

Section 1: 10-K (FORM 10-K FOR THE YEAR ENDED 12/31/2009)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2009

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number	Exact Name of Registrant as specified in its charter	State or Other Jurisdiction of Incorporation or Organization	IRS Employer Identification Number
1-12609	PG&E CORPORATION	California	94-3234914
1-2348	PACIFIC GAS AND ELECTRIC COMPANY	California	94-0742640



One Market, Spear Tower
Suite 2400

San Francisco, California 94105

(Address of principal executive offices) (Zip Code)

(415) 267-7000

(Registrant's telephone number, including area code)



77 Beale Street, P.O. Box 770000

San Francisco, California 94177

(Address of principal executive offices) (Zip Code)

(415) 973-7000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
PG&E Corporation: Common Stock, no par value	New York Stock Exchange
Pacific Gas and Electric Company: First Preferred Stock, cumulative, par value \$25 per share: Redeemable: 5% Series A, 5%, 4.80%, 4.50%, 4.36% Nonredeemable: 6%, 5.50%, 5%	NYSE Alternext

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

PG&E Corporation

Yes No

Pacific Gas and Electric Company

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of

the Act:

PG&E Corporation Yes No
Pacific Gas and Electric Company Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PG&E Corporation Yes No
Pacific Gas and Electric Company Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

PG&E Corporation Yes No
Pacific Gas and Electric Company Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

PG&E Corporation
Pacific Gas and Electric Company

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). (Check one):

PG&E Corporation	Pacific Gas and Electric Company
Large accelerated filer <input checked="" type="checkbox"/>	Large accelerated filer
Accelerated filer	Accelerated filer
Non-accelerated filer	Non-accelerated filer <input checked="" type="checkbox"/>
Smaller reporting company	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

PG&E Corporation Yes No
Pacific Gas and Electric Company Yes No

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2009, the last business day of the most recently completed second fiscal quarter:

PG&E Corporation Common Stock \$14,193 million
Pacific Gas and Electric Company Common Stock Wholly owned by PG&E Corporation

Common Stock outstanding as of February 17, 2010:

PG&E Corporation: 371,333,780 shares
Pacific Gas and Electric Company: 264,374,809 shares (wholly owned by PG&E Corporation)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the documents listed below have been incorporated by reference into the indicated parts of this report, as specified in the responses to the item numbers involved:

Designated portions of the combined 2009 Annual Report to Part I (Items 1 and 1.A.), Part II (Items 5, 6, 7, 7A, 8 and 9A)
Shareholders

Designated portions of the Joint Proxy Statement relating to Part III (Items 10, 11, 12, 13 and 14)
the 2010 Annual Meetings of Shareholders

TABLE OF CONTENTS

	Page
<u>Units of Measurement</u>	<u>iii</u>
	PART I
<u>Item 1. Business</u>	1
<u>General</u>	1
<u>Corporate Structure and Business</u>	1
<u>Corporate and Other Information</u>	1
<u>Employees</u>	1
<u>Cautionary Language Regarding Forward-Looking Statements</u>	1
<u>PG&E Corporation's Regulatory Environment</u>	3
<u>Federal Energy Regulation</u>	3
<u>State Energy Regulation</u>	3
<u>The Utility's Regulatory Environment</u>	4
<u>Federal Energy Regulation</u>	4
<u>State Energy Regulation</u>	6
<u>Other Regulation</u>	7
<u>Competition</u>	7
<u>Competition in the Electricity Industry</u>	7
<u>Competition in the Natural Gas Industry</u>	9
<u>Ratemaking Mechanisms</u>	10
<u>Overview</u>	10
<u>Electricity and Natural Gas Distribution and Electricity Generation Operations</u>	11
<u>General Rate Cases</u>	11
<u>Attrition Rate Adjustments</u>	11
<u>Cost of Capital Proceedings</u>	11
<u>Baseline Allowance</u>	12
<u>Rate Recovery of Costs of New Electricity Generation Resources</u>	12
<u>Overview</u>	12
<u>Costs Incurred Under New Power Purchase Agreements</u>	13
<u>Costs of Utility-Owned Generation Resource Projects</u>	13
<u>DWR Electricity and DWR Revenue Requirements</u>	13
<u>Electricity Transmission</u>	14
<u>Transmission Owner Rate Cases</u>	14
<u>Natural Gas</u>	15
<u>The Gas Accord</u>	15
<u>Biennial Cost Allocation Proceeding</u>	15
<u>Natural Gas Procurement</u>	16
<u>Interstate and Canadian Natural Gas Transportation and Storage</u>	16
<u>Electric Utility Operations</u>	16
<u>Electricity Resources</u>	16
<u>Owned Generation Facilities</u>	17
<u>DWR Power Purchases</u>	18
<u>Third-Party Power Purchase Agreements</u>	19
<u>Renewable Generation Resources</u>	19
<u>Future Long-Term Generation Resources</u>	20
<u>Electricity Transmission</u>	21
<u>Electricity Distribution Operations</u>	21
<u>2009 Electricity Deliveries</u>	22
<u>Electricity Distribution Operating Statistics</u>	22
<u>Natural Gas Utility Operations</u>	23
<u>2009 Natural Gas Deliveries</u>	24
<u>Natural Gas Operating Statistics</u>	25
<u>Natural Gas Supplies</u>	26
<u>Gas Gathering Facilities</u>	26
<u>Interstate and Canadian Natural Gas Transportation Services Agreements</u>	26
<u>Energy Efficiency, Public Purpose and Other Programs</u>	27
<u>Environmental Matters</u>	29

<u>General</u>	29
<u>Air Quality and Climate Change</u>	30
<u>Water Quality</u>	33
<u>Hazardous Waste Compliance and Remediation</u>	34
<u>Nuclear Fuel Disposal</u>	36
<u>Nuclear Decommissioning</u>	37
<u>Endangered Species</u>	37
<u>Electric and Magnetic Fields</u>	37
<u>Item 1A. Risk Factors</u>	38
<u>Item 1B. Unresolved Staff Comments</u>	38
<u>Item 2. Properties</u>	38
<u>Item 3. Legal Proceedings</u>	39
<u>Diablo Canyon Power Plant</u>	39
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	39
<u>Executive Officers of the Registrants</u>	40
<u>PART II</u>	
<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of</u>	
<u>Item 5. Equity Securities</u>	44
<u>Item 6. Selected Financial Data</u>	44
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	44
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 8. Financial Statements and Supplementary Data</u>	45
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	45
<u>Item 9A. Controls and Procedures</u>	45
<u>Item 9B. Other Information</u>	46
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	46
<u>Item 11. Executive Compensation</u>	47
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder</u>	47
<u>Item 12. Matters</u>	
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	48
<u>Item 14. Principal Accountant Fees and Services</u>	48
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	48
<u>Signatures</u>	58
<u>Report of Independent Registered Public Accounting Firm</u>	60
<u>Financial Statement Schedules</u>	61

UNITS OF MEASUREMENT

1 Kilowatt (kW)	=	One thousand watts
1 Kilowatt-Hour (kWh)	=	One kilowatt continuously for one hour
1 Megawatt (MW)	=	One thousand kilowatts
1 Megawatt-Hour (MWh)	=	One megawatt continuously for one hour
1 Gigawatt (GW)	=	One million kilowatts
1 Gigawatt-Hour (GWh)	=	One gigawatt continuously for one hour
1 Kilovolt (kV)	=	One thousand volts
1 MVA	=	One megavolt ampere
1 Mcf	=	One thousand cubic feet
1 MMcf	=	One million cubic feet
1 Bcf	=	One billion cubic feet
1 MDth	=	One thousand decatherms

PART I

Item 1. *Business*

General

Corporate Structure and Business

PG&E Corporation, incorporated in California in 1995, is a holding company whose primary purpose is to hold interests in energy-based businesses. PG&E Corporation conducts its business principally through Pacific Gas and Electric Company (“Utility”), a public utility operating in northern and central California. The Utility engages in the businesses of electricity and natural gas distribution; electricity generation, procurement, and transmission; and natural gas procurement, transportation, and storage. The Utility was incorporated in California in 1905. PG&E Corporation became the holding company of the Utility and its subsidiaries on January 1, 1997.

The Utility served approximately 5.1 million electricity distribution customers and approximately 4.3 million natural gas distribution customers at December 31, 2009. The Utility had approximately \$42.7 billion in assets at December 31, 2009 and generated revenues of \$13.4 billion in 2009. Its revenues are generated mainly through the sale and delivery of electricity and natural gas. The Utility is regulated primarily by the California Public Utilities Commission (“CPUC”) and the Federal Energy Regulatory Commission (“FERC”). In addition, the Nuclear Regulatory Commission (“NRC”) oversees the licensing, construction, operation, and decommissioning of the Utility’s nuclear generation facilities.

Corporate and Other Information

The principal executive office of PG&E Corporation is located at One Market, Spear Tower, Suite 2400, San Francisco, California 94105, and its telephone number is (415) 267-7000. The principal executive office of the Utility is located at 77 Beale Street, P.O. Box 770000, San Francisco, California 94177, and its telephone number is (415) 973-7000. PG&E Corporation and the Utility file or furnish various reports with the Securities and Exchange Commission (“SEC”). These reports, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on both PG&E Corporation's website, www.pgecorp.com, and the Utility's website, www.pge.com, as promptly as practicable after they are filed with, or furnished to, the SEC. The information contained on these websites is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

Employees

At December 31, 2009, PG&E Corporation and its subsidiaries had 19,425 regular employees, including 19,401 regular employees of the Utility. Of the Utility’s regular employees, 12,648 are covered by collective bargaining agreements with three labor unions: the International Brotherhood of Electrical Workers, Local 1245, AFL-CIO (“IBEW”); the Engineers and Scientists of California, IFPTE Local 20, AFL-CIO and CLC (“ESC”); and the Service Employees International Union, Local 24/7 (“SEIU”). One IBEW collective bargaining agreement expires on December 31, 2010, and the other expires on December 31, 2011. The ESC collective bargaining agreement expires on December 31, 2011. The SEIU collective bargaining agreement expires on July 31, 2012.

Cautionary Language Regarding Forward-Looking Statements

This combined Annual Report on Form 10-K, including the information incorporated by reference from the joint Annual Report to Shareholders for the year ended December 31, 2009 (“2009 Annual Report”) and the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, contains forward-looking statements that are necessarily subject to various risks and uncertainties. These statements are based on current estimates, expectations and projections about future events, and assumptions regarding these events and management's knowledge of facts as of the date of this report. These forward-looking statements relate to, among other matters, estimated capital expenditures, estimated Utility rate base, estimated environmental

remediation liabilities, estimated tax liabilities,

the anticipated outcome of various regulatory and legal proceedings, estimated future cash flows, and the level of future equity or debt issuances, and are also identified by words such as “assume,” “expect,” “intend,” “plan,” “project,” “believe,” “estimate,” “target,” “predict,” “anticipate,” “aim,” “may,” “might,” “should,” “would,” “could,” “goal,” “potential” and similar expressions. PG&E Corporation and the Utility are not able to predict all the factors that may affect future results. Some of the factors that could cause future results to differ materially from those expressed or implied by the forward-looking statements, or from historical results, include, but are not limited to:

- the Utility’s ability to manage capital expenditures and its operating and maintenance expenses within authorized levels;
- the outcome of pending and future regulatory proceedings and whether the Utility is able to timely recover its costs through rates;
- the adequacy and price of electricity and natural gas supplies, and the ability of the Utility to manage and respond to the volatility of the electricity and natural gas markets, including the ability of the Utility and its counterparties to post or return collateral;
- explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and systems, and similar events that may occur while operating and maintaining an electric and natural gas system in a large service territory with varying geographic conditions, that can cause unplanned outages, reduce generating output, damage the Utility’s assets or operations, subject the Utility to third-party claims for property damage or personal injury, or result in the imposition of civil, criminal, or regulatory fines or penalties on the Utility;
- the impact of storms, earthquakes, floods, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism that affect customer demand, or that damage or disrupt the facilities, operations, or information technology and systems owned by the Utility, its customers, or third parties on which the Utility relies;
- the potential impacts of climate change on the Utility’s electricity and natural gas businesses;
- changes in customer demand for electricity and natural gas resulting from unanticipated population growth or decline, general economic and financial market conditions, changes in technology that include the development of alternative technologies that enable customers to increase their reliance on self-generation, or other reasons;
- the occurrence of unplanned outages at the Utility’s two nuclear generating units at the Diablo Canyon Power Plant (“Diablo Canyon”), the availability of nuclear fuel, the outcome of the Utility’s application to renew the operating licenses for Diablo Canyon, and potential changes in laws or regulations promulgated by the NRC or other environmental agencies with respect to the storage of spent nuclear fuel, security, safety, or other matters associated with the operations at Diablo Canyon;
- whether the Utility can maintain the cost savings that it has recognized from operating efficiencies that it has achieved and identify and successfully implement additional sustainable cost-saving measures;
- whether the Utility earns incentive revenues or incurs obligations under incentive ratemaking mechanisms, such as the CPUC’s incentive ratemaking mechanism relating to energy savings achieved through implementation of the utilities’ customer energy efficiency programs;
- the impact of federal or state laws, or their interpretation, on energy policy and the regulation of utilities and their holding companies;
- whether the new day-ahead, hour-ahead, and real-time wholesale electricity markets established by the California Independent System Operator (“CAISO”) that became operational on April 1, 2009 will continue to function effectively and whether the Utility can successfully implement “dynamic pricing” by offering electric rates that can vary with the customer’s time of use and are more closely aligned with wholesale electricity prices;
- how the CPUC administers the conditions imposed on PG&E Corporation when it became the Utility’s

holding company;

- the extent to which PG&E Corporation or the Utility incurs costs and liabilities in connection with litigation that are not recoverable through rates, from insurance, or from other third parties;
- the ability of PG&E Corporation, the Utility, and counterparties to access capital markets and other sources of credit in a timely manner on acceptable terms;
- the impact of environmental laws and regulations and the costs of compliance and remediation;
- the loss of customers due to municipalization of the Utility's electric distribution facilities, the level of "direct access" by which consumers procure electricity from alternative energy providers, implementation of "community choice aggregation," which permits cities and counties to purchase and sell electricity for their local residents and businesses, or other forms of bypass; and
- the outcome of federal or state tax audits and the impact of changes in federal or state tax laws, policies, or regulations.

For more information about the significant risks that could affect the outcome of these forward-looking statements and PG&E Corporation's and the Utility's future financial condition and results of operations, see the discussion under the heading "Risk Factors" that appears near the end of the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") in the 2009 Annual Report. PG&E Corporation and the Utility do not undertake an obligation to update forward-looking statements, whether in response to new information, future events, or otherwise.

PG&E Corporation's Regulatory Environment

Federal Energy Regulation

As a public utility holding company, PG&E Corporation is subject to the requirements of the Energy Policy Act of 2005 ("EPAct"), which became effective on February 8, 2006. Among its key provisions, the EPAct repealed the Public Utility Holding Company Act of 1935 and enacted the Public Utility Holding Company Act of 2005 ("PUHCA 2005"). Under PUHCA 2005, public utility holding companies fall principally under the regulatory oversight of the FERC, an independent agency within the U.S. Department of Energy. PG&E Corporation and its subsidiaries are exempt from all requirements of PUHCA 2005 other than the obligation to provide access to their books and records to the FERC and the CPUC for ratemaking purposes. These books and records provisions are largely duplicative of other provisions under the Federal Power Act of 1935 and state law.

State Energy Regulation

PG&E Corporation is not a public utility under California law. The CPUC has authorized the formation of public utility holding companies subject to various conditions related to finance, human resources, records and bookkeeping, and the transfer of customer information. The financial conditions provide that:

- the Utility cannot guarantee any obligations of PG&E Corporation without prior written consent from the CPUC;
- the Utility's dividend policy must be established by the Utility's Board of Directors as though the Utility were a stand-alone utility company;
- the capital requirements of the Utility, as determined to be necessary and prudent to meet the Utility's obligation to serve or to operate the Utility in a prudent and efficient manner, must be given first priority by PG&E Corporation's Board of Directors (known as the "first priority" condition); and
- the Utility must maintain on average its CPUC-authorized utility capital structure, although it can request a waiver of this condition if an adverse financial event reduces the Utility's common equity component by 1% or more.

The CPUC also has adopted complex and detailed rules governing transactions between California's electricity and gas utilities and certain of their affiliates. The rules address the use of the utilities' names and logos by their affiliates, the separation of utilities and their affiliates, provision of utility information to affiliates, and energy procurement-related transactions between the utilities and their affiliates. The rules also prohibit each utility from engaging in certain practices that would discriminate against energy service providers that compete with that utility's affiliates. In December 2006, the CPUC revised its rules to, among other changes:

- emphasize that the holding company may not aid or abet a utility's violation of the rules or act as a conduit to provide confidential utility information to an affiliate;
- require prior CPUC approval before the utility can contract with an affiliate for resource procurement (e.g., electricity or gas), except in blind transactions where the identity of the other party is not known until the transaction is consummated;
- require certain key officers to provide annual certifications of compliance with the affiliate rules;
- prohibit certain key officers from serving in the same position at both the utility and the holding company (unless otherwise permitted by the CPUC), or, in the alternative, prohibit the sharing of lobbying, regulatory relations and certain legal services (except for legal services necessary to the provision of permitted shared services);
- require the utility to obtain a "nonconsolidation opinion" indicating that it would not be consolidated into a bankruptcy of its holding company; and
- make the CPUC's Energy Division responsible for hiring independent auditors to conduct biennial audits to verify that the utility is in compliance with the affiliate rules.

The CPUC has established specific penalties and enforcement procedures for affiliate rules violations. Utilities are required to self-report affiliate rules violations.

The Utility's Regulatory Environment

Various aspects of the Utility's business are subject to a complex set of energy, environmental and other laws, regulations, and regulatory proceedings at the federal, state, and local levels. In addition to enacting PUHCA 2005 to replace the Public Utility Holding Company Act of 1935, as discussed above, the EPAct significantly amended various federal energy laws applicable to electric and natural gas markets, including the Federal Power Act of 1935, the Natural Gas Act of 1938, and the Public Utility Regulatory Policies Act of 1978 ("PURPA").

This section and the "Ratemaking Mechanisms" section below summarize some of the more significant laws, regulations, and regulatory mechanisms affecting the Utility. These summaries are not an exhaustive description of all the laws, regulations, and regulatory proceedings that affect the Utility. The energy laws, regulations, and regulatory proceedings may change or be implemented or applied in a way that the Utility does not currently anticipate. For discussion of specific pending regulatory proceedings that are expected to affect the Utility, see the section of MD&A entitled "Regulatory Matters" in the 2009 Annual Report.

Federal Energy Regulation

The FERC

The FERC regulates the transmission and wholesale sales of electricity in interstate commerce and the transmission and sale of natural gas for resale in interstate commerce. The FERC also regulates interconnections of transmission systems with other electric systems and generation facilities; tariffs and conditions of service of regional transmission organizations, including the CAISO; and the terms and rates of wholesale electricity sales. The FERC has authority to impose penalties of up to \$1,000,000 per day for violation of certain federal statutes, including the Federal Power Act of 1935 and the Natural Gas Act of 1938, and for violations of FERC-approved regulations. The FERC has jurisdiction over the Utility's electricity transmission revenue requirements and rates, the licensing of substantially all of the Utility's hydroelectric generation facilities, and the interstate sale and transportation of natural gas.

Electric Reliability Standards; Development of Transmission Grid. The FERC has the responsibility to approve and enforce mandatory standards governing the reliability of the nation's electricity transmission grid, including standards to protect the nation's bulk power system against potential disruptions from cyber and physical security breaches; to prevent market manipulation, and to supplement state transmission siting efforts in certain electric transmission corridors that are determined to be of national interest. The FERC certified the North American Electric Reliability Corporation ("NERC") as the nation's Electric Reliability Organization under the EAct of 2005. The NERC is responsible for developing and enforcing electric reliability standards, subject to FERC approval. The FERC also has approved a delegation agreement under which the NERC has delegated enforcement authority for the geographic area known as the Western Interconnection to the Western Electricity Coordinating Council ("WECC"). The Utility must self-certify compliance to the WECC on an annual basis, and the compliance program encourages self-reporting of violations. WECC staff, with participation by the NERC and the FERC, will also perform a regular compliance audit of the Utility every three years. In addition, the WECC and the NERC may perform spot checks or other interim audits, reports, or investigations. Under FERC authority, the WECC, NERC, and/or FERC may impose penalties up to \$1,000,000 per day per violation.

The FERC also has issued rules on electric transmission pricing reforms designed to promote needed investment in energy infrastructure, to reduce transmission congestion, and to require transmission organizations with organized electricity markets to make long-term firm transmission rights available to load-serving entities, so these entities can enter into long-term transmission service arrangements without being exposed to unhedged congestion cost risk. In addition, pursuant to FERC orders, the CAISO is responsible for providing open access electricity transmission service on a non-discriminatory basis, planning transmission system additions, and ensuring the maintenance of adequate reserves of generation capacity.

Prevention of Market Manipulation. The FERC has broad authority to police and penalize the exercise of market power or behavior intended to manipulate prices paid in FERC-jurisdictional transactions. The FERC has adopted rules to prohibit market manipulation, modeling its new rules on SEC Rule 10b-5, which prohibits fraud and manipulation in the purchase or sale of securities. Under the FERC's new regulations, it is unlawful for any entity, directly or indirectly, in connection with the purchase or sale of natural gas, electric energy, or transportation/transmission services subject to the jurisdiction of the FERC (1) to use or employ any device, scheme, or artifice to defraud, (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (3) to engage in any act, practice, or course of business that operates or would operate as a fraud or deceit upon any person.

QF Regulation. Under PURPA, electric utilities are required to purchase energy and capacity from independent power producers that are qualifying cogeneration facilities ("QFs"). To implement the purchase requirements of PURPA, the CPUC required California investor-owned electric utilities to enter into long-term power purchase agreements with QFs and approved the applicable terms, conditions, prices, and eligibility requirements. The EAct significantly amended the purchase requirements of PURPA. As amended, Section 210(m) of PURPA authorizes the FERC to waive the obligation of an electric utility under Section 210 of PURPA to purchase the electricity offered to it by a QF (under a new contract or obligation), if the FERC finds that the QF has nondiscriminatory access to one of three defined categories of competitive wholesale electricity markets. The statute permits such waivers as to a particular QF or on a "service territory-wide basis." The Utility is assessing whether it will file a request with the FERC to terminate its obligations under PURPA to enter into new QF purchase obligations.

The Nuclear Regulatory Commission

The NRC oversees the licensing, construction, operation and decommissioning of nuclear facilities, including the two nuclear generating units at Diablo Canyon and the Utility's retired nuclear generating unit at Humboldt Bay ("Humboldt Bay Unit 3"). NRC regulations require extensive monitoring and review of the safety, radiological, environmental, and security aspects of these facilities. In the event of non-compliance, the NRC has the authority to impose fines or to force a shutdown of a nuclear plant, or both. NRC safety and security

requirements have, in the past, necessitated substantial capital expenditures at Diablo Canyon, and additional significant capital expenditures could be required in the future.

In addition, as required by NRC regulations, only certain key management personnel and other designated individuals may receive information from the NRC or other government agency relating to Diablo Canyon that is deemed to be classified by the governmental agency. In connection with this requirement, the Board of Directors of PG&E Corporation has adopted a resolution acknowledging that neither PG&E Corporation nor any director or officer of PG&E Corporation will (1) have access to such classified information or special nuclear material in the custody of the Utility, or (2) participate in any decision or matter pertaining to the protection of classified information and/or special nuclear material in the custody of the Utility.

State Energy Regulation

California Legislature. The Utility's operations have been significantly affected by statutes passed by the California legislature, including laws related to electric industry restructuring, the 2000-2001 California energy crisis, electric resource adequacy, renewable energy resources, power plant siting and permitting, and greenhouse gas ("GHG") emissions and other environmental matters.

The CPUC. The CPUC consists of five members appointed by the Governor of California and confirmed by the California State Senate for staggered six-year terms. The CPUC has jurisdiction to set the rates, terms, and conditions of service for the Utility's electricity distribution, electricity generation, natural gas distribution, and natural gas transportation and storage services in California. The CPUC also has jurisdiction over the Utility's issuances of securities, dispositions of utility assets and facilities, energy purchases on behalf of the Utility's electricity and natural gas retail customers, rate of return, rates of depreciation, aspects of the siting and operation of natural gas transportation assets, oversight of nuclear decommissioning, and aspects of the siting of the electricity transmission system. Ratemaking for retail sales from the Utility's generation facilities is under the jurisdiction of the CPUC. To the extent that this electricity is sold for resale into wholesale markets, however, it is under the ratemaking jurisdiction of the FERC. In addition, the CPUC has general jurisdiction over most of the Utility's operations, and regularly reviews the Utility's performance, using measures such as the frequency and duration of outages. The CPUC also conducts investigations into various matters, such as deregulation, competition, and the environment, in order to determine its future policies.

PG&E Corporation and the Utility entered into a settlement agreement with the CPUC on December 19, 2003, to resolve the Utility's proceeding filed under Chapter 11 of the U.S. Bankruptcy Code that had been pending in the U.S. Bankruptcy Court for the Northern District of California ("Bankruptcy Court") since April 2001, referred to as the Chapter 11 Settlement Agreement. The nine-year Chapter 11 Settlement Agreement established certain regulatory assets and addressed various ratemaking matters to restore the Utility's financial health and enable it to emerge from Chapter 11. The terms of the Chapter 11 Settlement Agreement were incorporated into the Utility's plan of reorganization under Chapter 11, which became effective on April 12, 2004. The Bankruptcy Court retains jurisdiction to hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Chapter 11 Settlement Agreement, in addition to other matters. (For more information, see Note 14 of the Notes to the Consolidated Financial Statements included in the 2009 Annual Report.)

The California Energy Resources Conservation and Development Commission

The California Energy Resources Conservation and Development Commission, commonly called the California Energy Commission ("CEC"), is the state's primary energy policy and planning agency. The CEC is responsible for licensing of all thermal power plants over 50 MW; overseeing funding programs that support public interest energy research; advancing energy science and technology through research, development and demonstration; and providing market support to existing, new, and emerging renewable technologies. In addition, the CEC is responsible for forecasting future energy needs used by the CPUC in determining the adequacy of the utilities' electricity procurement plans.

Other Regulation

The Utility obtains permits, authorizations, and licenses in connection with the construction and operation of the Utility's generation facilities, electricity transmission lines, natural gas transportation pipelines, and gas compressor station facilities. Discharge permits, various Air Pollution Control District permits, U.S. Department of Agriculture-Forest Service permits, FERC hydroelectric generation facility and transmission line licenses, and NRC licenses are some of the more significant examples. Some licenses and permits may be revoked or modified by the granting agency if facts develop or events occur that differ significantly from the facts and projections assumed in granting the approval. Furthermore, discharge permits and other approvals and licenses are granted for a term less than the expected life of the associated facility. Licenses and permits may require periodic renewal, which may result in additional requirements being imposed by the granting agency. (For more information, see "Environmental Matters — Water Quality" below.) In addition, the Utility must comply with regulations to be issued by the California Air Resources Board ("CARB") relating to GHG emissions. (For more information see "Environmental Matters — Air Quality and Climate Change" below.)

The Utility has over 520 franchise agreements with various cities and counties that permit the Utility to install, operate, and maintain the Utility's electric and natural gas facilities in the public streets and roads. In exchange for the right to use public streets and roads, the Utility pays annual fees to the cities and counties. Franchise fees are computed pursuant to statute under either the Broughton Act or the Franchise Act of 1937. In addition, charter cities can negotiate their fees. In most cases, the Utility's franchise agreements are for an indeterminate term, with no expiration date. The Utility has several franchise agreements that have a specified term, including an agreement with a large charter city. The franchise agreements generally require that the Utility install and maintain the electric and gas facilities in compliance with regulations adopted by cities and counties in the exercise of their police powers relating to the use of the public streets. The Utility also periodically obtains permits, authorizations, and licenses in connection with distribution of electricity and natural gas. Under these permits, authorizations, and licenses, the Utility has rights to occupy and/or use public property for the operation of the Utility's business and to conduct certain related operations.

Competition

Historically, energy utilities operated as regulated monopolies within service territories in which they were essentially the sole suppliers of natural gas and electricity services. These utilities owned and operated all of the businesses and facilities necessary to generate, transport, and distribute energy. Services were priced on a combined, or bundled, basis, with rates charged by the energy companies designed to include all the costs of providing these services. Under traditional cost-of-service regulation, the utilities undertook a continuing obligation to serve their customers, in return for which the utilities were authorized to charge regulated rates sufficient to recover their costs of service, including timely recovery of their operating expenses and a reasonable return on their invested capital. The objective of this regulatory policy was to provide universal access to safe and reliable utility services. Regulation was designed in part to take the place of competition and ensure that these services were provided at fair prices.

In recent years, energy utilities have faced intensifying pressures to unbundle, or price separately, those services that are no longer considered natural monopolies. The most significant of these services are the commodity components—the supply of electricity and natural gas. The driving forces behind these competitive pressures have been customers who believe that they can obtain energy at lower unit prices and competitors who want access to those customers. Regulators and legislators responded to these forces by providing for more competition in the energy industry. Regulators and legislators, to varying degrees, have required utilities to unbundle rates in order to allow customers to compare unit prices of the utilities and other providers when selecting their energy service provider.

Competition in the Electricity Industry

Federal. At the federal level, many provisions of the EPCRA support the development of competition in the wholesale electric market. The EPCRA has directed the FERC to develop rules to encourage fair and efficient competitive markets by employing best practices in market rules and reducing barriers to trade between markets and

among regions. The EAct also gives the FERC authority to prevent accumulation and exercise of market power by assuring that proposed mergers and acquisitions of public utility companies and their holding companies are in the public interest and by addressing market power in jurisdictional wholesale markets through its new powers to establish and enforce rules prohibiting market manipulation.

Even before the passage of the EAct, the FERC's policies supported the development of a competitive electricity generation industry. FERC Order 888, issued in 1996, established standard terms and conditions for parties seeking access to regulated utilities' transmission grids. Order 888 requires all public utilities that own, control, or operate facilities used for transmitting electric energy in interstate commerce to have on file an open access non-discriminatory transmission tariff ("OATT") that contains minimum terms and conditions of non-discriminatory service. The FERC's subsequent Order 2000, issued in late 1999, established national standards for regional transmission organizations, and advanced the view that a regulated unbundled transmission sector should facilitate competition in both wholesale electricity generation and retail electricity markets. On February 16, 2007, the FERC issued Order 890, which is designed to: (1) strengthen the form of the OATT adopted in Order 888 to ensure that tariffs achieve their original purpose of remedying undue discrimination; (2) provide greater specificity in the form of the OATT to reduce opportunities for undue discrimination and facilitate the FERC's enforcement; and (3) increase transparency in the rules applicable to planning and use of the transmission system.

The FERC also has issued rules on the interconnection of generators to require regulated transmission providers, such as the Utility or the CAISO, to use standard interconnection procedures and a standard agreement for generator interconnections. These rules are intended to limit opportunities for transmission providers to favor their own generation, facilitate market entry for generation competitors by streamlining and standardizing interconnection procedures, and encourage needed investment in generation and transmission. Under the rules and associated tariffs, a new generator is required to pay for the transmission system upgrades needed in order to interconnect the generator. The generator will be reimbursed over a five-year period after the power plant achieves commercial operation. The cost of the network upgrades is then recovered by the regulated transmission provider in its overall transmission rates.

State. At the state level, California Assembly Bill 1890, enacted in 1996, mandated the restructuring of the California electricity industry beginning in 1998 to allow customers of the California investor-owned electric utilities to purchase energy from a service provider other than the regulated utilities (the ability to choose an energy provider is referred to as "direct access"). Assembly Bill 1890 established a market framework for electricity generation in which generators and other electricity providers were permitted to charge market-based prices for wholesale electricity through transactions conducted through the Power Exchange ("PX"). Following the 2000-2001 California energy crisis, the PX filed a petition for bankruptcy protection and now operates solely to reconcile remaining refund amounts owed and to make compliance filings as required by the FERC in the California refund proceeding, which is still pending at the FERC. (For information about the status of the California refund proceeding and the remaining disputed claims made by power suppliers in the Utility's Chapter 11 proceeding, see Note 14 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report.)

California Assembly Bill 1X authorized the California Department of Water Resources ("DWR"), beginning in February 1, 2001, to purchase electricity and sell that electricity directly to the utilities' retail customers. Assembly Bill 1X requires the utilities to deliver electricity purchased by the DWR under the contracts and to act as the DWR's billing and collection agent. To ensure that the DWR recovers the costs that it incurs under its power purchase contracts, the CPUC suspended direct access on September 20, 2001, but allowed existing direct access customers to continue being served by alternative energy service providers. California Senate Bill 695, enacted on October 11, 2009, requires the CPUC to adopt and implement a schedule by April 11, 2010 to reopen direct access on a gradual basis over a period of not less than three years and not more than five years. The statute imposes an annual limit on the amount of electricity that can be purchased by direct access customers of a particular utility. The annual limit for each utility is increased each year until it reaches an amount equal to each utility's historical maximum amount of energy provided by other service providers in that utility's service territory during any one-year period. Further legislative action is required to exceed these limits.

Assembly Bill 1890 also provided for the establishment of the CAISO, as a nonprofit public benefit corporation, to operate and control the state-wide electricity transmission grid and ensure efficient use and reliable operation of the transmission grid. On April 1, 2009, the CAISO implemented new day-ahead, hour-

ahead, and

real-time wholesale electricity markets subject to bid caps that increase over time, as part of the implementation of the CAISO's Market Redesign and Technology Upgrade initiative ("MRTU"). Market participants, including load-serving entities like the Utility, are permitted to hedge the financial risk of CAISO-imposed congestion charges in the MRTU day-ahead market by acquiring congestion revenue rights. Also, in January 2008, the CPUC staff issued its recommendation to establish a statewide wholesale electric capacity market to replace the current resource adequacy program. Any changes that the CPUC adopts would be subject to FERC approval. On October 29, 2009, the CPUC opened a new rulemaking proceeding to continue oversight of the current resource adequacy program, consider program refinements, and establish annual local procurement obligations.

In addition, the Utility's customers may, under certain circumstances, obtain power from a "community choice aggregator" instead of from the Utility. California Assembly Bill 117, enacted in 2002, permits cities and counties to purchase and sell electricity for their local residents and businesses once they have registered as community choice aggregators. Under Assembly Bill 117, the Utility would continue to provide distribution, metering, and billing services to the community choice aggregators' customers and would be those customers' electricity provider of last resort. Assembly Bill 117 provides that a community choice aggregator can procure electricity for all of its residents who do not affirmatively elect to continue to receive electricity from the Utility. The CPUC has adopted rules to implement community choice aggregation, including the imposition of a surcharge on retail end-users of the community choice aggregator to prevent a shifting of costs to customers of a utility who receive bundled services and allowing a community choice aggregator to start service in phases. Assembly Bill 117 also authorized the Utility to recover from each community choice aggregator any costs of implementing the program that are reasonably attributable to the community choice aggregator, and to recover from customers any costs of implementing the program not reasonably attributable to a community choice aggregator.

Competition in the Natural Gas Industry

FERC Order 636, issued in 1992, required interstate natural gas pipeline companies to divide their services into separate gas commodity sales, transportation, and storage services. Under Order 636, interstate natural gas pipeline companies must provide transportation service whether or not the customer (often a local gas distribution company) buys the natural gas commodity from these companies. The Utility's natural gas pipelines are located within the State of California and are exempt from the FERC's rules and regulations applicable to interstate pipelines; the Utility's pipeline operations are instead subject to the jurisdiction of the CPUC.

The Utility's gas transmission and storage system has operated under the CPUC-approved "Gas Accord" market structure since 1998. This market structure largely mimics the regulatory framework required by the FERC for interstate gas pipelines. The CPUC divides the Utility's natural gas customers into two categories: "core" customers, which are primarily small commercial and residential customers, and "non-core" customers, which are primarily industrial, large commercial, and electric generation customers. Under the Gas Accord structure, non-core customers have access to capacity rights for firm service, as well as interruptible (or "as-available") services. All services are offered on a nondiscriminatory basis to any creditworthy customer. The Gas Accord market structure has resulted in a robust wholesale gas commodity market at the Utility's "citygate," which refers to the interconnection between the big "backbone" gas transmission system and the smaller downstream local transmission systems.

The Gas Accord separated the Utility's natural gas transmission and storage rates from its distribution services and rates. The Gas Accord also changed the nature of the Utility's transmission and storage services by creating path-specific transmission services, firm and interruptible service offerings, standard and negotiated rate options, and a secondary market for trading of firm capacity rights. Additionally, the Gas Accord eliminated balancing account protection for some services, increasing the Utility's risk/reward potential. The Utility's first Gas Accord, a settlement agreement reached among the Utility and many interested parties, was approved by the CPUC in 1997, took effect on March 1, 1998, and was renewed, with slight modifications, for various successive periods. In September 2007, the CPUC approved the Gas Accord IV covering 2008 through 2010. In September 2009, the Utility filed an application with the CPUC to continue a majority of the Gas Accord IV's terms and conditions for the Utility's natural gas transportation and storage services from 2011 through 2014.

The Utility competes with other natural gas pipeline companies for customers transporting natural gas

into the southern California market on the basis of transportation rates, access to competitively priced supplies of natural

gas, and the quality and reliability of transportation services. The most important competitive factor affecting the Utility's market share for transportation of natural gas to the southern California market is the total delivered cost of western Canadian natural gas relative to the total delivered cost of natural gas from the southwestern United States. The total delivered cost of natural gas includes, in addition to the commodity cost, transportation costs on all pipelines that are used to deliver the natural gas, which, in the Utility's case, includes the cost of transportation of the natural gas from Canada to the California border and the amount that the Utility charges for transportation from the border to southern California. In general, when the total cost of western Canadian natural gas increases relative to other competing natural gas sources, the Utility's market share of transportation services into southern California decreases. The Utility also competes for storage services with other third-party storage providers, primarily in northern California.

PG&E Corporation, through its subsidiary, PG&E Strategic Capital, Inc., along with Fort Chicago Energy Partners, L.P. and Williams Gas Pipeline Company, LLC, have been jointly pursuing the development of a new 234-mile interstate gas transmission pipeline that would increase natural gas supplies for the West Coast region of the United States. The proposed Pacific Connector Gas Pipeline, together with the proposed Jordan Cove liquefied natural gas ("LNG") terminal in Coos Bay, Oregon, being developed by Fort Chicago Energy Partners, L.P., as lead investor, would open growing West Coast natural gas markets to diverse worldwide natural gas supply sources, providing additional alternatives to traditional Canadian, Southwest, and Rocky Mountain supplies and increasing supply options and reliability. The proposed Pacific Connector Gas Pipeline would be capable of delivering 1 Bcf per day. On December 17, 2009, the FERC issued an order to authorize construction and operation of the LNG terminal and the Pacific Connector Gas Pipeline.

The development and construction of the Pacific Connector Gas Pipeline and the proposed LNG terminal are subject to obtaining all remaining required federal, state and local permits and authorizations, as well as commitments under long-term capacity contracts of sufficient volumes to justify moving forward with construction of the terminal and the pipeline. Assuming these are obtained and other conditions are timely satisfied, the proposed Pacific Connector Gas Pipeline and LNG terminal could begin commercial operation by late 2014. However, PG&E Corporation cannot predict whether such conditions will be met and whether the construction of the proposed LNG terminal and associated pipeline will occur.

Ratemaking Mechanisms

Overview

The Utility's rates for electricity and natural gas utility services are based on its costs of providing service ("cost-of-service ratemaking"). Before setting rates, the CPUC and the FERC determine the annual amount of revenue ("revenue requirements") that the Utility is authorized to collect from its customers. The CPUC determines the Utility's revenue requirements associated with electricity and gas distribution operations, electricity generation, and natural gas transportation and storage. The FERC determines the Utility's revenue requirements associated with its electricity transmission operations.

Revenue requirements are designed to allow a utility an opportunity to recover its reasonable operating and capital costs of providing utility services as well as a return of, and a fair rate of return on, its investment in utility facilities ("rate base"). Revenue requirements are primarily determined based on the Utility's forecast of future costs. These costs include the Utility's costs of electricity and natural gas purchased for its customers, operating expenses, administrative and general expenses, depreciation, taxes, and public purpose programs.

Regulatory balancing accounts are used to adjust the Utility's revenue requirements. Sales balancing accounts track differences between the Utility's recorded revenues and its authorized revenue requirements, due primarily to sales fluctuations. In general, electricity sales are higher in the summer months and natural gas sales are higher in the winter months. Cost balancing accounts track differences between the Utility's incurred costs and its authorized revenue requirements, most importantly for energy commodity costs and volumes that can be affected by seasonal demand, weather, and other factors. Balances in all CPUC-authorized accounts are subject to review, verification audit, and adjustment, if necessary, by the CPUC.

To develop retail rates, the revenue requirements are allocated among customer classes (mainly residential, commercial, industrial, and agricultural) and to various service components (mainly customer, demand, and energy). Specific rate components are designed to produce the required revenue. Rate changes become effective prospectively on or after the date of CPUC or FERC decisions. Most rate changes approved by the CPUC throughout the year are consolidated to take effect on the first day of the following year.

Through cost-of-service ratemaking, rates are developed to produce the revenue requirements, including the authorized return on rate base. The Utility may be unable to earn its authorized rate of return because the CPUC or the FERC excludes some of the Utility's actual costs from the revenue requirements or because the Utility's actual costs are higher than those reflected in the revenue requirements.

While the CPUC generally uses cost-of-service ratemaking to develop revenue requirements and rates, it selectively uses incentive ratemaking, which bases rates on the extent to which the utilities meet objective or fixed standards or goals, such as reliability standards or energy efficiency goals, instead of on the cost of providing service.

Electricity and Natural Gas Distribution and Electricity Generation Operations

General Rate Cases

The General Rate Case ("GRC") is the primary proceeding in which the CPUC determines the amount of revenue requirements that the Utility is authorized to collect from customers to recover the Utility's basic business and operational costs related to its electricity and natural gas distribution and electricity generation operations. The CPUC generally conducts a GRC every three years. The CPUC sets revenue requirement levels for a three-year rate period based on a forecast of costs for the first or "test" year. Typical interveners in the Utility's GRC include the CPUC's Division of Ratepayer Advocates and The Utility Reform Network. On March 15, 2007, the CPUC approved a multi-party settlement agreement to resolve the Utility's 2007 GRC. The decision set the Utility's electricity and natural gas distribution and electricity generation revenue requirements for a four-year period, from 2007 through 2010, rather than for a typical three-year period. On December 21, 2009, the Utility filed its application for the next GRC to establish revenue requirements for 2011 through 2013. For more information, see the section of MD&A entitled "Regulatory Matters" in the 2009 Annual Report.

Attrition Rate Adjustments

The CPUC may authorize the Utility to receive annual increases for the years between GRCs in the base revenues authorized for the test year of a GRC in order to avoid a reduction in earnings in those years due to, among other things, inflation and increases in invested capital. These adjustments are known as attrition rate adjustments. Attrition rate adjustments provide increases in the revenue requirements that the Utility is authorized to collect in rates for electricity and natural gas distribution and electricity generation operations. The CPUC's decision in the Utility's 2007 GRC provided for attrition adjustments for 2008, 2009, and 2010. For more information, see the section of MD&A entitled "Results of Operations" in the 2009 Annual Report.

Cost of Capital Proceedings

The CPUC authorizes the Utility's capital structure (i.e., the relative weightings of common equity, preferred equity, and debt) and the authorized rates of return on each component that the Utility may earn on its electricity and natural gas distribution and electricity generation assets. The current authorized capital structure, consisting of 52% equity, 46% long-term debt, and 2% preferred stock, will be maintained through 2012 unless the automatic adjustment mechanism described below is triggered. The Utility's current authorized rates of return that the Utility may earn on its electricity and natural gas distribution and electricity generation rate base are 6.05% for long-term debt, 5.68% for preferred stock, and 11.35% for common equity, resulting in an overall rate of return on rate base of 8.79%. The CPUC has authorized the Utility to maintain these rates through 2010.

The CPUC's cost of capital mechanism uses an interest rate index (the 12-month October through September average of the Moody's Investors Service utility bond index) to trigger changes in the authorized cost of

debt, preferred stock, and equity. In any year in which the 12-month October through September average for the index increases or decreases by more than 100 basis points (“deadband”) from the benchmark, the cost of equity will be adjusted by one-half of the difference between the 12-month average and the benchmark. In addition, if the mechanism is triggered, the costs of long-term debt and preferred stock will be adjusted to reflect the actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and any new long-term debt and preferred stock forecasted to be issued in the coming year. The Utility may apply for an adjustment to either the cost of capital or the capital structure sooner based on extraordinary circumstances. The Utility’s next full cost of capital application must be filed by April 20, 2012, so that any resulting changes would become effective on January 1, 2013.

Although the FERC has authority to set the Utility’s rate of return for its electricity transmission operations, the rate of return is often unspecified if the Utility’s transmission rates are determined through a negotiated rate settlement.

Baseline Allowance

The CPUC sets and periodically revises a baseline allowance for the Utility’s residential gas and electricity customers. A customer’s baseline allowance is the amount of its monthly usage that is covered under the lowest possible natural gas or electric rate. Natural gas or electricity usage in excess of the baseline allowance is covered by higher rates that increase with usage.

Rate Recovery of Costs of New Electricity Generation Resources

Overview

Each California investor-owned electric utility is responsible for procuring electricity to meet customer demand, plus applicable reserve margins, not satisfied from that utility’s own generation facilities and existing electricity contracts (including DWR contracts allocated to the Utility under Assembly Bill 1X). To accomplish this, each utility must submit a long-term procurement plan covering a 10-year period to the CPUC for approval. Each long-term procurement plan must be designed to reduce GHG emissions and use the State of California’s preferred loading order to meet forecasted demand (i.e., increases in future demand will be offset through energy efficiency programs, demand response programs, renewable generation resources, distributed generation resources, and new conventional generation). In December 2007, the CPUC approved the utilities’ long-term electricity procurement plans, covering 2007 through 2016, subject to certain required modifications. California legislation, Assembly Bill 57, allows the utilities to recover the costs incurred in compliance with their CPUC-approved procurement plans without further after-the-fact reasonableness review. Each utility may, if appropriate, conduct a competitive request for offers (“RFO”) within the parameters permitted in its approved plan to meet the utility’s projected need for electricity resources. Contracts that are entered into after the RFO process are submitted to the CPUC for approval, along with a request for the CPUC to authorize revenue requirements to recover the associated costs. The utilities conduct separate competitive solicitations to meet their renewable energy resource requirements. The utilities submit the renewable energy contracts after the conclusion of these solicitations to the CPUC for approval and authorization of the associated revenue requirements. For more information about the Utility’s approved long-term procurement plan covering 2007 through 2016, see “Electric Utility Operations — Electricity Resources — Future Long-Term Generation Resources” below.

The Utility recovers its electricity procurement costs and the fuel costs for the Utility’s own generation facilities (but excluding the costs of electricity allocated to the Utility’s customers under DWR contracts) through the Energy Resource Recovery Account (“ERRA”), a balancing account authorized by the CPUC in accordance with Assembly Bill 57. The ERRA tracks the difference between the authorized revenue requirement and actual costs incurred under the Utility’s authorized procurement plans and contracts. To determine the authorized revenue requirement recorded in the ERRA, each year the CPUC reviews the Utility’s forecasted costs under power purchase agreements and fuel costs. Although California legislation requiring the CPUC to adjust a utility’s retail electricity rates when the forecast aggregate over-collections or under-collections in the ERRA exceed 5% of a utility’s prior year electricity procurement revenues (excluding amounts collected for the DWR contracts) expired on January 1, 2006, the

CPUC has extended this mandatory rate adjustment mechanism for the length of a utility's resource commitment or 10 years, whichever is longer. The CPUC also performs compliance reviews of the procurement activities recorded in the ERRA to ensure that the Utility's procurement activities are in compliance with its approved procurement plans. The Chapter 11 Settlement Agreement also provides that the Utility will recover its reasonable costs of providing utility service, including power purchase costs.

Costs Incurred Under New Power Purchase Agreements

The CPUC has approved various power purchase agreements that the Utility has entered into with third parties in accordance with the Utility's CPUC-approved long-term procurement plan and to meet renewable energy and resource adequacy requirements. The CPUC also authorized the Utility to recover fixed and variable costs associated with these contracts through the ERRA.

For new non-renewable generation purchased from third parties under power purchase agreements, the Utility may elect to recover any above-market costs through either (1) the imposition of a non-bypassable charge on bundled and departing customers only, or (2) the allocation of the "net capacity costs" (i.e., contract price less energy revenues) to all "benefiting customers" in the utilities' service territory, including existing direct access customers and community choice aggregation customers. (For information about the status of direct access and community choice aggregation, see the section above entitled "Competition in the Electricity Industry.")

The non-bypassable charge can be imposed from the date of signing a power purchase agreement and can last for 10 years from the date the new generation unit comes on line or for the term of the contract, whichever is less. Utilities are allowed to justify a cost recovery period longer than 10 years on a case-by-case basis. If a utility elects to use the net capacity cost allocation method, the net capacity costs are allocated for the term of the contract or 10 years, whichever is shorter, starting on the date the new generation unit comes on line. Under this allocation mechanism, the energy rights to the contract are auctioned off to maximize the energy revenues and minimize the net capacity costs subject to allocation. If no bids are accepted for the energy rights, the Utility would retain the rights to the energy and would value it at market prices for the purposes of determining the net capacity costs to be allocated until the next periodic auction.

California Senate Bill 695, enacted on October 11, 2009, also includes a mechanism for recovery of above-market costs from direct access and community choice aggregation customers. The CPUC has not yet implemented this portion of Senate Bill 695.

Costs of Utility-Owned Generation Resource Projects

The CPUC-authorized revenue requirements for capital costs and non-fuel operating and maintenance costs for operating Utility-owned generation facilities are addressed in the Utility's GRC. The CPUC-authorized revenue requirements to recover the initial capital costs for utility-owned generation projects are recovered through a balancing account, the Utility Generation Balancing Account ("UGBA"), which tracks the difference between the CPUC-approved forecast of initial capital costs, adjusted from time to time as permitted by the CPUC, and actual costs. The initial revenue requirement for Utility-owned projects generally would begin to accrue in the UGBA as of the new facility's commercial operation date or the date a completed facility is transferred to the Utility, and would be included in rates on January 1 of the following year. For more information, see the section of MD&A entitled "Capital Expenditures — Proposed New Generation Facilities" in the 2009 Annual Report.

DWR Electricity and DWR Revenue Requirements

During the 2000-2001 California energy crisis, the DWR entered into long-term contracts to purchase electricity from third parties. The electricity provided under these contracts has been allocated to the electric customers of the three California investor-owned electric utilities. The DWR pays for its costs of purchasing electricity from a revenue requirement collected from these customers through a rate component called the DWR "power charge." The rates that these customers pay also include a "bond charge" to pay a share of the DWR's revenue requirements to recover costs associated with the DWR's \$11.3 billion bond offering completed in November 2002. The proceeds of this bond offering were used to repay the State of California and lenders to the DWR for electricity purchases made before the implementation of the DWR's revenue requirement and to provide

the DWR with funds to make its electricity purchases. The Utility acts as a billing and collection agent for the DWR for these amounts; however, amounts collected for the DWR and any adjustments are not included in the Utility's revenues.

Electricity Transmission

The Utility's electricity transmission revenue requirements and its wholesale and retail transmission rates are subject to authorization by the FERC. The Utility has two main sources of transmission revenues (1) charges under the Utility's transmission owner tariff, and (2) charges under specific contracts with wholesale transmission customers that the Utility entered into before the CAISO began its operations in March 1998. These wholesale customers are referred to as existing transmission contract customers and are charged individualized rates based on the terms of their contracts. Other customers pay transmission rates that are established by the FERC in the Utility's transmission owner tariff rate cases. These FERC-approved rates are included by the CPUC in the Utility's retail electric rates, consistent with the federal filed rate doctrine, and are collected from retail electric customers receiving bundled service.

Transmission Owner Rate Cases

The primary FERC ratemaking proceeding to determine the amount of revenue requirements that the Utility is authorized to recover for its electric transmission costs and to earn its return on equity is the transmission owner rate case ("TO rate case"). The Utility generally files a TO rate case every year, setting rates for a one-year period. The Utility is typically able to charge new rates, subject to refund, before the outcome of the FERC ratemaking review process. For more information about the Utility's TO rate cases, see the section of MD&A entitled "Regulatory Matters — Electric Transmission Owner Rate Cases" in the 2009 Annual Report.

The Utility's transmission owner tariff includes two rate components. The primary component consists of base transmission rates intended to recover the Utility's operating and maintenance expenses, depreciation and amortization expenses, interest expense, tax expense, and return on equity. The Utility derives the majority of the Utility's transmission revenue from base transmission rates.

The other component consists of rates intended to reflect credits and charges from the CAISO. The CAISO credits the Utility for transmission revenues received by the CAISO. These revenues include:

- the proceeds received from the CAISO for wholesale wheeling service (i.e., the transfer of electricity that is being sold in the wholesale market) that the CAISO provides to third parties using the Utility's transmission facilities, and
- revenues that the CAISO collects from transmission users to relieve congestion on the Utility's transmission line (either in the form of financial hedges, such as firm transmission rights relating to future deliveries of electricity, or in the form of a usage charge to manage congestion relating to real-time delivery of electricity).

These revenues are adjusted by the shortfall or surplus resulting from any cost differences between the amount that the Utility is entitled to receive from existing transmission contract customers under specific contracts and the amount that the Utility is entitled to receive or be charged for scheduling services under the CAISO's rules and protocols.

The CAISO also charges the Utility for reliability service costs and imposes a transmission access charge on the Utility for the use of the CAISO-controlled electric transmission grid in serving its customers. The CAISO's transmission access charge methodology, approved by the FERC in December 2004, provided for a transition over a 10-year period, from 2001 to 2010, to a uniform statewide high-voltage transmission rate. This rate is based on the revenue requirements associated with facilities operated at 200 kV and above of all transmission-owning entities that become participating transmission owners under the CAISO tariff. The transmission access charge methodology results in a cost shift from transmission owners, whose costs for existing transmission facilities at 200 kV and above are higher than that embedded in the uniform transmission access charge rate, to transmission owners with lower embedded costs for existing high voltage transmission, such as the Utility. The Utility's obligation for this cost

differential, which is capped at \$32 million per year during the 10-year transition period, is recovered in retail transmission rates.

Natural Gas

The Gas Accord

The Utility's authorized natural gas transmission and storage rates and associated revenue requirements from January 1, 2008 through December 31, 2010 have been set in accordance with the CPUC-approved settlement agreement known as the Gas Accord IV. On September 18, 2009, the Utility filed an application with the CPUC to establish the Utility's natural gas transmission and storage revenue requirements from January 1, 2011 through 2014 and to continue a majority of the terms and conditions of the Gas Accord IV. A decision on the Utility's application, known as the Gas Accord V, is expected by the end of 2010. A substantial portion of the authorized revenue requirements, primarily those costs allocated to core customers, would continue to be assured of recovery through balancing account mechanisms and/or fixed reservation charges. The Utility's ability to recover the remaining revenue requirements would continue to depend on throughput volumes, gas prices, and the extent to which non-core customers and other shippers contract for firm transmission services. This volumetric cost recovery risk associated with each function (backbone transmission, local transmission, and storage) is summarized below:

Backbone Transmission. The backbone transmission revenue requirement is recovered through a combination of firm two-part rates (consisting of fixed monthly reservation charges and volumetric usage charges) and as-available one-part rates (consisting only of volumetric usage charges). The mix of firm and as-available backbone services provided by the Utility continually changes. As a result, the Utility's recovery of its backbone transmission costs is subject to volumetric and price risk to the extent that backbone capacity is sold on an as-available basis. Core procurement entities (including core customers served by the Utility) are the primary long-term subscribers to backbone capacity. Core customers are allocated approximately 36% of the total backbone capacity on the Utility's system. Core customers pay approximately 72% of the costs of the backbone capacity that is allocated to them through fixed reservation charges.

Local Transmission. The local transmission revenue requirement is allocated approximately 71% to core customers and 29% to non-core customers. The Utility recovers the portion allocated to core customers through a balancing account, but the Utility's recovery of the portion allocated to non-core customers is subject to volumetric and price risk.

Storage. The storage revenue requirement is allocated approximately 71% to core customers, 12% to non-core storage service, and 17% to pipeline load balancing service. The Utility recovers the portion allocated to core customers through a balancing account, but the Utility's recovery of the portion allocated to non-core customers is subject to volumetric and price risk. The revenue requirement for pipeline load balancing service is recovered in backbone transmission rates and is subject to the same cost recovery risks described above for backbone transmission.

Biennial Cost Allocation Proceeding

Certain of the Utility's natural gas distribution costs and balancing account balances are allocated to customers in the CPUC's Biennial Cost Allocation Proceeding. This proceeding normally occurs every two years and is updated in the interim year for purposes of adjusting natural gas rates to recover from customers any under-collection, or refund to customers any over-collection, in the balancing accounts. Balancing accounts for gas distribution and other authorized expenses accumulate differences between authorized amounts and actual revenues.

Natural Gas Procurement

The Utility sets the natural gas procurement rate for core customers monthly, based on the forecasted costs of natural gas, core pipeline capacity and storage costs. The Utility reflects the difference between actual natural gas purchase costs and forecasted natural gas purchase costs in several natural gas balancing accounts, with under-collections and over-collections taken into account in subsequent monthly rates.

The Utility recovers the cost of gas (subject to the ratemaking mechanism discussed below), acquired on behalf of core customers, through its retail gas rates. The Utility is protected against after-the-fact reasonableness reviews of these gas procurement costs under the Core Procurement Incentive Mechanism (“CPIM”). Under the CPIM, the Utility's purchase costs for a fixed 12-month period are compared to an aggregate market-based benchmark based on a weighted average of published monthly and daily natural gas price indices at the points where the Utility typically purchases natural gas. Costs that fall within a tolerance band, which is 99% to 102% of the benchmark, are considered reasonable and are fully recovered in customers' rates. One-half of the costs above 102% of the benchmark are recoverable in customers' rates, and the Utility's customers receive in their rates 80% of any savings resulting from the Utility's cost of natural gas that is less than 99% of the benchmark. The shareholder award is capped at the lower of 1.5% of total natural gas commodity costs or \$25 million. While this incentive mechanism remains in place, changes in the price of natural gas, consistent with the market-based benchmark, are not expected to materially impact net income. The Utility also has received CPUC approval for a long-term gas hedging program through 2011 on behalf of core customers. The costs of the hedging program are recovered directly from gas customers, outside the CPIM mechanism, and are subject only to a compliance review, not an after-the fact reasonableness review. (For more information, see Note 10: Derivatives and Hedging Activities, of the Notes to the Consolidated Financial Statements in the 2009 Annual Report).

In January 2010, the CPUC approved a joint settlement agreement among the Utility, the CPUC's Division of Ratepayer Advocates, and The Utility Reform Network to incorporate a portion of hedging costs for core customers into the Utility's CPIM. The settlement agreement has an initial term of seven years, through October 2017, which can be extended by agreement of the parties. As a result, the settlement agreement permits the Utility to develop and implement a sustained core hedging program.

Interstate and Canadian Natural Gas Transportation

The Utility's interstate and Canadian natural gas transportation agreements with third-party service providers are governed by tariffs that detail rates, rules, and terms of service for the provision of natural gas transportation services to the Utility on interstate and Canadian pipelines. United States tariffs are approved for each pipeline for service to all of its shippers, including the Utility, by the FERC in a FERC ratemaking review process, and the applicable Canadian tariffs are approved by the Alberta Utilities Commission and the National Energy Board. The Utility's agreements with interstate and Canadian natural gas transportation service providers are administered as part of the Utility's core natural gas procurement business. Their purpose is to transport natural gas from the points at which the Utility takes delivery of natural gas (typically in Canada and the southwestern United States) to the points at which the Utility's natural gas transportation system begins. For more information, see the discussion below under “Natural Gas Utility Operations — Interstate and Canadian Natural Gas Transportation Services Agreements.”

Electric Utility Operations

Electricity Resources

The Utility is required to maintain physical generating capacity adequate to meet its customers' demand for electricity (“load”), including peak demand and planning and operating reserves, deliverable to the locations and at times as may be necessary to provide reliable electric service. The Utility is required to dispatch, or schedule, all of the electricity resources within its portfolio, including electricity provided under DWR contracts, in the most cost-effective way.

The following table shows the percentage of the Utility's total actual deliveries of electricity in 2009 represented by each major electricity resource:

Total 2009 Actual Electricity Delivered 79,585 GWh:

Owned generation:	
Nuclear	20.5%
Large Hydroelectric	10.5%
Small Hydroelectric	1.4%
Fossil fuel-fired	3.9%
Total	36.3%
DWR	18.0%
Qualifying Facilities	18.8%
Irrigation Districts	3.7%
Other Power Purchases	23.2%

Owned Generation Facilities

At December 31, 2009, the Utility owned and operated the following generation facilities, all located in California, listed by energy source:

Generation Type	County Location	Number of Units	Net Operating Capacity (MW)
Nuclear:			
Diablo Canyon	San Luis Obispo	2	2,240
Hydroelectric:			
Conventional	16 counties in northern and central California	107	2,684
Helms pumped storage	Fresno	3	1,212
Hydroelectric subtotal		110	3,896
Fossil fuel:			
Gateway Generating Station ⁽¹⁾	Contra Costa	1	530
Humboldt Bay ⁽²⁾	Humboldt	2	105
Mobile turbines	Humboldt	2	30
Fossil fuel subtotal		5	665
Total		117	6,801

(1) The Gateway Generating Station became operational in January 2009.

(2) The Humboldt Bay facilities consist of a retired nuclear generation unit, Humboldt Bay Unit 3, and two operating fossil fuel-fired plants. As described below, the CPUC has approved the Utility's application to re-power the two fossil fuel-fired plants.

Diablo Canyon Power Plant. The Utility's Diablo Canyon power plant consists of two nuclear power reactor units, Units 1 and 2, with a total-plant net generation capacity of approximately 2,240 MW of electricity. For the twelve months period ended December 31, 2009, the Utility's Diablo Canyon power plant achieved an average overall capacity factor of approximately 83%. The NRC operating license for Unit 1 expires in November 2024, and the NRC operating license for Unit 2 expires in August 2025. In November 2009, the Utility filed an application at the NRC requesting that each of these licenses be renewed for 20 years. The license renewal process is expected to take several years as the NRC holds public hearings and conducts safety and environmental analyses and site audits. (See the discussion under the heading "Risk Factors" that appears in the MD&A section of the 2009 Annual Report.) Under the terms of the NRC operating licenses, there must be sufficient storage capacity for the radioactive spent fuel produced by the Diablo Canyon plant. For a discussion of the Utility's spent fuel storage project, see "Environmental Matters — Nuclear Fuel Disposal" below.

The ability of the Utility to produce nuclear generation depends on the availability of nuclear fuel. The Utility has entered into various purchase agreements for nuclear fuel that are intended to ensure long-term fuel supply. For more information about these agreements, see Note 16: Commitments and Contingencies — Nuclear Fuel Agreements, of the Notes to the Consolidated Financial Statements in the 2009 Annual Report.

The following table outlines the Diablo Canyon power plant's refueling schedule for the next five years. The Diablo Canyon power plant refueling outages are typically scheduled every 20 months. The average length of a refueling outage over the last five years has been approximately 51 days. The actual refueling schedule and outage duration will depend on the scope of the work required for a particular outage and other factors.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Unit 1					
Refueling	October	-	April	-	February
Duration (days)	40	-	30	-	30
Startup	November	-	May	-	March
Unit 2					
Refueling	-	May	-	February	September
Duration (days)	-	30	-	30	35
Startup	-	June	-	March	October

Hydroelectric Generation Facilities. The Utility's hydroelectric system consists of 110 generating units at 69 powerhouses, including a pumped storage facility, with a total generating capacity of 3,896 MW. Most of the Utility's hydroelectric generation units are classified as "large" hydro facilities, as their unit capacity exceeds 30 MW. The system includes 99 reservoirs, 56 diversions, 170 dams, 184 miles of canals, 44 miles of flumes, 135 miles of tunnels, 19 miles of pipe, and 5 miles of natural waterways. The system also includes water rights as specified in 90 permits or licenses and 160 statements of water diversion and use. All of the Utility's powerhouses are licensed by the FERC (except for three small powerhouses not subject to FERC licensing requirements), with license terms between 30 and 50 years. In the last three years, the FERC renewed three hydroelectric licenses associated with a total of 435 MW of hydroelectric power. The Utility is in the process of renewing licenses for projects associated with approximately 1,073 MW of hydroelectric power. Although the original licenses associated with 516 MW of the 1,073 MW have expired, the licenses are automatically renewed each year until completion of the relicensing process. Licenses associated with approximately 2,701 MW of hydroelectric power will expire between 2018 and 2043.

New Generation Facilities. In addition to the Utility-owned resources shown in the table above, the Utility has been engaged in the development of two generation facilities to be owned and operated by the Utility. Construction of the Colusa Generating Station, a 657 MW combined cycle generating facility to be located in Colusa County, California, began on October 1, 2008. Subject to meeting operational performance requirements and other conditions, it is anticipated that the Colusa Generating Station will commence operations by November 2010. Also, in December 2008, the Utility began construction of a 163 MW power plant to re-power the Utility's existing power plant at Humboldt Bay, which is at the end of its useful life. Subject to obtaining required permits, meeting construction schedules, operational performance requirements and other conditions, it is anticipated that the Humboldt Bay project will commence operations in September 2010.

DWR Power Purchases

During 2009, electricity from the DWR contracts allocated to the Utility provided approximately 18.0% of the electricity delivered to the Utility's customers. The DWR purchased the electricity under contracts with various generators. The Utility, as an agent, is responsible for administration and dispatch of these DWR contracts and acts as a billing and collection agent. The DWR remains legally and financially responsible for its contracts. The Utility expects that the amount of power supplied under the DWR's contracts will diminish in the future as these contracts expire or are novated to the Utility.

Third-Party Power Purchase Agreements

Qualifying Facility Power Purchase Agreements. As described above under “The Utility’s Regulatory Environment-Federal Energy Regulation,” the Utility is required to purchase energy and capacity from independent power producers that are QFs. As of December 31, 2009, the Utility had power purchase agreements with 240 QFs for approximately 3,900 MW that are in operation. Agreements for approximately 3,600 MW expire at various dates between 2010 and 2028. QF power purchase agreements for approximately 300 MW have no specific expiration dates and will terminate only when the owner of the QF exercises its termination option. The Utility also has power purchase agreements with approximately 75 inoperative QFs. The total of approximately 3,900 MW consists of 2,500 MW from cogeneration projects, and 1,400 MW from renewable generation resources, as discussed below. QF power purchases accounted for 18.8% of the Utility’s 2009 electricity deliveries. No single QF accounted for more than 5% of the Utility’s 2009 electricity deliveries.

Irrigation Districts and Water Agencies. The Utility also has entered into contracts with various irrigation districts and water agencies to purchase hydroelectric power. These agreements are based on debt service requirements (regardless of the amount of power supplied), and include variable payments to the counterparty for operation and maintenance costs. These contracts will expire on various dates between 2010 and 2031. In 2009, they accounted for 3.7% of the Utility’s electricity deliveries.

Other Power Purchase Agreements. The Utility has entered into power purchase agreements, including agreements to purchase renewable energy that were entered into following annual solicitations and separate bilateral negotiations. In addition, in accordance with the Utility’s CPUC-approved long-term procurement plan, the Utility has entered into power purchase agreements for conventional generation resources. During 2009, the Utility’s purchases under these agreements accounted for 9.0% of the Utility’s deliveries. When market prices and forecasted load conditions are favorable, the Utility also has the ability to procure electricity through the spot bilateral and CAISO markets. Electricity purchased in these markets accounted for 14.2% of the Utility’s deliveries in 2009.

For more information regarding the Utility’s power purchase contracts, see Note 16: Commitments and Contingencies — Third-Party Power Purchase Agreements, of the Notes to the Consolidated Financial Statements in the 2009 Annual Report.

Renewable Generation Resources

California law requires California retail sellers of electricity, such as the Utility, to comply with a renewable portfolio standard (“RPS”) by increasing their deliveries of renewable energy (such as biomass, small hydroelectric, wind, solar, and geothermal energy) each year, so that the amount of electricity delivered from renewable resources equals at least 20% of their total retail sales by the end of 2010. If a retail seller is unable to meet its target for a particular year, the current CPUC “flexible compliance” rules allow the deficit to be carried forward for up to three years so that future deliveries of renewable power can be used to make up the deficit.

The amount of electricity the Utility delivered from renewable resources during 2009 equaled 14.4 % of the Utility’s total retail electricity sales at December 31, 2009. Most renewable energy deliveries resulted from third party contracts, mainly QF agreements and bilateral contracts. Additional renewable resources included the Utility’s small hydro and solar facilities and certain irrigation district contracts (small hydro facilities). (Under California law only hydroelectric generation resources with a capacity of 30 MW or less can qualify as a renewable resource for purposes of meeting the RPS mandate. Most of the Utility’s hydroelectric generating units have a capacity in excess of 30 MW and do not qualify as RPS-eligible resources.)

Total 2009 renewable deliveries are stated in the table below.

Type	GWh	% of Bundled Load
Biopower	3,439	4.3%
Geothermal	3,412	4.3%
Wind	2,524	3.2%
Small Hydroelectric	2,044	2.6%
Solar	22	0.0%
Total	11,441	14.4%

For more information regarding the Utility's renewable energy contracts, see Note 16: Commitments and Contingencies — Third-Party Power Purchase Agreements, of the Notes to the Consolidated Financial Statements in the 2009 Annual Report.

Future Long-Term Generation Resources

In compliance with California's Clean Energy Action Plan, the Utility plans to meet future electricity demand by focusing first on reducing consumption through energy efficiency and demand response programs, then by securing environmentally preferred energy resources, such as renewable generation and distributed generation (including solar power), and finally by relying on clean and efficient fossil-fueled generation resources. The Utility's CPUC-approved long-term electricity procurement plan, covering 2007-2016, forecasts that the Utility will need to obtain an additional 800 to 1,200 MW of new generation resources by 2015 above the Utility's planned additions of renewable resources, energy efficiency, demand reduction programs, and previously approved contracts for new generation resources. Due to the cancellation of two projects selected in its 2004 RFO for new long-term generation resources, the Utility was authorized to increase the new generation resource need to obtain 1,112 to 1,512 MW.

The CPUC allows the California investor-owned utilities to acquire ownership of new conventional generation resources only through purchase and sale agreements ("PSAs") (a PSA is a "turnkey" arrangement in which a new generating facility is constructed by a third party and then sold to the Utility upon satisfaction of certain contractual requirements). The utilities are prohibited from submitting offers for utility-build generation in their respective RFOs until questions can be resolved about how to compare offers for utility-owned generation with offers from independent power producers. The utilities are permitted to propose utility-owned generation projects through a separate application outside of the RFO process in the following circumstances: (1) to mitigate market power demonstrated by the utility to be held by others, (2) to support a use of preferred resources, such as renewable energy sources, (3) to take advantage of a unique and fleeting opportunity (such as a bankruptcy settlement), and (4) to meet unique reliability needs.

For a discussion of the Utility-owned generation projects the Utility has requested that the CPUC approve, see the section of MD&A entitled "Capital Expenditures — Proposed New Generation Facilities" in the 2009 Annual Report.

Electricity Transmission

At December 31, 2009, the Utility owned 18,650 circuit miles of interconnected transmission lines operated at voltages of 500 kV to 60 kV and transmission substations with a capacity of 57,848 MVA. Electricity is transmitted across these lines and substations and is then distributed to customers through 141,213 circuit miles of distribution lines and substations with a capacity of 27,896 MVA. In 2009, the Utility delivered 85,629 GWh to its customers, including 5,643 GWh delivered to direct access customers. The Utility is interconnected with electric power systems in the WECC, which includes 14 western states, Alberta and British Columbia, Canada, and parts of Mexico.

During 1998, in connection with electric industry restructuring, the California investor-owned electric utilities relinquished control, but not ownership, of their transmission facilities to the CAISO. The Utility entered into a Transmission Control Agreement with the CAISO and other participating transmission owners (including Southern California Edison Company, San Diego Gas & Electric Company, and several California municipal utilities) under which the transmission owners have assigned operational control of their electric transmission systems to the CAISO. The Utility is required to give the CAISO two years notice and receive approval from the FERC if it wishes to withdraw from the Transmission Control Agreement and take back operational control of its transmission facilities.

The CAISO, which is regulated by the FERC, controls the operation of the transmission system and provides open access transmission service on a nondiscriminatory basis. The CAISO also is responsible for ensuring that the reliability of the transmission system is maintained. The Utility acts as a scheduling coordinator to schedule electricity deliveries to the transmission grid. The Utility also acts as a scheduling coordinator to deliver electricity produced by several governmental entities to the transmission grid under contracts the Utility entered into with these entities before the CAISO commenced operation in 1998. In addition, under the mandatory reliability standards implemented following the EPAct, all users, owners, and operators of the transmission system, including the Utility, are also responsible for maintaining reliability through compliance with the reliability standards. See the discussion of reliability standards above under “The Utility’s Regulatory Environment — Federal Energy Regulation.”

The Utility expects to undertake various additional transmission projects over the next few years to upgrade and expand the Utility’s transmission system in order to accommodate system load growth, to secure access to renewable generation resources, to replace aging or obsolete equipment, to maintain system reliability, and to reduce reliance on generation provided under reliability must run (“RMR”) agreements with the CAISO. (RMR agreements require various power plant owners, including the Utility, to keep designated units in certain power plants, known as RMR units, available to generate electricity upon the CAISO’s demand when the generation from those RMR units is needed for local transmission system reliability.) Potential transmission projects include a high-voltage transmission line to improve regional reliability in the Fresno, California area and ultimately enable access to new renewable generation resources (referred to as the “Central California Clean Energy Transmission Project”). As previously disclosed, the Utility has been exploring the feasibility of obtaining regulatory approval for a potential investment in a proposed 1,000 mile high-voltage electric transmission project that would run from British Columbia, Canada to Northern California. The project would provide access to potential new renewable generation resources, improve regional transmission reliability, and provide opportunities for other market participants to use the new facilities. The supply of and need for new renewable generation have evolved since the Utility began exploring the feasibility of obtaining regulatory approval for the potential investment, as has the interest from potential partners. In lieu of the 1,000 mile high-voltage transmission line, the Utility is in continuing discussions with various stakeholders to explore whether, in light of these changing circumstances, a different version of this project or another transmission project in this region should be pursued as part of its overall renewable energy supply strategy.

Electricity Distribution Operations

The Utility’s electricity distribution network extends through 47 of California’s 58 counties, comprising most of northern and central California. The Utility’s network consists of 141,213 circuit miles of distribution lines

(of which approximately 20% are underground and approximately 80% are overhead). There are 93 transmission substations and 48 transmission-switching stations. A transmission substation is a fenced facility where voltage is transformed from one transmission voltage level to another. The Utility's network includes 600 distribution substations and 118 low-voltage distribution substations. The 53 combined transmission and distribution substations have both transmission and distribution transformers.

The Utility's distribution network interconnects to the Utility's electricity transmission system at 1,116 points. This interconnection between the Utility's distribution network and the transmission system typically occurs at distribution substations where transformers and switching equipment reduce the high-voltage transmission levels at which the electricity transmission system transmits electricity, ranging from 500 kV to 60 kV, to lower voltages, ranging from 44 kV to 2.4 kV, suitable for distribution to the Utility's customers. The distribution substations serve as the central hubs of the Utility's electricity distribution network and consist of transformers, voltage regulation equipment, protective devices, and structural equipment. Emanating from each substation are primary and secondary distribution lines connected to local transformers and switching equipment that link distribution lines and provide delivery to end-users. In some cases, the Utility sells electricity from its distribution lines or other facilities to entities, such as municipal and other utilities, that then resell the electricity.

2009 Electricity Deliveries. The following table shows the percentage of the Utility's total 2009 electricity deliveries represented by each of its major customer classes.

Total 2009 Electricity Delivered: 85,629 GWh

Residential Customers	36%
Commercial Customers	39%
Industrial Customers	17%
Agricultural and Other Customers	8%

Electricity Distribution Operating Statistics

The following table shows certain of the Utility's operating statistics from 2005 to 2009 for electricity sold or delivered, including the classification of sales and revenues by type of service.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Customers (average for the year):					
Residential	4,492,359	4,488,884	4,464,483	4,417,638	4,353,458
Commercial	528,786	527,045	521,732	515,297	509,786
Industrial	1,285	1,265	1,261	1,212	1,271
Agricultural	83,581	81,757	80,366	79,006	78,876
Public street and highway lighting	31,227	30,474	29,643	28,799	28,021
Other electric utilities	2	2	2	4	4
Total	5,137,240	5,129,427	5,097,487	5,041,956	4,971,416
Deliveries (in GWh): ⁽¹⁾					
Residential	31,234	31,454	30,796	31,014	29,752
Commercial	32,958	34,053	33,986	33,492	32,375
Industrial	14,806	16,148	15,159	15,166	14,932
Agricultural	5,804	5,594	5,402	3,839	3,742
Public street and highway lighting	826	877	833	785	792
Other electric utilities	1	1	3	14	33
Subtotal	85,629	88,127	86,179	84,310	81,626
California Department of Water Resources (DWR)	(13,244)	(13,344)	(21,193)	(19,585)	(20,476)
Total non-DWR electricity	72,385	74,783	64,986	64,725	61,150
Revenues (in millions):					
Residential	\$ 4,759	\$ 4,656	\$ 4,580	\$ 4,491	\$ 3,856
Commercial	4,538	4,413	4,484	4,414	4,114

Industrial	1,392	1,400	1,252	1,293	1,232
Agricultural	770	727	664	483	446
Public street and highway lighting	74	75	78	72	66
Other electric utilities	66	126	85	59	4
Subtotal	11,599	11,397	11,143	10,812	9,718
DWR	(1,987)	(1,325)	(2,229)	(2,119)	(1,699)
Miscellaneous	221	336	215	261	235
Regulatory balancing accounts	424	330	352	(202)	(327)
Total electricity operating revenues	\$ 10,257	\$ 10,738	\$ 9,481	\$ 8,752	\$ 7,927
Other Data:					
Average annual residential usage (kWh)	6,953	7,007	6,898	7,020	6,834
Average billed revenues (cents per kWh):					
Residential	\$ 15.24	\$ 14.80	\$ 14.87	\$ 14.48	\$ 12.96
Commercial	13.77	12.96	13.19	13.18	12.71
Industrial	9.40	8.67	8.26	8.53	8.25
Agricultural	13.27	13.00	12.29	12.58	11.92
Net plant investment per customer	\$ 4,336	\$ 3,994	\$ 3,418	\$ 3,148	\$ 2,966

(1) These amounts include electricity provided to direct access customers who procure their own supplies of electricity.

Natural Gas Utility Operations

The Utility owns and operates an integrated natural gas transportation, storage, and distribution system in California that extends throughout all or a part of 39 of California's 58 counties and includes most of northern and central California. In 2009, the Utility served approximately 4.3 million natural gas distribution customers. The total volume of natural gas throughput during 2009 was approximately 845 Bcf.

As of December 31, 2009, the Utility's natural gas system consisted of 42,142 miles of distribution pipelines, 6,438 miles of backbone and local transmission pipelines, and three storage facilities. The Utility's backbone transmission system, composed primarily of Lines 300, 400, and 401, is used to transport gas from the Utility's interconnection with interstate pipelines, other local distribution companies, and California gas fields to the Utility's local transmission and distribution systems. The Utility's Line 300, which interconnects with the U.S. Southwest and Rocky Mountain pipeline systems owned by third parties (Transwestern Pipeline Company, El Paso Natural Gas Company, Questar Southern Trails Pipeline Company, and Kern River Pipeline Company), has a receipt capacity of approximately 1.07 Bcf per day. The Utility's Line 400/401 interconnects with the natural gas transportation pipeline of Gas Transmission Northwest Corporation at the California-Oregon border. This line has a receipt capacity at the border of approximately 2.02 Bcf per day. Through interconnections with other interstate pipelines, the Utility can receive natural gas from all the major natural gas basins in western North America, including basins in western Canada, the Rocky Mountains, and the southwestern United States. The Utility also is supplied by natural gas fields in California.

The Utility owns and operates three underground natural gas storage fields connected to the Utility's transmission and storage system. These storage fields have a combined firm capacity of approximately 47 Bcf. In addition, two independent storage operators are interconnected to the Utility's northern California transportation system.

The Utility, along with Gill Ranch Storage, LLC, a subsidiary of Northwest Natural Gas Company, is developing an underground natural gas storage facility near Fresno, California. It is expected that construction of the initial phase, to consist of approximately 20 Bcf of total capacity, will be completed in 2010. The Utility has a 25% interest in the initial phase of the proposed storage facility.

The CPUC divides the Utility's natural gas customers into two categories: core and non-core customers. This classification is based largely on a customer's annual natural gas usage. The core customer class is comprised mainly of residential and smaller commercial natural gas customers. The non-core customer class is comprised of

industrial, larger commercial, and electric generation natural gas customers. In 2009, core customers represented more than 99% of the Utility's total natural gas customers and 38% of its total natural gas deliveries, while non-core customers comprised less than 1% of the Utility's total natural gas customers and 62% of its total natural gas deliveries.

The Utility provides natural gas transportation services to all core and non-core customers connected to the Utility's system in its service territory. Core customers can purchase natural gas procurement service (i.e., natural gas supply) from either the Utility or alternate energy service providers. When the Utility provides both transportation and procurement services, the Utility refers to the combined service as "bundled" natural gas service. Currently, over 97% of core customers, representing over 96% of core market demand, receive bundled natural gas service from the Utility.

The Utility does not provide procurement service to non-core customers. However, some non-core customers are permitted to elect core service and receive Utility procurement service through that avenue. Electricity generators, QF cogenerators, enhanced oil recovery customers, refiners, and other large non-core customers may not elect core service, and smaller non-core customers must contract for a minimum five-year term if they elect core service. These restrictions were put in place because large increases in demand for the Utility's procurement service caused by significant transfers of non-core customers to core service would raise prices for all other core procurement customers and obligate the Utility to reinforce its pipeline system to provide core service reliability on a short-term basis to serve this new load.

The Utility offers backbone gas transmission, gas delivery (local transmission and distribution), and gas storage services as separate and distinct services to its non-core customers. Access to the Utility's backbone gas transmission system is available for all natural gas marketers and shippers, as well as non-core customers.

The Utility has regulatory balancing accounts for core customers designed to ensure that the Utility's results of operations over the long term are not affected by weather variations, conservation, or changes in their consumption levels. The Utility's results of operations can, however, be affected by non-core consumption levels because there are fewer regulatory balancing accounts related to non-core customers. Approximately 97% of the Utility's natural gas distribution base revenues are recovered from core customers and 3% are recovered from non-core customers.

The California Gas Report is prepared by the California electric and natural gas utilities to present an outlook for natural gas requirements and supplies for California over a long-term planning horizon. It is prepared in even-numbered years followed by a supplemental report in odd-numbered years. The 2008 California Gas Report forecasts average annual growth in the Utility's natural gas deliveries (for core customers and non-core transportation) of approximately 0.2% for the years 2008 through 2030. The natural gas requirements forecast is subject to many uncertainties, and there are many factors that can influence the demand for natural gas, including weather conditions, level of economic activity, conservation, price, and the number and location of electricity generation facilities.

2009 Natural Gas Deliveries. The following table shows the percentage of the Utility's total 2009 natural gas deliveries represented by each of the Utility's major customer classes.

Total 2009 Natural Gas Deliveries: 845 Bcf

Residential Customers	27%
Transport-only Customers (non-core)	62%
Commercial Customers	11%

Natural Gas Operating Statistics

The following table shows the Utility's operating statistics from 2005 through 2009 (excluding subsidiaries) for natural gas, including the classification of sales and revenues by type of service.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Customers (average for the year):					
Residential	4,046,364	4,043,616	4,030,499	3,989,331	3,929,117
Commercial	223,709	224,617	223,330	220,024	216,749
Industrial	928	926	958	988	962
Other gas utilities	6	6	6	6	6
Total	4,271,007	4,269,165	4,254,793	4,210,349	4,146,834
Gas supply (MMcf):					
Purchased from suppliers in:					
Canada	190,485	189,608	199,870	202,274	204,884
California ⁽¹⁾	(41,714)	(53,126)	(23,065)	(13,401)	(18,951)
Other states	115,543	123,833	101,271	103,658	103,237
Total purchased	264,314	260,315	278,076	292,531	289,170
Net (to storage) from storage	876	560	(1,120)	4,359	(3,659)
Total	265,190	260,875	276,956	296,890	285,511
Utility use, losses, etc. ⁽²⁾	(12,423)	1,758	(12,760)	(27,610)	(14,312)
Net gas for sales	252,767	262,633	264,196	269,280	271,199
Bundled gas sales (MMcf):					
Residential	195,217	198,699	196,903	196,092	194,108
Commercial	57,550	63,934	67,293	73,178	77,056
Industrial	—	—	—	10	35
Other gas utilities	—	—	—	—	—
Total	252,767	262,633	264,196	269,280	271,199
Transportation only (MMcf):	568,715	569,535	605,259	559,270	572,869
Revenues (in millions):					
Bundled gas sales:					
Residential	\$ 1,953	\$ 2,574	\$ 2,378	\$ 2,452	\$ 2,336
Commercial	496	792	766	859	885
Industrial	—	—	—	—	—
Other gas utilities	—	—	—	—	—
Miscellaneous	55	(30)	87	121	(22)
Regulatory balancing accounts	289	221	186	40	340
Bundled gas revenues		3,557	3,417	3,472	3,539
Transportation service only revenue	349	333	340	315	237
Operating revenues	\$ 3,142	\$ 3,890	\$ 3,757	\$ 3,787	\$ 3,776
Selected Statistics:					
Average annual residential usage (Mcf)	48	49	49	49	49
Average billed bundled gas sales revenues per Mcf:					
Residential	\$ 10.00	\$ 12.95	\$ 12.07	\$ 12.50	\$ 12.04
Commercial	8.62	12.38	11.38	11.73	11.48
Industrial	—	—	—	1.03	0.61
Average billed transportation only revenue per Mcf	0.61	0.59	0.56	0.56	0.42
Net plant investment per customer	\$ 1,557	\$ 1,344	\$ 1,375	\$ 1,304	\$ 1,262

(1) In the years presented, the sale of excess supplies to parties located in California exceeded purchases from parties located in California.

(2) Includes fuel for the Utility's fossil fuel-fired generation plants.

Natural Gas Supplies

The Utility purchases natural gas to serve the Utility's core customers directly from producers and marketers in both Canada and the United States. The contract lengths and natural gas sources of the Utility's portfolio of natural gas purchase contracts have fluctuated generally based on market conditions. During 2009, the Utility purchased approximately 264,314 MMcf of natural gas (net of the sale of excess supply of gas). Consistent with existing CPUC policy directives, substantially all this natural gas was purchased under contracts with a term of one year or less. The Utility's largest individual supplier represented approximately 13% of the total natural gas volume the Utility purchased during 2009.

The following table shows the total volume and the average price of natural gas in dollars per MMcf of the Utility's natural gas purchases by region during each of the last five years. The average prices for Canadian and U.S. Southwest gas shown below include the commodity natural gas prices, pipeline demand or reservation charges, transportation charges, and other pipeline assessments. The volumes purchased are shown net of sales of excess supplies of gas. In the years presented below, the sale of excess supplies to parties located in California exceeded purchases from parties located in California.

	2009		2008		2007		2006		2005	
	MMcf	Avg. Price								
Canada	190,485	\$3.74	189,608	\$8.29	199,870	\$6.63	202,274	\$6.27	204,884	\$7.12
California ⁽¹⁾	(41,714)	\$4.16	(53,126)	\$9.24	(23,065)	\$6.77	(13,401)	\$7.04	(18,951)	\$7.70
Other states (substantially all U.S. southwest)	115,543	\$3.50	123,833	\$7.05	101,271	\$6.30	103,658	\$6.51	103,237	\$7.10
Total/weighted average	264,314	\$3.57	260,315	\$7.51	278,076	\$6.50	292,531	\$6.32	289,170	\$7.07

(1) California purchases include supplies transported into California by others.

Gas Gathering Facilities

The Utility's gas gathering system collects natural gas from third-party wells in California. During 2009, approximately 6% of the gas transported on the Utility's system came from various California producers, with the balance coming from supplies transported into California by others. The natural gas well production is processed by producers to remove various impurities from the natural gas stream, and the Utility then odorizes the natural gas so that it may be detected in the event of a leak. The facilities include approximately 42 miles of gas gathering pipelines. The Utility receives gas well production at approximately 185 metering facilities. The Utility's gas gathering system is geographically dispersed and is located in 7 California counties. Approximately 139 MMcf per day of natural gas produced in northern California was delivered into the Utility's gas gathering system during 2009.

Interstate and Canadian Natural Gas Transportation Services Agreements

In 2009, approximately 54% of the gas transported on the Utility's system came from western Canada. The Utility has a number of arrangements with interstate and Canadian third-party transportation service providers to serve core customers' service demands. The Utility has firm transportation agreements for delivery of natural gas from western Canada to the United States-Canada border with TransCanada NOVA Gas Transmission, Ltd. and TransCanada Foothills Pipe Lines Ltd., B.C. System. These companies' pipeline systems connect at the border to the pipeline system owned by TransCanada's Gas Transmission Northwest Corporation ("GTN"), which provides natural gas transportation services to a point of interconnection with the Utility's natural gas transportation system on the Oregon-California border near Malin, Oregon. The Utility, the largest firm shipper on GTN's pipeline, has a firm transportation agreement with GTN for these services. As described below, as part of the FERC-approved all-party settlement of GTN's most recent general rate case, the Utility's contract with GTN was replaced beginning November 1, 2009 by three smaller contracts totaling the same amount with staggered terms.

During 2009, approximately 40% of the gas transported on the Utility's system came from the western United States, excluding California. The Utility has firm transportation agreements with Transwestern Pipeline Company and El Paso Natural Gas Company to transport this natural gas from supply points in this region to

interconnection points with the Utility's natural gas transportation system in the area of California near Topock, Arizona.

The following table shows certain information about the Utility's firm natural gas transportation agreements in effect during 2009 to support the Utility's needs for its core customers, including the contract quantities, contract durations, and associated demand charges, net of sales of excess supplies, for capacity reservations. These agreements require the Utility to pay fixed demand charges for reserving firm capacity on the pipelines. The total demand charges may change periodically as a result of changes in regulated tariff rates approved by the National Energy Board of Canada in the case of TransCanada NOVA Gas Transmission, Ltd. and TransCanada Foothills Pipe Lines Ltd., B.C. System, and by the FERC in all other cases. The Utility may, upon prior notice and with the CPUC's approval, extend each of these natural gas transportation agreements. On the FERC-regulated pipelines, the Utility has either a right of first refusal or evergreen rights allowing it to renew natural gas transportation agreements at the end of their terms. If another prospective shipper also wants the capacity, the Utility would be required to match the competing bid with respect to both price and term.

<u>Pipeline</u>	<u>Expiration Date</u>	<u>Quantity MDth per day</u>	<u>Demand Charges for the Year Ended December 31, 2009 (In millions)</u>
TransCanada NOVA Gas Transmission, Ltd.	10/31/2011	619	\$30.9
TransCanada Foothills Pipe Lines Ltd., B.C. System	10/31/2011	611	10.5
Gas Transmission Northwest Corporation ⁽¹⁾	Various	610	69.9
Transwestern Pipeline Company ⁽²⁾	Various	227	17.3
El Paso Natural Gas Company ⁽³⁾	Various	202	21.8

- (1) As of December 31, 2009, the Utility had three active contracts with Gas Transmission Northwest Corporation with expiration dates ranging from October 31, 2011 to October 31, 2020.
- (2) As of December 31, 2009, the Utility had two active contracts with Transwestern Pipeline Company with expiration dates ranging from February 28, 2010 to February 29, 2012.
- (3) As of December 31, 2009, the Utility had three active contracts with El Paso Natural Gas Company with expiration dates ranging from June 30, 2010 to June 30, 2012.

In addition, in December 2008, the CPUC approved an agreement between the Utility and El Paso Corporation for the Utility to subscribe for 375 MDth per day of firm service rights on El Paso Corporation's proposed 680-mile 42-inch natural gas transmission pipeline ("Ruby Pipeline") that would begin at the Opal Hub in Wyoming and terminate at the Malin, Oregon, interconnect, near California's northern border. The Ruby Pipeline is expected to have an initial capacity of 1.5 Bcf per day. The proposed Ruby Pipeline would connect Rocky Mountain natural gas producers with northern California, Nevada, and the Pacific Northwest to provide natural gas users with competitively priced natural gas. Subject to receiving final approval from the FERC and satisfying other conditions, the Ruby Pipeline is anticipated to be in service in the first quarter of 2011.

Energy Efficiency, Public Purpose, and Other Programs

California law requires the CPUC to authorize certain levels of funding for electric and gas public purpose programs related to energy efficiency, low-income energy efficiency, research and development, and renewable energy resources. California law also requires the CPUC to authorize funding for the California Solar Initiative and other self-generation programs, as discussed below. Additionally, the CPUC has authorized funding for demand response programs.

For 2009, the CPUC authorized the Utility to collect revenue requirements of \$751 million from electric customers to fund electric public purpose and other programs and \$132 million from gas customers to fund natural gas public purpose and other programs. The CPUC is responsible for authorizing the programs, funding levels, and cost recovery mechanisms for the Utility's operation of these programs. The CEC

administers both the electric and natural gas public interest research and development programs and the renewable energy program on a statewide basis. In 2009, the Utility transferred \$82 million from its revenue requirements to the CEC for CEC-administered

gas and electric programs.

Energy Efficiency Programs

The Utility's energy efficiency programs are designed to encourage the manufacture, design, distribution, and customer use of energy efficient appliances and other energy-using products. The CPUC authorized the Utility to collect revenue requirements of \$479 million for 2009 gas and electric programs, including the CEC-administered programs. The CPUC has authorized the Utility to collect \$1.3 billion of revenue requirements to fund its 2010-2012 programs, a 42% increase over 2006-2008 authorized funding levels. The CPUC has adopted a long-term energy efficiency strategic plan designed to encourage innovative market transformation activities, such as the pursuit of zero net energy buildings, in addition to traditional energy efficiency rebate programs.

The CPUC established an incentive ratemaking mechanism to encourage the California investor-owned utilities to promote energy efficiency and to meet the CPUC's energy savings goals. This incentive ratemaking mechanism applied to the utilities' 2006 through 2008 energy efficiency program cycles.

In accordance with this mechanism, the CPUC has awarded the Utility incentive revenues totaling \$75 million through December 31, 2009 based on the energy savings achieved through implementation of the Utility's energy efficiency programs during the 2006 through 2008 program cycle. Consistent with the incentive award process previously adopted by the CPUC, the CPUC held back an additional \$40.3 million of incentive revenues subject to verification of final energy savings and the completion of the true-up process in 2010.

It is uncertain what form of incentive ratemaking, if any, the CPUC will establish for energy efficiency programs in 2009 and later years. For more information, see the section of MD&A entitled "Regulatory Matters — Energy Efficiency Programs and Incentive Ratemaking" in the 2009 Annual Report.

Demand Response Programs

Demand response programs provide financial incentives and other benefits to participating customers to curtail on-peak energy use. On August 20, 2009, the CPUC approved the Utility's 2009-2011 demand response programs and authorized funding of \$109 million. In addition, on February 14, 2008, the CPUC approved the Utility's multi-year air conditioning direct load control program and authorized funding of \$179 million through June 1, 2011 to implement this program. Customers who enroll in this program will allow the Utility to remotely control the temperature settings of their central air conditioners to temporarily decrease their energy usage during local or system emergencies.

During 2006, the Utility began the installation of an advanced metering infrastructure, known as the SmartMeter™ program, for virtually all of the Utility's electric and gas customers. These meters enable the Utility to measure usage on an hourly basis for electricity and on a daily basis for natural gas, which can allow for demand-response rates to encourage customers to reduce energy consumption during peak demand periods, thus reducing peak period procurement costs. Advanced meters can record usage in time intervals and be read remotely. The Utility expects to complete the installation of the network infrastructure and advanced meters throughout its service territory by the end of 2011. The CPUC also has ordered the Utility to install advanced metering and billing systems to enable the Utility to implement "dynamic pricing" for electricity customers to encourage efficient energy consumption and cost-effective demand response by more closely aligning retail rates with the wholesale electricity market. "Dynamic pricing" includes rates that are based on critical peak prices and time of use. Customers may choose an alternate rate plan structure. The Utility is required to implement dynamic pricing by May 2010 for larger customers and by November 2011 for small and medium non-residential customers. The Utility has requested that the CPUC authorize the Utility to recover estimated costs of approximately \$160 million to implement dynamic pricing, including approximately \$32 million as an allowance for unforeseen costs the Utility may incur in connection with such a large and complex capital project. (See the discussion under the heading "Risk Factors" that appears in the MD&A section of the 2009 Annual Report.)

Self-Generation Incentive Program and California Solar Initiative

The Utility administers the self-generation incentive program (“SGIP”) authorized by the CPUC to provide incentives to electricity customers who install certain types of clean or renewable distributed generation and energy storage resources that meet all or a portion of their onsite energy usage. The CPUC approved a budget for the SGIP of approximately \$36 million in each of 2010 and 2011. The CPUC also approved the use of carryover funds through 2015. In late 2006, the CPUC established the California Solar Initiative (“CSI”) to bring 1,940 MW of solar power on-line by 2017 in California and authorized the California investor-owned utilities to collect an additional \$2.2 billion over the 2007 through 2016 period from their customers to fund customer incentives for the installation of retail solar energy projects to serve onsite load to meet this goal. Of the total amount authorized, the Utility has been allocated \$946 million to fund customer incentives, research, development, and demonstration activities (with an emphasis on the demonstration of solar and solar-related technologies), and administration expenses. The California Legislature modified the CSI program to include participation of the California municipal utilities. The current overall goal of the CSI is to install 3,000 MW (through both investor-owned electric utilities and electric municipal utilities) through 2017.

Low-Income Energy Efficiency Programs and California Alternate Rates for Energy

The CPUC has authorized the Utility to collect approximately \$417 million to support the Utility’s energy efficiency programs for low-income and fixed-income customers over 2009 through 2011. The Utility also provides a discount rate called the California Alternate Rates for Energy (“CARE”) for low-income customers. This rate subsidy is paid for by the Utility’s other customers. The extent of the subsidy, during any given year, depends upon the number of customers participating in the program and their actual energy usage. In 2009, the amount of this subsidy was approximately \$637 million, including avoided customer surcharges. The CPUC also authorized the Utility to recover approximately \$28 million in administrative costs relating to the CARE subsidy over 2009 through 2011.

Environmental Matters

General

The Utility is subject to a number of federal, state and local laws and requirements relating to the protection of the environment and the safety and health of the Utility’s personnel and the public. These laws and requirements relate to a broad range of activities, including the following:

- the discharge of pollutants into the air, water, and soil;
- the transportation, handling, storage and disposal of spent nuclear fuel;
- the identification, generation, storage, handling, transportation, treatment, disposal, record keeping, labeling, reporting, remediation and emergency response in connection with hazardous and radioactive substances;
- the reporting and reduction of carbon dioxide (“CO2”) and other GHG emissions; and
- the environmental impacts of land use, including endangered species and habitat protection.

The penalties for violation of these laws and requirements can be severe and may include significant fines, damages, and criminal or civil sanctions. These laws and requirements also may require the Utility, under certain circumstances, to interrupt or curtail operations. To comply with these laws and requirements, the Utility may need to spend substantial amounts from time to time to construct, acquire, modify, or replace equipment, acquire permits and/or emission allowances or other emission credits for facility operations and clean-up, or decommission waste disposal areas at the Utility’s current or former facilities and at third-party sites where the Utility’s wastes may have been disposed.

The Utility’s estimated costs to comply with environmental laws and regulations are based on current estimates and assumptions that are subject to change. In addition, the Utility is likely to incur costs as it develops

and implements strategies to mitigate the impact of its operations on the environment, including climate change and its foreseeable impact on the Utility's future operations. The actual amount of costs that the Utility will incur is subject to many factors, including changing laws and regulations, the ultimate outcome of complex factual investigations, evolving technologies, selection of compliance alternatives, the nature and extent of required remediation, the extent of the facility owner's responsibility, the availability of recoveries or contributions from third parties, and the development of market-based strategies to address climate change. Generally, the Utility has recovered the costs of complying with environmental laws and regulations in the Utility's rates, subject to reasonableness review. Environmental costs associated with the clean-up of sites that contain hazardous substances are subject to a special ratemaking mechanism described below under "Hazardous Waste Compliance and Remediation." In the future, the Utility's operations are likely to be affected by climate change. See the section of MD&A entitled "Environmental Matters" and "Risk Factors" in the 2009 Annual Report for a discussion of the operating, regulatory, and litigation risks posed by climate change and associated with the Utility's environmental compliance obligations.

Air Quality and Climate Change

PG&E Corporation and the Utility believe the link between man-made GHG emissions and global climate change is clear and convincing and that mandatory GHG reductions are necessary. PG&E Corporation and the Utility believe the development of a market-based cap-and-trade system, in conjunction with successful energy efficiency and demand-side management programs and the development of renewable energy resources, can reduce GHG emissions while diversifying energy supply resources and minimizing costs to customers.

Regulation. The Utility's electricity generation plants, natural gas pipeline operations, fleet, and fuel storage tanks are subject to numerous air pollution control laws, including the federal Clean Air Act, as well as state and local statutes. These laws and regulations cover, among other pollutants, those contributing to the formation of ground-level ozone, carbon monoxide, sulfur dioxide ("SO₂"), nitrogen oxide ("NO_x") and particulate matter. In addition, various laws and regulations addressing climate change and GHG emissions are being considered or implemented at the federal, regional, state, and local levels. Fossil fuel-fired plants and gas compressor stations used in the Utility's pipeline operations are sources of air pollutants and, therefore, are subject to substantial regulation and enforcement oversight by the applicable governmental agencies. In addition, GHG emissions from natural gas consumed by the Utility's customers will be subject to regulation by the CARB, as discussed below.

At the federal level, several legislative initiatives have been introduced recently in Congress aimed at addressing climate change through imposition of nationwide regulatory limits on the emissions of GHG. No such legislation has yet been enacted by Congress, but extensive hearings and discussion are expected in the coming year. In September 2009, the U.S. Environmental Protection Agency ("EPA"), which is charged with implementation and enforcement of the Clean Air Act, issued regulations requiring the reporting of GHG emissions from sources emitting greater than 25,000 tonnes (CO₂-equivalent) per year. The EPA's regulations, which will apply to certain of the Utility's power plants and gas compressor stations, will require reporting of 2010 emissions in 2011 and annually thereafter. Also in September 2009, the EPA and the Department of Transportation's National Highway Traffic Safety Administration proposed regulations that would reduce GHG emissions and improve fuel economy of new cars and trucks. As a result of provisions in the Clean Air Act, if the EPA regulates motor vehicle emissions, then the EPA must regulate GHG emissions from stationary sources, such as power plants and natural gas compressor stations, as well. In November 2009, the EPA issued a finding that GHG emissions cause or contribute to air pollution that endangers public health and welfare. This so-called "Endangerment Finding" was necessary before EPA could issue its final motor vehicle GHG emissions regulations or proceed with regulating stationary sources. While the specific date is not certain, it is likely that EPA will issue its motor vehicle GHG regulations in 2010.

At the state level, California enacted Assembly Bill 32 ("AB 32"), the California Global Warming Solutions Act of 2006, to address climate change. AB 32 requires the gradual reduction of GHG emissions in California to 1990 levels by 2020 on a schedule beginning in 2012. AB 32 also authorizes the CARB to monitor and enforce compliance with the GHG reduction program and to consider implementing a cap-and-trade program. In 2007, the CARB adopted a state-wide GHG 1990 emissions baseline of 427 million metric tons of CO₂ (or its equivalent). This 1990 baseline serves as the 2020 emissions limit for the state of California. On December 12, 2008, the CARB adopted a scoping plan that contains recommendations for achieving the maximum technologically feasible and cost-effective GHG

reductions to meet the 2020 reduction target. These recommendations include implementing a 33% RPS by 2020, increasing energy efficiency goals, expanding the use of combined heat and power facilities, and developing a multi-sector cap-and-trade program. The CARB is required to adopt regulations to implement the scoping plan not later than January 1, 2011 to become effective on January 1, 2012. In November 2009, the CARB released proposed regulations to establish a cap-and-trade program and is scheduled to consider the final draft of these regulations in October 2010. (For more information about the proposed cap-and-trade program, see the section of MD&A entitled “Environmental Matters” and “Risk Factors” in the 2009 Annual Report.)

California Senate Bill 1368, enacted in 2006, prohibits any load-serving entity in California, including investor-owned electric utilities, from entering into a long-term financial commitment for baseload electricity generation unless the generation complies with a GHG emission performance standard. As required by Senate Bill 1368, on January 25, 2007, the CPUC adopted an interim GHG emissions performance standard of 1,100 pounds of CO₂ per MWh that applies to new commitments for baseload electricity procured under contracts with a term of five years or longer or generated by the Utility. After a statewide GHG emissions limit is established and is in operation, in accordance with AB 32, the CPUC will re-evaluate its interim GHG emissions performance standard and determine whether to continue, modify, or rescind it.

Climate Change Mitigation and Adaption Strategies. During 2009, the Utility continued its programs to develop strategies to mitigate the impact of the Utility’s operations (including customer energy usage) on the environment and to develop its strategy to plan for the actions that it will need to take to adapt to the likely impacts that climate change will have on the Utility’s future operations. With respect to electric operations, climate scientists project that climate change will lead to increased electricity demand due to more extreme and frequent hot weather events, and reduced hydroelectric generation due to reductions in snowpack in the Sierra Nevada. The Utility is analyzing and exploring a combination of operating changes to its hydroelectric system that may include, but are not limited to, higher winter carryover reservoir storage levels, reduced conveyance flows in canals and flumes during winter storm periods, reduced discretionary reservoir releases during the late spring and summer period and increased sediment releases from diversion dams. If the Utility’s future hydroelectric generation is reduced due to drought conditions or climate change, the Utility might have to replace some of this electricity from other sources, including natural gas. The amount of fossil-fueled generation needed to replace decreased hydroelectric generation can be reduced if non-intermittent renewable energy resources, such as geothermal and biomass, are timely developed.

With respect to natural gas operations, the Utility has taken voluntary proactive steps to reduce the release of methane, a GHG released as part of the delivery of natural gas. As part of this overall commitment to methane emission reduction, and in preparation for compliance with AB 32 and potential federal regulation of GHG emissions, the Utility has replaced old cast iron and steel gas mains and implemented 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%. In late 2008, the Utility also conducted focused surveys for high-volume gas leaks at its Topock and Kettleman compressor stations to reduce methane emissions.

The Utility believes its strategies to reduce GHG emissions—such as energy efficiency and demand response programs, infrastructure improvements, and the support of renewable energy development—are also effective strategies for adapting to the expected increased demand for electricity in extreme hot weather events likely to be caused by climate change. PG&E Corporation and the Utility are also assessing the benefits and challenges associated with various climate change policies and identifying how a comprehensive program can be structured to mitigate overall costs to customers and the economy as a whole while ensuring that the environmental objectives of the program are met.

Emissions Data. PG&E Corporation and the Utility track and report their annual environmental performance results across a broad spectrum of areas. The Utility was among the earliest companies to voluntarily quantify and report its GHG emissions, which the Utility believes is an essential first step in the longer-term effort to effectively and efficiently address climate change. The Utility is a charter member of the California Climate Action Registry (“CCAR”) and has voluntarily reported its GHG emissions to CCAR on an annual basis since 2002, when it became the first investor-owned utility in California to voluntarily complete a third-party-verified inventory of its

CO2 emissions. In 2009, the Utility also voluntarily reported its 2008 GHG emissions to The Climate Registry (“TCR”), a new non-profit organization that is developing consistent reporting and measurement standards across industry sectors in North America. In 2009, the Utility complied with AB 32’s annual GHG emission reporting requirement by reporting its 2008 GHG emissions to the CARB.

PG&E Corporation and the Utility also publish third-party-verified GHG emissions data in their annual Corporate Responsibility Report. As a result of the time necessary for a thorough, third-party verification of the Utility’s GHG emissions in accordance with the highest standards developed by the CCAR and TCR, preliminary emissions data for 2008 are the most recent data available. Final emissions data will be made publicly available by CCAR on their website as well as reported in the next Corporate Responsibility Report expected to be posted to PG&E Corporation’s and the Utility’s websites in July 2010. For information about the sources of electric generation that the Utility delivered to customers in 2009, see “Electric Utility Operations-Electric Generation Resources” above.

Total 2008 GHG Emissions by Source Category

<u>Source</u>	<u>Amount (per million metric tonnes CO2 – equivalent)</u>
Delivered Electricity ⁽¹⁾	23.84
Electricity Transmission and Distribution Line Losses	1.41
Process and Fugitive Emissions from Natural Gas System	1.32
Gas Compressor Stations	0.31
Transportation (Fleet vehicles)	0.11
Facility Gas and Electricity Use	0.05
Electrical Equipment	0.06
Other De Minimis Emissions ⁽²⁾	0.00
Total	<u>27.10</u>

⁽¹⁾ Since the Utility purchases a portion of its electricity from the wholesale market, the Utility is not able to track some of its delivered electricity back to a specific generator. Therefore, there is some unavoidable uncertainty in the Utility’s total emissions and the Utility’s emission rate for delivered electricity. Emissions data for the Utility’s owned generation resources is shown below.

⁽²⁾ Includes de minimis emissions from PG&E Corporation.

Benchmarking Greenhouse Gas Emissions for Delivered Electricity

The Utility’s third-party-verified CO2 emissions rate associated with the electricity delivered to customers in 2008 was 641 pounds of CO2 per MWh, which is a slight increase over the 2007 emissions rate of 636 pounds of CO2 per MWh. Even with this increase, the Utility’s 2008 emissions rate was still less than half the national average as shown in the following table:

	<u>Amount (Pounds of CO2 per MWh)</u>
U.S. Average ⁽¹⁾	1,329
California’s Average ⁽¹⁾	724
Pacific Gas and Electric Company ⁽²⁾	641

⁽¹⁾ Source: U.S. Environmental Protection Agency eGRID 2007 Version 1.1 (updated December 2008 and based on 2005 data).

⁽²⁾ Since the Utility purchases a portion of its electricity from the wholesale market, the Utility is not able to track some of its delivered electricity back to a specific generator. Therefore, there is some unavoidable uncertainty in the Utility’s total emissions and the Utility’s emission rate for delivered electricity.

Emissions Data for Utility-Owned Generation

In addition to GHG emissions data provided above, the table below sets forth information about the GHG emissions from the Utility's owned generation facilities. The Utility's owned generation (primarily from nuclear and hydroelectric facilities) comprised approximately 30% of the Utility's delivered electricity in 2008. The Utility's retained fossil-fueled generation comprised less than 1% of the Utility's delivered electricity in 2008.

	2008	2007
Total NOx Emissions (tons)	1,163	1,123
NOx Emissions Rates (pounds/MWh)		
Fossil Plants	4.26	4.65
All Plants	0.09	0.08
Total SO2 Emissions (tons)	27	43
SO2 Emissions Rates (pounds/MWh)		
Fossil Plants	0.0980	0.1781
All Plants	0.0021	0.0031
Total CO2 Emissions (tons)	406,990	379,196
CO2 Emissions Rates (pounds/MWh)		
Fossil Plants	1,566	1,570
All Plants	32	28
Other Emissions Statistics		
Sulfur Hexafluoride ("SF6") Emissions		
Total SF6 Emissions (pounds)	5,938	3,928
Total SF6 Emissions (tons CO2-equivalent)	70,959	46,940
SF6 Emissions Leak Rate	1.9%	1.3%
Methane Emissions		
Total Methane Emissions (tons)	62,686	53,342
Total Methane Emissions (tons CO2-equivalent)	1,316,397	1,120,179

Water Quality

The Utility's Diablo Canyon power plant employs a "once-through" cooling water system that is regulated under a Clean Water Act National Pollutant Discharge Elimination System ("NPDES") permit issued by the Central Coast Regional Water Quality Control Board ("Central Coast Board"). This permit allows the Diablo Canyon power plant to discharge the cooling water at a temperature no more than 22 degrees above the temperature of the ambient receiving water, and requires that the beneficial uses of the water be protected. The beneficial uses of water in this region include industrial water supply, marine and wildlife habitat, shellfish harvesting, and preservation of rare and endangered species. In January 2000, the Central Coast Board issued a proposed draft cease and desist order alleging that, although the temperature limit has never been exceeded, the Diablo Canyon power plant's discharge was not protective of beneficial uses. For more information, see the discussion below in "Item 3 — Legal Proceedings — Diablo Canyon Power Plant."

There is continuing uncertainty about the status of state and federal regulations issued under Section 316(b) of the Clean Water Act, which require that cooling water intake structures at electric power plants reflect the best technology available to minimize adverse environmental impacts. In July 2004, the EPA issued regulations to implement Section 316(b) intended to reduce impacts to aquatic organisms by establishing a set of performance standards for cooling water intake structures. These regulations provided each facility with a number of compliance options and permitted site-specific variances based on a cost-benefit analysis. The EPA regulations also allowed the use of environmental mitigation or restoration to meet compliance requirements in certain cases. In response to the

EPA regulations, the California State Water Resources Control Board (“Water Board”) initiated a process to develop a once-through cooling policy and has issued several policy proposals. The Water Board’s current proposal does not include a cost-benefit variance, but provides for additional evaluation of the costs and benefits of cooling tower retrofits at the state’s two nuclear facilities. Based on the results of the evaluation, if the policy is not modified to include a cost-benefit variance, compliance with the proposed policy would require Diablo Canyon to install cooling towers by December 2024.

Various parties separately challenged the EPA’s regulations and in January 2007, the U.S. Court of Appeals for the Second Circuit (“Second Circuit”) issued a decision holding that environmental restoration cannot be used as a compliance option and that site-specific compliance variances based on a cost-benefit test could not be used. The Second Circuit remanded significant provisions of the regulations to the EPA for reconsideration and in July 2007, the EPA suspended its regulations. The U.S. Supreme Court granted review of the cost-benefit question and in April 2009, issued a decision overturning the Second Circuit, finding the EPA’s use of a cost-benefit test reasonable. Depending on the form of the final regulations that may ultimately be adopted by the EPA or the Water Board, the Utility may incur significant capital expense to comply with the final regulations, which the Utility would seek to recover through rates. If the final regulations adopted by the EPA or the Water Board require the installation of cooling towers at Diablo Canyon, and if installation of such cooling towers is not technically or economically feasible, the Utility may be forced to cease operations at Diablo Canyon and may incur a material charge.

Hazardous Waste Compliance and Remediation

The Utility’s facilities are subject to the requirements issued by the EPA under the Resource Conservation and Recovery Act (“RCRA”) and the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (“CERCLA”), as well as other state hazardous waste laws and other environmental requirements. CERCLA and similar state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site, and in some cases corporate successors to the operators or arrangers. Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, damages to natural resources, and the costs of required health studies. In the ordinary course of the Utility’s operations, the Utility generates waste that falls within CERCLA’s definition of hazardous substances and, as a result, has been and may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites at which these hazardous substances have been released into the environment.

The Utility assesses, on an ongoing basis, measures that may be necessary to comply with federal, state, and local laws and regulations related to hazardous materials and hazardous waste compliance and remediation activities. The Utility has a comprehensive program to comply with hazardous waste storage, handling, and disposal requirements issued by the EPA under RCRA and CERCLA, state hazardous waste laws, and other environmental requirements.

The Utility has been, and may be, required to pay for environmental remediation at sites where the Utility has been, or may be, a potentially responsible party under CERCLA and similar state environmental laws. These sites include former manufactured gas plant (“MGP”) sites; power plant sites; gas gathering sites; compressor stations; and sites where the Utility stores, recycles, and disposes of potentially hazardous materials. Under federal and California laws, the Utility may be responsible for remediation of hazardous substances even if it did not deposit those substances on the site.

Generation Facilities

Operations at the Utility’s current and former generation facilities may have resulted in contaminated soil or groundwater. Although the Utility sold most of its geothermal and fossil fuel-fired plants, in many cases the Utility retained pre-closing environmental liability under various environmental laws. The Utility currently is investigating or remediating several such sites with the oversight of various governmental agencies. Additionally, the Utility’s Hunters Point power plant in San Francisco closed in May 2006 and is in the decommissioning process. Remedial investigations are substantially complete, and the Utility anticipates that the California Department of Toxic

Substances Control will approve the soil and groundwater remediation plan by the second quarter of 2010. The Utility spent approximately \$16 million in 2009 and estimates that it will spend approximately \$24 million in 2010 and approximately \$16 million in 2011 for remediation at this site.

Former Manufactured Gas Plant Sites

The Utility is assessing whether and to what extent remedial action may be necessary to mitigate potential hazards posed by certain retired MGP sites. During their operation, from the mid-1800s through the early 1900s, MGPs produced lampblack and coal tar residues. The residues from these operations, which may remain at some sites, contain chemical compounds that now are classified as hazardous. The Utility has a program, in cooperation with environmental agencies and third-party owners, to evaluate and take appropriate action to mitigate any potential environmental concerns at 41 MGP sites that the Utility owned or operated in the past. The Utility spent approximately \$22 million in 2009 and expects to spend approximately \$37 million in 2010 and \$39 million in 2011 on these sites. As part of this program, the Utility recently contacted the owners of property located on three former MGP sites in urban residential areas of San Francisco to offer to test the soil for residues, and depending on the results of such tests, to take appropriate remedial action. Until the Utility's investigation is complete, the extent of the Utility's obligation to remediate is established, and remedial actions are determined, the Utility is unable to determine the amounts it may spend in the future to remediate these sites.

Third-Party Owned Disposal Sites

Under environmental laws, such as CERCLA, the Utility has been or may be required to take remedial action at third-party sites used for the disposal of waste from the Utility's facilities, or to pay for associated clean-up costs or natural resource damages. The Utility is currently aware of five such sites where investigation or clean-up activities are currently underway. At the Geothermal Incorporated site in Lake County, California, the Utility substantially completed closure of the disposal facility, which was abandoned by its operator. The Utility was the major responsible party and led the remediation effort on behalf of the responsible parties. For the Casmalia disposal facility near Santa Maria, California, the Utility and several parties that sent waste to the site have entered into a court-approved agreement with the EPA that requires the Utility and the other parties to perform certain site investigation and remediation measures. Other responsible parties are involved with the Utility in investigating and cleaning up the three other disposal sites with oversight from the regulatory agencies. The Utility contributes to the remediation expenses for these sites under cost-sharing agreements or court-approved settlements.

In addition, the Utility has been named as a defendant in a civil lawsuit in which plaintiffs allege that the Utility is responsible for performing or paying for remedial action at sites that it no longer owns or never owned. Remedial actions may include investigations, health and ecological assessments, and removal of wastes.

Natural Gas Compressor Stations

Groundwater at the Utility's Hinkley and Topock natural gas compressor stations contains hexavalent chromium as a result of the Utility's past operating practices. The Utility has a comprehensive program to monitor a network of groundwater wells at both the Hinkley and Topock natural gas compressor stations. At Hinkley, the Utility is cooperating with the Regional Water Quality Control Board to evaluate and remediate the chromium groundwater plume. Measures have been implemented to control movement of the plume, while full-scale in-situ treatment systems operate to reduce the mass of the plume. An evaluation of the performance of these interim remedy measures, as well as possible future measures, is underway as part of the development of a final remedy at the Hinkley site. In 2009, the Utility spent approximately \$14 million on remediation activities at Hinkley, and currently estimates it will spend at least \$19 million in 2010 and \$4 million in 2011.

At the Topock gas compressor station, located near Needles, California, the Utility has implemented interim measures, including a system of extraction wells and a treatment plant designed to prevent movement of a hexavalent chromium plume toward the Colorado River. In addition, the Utility is working with environmental agencies to complete investigations at this site and to develop a long-term plan for clean-up of the plume. A final clean-up draft plan has been developed for agency and stakeholder review; approval of a final version of that plan is scheduled to occur by the first quarter of 2010. In 2009, the Utility spent approximately \$19 million on the interim measures and for work on the long-term site solution. The Utility currently estimates that it will spend at least \$24

million in 2010 and \$23 million in 2011 for remediation activities at Topock. Although work at the Topock site poses several technical and regulatory obstacles, the Utility's remediation costs for Topock are subject to the ratemaking mechanism described below. The Utility does not expect the remediation of the Topock and Hinkley gas compressor sites to have a material adverse effect on its results of operations or financial condition. The Utility does not expect that it will incur any material expenditures related to any remediation at its Kettleman natural gas compressor station.

Hazardous Substance Ratemaking Mechanism

Environmental costs associated with the clean-up of sites that contain hazardous substances are subject to a CPUC-approved ratemaking mechanism under which the Utility is authorized to recover hazardous waste remediation costs for environmental claims from customers (*e.g.*, for costs of cleaning up the Utility's facilities and sites where the Utility's hazardous substances have been sent). This mechanism allows the Utility to include 90% of eligible hazardous waste remediation costs in the Utility's rates without a reasonableness review. (The cost of environmental remediation associated with the Hinkley natural gas compressor site is not recoverable from customers under this mechanism.) Ten percent of any net insurance recoveries associated with hazardous waste remediation sites are assigned to the Utility's customers. The balances of any insurance recoveries (90%) are retained by the Utility until it has been reimbursed for the 10% share of clean-up costs not included in rates. Any insurance recoveries above full cost reimbursement levels are allocated 60% to customers and 40% to the Utility. Finally, 10% of any recoveries from the Utility's claims against third parties associated with hazardous waste remediation sites are retained by the Utility, with the remainder, 90% of any such recoveries, assigned to the Utility's customers.

Hazardous waste remediation costs are rising and are likely to be significant into the foreseeable future. Based on the Utility's past experience, it believes that it can recover most of the future costs that it may incur to remediate hazardous waste through rates and insurance recoveries. The Utility cannot provide assurance, however, that these costs will not be material, or that the Utility will be able to recover its costs in the future.

Although the Utility has provided for known environmental obligations that are probable and reasonably estimable, estimated costs may vary significantly from actual costs, and the amount of additional future costs may be material to results of operations in the period in which they are recognized. For more information about environmental remediation liabilities, see the sections of MD&A entitled "Environmental Matters" and "Critical Accounting Policies" and Note 16 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report which information is incorporated herein by reference and included in Exhibit 13 to this report.

Nuclear Fuel Disposal

As part of the Nuclear Waste Policy Act of 1982, Congress authorized the U.S. Department of Energy ("DOE") and electric utilities with commercial nuclear power plants to enter into contracts under which the DOE would be required to dispose of the utilities' spent nuclear fuel and high-level radioactive waste no later than January 31, 1998, in exchange for fees paid by the utilities. In 1983, the DOE entered into a contract with the Utility to dispose of nuclear waste from the Utility's two nuclear generating units at Diablo Canyon and its retired nuclear facility at Humboldt Bay.

Because the DOE failed to develop a permanent storage site, the Utility obtained a permit from the NRC to build an on-site dry cask storage facility to store spent fuel through at least 2024. The construction of the dry cask storage facility is complete. During 2009, the Utility moved all the spent nuclear fuel that was scheduled to be moved into dry cask storage. An appeal of the NRC's issuance of the permit is still pending in the U.S. Court of Appeals for the Ninth Circuit. The appellants claim that the NRC failed to adequately consider environmental impacts of a potential terrorist attack at Diablo Canyon. It is uncertain when the appeal will be addressed by the Ninth Circuit.

As a result of the DOE's failure to build a repository for nuclear waste, the Utility and other nuclear power plant owners sued the DOE to recover costs that they incurred to build on-site spent nuclear fuel storage facilities. The Utility seeks to recover \$92 million of costs that it incurred through 2004. After several years of litigation, in

2008 the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) issued an order clarifying the method to calculate damages to be awarded to the utilities for breach of their contracts by the DOE. Although the DOE has conceded that the Utility is entitled to recover approximately \$82 million based on this method, the DOE continues to challenge the method in related litigation. In October 2009, a trial was held in the U.S. Federal Court of Claims to determine the appropriate amounts owed to the Utility based on the methodology approved by the Federal Circuit. The parties are waiting for the court to issue its decision. The Utility also will seek to recover costs incurred after 2004 to build on-site storage facilities.

Nuclear Decommissioning

The Utility's nuclear power facilities consist of two units at Diablo Canyon and the retired facility at Humboldt Bay Unit 3. Nuclear decommissioning requires the safe removal of nuclear facilities from service and the reduction of residual radioactivity to a level that permits termination of the NRC license and release of the property for unrestricted use. The Utility makes contributions to trusts to provide for the eventual decommissioning of each nuclear unit. In the Utility's 2005 Nuclear Decommissioning Cost Triennial Proceeding, which is used to determine the level of Utility trust contributions and related revenue requirement, the CPUC assumed that the eventual decommissioning of Diablo Canyon Unit 1 would be scheduled to begin in 2024 and be completed in 2044, that decommissioning of Diablo Canyon Unit 2 would be scheduled to begin in 2025 and be completed in 2041, and that decommissioning of Humboldt Bay Unit 3 would be scheduled to begin in 2009 and be completed in 2015. A premature shutdown of the Diablo Canyon units would increase the likelihood of an earlier start to decommissioning. The Utility's decommissioning cost estimates are based on the 2005 decommissioning cost studies, prepared in accordance with CPUC requirements. The decommissioning cost estimates are based on the plant location and cost characteristics for the Utility's nuclear power plants. Actual decommissioning costs may vary from these estimates to the extent the assumptions on which the estimates are based (such as assumptions about decommissioning dates, regulatory requirements, technology, and costs of labor, materials, and equipment) differ from actual results. The Utility recovers its revenue requirements for estimated nuclear decommissioning costs from customers through a non-bypassable charge that the Utility expects will continue until those costs are fully recovered. Decommissioning costs recovered in rates are placed in nuclear decommissioning trusts. The funds in the decommissioning trusts, along with accumulated earnings, will be used exclusively for decommissioning and dismantling the Utility's nuclear facilities.

In April 2009, the Utility filed an application in the 2009 Nuclear Decommissioning Triennial Proceeding with new decommissioning cost estimates and other funding assumptions, such as projected cost escalation factors and projected earnings of the funds for 2010, 2011, and 2012. Hearings were completed in October 2009, and a CPUC decision is expected in the second quarter of 2010. For more information about nuclear decommissioning, including the estimated decommissioning costs, see Note 12 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report.

Endangered Species

Many of the Utility's facilities and operations are located in, or pass through, areas that are designated as critical habitats for federal, or state-listed endangered, threatened, or sensitive species. The Utility may be required to incur additional costs or be subjected to additional restrictions on operations if additional threatened or endangered species are listed or additional critical habitats are designated at or near the Utility's facilities or operations. The Utility is seeking to secure “habitat conservation plans” to ensure long-term compliance with state and federal endangered species acts. The Utility expects that it will be able to recover costs of complying with state and federal endangered species acts through rates.

Electric and Magnetic Fields

Electric and magnetic fields (“EMFs”) naturally result from the generation, transmission, distribution, and use of electricity. In November 1993, the CPUC adopted an interim EMF policy for California energy utilities that, among other things, requires California energy utilities to take no-cost and low-cost steps to reduce EMFs from new or upgraded utility facilities. California energy utilities were required to fund an EMF education program and an EMF research program managed by the California Department of Health Services. In October 2002, the California Department of Health Services released its report to the CPUC and the public, based primarily on its review of

studies by others, evaluating the possible risks from EMFs. The report's conclusions contrast with other recent reports by authoritative health agencies in that the California Department of Health Services' report has assigned a higher probability to the possibility of a causal connection between EMF exposures and a number of diseases and conditions, including childhood leukemia, adult leukemia, amyotrophic lateral sclerosis, and miscarriages.

On January 26, 2006, the CPUC issued a decision that affirms the CPUC's "low-cost/no-cost, prudent avoidance" policy to reduce EMF exposure for new utility transmission and substation projects. The CPUC ordered the continued use of a 4% of project cost benchmark for EMF reduction measures. The CPUC also reaffirmed that it has exclusive jurisdiction with respect to utility EMF matters.

The Utility currently is not involved in third-party litigation concerning EMFs. In August 1996, the California Supreme Court held that homeowners are barred from suing utilities for alleged property value losses caused by fear of EMFs from power lines. In a case involving allegations of personal injury, a California appeals court held that the CPUC has exclusive jurisdiction over personal injury and wrongful death claims arising from allegations of harmful exposure to EMFs, and barred plaintiffs' personal injury claims. The California Supreme Court declined to hear the plaintiffs' appeal of this decision.

Item 1A. Risk Factors

A discussion of the significant risks associated with investments in the securities of PG&E Corporation and the Utility is set forth under the heading "Risk Factors" in the MD&A in the 2009 Annual Report, which information is incorporated by reference and included in Exhibit 13 to this report.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Utility owns or has obtained the right to occupy and/or use real property comprising the Utility's electricity and natural gas distribution facilities, natural gas gathering facilities and generation facilities, and natural gas and electricity transmission facilities, all of which are described above under "Electric Utility Operations" and "Natural Gas Utility Operations" which information is incorporated herein by reference. In total, the Utility occupies 9.8 million square feet of real property, including 8.5 million square feet that the Utility owns. Of the 9.8 million square feet of occupied real property, approximately 1.7 million square feet represent the Utility's corporate headquarters located in several Utility-owned buildings in San Francisco, California. The Utility occupies or uses real property that it does not own primarily through various leases, easements, rights-of-way, permits, or licenses from private landowners or governmental authorities.

The Utility currently owns approximately 167,000 acres of land, approximately 140,000 acres of which it will encumber with conservation easements and/or donate to public agencies or non-profit conservation organizations under the Chapter 11 Settlement Agreement. Approximately 75,000 acres of this land may be donated in fee and encumbered with conservation easements. The remaining land contains the Utility's or a joint licensee's hydroelectric generation facilities or is otherwise used for utility operations and will only be encumbered with conservation easements. As contemplated in the Chapter 11 Settlement Agreement, the Utility formed an entity, the Pacific Forest Watershed Lands Stewardship Council ("Council") to oversee the development and implementation of a Land Conservation Plan ("LCP") that will articulate the long-term management objectives for the 140,000 acres. The Council is governed by an 18-member board of directors that represents a range of diverse interests, including the CPUC, California environmental agencies, organizations representing underserved and minority constituencies, agricultural and business interests, and public officials. The Utility has appointed 1 out of 18 members of the Board of Directors of the Council. In December 2007, the Council adopted the LCP and submitted it to the Utility.

The Utility has accepted the LCP and will seek authorization from the CPUC, the FERC, and other approving entities to proceed with the transactions necessary to implement the LCP.

PG&E Corporation also leases approximately 74,000 square feet of office space from a third party in San Francisco, California. This lease expires in 2012.

Item 3. *Legal Proceedings*

In addition to the following legal proceedings, PG&E Corporation and the Utility are involved in various legal proceedings in the ordinary course of their business. For more information regarding PG&E Corporation's and the Utility's liability for legal matters, see Note 16 of the Notes to the Consolidated Financial Statements of the 2009 Annual Report.

Diablo Canyon Power Plant

The Utility's Diablo Canyon power plant employs a "once-through" cooling water system that is regulated under a Clean Water Act permit issued by the Central Coast Board. This permit allows the Diablo Canyon power plant to discharge the cooling water at a temperature no more than 22 degrees above the temperature of the ambient receiving water, and requires that the beneficial uses of the water be protected. The beneficial uses of water in this region include industrial water supply, marine and wildlife habitat, shellfish harvesting, and preservation of rare and endangered species. In January 2000, the Central Coast Board issued a proposed draft cease and desist order alleging that, although the temperature limit has never been exceeded, the Utility's Diablo Canyon power plant's discharge was not protective of beneficial uses.

In October 2000, the Utility and the Central Coast Board reached a tentative settlement under which the Central Coast Board agreed to find that the Utility's discharge of cooling water from the Diablo Canyon power plant protects beneficial uses and that the intake technology reflects the best technology available, as defined in the federal Clean Water Act. As part of the tentative settlement, the Utility agreed to take measures to preserve certain acreage north of the plant and to fund approximately \$6 million in environmental projects and future environmental monitoring related to coastal resources. On March 21, 2003, the Central Coast Board voted to accept the settlement agreement. On June 17, 2003, the settlement agreement was executed by the Utility, the Central Coast Board and the California Attorney General's Office. A condition to the effectiveness of the settlement agreement is that the Central Coast Board renew Diablo Canyon's NPDES permit.

At its July 10, 2003 meeting, the Central Coast Board did not renew the NPDES permit and continued the permit renewal hearing indefinitely. Several Central Coast Board members indicated that they no longer supported the settlement agreement, and the Central Coast Board requested a team of independent scientists, as part of a technical working group, to develop additional information on possible mitigation measures for Central Coast Board staff. In January 2005, the Central Coast Board published the scientists' draft report recommending several such mitigation measures. If the Central Coast Board adopts the scientists' recommendations, and if the Utility ultimately is required to implement the projects proposed in the draft report, it could incur costs of up to approximately \$30 million. The Utility would seek to recover these costs through rates charged to customers. The Water Board is developing a state policy for the implementation of Section 316(b) of the Clean Water Act, the adoption of which could affect future negotiations between the Central Coast Board and the Utility. For more information about the draft state policy, see "Environmental Matters — Water Quality" above.

PG&E Corporation and the Utility believe that the ultimate outcome of this matter will not have a material adverse impact on their Utility's financial condition or results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders*

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANTS

The names, ages and positions of PG&E Corporation "executive officers," as defined by Rule 3b-7 of the General Rules and Regulations under the Securities and Exchange Act of 1934 ("Exchange Act") at February 1, 2010 were as follows.

Name	Age	Position
Peter A. Darbee	57	Chairman of the Board, Chief Executive Officer, and President
Kent M. Harvey	51	Senior Vice President and Chief Financial Officer
Christopher P. Johns	49	President, Pacific Gas and Electric Company
Nancy E. McFadden	51	Senior Vice President and Senior Advisor to the Chairman and Chief Executive Officer
Hyun Park	48	Senior Vice President and General Counsel
Greg S. Pruett	52	Senior Vice President, Corporate Affairs
Rand L. Rosenberg	56	Senior Vice President, Corporate Strategy and Development
John R. Simon	45	Senior Vice President, Human Resources

All officers of PG&E Corporation serve at the pleasure of the Board of Directors. During the past five years through February 1, 2010, the executive officers of PG&E Corporation had the following business experience. Except as otherwise noted, all positions have been held at PG&E Corporation.

Name	Position	Period Held Office
Peter A. Darbee	Chairman of the Board, Chief Executive Officer, and President	September 19, 2007 to present
	President and Chief Executive Officer, Pacific Gas and Electric Company	September 5, 2008 to July 31, 2009
	Chairman of the Board and Chief Executive Officer	July 1, 2007 to September 18, 2007
	Chairman of the Board, Chief Executive Officer, and President	January 1, 2006 to June 30, 2007
	Chairman of the Board, Pacific Gas and Electric Company	January 1, 2006 to May 31, 2007
	President and Chief Executive Officer	January 1, 2005 to December 31, 2005
Kent M. Harvey	Senior Vice President and Chief Financial Officer	August 1, 2009 to present
	Senior Vice President, Financial Services, Pacific Gas and Electric Company	August 1, 2009 to present
	Senior Vice President and Chief Risk and Audit Officer	October 1, 2005 to July 31, 2009
	Senior Vice President, Chief Financial Officer, and Treasurer, Pacific Gas and Electric Company	November 1, 2000 to September 30, 2005
Christopher P. Johns	President, Pacific Gas and Electric Company	August 1, 2009 to present
	Senior Vice President and Chief Financial Officer	May 1, 2009 to July 31, 2009
	Senior Vice President, Financial Services, Pacific Gas and Electric Company	May 1, 2009 to July 31, 2009
	Senior Vice President, Chief Financial Officer, and Treasurer	October 4, 2005 to April 30, 2009
	Senior Vice President and Treasurer, Pacific Gas and Electric Company	June 1, 2007 to April 30, 2009
	Senior Vice President, Chief Financial Officer, and Treasurer, Pacific Gas and Electric Company	October 1, 2005 to May 31, 2007
	Senior Vice President, Chief Financial Officer, and Controller	January 2, 2005 to October 3, 2005

Nancy E. McFadden	Senior Vice President and Senior Advisor to the Chairman and Chief Executive Officer	November 1, 2009 to present
	Senior Vice President, Public Affairs	March 1, 2007 to October 31, 2009
	Senior Vice President, Public Affairs, Pacific Gas and Electric Company	June 20, 2007 to October 31, 2009
	Vice President, Governmental Relations, Pacific Gas and Electric Company	September 26, 2005 to February 28, 2007
Hyun Park	Chairperson, California Medical Assistance Commission	November 13, 2003 to January 1, 2006
	Senior Vice President and General Counsel	November 13, 2006 to present
	Vice President, General Counsel, and Secretary, Allegheny Energy, Inc.	April 5, 2005 to October 17, 2006
Greg S. Pruett	Senior Vice President, General Counsel, and Secretary, Sithe Energies, Inc.	March 2000 to February 2005
	Senior Vice President, Corporate Affairs	November 1, 2009 to present
	Senior Vice President, Corporate Affairs, Pacific Gas and Electric Company	November 1, 2009 to present
	Senior Vice President, Corporate Relations	November 1, 2007 to October 31, 2009
	Senior Vice President, Corporate Relations, Pacific Gas and Electric Company	March 1, 2009 to October 31, 2009
	Vice President, Corporate Relations	March 1, 2007 to October 31, 2007
Rand L. Rosenberg	Vice President, Communications and Marketing, American Gas Association	April 10, 2006 to February 23, 2007
	Chief Public Affairs Officer, Bechtel National, Inc.	June 12, 2004 to September 12, 2005
	Senior Vice President, Corporate Strategy and Development	November 1, 2005 to present
John R. Simon	Senior Vice President, Human Resources	April 16, 2007 to present
	Senior Vice President, Human Resources, Pacific Gas and Electric Company	April 16, 2007 to present
	Executive Vice President, Global Human Capital, TeleTech Holdings, Inc.	March 21, 2006 to April 13, 2007
	Senior Vice President, Human Capital, TeleTech Holdings, Inc.	July 31, 2001 to March 20, 2006

The names, ages and positions of the Utility's "executive officers," as defined by Rule 3b-7 of the General Rules and Regulations under the Exchange Act at February 1, 2010 were as follows:

Name	Age	Position
Peter A. Darbee	57	Chairman of the Board, Chief Executive Officer, and President, PG&E Corporation
Christopher P. Johns	49	President
John S. Keenan	61	Senior Vice President and Chief Operating Officer
Desmond A. Bell	47	Senior Vice President, Shared Services and Chief Procurement Officer
Thomas E. Bottorff	56	Senior Vice President, Regulatory Relations
Helen A. Burt	53	Senior Vice President and Chief Customer Officer
John T. Conway	52	Senior Vice President, Energy Supply and Chief Nuclear Officer
Patricia M. Lawicki	49	Senior Vice President and Chief Information Officer
Kent M. Harvey	51	Senior Vice President, Financial Services

Nancy E. McFadden	51	Senior Vice President and Senior Advisor to the Chairman and Chief Executive Officer
Hyun Park	48	Senior Vice President and General Counsel, PG&E Corporation

Greg S. Pruett	52	Senior Vice President, Corporate Affairs
Edward A. Salas	53	Senior Vice President, Engineering and Operations
John R. Simon	45	Senior Vice President, Human Resources
Fong Wan	48	Senior Vice President, Energy Procurement
Geisha J. Williams	48	Senior Vice President, Energy Delivery
Barbara L. Barcon	53	Vice President, Finance and Chief Financial Officer

All officers of the Utility serve at the pleasure of the Board of Directors. During the past five years through February 1, 2010, the executive officers of the Utility had the following business experience. Except as otherwise noted, all positions have been held at Pacific Gas and Electric Company.

<u>Name</u>	<u>Position</u>	<u>Period Held Office</u>
Peter A. Darbee	Chairman of the Board, Chief Executive Officer, and President, PG&E Corporation	September 19, 2007 to present
	President and Chief Executive Officer	September 5, 2008 to July 31, 2009
	Chairman of the Board and Chief Executive Officer, PG&E Corporation	July 1, 2007 to September 18, 2007
	Chairman of the Board	January 1, 2006 to May 31, 2007
	Chairman of the Board, Chief Executive Officer, and President, PG&E Corporation	January 1, 2006 to June 30, 2007
	President and Chief Executive Officer, PG&E Corporation	January 1, 2005 to December 31, 2005
Christopher P. Johns	President	August 1, 2009 to present
	Senior Vice President, Financial Services	May 1, 2009 to July 31, 2009
	Senior Vice President, and Chief Financial Officer, PG&E Corporation	May 1, 2009 to July 31, 2009
	Senior Vice President and Treasurer	June 1, 2007 to April 30, 2009
	Senior Vice President, Chief Financial Officer, and Treasurer, PG&E Corporation	October 4, 2005 to April 30, 2009
	Senior Vice President, Chief Financial Officer, and Treasurer	October 1, 2005 to May 31, 2007
John S. Keenan	Senior Vice President, Chief Financial Officer, and Treasurer, PG&E Corporation	January 2, 2005 to October 3, 2005
	Senior Vice President and Chief Operating Officer	January 1, 2008 to present
	Senior Vice President, Generation and Chief Nuclear Officer	December 19, 2005 to December 31, 2007
Desmond A. Bell	Vice President, Fossil Generation, Progress Energy	November 10, 2003 to December 18, 2005
	Senior Vice President, Shared Services and Chief Procurement Officer	October 1, 2008 to present
	Vice President, Shared Services and Chief Procurement Officer	March 1, 2008 to September 30, 2008
Thomas E. Bottorff	Vice President and Chief of Staff	March 19, 2007 to February 29, 2008
	Vice President, Parts Logistics, Bombardier Aerospace	April 2003 to September 2006
	Senior Vice President, Regulatory Relations	October 14, 2005 to present
Helen A. Burt	Senior Vice President, Customer Service and Revenue	March 1, 2004 to October 13, 2005
	Senior Vice President and Chief Customer Officer Management Consultant, The Burt Group	February 27, 2006 to present January 2003 to February 2006

John T. Conway	Senior Vice President, Energy Supply and Chief Nuclear Officer	April 1, 2009 to present October 1, 2008 to March 31, 2009
	Senior Vice President, Generation and Chief Nuclear Officer	
	Senior Vice President and Chief Nuclear Officer	March 1, 2008 to September 30, 2008
	Site Vice President, Diablo Canyon Power Plant	May 29, 2007 to February 29, 2008
	Site Vice President, Monticello Nuclear Plant, Nuclear Management Company	May 2005 to May 2007
Kent M. Harvey	Site Director, Monticello Nuclear Plant, Nuclear Management Company	April 2004 to May 2005
	Senior Vice President, Financial Services	August 1, 2009 to present
	Senior Vice President and Chief Financial Officer, PG&E Corporation	August 1, 2009 to present
	Senior Vice President and Chief Risk and Audit Officer, PG&E Corporation	October 1, 2005 to July 31, 2009
Patricia M. Lawicki	Senior Vice President, Chief Financial Officer, and Treasurer	November 1, 2000 to September 30, 2005
	Senior Vice President and Chief Information Officer	November 1, 2007 to present
	Vice President and Chief Information Officer	January 12, 2005 to October 31, 2007
Nancy E. McFadden	Senior Vice President and Special Advisor to the Chairman and Chief Executive Officer, PG&E Corporation	November 1, 2009 to present
	Senior Vice President, Public Affairs	June 20, 2007 to October 31, 2009
	Senior Vice President, Public Affairs, PG&E Corporation	March 1, 2007 to October 31, 2009
	Vice President, Governmental Relations	September 26, 2005 to February 28, 2007
	Chairperson, California Medical Assistance Commission	November 13, 2003 to January 1, 2006
Hyun Park	Senior Vice President and General Counsel, PG&E Corporation	November 13, 2006 to present
	Vice President, General Counsel, and Secretary, Allegheny Energy, Inc.	April 5, 2005 to October 17, 2006
	Senior Vice President, General Counsel, and Secretary, Sithe Energies, Inc.	March 2000 to February 2005
Greg S. Pruett	Senior Vice President, Corporate Affairs	November 1, 2009 to present
	Senior Vice President, Corporate Affairs, PG&E Corporation	November 1, 2009 to present
	Senior Vice President, Corporate Relations	March 1, 2009 to October 31, 2009
	Senior Vice President, Corporate Relations, PG&E Corporation	November 1, 2007 to October 31, 2009
	Vice President, Corporate Relations, PG&E Corporation	March 1, 2007 to October 31, 2007
	Vice President, Communications and Marketing, American Gas Association	April 10, 2006 to February 23, 2007
	Chief Public Affairs Officer, Bechtel National, Inc.	June 12, 2004 to September 12, 2005
Edward A. Salas	Senior Vice President, Engineering and Operations	April 11, 2007 to present
	Staff Vice President, Network Planning, Verizon Wireless	May 2004 to April 2007

John R. Simon	Senior Vice President, Human Resources	April 16, 2007 to present
	Senior Vice President, Human Resources, PG&E Corporation	April 16, 2007 to present
	Executive Vice President, Global Human Capital, TeleTech	March 21, 2006 to April 13, 2007
	Senior Vice President, Human Capital, TeleTech Holdings, Inc.	July 13, 2001 to March 20, 2006
Fong Wan	Senior Vice President, Energy Procurement	October 1, 2008 to present
	Vice President, Energy Procurement	January 9, 2006 to September 30, 2008
	Vice President, Power Contracts and Electric Resource Development	May 1, 2004 to January 8, 2006

Geisha J. Williams	Senior Vice President, Energy Delivery	December 1, 2007 to present
	Vice President, Power Systems, Distribution, Florida Power and Light Company	July 2003 to July 2007
Barbara L. Barcon	Vice President, Finance and Chief Financial Officer	March 24, 2008 to present
	Senior Vice President, The Gores Group - Glendon Partners Private Equity Firm	2007 to 2008
	Vice President, Financial Process Excellence, Northrop Grumman Corporation	2004 to 2007

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of February 16, 2010, there were 81,642 holders of record of PG&E Corporation common stock. PG&E Corporation common stock is listed on the New York Stock Exchange and the Swiss stock exchanges. The high and low sales prices of PG&E Corporation common stock for each quarter of the two most recent fiscal years are set forth under the heading "Quarterly Consolidated Financial Data (Unaudited)" in the 2009 Annual Report, which information is incorporated by reference and included in Exhibit 13 to this report. Information about the frequency and amount of dividends on common stock declared by PG&E Corporation and the Utility is set forth in the table entitled "Selected Financial Data" and in Note 6 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report, which information is incorporated by reference and included in Exhibit 13 to this report. The discussion of dividends with respect to PG&E Corporation's and the Utility's common stock is set forth under the section of MD&A entitled "Liquidity and Financial Resources — Dividends" and Note 6 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report, which information is incorporated by reference and included in Exhibit 13 to this report.

Sales of Unregistered Equity Securities

During the quarter ended December 31, 2009, PG&E Corporation made equity contributions totaling \$30 million to the Utility in order to maintain the 52% common equity target authorized by the CPUC and to ensure that the Utility has adequate capital to fund its capital expenditures.

The Utility did not make any sales of unregistered equity securities during 2009.

Issuer Purchases of Equity Securities

During the quarter ended December 31, 2009, PG&E Corporation did not redeem or repurchase any shares of common stock outstanding. During the fourth quarter of 2009, the Utility did not redeem or repurchase any shares of its various series of preferred stock outstanding.

Item 6. Selected Financial Data

A summary of selected financial information, for each of PG&E Corporation and the Utility for each of the last five fiscal years, is set forth under the heading "Selected Financial Data" in the 2009 Annual Report, which information is incorporated by reference and included in Exhibit 13 to this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

A discussion of PG&E Corporation's and the Utility's consolidated financial condition and results of operations is set forth under the heading "Management's Discussion and Analysis of Financial Condition and

Results of Operations” in the 2009 Annual Report, which discussion is incorporated by reference and included in Exhibit 13 to this report.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Information responding to Item 7A appears in the 2009 Annual Report under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management Activities,” and under Notes 10 and 11 of the Notes to the Consolidated Financial Statements of the 2009 Annual Report, which information is incorporated by reference and included in Exhibit 13 to this report.

Item 8. *Financial Statements and Supplementary Data*

Information responding to Item 8 appears in the 2009 Annual Report under the following headings for PG&E Corporation: “Consolidated Statements of Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Cash Flows,” and “Consolidated Statements of Equity;” under the following headings for Pacific Gas and Electric Company: “Consolidated Statements of Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Cash Flows,” and “Consolidated Statements of Shareholders’ Equity;” and under the following headings for PG&E Corporation and Pacific Gas and Electric Company jointly: “Notes to the Consolidated Financial Statements,” “Quarterly Consolidated Financial Data (Unaudited),” and “Reports of Independent Registered Public Accounting Firm,” which information is incorporated by reference and included in Exhibit 13 to this report.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Based on an evaluation of PG&E Corporation’s and the Utility’s disclosure controls and procedures as of December 31, 2009, PG&E Corporation’s and the Utility’s respective principal executive officers and principal financial officers have concluded that such controls and procedures are effective to ensure that information required to be disclosed by PG&E Corporation and the Utility in reports that the companies file or submit under the Securities Exchange Act of 1934 (“1934 Act”) is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms. In addition, PG&E Corporation’s and the Utility’s respective principal executive officers and principal financial officers have concluded that such controls and procedures were effective in ensuring that information required to be disclosed by PG&E Corporation and the Utility in the reports that PG&E Corporation and the Utility file or submit under the 1934 Act is accumulated and communicated to PG&E Corporation’s and the Utility’s management, including PG&E Corporation’s and the Utility’s respective principal executive officers and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in internal control over financial reporting that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, PG&E Corporation’s or the Utility’s internal control over financial reporting.

Management of PG&E Corporation and the Utility have prepared an annual report on internal control over financial reporting. Management’s report, together with the report of the independent registered public accounting firm, appears in the 2009 Annual Report under the heading “Management’s Report on Internal Control Over Financial Reporting” and “Report of Independent Registered Public Accounting Firm,” which information is incorporated by reference and included in Exhibit 13 to this report.

Item 9B. Other Information**Election of New Director**

On February 17, 2010, the Board of Directors of the Utility elected Christopher P. Johns, who is currently the President of the Utility, as a director of the Utility, effective February 17, 2010. The Utility's Board of Directors also appointed Mr. Johns as a member of the Board's Executive Committee, effective February 17, 2010.

To accommodate the election of Mr. Johns, the Board of Directors of the Utility amended the Utility's Bylaws to increase the authorized number of directors from 11 to 12, effective February 17, 2010. Under the Utility's Bylaws, the authorized number of directors may not be less than 9 nor more than 17, but within that range the Board of Directors may set the exact number of directors by an amendment to the Bylaws. The text of the Utility's Bylaws, as amended, is attached to this report as Exhibit 3.5.

Under the Utility's Corporate Governance Guidelines, at least 75% of its Board is required to be composed of independent directors, defined as directors who (1) are neither current nor former officers or employees of, nor consultants to, PG&E Corporation, the Utility, or its subsidiaries, (2) are neither current nor former officers or employees of any other corporation on whose board of directors any officer of the Utility serves as a member, and (3) otherwise meet the definition of "independence" set forth in the applicable stock exchange rules. The composition of the Utility's Board of Directors currently meets the Corporate Governance Guidelines.

There are no arrangements or understandings pursuant to which Mr. Johns was selected as a director of the Utility. Mr. Johns does not have any relationship or related transaction with PG&E Corporation or the Utility that would require disclosure pursuant to Item 404(a) of Securities and Exchange Commission Regulation S-K.

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

Information regarding executive officers of PG&E Corporation and the Utility is included above in a separate item captioned "Executive Officers of the Registrants" at the end of Part I of this report. Other information regarding directors is included under the heading "Nominees for Director of PG&E Corporation and Pacific Gas and Electric Company" in the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, which information is hereby incorporated by reference. Information regarding compliance with Section 16 of the Exchange Act is included under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

Website Availability of Code of Ethics, Corporate Governance and Other Documents

The following documents are available both on PG&E Corporation's website www.pgecorp.com, and the Utility's website, www.pge.com: (1) the codes of conduct and ethics adopted by PG&E Corporation and the Utility applicable to their respective directors and employees, including their respective Chief Executive Officers, Chief Financial Officers, Controllers and other executive officers, (2) PG&E Corporation's and the Utility's corporate governance guidelines, and (3) key Board Committee charters, including charters for the companies' Audit Committees and the PG&E Corporation Nominating and Governance Committee and Compensation Committee.

If any amendments are made to, or any waivers are granted with respect to, provisions of the codes of conduct and ethics adopted by PG&E Corporation and the Utility that apply to their respective Chief Executive Officers, Chief Financial Officers, or Controllers, the company whose code is so affected will disclose the nature of such amendment or waiver on its respective website and any waivers to the code will be disclosed in a Current Report on Form 8-K filed within four business days of the waiver.

Procedures for Shareholder Recommendations of Nominees to the Boards of Directors

During 2009 there were no material changes to the procedures described in PG&E Corporation's and the Utility's Joint Proxy Statement relating to the 2009 Annual Meetings of Shareholders by which security holders may recommend nominees to PG&E Corporation's or Pacific Gas and Electric Company's Boards of Directors.

Audit Committees and Audit Committee Financial Expert

Information regarding the Audit Committees of PG&E Corporation and the Utility and the "audit committee financial expert" as defined by the SEC is included under the heading "Corporate Governance – Board Committees – Audit Committees" in the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

Item 11. Executive Compensation

Information responding to Item 11, for each of PG&E Corporation and the Utility, is included under the headings "Compensation Discussion and Analysis (CD&A)," "Compensation Committee Report," "Summary Compensation Table - 2009," "Grants of Plan-Based Awards in 2009," "Outstanding Equity Awards at Fiscal Year End - 2009," "Option Exercises and Stock Vested During 2009," "Pension Benefits – 2009," "Non-Qualified Deferred Compensation," "Potential Payments Upon Resignation, Retirement, Termination, Change in Control, Death, or Disability" and "2009 Director Compensation" in the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding the beneficial ownership of securities for each of PG&E Corporation and the Utility, is included under the heading "Security Ownership of Management" and under the heading "Other Information - Principal Shareholders" in the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2009 concerning shares of PG&E Corporation common stock authorized for issuance under PG&E Corporation's existing equity compensation plans.

<u>Plan Category</u>	(a) <u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	(b) <u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	(c) <u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))</u>
Equity compensation plans approved by shareholders	2,723,349 ⁽¹⁾	\$23.99	9,703,937 ⁽²⁾
Equity compensation plans not approved by shareholders	—	—	—
Total equity compensation plans	2,723,349 ⁽¹⁾	\$23.99	9,703,937 ⁽²⁾

(1) Includes 748,620 phantom stock units and restricted stock units. The weighted average exercise price reported in column (b) does not take these awards into account.

(2) Represents the total number of shares available for issuance under the PG&E Corporation's Long-Term Incentive Program ("LTIP") and the PG&E Corporation 2006 Long-Term Incentive Plan ("2006 LTIP") as of December 31, 2009. Outstanding stock-based awards granted under the LTIP include stock

options, restricted stock, and phantom stock. The LTIP expired on December 31, 2005. The 2006 LTIP, which became effective on January 1, 2006, authorizes up to 12 million shares to be issued pursuant to awards granted under the 2006 LTIP. Outstanding stock-based awards granted under the 2006 LTIP include stock options, restricted stock, restricted stock units, and phantom stock. For a description of the LTIP and the 2006 LTIP, see Note 13 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information responding to Item 13, for each of PG&E Corporation and the Utility, is included under the headings “Related Person Transactions,” “Review, Approval, and Ratification of Related Person Transactions” and “Information Regarding the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company – Director Independence” in the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

Item 14. *Principal Accountant Fees and Services*

Information responding to Item 14, for each of PG&E Corporation and the Utility, is included under the heading “Information Regarding the Independent Registered Public Accounting Firm for PG&E Corporation and Pacific Gas and Electric Company” in the Joint Proxy Statement relating to the 2010 Annual Meetings of Shareholders, which information is hereby incorporated by reference.

PART IV**Item 15. *Exhibits and Financial Statement Schedules*****(a) The following documents are filed as a part of this report:**

1. The following consolidated financial statements, supplemental information and report of independent registered public accounting firm are contained in the 2009 Annual Report and are incorporated by reference in this report:

Consolidated Statements of Income for the Years Ended December 31, 2009, 2008, and 2007 for each of PG&E Corporation and Pacific Gas and Electric Company.

Consolidated Balance Sheets at December 31, 2009 and 2008 for each of PG&E Corporation and Pacific Gas and Electric Company.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2009, 2008, and 2007 for each of PG&E Corporation and Pacific Gas and Electric Company.

Consolidated Statements of Equity for the Years Ended December 31, 2009, 2008, and 2007 for PG&E Corporation.

Consolidated Statements of Shareholders’ Equity for the Years Ended December 31, 2009, 2008, and 2007 for Pacific Gas and Electric Company.

Notes to the Consolidated Financial Statements.

Quarterly Consolidated Financial Data (Unaudited).

Report of Independent Registered Public Accounting Firm (Deloitte & Touche LLP).

2. The following financial statement schedules and report of independent registered public accounting firm are filed as part of this report:

Reports of Independent Registered Public Accounting Firm (Deloitte & Touche LLP).

I—Condensed Financial Information of Parent as of December 31, 2009 and 2008 and for the Years Ended December 31, 2009, 2008, and 2007.

II—Consolidated Valuation and Qualifying Accounts for each of PG&E Corporation and Pacific Gas and Electric Company for the Years Ended December 31, 2009, 2008, and 2007.

Schedules not included are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements, including the notes thereto.

3. Exhibits required by Item 601 of Regulation S-K:

Exhibit Number	Exhibit Description
2.1	Order of the U.S. Bankruptcy Court for the Northern District of California dated December 22, 2003, Confirming Plan of Reorganization of Pacific Gas and Electric Company, including Plan of Reorganization, dated July 31, 2003 as modified by modifications dated November 6, 2003 and December 19, 2003 (Exhibit B to Confirmation Order and Exhibits B and C to the Plan of Reorganization omitted) (incorporated by reference to Pacific Gas and Electric Company's Registration Statement on Form S-3 No. 333-109994, Exhibit 2.1)
2.2	Order of the U.S. Bankruptcy Court for the Northern District of California dated February 27, 2004 Approving Technical Corrections to Plan of Reorganization of Pacific Gas and Electric Company and Supplementing Confirmation Order to Incorporate such Corrections (incorporated by reference to Pacific Gas and Electric Company's Registration Statement on Form S-3 No. 333-109994, Exhibit 2.2)
3.1	Restated Articles of Incorporation of PG&E Corporation effective as of May 29, 2002 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 1-12609), Exhibit 3.1)
3.2	Certificate of Determination for PG&E Corporation Series A Preferred Stock filed December 22, 2000 (incorporated by reference to PG&E Corporation's Form 10-K for the year ended December 31, 2000 (File No. 1-12609), Exhibit 3.2)
3.3	Bylaws of PG&E Corporation amended as of September 16, 2009 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009 (File No. 1-12609), Exhibit 3.1)
3.4	Restated Articles of Incorporation of Pacific Gas and Electric Company effective as of April 12, 2004 (incorporated by reference to Pacific Gas and Electric Company's Form 8-K filed April 12, 2004 (File No. 1-2348), Exhibit 3)
3.5	Bylaws of Pacific Gas and Electric Company amended as of February 17, 2010
4.1	Indenture, dated as of April 22, 2005, supplementing, amending and restating the Indenture of Mortgage, dated as of March 11, 2004, as supplemented by a First Supplemental Indenture, dated as of March 23, 2004, and a Second Supplemental Indenture, dated as of April 12, 2004, between Pacific Gas and Electric Company and The Bank of New York Trust Company, N.A. (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 1-12609 and File No. 1-2348), Exhibit 4.1)
4.2	First Supplemental Indenture dated as of March 13, 2007 relating to the Utility's issuance of \$700,000,000 principal amount of 5.80% Senior Notes due March 1, 2037 (incorporated by reference from Pacific Gas and Electric Company's Current Report on Form 8-K dated March 14, 2007 (File No. 1-2348), Exhibit 4.1)
4.3	Second Supplemental Indenture dated as of December 4, 2007 relating to the Utility's issuance of \$500,000,000 principal amount of 5.625% Senior Notes due November 30, 2017 (incorporated by reference from Pacific Gas and Electric Company's Current Report on Form 8-K dated March 14, 2007 (file No. 1-2348), Exhibit 4.1)
4.4	Third Supplemental Indenture dated as of March 3, 2008 relating to the Utility's issuance of 5.625% Senior Notes due November 30, 2017 and 6.35% Senior Notes due February 15, 2038 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated March 3, 2008 (File No. 1-2348), Exhibit 4.1)

Exhibit Number	Exhibit Description
4.5	Fourth Supplemental Indenture dated as of October 21, 2008 relating to the Utility's issuance of \$600,000,000 aggregate principal amount of its 8.25% Senior Notes due October 15, 2018 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated October 21, 2008 (File No. 1-2348), Exhibit 4.1)
4.6	Fifth Supplemental Indenture dated as of November 18, 2008 relating to the Utility's issuance of \$400,000,000 aggregate principal amount of its 6.25% Senior Notes due December 1, 2013 and \$200 million principal amount of its 8.25% Senior Notes due October 15, 2018 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated November 18, 2008 (File No. 1-2348), Exhibit 4.1)
4.7	Sixth Supplemental Indenture, dated as of March 6, 2009 relating to the issuance of \$550,000,000 aggregate principal amount of Pacific Gas and Electric Company's 6.25% Senior Notes due March 1, 2039 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated March 6, 2009 (File No. 1-2348), Exhibit 4.1)
4.8	Seventh Supplemental Indenture dated as of June 11, 2009 relating to the issuance of \$500,000,000 aggregate principal amount of Pacific Gas and Electric Company's Floating Rate Senior Notes due June 10, 2010 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated June 11, 2009 (File No. 1-2348), Exhibit 4.1)
4.9	Eighth Supplemental Indenture dated as of November 18, 2009 relating to the issuance of \$550,000,000 aggregate principal amount of Pacific Gas and Electric Company's Senior Notes due January 15, 2040 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated November 18, 2009 (File No. 1-2348), Exhibit 4.1)
4.10	Indenture related to PG&E Corporation's 7.5% Convertible Subordinated Notes due June 2007, dated as of June 25, 2002, between PG&E Corporation and U.S. Bank, N.A., as Trustee (incorporated by reference to PG&E Corporation's Form 8-K filed June 26, 2002 (File No. 1-12609), Exhibit 99.1).
4.11	Supplemental Indenture amending PG&E Corporation's 7.5% Convertible Subordinated Notes due 2007 to PG&E Corporation's 9.50% Convertible Subordinated Notes due June 2010, dated as of October 18, 2002, between PG&E Corporation and U.S. Bank, N.A., as Trustee (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-12609), Exhibit 4.1)
4.12	Senior Note Indenture related to PG&E Corporation's 5.75% Senior Notes due April 1, 2014, dated as of March 12, 2009, between PG&E Corporation and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to PG&E Corporation's Current Report on Form 8-K dated March 10, 2009 (File No. 1-12609), Exhibit 4.1)
4.13	First Supplemental Indenture, dated as of March 12, 2009 relating to the issuance of \$350,000,000 aggregate principal amount of PG&E Corporation's 5.75% Senior Notes due April 1, 2014 (incorporated by reference to PG&E Corporation's Current Report on Form 8-K dated March 10, 2009 (File No. 1-12609), Exhibit 4.2)
10.1	Amended and Restated Unsecured Revolving Credit Agreement entered into among Pacific Gas and Electric Company, Citicorp North America, Inc., as administrative agent and a lender, JPMorgan Securities Inc., as syndication agent, Barclays Bank Plc and BNP Paribas, as documentation agents and lenders, Deutsche Bank Securities Inc., as documentation agent, and other lenders, dated February 26, 2007 (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Form 10-Q for the quarter ended March 31, 2007 (File No. 1-12609 and File No. 1-2348), Exhibit 10.2)

Exhibit Number	Exhibit Description
10.2	Amendment and Limited Consent Agreement, dated as of April 27, 2009, by which Lehman Brothers Bank, FSB has been removed as a lender under the Amended and Restated Unsecured Revolving Credit Agreement entered into among Pacific Gas and Electric Company, Citicorp North America, Inc., as administrative agent and a lender, JPMorgan Securities Inc., as syndication agent, Barclays Bank Plc and BNP Paribas, as documentation agents and lenders, Deutsche Bank Securities Inc., as documentation agent, and other lenders, dated February 26, 2007, filed as Exhibit 10.1 above (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-12609 and File No. 1-2348), Exhibit 10.2)
10.3	Amended and Restated Unsecured Revolving Credit Agreement entered into among PG&E Corporation, BNP Paribas, as administrative agent and a lender, Deutsche Bank Securities Inc., as syndication agent, ABN AMRO Bank, N.V., Bank of America, N.A., and Barclays Bank Plc, as documentation agents and lenders, and other lenders, dated February 26, 2007 (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 1-12609 and File No. 1-2348), Exhibit 10.1)
10.4	Amendment and Limited Consent Agreement, dated as of April 27, 2009, by which Lehman Brothers Bank, FSB has been removed as a lender under the Amended and Restated Unsecured Revolving Credit Agreement entered into among PG&E Corporation, BNP Paribas, as administrative agent and a lender, Deutsche Bank Securities Inc., as syndication agent, ABN AMRO Bank, N.V., Bank of America, N.A., and Barclays Bank Plc, as documentation agents and lenders, and other lenders, dated February 26, 2007, filed as Exhibit 10.3 above (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-12609 and File No. 1-2348), Exhibit 10.1)
10.5	Settlement Agreement among California Public Utilities Commission, Pacific Gas and Electric Company and PG&E Corporation, dated as of December 19, 2003, together with appendices (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Form 8-K filed December 22, 2003) (File No. 1-12609 and File No. 1-2348), Exhibit 99)
10.6	Transmission Control Agreement among the California Independent System Operator (CAISO) and the Participating Transmission Owners, including Pacific Gas and Electric Company, effective as of March 31, 1998, as amended (CAISO, FERC Electric Tariff No. 7) (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Form 10-K for the year ended December 31, 2004 (File No. 1-12609 and File No. 1-2348), Exhibit 10.8)
10.7	Operating Agreement, as amended on November 12, 2004, effective as of December 22, 2004, between the State of California Department of Water Resources and Pacific Gas and Electric Company (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Form 10-K for the year ended December 31, 2004 (File No. 1-12609 and File No. 1-2348), Exhibit 10.9)
*10.8	PG&E Corporation Supplemental Retirement Savings Plan amended effective as of September 19, 2001, and frozen after December 31, 2004 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2004) (File No. 1-12609), Exhibit 10.10)
*10.9	PG&E Corporation 2005 Supplemental Retirement Savings Plan effective as of January 1, 2005 (as amended to comply with Internal Revenue Code Section 409A regulations effective as of January 1, 2009 and as further amended with respect to investment options effective as of July 13, 2009)
*10.10	Letter regarding Compensation Arrangement between PG&E Corporation and Peter A. Darbee effective July 1, 2003 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-12609), Exhibit 10.4)

Exhibit Number	Exhibit Description
*10.11	Restricted Stock Award Agreement between PG&E Corporation and Peter A. Darbee dated January 3, 2007 (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 1-12609 and File No. 12348), Exhibit 10.3)
*10.12	Amendment to January 3, 2007 Restricted Stock Agreement between PG&E Corporation and Peter A. Darbee, effective May 9, 2008 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 1-12609), Exhibit 10.1)
*10.13	Amended and Restated Restricted Stock Unit Agreement between Peter A. Darbee and PG&E Corporation (as amended to comply with Internal Revenue Code Section 409A regulations effective as of January 1, 2009) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.11)
*10.14	Restricted Stock Unit Agreement between Peter A. Darbee and PG&E Corporation dated January 2, 2009 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.12)
*10.15	Letter regarding Compensation Arrangement between PG&E Corporation and Rand L. Rosenberg dated October 19, 2005 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2005) (File No. 1-12609), Exhibit 10.18)
*10.16	Letter regarding Compensation Arrangement between PG&E Corporation and Hyun Park dated October 10, 2006 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2006) (File No. 1-12609), Exhibit 10.18)
*10.17	Letter regarding Compensation Agreement between Pacific Gas and Electric Company and John S. Keenan dated November 21, 2005 (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.21)
*10.18	Letter regarding Compensation Agreement between Pacific Gas and Electric Company and Barbara Barcon dated March 3, 2008 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12609), Exhibit 10.3)
*10.19	PG&E Corporation 2005 Deferred Compensation Plan for Non-Employee Directors, effective as of January 1, 2005 (as amended to comply with Internal Revenue Code Section 409A regulations effective as of January 1, 2009) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.24)
*10.20	Description of Short-Term Incentive Plan for Officers of PG&E Corporation and its subsidiaries, effective January 1, 2009 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.26)
*10.21	Description of Short-Term Incentive Plan for Officers of PG&E Corporation and its subsidiaries, effective January 1, 2010
*10.22	Amendment to PG&E Corporation Short-Term Incentive Programs and Other Bonus Programs, effective January 1, 2009 (amendment to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.27)
*10.23	Amendment to Pacific Gas and Electric Company Short-Term Incentive Programs and Other Bonus Programs, effective January 1, 2009 (amendment to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.28)

Exhibit Number	Exhibit Description
*10.24	Supplemental Executive Retirement Plan of PG&E Corporation as amended effective as of January 1, 2009 (amended to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.29)
*10.25	Pacific Gas and Electric Company Relocation Assistance Program for Officers (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.30)
*10.26	Postretirement Life Insurance Plan of the Pacific Gas and Electric Company (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for fiscal year 1991 (File No. 1-2348), Exhibit 10.16)
*10.27	Amendment to Postretirement Life Insurance Plan of the Pacific Gas and Electric Company dated December 30, 2008 (amendment to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.32)
*10.28	PG&E Corporation Non-Employee Director Stock Incentive Plan (a component of the PG&E Corporation Long-Term Incentive Program) as amended effective as of July 1, 2004 (reflecting amendments adopted by the PG&E Corporation Board of Directors on June 16, 2004 set forth in resolutions filed as Exhibit 10.3 to PG&E Corporation's and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004) (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12609 and File No. 1-2348), Exhibit 10.27)
*10.29	Resolution of the PG&E Corporation Board of Directors dated September 17, 2008, adopting director compensation arrangement effective January 1, 2009 (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609 and File No. 12348), Exhibit 10.36)
*10.30	Resolution of the Pacific Gas and Electric Company Board of Directors dated September 17, 2008, adopting director compensation arrangement effective January 1, 2009 (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609 and File No. 12348), Exhibit 10.37)
*10.31	PG&E Corporation 2006 Long-Term Incentive Plan, as amended through December 16, 2009
*10.32	PG&E Corporation Long-Term Incentive Program (including the PG&E Corporation Stock Option Plan and Performance Unit Plan), as amended May 16, 2001, (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File No. 1-12609), Exhibit 10)
*10.33	Form of Restricted Stock Agreement for 2005 grants under the PG&E Corporation Long-Term Incentive Program (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 6, 2005 (File No. 12609 and File No. 1-2348), Exhibit 99.3)
*10.34	Form of Restricted Stock Agreement for 2006 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 9, 2006, Exhibit 99.1)
*10.35	Form of Restricted Stock Agreement for 2007 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (reflecting amendments to the PG&E Corporation 2006 Long-Term Incentive Plan made on February 15, 2006) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 1-12609), Exhibit 10.39)

Exhibit Number	Exhibit Description
*10.36	Form of Restricted Stock Agreement for 2008 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12609), Exhibit 10.5)
*10.37	Form of Amendment to Restricted Stock Agreements for grants made between January 2005 and March 2008 (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.45)
*10.38	Form of Restricted Stock Unit Agreement for 2009 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-12609), Exhibit 10.2)
*10.39	Form of Performance Share Agreement for 2009 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-12609), Exhibit 10.3)
*10.40	Form of Non-Qualified Stock Option Agreement under the PG&E Corporation Long-Term Incentive Program (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 6, 2005 (File No. 12609 and File No. 1-2348), Exhibit 99.1)
*10.41	Form of Performance Share Agreement for 2006 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 9, 2006, Exhibit 99.2)
*10.42	Form of Performance Share Agreement for 2007 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (reflecting amendments to the PG&E Corporation 2006 Long-Term Incentive Plan made on February 15, 2006) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 1-12609), Exhibit 10.44)
*10.43	Form of Performance Share Agreement for 2008 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12609), Exhibit 10.6)
*10.44	Form of Amended and Restated Performance Share Agreement for 2006 grants (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.51)
*10.45	Form of Amended and Restated Performance Share Agreement for 2007 grants (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.52)
*10.46	Form of Amended and Restated Performance Share Agreement for 2008 grants (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.53)
*10.47	PG&E Corporation Executive Stock Ownership Program Guidelines as amended effective February 17, 2009 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.54)
*10.48	PG&E Corporation Officer Severance Policy, as amended effective as of February 15, 2006 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12609), Exhibit 10.48)

Exhibit Number	Exhibit Description
*10.49	PG&E Corporation Officer Severance Policy, as amended effective as of January 1, 2009 (amended to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.56)
*10.50	PG&E Corporation Golden Parachute Restriction Policy effective as of February 15, 2006 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12609), Exhibit 10.49)
*10.51	Amendment to PG&E Corporation Golden Parachute Restriction Policy dated December 31, 2008 (amendment to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.58)
*10.52	PG&E Corporation Director Grantor Trust Agreement dated April 1, 1998 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (File No. 1-12609), Exhibit 10.1)
*10.53	PG&E Corporation Officer Grantor Trust Agreement dated April 1, 1998, as updated effective January 1, 2005 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12609), Exhibit 10.39)
*10.54	PG&E Corporation and Pacific Gas and Electric Company Executive Incentive Compensation Recoupment Policy effective as of February 17, 2009
*10.55	Resolution of the Board of Directors of PG&E Corporation regarding indemnification of officers and directors dated December 18, 1996 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12609), Exhibit 10.40)
*10.56	Resolution of the Board of Directors of Pacific Gas and Electric Company regarding indemnification of officers and directors dated July 19, 1995 (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-2348), Exhibit 10.41)
12.1	Computation of Ratios of Earnings to Fixed Charges for Pacific Gas and Electric Company
12.2	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends for Pacific Gas and Electric Company
12.3	Computation of Ratios of Earnings to Fixed Charges for PG&E Corporation
13	The following portions of the 2009 Annual Report to Shareholders of PG&E Corporation and Pacific Gas and Electric Company are included: "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," financial statements of PG&E Corporation entitled "Consolidated Statements of Income," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows," and "Consolidated Statements of Equity," financial statements of Pacific Gas and Electric Company entitled "Consolidated Statements of Income," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows," and "Consolidated Statements of Shareholders' Equity," "Notes to the Consolidated Financial Statements," "Quarterly Consolidated Financial Data (Unaudited)," "Management's Report on Internal Control Over Financial Reporting," and "Report of Independent Registered Public Accounting Firm."
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm (Deloitte & Touche LLP)
24.1	Resolutions of the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company authorizing the execution of the Form 10-K
24.2	Powers of Attorney

Exhibit Number	Exhibit Description
31.1	Certifications of the Chief Executive Officer and the Chief Financial Officer of PG&E Corporation required by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certifications of the Chief Executive Officer and the Chief Financial Officer of Pacific Gas and Electric Company required by Section 302 of the Sarbanes-Oxley Act of 2002
**32.1	Certifications of the Chief Executive Officer and the Chief Financial Officer of PG&E Corporation required by Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certifications of the Chief Executive Officer and the Chief Financial Officer of Pacific Gas and Electric Company required by Section 906 of the Sarbanes-Oxley Act of 2002
***101.INS	XBRL Instance Document
***101.SCH	XBRL Taxonomy Extension Schema Document
***101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
***101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
***101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
***101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*	Management contract or compensatory agreement.
**	Pursuant to Item 601(b)(32) of SEC Regulation S-K, these exhibits are furnished rather than filed with this report.
***	Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections. These files are being submitted only by PG&E Corporation and not by its subsidiary, Pacific Gas and Electric Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrants have duly caused this Annual Report on Form 10-K for the year ended December 31, 2009 to be signed on their behalf by the undersigned, thereunto duly authorized.

	PG&E CORPORATION (Registrant)		PACIFIC GAS AND ELECTRIC COMPANY (Registrant)
	<u>*PETER A. DARBEE</u> Peter A. Darbee		<u>*CHRISTOPHER P. JOHNS</u> Christopher P. Johns
By:	Chairman of the Board, Chief Executive Officer, and President	By:	Christopher P. Johns President
Date:	February 19, 2010	Date:	February 19, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
A. Principal Executive Officers		
<u>*PETER A. DARBEE</u> Peter A. Darbee	Chairman of the Board, Chief Executive Officer, and President (PG&E Corporation)	February 19, 2010
<u>*CHRISTOPHER P. JOHNS</u> Christopher P. Johns	President (Pacific Gas and Electric Company)	February 19, 2010
B. Principal Financial Officers		
<u>*KENT M. HARVEY</u> Kent M. Harvey	Senior Vice President, Chief Financial Officer, and Treasurer (PG&E Corporation)	February 19, 2010
<u>*BARBARA L. BARCON</u> Barbara L. Barcon	Vice President, Finance and Chief Financial Officer (Pacific Gas and Electric Company)	February 19, 2010
C. Principal Accounting Officer		
<u>*STEPHEN J. CAIRNS</u> Stephen J. Cairns	Vice President and Controller (PG&E Corporation and Pacific Gas and Electric Company)	February 19, 2010
D. Directors		
<u>*DAVID R. ANDREWS</u> David R. Andrews	Director	February 19, 2010
<u>*LEWIS CHEW</u>	Director	February 19, 2010

Lewis Chew

*C. LEE COX <hr/> C. Lee Cox	Director	February 19, 2010
*PETER A. DARBEE <hr/> Peter A. Darbee	Director	February 19, 2010
*MARYELLEN C. HERRINGER <hr/> Maryellen C. Herring	Director	February 19, 2010
*CHRISTOPHER P. JOHNS <hr/> Christopher P. Johns	Director (Pacific Gas and Electric Company only)	February 19, 2010
*ROGER H. KIMMEL <hr/> Roger H. Kimmel	Director	February 19, 2010
*RICHARD A. MESERVE <hr/> Richard A. Meserve	Director	February 19, 2010
*FORREST E. MILLER <hr/> Forrest E. Miller	Director	February 19, 2010
*ROSENDO G. PARRA <hr/> Rosendo G. Parra	Director	February 19, 2010
*BARBARA L. RAMBO <hr/> Barbara L. Rambo	Director	February 19, 2010
*BARRY LAWSON WILLIAMS <hr/> Barry Lawson Williams	Director	February 19, 2010
*By: <u>HYUN PARK.</u> HYUN PARK, Attorney-in-Fact		

**REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING
FIRM**

To the Board of Directors and Shareholders of
PG&E Corporation and Pacific Gas and Electric Company
San Francisco, California

We have audited the consolidated financial statements of PG&E Corporation and subsidiaries (the "Company") and Pacific Gas and Electric Company and subsidiaries (the "Utility") as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and the Company's and the Utility's internal control over financial reporting as of December 31, 2009, and have issued our report thereon dated February 19, 2010; such consolidated financial statements and our report are included in your 2009 Annual Report to Shareholders of the Company and the Utility and are incorporated herein by reference. Our audits also included the consolidated financial statement schedules of the Company and Utility listed in Item 15(a) 2. These consolidated financial statement schedules are the responsibility of the Company's and the Utility's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP

February 19, 2010
San Francisco, CA

PG&E CORPORATION
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF PARENT — (Continued)
CONDENSED STATEMENTS OF INCOME
(in millions, except per share amounts)

	Year Ended December 31,		
	2009	2008	2007
Administrative service revenue	\$ 59	\$ 119	\$ 102
Equity in earnings of subsidiaries	1,231	1,182	1,006
Operating expenses	(61)	(105)	(112)
Interest income	1	4	15
Interest expense	(43)	(30)	(31)
Other income (expense)	11	(46)	(6)
Income before income taxes	1,198	1,124	974
Income tax benefit	22	60	32
Income from continuing operations	1,220	1,184	1,006
Gain on disposal of National Energy & Gas Transmission, Inc. ("NEGT")	-	154	-
Income Available for Common Shareholders	<u>\$ 1,220</u>	<u>\$ 1,338</u>	<u>\$ 1,006</u>
Weighted average common shares outstanding, basic	<u>368</u>	<u>357</u>	<u>351</u>
Weighted average common shares outstanding, diluted	<u>386</u>	<u>358</u>	<u>353</u>
Earnings per common share, basic	<u>\$ 3.25</u>	<u>\$ 3.64</u>	<u>\$ 2.79</u>
Earnings per common share, diluted	<u>\$ 3.20</u>	<u>\$ 3.63</u>	<u>\$ 2.78</u>

PG&E Corporation currently has outstanding \$247 million principal amount of convertible subordinated 9.50% notes due 2010 ("Convertible Notes") that are entitled to receive (non-cumulative) dividend payments without exercising the conversion option. These Convertible Notes, which were issued in June 2002, are entitled to receive pass-through dividends and meet the criteria of a participating security in the calculation of earnings per share ("EPS") using the "two-class" method for basic EPS.

In calculating diluted EPS, PG&E Corporation applies the if-converted method to reflect the dilutive effect of the Convertible Notes to the extent that the impact is dilutive when compared to basic EPS. In addition, PG&E Corporation applies the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS.

Accordingly, the basic and diluted earnings per share calculations for 2008 and 2007 reflect the allocation of earnings between PG&E Corporation common stock and the participating security.

PG&E CORPORATION
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF PARENT
CONDENSED BALANCE SHEETS
(in millions)

	Balance at	
	December 31,	
	2009	2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 193	\$ 167
Advances to affiliates	20	28
Deferred income taxes	3	-
Income taxes receivable	9	148
Other current assets	5	14
Total current assets	<u>230</u>	<u>357</u>
Equipment	14	17
Accumulated depreciation	(13)	(15)
Net equipment	<u>1</u>	<u>2</u>
Investments in subsidiaries	10,935	9,539
Other investments	84	68
Deferred income taxes	32	51
Other	4	4
Total Assets	<u>\$ 11,286</u>	<u>\$ 10,021</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable—related parties	\$ 32	\$ 34
Accounts payable—other	2	18
Long-term debt – classified as current	247	-
Income taxes payable	12	-
Other	199	189
Total current liabilities	<u>492</u>	<u>241</u>
Noncurrent Liabilities:		
Long-term debt	348	280
Income taxes payable	14	23
Other	99	100
Total noncurrent liabilities	<u>461</u>	<u>403</u>
Common Shareholders' Equity		
Common stock	6,280	5,984
Common stock held by subsidiary	-	-
Reinvested earnings	4,213	3,614
Accumulated other comprehensive income	(160)	(221)
Total common shareholders' equity	<u>10,333</u>	<u>9,377</u>
Total Liabilities and Shareholders' Equity	<u>\$ 11,286</u>	<u>\$ 10,021</u>

PG&E CORPORATION
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF PARENT – (Continued)
CONDENSED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2009	2008	2007
Cash Flows from Operating Activities:			
Net Income	\$ 1,220	\$ 1,338	\$ 1,066
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20	27	34
Equity in earnings of subsidiaries	(1,231)	(1,180)	(1,006)
Noncurrent income taxes receivable/payable	(9)	(108)	4
Current income taxes receivable/payable	148	46	-
Other	(13)	(150)	(14)
Net cash provided by (used in) operating activities	<u>135</u>	<u>(27)</u>	<u>24</u>
Cash Flows From Investing Activities:			
Investment in subsidiaries	(721)	(275)	(405)
Dividends received from subsidiaries	624	596	509
Other	10	(12)	(1)
Net cash (used in) provided by investing activities	<u>(87)</u>	<u>309</u>	<u>103</u>
Cash Flows From Financing Activities ⁽¹⁾ :			
Proceeds from issuance of long-term debt, net of discount and issuance costs of \$2 million in 2009	348	-	-
Common stock issued	219	225	175
Common stock dividends paid	(590)	(546)	(496)
Other	1	2	12
Net cash used in financing activities	<u>(22)</u>	<u>(319)</u>	<u>(309)</u>
Net change in cash and cash equivalents	26	(37)	(182)
Cash and cash equivalents at January 1	167	204	386
Cash and cash equivalents at December 31	<u>\$ 193</u>	<u>\$ 167</u>	<u>\$ 204</u>

(1) On January 15, 2009, PG&E Corporation paid a quarterly common stock dividend of \$0.39 per share. On April 15, July 15, and October 15, 2009, PG&E Corporation paid quarterly common stock dividends of \$0.42 per share.

On January 15, 2008, PG&E Corporation paid a quarterly common stock dividend of \$0.36 per share. On April 15, July 15, and October 15, 2008, PG&E Corporation paid quarterly common stock dividends of \$0.39 per share. Of the total dividend payments made by PG&E Corporation in 2008, approximately \$28 million was paid to Elm Power Corporation, a wholly owned subsidiary of PG&E Corporation.

On January 15, 2007, PG&E Corporation paid a quarterly common stock dividend of \$0.33 per share. On April 15, July 15, and October 15, 2007, PG&E Corporation paid quarterly common stock dividends of \$0.36 per share. Of the total dividend payments made by PG&E Corporation in 2007, approximately \$35 million was paid to Elm Power Corporation, a wholly owned subsidiary of PG&E Corporation.

Pacific Gas and Electric Company

SCHEDULE II – CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2009, 2008, and 2007

Description	Balance at Beginning of Period	Additions		Deductions (2)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
(in millions)					
Valuation and qualifying accounts deducted from assets:					
2009:					
Allowance for uncollectible accounts ⁽¹⁾	\$ 76	\$ 68	\$ -	\$ 76	\$ 68
2008:					
Allowance for uncollectible accounts ⁽¹⁾	\$ 58	\$ 68	\$ 11	\$ 61	\$ 76
2007:					
Allowance for uncollectible accounts ⁽¹⁾	\$ 50	\$ 20	\$ -	\$ 12	\$ 58

⁽¹⁾ Allowance for uncollectible accounts is deducted from "Accounts receivable Customers, net."

⁽²⁾ Deductions consist principally of write-offs, net of collections of receivables previously written off.

PG&E Corporation

SCHEDULE II – CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2009, 2008, and 2007

Description	Balance at Beginning of Period	Additions		Deductions (³)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
(in millions)					
Valuation and qualifying accounts deducted from assets:					
2009:					
Allowance for uncollectible accounts ⁽¹⁾⁽²⁾	\$ 76	\$ 68	\$ -	\$ 76	\$ 68
2008:					
Allowance for uncollectible accounts ⁽¹⁾⁽²⁾	\$ 58	\$ 68	\$ 11	\$ 61	\$ 76
2007:					
Allowance for uncollectible accounts ⁽¹⁾⁽²⁾	\$ 50	\$ 20	\$ -	\$ 12	\$ 58

⁽¹⁾ Allowance for uncollectible accounts is deducted from "Accounts receivable Customers, net."

⁽²⁾ Allowance for uncollectible accounts does not include NEGТ.

⁽³⁾ Deductions consist principally of write-offs, net of collections of receivables previously written off.

EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	Order of the U.S. Bankruptcy Court for the Northern District of California dated December 22, 2003, Confirming Plan of Reorganization of Pacific Gas and Electric Company, including Plan of Reorganization, dated July 31, 2003 as modified by modifications dated November 6, 2003 and December 19, 2003 (Exhibit B to Confirmation Order and Exhibits B and C to the Plan of Reorganization omitted) (incorporated by reference to Pacific Gas and Electric Company's Registration Statement on Form S-3 No. 333-109994, Exhibit 2.1)
2.2	Order of the U.S. Bankruptcy Court for the Northern District of California dated February 27, 2004 Approving Technical Corrections to Plan of Reorganization of Pacific Gas and Electric Company and Supplementing Confirmation Order to Incorporate such Corrections (incorporated by reference to Pacific Gas and Electric Company's Registration Statement on Form S-3 No. 333-109994, Exhibit 2.2)
3.1	Restated Articles of Incorporation of PG&E Corporation effective as of May 29, 2002 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 1-12609), Exhibit 3.1)
3.2	Certificate of Determination for PG&E Corporation Series A Preferred Stock filed December 22, 2000 (incorporated by reference to PG&E Corporation's Form 10-K for the year ended December 31, 2000 (File No. 1-12609), Exhibit 3.2)
3.3	Bylaws of PG&E Corporation amended as of September 16, 2009 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2009 (File No. 1-12609), Exhibit 3.1)
3.4	Restated Articles of Incorporation of Pacific Gas and Electric Company effective as of April 12, 2004 (incorporated by reference to Pacific Gas and Electric Company's Form 8-K filed April 12, 2004 (File No. 1-2348), Exhibit 3)
3.5	Bylaws of Pacific Gas and Electric Company amended as of February 17, 2010
4.1	Indenture, dated as of April 22, 2005, supplementing, amending and restating the Indenture of Mortgage, dated as of March 11, 2004, as supplemented by a First Supplemental Indenture, dated as of March 23, 2004, and a Second Supplemental Indenture, dated as of April 12, 2004, between Pacific Gas and Electric Company and The Bank of New York Trust Company, N.A. (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 1-12609 and File No. 1-2348), Exhibit 4.1)
4.2	First Supplemental Indenture dated as of March 13, 2007 relating to the Utility's issuance of \$700,000,000 principal amount of 5.80% Senior Notes due March 1, 2037 (incorporated by reference from Pacific Gas and Electric Company's Current Report on Form 8-K dated March 14, 2007 (File No. 1-2348), Exhibit 4.1)
4.3	Second Supplemental Indenture dated as of December 4, 2007 relating to the Utility's issuance of \$500,000,000 principal amount of 5.625% Senior Notes due November 30, 2017 (incorporated by reference from Pacific Gas and Electric Company's Current Report on Form 8-K dated March 14, 2007 (file No. 1-2348), Exhibit 4.1)
4.4	Third Supplemental Indenture dated as of March 3, 2008 relating to the Utility's issuance of 5.625% Senior Notes due November 30, 2017 and 6.35% Senior Notes due February 15, 2038 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated March 3, 2008 (File No. 1-2348), Exhibit 4.1)
4.5	Fourth Supplemental Indenture dated as of October 21, 2008 relating to the Utility's issuance of \$600,000,000 aggregate principal amount of its 8.25% Senior Notes due October 15, 2018 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated October 21, 2008 (File No. 1-2348), Exhibit 4.1)
4.6	Fifth Supplemental Indenture dated as of November 18, 2008 relating to the Utility's issuance of \$400,000,000 aggregate principal amount of its 6.25% Senior Notes due December 1, 2013 and \$200 million principal amount of its 8.25% Senior Notes due October 15, 2018 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated November 18, 2008 (File No. 1-2348), Exhibit 4.1)
4.7	Sixth Supplemental Indenture, dated as of March 6, 2009 relating to the issuance of \$550,000,000 aggregate principal amount of Pacific Gas and Electric Company's 6.25% Senior Notes due March 1, 2039 (incorporated by reference to Pacific Gas and Electric Company's

- 4.8 Current Report on Form 8-K dated March 6, 2009 (File No. 1-2348), Exhibit 4.1)
Seventh Supplemental Indenture dated as of June 11, 2009 relating to the issuance of \$500,000,000 aggregate principal amount of Pacific Gas and Electric Company's Floating Rate Senior Notes due June 10, 2010 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated June 11, 2009 (File No. 1-2348), Exhibit 4.1)
- 4.9 Eighth Supplemental Indenture dated as of November 18, 2009 relating to the issuance of \$550,000,000 aggregate principal amount of Pacific Gas and Electric Company's Senior Notes due January 15, 2040 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated November 18, 2009 (File No. 1-2348), Exhibit 4.1)
- 4.10 Indenture related to PG&E Corporation's 7.5% Convertible Subordinated Notes due June 2007, dated as of June 25, 2002, between PG&E Corporation and U.S. Bank, N.A., as Trustee (incorporated by reference to PG&E Corporation's Form 8-K filed June 26, 2002 (File No. 1-12609), Exhibit 99.1).
- 4.11 Supplemental Indenture amending PG&E Corporation's 7.5% Convertible Subordinated Notes due 2007 to PG&E Corporation's 9.50% Convertible Subordinated Notes due June 2010, dated as of October 18, 2002, between PG&E Corporation and U.S. Bank, N.A., as Trustee (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-12609), Exhibit 4.1)
- 4.12 Senior Note Indenture related to PG&E Corporation's 5.75% Senior Notes due April 1, 2014, dated as of March 12, 2009, between PG&E Corporation and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to PG&E Corporation's Current Report on Form 8-K dated March 10, 2009 (File No. 1-12609), Exhibit 4.1)
- 4.13 First Supplemental Indenture, dated as of March 12, 2009 relating to the issuance of \$350,000,000 aggregate principal amount of PG&E Corporation's 5.75% Senior Notes due April 1, 2014 (incorporated by reference to PG&E Corporation's Current Report on Form 8-K dated March 10, 2009 (File No. 1-12609), Exhibit 4.2)
- 10.1 Amended and Restated Unsecured Revolving Credit Agreement entered into among Pacific Gas and Electric Company, Citicorp North America, Inc., as administrative agent and a lender, JPMorgan Securities Inc., as syndication agent, Barclays Bank Plc and BNP Paribas, as documentation agents and lenders, Deutsche Bank Securities Inc., as documentation agent, and other lenders, dated February 26, 2007 (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Form 10-Q for the quarter ended March 31, 2007 (File No. 1-12609 and File No. 1-2348), Exhibit 10.2)
- 10.2 Amendment and Limited Consent Agreement, dated as of April 27, 2009, by which Lehman Brothers Bank, FSB has been removed as a lender under the Amended and Restated Unsecured Revolving Credit Agreement entered into among Pacific Gas and Electric Company, Citicorp North America, Inc., as administrative agent and a lender, JPMorgan Securities Inc., as syndication agent, Barclays Bank Plc and BNP Paribas, as documentation agents and lenders, Deutsche Bank Securities Inc., as documentation agent, and other lenders, dated February 26, 2007, filed as Exhibit 10.1 above (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-12609 and File No. 1-2348), Exhibit 10.2)
- 10.3 Amended and Restated Unsecured Revolving Credit Agreement entered into among PG&E Corporation, BNP Paribas, as administrative agent and a lender, Deutsche Bank Securities Inc., as syndication agent, ABN AMRO Bank, N.V., Bank of America, N.A., and Barclays Bank Plc, as documentation agents and lenders, and other lenders, dated February 26, 2007 (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 1-12609 and File No. 1-2348), Exhibit 10.1)
- 10.4 Amendment and Limited Consent Agreement, dated as of April 27, 2009, by which Lehman Brothers Bank, FSB has been removed as a lender under the Amended and Restated Unsecured Revolving Credit Agreement entered into among PG&E Corporation, BNP Paribas, as administrative agent and a lender, Deutsche Bank Securities Inc., as syndication agent, ABN AMRO Bank, N.V., Bank of America, N.A., and Barclays Bank Plc, as documentation agents and lenders, and other lenders, dated February 26, 2007, filed as Exhibit 10.3 above (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-12609 and File No. 1-2348), Exhibit 10.1)
- 10.5 Settlement Agreement among California Public Utilities Commission, Pacific Gas and Electric Company and PG&E Corporation, dated as of December 19, 2003, together with appendices (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Form 8-K filed December 22, 2003) (File No. 1-12609 and File No. 1-2348), Exhibit 99)
- 10.6 Transmission Control Agreement among the California Independent System Operator (CAISO)

- and the Participating Transmission Owners, including Pacific Gas and Electric Company, effective as of March 31, 1998, as amended (CAISO, FERC Electric Tariff No. 7) (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Form 10-K for the year ended December 31, 2004 (File No. 1-12609 and File No. 1-2348), Exhibit 10.8)
- 10.7 Operating Agreement, as amended on November 12, 2004, effective as of December 22, 2004, between the State of California Department of Water Resources and Pacific Gas and Electric Company (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Form 10-K for the year ended December 31, 2004 (File No. 1-12609 and File No. 1-2348), Exhibit 10.9)
- *10.8 PG&E Corporation Supplemental Retirement Savings Plan amended effective as of September 19, 2001, and frozen after December 31, 2004 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2004) (File No. 1-12609), Exhibit 10.10)
- *10.9 PG&E Corporation 2005 Supplemental Retirement Savings Plan effective as of January 1, 2005 (as amended to comply with Internal Revenue Code Section 409A regulations effective as of January 1, 2009 and as further amended with respect to investment options effective as of July 13, 2009)
- *10.10 Letter regarding Compensation Arrangement between PG&E Corporation and Peter A. Darbee effective July 1, 2003 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-12609), Exhibit 10.4)
- *10.11 Restricted Stock Award Agreement between PG&E Corporation and Peter A. Darbee dated January 3, 2007 (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 1-12609 and File No. 12348), Exhibit 10.3)
- *10.12 Amendment to January 3, 2007 Restricted Stock Agreement between PG&E Corporation and Peter A. Darbee, effective May 9, 2008 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (File No. 1-12609), Exhibit 10.1)
- *10.13 Amended and Restated Restricted Stock Unit Agreement between Peter A. Darbee and PG&E Corporation (as amended to comply with Internal Revenue Code Section 409A regulations effective as of January 1, 2009) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.11)
- *10.14 Restricted Stock Unit Agreement between Peter A. Darbee and PG&E Corporation dated January 2, 2009 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.12)
- *10.15 Letter regarding Compensation Arrangement between PG&E Corporation and Rand L. Rosenberg dated October 19, 2005 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2005) (File No. 1-12609), Exhibit 10.18)
- *10.16 Letter regarding Compensation Arrangement between PG&E Corporation and Hyun Park dated October 10, 2006 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2006) (File No. 1-12609), Exhibit 10.18)
- *10.17 Letter regarding Compensation Agreement between Pacific Gas and Electric Company and John S. Keenan dated November 21, 2005 (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.21)
- *10.18 Letter regarding Compensation Agreement between Pacific Gas and Electric Company and Barbara Barcon dated March 3, 2008 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12609), Exhibit 10.3)
- *10.19 PG&E Corporation 2005 Deferred Compensation Plan for Non-Employee Directors, effective as of January 1, 2005 (as amended to comply with Internal Revenue Code Section 409A regulations effective as of January 1, 2009) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.24)
- *10.20 Description of Short-Term Incentive Plan for Officers of PG&E Corporation and its subsidiaries, effective January 1, 2009 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.26)
- *10.21 Description of Short-Term Incentive Plan for Officers of PG&E Corporation and its subsidiaries, effective January 1, 2010
- *10.22 Amendment to PG&E Corporation Short-Term Incentive Programs and Other Bonus Programs,

- effective January 1, 2009 (amendment to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.27)
- *10.23 Amendment to Pacific Gas and Electric Company Short-Term Incentive Programs and Other Bonus Programs, effective January 1, 2009 (amendment to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.28)
 - *10.24 Supplemental Executive Retirement Plan of PG&E Corporation as amended effective as of January 1, 2009 (amended to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.29)
 - *10.25 Pacific Gas and Electric Company Relocation Assistance Program for Officers (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.30)
 - *10.26 Postretirement Life Insurance Plan of the Pacific Gas and Electric Company (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for fiscal year 1991 (File No. 1-2348), Exhibit 10.16)
 - *10.27 Amendment to Postretirement Life Insurance Plan of the Pacific Gas and Electric Company dated December 30, 2008 (amendment to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-2348), Exhibit 10.32)
 - *10.28 PG&E Corporation Non-Employee Director Stock Incentive Plan (a component of the PG&E Corporation Long-Term Incentive Program) as amended effective as of July 1, 2004 (reflecting amendments adopted by the PG&E Corporation Board of Directors on June 16, 2004 set forth in resolutions filed as Exhibit 10.3 to PG&E Corporation's and Pacific Gas and Electric Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004) (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12609 and File No. 1-2348), Exhibit 10.27)
 - *10.29 Resolution of the PG&E Corporation Board of Directors dated September 17, 2008, adopting director compensation arrangement effective January 1, 2009 (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609 and File No. 12348), Exhibit 10.36)
 - *10.30 Resolution of the Pacific Gas and Electric Company Board of Directors dated September 17, 2008, adopting director compensation arrangement effective January 1, 2009 (incorporated by reference to PG&E Corporation's and Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609 and File No. 12348), Exhibit 10.37)
 - *10.31 PG&E Corporation 2006 Long-Term Incentive Plan, as amended through December 16, 2009
 - *10.32 PG&E Corporation Long-Term Incentive Program (including the PG&E Corporation Stock Option Plan and Performance Unit Plan), as amended May 16, 2001, (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File No. 1-12609), Exhibit 10)
 - *10.33 Form of Restricted Stock Agreement for 2005 grants under the PG&E Corporation Long-Term Incentive Program (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 6, 2005 (File No. 12609 and File No. 1-2348), Exhibit 99.3)
 - *10.34 Form of Restricted Stock Agreement for 2006 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 9, 2006, Exhibit 99.1)
 - *10.35 Form of Restricted Stock Agreement for 2007 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (reflecting amendments to the PG&E Corporation 2006 Long-Term Incentive Plan made on February 15, 2006) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 1-12609), Exhibit 10.39)
 - *10.36 Form of Restricted Stock Agreement for 2008 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12609), Exhibit 10.5)
 - *10.37 Form of Amendment to Restricted Stock Agreements for grants made between January 2005 and March 2008 (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K

- for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.45)
- *10.38 Form of Restricted Stock Unit Agreement for 2009 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-12609), Exhibit 10.2)
 - *10.39 Form of Performance Share Agreement for 2009 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-12609), Exhibit 10.3)
 - *10.40 Form of Non-Qualified Stock Option Agreement under the PG&E Corporation Long-Term Incentive Program (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 6, 2005 (File No. 12609 and File No. 1-2348), Exhibit 99.1)
 - *10.41 Form of Performance Share Agreement for 2006 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation and Pacific Gas and Electric Company's Current Report on Form 8-K filed January 9, 2006, Exhibit 99.2)
 - *10.42 Form of Performance Share Agreement for 2007 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (reflecting amendments to the PG&E Corporation 2006 Long-Term Incentive Plan made on February 15, 2006) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 1-12609), Exhibit 10.44)
 - *10.43 Form of Performance Share Agreement for 2008 grants under the PG&E Corporation 2006 Long-Term Incentive Plan (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12609), Exhibit 10.6)
 - *10.44 Form of Amended and Restated Performance Share Agreement for 2006 grants (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.51)
 - *10.45 Form of Amended and Restated Performance Share Agreement for 2007 grants (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.52)
 - *10.46 Form of Amended and Restated Performance Share Agreement for 2008 grants (amendments to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.53)
 - *10.47 PG&E Corporation Executive Stock Ownership Program Guidelines as amended effective February 17, 2009 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.54)
 - *10.48 PG&E Corporation Officer Severance Policy, as amended effective as of February 15, 2006 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12609), Exhibit 10.48)
 - *10.49 PG&E Corporation Officer Severance Policy, as amended effective as of January 1, 2009 (amended to comply with Internal Revenue Code Section 409A regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.56)
 - *10.50 PG&E Corporation Golden Parachute Restriction Policy effective as of February 15, 2006 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12609), Exhibit 10.49)
 - *10.51 Amendment to PG&E Corporation Golden Parachute Restriction Policy dated December 31, 2008 (amendment to comply with Internal Revenue Code Section 409A Regulations) (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12609), Exhibit 10.58)
 - *10.52 PG&E Corporation Director Grantor Trust Agreement dated April 1, 1998 (incorporated by reference to PG&E Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 (File No. 1-12609), Exhibit 10.1)
 - *10.53 PG&E Corporation Officer Grantor Trust Agreement dated April 1, 1998, as updated effective January 1, 2005 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12609), Exhibit 10.39)
 - *10.54 PG&E Corporation and Pacific Gas and Electric Company Executive Incentive Compensation Recoupment Policy effective as of February 17, 2009
 - *10.55 Resolution of the Board of Directors of PG&E Corporation regarding indemnification of officers and directors dated December 18, 1996 (incorporated by reference to PG&E Corporation's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-

- 12609), Exhibit 10.40)
- *10.56 Resolution of the Board of Directors of Pacific Gas and Electric Company regarding indemnification of officers and directors dated July 19, 1995 (incorporated by reference to Pacific Gas and Electric Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-2348), Exhibit 10.41)
 - 12.1 Computation of Ratios of Earnings to Fixed Charges for Pacific Gas and Electric Company
 - 12.2 Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends for Pacific Gas and Electric Company
 - 12.3 Computation of Ratios of Earnings to Fixed Charges for PG&E Corporation
 - 13 The following portions of the 2009 Annual Report to Shareholders of PG&E Corporation and Pacific Gas and Electric Company are included: "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," financial statements of PG&E Corporation entitled "Consolidated Statements of Income," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows," and "Consolidated Statements of Equity," financial statements of Pacific Gas and Electric Company entitled "Consolidated Statements of Income," "Consolidated Balance Sheets," "Consolidated Statements of Cash Flows," and "Consolidated Statements of Shareholders' Equity," "Notes to the Consolidated Financial Statements," "Quarterly Consolidated Financial Data (Unaudited)," "Management's Report on Internal Control Over Financial Reporting," and "Report of Independent Registered Public Accounting Firm."
 - 21 Subsidiaries of the Registrant
 - 23 Consent of Independent Registered Public Accounting Firm (Deloitte & Touche LLP)
 - 24.1 Resolutions of the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company authorizing the execution of the Form 10-K
 - 24.2 Powers of Attorney
 - 31.1 Certifications of the Chief Executive Officer and the Chief Financial Officer of PG&E Corporation required by Section 302 of the Sarbanes-Oxley Act of 2002
 - 31.2 Certifications of the Chief Executive Officer and the Chief Financial Officer of Pacific Gas and Electric Company required by Section 302 of the Sarbanes-Oxley Act of 2002
 - **32.1 Certifications of the Chief Executive Officer and the Chief Financial Officer of PG&E Corporation required by Section 906 of the Sarbanes-Oxley Act of 2002
 - **32.2 Certifications of the Chief Executive Officer and the Chief Financial Officer of Pacific Gas and Electric Company required by Section 906 of the Sarbanes-Oxley Act of 2002
 - ***101.INS XBRL Instance Document
 - ***101.SCH XBRL Taxonomy Extension Schema Document
 - ***101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
 - ***101.LAB XBRL Taxonomy Extension Labels Linkbase Document
 - ***101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
 - ***101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- * Management contract or compensatory agreement.
- ** Pursuant to Item 601(b)(32) of SEC Regulation S-K, these exhibits are furnished rather than filed with this report.
- *** Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections. These files are being submitted only by PG&E Corporation and not by its subsidiary, Pacific Gas and Electric Company.
-

[\(Back To Top\)](#)

Section 2: EX-3.5 (BYLAWS OF PACIFIC GAS AND ELECTRIC COMPANY)

Exhibit 3.5

Bylaws of Pacific Gas and Electric Company amended as of February 17, 2010

Article I. SHAREHOLDERS.

1. **Place of Meeting.** All meetings of the shareholders shall be held at the office of the Corporation in the City and County of San Francisco, State of California, or at such other place, within or without the State of California, as may be designated by the Board of Directors.

2. **Annual Meetings.** The annual meeting of shareholders shall be held each year on a date and at a time designated by the Board of Directors.

Written notice of the annual meeting shall be given not less than ten (or, if sent by third-class mail, thirty) nor more than sixty days prior to the date of the meeting to each shareholder entitled to vote thereat. The notice shall state the place, day, and hour of such meeting, and those matters which the Board, at the time of mailing, intends to present for action by the shareholders.

Notice of any meeting of the shareholders shall be given by mail or telegraphic or other written communication, postage prepaid, to each holder of record of the stock entitled to vote thereat, at his address, as it appears on the books of the Corporation.

At an annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the annual meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of the annual meeting (or any supplement thereto) given by or at the direction of the Board, or (ii) otherwise properly brought before the annual meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, including the nomination of any person (other than a person nominated by or at the direction of the Board) for election to the Board, the shareholder must have given timely and proper written notice to the Corporate Secretary of the Corporation. To be timely, the shareholder's written notice must be received at the principal executive office of the Corporation not less than forty-five days before the date corresponding to the mailing date of the notice and proxy materials for the prior year's annual meeting of shareholders; provided, however, that if the annual meeting to which the shareholder's written notice relates is to be held on a date that differs by more than thirty days from the date of the last annual meeting of shareholders, the shareholder's written notice to be timely must be so received not later than the close of business on the tenth day

following the date on which public disclosure of the date of the annual meeting is made or given to shareholders. Any shareholder's written notice that is delivered after the close of business (5:00 p.m. local time) will be considered received on the following business day. To be proper, the shareholder's written notice must set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, (b) the name and address of the shareholder as they appear on the Corporation's books, (c) the class and number of shares of the Corporation that are beneficially owned by the shareholder, and (d) any material interest of the shareholder in such business. In addition, if the shareholder's written notice relates to the nomination at the annual meeting of any person for election to the Board, such notice to be proper must also set forth (a) the name, age, business address, and residence address of each person to be so nominated, (b) the principal occupation or employment of each such person, (c) the number of shares of capital stock of the Corporation beneficially owned by each such person, and (d) such other information concerning each such person as would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such person as a Director, and must be accompanied by a consent, signed by each such person, to serve as a Director of the Corporation if elected. Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section.

3. **Special Meetings.** Special meetings of the shareholders shall be called by the Corporate Secretary or an Assistant Corporate Secretary at any time on order of the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, or the President. Special meetings of the shareholders shall also be called by the Corporate Secretary or an Assistant Corporate Secretary upon the written request of holders of shares entitled to cast not less than ten percent of the votes at the meeting. Such request shall state the purposes of the meeting, and shall be delivered to the Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, the President or the Corporate Secretary.

A special meeting so requested shall be held on the date requested, but not less than thirty-five nor more than sixty days after the date of the original request. Written notice of each special meeting of shareholders, stating the place, day, and hour of such meeting and the business proposed to be transacted thereat, shall be given in the manner stipulated in Article I, Section 2, Paragraph 3 of these Bylaws within twenty days after receipt of the written request.

4. **Voting at Meetings.** At any meeting of the shareholders, each holder of record of stock shall be entitled to vote in person or by proxy. The authority of proxies must be evidenced by a written document signed by the shareholder and must be delivered to the Corporate Secretary of the Corporation prior to the commencement of the meeting.

5. **No Cumulative Voting.** No shareholder of the Corporation shall be entitled to cumulate his or her voting power.

Article II. DIRECTORS.

1. **Number.** The Board of Directors of this Corporation shall consist of such number of directors, not less than nine (9) nor more than seventeen (17). The exact number of directors shall be twelve (12) until changed, within the limits specified above, by an amendment to this Bylaw duly adopted by the Board of Directors or the shareholders.

2. **Powers.** The Board of Directors shall exercise all the powers of the Corporation except those which are by law, or by the Articles of Incorporation of this Corporation, or by the Bylaws conferred upon or reserved to the shareholders.

3. **Committees.** The Board of Directors may, by resolution adopted by a majority of the authorized number of directors, designate and appoint one or more committees as the Board deems appropriate, each consisting of two or more directors, to serve at the pleasure of the Board; provided, however, that, as required by this Corporation's Articles of Incorporation, the members of the Executive Committee (should the Board of Directors designate an Executive Committee) must be appointed by the affirmative vote of two-thirds of the authorized number of directors. Any such committee, including the Executive Committee, shall have the authority to act in the manner and to the extent provided in the resolution of the Board of Directors designating such committee and may have all the authority of the Board of Directors, except with respect to the matters set forth in California Corporations Code Section 311.

4. **Time and Place of Directors' Meetings.** Regular meetings of the Board of Directors shall be held on such days and at such times and at such locations as shall be fixed by resolution of the Board, or designated by the Chairman of the Board or, in his absence, the Vice Chairman of the Board, the Chief Executive Officer, or the President of the Corporation and contained in the notice of any such meeting. Notice of meetings shall be delivered personally or sent by mail or telegram at least seven days in advance.

5. **Special Meetings.** The Chairman of the Board, the Vice Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, the President, or any five directors may call a special meeting of the Board of Directors at any time. Notice of the time and place of special meetings shall be given to each Director by the Corporate Secretary. Such notice shall be delivered personally or by telephone (or other system or technology designed to record and communicate messages, including facsimile, electronic mail, or other such means) to each Director at least four hours in advance of such meeting, or sent by first-class mail or telegram, postage prepaid, at least two days in advance of such meeting.

6. **Quorum.** A quorum for the transaction of business at any meeting of the Board of Directors or any committee thereof shall consist of one-third of the authorized number of directors or committee members, or two, whichever is larger.

7. **Action by Consent.** Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors.

8. **Meetings by Conference Telephone.** Any meeting, regular or special, of the Board of Directors or of any committee of the Board of Directors, may be held by conference telephone or similar communication equipment, provided that all Directors participating in the meeting can hear one another.

9. **Majority Voting.** In any uncontested election, nominees receiving the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be elected. In any election that is not an uncontested election, the nominees receiving the highest number of affirmative votes of the shares entitled to be voted for them, up to the number of directors to be elected by those shares, shall be elected; votes against a director and votes withheld shall have no legal effect.

For purposes of these Bylaws, "uncontested election" means an election of directors of the Corporation in which, at the expiration of the times fixed under Article I, Section 2 of these Bylaws requiring advance notification of director nominees, or for special meetings, at the time notice is given of the meeting at which the election is to occur, the number of nominees for election does not exceed the number of directors to be elected by the shareholders at that election.

If an incumbent director fails, in an uncontested election, to receive the vote required to be elected in accordance with this Article II, Section 9, then, unless the incumbent director has earlier resigned, the term of such incumbent director shall end on the date that is the earlier of (a) ninety (90) days after the date on which the voting results are determined pursuant to Section 707 of the California Corporations Code, or (b) the date on which the Board of Directors selects a person to fill the office held by that director in accordance with the procedures set forth in these Bylaws and Section 305 of the California Corporations Code.

10. **Certain Powers Reserved to the Shareholders.** So long as PG&E Corporation shall hold the majority of the outstanding shares of the Corporation, PG&E Corporation may require the written consent of the PG&E Corporation Chairman of the Board or the PG&E Corporation Chief Executive Officer to enter into and execute any transaction or type of transaction identified by the Board of Directors of PG&E Corporation as a "Designated Transaction." For purposes of this Section 10, a

Designated Transaction shall be any transaction or type of transaction identified in a duly adopted resolution of the Board of Directors of PG&E Corporation as requiring the written consent of the PG&E Corporation Chairman of the Board or the PG&E Corporation Chief Executive Officer pursuant to this Section 10. Notwithstanding the foregoing, nothing in this Section 10 shall limit the power of the Corporation to enter into or execute any transaction or type of transaction prior to the receipt by the Corporate Secretary of the Corporation of the resolution designating such transaction or type of transaction as a Designated Transaction pursuant to this Section 10.

Article III. OFFICERS.

1. **Officers.** The officers of the Corporation shall be elected by the Board of Directors and include a President, a Corporate Secretary, a Treasurer or other such officers as required by law. The Board of Directors also may elect one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers, and such other officers as may be appropriate, including the offices described below. Any number of offices may be held by the same person.

2. **Chairman of the Board.** The Chairman of the Board shall be a member of the Board of Directors and preside at all meetings of the shareholders, of the Directors, and of the Executive Committee in the absence of the Chairman of that Committee. The Chairman of the Board shall have such duties and responsibilities as may be prescribed by the Board of Directors or the Bylaws. The Chairman of the Board shall have authority to sign on behalf of the Corporation agreements and instruments of every character, and in the absence or disability of the Chief Executive Officer, shall exercise the Chief Executive Officer's duties and responsibilities.

3. **Vice Chairman of the Board.** The Vice Chairman of the Board shall be a member of the Board of Directors and have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, or the Bylaws. In the absence of the Chairman of the Board, the Vice Chairman of the Board shall preside at all meetings of the Board of Directors and of the shareholders; and, in the absence of the Chairman of the Executive Committee and the Chairman of the Board, The Vice Chairman of the Board shall preside at all meetings of the Executive Committee. The Vice Chairman of the Board shall have authority to sign on behalf of the Corporation agreements and instruments of every character.

4. **Chairman of the Executive Committee.** The Chairman of the Executive Committee shall be a member of the Board of Directors and preside at all meetings of the Executive Committee. The Chairman of the Executive Committee shall aid and assist the other officers in the performance of their duties and shall have such other duties as may be prescribed by the Board of Directors or the Bylaws.

5. **Chief Executive Officer.** The Chief Executive Officer shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, or the Bylaws. If there be no Chairman of the Board, the Chief Executive Officer shall also exercise the duties and responsibilities of that office. The Chief Executive Officer shall have authority to sign on behalf of the Corporation agreements and instruments of every character. In the absence or disability of the President, the Chief Executive Officer shall exercise the President's duties and responsibilities.

6. **President.** The President shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, or the Bylaws. If there be no Chief Executive Officer, the President shall also exercise the duties and responsibilities of that office. The President shall have authority to sign on behalf of the Corporation agreements and instruments of every character.

7. **Vice Presidents.** Each Vice President shall have such duties and responsibilities as may be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, the President, or the Bylaws. Each Vice President's authority to sign agreements and instruments on behalf of the Corporation shall be as prescribed by the Board of Directors. The Board of Directors of this company, the Chairman of the Board of this company, the Vice Chairman of the Board of this company, or the Chief Executive Officer of PG&E Corporation may confer a special title upon any Vice President.

8. **Corporate Secretary.** The Corporate Secretary shall attend all meetings of the Board of Directors and the Executive Committee, and all meetings of the shareholders, and the Corporate Secretary shall record the minutes of all proceedings in books to be kept for that purpose. The Corporate Secretary shall be responsible for maintaining a proper share register and stock transfer books for all classes of shares issued by the Corporation. The Corporate Secretary shall give, or cause to be given, all notices required either by law or the Bylaws. The Corporate Secretary shall keep the seal of the Corporation in safe custody, and shall affix the seal of the Corporation to any instrument requiring it and shall attest the same by the Corporate Secretary's signature.

The Corporate Secretary shall have such other duties as may be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, the President, or the Bylaws.

The Assistant Corporate Secretaries shall perform such duties as may be assigned from time to time by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, the President, or the Corporate Secretary. In the absence or disability of the Corporate Secretary, the Corporate Secretary's duties shall be performed by an Assistant Corporate Secretary.

9. **Treasurer.** The Treasurer shall have custody of all moneys and funds of the Corporation, and shall cause to be kept full and accurate records of receipts and disbursements of the Corporation. The Treasurer shall deposit all moneys and other

valuables of the Corporation in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors or any employee of the Corporation designated by the Board of Directors. The Treasurer shall disburse such funds of the Corporation as have been duly approved for disbursement.

The Treasurer shall perform such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, the President, or the Bylaws.

The Assistant Treasurer shall perform such duties as may be assigned from time to time by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, the President, or the Treasurer. In the absence or disability of the Treasurer, the Treasurer's duties shall be performed by an Assistant Treasurer.

10. **General Counsel.** The General Counsel shall be responsible for handling on behalf of the Corporation all proceedings and matters of a legal nature. The General Counsel shall render advice and legal counsel to the Board of Directors, officers, and employees of the Corporation, as necessary to the proper conduct of the business. The General Counsel shall keep the management of the Corporation informed of all significant developments of a legal nature affecting the interests of the Corporation.

The General Counsel shall have such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, the President, or the Bylaws.

11. **Controller.** The Controller shall be responsible for maintaining the accounting records of the Corporation and for preparing necessary financial reports and statements, and the Controller shall properly account for all moneys and obligations due the Corporation and all properties, assets, and liabilities of the Corporation. The Controller shall render to the officers such periodic reports covering the result of operations of the Corporation as may be required by them or any one of them.

The Controller shall have such other duties as may from time to time be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer, the President, or the Bylaws. The Controller shall be the principal accounting officer of the Corporation, unless another individual shall be so designated by the Board of Directors.

Article IV. MISCELLANEOUS.

1. **Record Date.** The Board of Directors may fix a time in the future as a record date for the determination of the shareholders entitled to notice of and to vote at any

meeting of shareholders, or entitled to receive any dividend or distribution, or allotment of rights, or to exercise rights in respect to any change, conversion, or exchange of shares. The record date so fixed shall be not more than sixty nor less than ten days prior to the date of such meeting nor more than sixty days prior to any other action for the purposes for which it is so fixed. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at the meeting, or entitled to receive any dividend or distribution, or allotment of rights, or to exercise the rights, as the case may be.

2. **Certificates; Direct Registration System.** Shares of the Corporation's stock may be certificated or uncertificated, as provided under California law. Any certificates that are issued shall be signed in the name of the Corporation by the Chairman of the Board, the Vice Chairman of the Board, the President, or a Vice President and by the Chief Financial Officer, an Assistant Treasurer, the Corporate Secretary, or an Assistant Secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be a facsimile. In case any officer, Transfer Agent, or Registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, Transfer Agent, or Registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were an officer, Transfer Agent, or Registrar at the date of issue. Shares of the Corporation's capital stock may also be evidenced by registration in the holder's name in uncertificated, book-entry form on the books of the Corporation in accordance with a direct registration system approved by the Securities and Exchange Commission and by the American Stock Exchange or any securities exchange on which the stock of the Corporation may from time to time be traded.

Transfers of shares of stock of the Corporation shall be made by the Transfer Agent and Registrar on the books of the Corporation only after receipt of a request with proper evidence of succession, assignment, or authority to transfer by the record holder of such stock, or by an attorney lawfully constituted in writing, and in the case of stock represented by a certificate, upon surrender of the certificate. Subject to the foregoing, the Board of Directors shall have power and authority to make such rules and regulations as it shall deem necessary or appropriate concerning the issue, transfer, and registration of certificates for shares of stock of the Corporation, and to appoint and remove Transfer Agents and Registrars of transfers.

3. **Lost Certificates.** Any person claiming a certificate of stock to be lost, stolen, mislaid, or destroyed shall make an affidavit or affirmation of that fact and verify the same in such manner as the Board of Directors may require, and shall, if the Board of Directors so requires, give the Corporation, its Transfer Agents, Registrars, and/or other agents a bond of indemnity in form approved by counsel, and in amount and with such sureties as may be satisfactory to the Corporate Secretary of the Corporation, before a new certificate (or uncertificated shares in lieu of a new certificate) may be issued of the same tenor and for the same number of shares as the one alleged to have been lost, stolen, mislaid, or destroyed.

Article V.
AMENDMENTS.

1. **Amendment by Shareholders.** Except as otherwise provided by law, these Bylaws, or any of them, may be amended or repealed or new Bylaws adopted by the affirmative vote of a majority of the outstanding shares entitled to vote at any regular or special meeting of the shareholders.

2. **Amendment by Directors.** To the extent provided by law, these Bylaws, or any of them, may be amended or repealed or new Bylaws adopted by resolution adopted by a majority of the members of the Board of Directors; provided, however, that amendments to Article II, Sections 9 and 10 of these Bylaws, and any other Bylaw provision that implements a majority voting standard for director elections (excepting any amendments intended to conform those Bylaw provisions to changes in applicable laws) shall be amended by the shareholders of the Corporation as provided in Section 1 of this Article V.

[\(Back To Top\)](#)

Section 3: EX-10.9 (PG&E CORPORATION 2005 SUPP. RETIREMENT SAVINGS PLAN)

Exhibit 10.9

PG&E CORPORATION 2005 SUPPLEMENTAL RETIREMENT SAVINGS PLAN

1.	Purpose of the Plan	1
2.	Definitions	1
3.	Employer Contributions	3
4.	Eligible Employee Deferrals	4
5.	Investment Funds	5
6.	Accounting	6
7.	Distributions	6
8.	Distribution Due to Unforeseeable Emergency (Hardship Distribution)	8
9.	Domestic Relations Orders	9
10.	Vesting	9
11.	Administration of the Plan	9
12.	Funding	10
13.	Modification or Termination of Plan	10
14.	General Provisions	10

PG&E CORPORATION**2005 SUPPLEMENTAL RETIREMENT SAVINGS PLAN**

This is the controlling and definitive statement of the PG&E CORPORATION (“PG&E CORP”) 2005 Supplemental Retirement Savings Plan (the “Plan”). The Plan was amended for compliance with the final Code Section 409A regulations effective as of January 1, 2009, and further amended effective July 13, 2009 with respect to available investment options. Except as provided herein, the Plan is generally effective as of January 1, 2005, with respect to all individuals who are Eligible Employees as of such date. The Plan continues the benefit program embodied in the PG&E Corporation Supplemental Retirement Savings Plan (the “Prior Plan”). Benefits accrued under the Prior Plan continue to be payable under the Prior Plan pursuant to the terms and conditions of the Prior Plan.

1. Purpose of the Plan. The Plan is established and is maintained for the benefit of a select group of management and highly compensated employees of PG&E CORP and its Participating Subsidiaries in order to provide such employees with certain deferred compensation benefits. The Plan is an unfunded deferred compensation plan that is intended to qualify for the exemptions provided in Sections 201, 301, and 401 of ERISA.

2. Definitions. The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

(a) “Basic Employer Contributions” shall mean the amounts credited to Eligible Employees’ Accounts under the Plan by the Employers, in accordance with Section 3(c).

(b) “Board of Directors” shall mean the Board of Directors of PG&E CORP, as from time to time constituted.

(c) “Code” shall mean the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing, or superseding such section.

(d) “Committee” shall mean the Nominating, Compensation and Governance Committee of the Board, as it may be constituted from time to time.

(e) “Eligible Employee” shall mean an Employee who:

(1) Is an officer of PG&E CORP or any Participating Subsidiary and who is in Officer Band 5 or above; or

(2) Is a key employee of PG&E CORP or any Participating Subsidiary and who is designated by the Plan Administrator as eligible to participate in the Plan.

(f) “Eligible Employee’s Account” or “Account” shall mean as to any Eligible Employee, the separate account maintained on the books of the Employer in accordance with Section 6(a) in order to reflect his or her interest under the Plan. Accounts shall be centrally administered by the Plan Administrator or its designee.

(g) “Employee” shall mean an individual who is treated in the records of an Employer as an employee of the Employer, who is not on an unpaid leave of absence, and/or who is not covered by a collective bargaining agreement; provided, however, such term shall not mean an individual who is a “leased employee” or who has entered into a written contract or agreement with an Employer which explicitly excludes such individual from participation in an Employer’s benefit plans. The provisions of this definition shall govern, whether or not it is determined that an individual otherwise meets the definition of “common law” employee.

(h) “Employers” shall mean PG&E CORP and the Participating Subsidiaries designated by the Employee Benefit Committee of PG&E CORP. An initial list of the Employers is contained in Appendix A to this Plan.

(i) “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended. Reference to a specific section of ERISA shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing, or superseding such section.

(j) “Investment Funds” shall mean the investment funds established by the Board of Directors and reflected from time to time on Appendix B. The Investment Funds shall be used for tracking phantom investment results under the Plan.

(k) “Matching Employer Contributions” shall mean the amounts credited to Eligible Employees’ Accounts under the Plan by the Employers, in accordance with Section 3(b).

(l) “Participating Subsidiary” shall mean a United States-based subsidiary of PG&E CORP, which has been designated by the Employee Benefit Committee of PG&E CORP as a Participating Subsidiary under this Plan and which has agreed to make payments or reimbursements with respect to its Eligible Employees pursuant to Section 14(d). At such times and under such conditions as the Committee may direct, one or more other subsidiaries of PG&E CORP may become Participating Subsidiaries or a Participating Subsidiary may be withdrawn from the Plan. An initial list of the Participating Subsidiaries is contained in Appendix A to this Plan.

(m) “PG&E CORP” shall mean PG&E Corporation, a California corporation.

(n) “Plan” shall mean the PG&E Corporation 2005 Supplemental Retirement Savings Plan, as set forth in this instrument and as heretofore and hereafter amended from time to time.

(o) “Plan Year” shall mean the calendar year.

(p) “Prior Plan” shall mean the PG&E Corporation Supplemental Retirement Savings Plan.

(q) “Retirement” or “Retire” shall mean an Eligible Employee’s Separation from Service, provided that the Eligible Employee is at least 55 years of age and has been employed by an Employer for at least five years.

(r) "RSP" shall mean, with respect to any Eligible Employee, the PG&E Corporation Retirement Savings Plan or any predecessor qualified retirement plan sponsored by PG&E CORP or any of its subsidiary companies.

(s) "Separation from Service" shall mean an Eligible Employee's "separation from service" within the meaning of Code Section 409A(a)(2)(A)(i) and related Treasury Regulations and other guidance, as determined by the Plan Administrator in its discretion.

(t) "Valuation Date" shall mean:

(1) For purposes of valuing Plan assets and Eligible Employees' Accounts for periodic reports and statements, the date as of which such reports or statements are made; and

(2) For purposes of determining the amount of assets actually distributed to the Eligible Employee, his or her beneficiary, or an Alternate Payee (or available for withdrawal), a date that shall not be more than seven business days prior to the date the check is issued to the Eligible Employee.

In any other case, the Valuation Date shall be the date designated by the Plan Administrator (in its discretion) or the date otherwise set forth in this Plan. In all cases, the Plan Administrator (in its discretion) may change the Valuation Date, on a uniform and nondiscriminatory basis, as is necessary or appropriate. Notwithstanding the foregoing, the Valuation Date shall occur at least annually.

3. Employer Contributions.

(a) Matching Employer Contributions. Subject to the provisions of Section 13, the Eligible Employee's Account shall be credited for each Plan Year with a Matching Employer Contribution, calculated in the manner provided in Sections 3(a)(1), (2), and (3) below:

(1) First, an amount shall be calculated equal to the maximum matching contribution that would be made under the terms of the RSP, taking into account for such Plan Year the amount of pre-tax deferrals and after-tax contributions the Eligible Employee elected under the RSP. For purposes of this calculation, any amounts deferred under Subsection 4(a) of this Plan shall be treated as pre-tax deferrals under the RSP.

(2) The calculation made in accordance with this Section 3(a)(1) above shall be made without regard to any limitation on such amounts under the RSP resulting from the application of any of the limitations under Code Sections 401(m), 401(a)(17), or 415.

(3) The Employer Matching Contribution to be credited to the Account of an Eligible Employee for any Plan Year shall equal the amount calculated in accordance with Sections 3(a)(1) and (2) above, reduced by the amount of matching contribution made to such Eligible Employee's account for such Plan Year under the RSP.

(b) Crediting of Matching Employer Contributions. Matching Employer Contributions shall be calculated and credited to the Eligible Employee's Account as of the first business day of February of the calendar year following the Plan Year and shall be credited only

if the Eligible Employee is an Employee on the last day of Plan Year for which the amounts are credited. All such amounts shall be invested in the SRSP Stable Value Fund.

(c) Basic Employer Contributions. Subject to the provisions of Section 13, the Account of each Eligible Employee shall be credited for each Plan Year with a Basic Employer Contribution, calculated in the manner provided in Sections 3(c)(1), (2), and (3) below:

(1) First, an amount shall be calculated equal to the Basic Employer Contribution that would be made under the terms of the RSP, taking into account for such Plan Year the Eligible Employee's Covered Compensation under the RSP, before any deductions for compensation deferrals elected by such Eligible Employee under Subsection 4(a) of this Plan. For Eligible Employees as defined by Section 2(e)(1) of this Plan, compensation shall also reflect such Eligible Employee's Short-Term Incentive Plan awards.

(2) The calculation made in accordance with this Section 3(c)(1) above shall be made without regard to any limitation on such amounts under the RSP resulting from the application of any of the limitations under Code Sections 401(a)(4), 401(a)(17), or 415.

(3) The Employer Contribution to be credited to the Account of an Eligible Employee for any Plan Year shall equal the amount calculated in accordance with Sections 3(c)(1) and (2) above, reduced by the amount of Basic Employer Contributions made to such Eligible Employee's account for such Plan Year under the RSP.

(d) Crediting of Basic Employer Contributions. The Employer Contribution attributable to an Eligible Employee's Short Term Incentive Plan award shall be credited to an Eligible Employee's Account as of the first business day of the month following the date on which the Short-Term Incentive Plan award is paid. All other Employer Contributions made in respect of an Eligible Employee shall be credited to the Eligible Employee's Account as of the first business day of February of the calendar year following the Plan Year and shall be credited only if the Eligible Employee is an Employee on the last day of the Plan Year for which the amounts are credited. All such amounts shall be invested in the SRSP Stable Value Fund.

(e) FICA Taxes. Each Eligible Employee shall be responsible for FICA taxes on amounts credited to his or her Account under Sections 3 and 4(d).

4. Eligible Employee Deferrals.

(a) Amount of Deferral. An Eligible Employee may defer (i) 5 percent to 50 percent of his or her annual salary; and (ii) all or part of his or her Short Term Incentive Plan awards, Long-Term Incentive Plan (LTIP) awards (other than stock options), Perquisite Allowances, and any other special payments, awards, or bonuses as authorized by the Plan Administrator.

(b) Credits to Accounts. Salary deferrals shall be credited to an Eligible Employee's Account as of each payroll period. All other deferrals attributable to allowances, awards, bonuses, and other payments shall be credited as of the date that they otherwise would have been paid.

(c) Deferral Election. An Eligible Employee must file an election form with the Plan Administrator which indicates the percentage of salary and the amount of any awards, allowances, payments, and bonuses to be deferred under the Plan. The election shall occur no later than December 31 (or such earlier date established by the Plan Administrator) of the calendar year next preceding the service year (within the meaning of Treasury Regulation Section 1.409A-2(a)(3)). Notwithstanding the foregoing, to the extent permitted under Treasury Regulation Section 1.409A-2(a)(7), upon first becoming an Eligible Employee, an election to defer shall be effective for compensation to be earned for services performed beginning in the month following the filing of a Deferral Election Form, provided said Form is filed within 30 days following the date when the employee first becomes an Eligible Employee. Notwithstanding the foregoing, in the case of performance-based compensation (within the meaning of Treasury Regulation Section 1.409A-1(e)), the election may be made with respect to such performance-based compensation on or before the date that is six months before the end of the applicable performance period to the extent permitted under Treasury Regulation Section 1.409A-2(a)(8). The Plan Administrator may, in its sole discretion, permit elections to be made under other timing rules that comply with Code Section 409A.

(d) Deferral of Special Incentive Stock Ownership Premiums. All of an Eligible Employee's Special Incentive Stock Ownership Premiums are automatically deferred to the Plan immediately upon grant and converted into units in the PG&E CORP Phantom Stock Fund. The units attributable to Special Incentive Stock Ownership Premiums and any additional units resulting from the conversion of dividend equivalents thereon remain unvested until the earlier of the third anniversary of the date on which the Special Incentive Stock Ownership Premiums are credited to an Eligible Employee's account (provided the Eligible Employee continues to be employed on such date), death, disability (within the meaning of Section 22(e)(3) of the Internal Revenue Code), or Retirement of the participant, or upon a Change in Control (as defined in the LTIP). Unvested units attributable to Special Incentive Stock Ownership Premiums and any additional units resulting from the conversion of dividend equivalents thereon shall be forfeited upon termination of the Eligible Employee's employment (unless otherwise provided in the PG&E Corporation Executive Stock Ownership Program or the PG&E Corporation Officer Severance Plan) or if an Eligible Employee's stock ownership falls below the levels set forth in the Executive Stock Ownership Program.

5. Investment Funds. Although no assets will be segregated or otherwise set aside with respect to an Eligible Employee's Account, the amount that is ultimately payable to the Eligible Employee with respect to such Account shall be determined as if such Account had been invested in some or all of the Investment Funds. The Plan Administrator, in its sole discretion, shall adopt (and modify from time to time) such rules and procedures as it deems necessary or appropriate to implement the deemed investment of the Eligible Employees' Accounts. Such procedures generally shall provide that an Eligible Employee's Account shall be deemed to be invested among the available Investment Funds in the manner elected by the Eligible Employee in such percentages and manner as prescribed by the Plan Administrator. In the event no election has been made by the Eligible Employee, such Account will be deemed to be invested in the SRSP Stable Value Fund. Eligible Employees shall be able to reallocate their Accounts between the Investment Funds and reallocate amounts newly credited to their Accounts at such time and in such manner as the Plan Administrator shall prescribe. Anything to the contrary herein notwithstanding, an Eligible Employee may not reallocate Account balances between

Investment Funds if such reallocation would result in a non-exempt Discretionary Transaction as defined in Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or any successor to Rule 16b-3, as in effect when the reallocation is requested. The available Investment Funds shall be listed on Appendix B and may be changed from time to time by the Board of Directors.

6. Accounting.

(a) Eligible Employees' Accounts. At the direction of the Plan Administrator, there shall be established and maintained on the books of the Employer, a separate account for each Eligible Employee in order to reflect his or her interest under the Plan.

(b) Investment Earnings. Each Eligible Employee's Account shall initially reflect the value of his or her Account's interest in each of the Investment Funds, deemed acquired with the amounts credited thereto. Each Eligible Employee's Account shall also be credited (or debited) with the net appreciation (or depreciation), earnings and gains (or losses) with respect to the investments deemed made by his or her Account. Any such net earnings or gains deemed realized with respect to any investment of any Eligible Employee's Account shall be deemed reinvested in additional amounts of the same investment and credited to the Eligible Employee's Account.

(c) Accounting Methods. The accounting methods or formulae to be used under the Plan for the purpose of maintaining the Eligible Employees' Accounts shall be determined by the Plan Administrator. The accounting methods or formulae selected by the Plan Administrator may be revised from time to time but shall conform to the extent practicable with the accounting methods used under the Applicable Plan.

(d) Valuations and Reports. The fair market value of each Eligible Employee's Account shall be determined as of each Valuation Date. In making such determinations and in crediting net deemed earnings and gains (or losses) in the Investment Funds to the Eligible Employees' Accounts, the Plan Administrator (in its discretion) may employ such accounting methods as the Plan Administrator (in its discretion) may deem appropriate in order to fairly reflect the fair market values of the Investment Funds and each Eligible Employee's Account. For this purpose, the Plan Administrator may rely upon information provided by the Plan Administrator or other persons believed by the Plan Administrator to be competent.

(e) Statements of Eligible Employee's Accounts. Each Eligible Employee shall be furnished with periodic statements of his or her interest in the Plan.

7. Distributions.

(a) Distribution of Account Balances. Except to the extent the Eligible Employee has elected otherwise under this Section 7 at the time of deferral, distribution of the balance credited to an Eligible Employee's Account shall be made in a single lump sum as soon as reasonably practicable (but in any event within 90 days) following the date that is seven (7) months following Separation from Service.

In the case of an Alternate Payee (as defined in Section 9(a)), to the extent allowable under Code Section 409A, distribution shall be made as directed in a domestic relations order which the Plan Administrator determines is a QDRO (as defined in Section 9(a)), but only as to the portion of the Eligible Employee's Account which the QDRO states is payable to the Alternate Payee.

(b) “Specific Date” Distributions. By filing an irrevocable election with the Plan Administrator, an Eligible Employee may at the time of deferral elect to receive distribution of the specific type of income deferral for that calendar year plus the earnings thereon (exclusive of Special Incentive Stock Ownership Premiums) in January of any future year instead of pursuant to Section 7(a).

(c) Change in Distribution Election. An Eligible Employee may change a distribution election previously made pursuant to Section 7(b) (or in place by default pursuant to Section 7(a)) only with respect to the portion of the Eligible Employee’s Account attributable to Eligible Employee Deferrals (exclusive of Special Incentive Stock Ownership Premiums) and only in accordance with the rules under Code Section 409A. Generally, a subsequent election pursuant to this Section 7(c): (1) cannot take effect for twelve (12) months, (2) must occur at least twelve (12) months before the first scheduled payment under a payment at a specified date elected pursuant to Section 7(b), and (3) must defer a previously elected distribution at least five (5) additional years. The Plan Administrator may establish additional rules or restrictions on changes in distribution elections.

(d) Death Distributions. If an Eligible Employee dies before the balance of his or her Account has been distributed (whether or not the Eligible Employee had previously had a Separation from Service), the Eligible Employee’s Account shall be distributed to the beneficiary designated or otherwise determined in accordance with Section 7(g), as soon as practicable the date of death (but in any event within 90 days after the date of death).

(e) Special Incentive Stock Ownership Premiums. Distributions attributable to Special Incentive Stock Ownership Premiums shall only be made in the form of one or more certificates for the number of vested Special Incentive Stock Ownership Premium units, rounded down to the nearest whole share, in accordance with the timing rule set forth in Section 7(a).

(f) Effect of Change in Eligible Employee Status. If an Eligible Employee ceases to be an Eligible Employee but does not experience a Separation from Service, the balance credited to his or her Account shall continue to be credited (or debited) with appreciation, depreciation, earnings, gains or losses under the terms of the Plan and shall be distributed to him or her at the time and in the manner set forth in this Section 7.

(g) Payments to Incompetents. If any individual to whom a benefit is payable under the Plan is a minor or if the Plan Administrator determines that any individual to whom a benefit is payable under the Plan is incompetent to receive such payment or to give a valid release therefor, payment shall be made to the guardian, committee, or other representative of the estate of such individual which has been duly appointed by a court of competent jurisdiction. If no guardian, committee, or other representative has been appointed, payment may be made to any person as custodian for such individual under the California Uniform Transfers to Minors Act (or similar law of another state) or may be made to or applied to or for the benefit of the minor or incompetent, the incompetent’s spouse, children or other dependents, the institution or persons

maintaining the minor or incompetent, or any of them, in such proportions as the Plan Administrator from time to time shall determine; and the release of the person or institution receiving the payment shall be a valid and complete discharge of any liability of PG&E CORP with respect to any benefit so paid.

(h) Beneficiary Designations. Each Eligible Employee may designate, in a signed writing delivered to the Plan Administrator, on such form as it may prescribe, one or more beneficiaries to receive any distribution which may become payable under the Plan as the result of the Eligible Employee's death. An Eligible Employee may designate different beneficiaries at any time by delivering a new designation in like manner. Any designation shall become effective only upon its receipt by the Plan Administrator, and the last effective designation received by the Plan Administrator shall supersede all prior designations. If an Eligible Employee dies without having designated a beneficiary or if no beneficiary survives the Eligible Employee, the Eligible Employee's Account shall be payable to the beneficiary or beneficiaries designated or otherwise determined under the RSP.

(i) Undistributable Accounts. Each Eligible Employee and (in the event of death) his or her beneficiary shall keep the Plan Administrator advised of his or her current address. If the Plan Administrator is unable to locate the Eligible Employee or beneficiary to whom an Eligible Employee's Account is payable under this Section 7, the Eligible Employee's Account shall be frozen as of the date on which distribution would have been completed in accordance with this Section 7, and no further appreciation, depreciation, earnings, gains or losses shall be credited (or debited) thereto. PG&E CORP shall have the right to assign or transfer the liability for payment of any undistributable Account to the Eligible Employee's former Employer (or any successor thereto).

(j) Plan Administrator Discretion. Within the specific time periods described in this Section 7, the Plan Administrator shall have sole discretion to determine the specific timing of the payment of any Account balance under the Plan.

8. Distribution Due to Unforeseeable Emergency (Hardship Distribution). A participant may request a distribution due to an unforeseeable emergency (within the meaning of Code Section 409A) by submitting a written request to the Plan Administrator. The Plan Administrator shall have the authority to require such evidence as it deems necessary to determine if a distribution is warranted. If an application for a hardship distribution due to an unforeseeable emergency is approved, the distribution shall be payable in a lump sum within 30 days after approval of such distribution. After receipt of a payment requested due to an unforeseeable emergency, a participant may not make additional deferrals during the remainder of the Plan Year in which the recipient received the payment. The distribution due to an unforeseeable emergency shall not exceed the amount reasonably necessary to meet the emergency. This Section 8 shall be administered in accordance with the requirements of Code Section 409A.

9. Domestic Relations Orders.

(a) Qualified Domestic Relations Orders. The Plan Administrator shall establish written procedures for determining whether a domestic relations order purporting to dispose of

any portion of an Eligible Employee's Account is a qualified domestic relations order (within the meaning of Section 414(p) of the Code) (a "QDRO").

(1) No Payment Unless a QDRO. No payment shall be made to any person designated in a domestic relations order (an "Alternate Payee") until the Plan Administrator (or a court of competent jurisdiction reversing an initial adverse determination by the Plan Administrator) determines that the order is a QDRO. Payment shall be made to each Alternate Payee as specified in the QDRO.

(2) Time of Payment. Payment may be made to an Alternate Payee in the form of a lump sum, at the time specified in the QDRO, but no earlier than the date the QDRO determination is made.

(3) Hold Procedures. Notwithstanding any contrary Plan provision, prior to the receipt of a domestic relations order, the Plan Administrator may, in its sole discretion, place a hold upon all or a portion of an Eligible Employee's Account for a reasonable period of time (as determined by the Plan Administrator in accordance with Code Section 409A) if the Plan Administrator receives notice that (a) a domestic relations order is being sought by the Eligible Employee, his or her spouse, former spouse, child or other dependent, and (b) the Eligible Employee's Account is a source of the payment under such domestic relations order. For purposes of this Section 9(a)(3), a "hold" means that no withdrawals, distributions, or investment transfers may be made with respect to an Eligible Employee's Account. If the Plan Administrator places a hold upon an Eligible Employee's Account pursuant to this Section 9(a)(3), it shall inform the Eligible Employee of such fact.

10. Vesting. Except as provided in Section 4(d), an Eligible Employee's interest in his or her Account at all times shall be 100 percent vested and nonforfeitable.

11. Administration of the Plan.

(a) Plan Administrator. The Employee Benefit Committee of PG&E CORP is hereby designated as the administrator of the Plan (within the meaning of Section 3(16)(A) of ERISA). The Plan Administrator delegates to the Senior Human Resource Officer for PG&E CORP, or his or her designee, the authority to carry out all duties and responsibilities of the Plan Administrator under the Plan. The Plan Administrator shall have the authority to control and manage the operation and administration of the Plan.

(b) Powers of Plan Administrator. The Plan Administrator shall have all discretion and powers necessary to supervise the administration of the Plan and to control its operation in accordance with its terms, including, but not by way of limitation, the power to interpret the provisions of the Plan and to determine, in its sole discretion, any question arising under, or in connection with the administration or operation of, the Plan.

Decisions of Plan Administrator. All decisions of the Plan Administrator and any action taken by it in respect of the Plan and within the powers granted to it under the Plan shall be conclusive and binding on all persons and shall be given the maximum deference permitted by law.

12. Funding. All amounts credited to an Eligible Employee's Account under the Plan shall continue for all purposes to be a part of the general assets of PG&E CORP. The interest of the Eligible Employee in his or her Account, including his or her right to distribution thereof, shall be an unsecured claim against the general assets of PG&E CORP. While PG&E CORP may choose to invest a portion of its general assets in investments identical or similar to those selected by Eligible Employees for purposes of determining the amounts to be credited (or debited) to their Accounts, nothing contained in the Plan shall give any Eligible Employee or beneficiary any interest in or claim against any specific assets of PG&E CORP.

13. Modification or Termination of Plan.

(a) Employers' Obligations Limited. The Plan is voluntary on the part of the Employers, and the Employers do not guarantee to continue the Plan. PG&E CORP at any time may, by appropriate amendment of the Plan, suspend Matching Employer Contributions and/or Basic Employer Contributions or may discontinue Matching Employer Contributions and/or Basic Employer Contributions, with or without cause.

(b) Right to Amend or Terminate. The Board of Directors, acting through its Nominating and Compensation Committee, reserves the right to alter, amend, or terminate the Plan, or any part thereof, in such manner as it may determine, for any reason whatsoever.

(1) Limitations. Any alteration, amendment, or termination shall take effect upon the date indicated in the document embodying such alteration, amendment, or termination, provided that no such alteration or amendment shall divest any portion of an Account that is then vested under the Plan.

(c) Effect of Termination. If the Plan is terminated, the balances credited to the Accounts of the Eligible Employees affected by such termination shall be distributed to them at the time and in the manner set forth in Section 7; provided, however, that the Plan Administrator, in its sole discretion, may authorize accelerated distribution of Eligible Employees' Accounts to the extent provided in Treasury Regulation Sections 1-409A-3(j)(4)(ix) (A) (relating to terminations in connection with certain corporate dissolutions), (B) (relating to terminations in connection with certain change of control events), and (C) (relating to general terminations).

14. General Provisions.

(a) Inalienability. Except to the extent otherwise directed by a domestic relations order which the Plan Administrator determines is a QDRO (as defined in Section 9(a) or mandated by applicable law, in no event may either an Eligible Employee, a former Eligible Employee or his or her spouse, beneficiary or estate sell, transfer, anticipate, assign, hypothecate, or otherwise dispose of any right or interest under the Plan; and such rights and interests shall not at any time be subject to the claims of creditors nor be liable to attachment, execution, or other legal process.

(b) Rights and Duties. Neither the Employers nor the Plan Administrator shall be subject to any liability or duty under the Plan except as expressly provided in the Plan, or for any action taken, omitted, or suffered in good faith.

(c) No Enlargement of Employment Rights. Neither the establishment or maintenance of the Plan, the making of any Matching Employer Contributions, nor any action of any Employer or Plan Administrator, shall be held or construed to confer upon any individual any right to be continued as an Employee nor, upon dismissal, any right or interest in any specific assets of the Employers other than as provided in the Plan. Each Employer expressly reserves the right to discharge any Employee at any time, with or without cause or advance notice.

(d) Apportionment of Costs and Duties. All acts required of the Employers under the Plan may be performed by PG&E CORP for itself and its Participating Subsidiaries, and the costs of the Plan may be equitably apportioned by the Plan Administrator among PG&E CORP and the other Employers. Whenever an Employer is permitted or required under the terms of the Plan to do or perform any act, matter or thing, it shall be done and performed by any officer or employee of the Employer who is thereunto duly authorized by the board of directors of the Employer. Each Participating Subsidiary shall be responsible for making benefit payments pursuant to the Plan on behalf of its Eligible Employees or for reimbursing PG&E CORP for the cost of such payments, as determined by PG&E CORP in its sole discretion. In the event the respective Participating Subsidiary fails to make such payment or reimbursement, and PG&E CORP does not exercise its discretion to make the payment on such Participating Subsidiary's behalf, participation in the Plan by the Eligible Employees of that Participating Subsidiary shall be suspended in a manner consistent with Code Section 409A. If at some future date, the Participating Subsidiary makes all past-due payments and reimbursements, plus interest at a rate determined by PG&E CORP in its sole discretion, the suspended participation of its Eligible Employees eligible to participate in the Plan will be recognized in a manner consistent with Code Section 409A. In the event the respective Participating Subsidiary fails to make such payment or reimbursement, an Eligible Employee's (or other payee's) sole recourse shall be against the respective Participating Subsidiary, and not against PG&E CORP. An Eligible Employee's participation in the Plan shall constitute agreement with this provision.

(e) Applicable Law. The provisions of the Plan shall be construed, administered, and enforced in accordance with the laws of the State of California and, to the extent applicable, ERISA. The Plan is intended to comply with the provisions of Code Section 409A. However, PG&E CORP makes no representation that the benefits provided under the Plan will comply with Code Section 409A and makes no undertaking to prevent Code Section 409A from applying to the benefits provided under the Plan or to mitigate its effects on any deferrals or payments made under the Plan.

(f) Severability. If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provisions of the Plan, and the Plan shall be construed and enforced as if such provision had not been included.

(g) Captions. The captions contained in and the table of contents prefixed to the Plan are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge, or describe the scope or intent of the Plan nor in any way shall affect the construction of any provision of the Plan.

APPENDIX A

EMPLOYERS

(As of January 1, 2005)

– PG&E Corporation

– All Participating Subsidiaries

Participating Subsidiaries (as of January 1, 2005):

– Pacific Gas and Electric Company

– All U.S. subsidiaries of the above-named corporations



APPENDIX B**INVESTMENT FUNDS****(as of July 13, 2009)**

SRSP Target Date Funds are a suite of funds that provides investors with convenient, cost-effective exposure across major global asset classes within single investment options. The suite consists of nine funds targeting a normal retirement age of 65. These broadly diversified vehicles combine low-cost stock and bond strategies and automatic rebalancing with professional judgment regarding the appropriate risk level for a specific retirement date. On an annual basis, the SRSP Target Date Funds incrementally reduce exposure to equities and increase exposure to fixed income assets as the target retirement date approaches. This equity roll down continues for five years after the target retirement date, at which time a fixed income-oriented allocation of 65% is combined with 35% stocks that is maintained indefinitely within the RSP Target Retirement Income Fund. A participant typically invests in one fund within the suite which fund reflects a target retirement date closest to the anticipated retirement date of the participant.

PG&E Corporation Phantom Stock Fund converts contributions and transferred amounts into units of phantom common stock valued at the closing price of a share of PG&E Corporation common stock on the contribution/transfer date. If the transfer request is received after the market closes, the following day's closing price will be used. Thereafter, the value of a unit shall fluctuate depending on the price of PG&E Corporation common stock. Each time a dividend is paid on common stock, an amount equal to such dividend shall be credited to the account as additional units.

SRSP Total US Stock Index Fund seeks to match the returns of the Russell 3000 Index. The Russell 3000 Index represents the 3,000 largest stocks in the US market and accounts for approximately 97% of the US stock market's capitalization. The strategy of investing in the same stocks as the Russell 3000 Index provides reliable exposure to this asset class and results in lower expenses.

SRSP Large Company Stock Index Fund seeks to match the returns of the S&P 500 Index. The Fund invests in all 500 stocks in the S&P 500 Index in proportion to their weightings in the Index. The S&P 500 provides exposure to about 85% of the market value of all publicly traded common stocks in the United States. The strategy of investing in the same stocks as the S&P 500 Index provides reliable exposure to this asset class and results in lower expenses.

SRSP Small Company Stock Index Fund seeks to match the returns of the Russell Small Cap Completeness Index. The Fund invests in all of the stocks in the Russell Special Small Cap Completeness Index in proportion to their weightings in the Index. The Russell Small Cap Completeness Index represent about 15% of the market value of all publicly traded common stocks in the United States. The strategy of investing in the same stocks as the Russell Small Cap Completeness Index provides reliable exposure to this asset class and results in lower expenses.

SRSP World Stock Index Fund seeks to match the returns of the MSCI All Country World Index over the long term. The MSCI All Country World Index invests in the US, Canada, Europe, Australasia and Far East countries and emerging markets. The strategy of investing in a portfolio of stocks designed to track the MSCI All Country World Ex-US Index provides reliable exposure to this asset class and results in lower expenses.

SRSP International Stock Index Fund seeks to match the returns of the MSCI World ex-US Index. The Fund invests in all of the stocks in the MSCI World ex-US Index in proportion to their weightings in the Index. The MSCI World ex-US index provides exposure to Canada as well as developed market countries in Europe, Australasia, and the Far East. The strategy of investing in the same stocks as the MSCI World ex-US provides reliable exposure to this asset class and results in lower expenses.

SRSP Emerging Markets Enhanced Index Fund seeks to provide a total investment return in excess of the performance of the MSCI Emerging Markets Index over the long term. The MSCI Emerging Markets Index invests in emerging market countries. The strategy attempts to identify and capitalize on inefficiencies in the emerging markets by employing a disciplined investment process that combines top-down country selection with bottom-up stock selection to determine an optimal country and security mix. Portfolio construction is risk-controlled, with the goal of a well-diversified portfolio that has characteristics similar to the benchmark and superior performance potential.

SRSP Bond Index Fund seeks to match the returns of the Barclays Capital Aggregate Bond Index. The Fund invests in a portfolio of government, corporate, mortgage-backed, and asset-backed fixed-income securities that is representative of the broad domestic bond market. The Barclays Capital Aggregate Bond Index is an unmanaged, market-value weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of one year or more. The strategy of investing in a portfolio of bonds designed to track the Barclays Capital Aggregate Bond Index provides reliable exposure to this asset class and results in lower expenses.

SRSP US Government Bond Index Fund seeks to match the returns of the Barclays Capital US Government Bond Index. The Fund invests in a well-diversified portfolio that is representative of the Barclays Capital US Government Bond Index, which consists of US Government and government agency securities (other than mortgage securities) with maturities of one year or more. The strategy of investing in a portfolio of stocks designed to track the Barclays Capital US Government Index provides reliable exposure to this asset class and results in lower expenses.

AA Utility Bond Fund accrues interest on the amount invested in this fund. The interest rate is equal to the AA Utility Bond Yield reported by Moody's Investor Services.

SRSP Stable Value Fund seeks to provide safety of principal and liquidity while providing a relatively stable rate of return. The Fund invests in a diversified portfolio of high credit quality fixed income instruments. These investments are wrapped by investment contracts issued by insurance companies, banks and other financial institutions that provide protection for differences between book and market values. The creditworthiness of the wrapped fixed income investments is primarily derived from the credit quality of the underlying securities and not the wrap contract issuers. The Fund's return is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

[\(Back To Top\)](#)

Section 4: EX-10.21 (DESCRIPTION OF SHORT-TERM INCENTIVE PLAN FOR OFFICERS)

Exhibit 10.21

2010 OFFICER SHORT-TERM INCENTIVE PLAN

On February 16, 2010, the Compensation Committee of the PG&E Corporation Board of Directors (“Committee”) approved the specific performance targets for each component of the 2010 Short-Term Incentive Plan (“STIP”). The Committee previously approved the STIP structure and the weighting of each component in December 2009. Officers of PG&E Corporation and the Utility are eligible to receive cash incentives under the STIP based on the extent to which the adopted 2010 performance targets are met. The Committee will continue to retain full discretion as to the determination of final officer STIP payments.

The corporate financial performance target, with a weighting of 50%, is based on PG&E Corporation’s budgeted earnings from operations that were previously approved by the Board of Directors, consistent with the basis for reporting and guidance to the financial community. As with previous earnings performance scales, unbudgeted items impacting comparability such as changes in accounting methods, workforce restructuring, and one-time occurrences will be excluded.

The Committee also approved the 2010 performance targets for each of the five other measures set forth in the table below. The 2009 performance results for each of these measures are included for comparative purposes.

2010 STIP Operational Performance Targets⁽¹⁾

Measure	Relative Weight	2009 Results	2010 Target
Customer Satisfaction and Brand Health Index (Residential & Business) ⁽²⁾	15.0%	76.8	77.7
Reliable Energy Delivery Index ⁽³⁾	15.0%	1.775	1.00
Employee Survey (Premier) Index ⁽⁴⁾	5%	66.70%	68.70%
Occupational Safety and Health Administration (OSHA) Recordable Injury Rate and Motor Vehicle Incident (MVI) Rate ⁽⁵⁾	10%	2.382	1.0
Environmental Leadership ⁽⁶⁾	5%	N/A	1.0

- As explained above, 50% of the STIP award will be based on achievement of corporate earnings from operations targets.
- The Customer Satisfaction and Brand Health Index is the result of a quarterly survey performed by an independent research firm, TNS Custom Research, and is a combination of a customer satisfaction score, which has a 75% weighting, as well as a brand favorability score (measuring the relative strength of the PG&E brand against a select group of companies), which has a 25% weighting. The customer satisfaction score will measure overall satisfaction with the Utility’s operational performance in delivering its services. The brand favorability score will measure residential, small business and medium business customer perceptions.
- The Reliable Energy Delivery Index is a composite index score that measures leading indicators of electric and gas reliability performance, including electric outage frequency and duration (System Average Interruption Frequency Index (SAIFI), Customer Average Interruption Duration Index (CAIDI)) and

performance improvement in the resurvey of the Utility's gas system.

4. The Premier Survey is the primary tool used to measure employee engagement at PG&E Corporation and the Utility. The average overall employee survey index score provides a comprehensive metric that is derived by adding the percent of favorable responses from all 40 core survey items and then dividing the total sum by 40.
-

5. The Safety Index includes (1) Occupational Safety and Health Administration (OSHA) Recordable Rate, and (2) Motor Vehicle Incident (MVI) Rate. An “OSHA Recordable”, with a 75% weighting, is an occupational (job-related) injury or illness that requires medical treatment beyond first aid, or results in work restrictions, death or loss of consciousness. The “OSHA Recordable Rate” is the number of OSHA Recordables for every 200,000 hours worked, or for approximately 100 employees. This metric measures the percentage reduction in the PG&E Corporation’s and the Utility’s OSHA Recordable rate from the prior year and is used to monitor the effectiveness of the companies’ safety programs, which are intended to significantly reduce the number and degree of employee injuries and illnesses. The MVI Rate, with a 25% weighting, is defined as the number of chargeable motor vehicle incidents per 1 million miles driven. A chargeable incident is one where the Company driver could have prevented an incident, but failed to take reasonable steps to do so. For 2010, subject to the Committee’s discretion, if there is an employee fatality that results from an accident while such employee is acting in the course and scope of his or her employment, the maximum 2010 STIP rating for the Safety performance measure shall be 1.0. The 2009 result of 2.382 is for the OSHA Recordable Rate only. The MVI Rate is new for 2010.

6. Environmental compliance is measured by the (1) Notice of Violation (NOV) Rate, and (2) the Utility’s operational footprint in reducing energy and water usage, and increasing solid waste diversion. Agency NOV rate is defined as the rate of NOV’s per 100 agency inspections. Energy reduction is measured by the percent reduction in millions of British Thermal Units for a subset of Utility facilities. Water use reduction is measured by the percentage reduction in water consumption, in gallons, for a subset of Utility facilities. Solid waste diversion is measured by the percent reduction in solid waste disposal at a subset of Utility facilities. Solid waste includes non-hazardous waste, such as glass, paper, and certain metals. The focus of this measure is to divert solid waste from landfills, primarily through increased recycling efforts.

Cash awards under the STIP may range from 40 percent to 100 percent of base salary depending on officer level, with a maximum payout of 200 percent of the officer’s targeted award, as determined by the Committee.

[\(Back To Top\)](#)

**Section 5: EX-10.31 (PG&E CORPORATION 2006
LONG-TERM INCENTIVE PLAN)**

Exhibit 10.31

PG&E Corporation

2006 Long-Term Incentive Plan

TABLE OF CONTENTS

	Page
1. Establishment, Purpose and Term of Plan	1
1.1 Establishment	1
1.2 Purpose	1
1.3 Term of Plan	1
2. Definitions and Construction	1
2.1 Definitions	1
2.2 Construction	7
3. Administration	7
3.1 Administration by the Committee	7
3.2 Authority of Officers	8
3.3 Administration with Respect to Insiders	8
3.4 Committee Complying with Section 162(m)	8
3.5 Powers of the Committee	8
3.6 Option or SAR Repricing	9
3.7 Indemnification	10
4. Shares Subject to Plan	10
4.1 Maximum Number of Shares Issuable	10
4.2 Adjustments for Changes in Capital Structure	10
5. Eligibility and Award Limitations	11
5.1 Persons Eligible for Awards	11
5.2 Participation	11
5.3 Incentive Stock Option Limitations	11
5.4 Award Limits	12
6. Terms and Conditions of Options	13
6.1 Exercise Price	13
6.2 Exercisability and Term of Options	13
6.3 Payment of Exercise Price	14
6.4 Effect of Termination of Service	14
6.5 Transferability of Options	15

7.	Terms and Conditions of Nonemployee Director Awards	15
7.1	Automatic Grant of Restricted Stock	15
7.2	Annual Election to Receive Nonstatutory Stock Option and Restricted Stock Units	15
7.3	Grant of Nonstatutory Stock Option	16
7.4	Grant of Restricted Stock Unit	16
7.5	Effect of Termination of Service as a Nonemployee Director	18
7.6	Effect of Change in Control on Nonemployee Director Awards	19
7.7	Right to Decline Nonemployee Director Awards	19
8.	Terms and Conditions of Stock Appreciation Rights	19
8.1	Types of SARs Authorized	20
8.2	Exercise Price	20
8.3	Exercisability and Term of SARs	20
8.4	Deemed Exercise of SARs	20
8.5	Effect of Termination of Service	20
8.6	Nontransferability of SARs	20
9.	Terms and Conditions of Restricted Stock Awards	21
9.1	Types of Restricted Stock Awards Authorized	21
9.2	Purchase Price	21
9.3	Purchase Period	21
9.4	Vesting and Restrictions on Transfer	21
9.5	Voting Rights, Dividends and Distributions	21
9.6	Effect of Termination of Service	22
9.7	Nontransferability of Restricted Stock Award Rights	22
10.	Terms and Conditions of Performance Awards	22
10.1	Types of Performance Awards Authorized	22
10.2	Initial Value of Performance Shares and Performance Units	22
10.3	Establishment of Performance Period, Performance Goals and Performance Award Formula	23
10.4	Measurement of Performance Goals	23
10.5	Settlement of Performance Awards	24
10.6	Voting Rights, Dividend Equivalent Rights and Distributions	24
10.7	Effect of Termination of Service	25
10.8	Nontransferability of Performance Awards	25
11.	Terms and Conditions of Restricted Stock Unit Awards	26
11.1	Grant of Restricted Stock Unit Awards	26
11.2	Vesting	26
11.3	Voting Rights, Dividend Equivalent Rights and Distributions	26
11.4	Effect of Termination of Service	27
11.5	Settlement of Restricted Stock Unit Awards	27
11.6	Nontransferability of Restricted Stock Unit Awards	27

12.	Deferred Compensation Awards	27
12.1	Establishment of Deferred Compensation Award Programs	27
12.2	Terms and Conditions of Deferred Compensation Awards	28
13.	Other Stock-Based Awards	29
14.	Change in Control	29
14.1	Effect of Change in Control on Options and SARs	29
14.2	Effect of Change in Control on Restricted Stock and Other Awards	29
14.3	Nonemployee Director Awards	29
15.	Compliance with Securities Law	30
16.	Tax Withholding	30
16.1	Tax Withholding in General	30
16.2	Withholding in Shares	30
17.	Amendment or Termination of Plan	30
18.	Miscellaneous Provisions	31
18.1	Repurchase Rights	31
18.2	Provision of Information	31
18.3	Rights as Employee, Consultant or Director	31
18.4	Rights as a Shareholder	31
18.5	Fractional Shares	31
18.6	Severability	31
18.7	Beneficiary Designation	32
18.8	Unfunded Obligation	32
18.9	Choice of Law	32
18.10	Section 409A of the Code	32

PG&E Corporation

2006 Long-Term Incentive Plan

(As adopted effective January 1, 2006, and
as amended effective on February 15, 2006, December 20, 2006, October 17, 2007, September 17, 2008,
January 1, 2009, February 18, 2009, and December 16, 2009)

1. ESTABLISHMENT, PURPOSE AND TERM OF PLAN.

1.1 **Establishment.** The PG&E Corporation 2006 Long-Term Incentive Plan (the “*Plan*”) is hereby established effective as of January 1, 2006 (the “*Effective Date*”), provided it has been approved by the shareholders of the Company.

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its shareholders by providing an incentive to attract and retain the best qualified personnel to perform services for the Participating Company Group, by motivating such persons to contribute to the growth and profitability of the Participating Company Group, by aligning their interests with interests of the Company’s shareholders, and by rewarding such persons for their services by tying a significant portion of their total compensation package to the success of the Company. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Shares, Performance Units, Restricted Stock Units, Deferred Compensation Awards and other Stock-Based Awards as described below.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, all Awards shall be granted, if at all, within ten (10) years from the Effective Date. Moreover, Incentive Stock Options shall not be granted later than ten (10) years from the date of shareholder approval of the Plan.

2. DEFINITIONS AND CONSTRUCTION.

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) “*Affiliate*” means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities. For this purpose, the term “control” (including the term “controlled by”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

(b) "**Award**" means any Option, SAR, Restricted Stock Award, Performance Share, Performance Unit, Restricted Stock Unit or Deferred Compensation Award or other Stock-Based Award granted under the Plan.

(c) "**Award Agreement**" means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant.

(d) "**Board**" means the Board of Directors of the Company.

(e) "**Change in Control**" means, unless otherwise defined by the Participant's Award Agreement or contract of employment or service, the occurrence of any of the following:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act, but excluding any benefit plan for Employees or any trustee, agent or other fiduciary for any such plan acting in such person's capacity as such fiduciary), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), of stock of the Company representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding voting stock; or

(ii) during any two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority of the Board, unless the election, or the nomination for election by the shareholders of the Company, of each new Director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the period; or

(iii) the consummation of any consolidation or merger of the Company other than a merger or consolidation which would result in the voting stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting stock of the surviving entity or any parent of such surviving entity) at least seventy percent (70%) of the Combined Voting Power of the Company, such surviving entity or the parent of such surviving entity outstanding immediately after the merger or consolidation; or

(iv) the approval of the Shareholders of the Company of any (1) sale, lease, exchange or other transfer (in one or a series of related transactions) of all or substantially all of the assets of the Company, or (2) any plan or proposal for the liquidation or dissolution of the Company.

For purposes of paragraph (iii), the term "**Combined Voting Power**" shall mean the combined voting power of the Company's or other relevant entity's then outstanding voting stock.

(f) "**Code**" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(g) "**Committee**" means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by

the Board. If no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(h) “**Company**” means PG&E Corporation, a California corporation, or any successor corporation thereto.

(i) “**Consultant**” means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on a Form S-8 Registration Statement under the Securities Act.

(j) “**Deferred Compensation Award**” means an award of Stock Units granted to a Participant pursuant to Section 12 of the Plan.

(k) “**Director**” means a member of the Board.

(l) “**Disability**” means the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code, except as otherwise set forth in the Plan or an Award Agreement.

(m) “**Dividend Equivalent**” means a credit, made at the discretion of the Committee or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(n) “**Employee**” means any person treated as an employee (including an Officer or a member of the Board who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a member of the Board nor payment of a director’s fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual’s employment or termination of employment, as the case may be. For purposes of an individual’s rights, if any, under the Plan as of the time of the Company’s determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(o) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(p) “**Fair Market Value**” means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) Except as otherwise determined by the Committee, if, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock as quoted on the New York Stock Exchange or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Committee, in its discretion.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value on the basis of the opening, closing, high, low or average sale price of a share of Stock or the actual sale price of a share of Stock received by a Participant, on such date, the preceding trading day, the next succeeding trading day or an average determined over a period of trading days. The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan.

(iii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(q) “**Incentive Stock Option**” means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(r) “**Insider**” means an Officer, a Director or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(s) “**Mandatory Retirement**” means retirement as a Director at age 70 or at such other age as may be specified in the retirement policy for the Board in effect at the time of a Nonemployee Director’s termination of Service as a Director.

(t) “**Net-Exercise**” means a procedure by which the Participant will be issued a number of shares of Stock determined in accordance with the following formula:

$$X = Y(A-B)/A, \text{ where}$$

X = the number of shares of Stock to be issued to the Participant upon
exercise of the Option;

Y = the total number of shares with respect to which the Participant has
elected to exercise the Option;

A = the Fair Market Value of one (1) share of Stock;

B = the exercise price per share (as defined in the Participant’s Award
Agreement).

(u) “*Nonemployee Director*” means a Director who is not an Employee.

(v) “Nonemployee Director Award” means an Award granted to a Nonemployee Director pursuant to Section 7 of the Plan.

(w) “Nonstatutory Stock Option” means an Option not intended to be (as set forth in the Award Agreement) an incentive stock option within the meaning of Section 422(b) of the Code.

(x) “Officer” means any person designated by the Board as an officer of the Company.

(y) “Option” means the right to purchase Stock at a stated price for a specified period of time granted to a Participant pursuant to Section 6 or Section 7 of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(z) “Option Expiration Date” means the date of expiration of the Option’s term as set forth in the Award Agreement.

(aa) “Parent Corporation” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(bb) “Participant” means any eligible person who has been granted one or more Awards.

(cc) “Participating Company” means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.

(dd) “Participating Company Group” means, at any point in time, all entities collectively which are then Participating Companies.

(ee) “Performance Award” means an Award of Performance Shares or Performance Units.

(ff) “Performance Award Formula” means, for any Performance Award, a formula or table established by the Committee pursuant to Section 10.3 of the Plan which provides the basis for computing the value of a Performance Award at one or more threshold levels of attainment of the applicable Performance Goal (s) measured as of the end of the applicable Performance Period.

(gg) “Performance Goal” means a performance goal established by the Committee pursuant to Section 10.3 of the Plan.

(hh) “Performance Period” means a period established by the Committee pursuant to Section 10.3 of the Plan at the end of which one or more Performance Goals are to be measured.

(ii) "**Performance Share**" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 of the Plan to receive a payment equal to the value of a Performance Share, as determined by the Committee, based on performance.

(jj) "**Performance Unit**" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 of the Plan to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon performance.

(kk) "**Restricted Stock Award**" means an Award of Restricted Stock.

(ll) "**Restricted Stock Unit**" or "**Stock Unit**" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 11 or Section 12 of the Plan, respectively, to receive a share of Stock on a date determined in accordance with the provisions of Section 11 or Section 12, as applicable, and the Participant's Award Agreement.

(mm) "**Restriction Period**" means the period established in accordance with Section 9.4 of the Plan during which shares subject to a Restricted Stock Award are subject to Vesting Conditions.

(nn) "**Retirement**" means termination as an Employee of a Participating Company at age 55 or older, provided that the Participant was an Employee for at least five consecutive years prior to the date of such termination.

(oo) "**Rule 16b-3**" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(pp) "**SAR**" or "**Stock Appreciation Right**" means a bookkeeping entry representing, for each share of Stock subject to such SAR, a right granted to a Participant pursuant to Section 8 of the Plan to receive payment in any combination of shares of Stock or cash of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price.

(qq) "**Section 162(m)**" means Section 162(m) of the Code.

(rr) "**Section 409A Change in Control**" means a "change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation," within the meaning of Section 409A of the Code, as such definition applies to the Company.

(ss) "**Securities Act**" means the Securities Act of 1933, as amended.

(tt) "**Separation from Service**" means a Participant's "separation from service," within the meaning of Section 409A of the Internal Revenue Code.

(uu) "**Service**" means a Participant's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. A Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders such Service or a change in the

Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, a Participant's Service shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, if any such leave taken by a Participant exceeds ninety (90) days, then on the one hundred eighty-first (181st) day following the commencement of such leave any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and instead shall be treated thereafter as a Nonstatutory Stock Option, unless the Participant's right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Participant's Award Agreement. A Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(vv) "**Stock**" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2 of the Plan.

(ww) "**Stock-Based Awards**" means any award that is valued in whole or in part by reference to, or is otherwise based on, the Stock, including dividends on the Stock, but not limited to those Awards described in Sections 6 through 12 of the Plan.

(xx) "**Subsidiary Corporation**" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(yy) "**Ten Percent Owner**" means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(zz) "**Vesting Conditions**" mean those conditions established in accordance with Section 9.4 or Section 11.2 of the Plan prior to the satisfaction of which shares subject to a Restricted Stock Award or Restricted Stock Unit Award, respectively, remain subject to forfeiture or a repurchase option in favor of the Company upon the Participant's termination of Service.

2.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. ADMINISTRATION.

3.1 Administration by the Committee. The Plan shall be administered by the Committee. All questions of interpretation of the Plan or of any Award shall be determined by

the Committee, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Award.

3.2 Authority of Officers. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election. In addition, to the extent specified in a resolution adopted by the Board, the Chief Executive Officer of the Company shall have the authority to grant Awards to an Employee who is not an Insider and who is receiving a salary below the level which requires approval by the Committee; provided that the terms of such Awards conform to guidelines established by the Committee and provided further that at the time of making such Awards the Chief Executive Officer also is a Director.

3.3 Administration with Respect to Insiders. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 Committee Complying with Section 162(m). While the Company is a “publicly held corporation” within the meaning of Section 162(m), the Board may establish a Committee of “outside directors” within the meaning of Section 162(m) to approve the grant of any Award which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

3.5 Powers of the Committee. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock or units to be subject to each Award based on the recommendation of the Chief Executive Officer of the Company (except that Awards to the Chief Executive Officer shall be based on the recommendation of the independent members of the Board in compliance with applicable stock exchange rules and Awards to Nonemployee Directors shall be granted automatically pursuant to Section 7 of the Plan);

(b) to determine the type of Award granted and to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares purchased pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the

Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of the expiration of any Award, (vii) the effect of the Participant's termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

(e) to determine whether an Award will be settled in shares of Stock, cash, or in any combination thereof;

(f) to approve one or more forms of Award Agreement;

(g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant's termination of Service;

(i) without the consent of the affected Participant and notwithstanding the provisions of any Award Agreement to the contrary, to unilaterally substitute at any time a Stock Appreciation Right providing for settlement solely in shares of Stock in place of any outstanding Option, provided that such Stock Appreciation Right covers the same number of shares of Stock and provides for the same exercise price (subject in each case to adjustment in accordance with Section 4.2) as the replaced Option and otherwise provides substantially equivalent terms and conditions as the replaced Option, as determined by the Committee;

(j) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards;

(k) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law; and

(l) to delegate to the Chief Executive Officer or the Senior Vice President of Human Resources the authority with respect to ministerial matters regarding the Plan and Awards made under the Plan.

3.6 Option or SAR Repricing. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the shareholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Board shall not approve a program providing for either (a) the cancellation of outstanding Options or SARs and the grant in substitution therefore of new Options or SARs having a lower exercise price or (b) the amendment of outstanding Options or SARs to reduce the exercise price thereof. This paragraph shall not be construed to apply to

“issuing or assuming a stock option in a transaction to which section 424(a) applies,” within the meaning of Section 424 of the Code.

3.7 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys’ fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. SHARES SUBJECT TO PLAN.

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Section 4.2 and subject to Section 409A of the Code, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be twelve million (12,000,000) and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan (a) with respect to any portion of an Award that is settled in cash or (b) to the extent such shares are withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to Section 16.2. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced only by the number of shares actually issued in such payment. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, or by means of a Net-Exercise, the number of shares available for issuance under the Plan shall be reduced only by the net number of shares for which the Option is exercised.

4.2 Adjustments for Changes in Capital Structure. Subject to any required action by the shareholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the

shareholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number and kind of shares subject to the Plan and to any outstanding Awards, in the Award limits set forth in Section 5.4, in the Nonemployee Director Awards to be granted automatically pursuant to Section 7, and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number. The Committee in its sole discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate, including modification of Performance Goals, Performance Award Formulas and Performance Periods. The adjustments determined by the Committee pursuant to this Section 4.2 shall be final, binding and conclusive.

5. ELIGIBILITY AND AWARD LIMITATIONS.

5.1 Persons Eligible for Awards. Awards may be granted only to Employees, Consultants and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Awards are granted in connection with written offers of an employment or other service relationship with the Participating Company Group; provided, however, that no Stock subject to any such Award shall vest, become exercisable or be issued prior to the date on which such person commences Service. A Nonemployee Director Award may be granted only to a person who, at the time of grant, is a Nonemployee Director.

5.2 Participation. Awards other than Nonemployee Director Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, excepting Nonemployee Director Awards, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

5.3 Incentive Stock Option Limitations.

(a) **Persons Eligible.** An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an "**ISO-Qualifying Corporation**"). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee of an ISO-Qualifying Corporation shall be deemed granted effective on the date such person commences Service with an ISO-Qualifying Corporation, with an exercise price determined as of such date in accordance with Section 6.1.

(b) **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any

calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a limitation different from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise, shares issued pursuant to each such portion shall be separately identified.

5.4 Award Limits.

(a) **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed twelve million (12,000,000) shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options shall be the number of shares determined in accordance with Section 4.1, subject to adjustment as provided in Section 4.2 and further subject to the limitation set forth in Section 5.4(b) below.

(b) **Aggregate Limit on Full Value Awards.** Subject to adjustment as provided in Section 4.2, in no event shall more than twelve million (12,000,000) shares in the aggregate be issued under the Plan pursuant to the exercise or settlement of Restricted Stock Awards, Restricted Stock Unit Awards and Performance Awards ("Full Value Awards"). Except with respect to a maximum of five percent (5%) of the shares of Stock authorized in this Section 5.4(b), any Full Value Awards which vest on the basis of the Participant's continued Service shall not provide for vesting which is any more rapid than annual pro rata vesting over a three (3) year period and any Full Value Awards which vest upon the attainment of Performance Goals shall provide for a Performance Period of at least twelve (12) months.

(c) **Section 162(m) Award Limits.** The following limits shall apply to the grant of any Award if, at the time of grant, the Company is a "publicly held corporation" within the meaning of Section 162(m).

(i) **Options and SARs.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Options or Freestanding SARs which in the aggregate are for more than 400,000 shares of Stock reserved for issuance under the Plan.

(ii) **Restricted Stock and Restricted Stock Unit Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Restricted Stock Awards or Restricted Stock Unit Awards, subject to

Vesting Conditions based on the attainment of Performance Goals, for more than 400,000 shares of Stock reserved for issuance under the Plan.

(iii) **Performance Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted (1) Performance Shares which could result in such Employee receiving more than 400,000 shares of Stock reserved for issuance under the Plan for each full fiscal year of the Company contained in the Performance Period for such Award, or (2) Performance Units which could result in such Employee receiving more than two million dollars (\$2 million) for each full fiscal year of the Company contained in the Performance Period for such Award. No Participant may be granted more than one Performance Award for the same Performance Period.

6. TERMS AND CONDITIONS OF OPTIONS.

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and, except as otherwise set forth in Section 7 with respect to Nonemployee Director Options, shall comply with and be subject to the following terms and conditions:

6.1 Exercise Price. The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 Exercisability and Term of Options. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service. Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or in cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "**Cashless Exercise**"), (iv) by delivery of a properly executed notice of exercise electing a Net-Exercise, (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Committee may at any time or from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) **Limitations on Forms of Consideration.**

(i) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

(ii) **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

6.4 Effect of Termination of Service.

(a) **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Committee, an Option shall be exercisable after a Participant's termination of Service only during the applicable time periods provided in the Award Agreement.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, unless the Committee provides otherwise in the Award Agreement, if the exercise of an Option within the applicable time periods is prevented by the provisions of Section 14.1 below, the Option shall remain exercisable until three (3) months (or such longer period of time as determined by the Committee, in its discretion) after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods of shares acquired upon the exercise of the

Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

6.5 Transferability of Options. During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.

7. TERMS AND CONDITIONS OF NONEMPLOYEE DIRECTOR AWARDS.

Nonemployee Director Awards shall be evidenced by Award Agreements in such form as the Board shall from time to time establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference, shall be automatic and non-discretionary and shall comply with and be subject to the terms and conditions set forth in this Section 7.

For purposes of this Section 7 as amended on December 19, 2009, each year the Board shall approve the grant date for all Nonemployee Director awards to be made under this Section 7 (the "Grant Date"), which shall be the same as the grant date approved each year by the Committee for the annual Plan Awards to be made to Employees in accordance with guidelines approved by the Committee ("Annual Awards"). Solely for purposes of determining the number of shares of Stock covered by Restricted Stock Awards and Restricted Stock Units described in Section 7.1 and Section 7.4, the "Fair Market Value of the Stock on Grant Date" (which may be determined by an average or other method) shall be approved by the Board each year and shall be the same as that used to determine the number of Annual Awards.

7.1 Automatic Grant of Restricted Stock.

(a) **Timing and Amount of Grant.** For each calendar year, each person who is a Nonemployee Director on the Grant Date shall be granted a Restricted Stock Award to purchase a number of shares of Stock determined by dividing forty-five thousand dollars (\$45,000) by the Fair Market Value of the Stock on the Grant Date, and rounding down to the nearest whole number.

(b) **Vesting.** The shares subject to the Restricted Stock Award granted pursuant to Section 7.1 (a) shall vest in equal annual installments of twenty percent (20%) on each anniversary of the Grant Date, with one hundred percent (100%) of the shares vested on the fifth anniversary of the Grant Date.

7.2 Annual Election to Receive Nonstatutory Stock Option and Restricted Stock Units. On a date no later than December 31 of each calendar year during the term of the Plan, each person who is then a Nonemployee Director shall deliver to the Board a written election to receive either Nonstatutory Stock Options or Restricted Stock Units, or both, with an aggregate value of \$45,000, on the Grant Date for the following calendar year, provided the person continues to be a Nonemployee Director on the Grant Date. A Nonemployee Director may allocate between Nonstatutory Stock Options and Restricted Stock Units in minimum increments with a value equal to \$5,000, as determined in accordance with Sections 7.3 and 7.4. All awards of Nonstatutory Stock Options and Restricted Stock Units made to Nonemployee Directors shall comply with the provisions of Sections 7.3 and 7.4, respectively. A Nonemployee Director who fails to make a timely election or who first becomes a Nonemployee Director after December 31 but before the Grant Date for the following calendar year shall be awarded Nonstatutory Stock Options and Restricted Stock Units each with a value of \$22,500, as determined in accordance with Sections 7.3 and 7.4, provided the Nonemployee Director continues to be a Nonemployee Director on the Grant Date.

7.3 Grant of Nonstatutory Stock Option.

(a) **Timing and Amount of Grant.** For each calendar year, unless a Nonemployee Director made an election to decline the award of a Nonstatutory Stock Option in accordance with Section 7.7, each person who is a Nonemployee Director on the Grant Date shall receive a grant of a Nonstatutory Stock Option with an aggregate value equal to \$5,000, \$10,000, \$15,000, \$20,000, \$25,000, \$30,000, \$35,000, \$40,000, or \$45,000 as previously elected by the Nonemployee Director (or \$22,500 in the case of a Nonemployee Director who failed to make a timely election or who became a Nonemployee Director before the Grant Date for a particular year but after December 31 of the previous year) (the "**Elected Option Value**").

The number of shares subject to the Nonstatutory Stock Option shall be determined by dividing the Elected Option Value by the value of a Nonstatutory Stock Option to purchase a single share of Stock as of the Grant Date. The per share option value shall be calculated in accordance with the Black-Scholes stock option valuation method using the average closing price of Stock during the preceding months of November, December, and January, and reducing the per option value by twenty percent (20%). The resulting number of shares subject to the Nonstatutory Stock Option shall be rounded down to the nearest whole share. No person shall receive more than one grant of Nonstatutory Stock Options pursuant to this Section 7.3(a) during any calendar year.

(b) **Exercise Price and Payment.** The exercise price of each Nonstatutory Stock Option granted pursuant to Section 7.3(a) shall be the Fair Market Value of the Stock on the Grant Date. The payment of the exercise price for the number of shares of Stock being purchased pursuant to the Nonstatutory Stock Option shall be made in accordance with the provisions of Section 6.3.

(c) **Vesting and Exercisability.** The Nonstatutory Stock Option granted in accordance with this Section shall become vested and exercisable as to one third (1/3) of the shares subject to the Nonstatutory Stock Option on the second, third and fourth anniversaries of the Grant Date, respectively. The Nonstatutory Stock Option shall terminate ten (10) years after the Grant Date, unless earlier terminated in accordance with its provisions.

7.4 Grant of Restricted Stock Unit.

(a) **Timing and Amount of Grant.** For each calendar year, unless a Nonemployee Director made an election to decline the award of a Restricted Stock Unit in accordance with Section 7.7, each person who is a Nonemployee Director on the Grant Date shall receive a grant of a Restricted Stock Unit with an aggregate value equal to \$5,000, \$10,000, \$15,000, \$20,000, \$25,000, \$30,000, \$35,000, \$40,000, or \$45,000, as previously elected by the Nonemployee Director (or \$22,500 in the case of a Nonemployee Director who failed to make a timely election or who became a Nonemployee Director after December 31 but before the Grant Date) (the “**Elected Stock Unit Value**”). The number of Restricted Stock Units shall be determined by dividing the Elected Stock Unit Value by the Fair Market Value of the Stock on the Grant Date (including fractions computed to three decimal places). The Restricted Stock Units awarded to a Nonemployee Director shall be credited to the director’s Restricted Stock Unit account. Each Restricted Stock Unit awarded to a Nonemployee Director in accordance with this Section 7.4(a) shall be deemed to be equal to one (1) (or fraction thereof) share of Stock on the Grant Date, and shall thereafter fluctuate in value in accordance with the Fair Market Value of the Stock. No person shall receive more than one grant of Restricted Stock Units pursuant to this Section 7.4(a) during any calendar year.

(b) **Dividend Rights.** Each Nonemployee Director’s Restricted Stock Unit account shall be credited quarterly on each dividend payment date with additional shares of Restricted Stock Units (including fractions computed to three decimal places) determined by dividing (1) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the account by (2) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award.

(c) **Settlement of Restricted Stock Units.** Restricted Stock Units credited to a Nonemployee Director’s Restricted Stock Unit account shall be settled by the issuance of an equal number of shares of Stock, rounded down to the nearest whole share, upon the earliest of (i) the Nonemployee Director’s Separation from Service due to Mandatory Retirement, (ii) the Nonemployee Director’s Separation from Service after five years of continuous service on the Board (“Director Retirement”), (iii) the Nonemployee Director’s death, (iv) the Nonemployee Director’s Disability (within the meaning of Section 409A of the Code), (v) a Change in Control that also constitutes a Section 409A Change in Control and (vi) the Nonemployee Director’s Separation from Service following a Change in Control. In the event of a distribution pursuant to Section 7.4(c) (iii) or 7.4(c)(iv), the Nonemployee Director shall receive the Stock in a lump sum distribution at the time of the applicable distribution event. In the case of Sections 7.4(c)(i), 7.4(c)(ii), 7.4(c)(v) and 7.4(c)(vi), the Nonemployee Director shall receive the Stock in a lump sum distribution in January of the year following the year in which the applicable distribution event occurs; provided, however, that the Nonemployee Director may elect, no later than December 31 of the calendar year prior the date of grant of the Restricted Stock Units (or such later time permitted by Section 409A), (1) to receive a series of ten or less approximately equal annual installments commencing no later than January of the year following the year in which the applicable distribution event occurred (such election to apply to all such distribution events)

or (2) to instead receive a lump sum at the time that the applicable distribution event occurs (such election to apply to all such distribution events).

7.5 Effect of Termination of Service as a Nonemployee Director.

(a) **Status of Award.** Subject to earlier termination of the Nonemployee Director Award as otherwise provided herein, the status of a Nonemployee Director Award shall be determined as follows:

(i) **Death or Disability.** If the Nonemployee Director's Service terminates due to death or Disability (1) all shares subject to the Restricted Stock Award shall become fully vested, and the Participant (or the Participant's legal representative or other person who acquired the rights to the Restricted Stock by reason of the Participant's death) shall have the right to resell or transfer such shares at any time; and (2) all Nonstatutory Stock Options held by the Participant shall become fully vested and exercisable, and the Participant (or the Participant's legal representative or other person who acquired the rights to the Nonstatutory Stock Option by reason of the Participant's death) shall have the right to exercise the Nonstatutory Stock Options until the earlier of (a) the date that is twelve (12) months after the date on which the Participant's Service terminated, or (b) the Option Expiration Date. If the Nonemployee Director becomes "disabled," within the meaning of Section 409A of the Code or in the event of the Nonemployee Director's death, all Restricted Stock Units credited to the Nonemployee Director's account shall immediately vest and become payable, in accordance with Section 7.4(c), to the Participant (or the Participant's legal representative or other person who acquired the rights to the Restricted Stock Units by reason of the Participant's death) in the form of a number of shares of Stock equal to the number of Restricted Stock Units credited to the Restricted Stock Unit account, rounded down to the nearest whole share.

(ii) **Mandatory Retirement.** If the Participant's Service terminates because of the Mandatory Retirement of the Participant (1) all shares subject to the Restricted Stock Award shall become fully vested, and the Participant shall have the right to resell or transfer such shares at any time; and (2) all Nonstatutory Stock Options held by the Participant shall become fully vested and exercisable and the Participant shall have the right to exercise the Nonstatutory Stock Options until the earlier of (a) the date that is five (5) years after the date on which the Participant's Service terminated, or (b) the Option Expiration Date. If the Nonemployee Director Separates from Service due to Mandatory Retirement, all Restricted Stock Units credited to the Nonemployee Director's account shall immediately vest and become payable to the Participant in accordance with Section 7.4(c) above.

(iii) **Other Termination of Service.** If the Participant's Service terminates for any reason other than those enumerated in Sections 7.5(a)(i) and 7.5(a)(ii), (1) any unvested shares of Restricted Stock shall be forfeited to the Company and from and after the date of such termination, the Participant shall cease to be a shareholder with respect to such forfeited shares and shall have no dividend, voting or other rights with respect thereto and (2) the unvested portion of any Nonstatutory Stock Option shall terminate, and any portion of the Nonstatutory Stock Option exercisable by the Participant on the date on which the Participant's Service terminated may be exercised until the earlier of (a) the date that is three (3) months after the date on which the Participant's Service terminated, or (b) the Option Expiration Date. If the

Nonemployee Director Separates from Service prior to the occurrence of any of the distribution events set forth in Section 7.4(c), all Restricted Stock Units credited to the Participant's account shall be forfeited on the date of such Separation from Service; provided, however, that if the Nonemployee Director Separates from Service due to a pending Disability determination such forfeiture shall not occur until a finding that such Disability has not occurred.

(iv) Notwithstanding the provisions of Section 7.5(i) through 7.5(iii) above, the Board, in its sole discretion, may establish different terms and conditions pertaining to Nonemployee Director Awards.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of a Nonstatutory Stock Option within the applicable time periods set forth in Section 7.5(a) is prevented by the provisions of Section 14.1 below, the Nonstatutory Stock Option shall remain exercisable until three (3) months after the date the Participant is notified by the Company that the Nonstatutory Stock Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.5(a) of shares acquired upon the exercise of the Nonstatutory Stock Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Nonstatutory Stock Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

7.6 Effect of Change in Control on Nonemployee Director Awards. Upon the occurrence of a Change in Control, (i) the vesting of all shares of Restricted Stock granted pursuant to Section 7.1(a) shall be accelerated so that all such shares become fully vested, (ii) the vesting of Nonstatutory Stock Options granted pursuant to Section 7.3(a) shall be accelerated and such Nonstatutory Stock Options shall remain fully exercisable until the Option Expiration Date, and (iii) all Restricted Stock Units shall immediately vest and be settled in accordance with Section 7.4(c).

7.7 Right to Decline Nonemployee Director Awards. Notwithstanding the foregoing, any person may elect not to receive a Nonemployee Director Award by delivering written notice of such election to the Board no later than the day prior to the date such Nonemployee Director Award would otherwise be granted. A person so declining a Nonemployee Director Award shall receive no payment or other consideration in lieu of such declined Nonemployee Director Award. A person who has declined a Nonemployee Director Award may revoke such election by delivering written notice of such revocation to the Board no later than the day prior to the date such Nonemployee Director Award would be granted.

8. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

Stock Appreciation Rights shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from

time to time establish. No SAR or purported SAR shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing SARs may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 Types of SARs Authorized. SARs may be granted in tandem with all or any portion of a related Option (a "**Tandem SAR**") or may be granted independently of any Option (a "**Freestanding SAR**"). A Tandem SAR may be granted either concurrently with the grant of the related Option or at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option.

8.2 Exercise Price. The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share subject to a Tandem SAR shall be the exercise price per share under the related Option and (b) the exercise price per share subject to a Freestanding SAR shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the SAR.

8.3 Exercisability and Term of SARs.

(a) **Tandem SARs.** Tandem SARs shall be exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option.

(b) **Freestanding SARs.** Freestanding SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that no Freestanding SAR shall be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR.

8.4 Deemed Exercise of SARs. If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised shall automatically be deemed to be exercised as of such date with respect to such portion.

8.5 Effect of Termination of Service. Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee in the grant of an SAR and set forth in the Award Agreement, an SAR shall be exercisable after a Participant's termination of Service only as provided in the Award Agreement.

8.6 Nontransferability of SARs. During the lifetime of the Participant, an SAR shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the exercise of an SAR, the SAR shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution.

9. TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.

Restricted Stock Awards shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Award or purported Restricted Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 Types of Restricted Stock Awards Authorized. Restricted Stock Awards may or may not require the payment of cash compensation for the stock. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Award or the lapsing of the Restriction Period is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

9.2 Purchase Price. The purchase price, if any, for shares of Stock issuable under each Restricted Stock Award and the means of payment shall be established by the Committee in its discretion.

9.3 Purchase Period. A Restricted Stock Award requiring the payment of cash consideration shall be exercisable within a period established by the Committee; provided, however, that no Restricted Stock Award granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service.

9.4 Vesting and Restrictions on Transfer. Shares issued pursuant to any Restricted Stock Award may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any Restriction Period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than as provided in the Award Agreement or as provided in Section 9.7. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

9.5 Voting Rights, Dividends and Distributions. Except as provided in this Section, Section 9.4 and any Award Agreement, during the Restriction Period applicable to shares subject to a Restricted Stock Award, the Participant shall have all of the rights of a

shareholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

9.6 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service in exchange for the payment of the purchase price, if any, paid by the Participant. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

9.7 Nontransferability of Restricted Stock Award Rights. Prior to the issuance of shares of Stock pursuant to a Restricted Stock Award, rights to acquire such shares shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

10. TERMS AND CONDITIONS OF PERFORMANCE AWARDS.

Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No Performance Award or purported Performance Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Performance Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

10.1 Types of Performance Awards Authorized. Performance Awards may be in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

10.2 Initial Value of Performance Shares and Performance Units. Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.2, on the effective date of grant of the Performance Share.

Each Performance Unit shall have an initial value determined by the Committee. The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

10.3 Establishment of Performance Period, Performance Goals and Performance Award Formula. In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. To the extent compliance with the requirements under Section 162(m) with respect to “performance-based compensation” is desired, the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

10.4 Measurement of Performance Goals. Performance Goals shall be established by the Committee on the basis of targets to be attained (“*Performance Targets*”) with respect to one or more measures of business or financial performance (each, a “*Performance Measure*”), subject to the following:

(a) ***Performance Measures.*** Performance Measures shall have the same meanings as used in the Company’s financial statements, or, if such terms are not used in the Company’s financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company’s industry. Performance Measures shall be calculated with respect to the Company and each Subsidiary Corporation consolidated therewith for financial reporting purposes or such division or other business unit as may be selected by the Committee. For purposes of the Plan, the Performance Measures applicable to a Performance Award shall be calculated in accordance with generally accepted accounting principles, but prior to the accrual or payment of any Performance Award for the same Performance Period and excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Participant’s rights with respect to a Performance Award. Performance Measures may be one or more of the following, as determined by the Committee: (i) sales revenue; (ii) gross margin; (iii) operating margin; (iv) operating income; (v) pre-tax profit; (vi) earnings before interest, taxes and depreciation and amortization; (vii) net income; (viii) expenses; (ix) the market price of the Stock; (x) earnings per share; (xi) return on shareholder equity; (xii) return on capital; (xiii) return on net assets;

(xiv) economic value added; and (xv) market share; (xvi) customer service; (xvii) customer satisfaction; (xviii) safety; (xix) total shareholder return; or (xx) such other measures as determined by the Committee consistent with this Section 10.4(a).

(b) **Performance Targets.** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award determined under the applicable Performance Award Formula by the level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value or as a value determined relative to a standard selected by the Committee.

10.5 Settlement of Performance Awards.

(a) **Determination of Final Value.** As soon as practicable, but no later than the 15th day of the third month following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award that is not intended to constitute "qualified performance based compensation" to a "covered employee" within the meaning of Section 162(m) (a "Covered Employee") to reflect such Participant's individual performance in his or her position with the Company or such other factors as the Committee may determine. With respect to a Performance Award intended to constitute qualified performance-based compensation to a Covered Employee, the Committee shall have the discretion to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula.

(c) **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b) but, in any case, no later than the 15th day of the third month following completion of the Performance Period applicable to a Performance Award, payment shall be made to each eligible Participant (or such Participant's legal representative or other person who acquired the right to receive such payment by reason of the Participant's death) of the final value of the Participant's Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee.

10.6 Voting Rights, Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to receive Dividend Equivalents

with respect to the payment of cash dividends on Stock having a record date prior to the date on which the Performance Shares are settled or forfeited. Such Dividend Equivalents, if any, shall be credited to the Participant in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock. The number of additional Performance Shares (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalents may be paid currently or may be accumulated and paid to the extent that Performance Shares become nonforfeitable, as determined by the Committee in accordance with Section 409A of the Code. Settlement of Dividend Equivalents may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 10.5. Dividend Equivalents shall not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

10.7 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Performance Award and set forth in the Award Agreement, the effect of a Participant's termination of Service on the Performance Award shall be as follows:

(a) ***Death or Disability.*** If the Participant's Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant's Performance Award shall be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and shall be prorated based on the number of months of the Participant's Service during the Performance Period. Payment shall be made following the end of the Performance Period in any manner permitted by Section 10.5.

(b) ***Other Termination of Service.*** If the Participant's Service terminates for any reason except death or Disability before the completion of the Performance Period applicable to the Performance Award, such Award shall be forfeited in its entirety; provided, however, that in the event of an involuntary termination of the Participant's Service, the Committee, in its sole discretion, may waive the automatic forfeiture of all or any portion of any such Award.

10.8 Nontransferability of Performance Awards. Prior to settlement in accordance with the provisions of the Plan, no Performance Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award

granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

11. TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARDS.

Restricted Stock Unit Awards shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Unit Award or purported Restricted Stock Unit Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Units may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

11.1 Grant of Restricted Stock Unit Awards. Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

11.2 Vesting. Restricted Stock Units may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.44, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award.

11.3 Voting Rights, Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which Restricted Stock Units held by such Participant are settled. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock. The number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award, provided that Dividend Equivalents may be settled in cash, shares of Stock, or a combination thereof as determined by the Committee. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new,

substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

11.4 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Unit Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

11.5 Settlement of Restricted Stock Unit Awards. The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant's Restricted Stock Unit Award vest or on such other date determined by the Committee, in its discretion, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 11.3) or each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes. Notwithstanding the foregoing, if permitted by the Committee and set forth in the Award Agreement, the Participant may elect in accordance with terms specified in the Award Agreement to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

11.6 Nontransferability of Restricted Stock Unit Awards. Prior to the issuance of shares of Stock in settlement of a Restricted Stock Unit Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

12. DEFERRED COMPENSATION AWARDS.

12.1 Establishment of Deferred Compensation Award Programs. This Section 12 shall not be effective unless and until the Committee determines to establish a program pursuant to this Section. The Committee, in its discretion and upon such terms and conditions as it may determine, may establish one or more programs pursuant to the Plan under which:

(a) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to reduce such Participant's compensation otherwise payable in cash (subject to any minimum or maximum reductions imposed by the Committee) and to be granted automatically at such time or times as specified by the Committee one or more Awards of Stock Units with respect to such numbers of shares of Stock as determined in accordance with the rules of the program established by the Committee and having such other terms and conditions as established by the Committee.

(b) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to be granted automatically an Award of Stock Units with respect to such number of shares of Stock and upon such other terms and conditions as established by the Committee in lieu of cash or shares of Stock otherwise issuable to such Participant upon the settlement of a Performance Award or Performance Unit.

12.2 Terms and Conditions of Deferred Compensation Awards. Deferred Compensation Awards granted pursuant to this Section 12 shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No such Deferred Compensation Award or purported Deferred Compensation Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Deferred Compensation Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

(a) **Vesting Conditions.** Deferred Compensation Awards shall not be subject to any vesting conditions.

(b) **Terms and Conditions of Stock Units.**

(i) **Voting Rights, Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, a Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which Stock Units held by such Participant are settled. Such Dividend Equivalents shall be paid by crediting the Participant with additional whole and/or fractional Stock Units as of the date of payment of such cash dividends on Stock. The method of determining the number of additional Stock Units to be so credited shall be specified by the Committee and set forth in the Award Agreement. Such additional Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Stock Units originally subject to the Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award.

(ii) **Settlement of Stock Unit Awards.** A Participant electing to receive an Award of Stock Units pursuant to this Section 12, shall specify at the time of such election a settlement date with respect to such Award in accordance with rules established by the Committee. The Company shall issue to the Participant upon the earlier of the settlement date elected by the Participant or the date of the Participant's Separation from Service, a number of whole shares of Stock equal to the number of whole Stock Units subject to the Stock Unit Award. Such shares of Stock shall be fully vested, and the Participant shall not be required to

pay any additional consideration (other than applicable tax withholding) to acquire such shares. Any fractional Stock Unit subject to the Stock Unit Award shall be settled by the Company by payment in cash of an amount equal to the Fair Market Value as of the payment date of such fractional share.

(iii) **Nontransferability of Stock Unit Awards.** Prior to their settlement in accordance with the provision of the Plan, no Stock Unit Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

13. OTHER STOCK-BASED AWARDS.

In addition to the Awards set forth in Sections 6 through 12 above, the Committee, in its sole discretion, may carry out the purpose of this Plan by awarding Stock-Based Awards as it determines to be in the best interests of the Company and subject to such other terms and conditions as it deems necessary and appropriate.

14. CHANGE IN CONTROL.

14.1 **Effect of Change in Control on Options and SARs.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "Acquiror"), may, without the consent of any Participant, either assume or continue the Company's rights and obligations under outstanding Options or SARs or substitute for outstanding Options or SARs substantially equivalent options or SARs covering the Acquiror's stock. Any Options or SARs which are neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised as of the Change in Control shall, contingent on the Change in Control, become fully vested and exercisable immediately prior to the Change in Control. Options and SARs which are assumed or continued in connection with a Change in Control shall be subject to such additional accelerated vesting and/or exercisability in connection with the Participant's subsequent termination of Service as the Board may determine.

14.2 **Effect of Change in Control on Other Awards.** In the event of a Change in Control, the Acquiror may, without the consent of any Participant, either assume or continue the Company's rights and obligations under outstanding Awards other than Options or SARs or substitute for such Awards substantially equivalent Awards covering the Acquiror's stock. Any such Awards which are neither assumed or continued by the Acquiror in connection with the Change in Control shall, contingent on the Change in Control, become fully vested. Awards which are assumed or continued in connection with a Change in Control shall be subject to such additional accelerated vesting or lapse of restrictions in connection with the Participant's subsequent termination of Service as the Board may determine.

14.3 **Nonemployee Director Awards.** Notwithstanding the foregoing, Nonemployee Director Awards shall be subject to the terms of Section 7, and not this Section 14.

15. COMPLIANCE WITH SECURITIES LAW.

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

16. TAX WITHHOLDING.

16.1 Tax Withholding in General. The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise or Net Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

16.2 Withholding in Shares. The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

17. AMENDMENT OR TERMINATION OF PLAN.

The Board or the Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company's shareholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's shareholders under any applicable law, regulation or rule.

Notwithstanding the foregoing, only the Board may amend Section 7. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Board or the Committee. In any event, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant unless necessary to comply with any applicable law, regulation or rule.

18. **MISCELLANEOUS PROVISIONS.**

18.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

18.2 **Provision of Information.** Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common shareholders.

18.3 **Rights as Employee, Consultant or Director.** No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

18.4 **Rights as a Shareholder.** A Participant shall have no rights as a shareholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.2 or another provision of the Plan.

18.5 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

18.6 **Severability.** If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

18.7 Beneficiary Designation. Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

18.8 Unfunded Obligation. Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan. Each Participating Company shall be responsible for making benefit payments pursuant to the Plan on behalf of its Participants or for reimbursing the Company for the cost of such payments, as determined by the Company in its sole discretion. In the event the respective Participating Company fails to make such payment or reimbursement, a Participant's (or other individual's) sole recourse shall be against the respective Participating Company, and not against the Company. A Participant's acceptance of an Award pursuant to the Plan shall constitute agreement with this provision.

18.9 Choice of Law. Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of California, without regard to its conflict of law rules.

18.10 Section 409A of the Code. Notwithstanding anything to the contrary in the Plan, to the extent any Award payable in connection with a Participant's Separation from Service constitutes deferred compensation subject to (and not exempt from) Section 409A of the Code and (ii) the Participant is deemed at the time of such separation to be a "specified employee" under Section 409A of the Code and the Treasury regulations thereunder, then payment shall not be made or commence until the earlier of (i) six (6)-months after such Separation from Service or (ii) the date of the Participant's death following such Separation from Service; provided, however, that such delay shall only be effected to the extent required to avoid adverse tax treatment to the Participant, including (without limitation) the additional twenty percent (20%)

tax for which the Participant would otherwise be liable under Section 409A(a)(1)(B) of the Code in the absence of such delay. Upon the expiration of the applicable delay period, any payment which would have otherwise been paid during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to the Participant or the Participant's beneficiary in one lump sum on the first business day immediately following such delay.

PLAN HISTORY AND NOTES TO COMPANY

- December 15, 2004 Board adopts Plan with a reserve of 12 million shares.
- April 20, 2005 Shareholders approve Plan.
- January 1, 2006 Plan Effective Date
- February 15, 2006 Change in control provisions are amended
- December 20, 2006 Board amends Section 7 containing the terms for automatic awards for Non-Employee Directors, effective January 1, 2007
- October 17, 2007 Board amends Section 7 as follows:
Define "Grant Date" for a particular calendar year as the first business day in March of that calendar year. Previously, the grant date for awards in 2006 and 2007 was the first business day in January of that particular calendar year. This amendment becomes effective starting with grants for 2008.
Amend the basis for calculating the per share value of stock option awards, so it is based on the average closing price of Stock during the months of November, December, and January preceding the grant. Previously, the per share value of stock options awards for grants in 2006 and 2007 was based on the average closing price of Stock during the preceding month of November. This amendment becomes effective starting with grants for 2008.
Clarify the language for settling restricted stock awards upon a Nonemployee Director's retirement from the Board, to indicate that shares credited to a Nonemployee Director's Restricted Stock Unit account may be settled after a Nonemployee Director ceases to be a member of the Board of Directors following five years of service on the Board.
- September 17, 2008 Board amends Section 7 containing the terms for automatic awards for Nonemployee Directors, effective January 1, 2009, to increase the total value of annual equity awards to Nonemployee Directors from \$80,000 to \$90,000. Of this amount, \$45,000 of equity awards shall be Restricted Stock, and the remaining \$45,000 shall be a mixture of Options and Restricted Stock Units, consistent with the Plan and with each Nonemployee Director's election.
- Effective January 1, 2009 Plan is amended to comply with the final regulations under Section 409A of the Code

- February 18, 2009 Plan is amended to delay grant and pricing of 2009 grants for non-employee directors, to be consistent with 2009 grants to employees.
- December 16, 2009 Plan is amended to (1) establish March 10, 2010 as the date of grant of 2010 Plan awards for non-employee directors and calculate the number of shares of restricted stock and restricted stock units (RSUs) to be awarded based upon the average closing price of PG&E Corporation common stock over the five trading days on March 4 through March 10, 2010, and (2) beginning in March 2011, establish that the date of grant of Plan awards for non-employee directors and the price of PG&E Corporation common stock to be used to calculate the number of shares of restricted stock and RSUs to be awarded to non-employee directors be the same as the date of grant and stock price used for the annual LTIP awards for employees.

[\(Back To Top\)](#)

Section 6: EX-10.54 (PG&E CORPORATION AND PG&E EXECUTIVE COMPENSATION RECOUPMENT POLICY)

Exhibit 10.54

PG&E Corporation and Pacific Gas and Electric Company
Executive Incentive Compensation Recoupment Policy
Effective February 17, 2010

The PG&E Corporation Executive Incentive Compensation Recoupment Policy (Policy) applies if either PG&E Corporation or Pacific Gas and Electric Company (each a Company) restates financial statements that were filed with the Securities and Exchange Commission (SEC) within the three years preceding the restatement.

Under the proposed Policy, if either Company restates its financial statements with respect to any fiscal year within the three-year period preceding the filing of the restatement (a Restatement Year), the PG&E Corporation Compensation Committee (Compensation Committee) and, if applicable, the Board of Directors of that Company may, in good faith exercise of their reasonable discretion and to the extent permitted by law, seek recoupment of performance-based short-term and long-term incentive compensation previously provided with respect to a Restatement Year to any individual who served as a Section 16 Officer¹ of that Company during that Restatement Year.

The Compensation Committee and, if applicable, each Company's Board may exercise their discretion to recoup performance-based incentive compensation that:

- was previously provided with respect to a Restatement Year to any individual who was a Section 16 Officer of PG&E Corporation or Pacific Gas and Electric Company during such a Restatement Year, and
- is no greater than the difference between the amount of performance-based short-term and long-term incentive compensation previously provided to such Section 16 Officer and the lower payment that would have been received by that Section 16 Officer if the financial statements had originally been filed as subsequently restated (with the Compensation Committee and, if applicable, the Board, exercising discretion regarding whether to adjust the values to account for the tax consequences to the Section 16 Officer) and
- was paid after the effective date of this Policy.

The Boards of Directors of each Company delegate the administration of the Policy to the Compensation Committee, including authority to determine whether or not to seek recoupment of compensation, except that decisions will be made by each Board of Directors with respect to that particular Company's Chief Executive Officer.²

¹ "Section 16 Officer" includes an "officer" of either Company who is subject to the reporting and short swing profit liability provisions of Section 16 of the Securities Exchange Act of 1934, as amended.

- ² The Board of Directors shall make this determination with respect to the Company's President, in the event the chief executive officer position is not occupied.
-

[\(Back To Top\)](#)

Section 7: EX-12.1 (COMP. OF RATIOS OF EARNINGS TO FIXED CHARGES FOR PG&E)

EXHIBIT 12.1 PACIFIC GAS AND ELECTRIC COMPANY COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

	Year ended December 31,				
	2009	2008	2007	2006	2005
Earnings:					
Net income	\$1,250	\$1,199	\$1,024	\$985	\$934
Adjustments for income or loss from equity investees of less than 100% owned affiliates and the Company's equity in undistributed income (losses) of less than 50% owned affiliates	-	-	-	-	-
Income taxes provision	482	488	571	602	574
Fixed charges	817	860	889	801	589
Total Earnings	\$2,549	\$2,547	\$2,484	\$2,388	\$2,097
Fixed Charges:					
Interest on short-term borrowings and long-term debt, net	754	\$794	\$834	\$770	\$573
Interest on capital leases	19	22	23	11	1
AFUDC debt	44	44	32	20	15
Earnings required to cover the preferred stock dividend and preferred security distribution requirements of majority owned trust	-	-	-	-	-
Total Fixed Charges	\$817	\$860	\$889	\$801	\$589
Ratios of Earnings to Fixed Charges	3.12	2.96	2.79	2.98	3.56