

PG&E CORPORATION
CONDENSED STATEMENT OF CONSOLIDATED INCOME
(Unaudited)

(in millions, except per share amounts)	Three months ended December 31,		Twelve months ended December 31,	
	2003	2002	2003	2002
Operating Revenues				
Electric	\$ 1,759	\$ 1,724	\$ 7,582	\$ 8,178
Natural gas	779	673	2,853	2,327
Total Operating Revenues	2,538	2,397	10,435	10,505
Operating Expenses				
Cost of electricity	584	573	2,309	1,447
Cost of natural gas	428	309	1,438	895
Operating expenses including depreciation	1,165	893	4,185	4,054
Reorganization items	44	80	160	155
Total Operating Expenses	2,221	1,855	8,092	6,551
Operating Income	317	542	2,343	3,954
Interest expense, net and other	(276)	(242)	(1,094)	(1,094)
Income Before Income Taxes	41	300	1,249	2,860
Income tax provision	4	109	458	1,137
Income from Continuing Operations	37	191	791	1,723
Discontinued Operations of NEGT ^(a)	-	(2,380)	(365)	(2,536)
Net Income (Loss) Before Cumulative Effect of Changes in Accounting Principles	37	(2,189)	426	(813)
Cumulative effect of changes in accounting principles	-	-	(6)	(61)
Net Income (Loss)	\$ 37	\$ (2,189)	\$ 420	\$ (874)
Weighted Average Common Shares Outstanding, Diluted	401	404	413	384
Earnings (Loss) Per Common Share, Basic	\$ 0.10	\$ (5.75)	\$ 1.09	\$ (2.36)
Earnings (Loss) Per Common Share, Diluted	\$ 0.09	\$ (5.41)	\$ 1.06	\$ (2.26)

	Earnings (Loss) Three months ended December 31,		Earnings (Loss) per Share (Diluted) Three months ended December 31,	
	2003	2002	2003	2002
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 141	\$ 204	\$ 0.35	\$ 0.51
Holding Company	(2)	16	(0.01)	0.04
Earnings from Operations	139	220	0.34	0.55
Headroom	43	133	0.11	0.33
Items Impacting Comparability ^(b)	(145)	(145)	(0.36)	(0.36)
Reported Earnings	37	208	0.09	0.52
NEGT ^(a)	-	(2,397)	-	(5.93)
PG&E Corporation Reported Earnings	\$ 37	\$ (2,189)	\$ 0.09	\$ (5.41)

	Earnings (Loss)		Earnings (Loss) per Share (Diluted)	
	Twelve months ended December 31,		Twelve months ended December 31,	
	2003	2002	2003	2002
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 616	\$ 797	\$ 1.49	\$ 2.08
Holding Company	(5)	54	(0.01)	0.14
Earnings from Operations	611	851	1.48	2.22
Headroom	677	1,051	1.64	2.74
Items Impacting Comparability ^(b)	(499)	(157)	(1.17)	(0.40)
Reported Earnings	789	1,745	1.95	4.56
NEGT ^(a)	(369)	(2,619)	(0.89)	(6.82)
PG&E Corporation Reported Earnings	<u>\$ 420</u>	<u>\$ (874)</u>	<u>\$ 1.06</u>	<u>\$ (2.26)</u>

- (a) On July 8, 2003, PG&E National Energy Group, Inc., or 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 bankruptcy court for the District of Maryland authorized PG&E NEG to change its company name to National Energy and Gas Transmission, Inc., or NEGT.

In anticipation of NEGT's Chapter 11 filing, PG&E Corporation's representatives, who previously served on the NEGT Board of Directors, resigned on July 7, 2003 and were replaced with Board members who are not affiliated with PG&E Corporation. As a result, PG&E Corporation no longer retains significant influence over the ongoing operations of NEGT. PG&E Corporation anticipates that the bankruptcy court will approve NEGT's proposed plan of reorganization, or a plan with similar equity elimination provisions for PG&E Corporation. Therefore, effective July 8, 2003, PG&E Corporation no longer consolidates the earnings and losses of NEGT and has reflected its ownership interest in NEGT utilizing the cost method of accounting, under which PG&E Corporation's investment in NEGT is reflected as a single amount on the Consolidated Balance Sheet of PG&E Corporation at December 31, 2003. In addition, the operations of NEGT prior to July 8, 2003, are reflected as discontinued operations in the Consolidated Financial Statements.

- (b) Items impacting comparability for the quarter ended December 31, 2003 include the net effect of incremental interest costs of \$97 million (\$0.24 per share) from the increased amount and cost of debt resulting from the California's energy crisis and the Utility's Chapter 11 filing; increased costs of \$48 million (\$0.12 per share) related to the Utility's and NEGT's Chapter 11 filings and generally consisting of external legal consulting fees, financial advisory fees and other related costs and payments.

Items impacting comparability for the quarter ended December 31, 2002 include the net effect of incremental interest costs of \$89 million (\$0.22 per share) from the increased amount and cost of debt resulting from California's energy crisis and the Utility's Chapter 11 filing and increased costs of \$56 million (\$0.14 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.

Items impacting comparability for the year-to-date period ended December 31, 2003 include the net effect of incremental interest costs of \$370 million (\$0.85 per share) from the increased amount and cost of debt resulting from the California's energy crisis and the Utility's Chapter 11 filing; increased costs of \$123 million (\$0.30 per share) related to the Utility's and NEGT'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 current year regulatory rulings.

Items impacting comparability for the year-to-date period ended December 31, 2002 include the net effect of incremental interest costs of \$351 million (\$0.91 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 outstanding loans; and increased costs of \$132 million (\$0.34 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 were the Utility's net reversal of wholesale energy charges of \$352 million (\$0.91 per share) and the change in the mark-to-market value of NEGT 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, 2004</u>	
Earnings from Operations EPS Guidance ⁽¹⁾	\$ 2.00	\$ 2.10
Estimated Items Impacting Comparability		
Incremental interest expense ⁽²⁾	(0.17)	(0.13)
Utility Chapter 11 related expenses ⁽²⁾	(0.03)	(0.02)
Establishment of the Regulatory Assets ⁽³⁾	7.12	7.12
2003 GRC settlement ⁽⁴⁾	0.06	0.06
NEGT Chapter 11 related expenses	<u>(0.05)</u>	<u>(0.03)</u>
Reported EPS Guidance ⁽¹⁾	<u>\$ 8.93</u>	<u>\$ 9.10</u>

⁽¹⁾ Excludes the results of NEGT.

⁽²⁾ Assumes an implementation date for the Utility's plan of reorganization of April 1 for the top of the guidance range and May 1 for the bottom of the guidance range.

⁽³⁾ Impact of recognizing \$2.21 billion after-tax regulatory asset and a \$800 million after-tax regulatory asset for the Utility's retained generation as provided for in the Utility's Plan of Reorganization. The estimated impact of the establishment of these regulatory assets could be affected by a settlement of generator claims and a recently proposed Enron settlement.

⁽⁴⁾ Impact of additional 2003 natural gas revenues to be recognized in 2004 upon implementation of 2003 General Rate Case, or GRC, proposed settlement agreement.