 30,		Three months ended September 30,	
	2003	2002	2003	2002
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 174	\$ 232	\$ 0.42	\$ 0.59
Holding Company	-	9	-	0.02

Earnings from Operations	174	241	0.42	0.61
Headroom	495	376	1.19	0.95
Items Impacting Comparability <sup>(b)</sup>	<u>(154)</u>	<u>(133)</u>	<u>(0.36)</u>	<u>(0.32)</u>
Reported Earnings	515	484	1.25	1.24
NEGT, Inc. <sup>(a)</sup>	<u>(5)</u>	<u>(18)</u>	<u>(0.01)</u>	<u>(0.05)</u>
PG&E Corporation Reported Earnings	<u>\$ 510</u>	<u>\$ 466</u>	<u>\$ 1.24</u>	<u>\$ 1.19</u>

	Earnings		Earnings per Share (Diluted)	
	Nine months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 475	\$ 593	\$ 1.16	\$ 1.57
Holding Company	<u>(2)</u>	<u>38</u>	<u>(0.01)</u>	<u>0.10</u>
Earnings from Operations	473	631	1.15	1.67
Headroom	635	918	1.55	2.43
Items Impacting Comparability <sup>(b)</sup>	<u>(356)</u>	<u>(12)</u>	<u>(0.84)</u>	<u>(0.03)</u>
Reported Earnings	752	1,537	1.86	4.07
NEGT, Inc. <sup>(a)</sup>	<u>(369)</u>	<u>(222)</u>	<u>(0.90)</u>	<u>(0.58)</u>
PG&E Corporation Reported Earnings	<u>\$ 383</u>	<u>\$ 1,315</u>	<u>\$ 0.96</u>	<u>\$ 3.49</u>

- (a) On July 8, 2003, PG&E National Energy Group, Inc (PG&E NEG) and certain of its subsidiaries filed voluntary petitions for relief under the provisions of Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the District of Maryland, Greenbelt Division.

On October 3, 2003, the U.S. Bankruptcy Court for the District of Maryland authorized PG&E NEG to change its company name to National Energy and Gas Transmission, Inc. (NEGT, Inc.).

As a result of NEGT, Inc.'s Chapter 11 filing and the resignation of PG&E Corporation's representatives who previously served on the NEGT, Inc. Board of Directors, PG&E Corporation no longer retains significant influence over the ongoing operations of NEGT, Inc. PG&E Corporation anticipates that the Bankruptcy Court will approve NEGT, Inc.'s proposed plan of reorganization, or a plan with similar equity loss provisions for PG&E Corporation. Therefore, as of July 8, 2003, PG&E Corporation has deconsolidated the operations of NEGT, Inc. and has reflected its ownership interest in NEGT, Inc. utilizing the cost method of accounting. The accompanying PG&E Corporation Condensed Statement of Consolidated Income includes the consolidated results of NEGT, Inc. through July 7, 2003. In accordance with the cost method, PG&E Corporation no longer recognizes its equity share of the income or losses of NEGT, Inc.

As a result of NEGT, Inc.'s Chapter 11 filing on July 8, 2003 and the proposed loss of equity ownership provided for in NEGT, Inc.'s plan of reorganization, PG&E Corporation considers its investment in NEGT, Inc. to be an abandoned asset and has accounted for NEGT, Inc. as a discontinued operation for all prior periods presented in accordance with Financial Accounting Standards Board, Statement of Financial Accounting Standards (SFAS), "Accounting for Impairment or Disposal of Long-Lived Assets" (SFAS No. 144).

- (b) Items impacting comparability for the quarter ended September 30, 2003 include the net effect of incremental interest costs of \$130 million (\$0.30 per share) from the increased amount and cost of debt resulting from California's energy crisis and the Utility's Chapter 11 filing; increased costs of \$24 million (\$0.06 per share) related to the Utility's and NEGT, Inc.'s Chapter 11 filings and generally consisting of external legal consulting fees, financial advisory fees, and other related costs.

Items impacting comparability for the quarter ended September 30, 2002 include the net effect of incremental interest costs of \$75 million (\$0.18 per share) from the increased amount and cost of debt resulting from California's energy crisis and the Utility's Chapter 11 filing; the write-off of \$68 million (\$0.17 per share) of previously capitalized debt costs and discounts associated with PG&E Corporation's prepayment of its Tranche A loan and changes in the terms of its Tranche B loan in conjunction with its loan waiver extension; increased costs of \$32 million (\$0.08 per share) related to the Utility's Chapter 11 filing and generally consisting of external legal consulting fees, financial advisory fees, and other related costs. Offsetting these decreases was a change in the mark-to-market value of NEGT, Inc. warrants of \$42 million (\$0.11 per share).

Items impacting comparability for the year-to-date period ended September 30, 2003 include the net effect of incremental interest costs of

\$275 million (\$0.64 per share) from the increased amount and cost of debt resulting from California's energy crisis and the Utility's Chapter 11 filing; increased costs of \$75 million (\$0.18 per share) related to the Utility's and NEGT, Inc.'s Chapter 11 filings and generally consisting of external legal consulting fees, financial advisory fees, and other related costs; and \$6 million (\$0.02 per share) of other costs associated with the prior year impacts of recent regulatory rulings.

Items impacting comparability for the year-to-date period ended September 30, 2002 include the net effect of incremental interest costs of \$263 million (\$0.69 per share) from the increased amount and cost of debt resulting from California's energy crisis and the Utility's Chapter 11 filing; the write-off of \$68 million (\$0.18 per share) of previously capitalized debt costs and discounts associated with PG&E Corporation's prepayment of its Tranche A loan and changes in the terms of its Tranche B loan in conjunction with its loan waiver extension; increased costs of \$64 million (\$0.17 per share) related to the Utility's Chapter 11 filing and generally consisting of external legal consulting fees, financial advisory fees, and other related costs; and \$11 million (\$0.03 per share) of other costs related to California's energy crisis. Offsetting these decreases were the Utility's net reversal of wholesale energy charges of \$352 million (\$0.93 per share) and the change in the mark-to-market value of NEGT, Inc. warrants of \$42 million (\$0.11 per share).

To enable accurate comparison to current period, certain previously disclosed items impacting comparability have been reclassified to the related operating entity in the prior period.

### Reconciliation of Guidance for Earnings from Operations

	<u>Year Ended December 31, 2003</u>	
Earnings from Operations EPS Guidance <sup>(1)</sup>	\$ 1.90	\$ 2.00
Estimated Headroom	0.50	1.20
Estimated Items Impacting Comparability		
Incremental interest expense	(0.70)	(0.65)
Utility Chapter 11 related expenses	(0.25)	(0.20)
NEGT, Inc. Chapter 11 related expenses	(0.04)	(0.02)
Penalties paid to retire holding company loan	(0.13)	(0.13)
All other items impacting comparability	<u>(0.02)</u>	<u>(0.02)</u>
Reported EPS Guidance <sup>(1)</sup>	<u>\$ 1.26</u>	<u>\$ 2.18</u>

	<u>Year Ended December 31, 2004</u>	
Earnings from Operations EPS Guidance <sup>(1)</sup>	\$ 2.00	\$ 2.10
Estimated Items Impacting Comparability		
Incremental interest expense <sup>(2)</sup>	(0.12)	(0.10)
Utility Chapter 11 related expenses <sup>(2)</sup>	(0.05)	(0.04)
NEGT, Inc. Chapter 11 related expenses	<u>(0.05)</u>	<u>(0.03)</u>
Reported EPS Guidance <sup>(1)</sup>	<u>\$ 1.78</u>	<u>\$ 1.93</u>

<sup>(1)</sup> Excludes the results of NEGT, Inc.

<sup>(2)</sup> Assuming the effective date of plan of reorganization (Settlement Plan), as discussed in the proposed CPUC settlement agreement, occurs on or before March 31, 2004.

This reconciliation does not include the potential one-time impacts of the consummation of the plans of reorganization for either the Utility or NEGT, because the applicable accounting requirements for income recognition have not yet been met. The Utility anticipates that if its plan of reorganization and settlement agreement with the CPUC is confirmed and consummated that it will recognize and record a new regulatory asset of approximately \$3.7 billion, pre-tax, and a utility retained generation asset of

approximately \$1.3 billion, pre-tax. If the NEGТ's plan of reorganization is confirmed and consummated as currently proposed, PG&E Corporation would reverse its negative investment in NEGТ of approximately \$1.2 billion, pre-tax. See the combined Form 10-Q of PG&E Corporation and the Utility for the quarter ended September 30, 2003, for further information.