

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

(in millions, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<b>Operating Revenues</b>				
Electric	\$ 2,063	\$ 2,058	\$ 3,851	\$ 3,412
Natural gas	686	656	1,617	1,484
Total Operating Revenues	2,749	2,714	5,468	4,896
<b>Operating Expenses</b>				
Cost of electricity	685	562	1,254	1,152
Cost of natural gas	278	306	857	777
Operating expenses including depreciation	1,110	1,009	(2,673)	2,033
Reorganization items	4	65	6	100
Total Operating Expenses	2,077	1,942	(556)	4,062
<b>Operating Income</b>	672	772	6,024	834
Interest and other expense, net	(165)	(232)	(408)	(467)
<b>Income Before Income Taxes</b>	507	540	5,616	367
Income tax provision	135	212	2,211	122
<b>Income from Continuing Operations</b>	372	328	3,405	245
<b>Discontinued Operations of NEGT <sup>(a)</sup></b>	-	(101)	-	(366)
<b>Net Income (Loss) Before Cumulative Effect of Changes in Accounting Principles</b>	372	227	3,405	(121)
Cumulative effect of changes in accounting principles	-	-	-	(6)
<b>Net Income (Loss)</b>	\$ 372	\$ 227	\$ 3,405	\$ (127)
<b>Weighted Average Common Shares</b>				
Outstanding and Participating Securities, Diluted	425	410	424	408
<b>Earnings (Loss) Per Common Share, Basic <sup>(b)</sup></b>	\$ 0.89	\$ 0.56	\$ 8.22	\$ (0.32)
<b>Earnings (Loss) Per Common Share, Diluted <sup>(b)</sup></b>	\$ 0.88	\$ 0.55	\$ 8.03	\$ (0.31)

	Earnings (Loss) Three months ended June 30,		Earnings (Loss) per Common Share, Diluted Three months ended June 30,	
	2004	2003	2004	2003
	Pacific Gas and Electric Company and Holding Company			
Pacific Gas and Electric Company	\$ 307	\$ 130	\$ 0.72	\$ 0.32
Holding Company	(9)	(3)	(0.02)	(0.01)
Earnings from Operations	298	127	0.70	0.31
Headroom	-	321	-	0.78
Items Impacting Comparability <sup>(c)</sup>	74	(118)	0.18	(0.29)
NEGT <sup>(a)</sup>	-	(103)	-	(0.25)
<b>PG&amp;E Corporation Reported Earnings</b>	\$ 372	\$ 227	\$ 0.88	\$ 0.55

	Earnings (Loss)		Earnings (Loss) per	
	Six months ended		Common Share, Diluted	
	June 30,		Six months ended	
	2004	2003	2004	2003
Pacific Gas and Electric Company and Holding Company				
Pacific Gas and Electric Company	\$ 488	\$ 302	\$ 1.15	\$ 0.74
Holding Company	(14)	-	(0.03)	-
Earnings from Operations	<u>474</u>	<u>302</u>	<u>1.12</u>	<u>0.74</u>
Headroom	-	140	-	0.34
Items Impacting Comparability <sup>(c)</sup>	2,931	(205)	6.91	(0.50)
NEGT <sup>(a)</sup>	-	(364)	-	(0.89)
PG&E Corporation Reported Earnings	<u>\$ 3,405</u>	<u>\$ (127)</u>	<u>\$ 8.03</u>	<u>\$ (0.31)</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 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. 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 Sheets of PG&E Corporation at June 30, 2004 and December 31, 2003. In addition, the operations of NEGT prior to July 8, 2003, are reflected as discontinued operations in the Consolidated Financial Statements. On May 3, 2004, the bankruptcy court approved NEGT's plan of reorganization, which eliminates PG&E Corporation's equity interest.

- (b) Reflects PG&E Corporation's adoption of the "Two-Class" method of calculating earnings per share for all periods presented.
- (c) Items impacting comparability for the quarter ending June 30, 2004 include the Utility's recognition of a gain of approximately \$120 million (\$0.28 per share), after-tax, related to the prior year impact and regulatory asset recognition resulting from the California Public Utilities Commission, or CPUC, decision in the Utility's 2003 General Rate Case, or GRC decision, on May 27, 2004. Offsetting the effect of the GRC decision during the quarter were the net effect of incremental interest costs of \$20 million (\$0.04 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$6 million (\$0.02 per share) related to the NEGT's Chapter 11 filing and generally consisting of external legal consulting fees, financial advisory fees and other related costs and payments; and \$20 million (\$0.04 per share) related to the change in the estimated market value of non-cumulative dividend participation rights included within the Holding Company's \$280 million principal amount of 9.5% Convertible Subordinated Notes.

Items impacting comparability for the quarter ended June 30, 2003 include the net effect of incremental interest costs of \$73 million (\$0.19 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$31 million (\$0.07 per share) related to the Utility's and NEGT's Chapter 11 filings and generally consisting of external legal consulting and financial advisory fees, and \$14 million (\$0.03 per share) associated with prior year impacts of a revised decision related to the Utility's 1999 General Rate Case.

Items impacting comparability for the year-to-date period ending June 30, 2004 include the Utility's recognition of a gain of approximately \$120 million (\$0.28 per share), after-tax, related to the prior year impact and regulatory asset recognition resulting from the GRC decision and a gain of approximately \$2,950 million (\$6.95 per share) related to the establishment of regulatory assets contemplated in the December 19, 2003 settlement agreement, or Settlement Agreement, entered into between the Utility, PG&E Corporation and the CPUC to resolve the Utility's Chapter 11 proceeding, as executed by the CPUC and confirmed by the U.S. Bankruptcy Court for the Northern District of California. In addition, the Utility recognized \$17 million (\$0.04 per share) in charges related to obligations to invest in clean energy technology and donate land, included in the Settlement Agreement.

The effect of recognizing the impacts of the Settlement Agreement and GRC was partially offset by the net effect of incremental interest costs of \$73 million (\$0.17 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 filing; increased costs of \$10 million (\$0.02 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; and \$39 million (\$0.09 per share) related to the change in the estimated market value of non-cumulative dividend participation rights included within the Holding Company's \$280 million principal amount of 9.5% Convertible Subordinated Notes.

Items impacting comparability for the year-to-date period ended June 30, 2003 include the net effect of incremental interest costs of \$146 million (\$0.34 per share) from the increased amount and cost of debt resulting from the California energy crisis and the Utility's Chapter 11 proceeding; increased costs of \$52 million (\$0.14 per share) related to the Utility's and NEGT's Chapter 11 filings and generally consisting of external legal consulting and financial advisory fees, and \$7 million (\$0.02 per share) of other costs associated with current year regulatory rulings.

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 for 2004

	<u>Year Ended December 31, 2004</u> <sup>(1)</sup>	
Earnings from Operations EPS Guidance <sup>(2)</sup>	\$ 2.00	\$ 2.10
Estimated Items Impacting Comparability		
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 NEGT Chapter 11 related expenses	(0.05)	(0.03)
Gain on disposition of NEGT <sup>(6)</sup>	0.88	1.73
Reported EPS Guidance	<u>\$ 9.69</u>	<u>\$ 10.76</u>

(1) Estimates include a range of shares outstanding.

(2) Excludes the results of NEGT.

(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 of recognizing the reversal of PG&E Corporation's investment in NEGT and related amounts in deferred income taxes and accumulated other comprehensive income as a result of the implementation of NEGT's plan of reorganization eliminating PG&E Corporation's equity interest.

## Reconciliation of Guidance for Earnings from Operations for 2005

	<u>Year Ended December 31, 2005</u> <sup>(1)</sup>	
Earnings from Operations EPS Guidance <sup>(2)</sup>	\$ 2.10	\$ 2.20
Estimated Items Impacting Comparability		
Incremental interest expense	(0.05)	(0.04)
NEGT Chapter 11 related expenses	(0.05)	(0.03)
Premium to retire Holding Company Senior Secured Notes	(0.07)	(0.06)
Reported EPS Guidance	<u>\$ 1.93</u>	<u>\$ 2.07</u>

(1) Estimates include a range of shares outstanding.

(2) Excludes the results of NEGT.