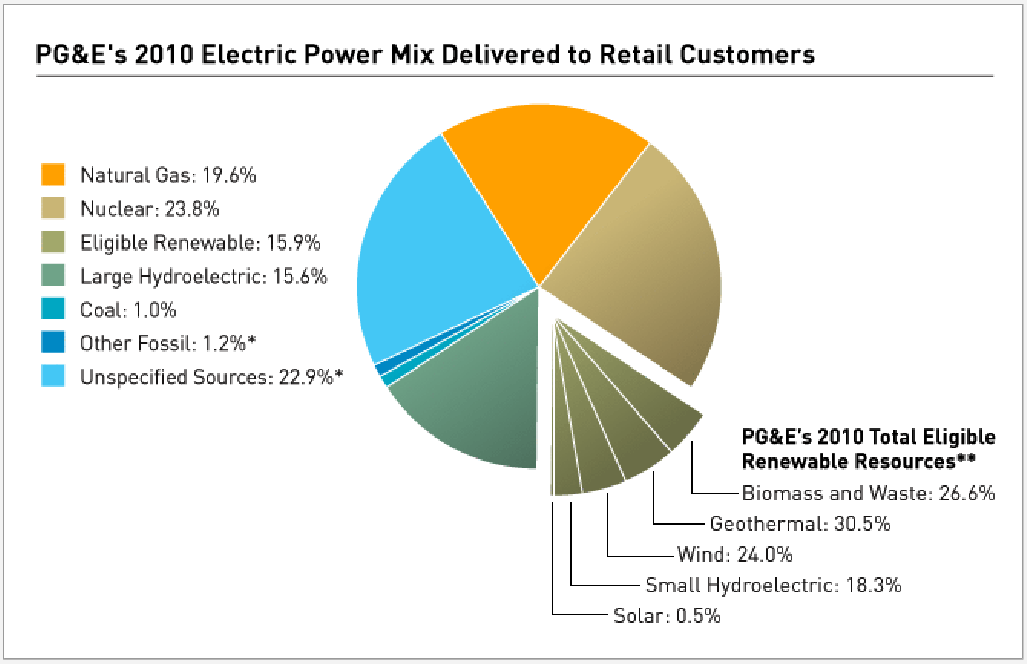
Planning for California's Clean Energy Future

To meet California's growing demand for electricity, the state benefits from a "loading order" of preferred energy sources originally adopted by the California Energy Commission and Public Utilities Commission in the state's 2003 Energy Action Plan. This comprehensive energy strategy emphasizes an aggressive expansion of customer energy efficiency and demand-side management programs and looks to secure additional renewable power resources before meeting remaining energy needs through efficient traditional generation sources. The loading order serves as the foundation for energy policies and decisions to develop and operate California's electricity system in the best, long-term interest of the public, including PG&E's customers.

In 2010, PG&E's retail customers purchased 77,485 GWh of electricity. Of that amount, 32,177 GWh were generated by PG&E's own natural gas, hydroelectric and nuclear facilities, as well as small amounts of fuel oil, diesel and solar energy. The remainder was purchased from third-party generators, via either contracts or the open market.

PG&E's 2010 Electric Power Mix

The chart below shows our overall electricity supply mix for 2010, which included both the energy PG&E generated and the energy PG&E purchased from third parties.



* "Other Fossil" includes diesel oil and petroleum coke (a waste byproduct of oil refining) and "Unspecified Sources" refers to electricity generated that is not traceable to specific generation sources by any auditable contract trail.

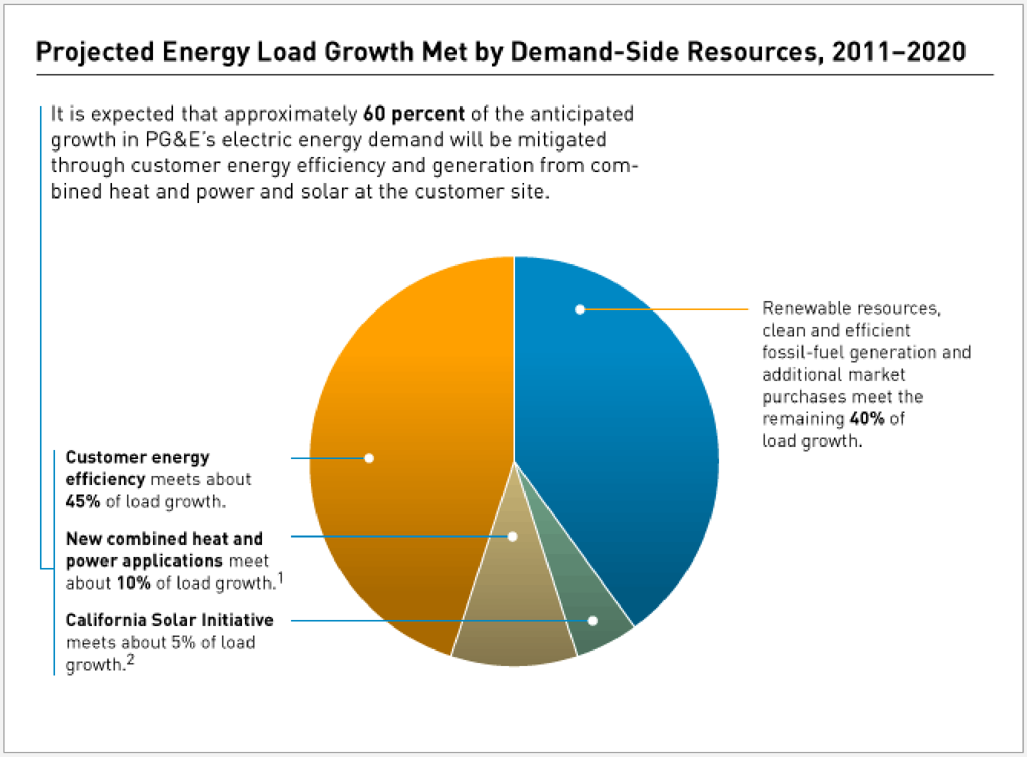
** As defined in Senate Bill 1078, which created California's Renewable Portfolio Standard, an eligible renewable resource includes geothermal facilities, hydroelectric facilities with a capacity rating of 30 MW or less, biomass, selected municipal solid waste facilities, solar facilities and wind facilities.

PG&E's Long-Term Procurement Plan

PG&E procures resources to meet its customer electricity needs based on a long-term procurement plan approved by the CPUC.

In preparing its plan, PG&E follows the "loading order" and puts first priority on reducing consumption through energy efficiency and then relies significantly on environmentally-friendly resources, such as demand response programs, renewable generation, distributed generation (including solar power) and new, clean and efficient fossil-fuel units.

For example, over the next 10 years, forecasts show PG&E meeting approximately 60 percent of the anticipated demand growth in its service area through energy efficiency and generation from combined heat and power and solar at the customer site. As a result, electricity sales would grow at an average rate of just 0.8 percent per year between 2011 and 2020; in the absence of these programs, electricity sales would grow at an average rate of 2 percent per year.



[1] Average expected impact based on PG&E assumption that is slightly different than CPUC staff combined heat and power (CHP) growth assumptions, and using a capacity factor of 72.5 percent. The new CHP applications are expected to meet 5 to 15 percent of load growth.

[2] PG&E recognizes that there is a great deal of uncertainty in any forecast of distributed generation installations. While costs of solar generation have dropped dramatically, the CPUC has suspended funding for the nonresidential solar program. The Self-Generation Incentive Program (SGIP) will include CHP incentives, but funding is limited. There is legislation to address increased funding for both the California Solar Initiative and SGIP, but its outcome is uncertain at this time. Additionally, the feed-in-tariff for CHP up to 20 MW is expected to result in some generation that offsets customers' usage, but the tariff has not yet been implemented, so market performance is unknown.