

# Corporate Responsibility Report



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This Corporate Responsibility Report and letter from the Chairman contain forward-looking statements that are necessarily subject to various risks and uncertainties, the realization or resolution of which are outside of management's control. These statements are based on current expectations and projections about future events and assumptions regarding these events, and management's knowledge of facts at the date of this report. Actual results could differ materially from those expressed or implied in the forward-looking statements. Please see our reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2007, for a discussion of some of the more significant risks and uncertainties, the resolution of which could materially affect actual results.

## Letter From the Chairman and CEO



Peter A. Darbee

To Our Stakeholders:

Achieving PG&E's vision to become the leading utility in the United States hinges on many factors. But at or near the top of the list will always be our ability to set an example in all facets of corporate responsibility.

Our performance on corporate responsibility tells stakeholders as much as any balance sheet or income statement about the state of the company and its long-term prospects. Maybe more.

Simply put: Corporate responsibility is an essential barometer of the current and future overall health of our company.

If we are not exacting on safety or environmental compliance or corporate governance, chances are we are not applying the rigor and discipline it takes to perform with excellence in other business operations. If we are failing to discern the right trends when it comes to clean energy or shifts in workforce demographics, we are probably missing other critical strategic issues as well. If we are disengaged from our employees or local communities, it calls into question the quality of our relationships with other key stakeholders.

On the other hand, doing these things well is one of the strongest signs that we are running the business in a way that preserves and builds value on a sustainable basis.

Our report this year again shares some of the many different ways we are planning and acting, nationally

and locally, to fulfill our responsibilities to stakeholders and help take care of the world around us.

This starts with our 15 million customers, 20,000 employees, investors, regulators, partners and communities within California. It ultimately extends to everyone who shares PG&E's interest in ensuring a clean, cost-effective and secure energy future for our local, state and national economies.

This challenge has faced us throughout our more than 100-year history. But at no time has it ever been more complex—or more important to defining our success in the eyes of customers and other stakeholders.

As aggressively as we are working to find responsible solutions and create value amid today's many competing business pressures, we will never succeed alone. That's why we strive to cultivate and sustain effective working relationships with a broad universe of partners who are as committed as we are to making a difference.

For example, in the fight to address global warming, we are joining with other leading companies and national environmental organizations to drive action by the federal government.

Last year, as a founding member of the United States Climate Action Partnership, we continued to work closely with policymakers to advocate mandatory, market-based programs to reduce the nation's greenhouse gas emissions. We also continued to work with Ceres, the Clean Energy Group, and 3C, an international business group focused on climate issues.

In the effort to reduce our own environmental footprint, we continue to be a leader in clean energy. On average, more than 50 percent of the electricity we deliver to customers today comes from sources that emit no greenhouse gases. Though we are already significantly cleaner than the average U.S. utility, we are working to make future supplies even cleaner. Last year we signed contracts to add more than 1,000 megawatts of renewable energy to our portfolio, including some of the country's largest solar energy projects.

We've also continued to show leadership in energy efficiency programs. Since the 1970s, we've helped customers save about \$22 billion and kept approximately 135 million tons of carbon dioxide out of our skies. Last year we extended this track record by working to meet aggressive new targets for electricity and natural gas savings.

We continue to see opportunities to have an even greater impact in the future by working more closely with technology developers, driving higher

efficiency standards, and enrolling customers in the ClimateSmart™ program—an innovative, voluntary option to balance out the carbon footprint from their energy use.

In all we do, it is critical that we stay closely connected with our communities. We recognize that with our special charter to serve northern and central California also comes a major responsibility to give back to our communities.

That's why we contributed a record \$18.3 million last year, all from shareholder funds, to charitable organizations. That's why we partnered with Habitat for Humanity to install solar systems on homes it built last year in northern and central California. That's why we provided free solar installations to 40 underserved schools and trained 1,200 teachers to deliver a solar sciences curriculum to their students. And that's why we actively worked to do more business with women, minority and service-disabled-veteran-owned companies in our communities, once again meeting our supplier-diversity spending goals.

Perhaps even more important is that our individual employees embrace and exemplify our commitment to the community. Last year, through nearly 300 company-organized events and their own community efforts, PG&E employees and retirees spent a record 107,000 hours serving their communities, a 20 percent increase over 2006.

Our 20,000 employees will always be PG&E's greatest asset. Today, one of the most important challenges our industry faces is the need to prepare a new generation of workers to follow the

large number of utility personnel who are nearing retirement age. We are focused on addressing this need by recruiting and training a highly diverse workforce at all levels of our company.

As proud as we are of many accolades we have received for the diversity in our company, we see opportunities to do better, especially within the ranks of our leadership. Indeed, this is essential to our efforts to better understand and meet the needs of our customers and engage with our communities over the long term.

If people are our most important asset, then we also believe safety must be our most important value, as well as a key measure of corporate responsibility.

Last year, the company's safety performance improved, extending a positive trend from the previous year. In fact, on three key metrics we achieved our best performance ever. That said, we remain unsatisfied with our overall safety performance relative to others in the industry.

Earlier this year, the loss of a PG&E lineman on the job was a stark and saddening reminder that we must continue to focus on instilling a stronger safety culture within PG&E. I and our entire leadership team are committed to this critical objective. It is the right thing for our employees—and the right thing for our business.

Lastly, a note of appreciation and an invitation to our stakeholders.

This document owes much to them. What began years ago as a report card just on our

environmental performance now covers a broad range of issues. It does so with a level of detail and transparency that would have been unimaginable 10 years ago, owing in great measure to good guidance from outside stakeholders. In particular, we are grateful to the independent Ceres stakeholder team who helped shape the content and approach in this year's report. Their input has been invaluable.

Which brings me to our invitation.

We need your engagement and feedback in order to continue improving our reporting. Please let us know what you think of this document and our overall performance.

In the meantime, we commit to continue striving to excel where we are strong and to redouble our efforts to elevate our performance where we see opportunities to improve. Thank you for your ongoing support for these efforts at PG&E.

Sincerely,



Peter A. Darbee

Chairman of the Board, CEO and President,  
PG&E Corporation

# About the Report

**A**t PG&E, we are mindful that we not only provide a vital service to communities throughout northern and central California, but that we are also a part of them. We are committed to conducting our business in a way that provides for the safety of our employees and our communities, protects our environment, allows local economies to grow and flourish, respects the individuals who both deliver and consume our products and use our services and engenders the trust of everyone with whom we interact and do business. Simply put, we are working to create a sustainable business that supports our vision and the type of company we strive to be.

To ensure that we are meeting these objectives, we continually assess our performance and progress across a variety of indicators. This 2007 Corporate Responsibility Report provides information on performance metrics and activities occurring in calendar-year 2007, except when otherwise noted. It is a way of sharing with our stakeholders the progress we made and the steps we took in 2007 to serve our customers better, to make PG&E a great place to work, to give back to our communities and to protect the environment.

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## Stakeholder Engagement

In preparing this report, PG&E sought the review and advice of outside stakeholders through Ceres, a network of investors, environmental groups and other public interest groups that work with companies and investors to address sustainability challenges. The Ceres stakeholder team is an independent group drawn primarily from the Ceres coalition and represents a range of constituencies that have expertise in environmental, social, labor and governance issues. In reviewing this report, the team considered whether the company adequately reported on its sustainability performance and key impacts, including goals, targets, systems, data and initiatives. The Ceres stakeholder team provided extensive feedback to PG&E, encouraging more discussion of our challenges, as well as specific issues such as the reliability of our infrastructure and our efforts to minimize impacts on biodiversity. This important feedback informed the preparation of the final version of this report.

## Defining Key Issues

PG&E took a multifaceted approach to identifying the key issues for this report. We drew upon the feedback from the stakeholder review process facilitated by Ceres. We also engaged a wide network of employees at many different levels to identify and provide substantive input and feedback on the issues. Our thinking was also informed by the key accomplishments and challenges addressed at an annual meeting of PG&E's leadership team, as well as issues identified in PG&E's 2007 Annual Report to Shareholders and in discussions within the Public Policy Committee of the PG&E Corporation Board of Directors.

## How to Provide Feedback and Learn More

The complete report, as well as a Summary Report, can be viewed and downloaded at [www.pgecorp.com](http://www.pgecorp.com) and [www.pge.com/environment](http://www.pge.com/environment), where stakeholders can contact us to solicit additional information and also offer comments and suggestions on this and future reports. Stakeholders can also access information at [www.pge.com](http://www.pge.com) on tips to improve the energy efficiency of their homes and businesses and reduce their carbon footprint, including participating in our ClimateSmart™ program.

The complete report was printed and distributed to all PG&E employees, as well as key stakeholders such as investors, public officials, non-profit and corporate leaders, and customers. A summary version was also printed and distributed as a complementary resource.

# Global Reporting Initiative Linkages

PG&E is committed to continuous improvement when it comes to how we report our impacts and sustainable business strategies. The table below shows how this report aligns with the Global Reporting Initiative (GRI) Performance Indicators, including the Electric Utility Sector Supplement, which we use as an important guide and reference point. While we are working toward meeting the GRI reporting protocols, for several indicators below, we currently only partially meet the recommended standard.

Indicator	Description	Report Section(s)	Page(s)
<b>Strategy and Analysis</b>			
1.1	Statement by the CEO	Letter from the Chairman and CEO	2
<b>Organizational Profile</b>			
2.1	Name of the organization	Cover	Cover
2.2	Primary brands, products, and/or services	Company Overview	15
2.4	Location of organization's headquarters	Company Overview	15
2.5	Countries in which the company has operations	Company Overview	15
2.6	Nature of ownership and legal form	Company Overview	15
2.7	Markets served	Company Overview	15
2.8	Scale of the reporting organization	Company Overview	15
2.10	Awards received in the reporting period	Recognition for Diversity; Community Awards; Supplier Diversity Recognition; 2007 Environmental Awards	31; 40; 45; 81
EU1	Installed capacity (MW)	Company Overview	15
EU2	Number of residential, industrial, and commercial customer accounts	Company Overview	15
EU3	Length of transmission and distribution lines by voltage	Company Overview	15
<b>Report Parameters</b>			
3.1	Reporting period	About the Report	5
3.2	Date of most recent previous report	About the Report	5
3.3	Reporting cycle	Cover	Cover
3.4	Contact point for questions regarding the report	About the Report	5
3.5	Process for defining report content	About the Report	5
3.6	Boundary of the report	About the Report	5
<b>GRI Content Index</b>			
3.12	Table identifying the location of the Standard Disclosures in the report	Global Reporting Initiative Linkages	6
<b>Governance</b>			
4.1	Governance structure of the organization	Corporate Governance	20–21
4.2	Indicate whether the Chair of the highest governance body is an executive officer	Letter from the Chairman and CEO	2
4.3	Number of members of the highest governance body that are independent and/or non-executive members	Corporate Governance	21
4.8	Corporate mission and values	Our Vision and Values	18
4.12	Externally developed economic, environmental, and social charters	Corporate Governance	21
4.14	Stakeholder groups engaged by the organization	Letter from the Chairman and CEO; About the Report; Environmental Stakeholders	2–4; 5; 81
4.15	Identification and selection of stakeholders	Letter from the Chairman and CEO; About the Report	2–4; 5
4.16	Approaches to stakeholder engagement	Letter from the Chairman and CEO; About the Report	2–4; 5
4.17	Key topics and concerns raised through stakeholder engagement	Letter from the Chairman and CEO; About the Report	2–4; 5
<b>Economic</b>			
EC1	Direct economic value generated and distributed	Company Overview; Corporate Philanthropy	15; 37
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	Partnering in the Fight Against Global Warming	61–65
EC6	Policy, practices, and proportion of spending on locally based suppliers	Environmental Justice	46–47
EC7	Procedures for local hiring at locations of significant operation	Environmental Justice	46–47
EU5	Planning to ensure short- and long-term electricity availability and reliability	Delivering Reliable Energy	17
EU6	Demand-side management programs	Energy Efficiency and Demand Response	51–53
EU8	Provisions for decommissioning of nuclear power sites	Providing Nuclear Power Safely and Responsibly	61

Indicator	Description	Report Section(s)	Page(s)
<b>Environmental</b>			
EN3	Direct energy consumption by primary energy source	General Utility Production Statistics; Electric Power Mix Delivered to Retail Customers; Our Buildings and Facilities	16; 53–54; 74
EN4	Indirect energy consumption by primary source	General Utility Production Statistics; Electric Power Mix Delivered to Retail Customers; Our Buildings and Facilities	16; 53–54; 74
EN6	Initiatives to provide energy-efficient or renewable-energy-based products and services, and reductions in energy requirements as a result of these initiatives	Energy Efficiency and Demand Response; Planning for California's Clean Energy Future; Assisting Customers with Alternative Energy Solutions	51–53; 53–61; 66
EN8	Total water withdrawal by source	Water Conservation and Management	71
EN12	Description of significant impacts of activities, products, and services on biodiversity	Demonstrating Environmental Stewardship	66–71
EN13	Habitats protected or restored	Demonstrating Environmental Stewardship	66–71
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Demonstrating Environmental Stewardship	66–71
EN16	Total direct and indirect greenhouse gas emissions by weight	Partnering in the Fight Against Global Warming	62
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Energy Efficiency and Demand Response; Planning for California's Clean Energy Future; Partnering in the Fight Against Global Warming; Assisting Customers with Alternative Energy Solutions; Additional Environmental Performance Indicators	51–53; 53–61; 61–65; 66; 82
EN20	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type and weight	Planning for California's Clean Energy Future; Additional Environmental Performance Indicators	56; 82
EN22	Total weight of waste by type and disposal method	Additional Environmental Performance Indicators	83
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Demonstrating Environmental Stewardship	66–71
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Operational Performance	78; 80
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	Partnering in the Fight Against Global Warming; Innovative Transportation Solutions and Technologies	62; 72–73
<b>Social Performance</b>			
LA1	Total workforce by employment type, employment contract, and region	Company Overview	15
LA4	Percentage of employees covered by collective bargaining agreements	Working with Our Labor Unions	32
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Building a Culture of Safety	27
LA11	Programs for skills management and lifelong learning	Workforce Development and Learning	31–32
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Diversity and Inclusion Initiatives	30
EU15	Processes to ensure retention and renewal of skilled workforce	Workforce Development and Learning	24–25; 31–32
EU20	Contingency planning measures and disaster/emergency management plan	Building a Culture of Safety	26–27
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	Environmental Justice	46–47
EU18	Participatory decision-making processes with stakeholders and outcomes of engagement	Environmental Justice	46–47
EU22	Programs, including those in partnership with government, to improve or maintain access to electricity services	Helping Customers in Need	43
EU23	Practices to address language-, cultural-, low-literacy- and disability-related barriers to accessing and safely using electricity services	Building a Culture of Safety	27–28
<b>Product Responsibility</b>			
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Executing on Our Vision to Become the Nation's Leading Utility	16; 18

# Industrywide Challenges

**A**chieving our vision depends on setting clear direction, adhering to our values and managing the business to deliver on our goals. It also depends on anticipating and continuously adapting to an array of ever-evolving, real-world challenges affecting our industry and society at large.

Along the way, we, like every large company today, inevitably encounter tough choices. We have to assess and adjust priorities. We have to balance competing or conflicting stakeholder interests. We have to consider trade-offs between immediate versus long-term objectives. We have to acknowledge and work within the practical boundaries imposed by time, economics, technology, government, human resources or other factors.

Because one important window into a company's corporate responsibility performance is the way it resolves the tensions that arise as these challenges converge, we believe it is important to share some of the most significant challenges our industry, and we at PG&E, face.

This section—newly added in this year's report—identifies several of these industrywide issues that are especially important to achieving our vision and the actions we are taking to address them. While we recognize this list is not comprehensive, our hope is that by providing insight into these areas, we also will give stakeholders a clearer lens through which they can understand and evaluate our overall performance.

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## **Better, Faster and More Products and Services**

We believe that PG&E's ability to respond effectively to some of the most important trends in the industry hinges on borrowing and integrating best practices and cultural strengths that help drive some of the most successful competitive companies. The demand for higher levels of customer service, the growing role of innovation, the need to find efficiencies to help relieve cost pressures for customers, competition in global markets for human capital and raw materials—all are examples of realities that require new approaches to our business, streamlined processes and advanced technologies, as well as an expanded set of skills and talents.

As a 100-year-old company steeped in legacy practices and operating in a highly regulated environment, adapting our culture and our processes to these new realities constitutes a substantial undertaking.

We have embraced this challenge and are working across the business to perform better, faster and more cost-effectively. However, last year, setbacks in some areas reminded us that this will be a long-term, difficult change.

Several important changes did not deliver the improvements we had anticipated, creating difficulties for our employees and customers.

A primary focus moving forward is on improving our execution, an area where we see significant opportunities to do better. With this in mind, we are monitoring and managing our performance with greater discipline than ever before. We are also devoting increased resources and attention to employee engagement, safety, better training on new tools and processes, thorough root-cause analyses of problems and stricter management accountability for following rigorous processes and improving results.

## **Developing Equitable and Effective Carbon Controls**

We believe the adoption of mandatory, national carbon controls is urgently needed and inevitable in light of the risks of global warming. We also believe these policies may be the single greatest factor influencing the direction of the energy industry in the decades ahead. Eventually, addressing global warming will require a fundamental change in the way energy is produced, delivered and consumed in this country, and throughout the world.



Industrywide, rising costs of equipment, along with many other factors, are contributing to increased utility construction costs.

Making a smooth transition to a low-carbon economy will be an enormous and complex challenge. It will require an approach that accelerates technology development and deployment, encourages timely action and recognizes that, ultimately, energy consumers, workers and communities will need help in making this transition.

PG&E is working at the state, regional, federal and international level to advance policies and responsible solutions that achieve these goals using a market-based approach. Market-based solutions can help to advance technology solutions and achieve environmental goals most cost-effectively. For example, we support a so-called "cap and trade" strategy that would set a limit on overall emissions and create a market for the buying and selling of emissions allowances among market participants.

Until a clear national program and international framework have been established, the uncertainty will make it challenging for companies to move forward with many longer-term investment

decisions and technology choices. In this period of uncertainty, PG&E will continue to make investments on behalf of its customers that reduce the risks associated with future carbon regulation, while also allowing us to provide innovative products and services that both help to manage costs and reduce greenhouse gas emissions.

### **Making Smart, Sustainable Infrastructure Investments**

A substantial portion of the nation's utility infrastructure is aging, inefficient and/or overburdened, increasing the risk of service interruptions for customers. Consequently, replacing and upgrading equipment and facilities in order to improve reliability and capacity is a major priority for many gas and electric companies today, including PG&E. Industrywide, the capital demands are estimated to range from approximately \$700 billion to upwards of \$1.3 trillion over the next 15 to 20 years to help meet a projected 30 to 45 percent increase in demand and improve

reliability. These investments will be made and costs incurred by business and energy consumers alike. The question is, will business make the right choice today that will last into the future?

Indeed, PG&E expects to invest \$13.6 billion from 2008 through 2011 in its system—one of the largest capital investment programs in the industry.

Balancing the nation's utility investment needs against the need to keep energy costs affordable for customers represents a challenge for the entire industry, especially in light of other factors putting upward pressure on energy prices (e.g., higher materials costs, increasing costs associated with alternative energy sources).

Additionally, the industry's challenge is also to work with regulators, customers and other stakeholders to ensure we are making long-term capital investment decisions that take into account questions of environmental and economic sustainability. Investments that appear to be more cost-effective today may turn out to be uneconomic in a carbon-constrained world. PG&E is working to manage this by making investments today that we know can serve the economic needs of the 21st century, including those that support the smart grid, advance energy efficiency and support renewable technologies.

### **Realizing the Full Potential of Clean Energy Alternatives**

The renewable energy sector is currently attracting historic levels of interest and investment. Currently, 26 states, including California, are pursuing goals to increase the percentage of their energy that comes from renewable resources.

We are working to meet California's current renewable energy targets. PG&E has been signing contracts to add new supplies of renewable energy to its energy mix at a faster rate than ever before. PG&E is on track to meet the state's objectives.

The nation's success in harnessing the full potential of renewable power will also depend on solving some challenges currently holding back progress.

For example, it is essential that stakeholders work cooperatively to support the building of new transmission lines to connect renewable energy facilities, often in remote locations, to population centers. PG&E is currently exploring such projects in California's Central Valley and the upper Northwest.

Other important support for renewables includes extending tax incentives for developers, so that investors have a clearer picture of the long-term financial returns on renewables investments. These benefits help offset capital costs for renewables that in many cases remain high relative to conventional sources. PG&E is advocating such measures with federal policy makers.

Finally, it is important to nurture the continuing development of new and existing technologies, including the development of energy storage solutions that can help address the intermittent nature of some renewable supplies, like wind. PG&E is actively assessing and supporting these new technologies.

### **Advancing Energy Efficiency and Demand Response**

California has kept per capita electric energy use flat for the past 30 years, while the rest of the country has seen per capita energy use increase by, on average, 50 percent over this same period. Many factors account for this disparity, including California's codes and standards for energy-efficient buildings and appliances, as well as a regulatory philosophy that treats energy efficiency as the first option for addressing growing energy needs and provides significant incentives for utilities. Achieving comparable energy efficiency gains in other parts of the nation will require state and federal policies that encourage energy efficiency in similar ways. For example, a recent study by McKinsey & Company found that the unlocked potential for energy efficiency in the U.S. could achieve upwards of 30 percent of the greenhouse gas emission reductions in proposed federal legislation and also generate positive economic returns.

In fact, at PG&E, over the next decade, our plans call for meeting more than half of the energy demand growth in our service area through improvements in energy efficiency. We also expect to significantly increase the use of demand response options to drive down peak energy needs. Both of these solutions are vital to offsetting the need for new power generation and to creating a sustainable energy future. Maximizing these opportunities will require meeting a series of other challenges, ranging from developing and deploying new technology to driving changes in consumer behavior.

Tapping the full potential of these resources will depend on ongoing collaboration with regulators,

industry groups and manufacturers, customers and other stakeholders to adopt smart efficiency incentives and assist with the advancement of more efficient technologies.

One way we are working to address this issue is through our Emerging Technologies program, which is currently helping to shepherd approximately 60 energy efficiency technologies through development and commercialization.

On demand response, challenges we are working to address include improving the technology infrastructure to enable more demand response options, as well as working with the state to find ways to integrate demand response as a resource in the state's energy market.

### **Satisfying Demand for Natural Gas**

One of the most salient developments in the utility industry over the past decade has been the nation's—and California's—growing demand for natural gas, driven in part by the increasing use of natural gas for power generation.

We see this trend accelerating. Global competition for gas is continuing to rise and domestic supplies are becoming tighter. Moreover, many U.S. power generators are turning away from coal for new power generation in view of concerns over greenhouse gases and an uncertain regulatory paradigm, leaving even greater reliance on gas-fired generation as one likely alternative.

Together, these developments create a threat of increasingly constrained gas supplies and higher prices for customers in the future. PG&E is working both to increase supplies and manage demand to help mitigate this prospect.

For example, we are investing in technologies to create utility-scale supplies of renewable natural gas from biogas sources, such as California dairy farms. We are also exploring investments to bring gas into California from other regions. These include projects that would link up with proposed facilities to import liquefied natural gas (LNG) from overseas.

As we pursue these efforts, a major factor in our success will be our ability to work through myriad regulatory challenges and local concerns. Infrastructure projects inevitably raise controversies and objections. As always, our challenge is to work cooperatively with stakeholders to find solutions that address concerns and still allow us to deliver for customers.



A recent U.S. Department of Energy report forecasts a significant shortage in qualified electrical lineworkers over the next decade.

### **Recruiting and Training a New Generation of Workers**

Many of the nation's skilled workers in utility jobs are rapidly nearing eligibility for retirement. By one estimate, the industry could be facing the need to replace nearly half of its skilled workforce over the next five years. The numbers are similar for PG&E; roughly 42 percent of our employees will be eligible for retirement in the next five years.

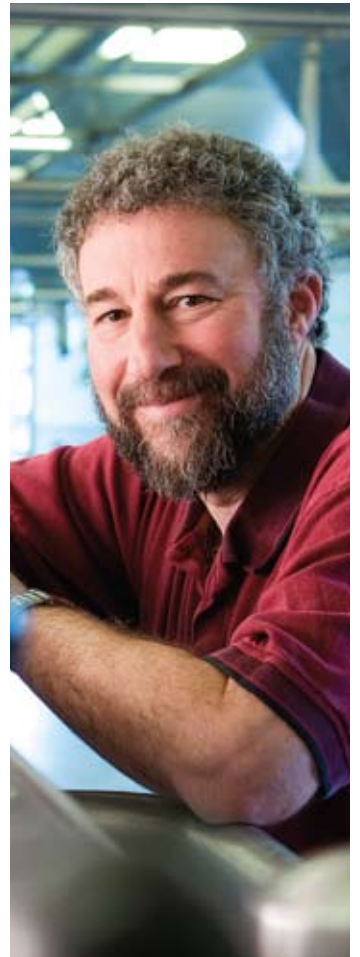
Recruiting and training the next generation of these skilled workers represents a significant challenge. Many of these jobs require specific skills and lengthy apprenticeships. Furthermore, in keeping with our commitment to our communities, we are seeking candidates from within our service area to help us better reflect the diversity of our customer base.

Last year, we designed an innovative new workforce development program to help address this need. PG&E's PowerPathway™ program partners with California community colleges, government, labor, foundations and other community-based organizations to prepare individuals for a rewarding career with competitive wages in these high-demand energy sector positions specific to PG&E's hiring needs.



# Our Business

PG&E operates in an industry that is evolving quickly as new technologies and new economic and environmental realities redefine the landscape in the energy business. We see rising expectations across the spectrum of stakeholders, from customers and communities, to employees and shareholders, to regulators and legislators. Cleaner energy at competitive prices. More reliable service and new product offerings. More accountability and greater visibility. Delivering on promises made today and putting in place the foundation for the future. At PG&E, we are embracing the changes around us and seeking new ways to meet and exceed rising expectations.



**A**s a manufacturer in a business that uses significant resources, Sierra Nevada Brewing Co.'s philosophy has always been to manage those resources as efficiently and sustainably as possible. Over the years, the nation's seventh-largest brewery has established a reputation as a sustainability leader, taking steps to dramatically improve efficiency and reduce carbon dioxide emissions at its Chico, California-based operations. As a longtime partner, PG&E has been proud to help Sierra Nevada achieve its business and sustainability goals. By taking advantage of PG&E's portfolio of options—earning incentives for energy efficiency, installing on-site solar and fuel cells, and being among the first to sign up for our new ClimateSmart™ program—Sierra Nevada stands apart as a customer managing for today and planning for tomorrow.

**Ken Grossman** is the CEO and co-founder of Sierra Nevada Brewing Co., [www.sierranevada.com](http://www.sierranevada.com), considered the nation's premier craft brewery and a pioneer that continues to demonstrate environmental leadership.

**Lia White** is a Service and Sales Manager for PG&E, who has worked hand in hand with Sierra Nevada for many years to find new ways to use energy in a more sustainable manner.

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### How are you meeting your sustainability goals?

**Grossman:** We have a fairly aggressive recycling program and now divert more than 97 percent of our waste stream. On the energy front, we've been working with PG&E for years on retrofit projects to save energy. We're also generating a lot of power on site. We installed four 250 kW fuel cells, fed in part with biogas from our wastewater treatment process. We've also put up 1.4 MW of solar panels—I think it's one of the country's largest privately owned installations. My focus right now is how to use even less power.

### How can PG&E help Sierra Nevada meet its goals?

**White:** Getting to know customers like Ken and their goals is really the best approach. We've got a portfolio of programs that we try to match with customers' needs—whether it's sustainability, reduced energy costs, bottom line benefits or all three. We enjoy working with customers like Ken who are willing to try new things and we learn together.

### Is climate change a driver for you?

**Grossman:** We have a goal to reduce our carbon footprint. We're a member of the California Climate Action Registry, so we're tracking our emissions and looking for ways to improve. Part of our strategy is saving energy by being more efficient in our processes. We also signed up for PG&E's ClimateSmart™ program, and we think the extra money we're spending is going to good projects. We're also capturing and reusing the carbon dioxide (CO<sub>2</sub>) from our fermentation process.

### What are your expectations from PG&E as a business customer?

**Grossman:** Having an advocate like Lia, who we feel is looking out for our best interests, has been a key to our ability to do a lot of these initiatives. It's been a real asset.

### What can others learn from this partnership?

**White:** You know, we're a regulated company working under a variety of rules and requirements. But being a partner is one of the most important things we can do for our customers. When we share a common goal, some really great things can happen. The biggest key is good communication with the customer. We're fortunate that Ken has such a great vision and commitment. We strive for this kind of relationship.

**Grossman:** Many business owners are busy. But there are a lot of simple, inexpensive projects that companies can do. We share information because that kind of exchange allows people to see what is being done, and what can be done, cost-effectively.

### What will it take for PG&E to become the utility of the future?

**Grossman:** I see change happening in the utility sector in California. In the next 10 to 20 years, there will be a lot of new technologies coming forward—generating energy from agricultural waste, solar, biomass, ocean waves. I know you're already working in this area, but I'm sure you can do even more. We will need a mix of energy solutions in the future.

**Headquarters Location**

San Francisco, CA

**Service Area**

70,000 square miles in northern and central California

**Service Area Population**

15 million people (or about 1 of every 20 Americans)

**Electric Distribution Customer Accounts**

5.1 million (approximately 4.5 million residential, 0.6 million commercial/industrial)

**Natural Gas Distribution Customer Accounts**

4.3 million (approximately 4.1 million residential, 0.2 million commercial/industrial)

**Revenue**

\$13.2 billion

**Assets**

\$36.3 billion

**Earnings per Share from Operations<sup>1</sup>**

\$2.78

**Number of Common Shareholders**

89,166

**Number of Common Shares Outstanding**

379,646,276

**Employees**

Approximately 20,000

Approximately 12,900 are covered by collective bargaining agreements with three labor unions:

- International Brotherhood of Electrical Workers (IBEW), Local 1245
- Engineers and Scientists of California/International Federation of Professional and Technical Engineers (ESC/IFPTE), Local 20
- Service Employees International Union (SEIU)

**System**

159,364<sup>2</sup> circuit miles of electric transmission and distribution lines and 48,198 miles of natural gas transmission and distribution pipelines; approximately 6,271<sup>3</sup> megawatts of generation, including the Diablo Canyon nuclear power plant and one of the largest hydroelectric systems in the country

**Examples of Customer Groups**

Residential, Small Business, Retail, Agriculture, Education, Heavy Industry and Manufacturing, Government, Medical, Distillers, Hospitality, High-Technology, Food Service, Biotechnology, Large and Small Commercial Enterprises

**Selected Examples of Major Customers**

Bank of America, Chevron, Cisco Systems, FedEx, Fetzer Winery, Intel, Kaiser Permanente, Lockheed Martin, New United Motors Manufacturing, Safeway, Inc. and Target

<sup>1</sup> Earnings per share from operations is a financial measure that is not calculated in accordance with generally accepted accounting principles (GAAP). 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. For 2007, earnings per share from operations and net income per share calculated in accordance with GAAP were the same.

<sup>2</sup> Length of distribution lines in circuit miles by voltage—4 kV: 2,651; 12 kV: 103,609; 17 kV: 4,496; 21 kV: 29,539; Other: 389. Length of transmission lines in circuit miles by voltage—60 kV: 3,960; 70 kV: 1,577; 115 kV: 6,218; 230 kV: 5,420; 500 kV: 1,328; Idle: 177

<sup>3</sup> Net operating capacity in 2007: Humboldt Bay: 105 MW; Mobile Turbines: 30 MW; Diablo Canyon: 2,240 MW; Hydro Facilities: 3,896 MW.

## Company Overview

PG&E Corporation is an energy-based holding company whose core business is Pacific Gas and Electric Company. Pacific Gas and Electric Company, or the Utility, delivers safe, reliable and responsive gas and electric service to approximately 15 million people throughout northern and central California. PG&E had approximately \$36.3 billion in assets as of December 31, 2007, and generated revenues of approximately \$13.2 billion in 2007.



## General Utility Production Statistics

	2005	2006	2007
<b>Total Electricity Generated (GWh net)<sup>1</sup></b>	<b>30,602</b>	<b>32,842</b>	<b>26,723</b>
Fossil Plants (GWh net)	1,044	624	483
Hunters Point (GWh net)	604	182	N/A <sup>7</sup>
Humboldt Bay (GWh net)	440	442	483
Other plants (GWh net)	29,558	32,218	26,240
Diablo Canyon (GWh net)	17,692	18,391	18,588
Hydro Facilities (GWh net) <sup>2</sup>	11,866	13,827	7,652
CA-Eligible Hydro (GWh net) <sup>3</sup>	1,397	1,437	985
<b>Electricity Purchased (GWh)</b>	<b>25,990</b>	<b>29,104</b>	<b>29,462</b>
<b>Other Electric Supplies (GWh)<sup>4</sup></b>	<b>23,275</b>	<b>19,585</b>	<b>23,265</b>
<b>Electricity Delivered (GWh)<sup>5</sup></b>	<b>81,626</b>	<b>84,310</b>	<b>86,179</b>
<b>Electricity Purchased by Our Customers (GWh)</b>	<b>72,727</b>	<b>76,692</b>	<b>79,451</b>
<b>Total Natural Gas Throughput (million cubic feet or MMcf)<sup>6</sup></b>	<b>856,407</b>	<b>836,441</b>	<b>875,334</b>

<sup>1</sup> One GWh, or gigawatt-hour, is one million kilowatt-hours, enough to power one million homes for one hour. PG&E is reporting net energy statistics for consistency with other published company reports. See pages 53–54 for a breakdown of PG&E's electric power mix delivered to retail customers.

<sup>2</sup> Hydroelectric generation can vary year-to-year due to variability in precipitation.

<sup>3</sup> Electricity generated by hydroelectric facilities with a capacity under 30 MW.

<sup>4</sup> Represents contract energy from the California Department of Water Resources, which the Utility neither purchases nor takes title to but which is delivered to the customer.

<sup>5</sup> Electricity Delivered includes Direct Access, Community Choice Aggregation, Transmission-only sales, losses and unaccounted-for-energy.

<sup>6</sup> Excludes interdepartmental natural gas sales.

<sup>7</sup> Hunters Point ceased operation in May 2006.

## Executing on Our Vision to Become the Nation's Leading Utility

In 2007, we continued to pursue our vision to become the nation's leading utility in the eyes of our customers, employees and shareholders.

At the center of our strategy is a multiyear effort to transform our operations. Specifically, PG&E is revamping many of its core business processes to be more efficient, cost-effective and better for our employees and customers. In a number of areas, new information systems and technologies have been the cornerstone of this effort. We also realigned many of our internal resources to take fuller advantage of opportunities for efficiencies.

In parallel with these changes, we are working to reshape PG&E's culture in ways that will enable us to better serve customers and meet the challenges of the evolving energy business. To that end, we are focused on becoming a more customer-centric organization. One area of emphasis is improving collaboration and eliminating organizational barriers that are an impediment to delivering service in the most seamless, customer-friendly ways. Another is introducing new management tools and

systems, holding ourselves more accountable for performing with the discipline and results-orientation of a competitive company that has to win the customer's business on an ongoing basis.

A number of accomplishments in 2007 reflected continuing progress toward these objectives. However, we also encountered a number of challenges. During the year, we began reporting our progress to employees monthly through an Operational Update from the Utility's CEO. The update tracks performance in five areas: ease of doing business with PG&E, reliable energy delivery, value for customers and stakeholders, sustaining our environment and strengthening our ability and ways to execute on task.

Below is a recap of highlights in each area from 2007. For additional details, please see PG&E's 2007 Annual Report to Shareholders.

### Ease of Doing Business with PG&E

We continue to take a disciplined approach to understanding and meeting the needs of our customers, and are demonstrating significant progress. As a measure of our overall performance, our J.D. Power and Associates scores continued to rise among business customers in 2007, placing PG&E in the top



## Delivering Reliable Energy

Above: An employee uses a forklift to offload bundles of plastic gas pipe at PG&E's Fremont Materials Center.

**A**t PG&E, we understand that our primary responsibility is to provide safe, reliable and affordable gas and electric service to our customers. While we have experienced some improvement with regard to reliability over the past two years, our performance falls short of our own expectations.

While our electric system reliability meets the California Public Utilities Commission's "adequate service" standard, we currently rank in the third and fourth quartile for North American utilities, respectively, as measured by the System Average Duration Index (SAIDI) and System Average Frequency Index (SAIFI). In addition, PG&E's SAIDI and SAIFI results do not compare favorably to California's two other largest investor-owned utilities, Southern California Edison and San Diego Gas and Electric Company.

As a result, PG&E is proposing to significantly improve the reliability of its electric distribution system. To achieve this level of performance, we have developed a multiyear program that:

- Sets higher standards for service reliability to our customers,

- Enhances overall reliability of our energy delivery and increases grid flexibility to avoid severe or sustained outages, and
- Brings our reliability metrics closer to that of other investor-owned utilities in California and in North America.

The program will include major initiatives, such as:

- Increasing available capacity and interconnectivity of our system,
- Implementing distribution automation, and
- Improving "mainline" protection on rural circuits.

These initiatives will provide a significant impact, long-term benefits and synergies with other initiatives. Ultimately, our customers will experience greater service reliability, reduced frequency and duration of outages and be served by a system that is incorporating elements of a Smart Grid, which will provide our customers with more products and services and more control over their energy demand and usage patterns.

10 percent for electric and fourth out of 38 for natural gas service. We finished fifth in the nation in residential gas customer satisfaction and made notable progress, but were slightly below the median, in residential electric service.

Among our specific accomplishments were speeding-up customer issue resolution times and increasing our success rate for resolving customer issues on the first service visit. Among our most significant challenges was improving the timeliness of connecting new customers to the grid, where we fell well short of expectations and are redoubling efforts to improve performance.

### Reliable Energy Delivery

For the year, we exceeded our overall reliability index target, with far fewer outages per customer than projected. However, the time it took to restore service was 11 minutes longer on average

than expected. We also reduced the number of work errors compared with the prior year.

We also continued making substantial capital investments to improve the reliability and capacity of the Utility's infrastructure. In 2007, these investments totaled approximately \$2.8 billion and we expect to invest an additional \$13.6 billion from 2008 through 2011, one of the largest capital programs in the country.

### Value for Customers and Stakeholders

In 2007, PG&E Corporation delivered financial results in line with commitments to Wall Street. However, the value of PG&E's common stock declined over the year, reflecting a number of challenges. We worked throughout the year to drive savings through efficiencies and were successful in a number of areas. For example, we achieved significant savings through more

### Our Vision and Values

PG&E's vision is to be the leading utility in the United States. The company's senior leaders introduced this vision, along with a set of values, in 2005, through an extensive outreach program with employees that continues today. Given the significant challenges facing our industry, becoming the nation's leading utility requires extensive teamwork and partnerships—working with others to lead the industry toward change.

Our vision and goals are driven by a series of strategic imperatives that inform both our day-to-day operations and strategic planning for the future:

- Creating a satisfying customer experience at all times at every touch point
- Investing in our employees and rewarding them for results
- Securing a sufficient and affordable energy supply
- Aggressively managing our cost structure
- Shaping the markets in which we operate
- Reducing our carbon footprint
- Creating regulatory and legislative alignment
- Supporting our communities
- Growing the enterprise



strategic relationships and improved processes with our suppliers. However, in other significant areas, we did not reap all of the expected benefits.

## Sustaining Our Environment

Among many other accomplishments—including those discussed elsewhere in this report—we continued last year to successfully advance energy efficiency and expand supplies of renewable energy that will be available for our customers in the future. This included signing new contracts for more than 1,000 MW of additional renewable energy supplies. We also continued our leadership in supporting policy action on climate change. Challenges last year included an increase in the number of notices of violation we received for being out of compliance with certain environmental requirements.

## Strengthening Our Ability and Ways to Execute on Task

We continued working last year to improve our execution, including efforts to further align and engage our employees in line with our vision and strategy. Examples of significant milestones in execution included the successful upgrade of a major IT system to improve our customer care and billing capabilities.

We also underwent a major transformation that introduced a host of new tools and processes governing how work is designed, scheduled and performed at PG&E. While we fell short on our implementation, we will continue to measure our progress and make the necessary improvements to be successful.

## Enterprise Risk Management

PG&E takes an integrated approach to risk management, to the benefit of our shareholders and customers. As part of our risk management strategy, we established an enterprisewide program. Companies are increasingly using Enterprise Risk Management (ERM) to improve their management of major risks in order to achieve their business objectives.

PG&E's ERM program takes a holistic approach to managing potentially catastrophic risks that face our business. Cross-functional teams, guided by subject matter experts and experienced

## Smart Energy Usage Decisions



In 2007, PG&E expanded implementation of our SmartMeter™ program—the nation's largest deployment of advanced metering infrastructure technology to date. By the end of 2011, we expect to deploy more than 10 million high-tech gas and electric meters for our customers.

SmartMeter™ technology will serve as the foundation for moving to a "smart grid." By harnessing advanced communication capabilities such as those in the SmartMeter™ program, PG&E is working to transform the electric grid from a passive transmission and distribution system to an active, intelligent grid capable of supporting new utility and customer energy services.

Benefits will include:

- Quicker restoration of power after an outage;
- Innovative programs based on specific customer usage patterns, including new pricing programs that encourage customers to conserve and shift their energy usage to off-peak times;
- More informed and strategic planning for capacity needs; and
- Enhanced, more personalized customer service.

PG&E installed more than 270,000 SmartMeter™ gas and electric meters in 2007. We also proposed plans to upgrade the meter technology, which continues to evolve rapidly. The proposed upgrade will give customers greater control over their energy usage and provide regulators improved capability to manage aggregate energy demand.

PG&E undertook extensive testing and quality assurance to ensure bills prepared with SmartMeter™ data are timely and accurate. We are also taking care to notify those customers who have made monthly arrangements for us to read their meters that this will no longer be necessary.

managers, employ a systematic method to identify, evaluate and monitor risks. Oversight by a risk committee comprised of senior officers ensures risk management activities are consistent with the company's overall corporate strategy. Regular communication to the Boards of Directors ensures accountability and reinforces the importance of risk management at all levels of the company.

PG&E's enterprise-level risks span the spectrum of business risks, and include those associated with energy commodities, strategy, operations, natural hazards, political and regulatory issues, economics and the environment. Risk assessments and mitigation plans have been developed to enhance how PG&E addresses risks. These assessments and plans continue to be refined and improved by taking into account changing market, regulatory and other forces.

PG&E is realizing benefits from the holistic approach taken by ERM. For example, the increased attention ERM brings to mitigating potentially catastrophic outcomes highlighted the need to collaborate with stakeholders in the community who influence the company's ability to manage these risks successfully. As a result, many of the risk management plans include engaging with external stakeholders in a more structured and systematic way.

Looking forward, our plans for ERM include continuing integration of the program with business operations to ensure sustainability, evaluating and refreshing the program focus to ensure alignment with business strategy and external stressors and tracking and validating the effectiveness of risk management plans.

## Corporate Governance

A public company must have the trust of the public in order to operate successfully. Transparency and integrity form the basis of this trust. Our many stakeholders want to understand what processes and procedures we have in place to ensure that we are operating our business ethically, are able to deliver on our promises and will be accountable for our actions.

Accordingly, PG&E places significant emphasis on adopting leading corporate governance policies and practices. In 2007, we took steps to further this commitment, including the following:

- The Boards of Directors of PG&E Corporation and the Utility each adopted a majority voting standard in uncontested elections of directors when the number of nominees does not exceed the number of directors to be elected. Majority voting requires that nominees to the Board receive support from more than 50 percent of the shares voted in order to be elected. (Previously, PG&E Corporation and the Utility used a plurality voting standard, under which the nominees receiving the most votes were elected.) The Corporation and the Utility

adopted majority voting through amendments to their respective Bylaws. The new majority voting Bylaw provisions may be amended or rescinded only by approval of a majority of the outstanding shares, and may not be amended by the company's Board acting alone.

- We benchmarked the policies and practices of general industry and utility companies with respect to the lead director position and board committees. As a result, effective January 1, 2008, the Boards of PG&E Corporation and the Utility adopted various changes to the companies' respective Corporate Governance Guidelines and the structure of the companies' Board committees.
  - Specifically, each company's Board established a selection process and a tenure for the position of independent lead director.
  - The Boards also established a tenure for the independent chairs of our Board committees.
  - Additionally, the PG&E Corporation Board divided the former Nominating, Compensation, and Governance Committee into two separate committees—a Compensation Committee responsible for assisting the PG&E Corporation and Utility Boards on matters relating to employment, compensation, benefits policies and practices, director compensation and the development, selection and compensation of policy-making officers; and a Nominating and Governance Committee responsible for assisting the Boards on matters relating to the selection of directors and corporate governance matters, including the companies' governance principles and practices and evaluating the performance and effectiveness of the Boards.
  - Lastly, the Boards made changes to reflect recommended practices with respect to communications between shareholders and directors. The PG&E Corporation and Utility Corporate Governance Guidelines now provide that if requested by major shareholders, the lead director shall be available for consultation and direct communication with such major shareholders.

The Boards of Directors of PG&E Corporation and the Utility are also regularly engaged in other pertinent governance matters, including those related to environmental performance, corporate responsibility and political activities. For example, the Public Policy Committee of the

PG&E Corporation Board of Directors has specific oversight of many of the areas addressed in this Corporate Responsibility Report, including, but not limited to, corporate philanthropy, supplier diversity, workforce diversity, climate change and environment. In addition, the Public Policy Committee oversees issues related to political contributions and related activities.

PG&E has structures in place to ensure that all activities related to the myriad aspects of corporate responsibility and our political activities are consistently measured and implemented and their related progress is reported to the PG&E Corporation and Utility Boards of Directors. For example:

- As part of PG&E Corporation's revised Environmental Policy, a section was included outlining PG&E's Environmental Governance Procedures. These procedures can be viewed at [www.pgecorp.com/corp\\_responsibility/environmental/policies](http://www.pgecorp.com/corp_responsibility/environmental/policies).
- PG&E's total charitable contributions budget and individual charitable commitments of more than \$100,000 are approved by the PG&E Corporation Board of Directors, and smaller contributions are approved by staff executives within the Public Affairs Department, working with colleagues from throughout the company. To reduce the potential for conflicts of interest, no one may approve a charitable contribution from company funds to an organization in which they or family members have a financial interest, including serving on the organization's board of directors.

Our contributions program also includes many grants that are approved and funded by the PG&E Corporation Foundation. The Foundation is expected to consider strengthening its existing Bylaws concerning conflict of interest to make them more consistent with those of the Corporation.

- All political contributions made by PG&E are reviewed by outside counsel and approved by the Senior Vice President of Public Affairs and/or the Chairman of the Board. Individual contributions that exceed certain thresholds are approved by the PG&E Corporation Board of Directors.

The policies and practices described above and in our Corporate Governance Guidelines demonstrate PG&E's commitment to good corporate governance practices. These practices provide a framework within which the Boards of Directors

and management of PG&E Corporation and the Utility can pursue the companies' business objectives. Their foundation is the independent nature of the Board and its fiduciary responsibility to the company's shareholders. The companies' Corporate Governance Guidelines set forth a policy that 75 percent of the directors of each company should be independent, as defined in the Guidelines. As of April 1, 2008, 9 out of 10 members of the PG&E Corporation Board were independent, and 9 out of 11 members of the Utility Board were independent.

Our Corporate Governance Guidelines are published annually in PG&E Corporation's and Pacific Gas and Electric Company's Joint Proxy Statement and are also posted at [www.pgecorp.com](http://www.pgecorp.com), along with our Board Committee Charters, director and employee codes of conduct and the PG&E Corporation Disclosure Policy.

### Corporate Governance Rankings

PG&E's corporate governance practices have been evaluated and rated by several institutional shareholder groups and corporate governance organizations. We have received ratings that are well above average compared with other utility companies, as well as general industry companies.

For example, as of mid-April 2008, RiskMetrics Group (formerly known as Institutional Shareholder Services), a leading provider of risk management and corporate governance products and services to financial market participants, ranked PG&E Corporation in the 93.1 percentile (i.e., the top 7 percent) of the utility companies that they track and in the 88.5 percentile (i.e., the top 12 percent) of all companies in the S&P 500 index, based on its Corporate Governance Quotient rating system.

In addition, in February 2008, GovernanceMetrics International (GMI), a corporate governance research and ratings agency, gave PG&E Corporation an overall governance rating of 9.0 using a scale of 1.0 (lowest) to 10.0 (highest).

The governance ratings issued by RiskMetrics Group and GMI are updated periodically and are determined relative to other utility and general industry companies rated by those organizations. Thus, PG&E Corporation's ratings may change during the course of the year as a result of changes in those other rated companies' governance practices, as well as changes in our own governance practices.



# Our Employees

PG&E's goal is to lead the energy industry by implementing ideas, products and services that not only sustain, but revolutionize how we serve our customers. This all begins with our greatest asset, our employees. We are evolving to meet the many challenges facing our industry—an aging workforce and competitive environment for new hires, increasing expectations from our customers and other key stakeholders, and rising health care and related costs, to name a few. We will meet these challenges together by engaging our approximately 20,000 employees as we plan for the future and execute on our vision. And, we will seek the best new talent from our diverse communities, local community colleges and universities and the highest-performing companies both within our sector and throughout industry. Our strategy for the future will build on and enhance our workforce to make us stronger. It will provide us with a source of new and innovative ideas. It will empower us to anticipate, understand and respond better to the needs of our millions of customers in thousands of California communities. And, most importantly, it can help give PG&E a competitive advantage—setting us apart from others in our sector and beyond.

Top row from left: Justin Bradley, Chuck Carpenter, Laura Sellheim  
Bottom row from left: Van Ton-Quinlivan, Peter Crabtree, Landis Marttila



**S**tudies show that electric and natural gas utilities will be facing worker shortages earlier than most other segments of the economy. At PG&E, roughly 42 percent of our employees will become eligible for retirement over the next five years. The demand for technical skills will only increase as PG&E upgrades its infrastructure. Faced with this challenge, we are taking a proactive approach toward workforce development through our new PowerPathway™ program ([www.pge.com/powerpathway](http://www.pge.com/powerpathway)). Working in partnership with community colleges, local community-based organizations, our unions, workforce investment boards and many other leaders, we are reaching into communities to hire locally, provide promising new career ladders and enhance our role as an integral part of the communities we serve.

**Van Ton-Quinlivan** is Director of Workforce Strategy and Diversity at PG&E

**Laura Sellheim** is the Area 3 Director of Maintenance and Construction at PG&E

**Peter Crabtree** is Dean of Instruction for Vocational Technology at Laney College

**Justin Bradley** is Director of Energy Programs at the Silicon Valley Leadership Group

**Landis Marttila** is a Business Representative with the International Brotherhood of Electrical Workers (IBEW), Local 1245

**Chuck Carpenter** is Director of Building Trades with the Treasure Island Job Corps

### Why was the PowerPathway program created?

**Ton-Quinlivan:** At PG&E, we're looking ahead to make sure we have the skilled workforce that we need. Our goal is to leverage existing infrastructure and institutions within California so that we can build in-state capacity to produce the types of job-ready workers that the company and the industry demand.

We, as an employer, know our jobs and our hiring requirements. We're working with community colleges that have an expertise in training to help prepare candidates for PG&E's pre-employment tests. And, we are mobilizing partners, such as community-based organizations like Job Corps or workforce investment boards, to bring forward their expertise in outreach, assessment and case management of prospective employees.

### How do the various partners contribute?

**Carpenter:** We're a diverse educational and vocational training program, and we're providing candidates by reaching out to members of the Bay Area that have never been employed.

**Crabtree:** Laney is a training partner and we've just launched our first classes, teaching both

technical and "soft" skills. We're looking forward to partnering with PG&E and creating opportunities and a career pathway for people in our area.

**Bradley:** We represent 270 member companies in Silicon Valley on a wide variety of issues, including workforce development. We want to make sure our region's workforce is productive and we're committed to finding solutions.

**Marttila:** At IBEW Local 1245, we have what some call a mature bargaining relationship with PG&E. We are certainly interested in having people that live in San Francisco, particularly from the southeast edge of the city, and from throughout the service area, work for PG&E.

### What are some of the challenges you see?

**Carpenter:** We've found that a lot of the people in the Job Corps need "soft" skill training. Providing these candidates with the understanding of how to relate to co-workers or supervisors, for example, is a very important skill to allow them to succeed.

**Crabtree:** I agree. We still have a long way to go in helping people understand themselves and develop their non-technical abilities. Interpersonal skills are extremely important in today's workplace, and these skills need to be developed just like math, English or technical skills.

### What about the importance of teamwork?

**Carpenter:** At the Job Corps, we put candidates in crews, and you can see them begin to understand what it means to be a member of a team. That's the kind of training we need—teaching people to work as part of a group.

**Crabtree:** I think that we're really asking our workforce to do something different than we have in the past. Today's employees are expected to make real-time decisions, work together as a team and ask questions. Often, there is no supervisor behind you—you have to think on the job.



**Marttila:** I think there's an essential satisfaction that gas workers, electrical workers and others in the utility industry get from providing this service, or fixing the problem if the system mal-functions during a storm. It's an intangible that people are proud of; it keeps them motivated to do that extra thing.

#### How do you address safety?

**Crabtree:** A lot of our training is hands-on, with equipment, tools and apparatus, so we do a lot of safety work. We make safety not something that you do, but part of who you are.

**Carpenter:** All of the building trades' candidates at the Job Corps take a 10-hour OSHA course. We talk a lot about near misses. And the teachers, having come from the industry, are very safety conscious.

**Sellheim:** For me, that's very critical. It makes it much easier for us at PG&E when they come in with that mind-set, given our focus on safety.

#### What are the keys to success?

**Carpenter:** Choosing the right candidates is a challenge. But I feel like we're learning more every day.

**Sellheim:** What will make this program a success is securing dedicated candidates that live locally, stay in our company and work hard along with us.

**Marttila:** When you have people that stay and become productive workers, it's a great thing. If you have a successful worker that gets through this program, that might cause others to say, "They're not that different from me. I can make it, too."

#### What will it take for PG&E to become the utility of the future?

**Bradley:** PG&E, like some of the other companies we work with, can be the proving ground for a lot of people. More broadly, we need to build a more effective workforce infrastructure. Make sure that what you're doing gets linked up with others. Let's connect the region together.

**Crabtree:** I think what we urgently need, what will make PG&E the utility of the future, is leadership in the energy field. PG&E is already projecting itself as an industry leader in promoting the development of renewable energy sources and energy efficiency initiatives. PG&E is actively working to change the way we think about energy, how we consume and produce energy. This kind of leadership is what will carry PG&E into the future.

**Ton-Quinlivan:** Leadership means not only having an aggressive strategy in place to meet the needs of tomorrow, but also leveraging and maximizing the knowledge and talent we have in today's workforce and among our retirees.

## Building a Culture of Safety

The safety of employees and the public must be the highest priority for any utility. An unyielding dedication to safety is not only the right thing to do, it is essential to the success and sustainability of PG&E.

Although our safety performance improved last year, we are not satisfied with current results. Our target is zero safety incidents in the work environment, and we remain a long distance from achieving that goal. It is clear to us when comparing our performance with that of others in the industry that substantial opportunities exist for improvement. We are working aggressively to make the progress we know is possible.

Our Safety and Health Policy forms the foundation for the programs we use to pursue our goals. "Zero In On Safety" is a strategy we began implementing companywide in 2006. It includes new tools to help employees identify and resolve safety issues, develop effective safety committees and improve safety performance in the field.



In 2007, we enhanced our Zero In On Safety strategy in a number of ways:

- We began conducting rigorous, formal root-cause analyses of safety incidents in order to identify process improvement opportunities and prevent recurrences of problems. Our initial phase improved incident reporting and data collection processes and included root-cause analysis training for targeted employees.
- We began requiring all organizations throughout the company to hold a Safety Focus Meeting to engage employees in a discussion about their individual commitment to safety and set expectations around working safely. The sessions included a powerful video featuring testimonials from PG&E employees who have been injured on the job.
- We hired a full-time manager to build and oversee a comprehensive wellness program at PG&E. Initial efforts included piloting a smoking cessation program for 80 employees from the San Francisco, Fresno and Sacramento service areas.

Other highlights included awareness efforts such as new Zero In On Safety posters for our offices and facilities, ergonomic program improvements and tools and review and analysis of fire-resistant clothing. We also enhanced our safety reporting and existing compliance programs. Safety committees throughout PG&E continue to identify safety issues and develop action plans to resolve them.

### Life Safety Program

While sophisticated building protective systems are important in emergencies, well-trained, resourceful and reliable employees will always be the most essential components of any emergency program. At PG&E's headquarters, we maintain a well-established life safety program, consisting of Emergency Team members led by a Floor Warden on every floor of the four-building complex.

Volunteers are required to participate in training on a variety of topics, including first-aid safety and CPR, blood-borne pathogens and proper use of fire extinguishers. They also take part in team-based exercises to work through various emergency situations. These courses allow team members to maintain a two-year certification for first aid and CPR. In 2007, more than 400 employees participated in these courses.

PG&E is using best practices from the life safety initiatives and procedures at our headquarters to improve consistency at facilities companywide.

## Safety Results

While we have not achieved our goal of zero incidents, the Utility's statistical performance continued to improve in 2007. For example, we reduced our OSHA Recordable Rate by more than 18 percent, compared with 2006, and cut our Lost Workday Case Rate by more than 11 percent. We also continued to reduce the total number of Lost Workdays, with nearly 11 percent fewer Lost Workdays than in 2006. The table below provides complete safety statistics for 2005 through 2007.

### Safety Results for 2005 through 2007 (Utility)

	2005	2006	2007
Total Lost Workdays	42,639	39,343	35,064
Total Lost Workday Cases	196	177	163
Total Lost Workday Case Rate	1.04	0.89	0.79
Total OSHA Recordables	1,142	1,048	883
OSHA Recordable Rate	6.08	5.29	4.3

## A New Strategy for Motor Vehicle Safety

As the operator of a large fleet of cars and trucks, safe driving plays an important role in achieving our employee and public safety goals.

Despite a number of strategies over the years to improve motor vehicle safety, PG&E saw its statistics on motor vehicle incidents continue to climb. That's why the company implemented a new motor vehicle safety program and procedure in 2006—taking a systematic approach to reducing motor vehicle incidents. PG&E also adopted standard criteria for tracking motor vehicle safety performance across the company and for comparison with other companies with motor vehicle safety programs.

Key elements of the program include an increased emphasis on driver training (which employees are also encouraged to share with family and friends), improved tracking and reporting, and clearly marking most of our vehicles.

In 2007, more than 5,800 employees successfully completed a formal, one-day advanced driver training program, which involved two hours of classroom instruction and six hours of behind-the-wheel training. We also implemented a 1-800 "Am I Driving Safely?" initiative—placing bumper stickers on 8,300 of the Utility's vehicles. The bumper sticker

## Keeping Our Communities Safe

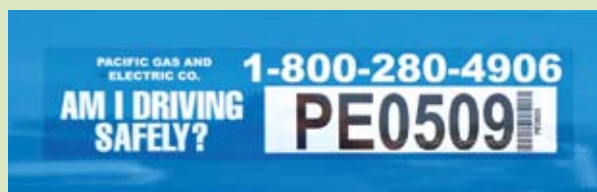
Creating a safe environment for our customers and communities is as important to us as the safety of our employees. PG&E's comprehensive Public Safety Information Program focuses on increasing awareness about the safe and proper use of gas and electricity, as well as helping to keep those working around utility lines safe from harm. This program distributes user-friendly, engaging educational materials to our customers in multiple languages. For our efforts, regulators and our peer utilities continue to cite our public safety information program as a "best-in-class."

Some examples of our programs and 2007 activities include:

- **SafeKids School Safety Program.** Over the past eight years, PG&E has provided free safety education materials to teachers in more than 85 percent of the schools in our service area. This past year alone, more than 350,000 students in almost 5,300 elementary and middle school classrooms received our materials. Teachers regularly comment that the materials are fun and effective in helping

encourages customers to report unsafe driving by dialing a 1-800 number to report it.

These combined motor vehicle safety programs resulted in a 31 percent net reduction in the vehicle incident rate last year. Complementing the hands-on driver training, we are moving forward with additional training based on the 2007 vehicle incidents and exposure data. In 2008, we will offer a computer-based E-Learning course covering small vehicles.



### Motor Vehicle Safety Statistics (Utility)

	2006	2007
Total Motor Vehicle Incidents <sup>1</sup>	733	536
Motor Vehicle Incident Rate <sup>2</sup>	6.54	4.48

<sup>1</sup> Total Motor Vehicle Incidents is an internal PG&E metric counting motor vehicle incidents that could not have been reasonably prevented by an employee.

<sup>2</sup> The Motor Vehicle Incident Rate measures how frequently motor vehicle incidents occur for every 1,000,000 miles driven.



them teach their students the importance of gas and electric safety.

- **Contractor and Agricultural Worker Outreach.** PG&E continues to provide safety training materials to contractors and agricultural workers throughout our service area. These materials include bilingual brochures, posters and videos. Over the past six years, more than 170,000 contractors and 75,000 agricultural workers have received these materials through their employers. In addition, PG&E continues to work with trade associations and safety groups statewide to help distribute safety information directly to their members.
- **Emergency Preparedness.** PG&E works closely with organizations like the Red Cross, local city emergency preparedness councils and community emergency response teams to provide brochures and other materials that help explain how to prepare for an earthquake, how and when to shut off utilities and why it is necessary to have an emergency kit.

## Diversity and Inclusion Initiatives

The heart of PG&E is a diverse workforce of roughly 20,000 individuals representing a wide range of backgrounds and life experiences. This diversity is a source of new and innovative ideas, and empowers us to anticipate, understand and respond better to the needs of our 15 million customers in thousands of California communities.

In 2007, we took our commitment to diversity and inclusion to the next level, with a number of new efforts:

- We established a Diversity and Inclusion Steering Committee, comprised of company officers, leaders of our employee associations and representatives from various departments with a goal of fostering greater understanding of diversity and inclusion enterprisewide.
- Every company officer and director attended a one-day facilitated workshop on diversity and inclusion. The workshops provided a forum for PG&E's leaders to reach a shared understanding of what diversity and inclusion means for PG&E today and into the future. We will offer the workshop for all managers in 2008.
- We piloted a one-year enhanced mentoring program called "Common Quest" to help promote career development for high-potential diverse leaders.

To better coordinate and leverage our workforce, supplier and community diversity initiatives, this year, the Utility created a new chief diversity officer position, which reports to the Utility's CEO, and will co-lead our Diversity and Inclusion Steering Committee.

We are also communicating our vision and values widely so that all prospective job candidates understand the opportunities available at PG&E. Some examples of our 2007 efforts to foster a diverse workforce include:

- **Diversity Outreach to Colleges and Universities.** To build a more diverse and qualified candidate pool, PG&E worked with leading organizations at the national, regional and local collegiate levels. This included sponsoring and attending more than a dozen events associated with the National Society of Black Engineers, Society of Hispanic Professional Engineers, Society of Women Engineers and National Association of Black Accountants. These events, and many other efforts, have contributed to approximately 65 percent of the 110 full-time new college undergraduate hires in 2007 being minority candidates.
- **Mathematics Engineering and Sciences Achievement Program (MESA).** MESA is a recognized leader in developing tomorrow's engineering, technology and management leaders from California's educationally disadvantaged student populations. In 2007, PG&E hosted the 4th Annual MESA Engineering Program Leadership Conference, which brought together 140 students from across



California to network with industry professionals and participate in workshops on effective leadership, résumé writing, communications and other skill-building training. PG&E also sponsored two MESA scholarship recipients at Sacramento State University, part of a statewide professional development program.

## Harnessing the Power of Diversity

PG&E's seven employee associations help to leverage and celebrate the power of our increasingly diverse workforce. With more than 1,500 participating employees, the Asian, Black, Filipino, Hispanic, Pacific Services Employee Associations, along with the PrideNetwork and Women's Network, are a vital part of our company.

Employee association leaders play an important role in fostering diversity and inclusion at PG&E, as ambassadors, role models and change agents. For example, the associations will continue to sponsor a successful mentoring program that was piloted in 2007. This program is designed to assist employees at all career levels who request help with enhancing their skills.

PG&E's employee associations have also been active providers of charitable giving and volunteer time. Last year, approximately \$170,000 in scholarships was awarded to 91 honorees, and substantial time was volunteered assisting, tutoring and mentoring. To date, the associations have provided more than \$1 million in scholarships to qualified students.

The associations work together on joint activities such as the month-long celebration of diversity in 2007. Throughout September, more than 1,000 employees attended various events, including the presentation of PG&E's annual President's Diversity Champion Awards. Each employee association also organizes activities specific to its membership, including panels on career development and leadership skills, important scholarship program fundraisers and networking events.

PG&E's employee associations not only cultivate new perspectives and innovation, but also advance our vision of a workforce that reflects our diverse communities.



**In 2007, Nicole Harris earned the President's Diversity Champion Award for her tireless commitment to promoting diversity and inclusion, not just at PG&E, but across many other areas of her life.**

- **MBA Leadership Program.** PG&E recruits graduates from MBA programs at top business schools that are not only academically distinguished, but also are known for their diverse student bodies. The program puts MBA graduates on an accelerated track through a series of rotational assignments—bringing a diversity of thought to PG&E by sharing and integrating their experiences from previous careers and academic disciplines. In addition to campus visits by more than 60 officers and directors, we collaborated with student clubs at six campuses to sponsor conferences for diverse groups. Eighteen MBA hires (eight men, ten women) will be joining PG&E in the fall of 2008, adding to the program’s 25 current and graduating members.

PG&E’s strategic approach to a culture of diversity and inclusion is a critical part of our values and the way we approach each person every day. Using Equal Employment Opportunity Commission (EEOC) definitions, workforce statistics for 2005 to 2007 are presented in the table below. The statistics for 2007 show a slight increase among women and minorities.

PG&E’s minority workforce representation statistics for 2005 to 2007 are provided in the table to the upper right.

## Workforce Representation

	2005	2006	2007
Asian	13%	14%	14%
Black	7%	7%	7%
Hispanic	14%	14%	15%
Native American	2%	2%	2%

## Monitoring Results

PG&E is not only putting in place policies and practices to attract and retain a diverse workforce, we are also ensuring that these efforts are delivering results. Both internal and external oversight help ensure that PG&E achieves its goal of encouraging an environment that fosters diversity and inclusion.

## Internal Monitoring

PG&E has a long-standing commitment to maintain employment policies and practices that meet the highest legal and ethical standards of excellence. The Public Policy Committee of PG&E Corporation’s Board of Directors regularly reviews our equal employment opportunity and affirmative action policies and performance. Ongoing internal oversight helps ensure that our actions are aligned with our high standards of ethical behavior. Reviewing our affirmative action progress, action-oriented programs and good-faith efforts provides key indicators of our compliance—not only with legal requirements

## Representation of Women and Minorities in Workforce, 2005-2007

EEOC Category	2005	2006	2007
<i>Women</i>	26%	26%	28%
Officials and Managers	27%	27%	27%
Professionals	35%	36%	38%
Technicians	15%	16%	17%
<i>Minorities</i>	35%	36%	37%
Officials and Managers	25%	26%	28%
Professionals	38%	39%	41%
Technicians	32%	32%	36%

## Comparison of PG&E’s Representation of Women and Minorities with the National Utility Average

Category	PG&E	National Electric Utility Average	National Gas and Electric Utility Average
Women	28%	28%	25%
Minorities	37%	22%	21%

but also with our own expectations. For example, PG&E develops and reviews more than 42 Affirmative Action Plans (AAPs) each year to ensure that we are pursuing the appropriate policies and programs to attract and retain a workforce that reflects the communities we serve.

### External Monitoring Through Government Audits

The U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP) is responsible for auditing the AAP results of federal contractors, such as the Utility. The company's more than 42 AAPs are subject to potential audits by the OFCCP in any given year. In 2007, the OFCCP did not schedule any audits of the company's AAPs. We have received satisfactory closures on audits in previous years.

### Recognition for Diversity

Our commitment and accomplishments regarding diversity in a variety of areas, such as employment, marketing, philanthropy and purchasing have been recognized repeatedly over the years by respected third-party evaluators. Most recently, PG&E Corporation or Pacific Gas and Electric Company have been recognized by:

- *Black Enterprise* magazine – listed as one of its "40 Best Companies for Diversity"
- *Hispanic* magazine – placed among its top 100 companies
- *Hispanic Business* magazine – placed among its top 60 companies for Hispanics
- Human Rights Campaign – rated "100" on its Corporate Equality Index
- Professional Business Women of California Pacesetter Award – ranked among the Top 10 companies
- *San Francisco Business Times* – recognition for two of the 100 most influential women in business in the Bay Area
- 12th Annual African American Excellence in Business Awards – recognized three employees as part of "101+ Black Men Making A Difference In The Community"

Please see page 44 for information on PG&E's commitment to supplier diversity.

## Workforce Development and Learning

As California's largest utility, we face a complex, changing business environment. We are transforming our business to meet this challenge, recognizing that our employees are our greatest asset. Through a variety of high-quality learning experiences, we are committed to equipping our employees with the tools they need to be successful. We continue to focus our training to better align with our business priorities and support the myriad new tools and procedures we are introducing to enhance our service to customers.

There were several key highlights in 2007:

- We trained our employees on a variety of new systems and processes for how work is planned, managed and performed at PG&E. In 2007, we provided instructor-led training for approximately 3,500 employees, web-based training for approximately 5,000 employees on our new system for working with suppliers and training on our new customer billing system for 350 employees.
- We continued our Leadership Academy, which helps the company's management enhance their leadership skills. Many of the workshops were led by PG&E officers, who shared their perspectives on our business.
- We offered technical training for employees and third parties on a variety of topics, from power system operations to environmental compliance. The courses, developed by instructional design specialists and delivered by nationally certified instructors, focus on both the "how to" and the broader context.

PG&E also continued its partnership with our labor unions to help create a smooth transition from the workforce of today to tomorrow. For example, we are working with IBEW Local 1245 to jointly oversee an aggressive effort to place employees into apprenticeship and formal training programs. PG&E currently has 800 employees participating in these programs, most of which run for three years and include both classroom and on-the-job training. Most of the company's formal training programs lead to state certification as a journeyman in jobs like lineman, electrician and welder. PG&E is

also partnering with ESC/IFPTE Local 20 on training for estimators—employees who play an essential role in moving work through PG&E's processes so that we can complete various jobs for customers, including new connections.

### Looking Ahead: PowerPathway™ Program

Within the next few years, roughly 42 percent of all PG&E employees and nearly 50 percent of management employees will be eligible for retirement. This statistic is common among utilities and has been cited in studies by groups

#### Working with Our Labor Unions

For PG&E to be successful, it is critically important to engage all employees in our operating plan, including the company's thousands of union employees, which comprise approximately 70 percent of the company's workforce.

To facilitate this dialogue, PG&E holds regular meetings with IBEW Local 1245 and ESC/IFPTE Local 20 leadership to jointly review the wide range of issues associated with transforming our business to meet the challenges of the future, including workforce planning and training.

During 2007, PG&E's union employees played an integral role in helping to define new work processes and technologies to allow us to do our work better, faster and more efficiently. This engagement included helping to plan, test and implement these new tools and procedures.

In all, more than 500 IBEW- and ESC/IFPTE-represented employees served as focus group participants, trainers and "super users," leading up to the launch of a major set of new processes and technologies as part of the company's business transformation effort. While we have experienced significant challenges with the new processes and technologies, the groundwork has been laid to expand and build off of this engagement to ensure that we are meeting the needs of both our entire workforce and our customers.

The company also worked collaboratively with the unions on several ongoing initiatives, consistent with industry best practices. These include serving on teams to review company procedures and identify ways to improve service to our customers, transforming PG&E's call centers into high-functioning contact centers of the future and developing training that will give supervisors and shop stewards the tools to resolve issues in a timely manner.

such as the Center for Energy Workforce Development, The Conference Board and the U.S. Department of Energy.

To meet these challenges, PG&E created a new PowerPathway™ program, working collaboratively with labor, industry, government, community-based organizations, foundations and California's educational institutions. The goal of the program is to create workforce pipelines to systematically fill high-demand, hard-to-fill positions such as utility workers, apprentice lineworkers, welders, instrument technicians and electrical technicians.



The program will launch in 2008 with pilot efforts in San Francisco/Oakland, San Mateo/San Jose and Fresno. In each geographic area, selected local community colleges, working along with strategic partners, will provide curricula to prepare qualified students for targeted positions.

### Compliance and Ethics

PG&E has an integrated compliance program that works with all of our operating groups. With accountability as one of PG&E's core values, the company established a Compliance Champions Committee in 2005 and its work continues today. The purpose of the committee is to identify, develop and promote the strategies necessary to establish a consistent, disciplined and sustainable process for achieving excellence in compliance management for the PG&E enterprise. This will be accomplished in accordance with the PG&E Code of Conduct, applicable laws, regulatory requirements, policies and standards and will help achieve our goal of delighted customers, energized employees and rewarded shareholders. The Compliance Champions program is facilitated by the Compliance and Ethics department, which reports to PG&E Corporation's Chief Risk and Audit Officer.

Personal conduct expectations are communicated through our values and annual compliance and ethics training. In 2007, more than 99 percent of employees completed the annual compliance and ethics training, which is typically conducted in small groups so as to stimulate discussion and share experiences. The trainings are facilitated

## Employee Trainers Help Transform the Workplace

Transforming PG&E to the utility of the future requires strong and sustained employee engagement. Since 2005, PG&E has offered an intensive multiday workshop to help meet this objective and advance the company's vision, values and guiding behaviors.

By the end of 2007, 6,200 employees had participated in the workshops, designed in partnership by PG&E's leadership team and Senn-Delaney, a firm with a proven track record of helping companies reshape their corporate cultures. The workshops enable employees to experience personal insights about how to be better leaders and teammates through targeted exercises—simulating high-performing business cultures and reinforcing themes such as accountability, coaching, building rapport, trust and openness. The exercises are followed by reflection and dialogue to help employees make the connection between the important concepts they learn and their day-to-day impact both at work and at home.

A key strength of the workshops is that they are facilitated by fellow employees from across the company, each of whom volunteers and completes a rigorous training and certification program with Senn-Delaney. Nearly 70 employees have been certified to lead the workshops, making a personal commitment beyond their normal responsibilities and duties.

Workshop participants have given consistently high ratings for the courses, as well as the employee facilitators. The facilitators have reaped many rewards, as well, as these examples demonstrate.

**Raj Beasla,**  
**Substation Maintenance Superintendent**  
19 years with Pacific Gas and Electric Company

*"I attended the workshop with mixed emotions. I thought it was going to be another class for me to learn new tools to be a better supervisor. I quickly realized the workshop was about what I need to do to get better results and fulfillment. I started practicing what I learned at home and work, and realized that the person I have to change is me. The next time I attended the workshop with my team, I signed up to be a facilitator to share and practice the learnings from the workshop."*

**Malia Wolf, Senior Director,**  
**Information Technology Infrastructure Services**  
26 years with Pacific Gas and Electric Company

*"When I attended my first workshop, I was stunned at how it made well-known, but little used, concepts so easy to grasp. I started using some of the concepts in my personal life, and it made a difference for me and my family. At that point, I wanted to help other employees make the same discoveries. Every time an employee says the values are clearer to them now, or one of the concepts made a difference for their family or work life, it fuels my desire to continue facilitating workshops."*

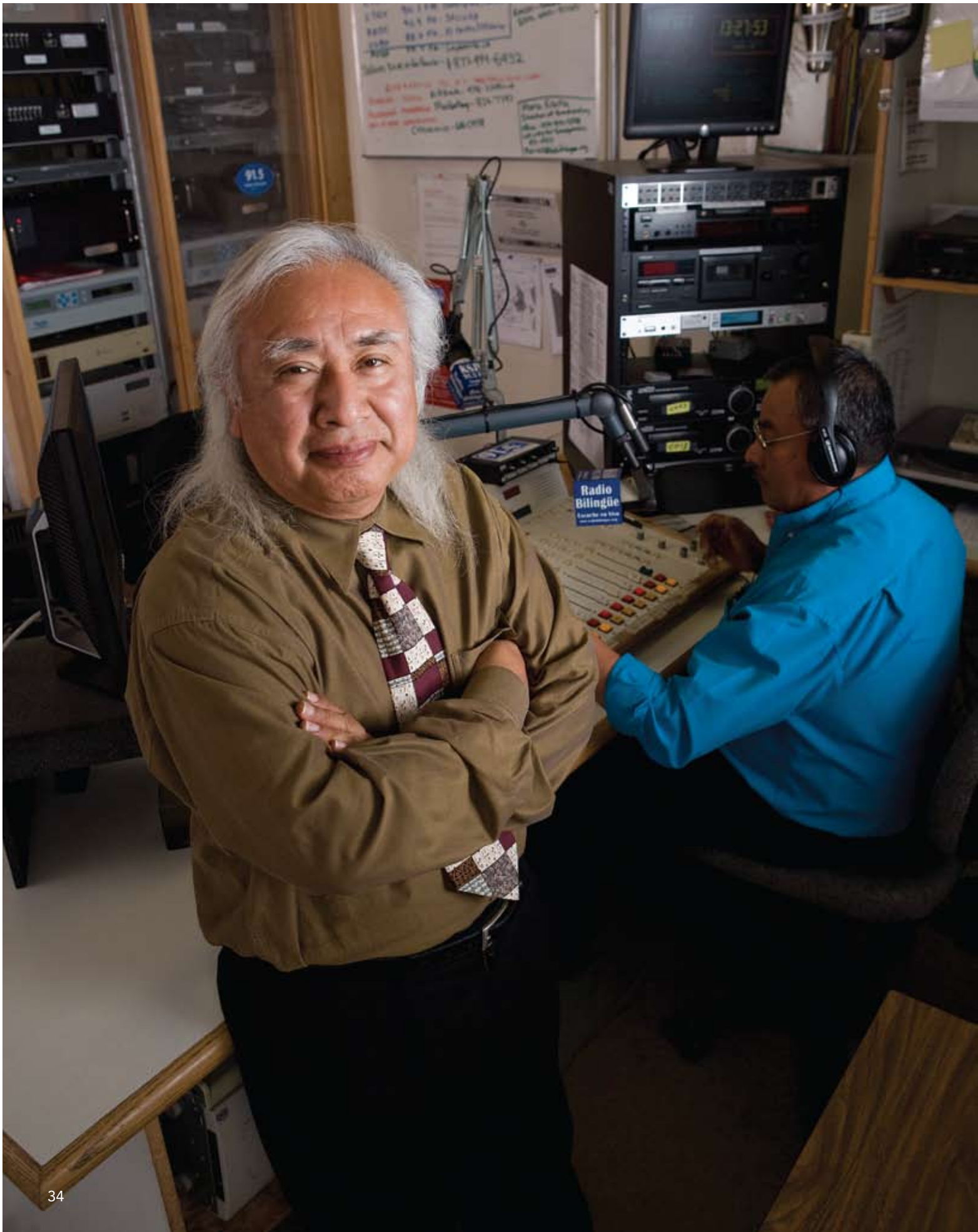
and supported by a video created by the Compliance and Ethics department that portrays various compliance or ethical dilemmas that employees may face. Our Compliance and Ethics department develops new training each year to address our employees' needs and to respond to their suggestions.

In addition, the Compliance and Ethics department produced a *Code of Conduct: Standards for Personal Conduct and Business Decisions* handbook on how to act and work responsibly. In 2006, we revised our Code of Conduct Handbook, which was provided to employees in 2007 and is available at [www.pgecorp.com](http://www.pgecorp.com). The handbook outlines our core values, describes our standards of conduct and addresses key regulatory and compliance requirements.

Just as we are committed to ethical business conduct and compliance with all applicable laws,

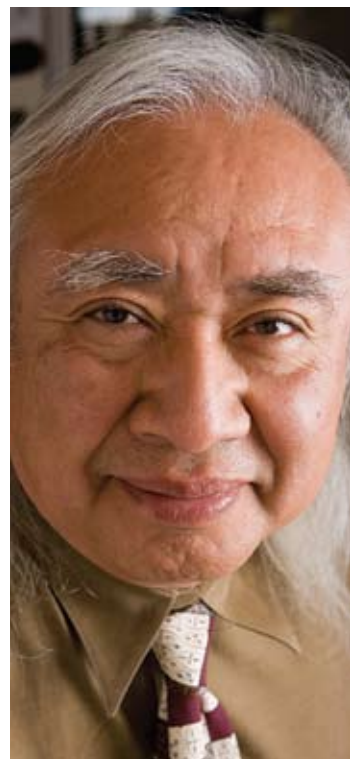
regulations and policies, we appreciate and expect equal commitment from our vendors and contractors. For additional information, please visit [www.pgecorp.com](http://www.pgecorp.com) to view PG&E's Contractor, Consultant and Supplier Code of Conduct.

Finally, we provide opportunities for employees to ask questions and report questionable activities. PG&E's Compliance and Ethics Helpline is available to employees, contractors and customers 24 hours a day. It handled 405 calls in 2007, which is down slightly from 462 in 2006. Calls are handled confidentially, and callers can remain anonymous.



# Our Communities

While providing safe, reliable energy service is job one, a utility provides more, and is more, to a community than just pipes and wires. We help towns and cities meet their environmental and sustainability goals. We help community-based organizations reach some of the neediest in our society. We are an employer, a first-responder, a network of men and women who are part of, and rely on, the communities we serve. At PG&E, each of our thousands of communities is unique and each contributes to the economic well-being and quality of life of the entire state. Working with our communities, we can make a difference that stretches beyond their individual borders, and those of California's, too.



**P** G&E is focused on building a stronger and deeper relationship with our increasingly diverse customers and communities. For many years, we've enjoyed a rich partnership with Radio Bilingüe, Inc., [www.radiobilingue.org](http://www.radiobilingue.org), a Fresno-based non-profit public radio network inspired by Cesar Chavez and the civil rights movement. Radio Bilingüe provides cultural, arts, public affairs and educational programming in Spanish and other native dialects for the Latino community, and basic information for immigrants and agricultural workers. By helping us reach important customers, providing trusted counsel and raising awareness on emerging environmental issues, Radio Bilingüe is a key community partner for PG&E. This unique partnership is a model of how corporations and organizations can work together to make a real impact on diverse segments of society, helping them prepare for a better future.

**Hugo Morales**, founder and executive director of Radio Bilingüe, is a longtime champion for the Central Valley's low-income population, elevating the voices of these communities through public radio.

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### **At Radio Bilingüe, what is your primary mission?**

Our mission is to empower the Latino community and other disenfranchised communities. We have the same mission as public broadcasting – providing news, information and music that is cultural in nature and enriches the lives of our audience. But our focus is to connect with the Latino population, and try to meet their unique information needs.

### **Tell us about your listeners and their unique needs.**

We have family-friendly, healthy programming and a lot of respect for our audience. We draw from our audience to better serve them. You know, the highest high school dropout rates are among Latino youth, yet 80 percent of Latino parents want their children to go to college. Our response is to provide concrete information that people can act on. We help inform parents about how to ensure their children get a good formal education.

### **How have you partnered with PG&E over the years?**

We're proud that PG&E is supporting our efforts to serve the community. In turn, we've helped PG&E promote energy efficiency and programs that save customers money on their bills to hard-to-reach populations, like the 100,000 Mixteco and Triqui customers from Mexico that don't speak English or Spanish. I also served on PG&E's community advisory board for 10 years, helping to build a better PG&E in terms of service to disadvantaged customers and diversity throughout all segments of the workforce.

### **Do you address the environment?**

We've been covering environmental issues since the '80s. A recent independent survey showed a shift in awareness is happening. We now have a dedicated reporter covering environmental issues, a position PG&E helps fund through a grant. It allows us to inform people about the full scope of environmental issues and empower them to build a healthier community.

### **Why should communities learn more about issues like global warming?**

It's important to have an educated citizenry. We want them to make the right choices. We want to help build a sense of responsibility. The Latino population will continue to grow, and it's our responsibility to educate our listeners.

### **What will it take for PG&E to become the utility of the future?**

You should increase the diversity of your workforce from the Board of Directors, to the managers, to the staff. Build capacity inside the company to better serve your customers. Work with more diverse suppliers. Also, focus on other creative ways to help non-profits support the community, like engaging them in your programs for low-income customers. PG&E should join with others to answer these questions and have an even more meaningful engagement.

## Corporate Philanthropy

Being an active member of a community means supporting the very organizations that make communities thrive and provide a sense of the character of its citizenry, our citizenry. We do this by giving financial support, time, advice and technology to help make a difference and ensure the vitality of the thousands of communities that comprise our service area.

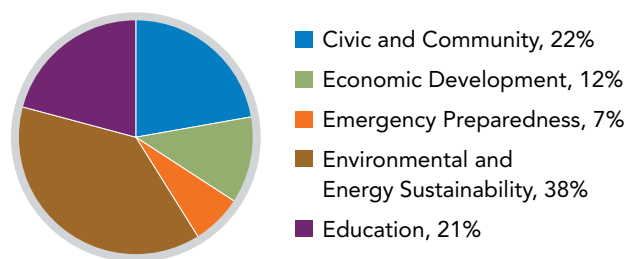
At PG&E, we commit at least 1 percent of our pre-tax earnings from operations to be returned to the community through grants to non-profit organizations and public service efforts in northern and central California, as well as to certain statewide and national organizations. We also make in-kind contributions and provide other forms of support to our community partners. In 2007, we donated 1.2 percent, or \$18.3 million, to charitable organizations, a 25 percent increase from 2006 and the largest charitable commitment in the company's history. As always, the company's charitable contributions are funded entirely by shareholders and have no impact on electricity or natural gas prices.

In 2007, our giving focused on the environment and reaching underserved populations through education, economic development and emergency preparedness. Approximately 38 percent of our contributions supported environmental

initiatives, up from 28 percent in 2006. A portion of these efforts helped PG&E ensure that 75 percent of our giving supported organizations working in underserved communities. This includes organizations supporting low-income communities, people of color, senior citizens, the disabled, the homeless, the working poor and unemployed and the Lesbian, Gay, Bisexual and Transgender (LGBT) community.

In 2008, we expect to provide almost \$18.7 million in charitable funding, representing 1.2 percent of pre-tax income from operations. We will also focus our grants on environmental and energy sustainability projects, and strive for 80 percent of our total grant-making dollars to assist California's underserved populations.

### 2007 Charitable Contributions



### Helping Customers Weather the Citrus Freeze

In January 2007, a cold snap wreaked havoc on the citrus industry in 13 counties within PG&E's service area. The damage to local economies was estimated to approach \$1 billion and resulted in the loss of 12,000 jobs. When Governor Schwarzenegger declared a state of emergency, PG&E responded to help meet our customers' needs.

PG&E teams reached out to the affected communities in partnership with The Salvation Army, offering emergency assistance grants to more than 340 individual families for up to \$500, enrolling low- and fixed-income customers for a 20 percent discount on their energy bills through our CARE program, making donations to area food banks totaling \$100,000 and offering payment-deferral plans for qualified agricultural growers.

We worked with local TV and radio stations to invite customers to outreach events where



multilingual volunteers shared information about the various assistance options available. In addition to organized outreach events in Orange Cove, the employees of PG&E's Fresno Contact Center held a food drive that delivered more than 1,300 items to the local food bank.



## Investing in a More Sustainable Future

Ensuring healthy, vibrant and sustainable communities for years to come benefits PG&E, our customers, our employees and all of California. That is why we have placed a particular emphasis on environmental-related grants and are investing in a future that reflects our vision of how energy will be produced, delivered and consumed in the years ahead. Some examples of our environmental partnership efforts in 2007 include:

- **The expansion of our partnership with Habitat for Humanity**, which supports a core business goal of supplying affordable renewable energy to our customers. In 2007, PG&E announced a \$1.2 million partnership with Habitat for Humanity International to install solar electric systems on every Habitat-built home throughout PG&E's northern and central California service area last year. PG&E employees have also embraced Habitat for Humanity, volunteering nearly 2,000 hours in 2007 alone. This partnership is an expansion of PG&E's Solar Habitat Program, which has supported low-income families in underserved communities with money-saving solar technology and energy efficiency resources since 2005. In 2007, the partnership outfitted 65 homes with solar panels, which will save each family approximately \$500 each year in energy costs

and prevent thousands of pounds of CO<sub>2</sub> from entering the atmosphere.

- **Our Solar Schools Program**, which teaches the value of alternative energy by turning school buildings into hands-on science experiments. Since 2004, this award-winning program has been making science fun and teaching students how their everyday actions can impact the environment. In 2007, PG&E provided 40 underserved schools with a free 1.3-kW solar energy installation, bringing the total number of Solar Schools to 100. We also trained 1,200 teachers to deliver a solar sciences curriculum that meets the California Department of Education's standards for science, social studies, math and English. In addition to the schools selected for the solar panels, PG&E awarded nearly \$200,000 in "Bright Ideas" grants in 2007 to support solar projects in the classroom.



- **Supporting peregrine falcon conservation efforts** through charitable funding and a well-established partnership with the University of California Santa Cruz Predatory Bird Research Group (SCPBRG)—the leading researchers working to address declining populations of the endangered birds. PG&E’s support reached new heights in 2005 by funding a “nest cam,” broadcasting the daily routine of a pair of peregrines and their young perched high on the company’s headquarters building. In 2007, the famous peregrines laid new eggs on the central anchorage of the San Francisco-Oakland Bay Bridge, requiring a dramatic rescue by SCPBRG with financial support from PG&E. Our continued support also funds the group’s educational outreach to hundreds of high schools and middle schools throughout California.

## Meeting the Needs of Diverse Communities

The diversity of cultures, religions and languages among California’s communities grows richer every year. These changing demographics require us to continuously look for effective ways of

speaking with our customers and the broader community about saving energy and money, public safety, emergency preparedness, clean energy and other topics. This includes offering both a Spanish- and Chinese-language version of our website.

Highlights of some of our 2007 actions include:

- **Partnering with the University of California, Merced (UC Merced)**, located in the state’s diverse San Joaquin Valley, to help inspire future leaders in energy efficiency, renewable power and related technologies. Our \$1 million commitment over the course of the five-year partnership will help enhance student recruitment and retention by expanding the school’s Engineering Service Learning Laboratory. The lab provides a home base for students working on cooperative engineering projects with community non-profit groups, such as A Woman’s Place Merced and the Merced County Office of Education. PG&E also presented the university with two natural gas vehicles, as well as a fueling pump, for the university’s fleet and students traveling off-campus for service learning projects.

## Helping Non-Profits Go Green

PG&E is constantly looking for ways to partner with community-based organizations and support their needs using our expertise, time and money. Recently, a common theme has emerged—many want to do their part to help combat global warming and create a sustainable future, and are recognizing that, in some instances, they need to do more with less.

We are identifying opportunities to help “green” our non-profit partners and save them money in the process. At Project Open Hand in San Francisco, PG&E gave \$200,000 to install a photovoltaic system on the roof of the food bank and a state-of-the-art thermal system to produce enough energy to heat 170,000 gallons of water per year.

The combined solar systems will save Project Open Hand more than \$12,000 annually in energy costs and more than \$600,000 over the life of the system. This savings will allow the non-profit to serve an additional 6,700 home-delivered meals a year and further its mission of meeting community nutrition needs through programs for people living with HIV/AIDS, the homebound/critically ill and seniors.

At a ceremony to unveil the new system, Bill Morrow, the Utility’s President and Chief Executive Officer, was joined by local elected officials and



community members who saw live readings of the new system’s power generation and the corresponding avoided greenhouse gas emissions.

The solar installation is part of PG&E’s \$7.5 million commitment to increase solar power in San Francisco, which has also included donating systems to the San Francisco Food Bank and San Francisco LGBT Community Center. Each represents another step we are taking to help San Francisco become more environmentally friendly by reducing its carbon footprint and create a more sustainable future for the community at large.

- **Supporting countywide 2-1-1 services, a new central hotline for social services** modeled after 9-1-1 with operators who speak multiple languages and are trained to put callers in touch with local county resources. The hotline benefits PG&E customers as a single touch point for many services, including our programs to assist low-income customers such as REACH and CARE, and information on emergency preparedness. PG&E will also use 2-1-1 to disseminate information on cooling centers and emergency services during an extreme weather condition or natural disaster. PG&E has committed \$850,000 to six county agencies to assist with the launch of 2-1-1. We are also supporting WE Connect, a statewide campaign designed to connect working families with key programs and resources.
- **Investing in the future leaders of California through the HOPE (Hispanas Organized for Political Equality) Leadership Institute.** For nearly 10 years, PG&E has provided charitable donations and staff resources to this organization, which aims to create civically engaged, effective advocates for change in significant policy areas. To date, the institute has graduated approximately 300 Latinas who have become leaders at the local, state and national levels as advocates for social change. In 2007, PG&E supported HOPE with a \$75,000 charitable contribution.

## Community Awards

At PG&E, we strive to be active members of our communities, helping to support local organizations and initiatives that make a difference and improve the quality of life. A sampling of community awards received by PG&E for our efforts in 2007 include:

- West Sacramento Chamber of Commerce – Business of the Year
- A. Philip Randolph Institute – Community Theme Award
- Oakland Chamber of Commerce – Business of the Year
- Berkeley-Albany YMCA – Community Partner of the Year
- Asian Pacific American Leadership Project Award for Corporate Leadership
- Central Valley Opportunity Center – Outstanding Business Partner

## Volunteerism and Community Support

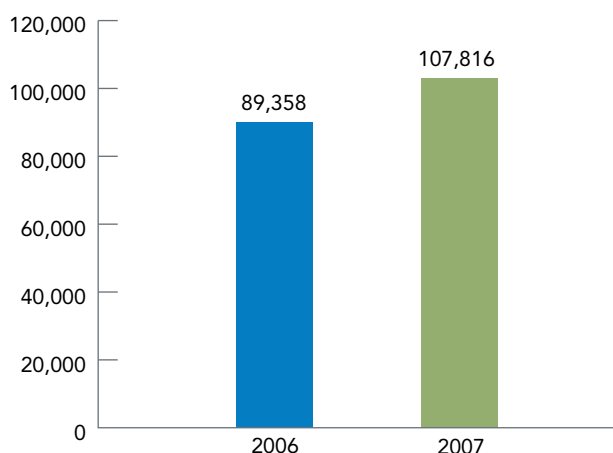
Many of our employees donate their time, enthusiasm and expertise to their communities and neighbors through our Volunteer Program. Whether it's team building at a food bank or restoring parks and habitat, PG&E employees demonstrate time and again they are hard-wired for giving back to the community.

2007 was a record-breaking year for employee volunteerism. Through nearly 300 company-organized events and their own community efforts, PG&E employees and retirees collectively spent more than 107,000 hours serving in the communities where they live and work, growing from more than 89,000 hours in 2006.

In 2007, PG&E's Volunteer Program engaged the commitment and involvement of the company's employees and retirees by providing the tools and resources necessary for company-sponsored volunteer events focused on the environment, education, emergency preparedness, economic development and emergency energy assistance. For 2008, the Volunteer Program will do the same with an even greater emphasis on environmental volunteerism.

Our Volunteer Program connects employees directly to the communities in which we work and live. In the process, the program provides important team-building opportunities for employees. For example, in 2007, a group of Diablo Canyon Power Plant employees spent a weekend working on restoration projects together at Sequoia National Park.

### Employee and Retiree Volunteer Hours



## 2007 Volunteer Highlights

Our annual Earth Day partnership with the **California State Parks Foundation**, at which more than 1,300 employees, retirees and their families rolled up their sleeves to help clean up and restore 16 California state parks. Tasks included planting native trees, cleaning up trash, restoring trails and repairing picnic areas. Over the multiyear partnership, PG&E has granted more than \$850,000 to fund vital park maintenance and improvement projects. The state's 278 parks comprise more than 1.5 million acres of land that needs to be maintained.



A PG&E employee volunteers for a wetland restoration project at Santa Venetia Marsh Open Space Preserve, in partnership with Save the Bay and the Marin County Open Space District.



Our annual **"Ring the Bay"** event, at which we joined forces with Save the Bay to help restore important wetland habitat at three locations "ringing" the bay—removing non-native plants, collecting seeds and cleaning up the shoreline.

**Community events**, such as our annual Youth Achievement Camp for at-risk students in Fresno-area elementary schools. Held at Bass Lake, PG&E volunteers from the company's Hispanic Employee Association joined dozens of local students, who teamed up for tree planting and other educational stewardship activities.

## Supporting Wildlife as Part of a Regional Emergency Response

When the Cosco Busan container ship, bound for South Korea, crashed into the base of the San Francisco-Oakland Bay Bridge tower spilling more than 58,000 gallons of bunker fuel oil into the Bay, PG&E lent a hand to the response effort, providing expert volunteers and charitable dollars.

While PG&E had no involvement in the accident, a group of about 15 PG&E environmental specialists partnered with the Golden Gate Audubon Society and the Oiled Wildlife Care Network to conduct shoreline bird assessments along the Bay. Volunteers hiked miles of shoreline, monitoring local bird populations in an effort to find and document oiled birds.

The information collected by the volunteers was used by the environmental organizations to find and rescue oiled birds. The data will also be used to develop a detailed history of the effects of the oil



Photo courtesy of Teri Gorham

spill on the millions of resident and migrating birds that use the San Francisco Bay each year.

The company also provided charitable funding to WildCare, the Marine Mammal Center and the International Bird Rescue Research Center to support its Oiled Wildlife Care and Education Center in Cordelia.

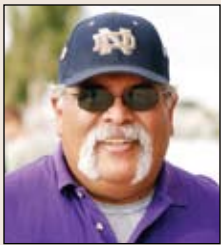
## Given annually since 1986,

the Mielke Awards recognize PG&E employees who have performed outstanding community service. The awards were established in honor of former Pacific Gas and Electric Company Chairman and CEO, Frederick W. Mielke, Jr., known for encouraging employees to give back to the community through service—an important company value that continues today.

In addition to the annual award celebration in San Francisco, one of the recipients travels to Washington, D.C., to receive the prestigious Jefferson Award on behalf of all the winners. This national award for public and community service was established in 1972 by Jacqueline Kennedy Onassis and several other distinguished leaders.

In 2007, there were five Mielke Award Winners.  
PG&E donated \$5,000 to each of the non-profit organizations they selected.

## Recognizing Outstanding Community Service



**William Arnold, Jr.** may hold the esteemed title of chairman of the Lions Wilderness Camp for Deaf Children, but says one of his most important roles is serving as DJ at the yearly goodbye dance. Why play music for deaf children? The campers

vary in their hearing ability and Arnold pumps up the bass so they can feel the beat. A gas control technician, he's been with PG&E for 30 years.



**J.T. Haas** is the type of person who always gets involved. He volunteered as his son's soccer coach with no experience, then became the league's head coach for 12 years. So it's no surprise that Haas is one of two PG&E employees

to receive the Mielke award twice—both for his work with San Luis Obispo's Transitions – Mental Health Association, which gives opportunities to at-risk youth and disabled adults and seniors. Haas also represented PG&E at the Jefferson Awards in June 2008. He has worked at PG&E for 27 years and is an industrial power engineer.



**Nevin Hindiye** performs design and customer contact work as an associate distribution engineer in Fresno. A PG&E employee for six years, Hindiye is also the founder of Fresno's Leading Young Professional's group, a 1,500-member

organization geared toward cultivating and retaining young professionals in the area through networking and community service.



**Larry Pulley** is so dedicated to serving the Sonoma County 4-H All-Star team that he sometimes commutes 200 miles to attend events. When Pulley isn't volunteering, he pursues his hobby of crafting hooked rugs. Pulley

works as a dry fuel storage manager at the Humboldt Bay Power Plant.



**Kenneth Wilson** is an avid backpacker who has hiked 1,000 miles—igniting his interest in working with the Red Cross. Wilson, a 35-year PG&E veteran who is currently a general construction inspector, serves as a disaster action

team captain for the Yolo County American Red Cross. His outdoor skills have helped him teach people how to live for three days without assistance after a disaster.



PG&E sponsored the Best Buddies Challenge, an annual bike ride benefiting Best Buddies International, a non-profit organization dedicated to enhancing the lives of people with intellectual disabilities. Our solar-powered bike added to the fun.

## 2007 Campaign for the Community

Our employees and retirees gave more than their time by donating to PG&E's **Campaign for the Community**—hitting record levels by raising nearly \$3.3 million in 2007. This represents an 18 percent increase over the prior year, with an average annual gift of \$473 per employee. Approximately 7,200 employees and retirees contributed to more than 3,500 organizations, including charities, hospitals, schools, environmental organizations and many other community groups—as well as the highest-ever contributions to PG&E's employee association scholarship funds. In addition to monetary donations, employees sponsored fundraisers, which included silent auctions and used book and bake sales to raise an additional \$38,000 and a lot of enthusiasm.



## Helping Customers in Need

PG&E continues to help income-qualified and other customers manage energy costs, working in coordination with stakeholders, such as community-based organizations, non-profits, faith-based groups and federal and state agencies, through:

- **Relief for Energy Assistance through Community Help (REACH)**, which provides one-time emergency financial assistance for customers in jeopardy of losing their energy services due to unforeseen circumstances. Sponsored by PG&E and administered by the Salvation Army, REACH helped approximately 30,260 households in 2007—a 176 percent increase over 2006. This increase resulted

from a one-time infusion of \$10 million from customer rates that began in fall 2006 and extended through early 2008. REACH is traditionally funded by charitable contributions from employees, individual customers and PG&E shareholders.

- **Family Electric Rate Assistance (FERA)**, a rate reduction program for households of three or more people with low-to-middle income.
- **Energy Partners** program, delivered by approved contractors, which helps income-qualifying customers through free in-home energy education and measures assessments to identify energy-saving opportunities. We then follow up with steps that may include installing attic insulation and weather stripping for doors, making minor repairs such as fixing broken windows and patching walls and performing safety inspections of selected appliances.

## Reaching Out to Customers through CARE

PG&E is committed to meeting the needs of our customers, including those most in need such as our low-income and senior citizen populations, as well as people with disabilities. And while PG&E has been assisting these important customers for more than two decades, we know our efforts are more important now than ever before in light of rising energy costs, evolving demographics in the state and increasing demand for these services.

One of PG&E's longest-standing financial assistance programs is California Alternate Rates for Energy (CARE), which provides a 20 percent monthly discount on the bills of qualifying low- or fixed-income customers—saving them more than \$2.4 billion since 1989. In 2007, more than 1.1 million customers were enrolled in the program, which represents more than 70 percent of eligible participants.

With CARE, we take a robust, multifaceted approach to identify, reach and enroll our low-income customers. Highlights from 2007 included participating in more than 100 community events, conducting highly targeted outreach (in English, Spanish, Chinese and Vietnamese languages) and collaborating with 82 Community Outreach Contractors (COCs) to reach diverse communities. CARE supported the COCs with a monthly newsletter, quarterly regional meetings, site visits, training sessions and more.

## Partnership with HUD and Oakland Housing Authority

On Halloween, PG&E volunteers traveled to Oakland to trick-or-treat in an innovative way. Volunteers went door-to-door to help elderly residents in low-income public housing switch out incandescent light bulbs for energy-efficient compact fluorescent light bulbs (CFLs).

The event celebrated a larger partnership between the Oakland Housing Authority, U.S. Department of Housing and Urban Development, ENERGY STAR® and PG&E to increase energy awareness and reduce energy costs for our low-income customers. During October, more than 22,000 CFLs were installed at over 180 local facilities. Raising awareness of energy efficiency among low-income customers is a win-win for the environment, PG&E and our customers.

In 2007, PG&E also supported local governments in establishing Cooling Centers—a network of community centers and other public buildings where local residents can go to cool off when the temperature gets unusually high.

## Supplier Diversity

PG&E's commitment to diversity and a culture of inclusion is central to the way we approach each employee, customer and business partner. As a major purchaser of goods and services, we continue to raise the bar in fulfilling this commitment by integrating diverse suppliers into our supply chain. Our well-established Supplier Diversity Program promotes economic vitality in the communities we serve by utilizing women-, minority- and disabled veteran-owned business



Pacific Gas and Electric Company's President and CEO Bill Morrow presented the prestigious President's Award to Portfolio Manager Rudy Promani for his strong commitment to supplier diversity.

enterprises (WMDVBE) for a wide range of important products and services.

For the second year in a row, PG&E slightly exceeded the California Public Utilities Commission's (CPUC) targets for diverse spending. The target aims to direct 21.5 percent of the Utility's overall spending to diverse firms. In 2007, the Utility's diverse spending hit 21.7 percent. This represented \$600 million of business with WMDVBE suppliers, the most in the 27-year history of our Supplier Diversity Program and a \$107 million increase over 2006.

The Utility increased its spending in all three WMDVBE categories. Spending increased by \$68 million, or 20.28 percent, with minority business enterprises; \$38 million, or 28.27 percent, with women business enterprises; and \$400,000, or 1.81 percent, with disabled-veteran business enterprises.

Yet, 2007 was a challenging year. Several corporate strategic initiatives to enhance service to customers and provide value to shareholders created significant hurdles for our program. This included our efforts to engage diverse suppliers in contract opportunities to install specialized equipment to maintain electric transmission reliability and replace aging equipment. Each represented new areas where PG&E has not traditionally found diverse suppliers large enough to independently handle the work in a direct contracting capacity.

To address these challenges, PG&E worked to connect our primary suppliers with subcontractors in the WMDVBE business community. These efforts resulted in an almost \$46 million increase in subcontracting results, approximately 32 percent higher than 2006.

Within the company, we expanded the staff responsible for our program. We also formed cross-functional teams to collaborate on meeting supplier diversity goals. And we held our first annual Supplier Diversity Celebration to honor individuals and teams for supplier diversity results and reinforce the company's overall commitment. The event also included training for suppliers designed to help them maximize opportunities with PG&E.

Aggressive outreach and targeted partnerships with our communities also contributed to our success. PG&E reached out to prospective WMDVBEs at more than 100 outreach events

## Diverse Supplier Spending Targets

Category	CPUC Target (%)	Utility's 2007 Results (%)
Minority Men	12	11.74
Minority Women	3	2.81
Minority Business Enterprise (MBE)	15	14.55
Women Business Enterprise (WBE)	5	6.38
<i>Subtotal Women, Minority Business Enterprise (WMBE)</i>	20	20.93
Disabled-Veteran Business Enterprise (DVBE)	1.5	0.77
<b>Total WMDVBE</b>	<b>21.5</b>	<b>21.70</b>

in 2007. PG&E was also one of the first utilities to support the formation of the National Utilities Diversity Council, a new non-profit organization focused on assisting utility commissioners and companies with reaching their diversity goals. Additionally, we continued our work with organizations that support the growth of WMDVBE suppliers, such as ethnic chambers of commerce, the National Minority Supplier Development Council and the Women's Business Enterprise National Council and their local affiliates.

In 2008, a top priority for PG&E will be to work collectively to exceed the CPUC's goal of 21.5 percent through rigorous monitoring and measurement of direct and subcontracting results. In addition, PG&E will strengthen its partnerships with key organizations that have demonstrated success in developing and referring viable WMDVBE suppliers.

### Supplier Diversity Recognition

- Northern California Supplier Development Council Hall of Fame Award
- Asian Enterprise Magazine: Top Corporation for Asian Pacific American Suppliers
- Black Enterprise Magazine: One of 15 companies recognized for Supplier Diversity with African American Suppliers
- California Black Chamber of Commerce: Diversity and Procurement Outreach Award
- California Black Legislative Caucus Foundation: Diversity Award
- Diversity Careers in Engineering & Information Technology: Supplier Diversity Award
- Hispanic Business Magazine: Number 18 on its list of Diversity Elite

### Helping a Small, Diverse Business Grow and Thrive

By working with diverse local businesses of all sizes, PG&E is creating successful partnerships that better serve our customers and contribute to the overall economic growth and development of the state. Alvah Contractors, Inc., a small Native American-owned business based in Folsom, California, is one of many examples of this long-standing commitment and approach.

Cameron Hale, owner of Alvah Contractors, Inc., worked in the utility business for 15 years for various companies, including a large supplier to PG&E. With these large firms, he often had difficulty helping the contractors meet the aggressive supplier diversity targets set by PG&E and the CPUC. Then, at a PG&E workshop, he was inspired to help address the challenge head-on—by starting his own minority-owned small business.

As Mr. Hale moved through the process of becoming a certified WMDVBE business, PG&E provided training and networking opportunities to support the development of his company and explained how to qualify as a CPUC-approved minority-owned enterprise. Alvah now serves as an electrical subcontractor for PG&E.

PG&E's partnership with Alvah involved dozens of employees from across the organization, all equally committed to the company's success. "Everyone worked together to help make my company successful," said Mr. Hale. "Without these dedicated people, it would have been very difficult, if not impossible, to get Alvah Contractors where it is today."

- Minority Business News USA: First Ladies of Diversity Award



PG&E's liquefied natural gas services supplied fuel to a mobile generator, powering an 800-foot container ship berthed at the Port of Oakland.

## Environmental Justice

PG&E always strives to balance the need to maintain and expand its system to meet our customers' needs with the responsibility to understand and respect the needs of our neighbors. In this effort, we are guided by an Environmental Justice (EJ) policy, which commits the company to seek meaningful involvement from community members in decision-making that affects their health and well-being.

The policy and our Environmental Justice program, which we have implemented for over five years, includes employee education and training and focuses on ensuring that we manage facilities in an environmentally responsible manner, in compliance with all laws and regulations, and in a way that minimizes or avoids impacts on adjacent communities.

Examples of our environmental justice policy in action during 2007 included the following:

- Introducing clean energy sources at the Port of Oakland.** For years, diesel emissions from commercial truck and ship traffic at the port have contributed to health problems for nearby residents. Through PG&E's involvement in the West Oakland Toxic Reduction Collaborative, a group initiated by the West Oakland community and U.S. EPA Region 9, we learned about the community's air quality challenges and identified ways in which we could help. In the spirit of our EJ policy, PG&E took a proactive approach and began working with the port operators and other stakeholders to demonstrate new, cleaner sources of energy using natural gas and electric technologies.

As one major milestone, we worked with CleanAir Transport, a local trucking company, to introduce 11 LNG vehicles at the port and install a public access natural gas refueling station. Additional plans call for more natural gas vehicles and refueling stations.

PG&E also helped demonstrate a successful “cold ironing” test, powering an 800-foot container ship at berth using a mobile natural gas generator. PG&E provided the equipment, expertise, permit support and staff for the test, working in partnership with CleanAir Marine Power, the Port of Oakland and the Bay Area Air Quality Management District. The test reduced emissions from the ship dramatically, with an 89 percent cut in NO<sub>x</sub>, a 99 percent drop in particulate matter, the elimination of SO<sub>x</sub> and a 50 percent cut in CO<sub>2</sub>.

PG&E’s efforts earned the company a prestigious Environmental Award from the U.S. EPA Region 9 in 2007. We are now working to expand these solutions in California and encouraging truck manufacturers to produce additional clean emission vehicles. PG&E also continues to educate California policy makers and regulators about how these innovative strategies can achieve immediate improvements in port air quality.

- **Ongoing community involvement in the dismantlement of PG&E’s Hunters Point Power Plant.** For years leading up to the plant’s closure in 2006, PG&E actively engaged with the local community. PG&E voluntarily pledged to demolish the natural gas-fueled plant and remediate the site to meet standards for residential use, becoming one of the first utility companies in the country to do so. These efforts continue to serve as an example of the company’s EJ policy in action and a replicable model for other utilities.

In 2007, PG&E demonstrated its ongoing involvement with the community in many ways. On average, 45 percent of the on-site contractor dismantlement labor force was hired and trained from the neighborhood surrounding the plant, graduates of a local workforce training initiative called CityBuild. In addition, PG&E continued its community outreach through a Project Advisory Committee, which brought together neighborhood and community leaders on issues surrounding the plant’s dismantlement.

PG&E expects the demolition to be completed in 2009, followed by a multiyear process to remediate the property. As with the dismantlement, the community will continue to play an important role, with local workers likely comprising 30 to 40 percent of the workforce.



Local CityBuild graduates hired to help dismantle PG&E’s Hunters Point Power Plant



# Our Environment

At PG&E, we are doing our part to use resources more smartly, advance the clean technologies needed to support our future economy and protect species and habitats for years to come. We are committed to helping create a future planet that is healthier than it is today. To us, that means taking aggressive action to combat global warming, reduce our consumption of natural resources, dispose of our waste more responsibly and help our customers do the same. And, it means understanding that our actions, and those of others, have consequences and taking steps to mitigate these impacts. We are optimistic that, working in partnership with our stakeholders, we can make the changes necessary to create an environmentally sustainable future. A future that will support the kind of work we want to do and businesses we want to run, the kind of communities and neighborhoods we want to live in and the kind of environment we want to pass on to the generations that follow.



**C**reating a common greenhouse gas reporting infrastructure is a key step in the fight against global warming—so that organizations from Newfoundland to Baja are measuring and publicly reporting their emissions the same way. That’s why the work of The Climate Registry is so essential. This new non-profit organization is developing consistent reporting and measurement standards across industry sectors and borders. Still growing, its Governing Board includes 39 U.S. states, eight Canadian provinces, six Mexican states and three Native American tribes—each of whom agrees to support the organization’s standards. While participating in the United Nations Climate Change Conference in Bali, PG&E announced it is a founding reporter in The Climate Registry—a natural extension of our role as a charter member of the California Climate Action Registry. The Climate Registry provides a necessary framework for organizations like PG&E that are committed to reducing their greenhouse gas emissions.

**Diane Wittenberg** is the Executive Director of The Climate Registry, [www.theclimateregistry.org](http://www.theclimateregistry.org), pioneering the development of key protocols and infrastructure to establish a common accounting standard for greenhouse gas emissions.

### Why was The Climate Registry created?

With greenhouse gas emissions, there’s been a void of leadership at the federal level. So states and regions have stepped in. They knew that every state or provincial policy should be underpinned by standardized, consistent measurement. And so, they created The Climate Registry. We play a very important behind-the-scenes role. We ensure that everyone can trust that a ton is a ton when it comes to measuring greenhouse gas emissions.

### How have you achieved so much already?

The Climate Registry is built on the foundation and experience of the California Climate Action Registry. This has allowed us to hit the ground running and work more quickly across North America. We’ve also refined our protocols through interaction with international organizations.

### What’s the biggest challenge you face?

Getting everyone to agree to calculate greenhouse gas emissions in the same way! But consistency leads to comparability and to transparency, which is really important. My job is to encourage our members to think about these issues in the same way and to exercise their own policy authority on top of a common accounting framework.

### Why voluntarily report emissions?

I think that companies like PG&E that started reporting their greenhouse gas emissions early have a competitive advantage. In a carbon-constrained future, companies that act fast, early and decisively are going to be winners.

### How has PG&E supported your efforts?

PG&E has always been a big supporter—first of the California Climate Action Registry, and now of The Climate Registry. You’ve done excellent reporting of your own greenhouse gas emissions. You’ve also helped recruit others to report. And I feel it has really made a difference given the respect people have for PG&E’s environmental leadership.

### What’s your view of California’s leadership?

For years, California’s environmental laws have been considered a model for the federal government. Often, California rules are also the choice if states want to go over and above what the federal government requires. And that tradition is continuing with greenhouse gas emissions. California has the only economywide greenhouse gas reduction law in the nation and it will, by virtue of being first, become a model for the federal government and other states.

### What will it take for PG&E to become the utility of the future?

First, produce low-carbon electricity; PG&E is pretty far along, but your sector produces a lot of carbon. Second, maintain your environmental leadership and creativity. Third, hire employees for their values and their skills, because they reflect what you’re trying to get to. And finally, work with your customers on climate change through programs like ClimateSmart™, where PG&E has been just spectacular in requiring quality offsets. It shows the kind of integrity and respect you have for the customer and the environment, which is admirable.

## Energy Efficiency and Demand Response

PG&E has built a 30-year track record of working with customers to deliver both cost and energy savings through energy efficiency. Since 1976, our energy efficiency programs have saved customers more than \$22 billion and prevented more than 135 million tons of CO<sub>2</sub> from being emitted into the atmosphere, based on cumulative lifecycle savings. Together, we are demonstrating that energy efficiency offers the lowest-cost way to meet growing energy demand, while minimizing greenhouse gas emissions.

PG&E's energy efficiency programs are conceived, created and implemented by experts in our industry-leading Customer Energy Efficiency organization. Funding for the programs comes from customers through a modest public goods charge on each monthly bill. Our team leverages these resources to offer a diverse portfolio of programs that includes a mix of rebates and financial incentives, training and education, support for commercializing new and emerging technologies and other activities such as advocacy for stronger building codes and appliance standards. The CPUC estimates that every dollar spent on energy efficiency in California provides about \$2 in net benefits to the state's economy.

A key factor in California's success is a regulatory structure that creates and aligns incentives for utilities to drive energy efficiency. Importantly, California has long embraced a policy known as decoupling, which breaks the linkage between energy sales and utility profits.

Under decoupling, utilities collect a fixed level of revenue, regardless of their actual energy sales. If energy sales are higher than the target level, the excess revenues go back to the customer. And if sales are lower than the target, utilities recover the shortfalls the following year. Utilities are still responsible for managing their expenses, but this neutralizes the incentive that most utilities have to sell more energy. Rather than focusing on how much energy we can sell, PG&E can focus on helping our customers save energy, money and the environment.

As a complementary policy, California reinstated an energy efficiency shareholder incentive mechanism in 2007 for the state's investor-owned utilities, including PG&E. The policy, which provides a risk-and-reward incentive to

achieve energy savings' goals, serves as another innovative approach to extend California's leadership in energy efficiency. PG&E will be rewarded or penalized based on the extent to which our energy efficiency programs meet or exceed California's targets for reducing customers' demand for electricity and natural gas.

Against this backdrop, PG&E continued to make significant strides in 2007. We delivered the highest gross energy savings in our history as part of a \$1 billion customer energy efficiency commitment from 2006 to 2008. As this report was completed, no final energy savings data were available for 2006 and 2007 due to ongoing proceedings at the CPUC to determine appropriate energy savings calculation methodologies. Please visit [www.pgecorp.com](http://www.pgecorp.com) for the final data once it becomes available.

PG&E's programs earned high marks for customer satisfaction among both residential and business customers in 2007. Approximately 95 percent of customers gave our energy efficiency rebate programs a positive satisfaction rating, and nearly 96 percent of recent residential customers said they were likely to participate in another PG&E-sponsored energy efficiency program.

Other energy efficiency program highlights from 2007 included the following:

- PG&E became the first utility to join The Green Grid, a non-profit consortium dedicated to advancing energy efficiency in data centers and business computing systems. This partnership supports PG&E's industry-leading IT and data center energy efficiency program and service portfolio. It also represents an opportunity to leverage our activities with leading high-tech companies.
- We helped customers save money by safely recycling old, inefficient refrigerators, freezers and room air conditioners. In 2007, PG&E recycled nearly 47,000 units, almost doubling the results from the prior year. PG&E's recycling program retrieves the units for free and provides a \$35 rebate for refrigerators and freezers and \$25 for air conditioners. Ninety-eight percent of the raw materials from each unit is recycled.
- We partnered with the Association of Monterey Bay Area Governments to help the region's hospitality industry become more energy efficient. The partnership has worked with more



## "There's a Better Bulb" Change a Light Campaign

In October of 2007, PG&E kicked off a groundbreaking Change a Light Campaign as an innovative way to encourage more PG&E customers to buy and use compact fluorescent light bulbs (CFLs). The goal of the campaign was to give away one million CFLs—the largest promotion of its kind by a U.S. utility.

Long-lived, energy-saving CFLs offer significant benefits over traditional incandescent bulbs, including:

- Using about 75 percent less energy than standard incandescent bulbs,
- Lasting up to 10 times longer, and
- Saving about \$30 or more in electricity costs over each bulb's lifetime.

When a recent study revealed that almost a third of California households had never purchased a CFL, PG&E saw an opportunity to help educate customers and break down the misperceptions preventing some customers from trying the bulbs.

In coordination with U.S. EPA's national ENERGY STAR® campaign, PG&E's Change a Light Campaign also provided information on the benefits of CFLs and the need to recycle them at the end of their useful life. With the bulb in hand, PG&E customers signed a pledge to change at least one light in their home with the CFL.

PG&E accomplished this large-scale CFL distribution to a diverse population at more than 400 events in its service area through many partnerships including the Sierra Club, Girl Scouts, retail



supporters, government partnerships and other community organizations, as well as 1,000 PG&E employee volunteers.

PG&E's outreach let customers know that CFLs contain very small amounts of mercury and are required to be disposed of properly. In addition, to promote proper end-of-life management for all types of fluorescent lamps (including CFLs), PG&E is an active participant in a state-sponsored program called the California Take-It-Back Partnership.

This partnership is a cooperative effort among PG&E, state and local government and fluorescent lamp retailers to promote public awareness about the need to recycle CFLs, as well as tube fluorescents, and to help create and support an infrastructure to facilitate public lamp collection. In 2007, PG&E partnered with Tehama and Santa Clara Counties to help purchase recycling supplies and create newspaper ads highlighting local recycling options. Our work will continue in 2008.

than 200 establishments—from large chain hotels to independent inns—by offering simple energy audits and installing customized energy saving measures for free.

PG&E is also working to advance opportunities associated with energy efficiency outside of California by working with other utility leaders. PG&E Corporation's Chairman and CEO Peter Darbee co-chaired the Edison Electric Institute's (EEI's) Energy Efficiency Task Force. This Task Force focused on broadening industry executives' understanding of alternative business and regulatory models for advancing energy efficiency as a response to rising energy demand and environmental challenges. As a result of these efforts, the EEI Foundation is launching a new Institute for Electrical Efficiency to help utilities and others working on energy efficiency to identify and implement best practices.

In addition to energy efficiency, PG&E also manages a variety of demand response programs to help cut peak energy use. Focusing on ways to reduce peak energy use is vital to our environmental and resource planning objectives. These programs reward participating customers for voluntarily reducing their energy use when asked to do so in response to a peak-demand event, typically no more than a few critical hours each year.

While we rely primarily on the participation of commercial and industrial customers to achieve large-scale demand response savings, PG&E also enables its residential customers to participate. For example, we created a new Smart AC program that pays residential customers a small one-time amount in return for allowing PG&E to remotely adjust their air conditioners at peak times. PG&E provides the technology that allows for the remote control at no cost to the customer. Participation is voluntary, and customers have the ability to opt out if they choose.

## Planning for California's Clean Energy Future

PG&E's work on energy efficiency and support of clean-energy-generating technologies are part of a broad energy strategy consistent with California's Energy Action Plan. The strategy relies first on an aggressive expansion of customer energy efficiency and demand-side management programs; then it looks to secure additional renewable power resources

### Training Smarter Energy Users

For nearly 30 years, PG&E's Energy Training Center in Stockton has provided energy efficiency education, making it the longest continually operating energy education and training facility in the United States. A sister facility in San Francisco, PG&E's Pacific Energy Center, also offers educational programs, design-tools, advice and support to create energy-efficient buildings.

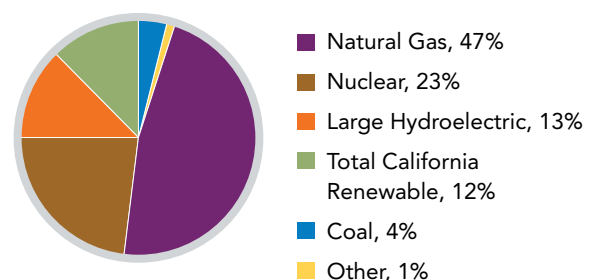
Combined, these centers held 410 training sessions and participated in an additional 120 outreach events in 2007—disseminating important information to skilled tradespeople to the benefit of PG&E's customers.

and distributed generation; and, finally, it seeks to fill the remainder of customers' energy needs through traditional, but ever more efficient, generation sources.

In 2007, PG&E's retail customers purchased 79,451 GWh of electricity. Of that amount, 26,723 GWh were generated by PG&E's own natural gas, hydroelectric and nuclear facilities, as well as small amounts of fuel oil, diesel and solar energy.

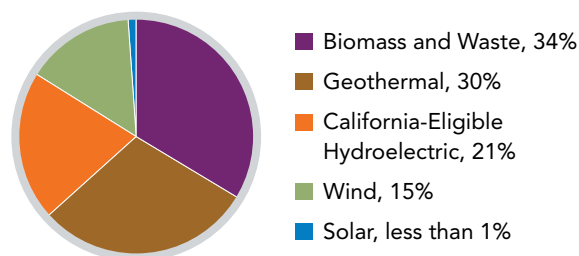
The overall electricity mix used to serve our customers in 2007, which included energy PG&E generated and purchased from third parties, is shown in the following charts.

### PG&E's 2007 Electric Power Mix Delivered to Retail Customers\*



\* Due to a dry winter and the resulting reduction in the availability of hydroelectric generation, PG&E increased its power market purchases in 2007. Because California regulators require us to automatically assume that a certain portion of these market purchases are coal-fired generation, this chart shows an increase in that area. However, PG&E's direct purchases of coal have not increased, and remain at 1.6 percent.

## PG&E's 2007 California-Eligible Renewable Resources\*\*



\*\* As defined in Senate Bill 1078, which created California's renewable portfolio standard, an eligible renewable resource includes geothermal facilities, hydroelectric facilities with a capacity rating of 30 MW or less, biomass, selected municipal solid waste facilities, solar facilities and wind facilities.

A significant amount of the power we supply to customers comes from large hydroelectric stations. However, under California law, energy from these resources does not qualify toward meeting California's renewable energy standards. With these facilities factored in, PG&E's sales from California-eligible renewable resources plus non-eligible hydroelectric represented approximately 25 percent of total energy deliveries in 2007.

## PG&E's Long-Term Electric Resource Plan

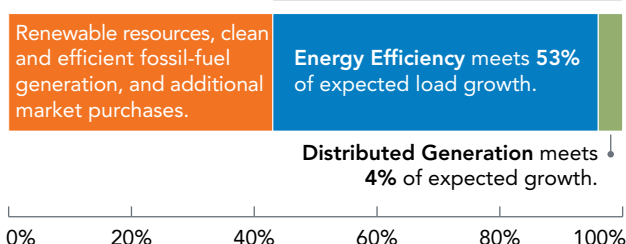
In December 2007, PG&E received approval for a 10-year electric resource plan that includes energy efficiency, demand response programs, renewable generation, distributed generation (including solar power) and new, clean and efficient fossil-fuel units. The approved plan seeks to reduce demand first through energy efficiency and then relies significantly on preferred and environmentally friendly resources.

Significantly, over this time, PG&E expects to meet more than half of the anticipated demand growth in its service area through energy efficiency. PG&E estimates that in the absence of the energy efficiency and other demand-side programs, the California Energy Commission's sales forecast would grow at an average rate of 2.3 percent per year between 2007 and 2016.

PG&E's long-term plan is updated regularly as part of a CPUC proceeding in which all three state utilities and numerous other stakeholders participate. This process allows PG&E to reassess its customer needs and obtain Commission authority for a new procurement plan to meet those needs.

## Projected Energy Load Growth Met By Demand-Side Resources, 2007–2016

PG&E expects that more than half of the anticipated growth in electric energy demand will be mitigated through energy efficiency and distributed generation, such as customer-owned solar.

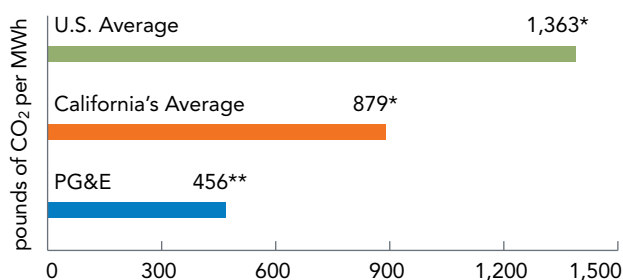


This chart shows the projected growth in energy load in PG&E's service area between 2007 and 2016. Projections are based on the California Energy Commission's revised electric demand forecast (November 2007).

## Delivering Clean Energy

The greenhouse gas emissions rate associated with PG&E's energy mix is among the lowest for any utility in the nation. In 2006, the CO<sub>2</sub> emissions rate associated with generation resources owned by PG&E was 28 pounds per megawatt-hour (lbs/MWh), while the independently verified CO<sub>2</sub> emissions rate associated with all of the power we supplied to customers, including purchased power, was 456 lbs/MWh. For comparison, the national average CO<sub>2</sub> emissions rate for all power generation was approximately 1,363 lbs/MWh, while the California average CO<sub>2</sub> emissions rate was approximately 879 lbs/MWh.

## Benchmarking Greenhouse Gas Emissions for Delivered Electricity



\* Source: U.S. Environmental Protection Agency eGRID Version 2.1 (updated April 2007 and based on 2004 data)

\*\* 2006 emissions rate for our delivered electricity was independently verified and registered with the California Climate Action Registry (Registry). This emissions rate is based on total emissions of 20.7 million tons (18.8 million metric tonnes), calculated in accordance with Registry protocols. Given that a portion of the electricity that PG&E delivers comes from unspecified sources, the total emissions may range between 18 and 21 million tons. Emissions data for our owned generation resources can be found on page 82.

## An Interview with Arthur Rosenfeld, Ph.D., Commissioner, California Energy Commission

Commissioner Rosenfeld's work on the frontiers of energy analysis, standards and technologies has helped save billions of dollars in energy costs since the 1970s and has been instrumental in establishing energy efficiency as a priority resource under California's energy policy framework. In 2006, he received the Enrico Fermi Award, one of the most prestigious science and technology awards given by the U.S. government.

### What are your priorities as Commissioner?

My main interests are energy efficiency in buildings and in industry, and I'm also the assigned Commissioner working to accelerate demand-response. Three-quarters of all our electricity goes into buildings. So, since the 1970s, I've spent a lot of time learning about buildings, how they use electricity and how you can reduce that use cost-effectively. We've made some progress and now we're talking about having zero-net-energy homes by 2020.



drink. If we help them switch from boiling over a wood fire to running it under an ultraviolet lamp, they would save the equivalent of two or three million barrels of oil a day.

### Any new promising technologies on the horizon?

I favor cool-colored pigments on roofs and cars, or better yet, white. A white roof saves 10 to 20 percent of the building's air-conditioning load. In California's 2005 Title 24 building standards, if the roof is flat, with no architectural issue, it must be white.

Starting in 2009, if the roof is

sloped, it must utilize one of the new cool-colored pigments. And cars sold in the United States should have cool colors, as well.

### Why is energy efficiency so important?

The first benefit, of course, is that you save money. Another is reliability and energy independence. And the third is global warming, which has spurred a serious interest in energy efficiency.

### What role has California played in advancing energy efficiency as a resource?

California began championing energy efficiency very early. In California, we've kept electricity use per capita constant at approximately 7,000 kWh per person per year, despite an 80 percent increase in gross domestic product per capita. The United States, on the other hand, had access to the same information, but has now gone up 50 percent.

### How can PG&E's ClimateSmart™ program play a role?

It's a great idea and you've got the right approach—encourage energy efficiency first, renewables second, and then signing up for the ClimateSmart program. In the program's next phase, I think PG&E should go beyond California and experiment with projects in developing countries where energy is used very inefficiently. For example, about a billion poor people must now boil their polluted water to make it safe to

### What did you learn on your recent visit to China?

China is growing so fast; last year alone, they built nearly two hundred 500 MW coal plants. It's very important to encourage China to follow California's rigorously enforced building standards and appliance standards—and praise them for their automobile standards, which are 50 percent tighter than ours. I believe that we in the West must set the example and work with China and India to follow suit.

### PG&E is working to become the utility of the future. What will it take to get there?

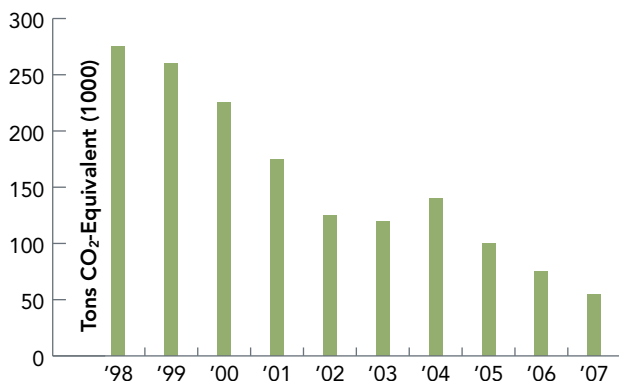
You're doing a lot of the right things. I think even more outreach with your customers is warranted. I'm impressed by a new PG&E program to benchmark commercial buildings in your service area, which will give you the energy intensity of these buildings. The next step will be to actively bring these customers into your energy efficiency programs and help these building owners further reduce their energy use.



Since 1998, PG&E has reduced its sulfur hexafluoride (SF<sub>6</sub>) leak rate by 89 percent and its absolute emissions by 83 percent. SF<sub>6</sub> is an extremely potent greenhouse gas, approximately 23,900 times as potent as CO<sub>2</sub> on a per ton basis, and is used as an insulating material in high-voltage circuit breakers. PG&E achieved these reductions through a number of actions including an active breaker repair replacement program, using X-ray technology to more efficiently inspect the internal components of circuit breakers, laser imaging technology to identify leaks and verifying SF<sub>6</sub> levels in breakers on a monthly basis to more quickly flag potential leaks. In 2007, PG&E also reviewed a new 72 kV circuit breaker design that contains no SF<sub>6</sub> gas and plans to install one of these breakers for evaluation purposes in 2008.

The nitrogen oxide (NO<sub>x</sub>) emissions rate from PG&E-owned generation was 0.08 pounds per megawatt-hour (lbs/MWh) and the sulfur dioxide (SO<sub>2</sub>) emissions rate was 0.0031 lbs/MWh, compared with estimated national averages of 1.78 and 5.07, respectively. There were no reportable mercury emissions from PG&E's facilities.

### Sulfur Hexafluoride (SF<sub>6</sub>) Absolute Emissions



### Securing Renewable Power Resources

California's Renewable Portfolio Standard (RPS) requires each investor-owned utility to have 20 percent of its supply be comprised of California-eligible renewable resources by 2010. In 2007, more than 9,000 GWh, or approximately 12 percent of PG&E's total retail sales, qualified as a California-eligible renewable resource.

PG&E continues to aggressively add renewable electric power resources to its supply and now has contractual commitments to have more than 20 percent of its future deliveries come from renewables. Since we began working toward the RPS target, through 2007, PG&E has entered into contracts for additional supplies of approximately 2,100 MW of renewable energy—wind, solar, geothermal, biomass, wave and small hydro resources. These include agreements for future supplies from projects that must be successfully permitted, built and connected to the grid before they can deliver. PG&E is also seeking opportunities to further diversify its renewable resource portfolio through utility-owned resources.

### Renewable Portfolio Standard—Contracts Signed in 2007

Project	Location	Technology	MW	GWh/Year
Solel	Mohave Desert	Solar Thermal	553	1,388
PPM Energy*	Sherman County, OR	Wind	85	265
Cleantech America, LLC	Mendota	Photovoltaic	5	9
GreenVolts, Inc.	Byron	Photovoltaic	2	5
enXco	Solano County	Wind	150	509
Ausra	San Luis Obispo County	Solar Thermal	177	388
White Creek	Klickitat County, WA	Wind	50	148
Finavera Renewables, Inc.	Humboldt County	Wave	2	4
<b>Total</b>			<b>1,024</b>	<b>2,716</b>

\*Now IBERDROLA RENEWABLES



Photo courtesy of IBERDROLA RENEWABLES

In 2007, PG&E began delivering approximately 85 MW of renewable wind energy from an IBERDROLA RENEWABLES site in Sherman County, Oregon.

#### Renewable Portfolio Standard— Contracts Signed 2002–2007

Type	Number	MW
Geothermal	7	496–654
Wind	8	531
Bioenergy	13	147–172
Small Hydro	2	1
Solar	4	737
Wave	1	2
<b>Total</b>	<b>35</b>	<b>1,914–2,097</b>

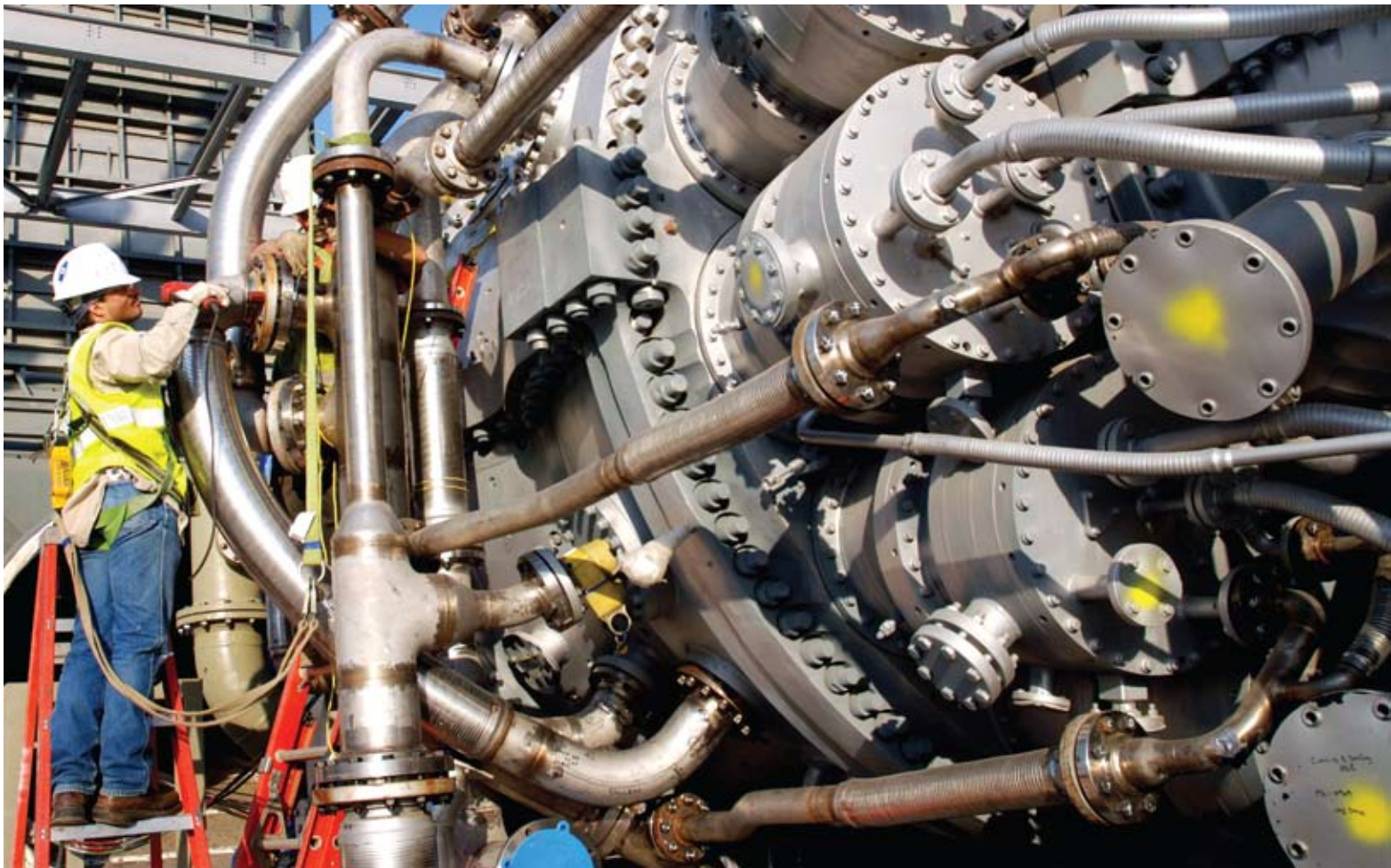
For example, PG&E has taken the first steps toward developing projects that could generate power using the abundant wave energy off the coast of Mendocino and Humboldt Counties.

Last year, we filed preliminary permit applications with the Federal Energy Regulatory Commission for two projects. The “WaveConnect” projects will begin with resource, environmental and ocean

use studies and, if developed, would be the first in North America to demonstrate multiple wave energy conversion devices at a common site. Each project could provide up to 40 MW of clean renewable electric supply.

Separately, PG&E entered into a long-term, 2 MW commercial wave energy power purchase agreement with Finavera Renewables Inc., also located off the northern California coast. The project is expected to begin delivering renewable, clean electricity in 2012.

PG&E also joined forces with San Diego Gas & Electric Company to propose an innovative new initiative to support emerging renewable energy technologies. The Emerging Renewable Resource Program would facilitate demonstration projects to gauge the potential associated with such resources as ocean energy, bioenergy and energy storage. If the program is approved by the CPUC, PG&E plans to commit up to \$30 million over a two-year period to support promising new



Fuel-efficient electric generating equipment being installed at PG&E's new Gateway Generating Station

renewable energy technologies or resources that have completed proof of concept but have not been deployed on a large scale. PG&E hopes to obtain CPUC approval in 2008.

Beyond the need to advance new technologies, PG&E is also addressing other potential barriers that could slow the expansion of renewable resources.

The California Energy Commission identified some of these obstacles in a report it issued in 2007. The report stated that meeting the state's renewable energy goals will require coordinated efforts in transmission planning, a more flexible and integrated electric system, several transmission initiatives and streamlined permitting, contracting and construction.

PG&E is cooperating with our renewable energy partners and others in response to these issues. For example, we are working on several federal, regional and state initiatives, including the development of transmission corridor and renewable energy zones in the West and California. The CPUC also approved our request

for funds to study the merits of constructing a transmission line from California to the Pacific Northwest and Canada to access renewable energy supplies in that region.

PG&E is also working at the federal level to extend and expand crucial production and investment tax credits for a variety of renewable generating technologies. These tax credits have helped to make the costs of some new and emerging technologies more competitive and are critical to facilitating the growth of a healthy renewable energy industry, both in California and throughout the United States.

### Investing in Cleaner Conventional Generation

Although energy efficiency and renewable energy are playing larger roles in our plans to meet future demand, investment in new conventional generation facilities is also necessary to meet our customers' needs. Currently, we are at work on three new natural-gas-fueled plants that will be owned and operated by PG&E. Importantly, we are working

to minimize the environmental impacts associated with these investments by using advanced clean and efficient technologies. Examples of these efforts in 2007 included the following:

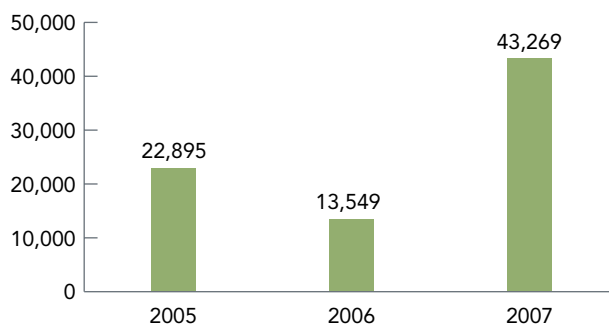
- **Gateway Generating Station:** We received authorization to use “dry cooling” technology at the 530 MW power plant, currently under construction near the San Francisco Bay Area. Dry cooling technology uses up to 97 percent less water and discharges 96 percent less wastewater than a conventional water cooling system. Its use at Gateway will help avoid an impact to the delta smelt, an endangered endemic species. Additionally, the design of the plant will decrease fuel use and greenhouse gas emissions by about 35 percent compared with older plants.
- **Colusa Generating Station:** We reached an agreement to acquire the state-of-the-art 659 MW combined cycle natural gas facility from E&L Westcoast, LLC, and obtained CPUC approval to directly develop and construct the facility. Expected to come on-line in 2010, the dry-cooled generating facility will generate zero wastewater discharge and utilize the latest in fuel-efficient technologies to minimize the environmental impact, while ensuring reliable electricity at reasonable costs.
- **Humboldt Bay Repowering Project:** As part of our plan to build a new generation facility on the site of an old PG&E power plant, to be decommissioned, we are employing technology that will produce significantly fewer ozone precursors and less CO<sub>2</sub> than the previous facility. The new design will also reduce water use by eliminating the need for “once-through” cooling.

## Delivering Natural Gas

Each day, PG&E serves approximately 4.3 million natural gas customers. Natural gas is a clean-burning fuel that is used in a wide variety of applications, including heating homes, cooking meals and driving manufacturing processes. With more than 40,000 miles of natural gas distribution pipelines and 6,000 miles of transmission pipelines, PG&E operates one of the largest natural gas distribution networks in the country and takes seriously our responsibility to ensure its safety and integrity.

Authorities, including the CEC, forecast that demand for natural gas in California will continue to grow each year, even with effective energy efficiency programs in place. At the same time, North American production is expected to remain flat.

## Methane Avoided (Tons CO<sub>2</sub>-equivalent)\*



\* Values for 2005 and 2006 revised based on improved reporting procedures

Accordingly, PG&E is seeking to diversify its supplies of natural gas to ensure that they remain reliable and affordable for customers. The utility has reserved capacity on a proposed new pipeline to tap gas fields in the Rocky Mountains. In response to a request for information from the CPUC, PG&E has also asked regulators to support moves by the utility industry to explore the cost and feasibility of entering into contracts with suppliers of LNG. We also favor continued research into the lifecycle greenhouse gas emissions of LNG imports, to better inform state policy toward this potentially significant new source of supply.

A potential impact associated with the delivery of natural gas is the release of methane, a greenhouse gas that is at least 21 times more potent on a per ton basis than CO<sub>2</sub> in terms of its impact on global warming. As part of our participation in the U.S. EPA’s Natural Gas STAR Partnership, the company avoided the release of more than 2,060 tons of methane, or approximately 43,270 tons of CO<sub>2</sub>-equivalent, in 2007.

These savings were achieved primarily by replacing old cast iron and steel gas mains, and by implementing a technique called cross compression, a process by which natural gas is transferred from one pipeline to another during large pipeline construction and repair projects. Cross compression reduces the amount of natural gas vented to the atmosphere by 85 to 90 percent.

PG&E also gained regulatory approval for two dairy biogas contracts, with Microgy, Inc. and BioEnergy Solutions, to deliver renewable natural gas generated from the anaerobic digestion of dairy manure. These contracts will result in several state-of-the-art production facilities on the site of large dairy farms in California and other locations in the western United States.



## Harnessing the Power of the Sun

Above: Solel's solar thermal parabolic trough technology, to be used to deliver 553 MW of solar power to PG&E's customers once constructed in California's Mojave Desert

**P** G&E is actively supporting new advanced solar technologies. Solar energy is a valuable renewable resource because it generates power at the same time that demand on the system is high, helping to reduce the need for fossil fuel generation from peaker power plants, which are less efficient and a source of greenhouse gas emissions.

Solar photovoltaic technologies collect sunlight and convert it directly to electricity, whereas solar thermal technologies use solar energy to produce steam, which is then used to power a turbine or engine to generate electricity.

Major milestones in 2007 included the following:

- We signed a landmark contract with Solel to purchase the output from a new 553 MW plant—one of the world's largest solar commitments. When fully operational in 2011, it will cover up to 6,000 acres, or 9 square miles in California's Mojave Desert, and will rely on 1.2 million mirrors and 317 miles of vacuum tubing to capture the desert sun's heat.
- We signed an agreement with Ausra to purchase the output from a 177 MW solar thermal power plant, expected to begin generating power in 2010. Located in San Luis Obispo County, the plant will burn no fuel, use minimal water and produce no air or water emissions. The project will use one square mile of land due to the efficiency of the collector technology.

- We announced two utility-scale photovoltaic solar power projects with Cleantech America, LLC and GreenVolts, Inc., to be located in Fresno County and Byron, California, respectively. The projects will deliver up to 7 MW of renewable energy and will be completed in 2009. Both projects utilize photovoltaic technologies to collect sunlight and convert it directly to electricity.

Further technical developments are needed, however, to improve the efficiency of photovoltaic cells and enhance our ability to store and dispatch solar energy to better match customer demand—challenges PG&E plans to explore through energy storage and solar testing projects associated with our proposed Emerging Renewable Resource Program.

PG&E has also announced that we intend to purchase an additional 1,000 MW of solar power over the next five years.

PG&E uses a competitive process for assessing all bids from renewable energy developers. We apply rigorous environmental criteria to all bids to ensure that any renewable energy we purchase or develop is in compliance with all applicable environmental laws. In addition, our competitive process encourages bidders to seek opportunities to exceed current standards of environmental protection.

PG&E is also participating in a study to establish a nationwide dairy biogas quality standard, a critical step toward attracting more investment and providing greater certainty for gas quality. Our interest in expanding this resource also led us to issue a formal Request for Information in 2008 seeking biomethane demonstration projects to test new technologies that produce pipeline-quality, renewable natural gas from biomass.

### **Providing Nuclear Power Safely and Responsibly**

As the need to reduce global greenhouse gas emissions becomes increasingly apparent, the need for safe, reliable and carbon-free energy is greater than ever. The Diablo Canyon Power Plant (DCPP) is helping PG&E meet this need—generating 23 percent of the electricity used by our 5.1 million customers, and 12 percent of the electricity produced in the state.

Since beginning commercial operation in 1985, DCPP has built an operating record as one of the safest and most efficient nuclear power plants in the nation, receiving top ratings from industry peers.

In 2007, the plant set an annual net generation record and had a total annual capacity factor of 95.07 percent (actual energy produced as a percentage of maximum dependable plant capacity).

Last year, we moved forward with a \$700 million project to replace DCPP's eight steam generators, which drive the plant's electric turbines. The new generators will be installed during refueling outages scheduled in 2008 and 2009. This will be the largest construction project since the plant was built and will help ensure DCPP is prepared to continue safely and reliably generating electricity for our customers into the future.

As with all nuclear facilities, safely storing spent nuclear fuel and maintaining the security of the plant are among the most important responsibilities for operators. Last year, we continued taking steps that will ensure PG&E continues to meet these obligations going forward.

In 2007, we completed the majority of the construction work on DCPP's Interim Spent Fuel Storage Installation (ISFSI). Loading is scheduled to begin in 2009. This facility will provide secure storage of Diablo Canyon's used fuel on site until the federal government opens a permanent

storage facility. Accordingly, it is a critical step to enable the long-term operation of the plant.

Also in 2007, PG&E broke ground on the Humboldt Bay Power Plant ISFSI project. Once the facility is completed in 2008, we will transfer all of the plant's used fuel to the facility, allowing for the final decommissioning of the retired Humboldt Bay Power Plant Unit 3, which ceased operations in 1976.

Since Sept. 11, 2001, DCPP has spent more than \$25 million to enhance security. These enhancements include extending and reinforcing defensive perimeters, controlling access through physical barriers, increasing inspections and installing additional surveillance technology. The plant has also increased the number of armed Nuclear Security Officers (NSOs) by more than 50 percent—making DCPP's security force the largest law enforcement agency in San Luis Obispo County. In 2007, the plant's NSOs performed well in test exercises conducted by the Nuclear Regulatory Commission.

Also last year at DCPP, about 2,000 representatives from local cities, state agencies and the county participated in county-led emergency preparedness training. PG&E supports this training by providing funding and working with our counterparts to make available all the necessary information about DCPP's operations and its emergency response and security programs.

Existing California law prohibits the building of any new nuclear power plants in the state until a permanent national waste storage facility is established. For additional information on waste storage and other issues, please see page 79 of PG&E's 2007 Annual Report to Shareholders.

### **Partnering in the Fight Against Global Warming**

Global warming and the need to reduce greenhouse gas emissions is one of the most pressing issues facing our industry and the nation. As we have continued to monitor the science on climate change in recent years, including 2007, the evidence has compelled us to reaffirm our view that the potential consequences of warming are serious and the need for action is urgent. This belief has, in turn, driven us to take a number of initiatives aimed at advancing policies and practices to address this issue, often in partnership with other stakeholders.

## Understanding and Reporting Our Emissions

Identifying and quantifying the sources and magnitude of greenhouse gas emissions is an essential first step to create a foundation for policies and programs to reduce emissions cost-effectively and efficiently.

Accordingly, PG&E undertook a rigorous effort to identify and account for our greenhouse gas emissions. We are a charter member of the California Climate Action Registry. In 2002, we became the first investor-owned utility in California to complete a third-party-verified inventory of our CO<sub>2</sub> emissions. Most recently, we verified our 2006 entitywide greenhouse gas emissions for six greenhouse gases (CO<sub>2</sub>, methane, SF<sub>6</sub>, N<sub>2</sub>O, HFCs and PFCs). (Please see the chart to the right for greenhouse gas emissions by source category.) We also verified the CO<sub>2</sub> emissions rate associated with our 2006 electric delivery mix of 456 lbs CO<sub>2</sub>/MWh.

Demonstrating leadership, PG&E also joined The Climate Registry, a new national organization dedicated to creating a common standard for measuring, reporting and verifying greenhouse gas emissions consistently across industry sectors in North America. And, for the past three years, PG&E has participated in the Carbon Disclosure Project, which provides additional detail on our actions as they pertain to climate change and our greenhouse gas emissions profile.

## Reducing Our Greenhouse Gas Footprint

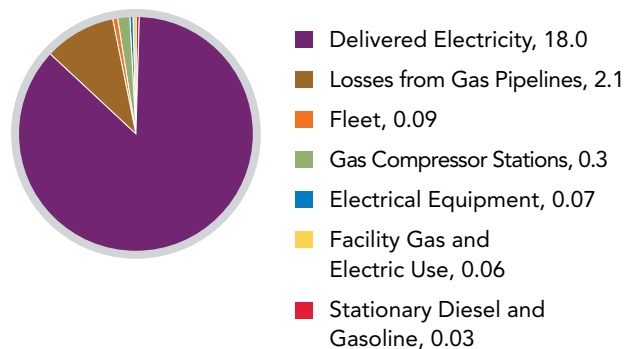
PG&E provides its customers with electricity that has among the lowest rates of greenhouse gas emissions in the nation. In fact, PG&E's CO<sub>2</sub> emissions rate is at least 65 percent lower than the national average among utilities.

We also continue to work to minimize our carbon footprint:

- Since 1998, we have reduced our sulfur hexafluoride (SF<sub>6</sub>) leak rate by 89 percent and our absolute emissions by 83 percent. SF<sub>6</sub> is an extremely potent greenhouse gas, approximately 23,900 times as potent as CO<sub>2</sub> on a per ton basis, and is used as an insulating material in high-voltage circuit breakers.
- We continue to reduce the methane leak rate from our natural gas pipeline operations,

## Total 2006 Greenhouse Gas Emissions by Source Category

(Total: 20.7 Million Tons CO<sub>2</sub>-e\*)



\* PG&E's 2006 greenhouse gas emissions, which equate to 18.8 million metric tonnes, were calculated and independently verified in accordance with protocols of the California Climate Action Registry. Given that a portion of the electricity that PG&E delivers comes from unspecified sources, the total emissions may range between 18 and 21 million tons.

avoiding the release of more than 2,060 tons of methane, or approximately 43,270 tons of CO<sub>2</sub>-equivalent, in 2007.

- We are offsetting all of the greenhouse gas emissions associated with the energy used in PG&E's buildings, by participating with shareholder funding in our ClimateSmart™ program. In 2007, this amounted to over 50,000 tons of CO<sub>2</sub> reductions.

## Empowering Customers to Make Efficient and Smart Energy Choices

PG&E has been a pioneer in developing innovative smart energy solutions that benefit both our customers and the environment. We present our customers with a portfolio of options—providing incentives for them to use less energy; supporting clean distributed generation, such as the installation of rooftop solar systems; and creating voluntary programs such as the first-of-its-kind ClimateSmart program to offset the greenhouse gases associated with their electricity and natural gas use. The third option, ClimateSmart, was launched in June 2007 (please see page 64 to learn more).

An increasing number of cities and counties in northern and central California have set aggressive voluntary greenhouse gas reduction goals. As a result, many are conducting inventories of their communities' greenhouse gas emissions as a key step toward developing an emissions reduction strategy. Last year,

PG&E assisted nearly 100 cities and counties with these inventories by providing them aggregated historic energy consumption data for residential, commercial and industrial PG&E customers within their jurisdiction. PG&E also provided estimates of the associated greenhouse gases, based on PG&E's independently verified emission rates.

These efforts benefit from our partnership with the Bay Area Air Quality Management District and International Council for Local Environmental Initiatives, which have helped drive standardized data formats and have been a venue for sharing best practices and demonstrating how PG&E can help communities accomplish their greenhouse gas reduction goals.

### Advancing Responsible Solutions

PG&E supported the enactment of two important California laws aimed at curbing greenhouse gas emissions: Assembly Bill 32 (AB 32), the Global Warming Solutions Act, which established greenhouse gas reductions goals for California; and Senate Bill 1368, which requires that all power sold to utilities in the state under long-term contracts meet a greenhouse gas emissions performance standard equivalent to that of an efficient, combined-cycle natural gas plant.

The regulations implementing Senate Bill 1368 have been finalized and are structured in a manner that will allow PG&E to continue to provide customers with affordable and reliable electricity. The law will not impact the continued development of generation assets in which PG&E currently plans to invest.

AB 32 sets a goal of reducing California's greenhouse gas emissions to 1990 levels by 2020. To date, specific goals or targets for individual sectors or entities within sectors have not been set. Recognizing that these requirements will be forthcoming, PG&E has not set a greenhouse gas reduction target for our operations.

PG&E is currently working cooperatively with the CPUC, CARB and Cal/EPA to implement AB 32 in a way that maximizes environmental benefits, minimizes costs, provides for economic opportunities and serves as a model for federal legislation. Our work in 2007 focused around active participation in CARB hearings, the California Market Advisory Committee's examination of market-based approaches and the CPUC's and CEC's work to create a model rule for the utility sector.

PG&E believes a well-designed cap-and-trade system—coupled with our customer energy efficiency, renewables and demand-side management programs—will reduce greenhouse gas emissions, diversify our energy supply mix and help to minimize customer costs.

Ultimately, we believe a national response is required to address greenhouse gas emissions. As a result, we expect California's greenhouse gas reduction program will be harmonized with a broader federal program, and, ultimately global framework. This will allow California to reduce greenhouse gas emissions at the lowest possible cost and also provide the opportunity to more seamlessly "export" innovative technologies, programs and practices. We believe a national program should recognize and reward the significant investments already made by the state of California and its energy consumers to reduce greenhouse gas emissions.

PG&E has actively promoted the creation of a mandatory, market-based program at the national level that meets these objectives. For example, Peter A. Darbee, Chairman, CEO and President of PG&E Corporation, participated in the U.S. Senate's Committee on Environment and Public Works hearings on climate change in February, June and November last year. Mr. Darbee indicated in his testimony that PG&E believes the Lieberman-Warner Climate Security Act of 2007 provides a "solid starting point for constructively advancing a comprehensive, national response to and policy on climate change." The framework established in the bill—a cap-and-trade system with key complementary policies and measures—provides the foundation for a program that will achieve significant and sustained emission reductions from all sectors of the economy. It also



Peter Darbee at the launch of the U.S. Climate Action Partnership at the National Press Club in Washington, D.C.



## Introducing the ClimateSmart™ Program

Above: Local elementary school students helped celebrate the City of Rocklin's enrollment in the ClimateSmart program.

**P** G&E launched the first-of-its-kind ClimateSmart™ program in 2007, providing customers the opportunity to voluntarily offset the greenhouse gas emissions associated with their energy usage. PG&E was the first customer to enroll in the program, committing shareholder funds to make our buildings "climate neutral."

To participate, customers pay a separate, tax-deductible amount on their monthly energy bill, based on their actual energy use. In turn, PG&E will invest 100 percent of these payments in new, independently verified projects in California that reduce or remove greenhouse gases from the atmosphere, balancing out the emissions from participating customers' energy use.

Tens of thousands of customers have already enrolled, including residential customers, large and small companies, and several municipalities. Last year, the City of Rocklin became the first city to participate in the ClimateSmart program—enrolling its municipal buildings and setting a great example for other communities. Other notable participants include Longs Drugs, Sierra Nevada Brewing Co. and New Resource Bank. Collectively, these early enrollees have already invested more than \$1 million to fight climate change through the ClimateSmart program.

PG&E designed the ClimateSmart program with a focus on adhering to the highest standards of accountability and transparency, including ensuring that the program's greenhouse gas reductions are real, additional, verifiable and permanent.

This includes the following measures:

- Using a formal competitive solicitation process to determine the ClimateSmart projects in which to invest customer funds.
- Limiting the investments to projects with an approved project protocol from the non-profit California Climate Action Registry.
- Seeking ongoing input from an External Advisory Group of customer representatives and respected experts.
- Permanently retiring all of the program's verified greenhouse gas emission reductions.
- Requiring an independent, annual program audit and regularly reporting the program's results to the CPUC and enrolled customers.
- Funding the Registry-led development of three additional protocols to "road test" new project measurement, reporting and verification protocols.

Starting with preserving California's native forests, PG&E expects that by the end of 2009, the program will invest in one and a half million tons of greenhouse gas emission reductions, equal to taking more than 270,000 cars off the road for a year. In 2008, the program secured two contracts to purchase approximately 236,000 tons of independently verifiable emission reductions—220,500 from The Conservation Fund's Garcia River Forest on California's North Coast and 15,600 from Sempervirens Fund's Lompico Headwaters Forest in Santa Cruz County.

includes important mechanisms to manage costs for energy consumers, recognize and encourage early action and advance energy efficiency.

### Forging Industry Partnerships to Drive Action

PG&E is also working in partnership to advance a federal program and global framework. For example, PG&E Corporation is a founding member of the United States Climate Action Partnership (USCAP)—a group of businesses, such as GE and Dupont, and leading environmental organizations, such as NRDC and EDF, that have come together to call on the federal government to quickly enact strong national legislation to require significant reductions of greenhouse gas emissions.

PG&E has also worked for nearly a decade with a group of progressive energy companies through the Clean Energy Group, comprised of utilities and power generators, such as Exelon and FPL Group, that serve millions of customers in more than half of the states and account for more than 15 percent of the nation's generating capacity. The Clean Energy Group is working to advance national climate change policy that takes a mandatory, market-based approach to achieving emission reductions and does so in a way that recognizes the significant investments already made by energy consumers and businesses across the country.



Peter Darbee at the launch of *A Roadmap to Combating Climate Change*, released by Combat Climate Change (3C) in 2007

And last year, PG&E also joined in a landmark proposal for a global framework for addressing climate change as part of our participation in Combat Climate Change (3C), an international business initiative involving more than 50 leading companies, including Vattenfall and Citigroup.

In advance of the climate change negotiations in Bali, Indonesia, the group called on governments to work together to develop a global policy framework that emphasized the critical roles that the rapid deployment of energy efficiency and low-carbon-generating technologies will and must play. During 2008, 3C will work to provide more detail to policy makers on how to accelerate the penetration of these vital technologies throughout the world economy to combat climate change.

### Impacts of Climate Change

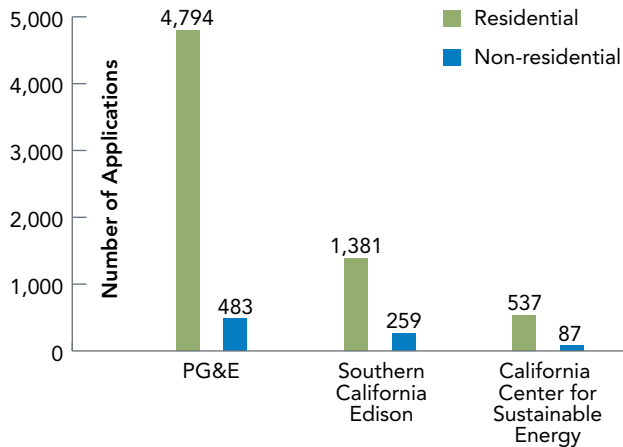
In 2007, the Intergovernmental Panel on Climate Change (IPCC) determined that warming of the climate system is unequivocal and that many natural systems are already being affected by climate change. This century, the IPCC predicts increased average global temperatures, changes in precipitation, rising sea levels and more extreme events such as hurricanes, droughts, wildfires and other impacts.

As part of our formal Enterprise Risk Management process, a team overseen by our Senior Vice President of Engineering and Operations is looking closely at these predictions and working to understand the implications for our business and our customers.

PG&E is beginning to collaborate with leading climate scientists in California to gain a better understanding of potential impacts to our infrastructure and ability to provide clean, affordable electricity, and to develop tools and methods to assist PG&E with adaptation to climate change. Last year, this included co-sponsoring a workshop with the U.S. Department of Energy's (DOE) National Energy Technology Laboratory (NETL) and the Lawrence Livermore National Laboratory (LLNL) to explore these issues in more depth.

In 2008, PG&E will work with scientists and climate modelers at LLNL to develop new tools for high-resolution regional climate modeling. The results of these studies will enable PG&E to develop adaptation and mitigation plans that ensure a high standard of customer service and reliability in both the near and long term. Additionally, PG&E will collaborate on studies with leading researchers at organizations such as DOE, NETL, the CEC and the Scripps Institute of Oceanography, as well as Stanford University, Princeton University and the University of California, on a variety of climate change adaptation topics.

## 2007 California Solar Initiative Applications by Program Administrator



Totals	5,277	1,640	624
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Total Applications: 7,541  
Residential: 6,712  
Non-Residential: 829

Source: CPUC

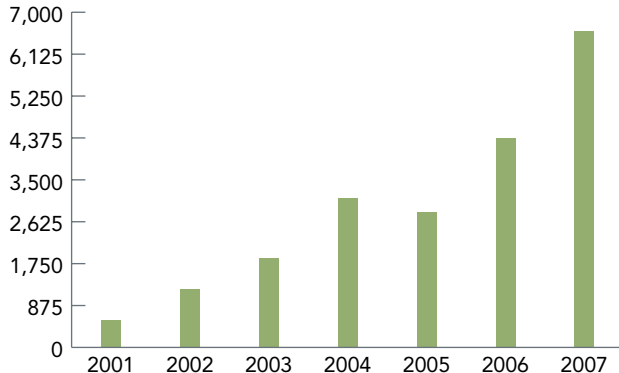
## Assisting Customers with Alternative Energy Solutions

PG&E plays an important role in assisting customers who choose to integrate alternative energy sources at their homes and businesses. In 2007, we interconnected more than 6,500 customer-owned solar power systems to the electric grid—an increase of over 50 percent from 2006. This brought our total to more than 20,000 interconnected customer solar systems, more than any other utility in the United States.

This increase is due, in part, to the implementation of the California Solar Initiative (CSI), a new \$2.1 billion statewide, 10-year solar incentive program designed to increase the total amount of solar installed in California by 3,000 MW. PG&E customers accounted for 70 percent of the total applications submitted in California (see chart above). The amount of power from PG&E's approved applications totaled almost 84 MW.

PG&E also distributed approximately \$21 million in rebates for completed residential and commercial solar installations. We expect rebate totals to increase significantly as the program matures and more installations are completed.

## Annual PG&E Interconnected Customer Solar Systems



Total Solar Interconnections = 20,470

PG&E's Self-Generation Incentive Program complements CSI by providing distributed generation incentives for fuel cells, wind or other co-generation systems 30 kW or larger. Through this program, PG&E received applications for a number of new projects, including a dramatic increase in fuel cell projects powered with biogas (typically organic waste such as cow manure and vegetables).

In an effort to help raise awareness of the incentives and advantages associated with alternative energy options, PG&E offered a number of classes last year. In 2007, we held 29 classes to educate installers and interested residential customers on solar power and the CSI program. More than 1,800 people attended these classes, primarily held in the Bay Area. In 2008, we plan to increase the number and availability of classes, including reaching out beyond the Bay Area to our customers in northern and central California.

## Demonstrating Environmental Stewardship

PG&E has a long history of managing lands and waters in a responsible and environmentally sensitive manner. Our vast network of pipes and wires can traverse unique and sensitive habitat. PG&E has an obligation to protect these resources while we perform our operations and meet our customers' expectations regarding reliability and service.

## Managing Our Hydro Operations

PG&E's vast hydroelectric system, with many dams and powerhouses dating back to the early twentieth century, has long been a vital source of clean energy for California. We see these assets as continuing to be an important part of PG&E's power mix for years to come—especially in light of the urgent need to reduce greenhouse gas emissions.

We also see opportunities, however, to mitigate many of the natural resource impacts that can be associated with hydroelectric projects. The renewal of our federal operating licenses for these facilities is a key opportunity for us to take a number of such steps. New licenses include measures to protect, mitigate and enhance natural resources, giving equal consideration to all beneficial uses, including conservation, fish and wildlife habitat protection and enhancement, recreational opportunities, preserving environmental quality and power generation.

More than half of our 26 federally licensed hydro projects have been, or will be, relicensed between 2000 and 2012. In each case, we are identifying and assessing the various project-specific impacts, including impacts to biodiversity. We also have made it a priority to work collaboratively with other stakeholders throughout the relicensing process to identify and agree on appropriate mitigation measures.

For example, in connection with the new 36-year license we received in 2007 for our Pit 3, 4 and 5 Hydroelectric Project, we are now implementing significant facility upgrades to enable us to provide higher minimum instream flows in the three project-affected reaches of the Pit River. The higher streamflows, developed collaboratively with state and federal resource agencies, tribes, non-governmental organizations and other stakeholders, will enhance approximately 22.5 miles of the Pit River once completed in 2010.

## Responsible Stewardship of California's Natural Resources

In 2007, PG&E created an Environmental Stewardship Program to structure and better integrate a number of ongoing efforts. The program is designed to improve planning, coordination and implementation across a wide variety of stewardship priorities and further strengthen relations with regulatory agencies, environmental groups and other important stakeholders. Highlights of 2007 activities include the following:

- **We finalized a plan to permanently protect watershed lands.** PG&E and the Board of the Pacific Forest and Watershed Lands Stewardship Council, an independent non-profit organization, formally adopted a Land Conservation Plan to permanently protect more than 140,000 acres of company-owned watershed lands. In 2008, PG&E will begin the multiyear process of donating fee title or granting conservation easements to public agencies or qualified conservation organizations.

This outcome was the result of an intensive effort to engage stakeholders, who provided extensive input on the plan. Between 2005 and 2006, the Council held 35 community meetings drawing nearly 1,000 attendees. This public outreach will continue as the plan is implemented in 2008 and beyond.

Created in 2003 as part of the agreement with state regulators to settle the Utility's bankruptcy, the Stewardship Council receives funding from PG&E in the amount of \$10 million annually for 10 years. PG&E holds one seat on the Council's Board of Directors.

- **We signed an agreement with Audubon California to restore native habitat.** In an agreement that can serve as a model for future projects on lands owned by PG&E, we are participating in Audubon California's Landowner Stewardship Program, allowing Audubon to restore 30 acres of native habitat at PG&E's Pleasant Creek Underground Gas Storage Facility in Yolo County. The Audubon Landowner Stewardship Program works with private landowners to enhance and restore riparian (riverbank-dwelling), oak woodland and grassland habitats in a manner compatible with existing agricultural operations.



Signage near PG&E's Pleasant Creek Underground Gas Storage Facility



## A Major Milestone in Protecting Habitat and Species

**T**he U.S. Fish and Wildlife Service and the California Department of Fish and Game approved PG&E's San Joaquin Valley Operations and Maintenance Habitat Conservation Plan (O&M HCP), an innovative new program that will ensure we meet federal and state requirements for sensitive animals and plants protected under the federal and state Endangered Species Acts. Developed in collaboration with federal and state natural resource agencies, it is an extension of our commitment to reliably and efficiently serve our customers and protect the environment.

The 30-year permit for the San Joaquin Valley region is the first in a series of O&M HCPs that we are planning to cover PG&E's service area. Each region has different wildlife and plant species, and the plans reflect the species, geography and operational activities specific to that region.

The permit allows PG&E to continue to perform maintenance on all gas and electric facilities while

avoiding, minimizing and compensating for possible adverse effects on threatened or endangered species. Through a process that allows us to access and maintain facilities in a timely manner, PG&E can avoid schedule delays associated with acquiring individual, project-by-project permits for threatened and endangered species.

Implementation of the O&M HCP is based on three key steps:

- Company experts review the location to identify any potential species or habitat issues before work begins.
- The review allows us to customize maintenance activities to avoid or minimize impacts to sensitive species and habitats.
- When we cannot fully avoid or minimize impacts to habitat, we mitigate the impact by acquiring high-quality natural lands or purchasing mitigation bank credits.

The endangered San Joaquin kit fox and blunt-nosed leopard lizard, both covered under PG&E's San Joaquin Valley O&M HCP





Photo of Valley Elderberry Longhorn Beetle

- **We took steps to permanently protect 700 acres of high-quality habitat for the Valley Elderberry Longhorn Beetle.** To help PG&E meet our compliance obligations under the federal Endangered Species Act, PG&E partnered with state and federal resource agencies, three prominent land conservation organizations and academia to conserve the picturesque watershed at Fine Gold Creek in Madera County. The threatened beetle is a rare habitat specialist—which means it relies solely on elderberry bushes for shelter, food and reproduction. PG&E is also protecting sensitive habitat for the beetle by adding approximately 35 acres to the Sacramento River National Wildlife Refuge.

### Best Practice Programs to Protect Birds

In 2002, PG&E and the U.S. Fish and Wildlife Service entered into an agreement that required PG&E to implement various measures to protect migratory, threatened and endangered birds.

When this agreement expired in 2007, PG&E voluntarily adopted a proactive Avian Protection Plan that expands PG&E's commitments in public outreach, collaborative research and "bird safe" technology demonstration projects. This plan has set the standard for our industry and is one of the most comprehensive in the nation.

#### Bird Protection Program (2007 Bird-Safe Retrofits)

	2005	2006	2007
Poles Planned	2,050	2,075	2,000
Poles Completed	2,073	2,117	2,000
% Poles Completed	101%	102%	100%

Since 2002, in compliance with the agreement, PG&E has retrofitted more than 12,230 existing utility poles and towers with "bird-safe" equipment; we have also retrofitted more than 11,100 poles in high-risk areas where bird injuries or fatalities have occurred previously, or where there have been bird-related power outages. All new poles and replacement poles in Raptor Concentration Zones are also built "bird safe."



**In Big Sur, PG&E employs bird flight diverters, devices that have proven to reduce waterfowl collisions with power lines by up to 60 percent.**

### Biodiversity and Infrastructure Development

Whenever PG&E designs and sites new infrastructure, an interdepartmental team of experts and consultants reviews alternative routes that will both meet our customers' needs and avoid or minimize the overall environmental impact that may result from construction activities. PG&E demonstrated this approach in planning and constructing the Lakeville-Sonoma 115 kV Transmission Line Project in 2007.

PG&E's challenge was to construct a seven-mile transmission line from Petaluma to Sonoma in northern California. In order to minimize possible environmental impacts, the project team utilized an existing utility corridor, taking advantage of existing access roads and vegetation clearings. Helicopters were used to transport crews and materials in order to minimize ground access impacts.

Construction schedules were adjusted to avoid the wet season for ground-disturbing activities. PG&E's crews helped minimize the spread of sudden oak disease by routinely checking vehicles and personnel for mud and debris and by setting up a vehicle wash station at the construction site.

In addition, PG&E abandoned a section of an existing access road adjacent to California red-legged frog habitat and built a new section of access road away from this sensitive habitat area. Unfortunately, not all environmental impacts could be avoided for this project; 1.35 acres of the frog's habitat were permanently impacted by new roads.

PG&E's project team worked with the U.S. Fish and Wildlife Service and the Sonoma Land Trust to build a wetland and watershed restoration project to compensate for impacts to the frog habitat. A total of 15.5 acres of land was permanently protected and another 6.75 acres restored.

A priority has been preventing the endangered California condor from colliding with PG&E's overhead power lines near Big Sur. PG&E installed "bird flight diverters" throughout the area—innovative devices that hang from the power lines and provide a visual image to alert the birds to the lines.

Despite these efforts, in 2007, a condor was electrocuted in flight when it made contact with PG&E's power lines. In response, PG&E has taken additional steps to protect the condors and other birds by installing insulated wire on the entire length of this line. Challenges remain, however. For example, the industry still lacks good information on condor vision and effective ways to influence their flight patterns. To help resolve these and related issues, PG&E continues to partner with the U.S. Fish and Wildlife Service, Ventana Wildlife Society, The Avian Power Line Interaction Committee and other key stakeholders focused on condor recovery.

## Forest Management and Habitat Restoration

PG&E has practiced sustainable forestry for the past 60 years, with an emphasis on forest restoration. Throughout more than 52,000 acres of company-owned forest lands, PG&E promotes a healthy forest by removing overstocked and unhealthy trees susceptible to insect attacks and disease—increasing biodiversity; eliminating competition and promoting growth on fewer trees; reducing the threat of wildfires, which better protects communities and company facilities; and helping to address climate change by enhancing the forests' ability to absorb CO<sub>2</sub> from the atmosphere.



PG&E is partnering with more than a dozen agencies and organizations, including Sustainable Conservation, to help restore populations of the rapidly declining tricolored blackbird.



As part of a 2007 timber harvest near the South Fork Stanislaus River, PG&E enhanced 45 acres of Sierran meadow and protected nearly 6 miles of riparian vegetation adjacent to lakes, rivers and streams.

### Protected and Restored Habitat—2007\*

Acres set aside and protected	148.1 acres <sup>1</sup>
Acres of restored habitat	103.6 acres <sup>2</sup>
Miles of stream and river riparian vegetation protected	16.5 miles <sup>1</sup>

\* This represents the first year PG&E has formally reported this data, so no trend data is available.

<sup>1</sup> PG&E undertook these activities to meet various regulatory requirements.

<sup>2</sup> Of this total, PG&E voluntarily restored 75 acres on company-owned property.

In 2007, PG&E completed one-half of a sustainable timber harvest at Bucks Lake, a high-use recreational area owned by the company near Quincy, California. During the planning phase of the project, PG&E facilitated extensive community and government agency involvement and achieved several important outcomes: delaying harvesting until after the prime recreation



We are working with a host of partners, including federal and state agencies and academic experts, to save the endangered Shasta crayfish.



In 2007, PG&E opened Point Buchon Trail, a new three-mile trail on the northern part of our Diablo Canyon Power Plant property, to the public—part of the 12,000 surrounding acres that provide valuable habitat for many plants and animals.

season and nesting period for osprey; leaving an existing old-growth 40-acre timber stand in place; collecting unusable trees, logging debris, and brush to create renewable electricity from biomass, reduce fire danger, and promote a healthier forest; protecting streams and watercourses with buffer zones and portable bridges; and enhancing fisheries habitat along Bucks Creek.

In addition, we completed a detailed inventory and mapping of 710 miles of roads that we use to manage our forest lands and maintain our



facilities, as well as nearly 2,500 watercourse crossings on PG&E's watershed lands. PG&E also began to inventory roads used for transmission line access. This information allows for more effective road maintenance, repair and inspection, which, in turn, reduces erosion and sedimentation, enhances fisheries and riparian habitats, reduces the risk of culvert/crossing failures during periods of high run-off and facilitates access for emergency vehicles responding to forest fires or other natural disasters. Fewer than 1.4 acres were permanently impacted by newly constructed forest management-related roads in 2007.

## Water Conservation and Management

PG&E is working to protect and conserve water in our facilities and operations by implementing a variety of water conservation activities and best practices for managing storm-water. The importance of these measures has become even more acute recently, in light of climate change and its implications for water availability in California, both today and in the future.

### Moving Toward Alternative Power Plant Cooling Systems

Most conventional power plants rely on water for steam production and cooling. The use of water in so-called "once-through" cooling systems can adversely affect aquatic organisms. Industrywide, once-through or other "wet" cooling technologies use ground water, municipal water or water from rivers and oceans to condense steam to water in the electricity generation process.

PG&E operates two power plants that use once-through cooling: Diablo Canyon and Humboldt Bay. Diablo Canyon is a 2,240 MW nuclear power plant with a maximum discharge limit of 2.5 billion gallons per day. Humboldt Bay, a 105 MW two-unit fossil fuel plant, has a maximum discharge limit of 76 million gallons per day. The water discharge limits are set in the facilities' permits.

As we build new conventional power plants, PG&E is implementing a variety of alternative cooling technologies to avoid the use of water. This includes utilizing "dry" cooling at the company's new Gateway and Colusa Generating Stations. PG&E is also repowering its Humboldt Bay plant with a new generation facility that will eliminate the need for once-through cooling.

### Water Conservation in PG&E and Customer Facilities

In 2007, PG&E partnered with East Bay Municipal Utility District (EBMUD) to pilot a new water conservation program. Working together, we systematically identified PG&E’s high-use facilities, conducted audits and tested strategies to reduce water use in EBMUD’s service territory—maximizing the district’s rebates. Water-saving strategies included installing a combination of dual-flush and low-flow toilets, touchless faucets and a state-of-the-art irrigation system that monitors and controls water use for landscaping. PG&E also implemented a new system to better monitor water usage at our facilities.

Recognizing the important link between energy and water usage, the CPUC approved a new water-energy pilot program in late 2007 that will allow PG&E and local water agencies to jointly offer water-saving incentives to customers.

Starting in July 2008, PG&E will partner with EBMUD, Santa Clara Valley Water District (SCVWD) and the Sonoma County Water Agency and their retailers to offer incentives to large commercial customers. PG&E will also work with SCVWD to install high-efficiency toilets in low-income homes and at least one water or wastewater utility to explore emerging technologies in communication systems that will result in water and energy savings.

### Storm-Water Management

Controlling storm-water pollution associated with various work sites and operations activities is an important requirement for PG&E. Until recently, PG&E used only traditional methods such as black silt fencing or placing tubular rolls of straw on slopes and around site perimeters and storm drain inlets. To meet our compliance obligations in a more sustainable way, PG&E now uses an innovative reusable

and recyclable fencing, which improves safety and retains twice the sediment at half the cost.

PG&E is also coupling our storm-water best management practices with efforts to battle the spread of sudden oak death and noxious weeds, which threaten native plants and the habitat they provide. A cross-departmental team developed a portable wash station for cleaning tires, vehicle undercarriages, equipment, tools and materials on or near access roads. The portable stations are designed as a closed loop system, which saves water. In 2007, we successfully used five of these wash stations for a project in Lakeville-Sonoma that traversed through several sensitive areas and wineries.

### Innovative Transportation Solutions and Technologies

For nearly two decades, PG&E has actively worked to advance alternative transportation technologies, including natural gas and electric vehicles, as well as, more recently, plug-in hybrid electric (PHEV) and fuel cell vehicles. Examples of our work in this area include the following:

- Incorporating large numbers of alternative fuel vehicles into our fleet and testing vehicles, which has enabled us to feed valuable usage and safety data back to manufacturers,
- Helping more than 300 of our customers incorporate alternative vehicles into their fleets,
- Creating and expanding the fueling infrastructure to support our customers’ use of alternative vehicles, including 37 PG&E-operated compressed natural gas (CNG) fueling stations which are open to the public, and
- Sharing our expertise and experience as part of the dialogue and planning around vehicle,

### Clean Air Transportation Program (Customer Fleets)\*

	2005	2006	2007
Compressed Natural Gas Therms Used (x1,000)	19,059.7	21,155.3	21,133.8
Avoided NOx Emissions (tons)	693	768	768
Avoided PM Emissions (tons)	53	60	60
Avoided CO <sub>2</sub> Emissions (tons)	52,126	57,857	57,798
Equivalent Petroleum Gallons Displaced (x1,000)	14,310	15,883	15,867

\* These figures represent a full “well-to-wheel” analysis, which takes into account energy use and emissions at every stage of the process, from the moment the fuel is produced at the well to the moment the wheels are moved. Estimates compare the avoided emissions from PG&E’s CNG vehicles to petroleum usage based on the methodology outlined in Full Fuel Cycle Assessment (CEC-600-2007-003, June 2007), which uses the Argonne National Laboratory’s GREET emission model modified to California inputs.



PG&E is working with Plug-In Partners, Plug-In Bay Area, and other organizations to promote plug-in hybrid and dedicated electric vehicles.

infrastructure and technology standards that will drive the commercialization and widespread adoption of these vehicles.

### Greening Our Own Fleet

PG&E's fleet of natural gas vehicles is the largest owned and operated by any utility in the country and, last year, became the first to include LNG heavy-duty vehicles. Use of LNG reduces criteria pollutant emissions, saves as much as 50 percent on fuel costs compared with diesel or gasoline and improves productivity by allowing greater travel distances between refuelings.

PG&E also continued testing a new diesel-electric hybrid service truck in San Francisco that creates a quiet and emissions-free work site, reduces brake wear by using regenerative braking and is expected to decrease fuel use by 40 to 60 percent. We also began testing a converted Ford Escape PHEV as part of a technology research project led by Idaho National Laboratory.

In 2008, we plan to add two diesel-electric hybrid bucket trucks to our fleet, conduct a field trial of smart charging technology and wireless communications to control how two AC Propulsion electric vehicles can interact with the grid and purchase two series plug-in hybrid SUVs for testing.

### Clean Air Transportation Program (PG&E's Fleet)\*

	2005	2006	2007
Compressed Natural Gas Therms Used (x1,000)	614.2	637	868.8
Avoided NO <sub>x</sub> Emissions (tons)	23	23	32
Avoided PM Emissions (tons)	1.5	1.6	2.8
Avoided CO <sub>2</sub> Emissions (tons)	1,793	1,859	2,536
Equivalent Petroleum Gallons Displaced (x1,000)	485	503	686

\* These figures represent a full "well-to-wheel" analysis, which takes into account energy use and emissions at every stage of the process, from the moment the fuel is produced at the well to the moment the wheels are moved. Estimates compare the avoided emissions from PG&E's CNG vehicles to petroleum usage based on the methodology outlined in Full Fuel Cycle Assessment (CEC-600-2007-003, June 2007), which uses the Argonne National Laboratory's GREET emission model modified to California inputs.

## Helping Customers Adopt and Use Alternative Fuels

In 2007, PG&E helped fund the purchase of California's first plug-in hybrid diesel-electric school bus in the Napa Valley Unified School District, which operates an entirely natural gas-powered school bus fleet. The new school bus has the potential to double fuel efficiency and reduce emissions by up to 90 percent.

PG&E also used its expertise to help airport authorities take advantage of alternative fuel vehicles. We helped San Jose International Airport convert its shuttle bus fleet to CNG. In 2007, the airport earned the Natural Gas Vehicle Achievement Award from the Clean Vehicle Education Foundation and NGV America for its efforts, which have saved \$2.6 million in fuel costs since 2003 and reduced vehicle exhaust emissions by more than 70 tons annually. The airport also benefits from 130 natural gas-fueled taxis. PG&E also partnered with San Francisco International Airport, which, in 2007, expanded its fleet to include 60 CNG vans.

The combined use of natural gas in PG&E's vehicle fleet, along with the fleets of our customers, avoided the use of more than 16.6 million gallons of petroleum in 2007, which equals the avoidance of approximately 800 tons of NO<sub>x</sub>, 60 tons of particulate matter and 60,330 tons of CO<sub>2</sub>.

## Our Buildings and Facilities

PG&E works continuously to reduce waste streams and use resources more efficiently in our facilities. This includes improving the energy efficiency of our buildings and other facilities; reducing, reusing and recycling paper, metals, plastics and other materials; and reducing water consumption.

## Green Buildings

In 2007, we continued efforts to make our own buildings "green," with several key highlights:

- We earned Gold-level LEED™ certification from the U.S. Green Building Council for our 245 Market Street headquarters building in San Francisco, recognizing, among other attributes, access to alternative transportation; water conservation; overall energy efficiency; recycling, composting and use of recycled-content materials; and use of Green Seal™-certified green cleaning products.
- We replaced nearly 1,200 cathode ray tube (CRT) computer monitors with more efficient flat-screen monitors at our corporate headquarters, rendering the building a "CRT-free" zone and saving an estimated 400,000 kWh annually. In addition, all new personal computers purchased by PG&E meet or exceed the new ENERGY STAR® requirements.



PG&E's San Francisco Service Center now showcases solar panels as part of the building and parking lot structure.

- We switched to using bio-based recyclable cups and food containers at our San Ramon Valley Conference Center, a certified "green business" in Contra Costa County. The center also continued its program upgrading to new energy-efficient lighting and controls, and

## Energy Consumed by Pacific Gas and Electric Company

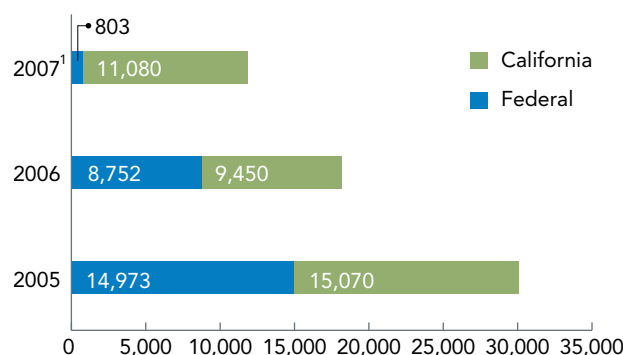
	2005	2006	2007
Electricity Consumed (GWh)*	90	84	97
Natural Gas Consumed (MMcf)*	142	153 <sup>2</sup>	142
Energy Intensity (MBTU per sq. ft)* <sup>1</sup>	68	66	72
Petroleum Consumed (Gallons) <sup>2</sup>	7,520,788	7,744,474	8,384,959

\* These figures represent electricity and natural gas usage at the 179 facilities managed by the Utility's Corporate Real Estate department.

<sup>1</sup> Figures reported in the industry standard of BTU per square foot, which incorporates all of the energy used in a facility into one comparative number that takes into account efficiency variations in the utilization of the energy.

<sup>2</sup> Updated figures.

## Federal and California Regulated Hazardous Waste (tons)



<sup>1</sup> PG&E generated approximately 6,370 tons of California regulated hazardous waste from the demolition of the Hunters Point Power Plant, but only 155 tons of federally regulated hazardous waste.

expanded recycling with additional containers and signage. Our 2008 plans include switching to reusable dinnerware along with a new, energy-efficient dishwasher.

- We made our data center operations more efficient, using virtualization technology to avoid the purchase of 130 servers. The benefits include a three-year savings of more than \$300,000 by avoiding three million kWh of power consumption. PG&E also teamed with IBM Research to develop a tool to measure the three-dimensional temperature distributions in its data centers to identify and rectify hot spots, air leakage and other inefficiencies.

## Waste Minimization

In the normal course of business, routine gas and electric operations, equipment maintenance and overhauls, and facility construction and demolition generate certain hazardous wastes. Waste is also created during the remediation and cleanup of historic legacy sites. All such material is managed and minimized in accordance with federal and state regulations.

Federal waste management statutes include the Resource Conservation and Recovery Act and the Toxic Substances Control Act. California has its own set of waste management laws and regulations that are more stringent and encompass a broader scope of waste streams, including non-PCB used oil, oil saturated solids and debris with metals at lower thresholds than federal standards.

## PG&E Pilots Collaborative Program to Help Suppliers Go Green

At an event attended by a group of the company's top suppliers, PG&E launched the pilot for a Green Supply Chain Program in 2007. Our goal is to work in partnership with suppliers to encourage innovative and sustainable ideas, products, services and operations.

The Green Supply Chain Program involves suppliers proactively engaging in environmental responsibility. Elements of the program involve a commitment to environmental stewardship and reduction in greenhouse gas emissions, energy usage, water and wastes.

While voluntary, the program is aligned with PG&E's environmental policy and has received positive feedback from our suppliers, which range from small firms to multibillion-dollar businesses. Future plans involve including sustainability efforts as part of the criteria PG&E uses to evaluate suppliers.

Suppliers that have participated to date include Fong Brothers Printing and The Okonite Company, implementing extensive lighting retrofit projects at their facilities to save 300,000 kWh each, as well as an estimated \$50,000 annually on electricity bills.

PG&E also joined the Green Suppliers Network, an industry-government partnership, to engage at least five suppliers in lean and clean manufacturing assessments. Southwire, one of PG&E's largest cable suppliers, agreed to undergo a technical review of their Carrollton, Georgia, facility in 2008, which provides PG&E with 600 volt conductors. Southern States, ABB and McFarland Cascade have signed on for technical assessments of select facilities, as well.

Examples of additional waste reduction efforts in 2007 include the following:

- We recycled or reused our "e-waste," including approximately 3,770 CPUs, 4,115 monitors, 1,250 printers, 200 servers, 535 copiers, fax machines and scanners.
- We recycled or reused 32,854,000 pounds of scrap iron, aluminum and copper from conductors, meters and miscellaneous infrastructure from our waste stream. We also recycled more than 114,000 pounds of plastic piping as well as used hard hats.
- We sent more than 10 million e-Bills to customers, avoiding the use of nearly 270 tons of paper.



As part of a construction project at our Humboldt Bay Power Plant, PG&E recycled more than 1,000 tons of concrete and nearly 20 tons of rebar, saving more than \$50,000 on the project.

- We used biodegradable oil in small distribution transformers. The fluid is 97 percent biodegradable within 21 days and does not contain any petroleum, halogens, silicones or other materials that might adversely affect the environment.

- We continued recycling material from the demolition of PG&E's Hunters Point Power Plant in San Francisco. Ultimately, we estimate that 99 percent of the materials removed from the plant—at least 25,000 tons of steel, 30,000 tons of concrete and 75,000 gallons of oil—will be recycled or reused.

## Taking Responsibility for Our Historic Impacts

At PG&E, we continue to take responsibility for cleaning up historic or "legacy" contamination from operations during past eras, in some cases 100 years ago or more. Typically, contamination stems from a substance that was acceptable and widely used in the past but that is now considered hazardous.

For example, from the late 1800s until the early 1900s, utility companies nationwide operated manufactured gas plants that converted coal and oil into gas for lighting, heating and cooking.

### PG&E's Topock Compressor Station

PG&E's Topock Compressor Station is located in San Bernardino County, about a half mile from the Colorado River. Consistent with industry practice at the time, hexavalent chromium was used at Topock in the cooling towers in the 1950s and 1960s to prevent corrosion. Beginning in 1951 until 1964, untreated wastewater from the cooling towers was discharged into a nearby dry wash. Over time, the discharged hexavalent chromium reached and contaminated the groundwater aquifer. PG&E is characterizing the magnitude and extent of contamination through an extensive groundwater monitoring network. Additionally, PG&E's monitoring program continues to show no presence of hexavalent chromium in the Colorado River.

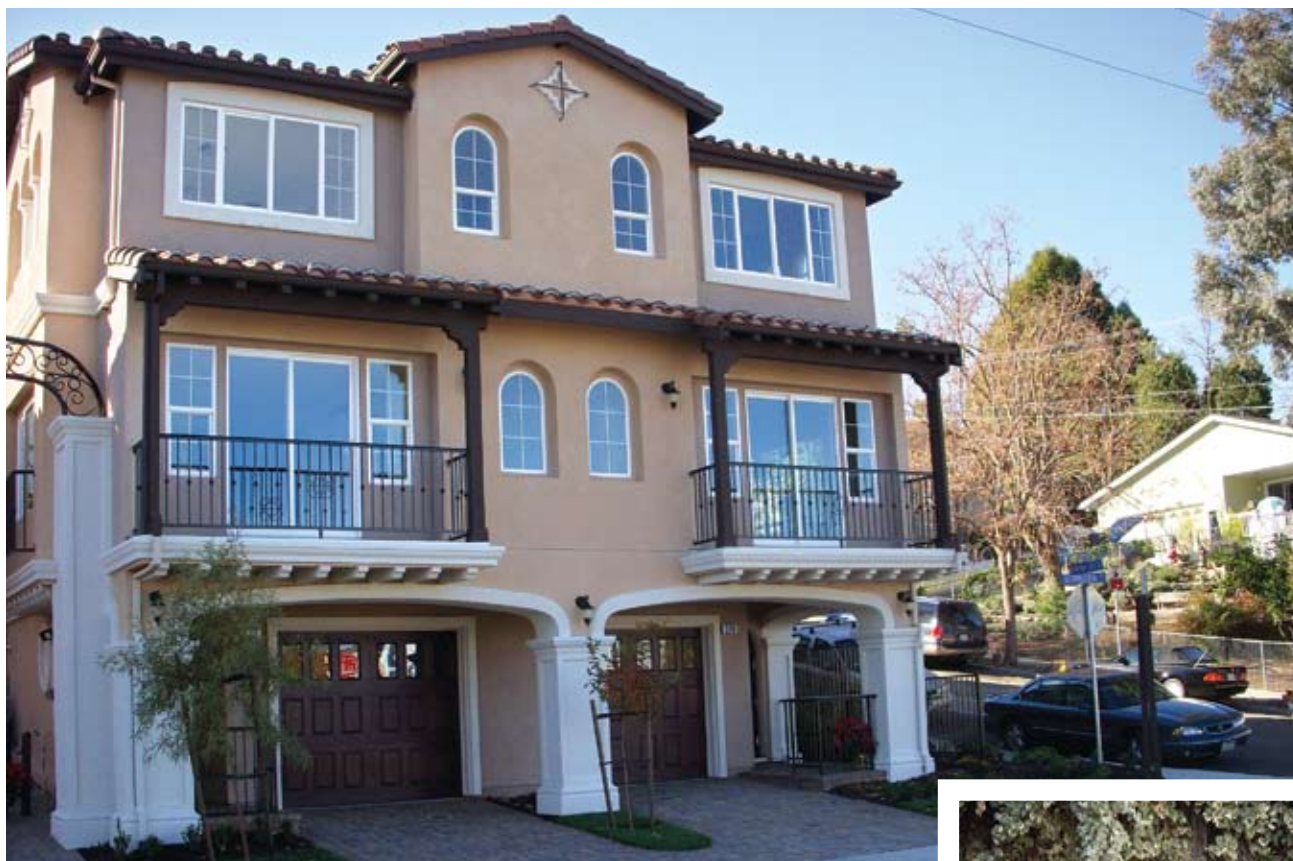
PG&E has been monitoring the groundwater plume for several years and has been working cooperatively with state and federal regulators and other interested parties to evaluate and remedy this groundwater contamination. In early March 2004, state regulators required PG&E to begin operating a groundwater extraction system as an interim protective measure to ensure that the chromium plume is hydraulically controlled so it does not reach the Colorado River. In July 2004, PG&E initiated treatment of the hazardous ground water prior to offsite disposal and, subsequently,

expanded the groundwater extraction and treatment system. That expansion was completed in July 2005 and includes a treatment plant, which cleans the extracted groundwater so it can be reinjected into the groundwater aquifer.

PG&E also continues to work with state and federal regulators to complete the characterization of groundwater and soils at the site.

There are several potential options for a long-term remedy, including expanding the groundwater extraction system and using in-situ treatment to remove hexavalent chromium from groundwater in place. PG&E is working with state and federal regulators and key stakeholders, including Native American tribes, to complete the evaluation of contamination at Topock and develop alternatives for the final remedy in an expedited manner.

We continue with efforts to complete several actions required under the settlement agreement with the Ft. Mojave Tribe, most notably finalizing the language of the sitewide easement and thereafter transferring title to the IM-3 site property to the Tribe. We have also finalized a memorandum of understanding with the Colorado River Indian Tribe and are close to finalizing one with the Hualapai Tribe. These agreements will help ensure that these tribes have the ability to meaningfully participate in the remedy development process.



Joined at a grand opening by local officials, community residents and a dedicated local developer, PG&E celebrated turning a brownfield into a green building, Villa del Sol.

The gas-making process produced residues, such as tar and other petroleum-related compounds similar to those found in gasoline or diesel fuel. While the plants were operating, some of the residual by-products were used and sold as products, such as briquettes and coal tar. When the plants were shut down, however, consistent with standard practices of the time, many of the by-products were buried onsite. Modern science has since identified some of these by-products as hazardous, and utilities, including PG&E, are working to clean up these sites.

In 2007, our Environmental Remediation group worked on 80 projects, involving the community and neighbors in the process.

For example, in Napa Valley, we worked with the city of St. Helena to develop a plan for converting a cleanup site into a much-needed public parking lot. Historic use of the one-acre parcel as a manufactured gas plant and electrical substation had contaminated the soil. The St. Helena Gas Company built the plant in 1886 and operated it for many years. By 1930, PG&E acquired the

site and built a substation which operated until 1989. The site has been vacant since. In partnership with regulators, PG&E removed 9,750 tons of contaminated soil from the property, replacing it with clean fill. We hope to receive regulatory approval shortly to lease the parcel to St. Helena so that the city can begin construction in summer of 2008. The much-anticipated parking lot will help reduce the ongoing problem of congestion in downtown St. Helena and support the local business community.

In another example of working closely with a community, we helped transform a former electrical substation site into a location for new state-of-the-art green housing. Located in Martinez, one of California's first towns, the site originally housed a substation built in the early 1900s. To prepare the site for new development, PG&E removed 1,378 tons of existing soil and replaced it with clean fill. We worked closely



with local developers throughout the process to meet stringent city and county requirements for remediating the land to residential-use standards. The site now features Villa del Sol, a complex of eight new LEED™-certified affordable luxury homes. Designed by a local architect, the homes incorporate a variety of sustainable design and construction practices, including ENERGY STAR® appliances, windows and central air and heating.

This project is an example of PG&E's broader support for brownfield development, sustainable communities and policies and initiatives that advance urban infill as a key component of smart growth. In 2007, this support also included hosting a California Center for Land Recycling workshop for agencies, developers and consultants. In the workshop, U.S. EPA, Cal/EPA and private financial firms educated attendees on public and private funding sources available for brownfield redevelopment.

## Monitoring and Measuring Our Performance

PG&E's policies, management systems, review processes and programs are all designed to ensure our compliance with all applicable environmental requirements, as well as to provide a foundation for elevating our performance above and beyond the legal and regulatory baseline.

### Environmental Management System

Recognizing the need for continuous improvement and a stronger sense of shared responsibility across the enterprise, we continued to enhance our Environmental Management System in 2007. We focused on creating targeted environmental management plans aimed at enhancing performance in specific areas such as waste minimization, air and water quality, tank management, natural resources and climate change. We commenced work on 16 plans and have identified additional areas for future plans.

The plans identify current regulatory trends, initial and ongoing compliance and monitoring activities, interdependencies, resource allocation and training requirements. Additionally, each plan includes project or program milestones, metrics and accountability for performance. Using these plans as a foundation, our work continues as we strive to more effectively prioritize and manage our processes to reduce our environmental impact.

## Auditing Our Performance

PG&E's environmental policy requires that we develop and implement a risk-based audit plan to ensure periodic independent review of all aspects of our environmental performance.

We performed 62 formal audits in 2007 to assess the environmental compliance of our facilities, operations and vendors with regulatory standards for air and water quality; management of polychlorinated biphenyls (PCBs), hazardous materials and waste; and protection of endangered species. All audit findings are reported to the applicable operations officer and are required to be corrected in a timely manner.

In addition to the formal audits discussed above, PG&E environmental personnel conducted 1,034 compliance assessments, which provided valuable information to operations employees identifying process changes to improve compliance performance.

## Operational Performance

PG&E's environmental policy and Environmental Management System require that we track and report annual environmental performance across a broad spectrum of areas. This section details our performance results for 2007.

### Reported Releases and Permit Exceedances

The Utility reported to various government agencies a total of 227 releases to the environment and/or permit exceedances, a 30 percent decrease from 2006. A release is an unintentional discharge of a regulated substance that meets a reporting threshold; an exceedance is a discharge in excess of what is allowed by permit. The number of releases is comparable to years prior to 2006. (The number of releases in 2006 was anomalous due to transformer failures during a major heat storm in July and August of that year.)

Our crews and outside contractors respond to all spills—including those with only trace amounts of material. We clean up and report all such incidents in accordance with all applicable laws and regulations. The majority of the releases in 2007 were minor, involving small amounts of material such as mineral oil used in transformers, and more than one-third were either weather-related equipment damage or caused by third-party accidents.

**P**GE's Richard A. Clarke Environmental Leadership Award is an annual recognition opportunity that honors PG&E employees whose efforts demonstrate exceptional environmental leadership. In addition to recognizing the finalists in a ceremony with PG&E's senior executives, the company makes a charitable contribution to an environmental or environmental justice non-profit organization selected by the award recipients.

Now in its sixth year, the competition showcases the breadth of our employees' environmental commitment. In 2007, nearly 120 employees were nominated for an individual or team award, representing initiatives as diverse as protecting migratory birds, reducing diesel emissions from port operations using natural gas and electric technologies and recognizing stewardship practices on PG&E-owned forests and watershed lands.

The 2007 awards went to an individual and a team of employees.

## Recognizing Employees for Environmental Leadership

### Rex Bell, California Take-It-Back Partnership

Rex Bell, a Manager in Environmental Services at Pacific Gas and Electric Company, was recognized for collaborating with the California Department of Toxic Substances Control (DTSC) in leading PG&E to become the first utility to join DTSC's California Take-It-Back Partnership. The program advocates and promotes efforts to recycle fluorescent lamps, which contain small amounts of mercury and are required to be disposed of properly. Through Rex's leadership, PG&E is working with a growing number

of partners, including local governments, to effectively combine the message of energy efficiency with the need to properly manage fluorescent lamps at the end of their useful life. On behalf of Rex, PG&E made a \$5,000 contribution to the Marine Science Institute, a group that offers hands-on science and environmental education programs to students.



Pictured from left to right: John Pappas, Marc Kolb, Maggie Chan, Jeff Little, Rod Boschee, Susie Martinez, Kimberly Kemp, Greg San Martin, Don Howerton, Evelyn Lee, Paul Brooks, Valerie Winn and Ken Brennan. Not pictured: Jonathan Forrester, Hal La Flash, Larry Witalis, David Landes, Mike Teare and Xantha Bruso.

### Dairy Biogas Team

The Dairy Biogas Team was recognized for its leadership in contributing to PG&E's renewable energy goals by developing and implementing agreements to deliver dairy biogas—renewable natural gas generated from the anaerobic digestion of dairy manure. These groundbreaking agreements are the first utility contracts for dairy biogas to be injected into the gas transmission pipeline for the production of California Renewable Portfolio

Standard-certified electricity. These dairy biogas projects prevent methane, a potent greenhouse gas with at least 21 times per ton the global warming potential of carbon dioxide, from entering the atmosphere. On the team's behalf, PG&E made a \$5,000 contribution to Sustainable Conservation, a group that partners with business, agriculture and government leaders to find practical ways that the private sector can protect clean air, clean water and healthy ecosystems.

## Agency Inspections

Government agencies conducted 530 routine inspections of PG&E's facilities in 2007, up from 517 inspections in 2006. Certified uniform program agencies—such as environmental health departments and fire departments—performed the majority of the inspections and are generally responsible for enforcing hazardous waste and hazardous materials requirements at our facilities.

## Enforcement Actions—Notices of Violation (NOVs)

The Utility received a total of 14 NOVs from government agencies during 2007, an increase from eight in 2006. The rate of NOVs per 100 agency inspections in 2007 increased, as well. There were 2.64 NOVs per 100 agency inspections in 2007, compared with a three-year average of 1.98.

Of the 14 NOVs received during 2007, 7 involved water quality regulations. Three NOVs were related to underground storage tank management, including failing a routine annual secondary containment test, failure to conduct required inspections and not obtaining a permit to operate. Two NOVs were for drinking-water violations involving failure to provide notification of an exceedance and late submittal of a consumer confidence report to system users. (Note: The facility where this occurred does not have a source of public drinking water; it treats infiltrated surface water for use by employees.) The remaining two findings involved the discharge of sediment to surface water during construction activity that ruptured a drinking water pipe and a release of cooling tower liquid caused by an improperly closed sampling valve.

Five NOVs involved air quality regulations. Two NOVs were issued for not reporting an exceedance of run-time for an emergency generator and not conducting air monitoring at a site remediation project. NOVs were also received for not paying

permit fees, not obtaining an operating permit for a dehydrator facility and not obtaining proper construction authorization for an upgrade to a fueling island.

Two NOVs involved the storage of hazardous waste and materials. In one instance, a waste drum did not have a bung in place. In the other, hazardous material was stored in a fume hood.

PG&E resolved all of these issues by swiftly correcting the finding and conducting root-cause analyses to identify and implement corrective actions to prevent recurrence. In light of the increase in findings from the previous years, PG&E has also instituted a failure mode and effects analysis to realign the internal compliance assessment program to more effectively identify compliance issues. We are using Lean Six Sigma tools, the accepted standard in business for establishing process excellence, to improve compliance performance and focus in on areas of greatest risk. These efforts will also align PG&E's internal review program and associated corrective actions with the priorities of regulatory agencies.

## 2007 Enforcement Penalties and Settlements

In 2007, the Utility received four NOVs resulting in monetary penalties, and we paid penalties on two other NOVs received in 2006. The total penalty payments made in 2007 were \$222,450 and all involved air quality regulations. Specifically, we paid \$220,000 in 2007 to settle a 2006 records violation under the state's smoke check program for heavy-duty diesel vehicles. We also paid \$100 in 2007 for a 2006 violation for failure to maintain a gasoline vapor recovery system. The 2007 penalties were \$900 for late payment of operating permit fees, two separate fines of \$600 each for not obtaining air permits prior to equipment operation and a \$250 penalty for exceeding the allowable run-time on an emergency generator.

## Compliance Data

	2005	2006	2007
Notices of Violation (NOVs)	9	8	14
Rate of NOVs (per 100 inspections)	1.75	1.55	2.64
Releases/Exceedances	274	324	227*
Penalties Paid	\$9,230	\$6,800	\$222,450
Agency Inspections	513	517	530
Formal Audits Performed	62	59	62
Compliance Assessments Performed	1,872	1,868	1,034

\* Figures include both PG&E- and non-PG&E-caused releases/exceedances. In 2007, for example, 37% were either weather-related or caused by third-party accidents, compared with a three-year average of 49%.

## Environmental Stakeholders

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PG&E believes in collaboration, and we continue to work with a host of organizations, including environmental stakeholders and businesses. Engaging in trusted relationships is the right way to make progress on the key environmental issues that confront us all.

A partial list of these organizations includes:

### Environmental and Conservation Groups

Audubon California  
California Climate Action Registry  
California Environmental Dialogue  
California League of Conservation Voters  
California State Parks Foundation  
Ceres  
Ducks Unlimited  
Environmental Defense Fund  
Global Green USA  
Golden Gate Audubon  
National Arbor Day Foundation  
Natural Resources Defense Council  
Pacific Forest and Watershed Lands  
Stewardship Council  
San Francisco Bay Joint Venture  
San Francisco Neighborhood Parks Council  
Save the Bay  
Sierra Foothill Conservancy  
Solano Land Trust  
Sustainable Conservation  
Sustainable San Mateo County

Sustainable Silicon Valley  
The Climate Registry  
The Nature Conservancy  
Ventana Wildlife Society  
Vote Solar  
Wildcare

### Business Community

AHC Group  
Alliance to Save Energy  
California Council for Environmental and  
Economic Balance  
California Electric Transportation Coalition  
California Fire Safe Council  
California Natural Gas Vehicle Coalition  
Clean Energy Group  
Combat Climate Change  
Electric Drive Transportation Association  
National Hydropower Association  
Natural Gas Vehicle Coalition  
Pew Center on Global Climate Change:  
Business Environmental Leadership Council  
U.S. Climate Action Partnership

## 2007 Environmental Awards

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### 2007 Brilliant Utility Award

**American Council for an Energy-Efficient Economy:** 12 Exemplary Energy Efficiency Programs; 9 Honorable Mentions

**Association of Energy Service Professionals:**  
Merit Award for Achievement in Energy Program Design and Implementation

**Building Owners and Managers Association–San Francisco: 2007 Earth Awards**  
– Runner-Up for “Large Buildings” Category

**California Integrated Waste Management Board**  
– Waste Reduction Award Program of the Year

**Climate Protection Campaign**  
– Climate All Star 2007

### Corporate Responsibility Officer Magazine

– One of Ten Best Corporate Citizens  
Among Utilities

**National Arbor Day Foundation**  
– Tree Line USA Award

**Natural Resources Defense Council**  
– Citation for Environmental Performance  
and Leadership

**Solar Electric Power Association**  
– Solar Portfolio Leadership Award

**U.S. Environmental Protection Agency**  
– Partner of the Year: ENERGY STAR® Excellence  
in Program Delivery

**U.S. Environmental Protection Agency Region 9**  
– Environmental Award

# Additional Environmental Performance Indicators (2005–2007)<sup>†</sup>

## Emissions Statistics (for Utility-retained generation only)<sup>†</sup>

(Please see pages 54 and 62 for additional statistics on the greenhouse gas emissions associated with PG&E's delivered electricity.)

	2005	2006	2007
<b>Total NO<sub>x</sub> Emissions (tons)</b>	1,084	982	1,123
Hunters Point <sup>2</sup>	133	39	N/A
Humboldt Bay	951	943	1,123
<b>NO<sub>x</sub> Emissions Rates (lbs/MWh)</b>			
Hunters Point	0.39	0.38	N/A
Humboldt Bay	4.10	4.08	4.65
Fossil Plants	1.90	2.94	4.65
All Plants	0.06	0.06	0.08
<b>Total SO<sub>2</sub> Emissions (tons)</b>	6.77	66 <sup>3</sup>	43 <sup>3</sup>
Hunters Point	3.33	1	N/A
Humboldt Bay	3.44	65	43
<b>SO<sub>2</sub> Emissions Rates (lbs/MWh)</b>			
Hunters Point	0.0098	0.01	N/A
Humboldt Bay	0.0149	0.28	0.18
Fossil Plants	0.0119	0.2000	0.1781
All Plants	0.00041	0.00388	0.0031
<b>Total CO<sub>2</sub> Emissions (tons)<sup>4</sup></b>	736,581	465,163	353,140
Hunters Point	398,549	122,838	N/A
Humboldt Bay	338,032	342,325	353,140
<b>CO<sub>2</sub> Emissions Rates (lbs/MWh)<sup>4</sup></b>			
Hunters Point	1,296	1,348	N/A
Humboldt Bay	1,536	1,550	1,462
Fossil Plants	1,396	1,491	1,462
All Plants	49	28	26

## Other Emissions Statistics

<b>SF<sub>6</sub> Emissions</b>	2005	2006	2007
Total SF <sub>6</sub> Emissions (pounds)	7,396	5,539	3,928
Total SF <sub>6</sub> Emissions (tons CO <sub>2</sub> -equivalent)	88,382	66,191	46,940
SF <sub>6</sub> Emissions Leak Rate	2.6%	1.9%	1.3%

## Methane Emissions

Total Methane Emissions (tons)	98,772	98,877	N/A <sup>5</sup>
Total Methane Emissions (tons CO <sub>2</sub> -equivalent)	2,074,217	2,076,427	N/A <sup>5</sup>

<sup>†</sup> PG&E does not trigger threshold reporting levels for those substances reported under the Toxic Release Inventory.

<sup>1</sup> PG&E's Utility-retained generation comprised approximately 32 percent of our delivered electricity in 2007. For comparison to national average emission rates, see pages 54 and 56.

<sup>2</sup> PG&E's Hunters Point Power Plant ceased operations on May 15, 2006.

<sup>3</sup> These increases were due to temporary fuel oil combustion at PG&E's Humboldt Bay power plant during periods of natural gas curtailment.

<sup>4</sup> Updated figures for 2005 and 2006 based on PG&E's independently verified emissions.

<sup>5</sup> Data not available at the time of this report's publication.

## Hazardous and Non-Hazardous Waste<sup>1</sup>

	2005	2006	2007
<b>PCB Waste &gt;50 ppm PCB</b>			
Total (kilograms)	738,680	832,377	730,357
Incineration	326,423	267,710	198,375
Landfill	75,157	334,857	63,863
Recycled	337,100	229,810	468,119
% Recycled	46%	27%	64%
<b>PCB Waste &lt;50 ppm PCB</b>			
Total (kilograms)	7,840,415	7,154,148	6,137,388
Incineration	510,218	354,555	66,613
Landfill	201,658	547,095	28,417
Recycled	7,128,539	6,252,498	6,042,358
% Recycled	91%	87%	98%
<b>Low-Level Radioactive Waste</b>			
Diablo Canyon			
Disposed (cubic feet)	3,881	1,159	1,066
Steel Recycled (pounds)	2,747	10,318	33,346
Lead Recycled (pounds)	7,015	1,716	4,826
Humboldt Bay Power Plant (cubic feet)	N/A <sup>2</sup>	N/A <sup>2</sup>	15,994 <sup>3</sup>
<b>RCRA Hazardous Waste (Generated)</b>			
Total (tons)	14,160	7,836	305
Recycled (tons)	221	23	0
% Recycled	2%	<1%	0%
<b>Universal Waste (Generated)</b>			
Total (pounds)	345,239	233,429	253,928
Recycled (pounds)	345,239	233,429	253,928
% Recycled	100%	100%	100%

<sup>1</sup> See page 75 for PG&E's total federal and California-regulated hazardous waste.

<sup>2</sup> Low-level radioactive waste was generated, but stored on site.

<sup>3</sup> Corrected figure from previously printed Corporate Responsibility Report.

In producing this report, we took steps to minimize environmental impacts, promote supplier diversity, and support businesses in our Utility service area. With these goals in mind, we selected the following products and vendors:

- Low-VOC soy-based inks and process chlorine-free paper manufactured from 100% post-consumer waste. This paper is produced using wind-generated energy and is certified by Green Seal and by SmartWood, an affiliate of the Rainforest Alliance.
- A printer and graphic designer that are WMDVBE-certified businesses
- An environmentally sensitive printer that is a Pacific Gas and Electric Company gas customer

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Wind energy photo on cover courtesy of IBERDROLA RENEWABLES



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