

PACIFIC GAS & ELECTRIC CO  
Form DEF 14A  
April 16, 2001

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SCHEDULE 14A  
(RULE 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Filed by the Registrant  [X]  
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Check the appropriate box:  
 [ ] Preliminary Proxy Statement  
 [ ] Confidential, For Use of the Commission Only (as permitted by  
Rule 14a-6(e) (2))  
 [X] Definitive Proxy Statement  
 [ ] Definitive Additional Materials  
 [ ] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

PG&E Corporation and Pacific Gas and Electric Company  
Filing Jointly  
(Name of Registrant as Specified in Its Charter)  
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- (3) Filing Party:
- (4) Date Filed:

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[PG&E LOGO] Joint Notice of 2001 Annual Meetings - Joint Proxy Statement

April 16, 2001

To the Shareholders of PG&E Corporation and Pacific Gas and Electric Company:

You are cordially invited to attend the fifth annual meeting of PG&E Corporation and the 95th annual meeting of Pacific Gas and Electric Company. The meetings will be held concurrently on Wednesday, May 16, 2001, at 3:00 p.m., in the Masonic Auditorium, 1111 California Street, San Francisco, California.

The accompanying Joint Proxy Statement contains information about matters to be considered at both the PG&E Corporation and Pacific Gas and Electric Company annual meetings. At the annual meetings, PG&E Corporation and Pacific Gas and Electric Company shareholders will be asked to vote on the election of directors and ratification of the selection of independent public accountants for 2001 for their respective companies. The Boards of Directors and management of PG&E Corporation and Pacific Gas and Electric Company recommend that you vote "FOR" the nominees for directors and the ratification of the appointment of Deloitte & Touche LLP as the independent public accountants for 2001, as set forth in the Joint Proxy Statement.

In addition to the matters described above, PG&E Corporation shareholders will be asked to vote on a management proposal to increase the number of shares available to be issued under the Long-Term Incentive Program. For the reasons stated in the Joint Proxy Statement, the PG&E Corporation Board of Directors and management recommend that PG&E Corporation shareholders vote "FOR" this proposal.

PG&E Corporation shareholders also will be asked to vote on the proposals submitted by individual PG&E Corporation shareholders described in the Joint Proxy Statement, if such proposals are properly presented at the annual meeting. For the reasons stated in the Joint Proxy Statement, the PG&E Corporation Board of Directors and management recommend that PG&E Corporation shareholders vote "AGAINST" these proposals.

Your vote on the business at the annual meetings is important. If you hold shares in both PG&E Corporation and Pacific Gas and Electric Company, you will be provided with a separate proxy form for each company. For your convenience, we offer you the option of executing and submitting your proxy and voting instructions over the Internet, by telephone, or by mail. Whether or not you plan to attend, please vote as soon as possible so that your shares can be represented at the annual meetings.

During the annual meetings, PG&E Corporation and Pacific Gas and Electric Company management also will report on operations and other matters affecting PG&E Corporation and Pacific Gas and Electric Company, act on such other matters as may properly come before the meetings, and respond to shareholders' questions.

Sincerely,

/s/ ROBERT D. GLYNN, JR.  
Robert D. Glynn, Jr.

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Chairman of the Board, Chief Executive  
Officer,  
and President of PG&E Corporation  
Chairman of the Board of  
Pacific Gas and Electric Company

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Joint Notice of Annual Meetings of Shareholders  
of PG&E Corporation and Pacific Gas and Electric Company

April 16, 2001

TO THE SHAREHOLDERS OF PG&E CORPORATION AND PACIFIC GAS AND ELECTRIC COMPANY:

The annual meetings of shareholders of PG&E Corporation and Pacific Gas and Electric Company will be held concurrently on Wednesday, May 16, 2001, at 3:00 p.m., in the Masonic Auditorium, 1111 California Street, San Francisco, California, for the purpose of considering the following matters:

- (1) For PG&E Corporation and Pacific Gas and Electric Company shareholders, to elect the following 9 and 10 directors, respectively, to each Board for the ensuing year:

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David R. Andrews  
David A. Coulter  
C. Lee Cox  
William S. Davila

Robert D. Glynn, Jr.  
David M. Lawrence, MD  
Mary S. Metz

Carl E. Reichardt  
Gordon R. Smith\*  
Barry Lawson Williams

\* Gordon R. Smith is a nominee for director of the Pacific Gas and Electric Company B only.

- (2) For PG&E Corporation and Pacific Gas and Electric Company shareholders, to ratify each Board of Directors' appointment of Deloitte & Touche LLP as independent public accountants for 2001 for PG&E Corporation and Pacific Gas and Electric Company,
- (3) For PG&E Corporation shareholders only, to act upon the management proposal described on pages 13-19 of the Joint Proxy Statement,
- (4) For PG&E Corporation shareholders only, to act upon five proposals submitted by PG&E Corporation shareholders and described on pages 20-25 of the Joint Proxy Statement, if such proposals are properly presented at the meeting, and
- (5) For PG&E Corporation and Pacific Gas and Electric Company shareholders, to transact such other business as may properly come before the meetings and any adjournments or postponements thereof.

Shareholders of record of PG&E Corporation and Pacific Gas and Electric Company at the close of business on April 4, 2001, and valid proxyholders may attend and vote at the respective annual meetings. If your shares are registered in the name of a brokerage firm, bank, or trustee and you plan to attend the meeting, please obtain from the firm, bank, or trustee a letter or other evidence of your beneficial ownership of those shares on April 4, 2001, to facilitate your admittance to the meeting.

If you are a participant in the PG&E Corporation Dividend Reinvestment Plan, please note that the PG&E Corporation proxy covers all shares of common stock in your account with PG&E Corporation, including any shares which may be held in that plan. If you hold shares in both PG&E Corporation and Pacific Gas and Electric Company, you will be provided with a separate proxy form for each company.

If your shares are registered directly with PG&E Corporation and/or Pacific Gas and Electric Company (including shares held by participants in the PG&E Corporation Dividend Reinvestment Plan) or if you are a participant who holds PG&E Corporation stock in any of the defined contribution retirement plans maintained by PG&E Corporation or any of its subsidiaries, you may execute and submit your proxy and voting instructions over the Internet or by telephone by using the control number and instructions printed on the proxy form. Or, you may vote by mail by marking, signing, dating, and mailing the proxy card in the accompanying envelope. If your shares are registered in the name of a brokerage firm, bank, or trustee, you will be able to vote over the Internet, by telephone, or by mail by following the instructions printed on the proxy card you receive from the firm, bank, or trustee.

By Order of the Boards of Directors,

/s/ LESLIE H. EVERETT

Leslie H. Everett  
Vice President and Corporate Secretary,

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PG&E Corporation and  
Pacific Gas and Electric Company

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PG&E Corporation  
Pacific Gas and Electric Company

## JOINT PROXY STATEMENT

### INTRODUCTION

This Joint Proxy Statement is provided to the shareholders of PG&E Corporation and Pacific Gas and Electric Company in connection with their respective annual meetings of shareholders and any adjournments or postponements thereof. The annual meetings will be held concurrently on Wednesday, May 16, 2001, at 3:00 p.m., in the Masonic Auditorium, 1111 California Street, San Francisco, California.

PG&E Corporation and a subsidiary hold 100 percent of the issued and outstanding shares of Pacific Gas and Electric Company common stock. Together they own approximately 95 percent of the total outstanding voting stock of Pacific Gas and Electric Company. Holders of Pacific Gas and Electric Company's first preferred stock hold approximately 5 percent of the Company's total outstanding voting stock.

### GENERAL INFORMATION

The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company are soliciting proxies hereunder for use at their respective annual meetings to be held on May 16, 2001, and at any adjournments or postponements thereof, and a respective form of proxy is provided with this Joint Proxy Statement. This Joint Proxy Statement and the accompanying proxy form were first mailed on or about April 16, 2001, to PG&E Corporation and Pacific Gas and Electric Company shareholders entitled to vote at the annual meetings.

Shareholders of record may vote over the Internet at the address listed on the proxy form, by calling the toll-free telephone number listed on the proxy form, or by marking, signing, dating, and mailing their proxy card in the postage-paid envelope provided. The Internet and telephone voting procedures comply with California law. If your shares are held through a brokerage firm, bank, or trustee, you will be able to vote over the Internet, by telephone, or by mail by following the instructions on the proxy card you receive from the firm, bank, or trustee.

You may revoke your proxy at any time before it is exercised at the annual meeting. You may do this by advising the Vice President and Corporate Secretary of PG&E Corporation or Pacific Gas and Electric Company (as the case may be) in writing of your desire to revoke your proxy, or by submitting a duly executed proxy bearing a later date. You also may revoke your proxy by attending the annual meeting and indicating that you wish to vote in person.

The Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company have established April 4, 2001, as the record date for the determination of shareholders of PG&E Corporation and Pacific Gas and Electric Company entitled to receive notice of and to vote at their respective annual meetings. As of April 4, 2001, there were 387,137,690 shares of PG&E Corporation common stock, without par value, outstanding and entitled to vote at the PG&E Corporation annual meeting; each such share is entitled to one vote. As of April 4, 2001, there were 17,258,280 shares of Pacific Gas and Electric Company first preferred stock, \$25 par value, and 326,926,667 shares of Pacific Gas and Electric Company common stock, \$5 par value, outstanding and entitled to vote at

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the Pacific Gas and Electric Company annual meeting; each such share is entitled to one vote.

Shares represented by properly executed proxies received by PG&E Corporation or Pacific Gas and Electric Company prior to or at the annual meetings will be voted at the respective annual meetings in accordance with the instructions specified in each proxy, and will be counted for purposes of establishing a quorum, regardless of how or whether such shares are voted on any specific proposal. If no instructions are specified in the PG&E Corporation proxy, the subject shares will be voted (1) FOR the election of the nominees of the PG&E Corporation Board of Directors, unless authority to vote is withheld as provided in the proxy, (2) FOR ratification of the appointment of Deloitte & Touche LLP as PG&E Corporation's independent public accountants for 2001, (3) FOR the management proposal to increase the number of shares available to be issued under the Long-Term Incentive Program, and (4) AGAINST each of the shareholder proposals that are properly presented at the meeting. If no instructions are specified in the Pacific Gas and Electric Company proxy, the subject shares will be voted (1) FOR the election of the nominees of the Pacific Gas and Electric Company Board of Directors, unless authority to vote is withheld as provided in the proxy, and (2) FOR ratification of the appointment of Deloitte & Touche LLP as Pacific Gas and Electric Company's independent public accountants for 2001.

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PG&E Corporation also has received timely notice of six shareholder proposals that the proponent states he intends to present for vote at the annual meeting. Two of the proposals request that PG&E Corporation make certain statements regarding its statement in opposition to, and voting on, shareholder proposals included in the proxy statement. The third proposal requests that PG&E Corporation provide certain information regarding directors' business relationships with PG&E Corporation. The fourth proposal requests that PG&E Corporation provide certain information regarding the "amount of pay cuts that the top 100 executives of the company and the directors have volunteered or agreed to take in response to the company's financial crisis." The fifth proposal would require that PG&E Corporation index all 2001 executive compensation to stock performance during a specific 18-month period. The sixth proposal would require that the 2001 annual meeting of shareholders be held in the Virgin Islands. The proxyholders named in the PG&E Corporation proxy will exercise their discretionary voting authority to vote the shares for which they hold proxies AGAINST any of these proposals that counsel determines properly come before PG&E Corporation's 2001 annual meeting of shareholders.

Management of PG&E Corporation and Pacific Gas and Electric Company have not received timely notice of any other matters that shareholders intend to present at the annual meetings, and do not know of any matter to be acted upon at the meetings other than the matters described above. However, if any other matter should properly come before the annual meetings, the proxyholders named in the enclosed proxy will vote the shares for which they hold proxies at their discretion.

Except with respect to the election of directors, each other proposal which may be presented at the meetings must receive the affirmative vote of a majority of the shares represented and voting on the proposal. In addition, the affirmative votes must constitute at least a majority of the required quorum (i.e., more than 25 percent of the outstanding shares of voting stock of PG&E Corporation or Pacific Gas and Electric Company, as the case may be). The required quorum is a majority of the outstanding shares of voting stock of PG&E Corporation or Pacific Gas and Electric Company (as the case may be). PG&E Corporation and Pacific Gas and Electric Company intend to count abstentions both for purposes of determining the presence or absence of a quorum and in the

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total number of shares represented and voting with respect to a proposal. Accordingly, abstentions will have the same effect as a vote against a proposal. Broker non-votes, if any, with respect to a proposal will be counted for purposes of determining the presence or absence of a quorum, but will not be counted as shares represented and voting with respect to that proposal. Broker non-votes occur when brokers or nominees have voted on some of the matters to be acted on at a meeting, but fail to vote on certain other matters because, under the rules of the New York Stock Exchange, they are not permitted to vote on such other matters in the absence of instructions from the beneficial owners of shares.

### CONFIDENTIAL VOTING

In 2000, PG&E Corporation and Pacific Gas and Electric Company formalized their Confidential Voting Policy. Under this policy, all proxies, ballots, and voting tabulations that reveal how a particular shareholder has voted are treated as confidential.

The vote of any shareholder will not be revealed to anyone other than a non-employee proxy tabulator or an independent inspector of election, except (i) as necessary to meet legal requirements, (ii) in a dispute regarding authenticity of proxies and ballots, (iii) in the event of a proxy contest, if the other party does not agree to comply with the Confidential Voting Policy, and (iv) where disclosure may be necessary for PG&E Corporation or Pacific Gas and Electric Company to assert or defend claims.

Representatives of Mellon Investor Services LLC will act as the proxy tabulators and the inspectors of elections for the 2001 annual meetings. They are independent of PG&E Corporation, Pacific Gas and Electric Company, and their directors, officers, and employees. The proxy tabulators will forward comments written on the proxy forms to the Vice President and Corporate Secretary of PG&E Corporation or Pacific Gas and Electric Company (as the case may be) but will not disclose the identity of the shareholder unless that shareholder has requested a written response.

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### Item No. 1: Election of Directors of PG&E Corporation and Pacific Gas and Electric Company

Nine and 10 directors will be elected to serve on the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company, respectively, to hold office until the next annual meetings or until their successors shall be elected and qualified. The 9 nominees for director of PG&E Corporation and the 10 nominees for director of Pacific Gas and Electric Company whom the respective Boards propose for election are the same, except for Gordon R. Smith, who is a nominee for the Pacific Gas and Electric Company Board only. The composition of these slates of nominees is consistent with the policy of PG&E Corporation and Pacific Gas and Electric Company that at least 75 percent of their Boards shall be composed of directors who are neither current nor former officers or employees of PG&E Corporation, Pacific Gas and Electric Company, or any of their respective subsidiaries.

Information is provided on the following pages about the nominees for directors, including their principal occupations for the past five years, certain other directorships, age, and length of service as a director of PG&E Corporation and Pacific Gas and Electric Company. Membership on Board committees, attendance at Board and committee meetings, and ownership of stock in PG&E Corporation and Pacific Gas and Electric Company are indicated in

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separate sections following the individual resumes of the nominees.

Directors of PG&E Corporation and Pacific Gas and Electric Company are elected from those nominated based on a plurality of votes cast. The nominees receiving the highest number of affirmative votes (up to the number of directors to be elected) are elected. Votes against a nominee or votes withheld have no legal effect. Unless authority to vote is withheld or another contrary instruction is indicated, properly executed proxies received by PG&E Corporation or Pacific Gas and Electric Company prior to or at the annual meetings will be voted FOR the election of the nominees listed on the following pages. All of the nominees have agreed to serve if elected. Should any of the nominees become unavailable at the time of the meeting to accept nomination or election as a director, the respective proxyholders named in the enclosed PG&E Corporation or Pacific Gas and Electric Company proxy will vote for substitute nominees at their discretion.

THE BOARDS OF DIRECTORS OF PG&E CORPORATION AND PACIFIC GAS AND ELECTRIC COMPANY  
RECOMMEND THE ELECTION OF THEIR RESPECTIVE NOMINEES FOR DIRECTOR  
PRESENTED IN THIS JOINT PROXY STATEMENT.

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Nominees for Directors of PG&E Corporation and  
Pacific Gas and Electric Company  
Biographical Information

[PHOTOGRAPH]

DAVID R. ANDREWS

Mr. Andrews is a partner in the law firm of McCutchen, Doyle, Brown & Enersen, LLP, and has held that position since May 2000. He also held that position from 1981 to July 1997. From August 1997 to April 2000, he served as the legal advisor to the U.S. Department of State and former Secretary Madeleine Albright. Mr. Andrews, 59, has been a director of PG&E Corporation and Pacific Gas and Electric Company since August 2000. He also is a director of NetCel360 Holdings Limited, and UnionBanCal Corporation.

[PHOTOGRAPH]

DAVID A. COULTER

Mr. Coulter is Vice Chairman of J.P. Morgan Chase & Co. (financial services and retail banking) and has held that position since January 2001. Prior to the merger with J.P. Morgan & Co. Incorporated, he was Vice Chairman of The Chase Manhattan Corporation (bank holding company) from August 2000 to December 2000. He was a Partner in the Beacon Group, L.P. (investment banking firm) from January 2000 to July 2000 and was Chairman and Chief Executive Officer of BankAmerica Corporation and Bank of America NT&SA from May 1996 to October 1998. Mr. Coulter, 53, has been a director of Pacific Gas and Electric Company since May 1996 and a director of PG&E Corporation since December 1996. He also is a director of CoorsTek.

[PHOTOGRAPH]

C. LEE COX



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Mr. Cox is retired Vice Chairman of AirTouch Communications, Inc. and retired President and Chief Executive Officer of AirTouch Cellular (cellular telephone and paging services). He was an executive officer of AirTouch Communications, Inc. and its predecessor, PacTel Corporation, from 1987 until his retirement in April 1997. Mr. Cox, 59, has been a director of Pacific Gas and Electric Company since February 1996 and a director of PG&E Corporation since December 1996. He also is a director of Riverstone Networks, Inc.

[PHOTOGRAPH]

WILLIAM S. DAVILA

Mr. Davila is President Emeritus of The Vons Companies, Inc. (retail grocery). He was President of The Vons Companies, Inc. from 1986 until his retirement in May 1992. Mr. Davila, 69, has been a director of Pacific Gas and Electric Company since February 1992 and a director of PG&E Corporation since December 1996. He also is a director of Home Depot, Inc. and Hormel Foods Corporation.

[PHOTOGRAPH]

ROBERT D. GLYNN, JR.

Mr. Glynn is Chairman of the Board, Chief Executive Officer, and President of PG&E Corporation and Chairman of the Board of Pacific Gas and Electric Company. He has been an officer of PG&E Corporation since December 1996 and an officer of Pacific Gas and Electric Company since January 1988. Mr. Glynn, 58, has been a director of Pacific Gas and Electric Company since June 1995 and a director of PG&E Corporation since December 1996.

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[PHOTOGRAPH]

DAVID M. LAWRENCE, MD

Dr. Lawrence is Chairman and Chief Executive Officer of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals, and has been an executive officer of those companies for more than the past five years. Dr. Lawrence, 60, has been a director of Pacific Gas and Electric Company since January 1995 and a director of PG&E Corporation since December 1996. He also is a director of Agilent Technologies Inc.

[PHOTOGRAPH]

MARY S. METZ

Dr. Metz is President of S. H. Cowell Foundation, and has held that position since January 1999. Prior to that date, she was Dean of University Extension, University of California, Berkeley from July 1991 to June 1998. Dr. Metz, 63, has been a director of Pacific Gas and Electric Company since March 1986 and a director of PG&E Corporation since December 1996. She also is a director of Longs Drug Stores Corporation, SBC Communications Inc., Sodexo Marriott Services, Inc., and UnionBanCal Corporation.

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[PHOTOGRAPH]

CARL E. REICHARDT

Mr. Reichardt is retired Chairman of the Board and Chief Executive Officer of Wells Fargo & Company (bank holding company) and Wells Fargo Bank, N.A. He was an executive officer of Wells Fargo Bank, N.A. from 1978 until his retirement in December 1994. Mr. Reichardt, 69, has been a director of Pacific Gas and Electric Company since February 1985 and a director of PG&E Corporation since December 1996. He also is a director of ConAgra, Inc., Ford Motor Company, HCA - The Healthcare Co., HSBC Holdings PLC, McKesson HBOC, Inc., and Newhall Management Corporation.

[PHOTOGRAPH]

GORDON R. SMITH\*

Mr. Smith is President and Chief Executive Officer of Pacific Gas and Electric Company, and has been an officer of Pacific Gas and Electric Company since June 1980. Mr. Smith, 53, has been a director of Pacific Gas and Electric Company since June 1997.

[PHOTOGRAPH]

BARRY LAWSON WILLIAMS

Mr. Williams is President of Williams Pacific Ventures, Inc. (business consulting and mediation), and has held that position since May 1987. He also has served as interim President and Chief Executive Officer of the American Management Association (management development organization) since November 2000. Mr. Williams, 56, has been a director of Pacific Gas and Electric Company since September 1990 and a director of PG&E Corporation since December 1996. He also is a director of CH2M Hill Companies, Ltd., Newhall Management Corporation, R.H. Donnelley Inc., The Simpson Manufacturing Company Inc., Synavant Inc., and USA Education, Inc.

\* Gordon R. Smith is a nominee for director of Pacific Gas and Electric Company only.

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Information Regarding the  
Boards of Directors of PG&E Corporation and  
Pacific Gas and Electric Company

BOARD COMMITTEES

The committees of the PG&E Corporation Board of Directors are the Executive Committee, Audit Committee, Finance Committee, Nominating and Compensation Committee, and Public Policy Committee. The Pacific Gas and Electric Company Board of Directors has an Executive Committee and Audit Committee. The current membership and duties of these committees are as follows:

EXECUTIVE  
COMMITTEES

AUDIT  
COMMITTEES

FINANCE  
COMMITTEE

NOMINATING AND  
COMPENSATION  
COMMITTEE

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R. D. Glynn, Jr.*	C. L. Cox*	B. L. Williams*	C. E. Reichardt*
C. L. Cox	D. R. Andrews	D. R. Andrews	D. A. Coulter
M. S. Metz	W. S. Davila	D. A. Coulter	C. L. Cox
C. E. Reichardt	M. S. Metz	C. E. Reichardt	D. M. Lawrence, MD
G. R. Smith(1)	B. L. Williams		
B. L. Williams			

\* Chair

(1) Member of the Pacific Gas and Electric Company Executive Committee only.

### EXECUTIVE COMMITTEES

Each Executive Committee, subject to the provisions of law and certain limits imposed by the PG&E Corporation or the Pacific Gas and Electric Company Board (as the case may be), may exercise any of the powers and perform any of the duties of the PG&E Corporation Board or the Pacific Gas and Electric Company Board, respectively. The Executive Committees meet as needed. One PG&E Corporation Executive Committee meeting was held in 2000 and no Pacific Gas and Electric Company Executive Committee meetings were held in 2000.

### AUDIT COMMITTEES

The Audit Committees of PG&E Corporation (five meetings were held in 2000) and Pacific Gas and Electric Company (committee was established in February 2001) advise and assist the Boards of Directors of those entities in fulfilling their responsibilities in connection with financial and accounting practices, internal controls, external and internal auditing programs, business ethics, and compliance with laws, regulations, and policies that may have a material impact on the consolidated financial statements of PG&E Corporation, Pacific Gas and Electric Company, and their respective subsidiaries. The Audit Committees satisfy themselves as to the independence and competence of PG&E Corporation's and Pacific Gas and Electric Company's independent public accountants, and review and discuss with the independent accountants and with PG&E Corporation's and Pacific Gas and Electric Company's officers and internal auditors the scope and results of the independent accountants' audit work, consolidated quarterly and annual financial statements, the quality and effectiveness of internal controls, and compliance with laws, regulations, policies, and programs. The Audit Committees also recommend to the appropriate Board of Directors the firm of independent public accountants to be selected to audit PG&E Corporation's and Pacific Gas and Electric Company's accounts, and make further inquiries as they deem necessary or desirable to inform themselves as to the conduct of the affairs of PG&E Corporation, Pacific Gas and Electric Company, and their respective subsidiaries.

The members of the Audit Committees of PG&E Corporation and Pacific Gas and Electric Company are identical. The Audit Committees are composed entirely of directors who are (a) financially knowledgeable, including at least one member who has accounting or related financial management expertise, (b) neither current nor former officers or employees of PG&E Corporation, Pacific Gas and Electric Company or their subsidiaries, (c) not consultants to PG&E Corporation, Pacific Gas and Electric Company or any of their subsidiaries, and (d) neither current nor former officers or employees of any other corporation on whose board of directors any PG&E Corporation or Pacific Gas and Electric Company officer serves as a member. The members of the Audit Committees are independent as defined in the listing standards of the New York Stock Exchange and the American

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Stock Exchange. One member of each Committee is appointed by the appropriate Board of Directors as the Committee's Chair.

### FINANCE COMMITTEE

The Finance Committee of PG&E Corporation (13 meetings were held in 2000) advises and assists the Board with respect to the financial and capital investment policies and objectives of PG&E Corporation and its subsidiary companies, including specific actions required to achieve those objectives. The Finance Committee reviews long-term financial and investment plans and strategies, annual financial plans, dividend policy, short-term and long-term financing plans, proposed capital investments, proposed divestments, major commercial banking, investment banking, financial consulting, and other financial relations of PG&E Corporation or its subsidiaries, and price risk management activities.

One member of the Committee, who is neither a current nor former employee of, nor current consultant to, PG&E Corporation or any of its subsidiaries, is appointed by the Board of Directors as the Committee's Chair.

### NOMINATING AND COMPENSATION COMMITTEE

The Nominating and Compensation Committee of PG&E Corporation (seven meetings were held in 2000) advises and assists the Boards of PG&E Corporation and Pacific Gas and Electric Company with respect to the selection and compensation of directors. It also advises and assists PG&E Corporation and its subsidiaries on employment, compensation, benefits policies and practices, and the development, selection, and compensation of policy-making officers. The Nominating and Compensation Committee reviews and acts upon the compensation of officers of PG&E Corporation and its subsidiaries, except that the compensation of the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company is established by the full PG&E Corporation or Pacific Gas and Electric Company Board (as the case may be) upon recommendation of the Committee, and the Committee has delegated to the PG&E Corporation Chief Executive Officer the authority to approve compensation for certain officers of PG&E Corporation and its subsidiaries. The Committee also reviews long-range planning for executive development and succession, and the composition and performance of the Boards of PG&E Corporation and Pacific Gas and Electric Company.

The Nominating and Compensation Committee is composed entirely of directors who are (a) neither current nor former officers or employees of PG&E Corporation or any of its subsidiaries, (b) not consultants to PG&E Corporation or any of its subsidiaries, and (c) neither current nor former officers or employees of any other corporation on whose board of directors any PG&E Corporation officer serves as a member. One member of the Committee is appointed by the Board of Directors as the Committee's Chair.

The Nominating and Compensation Committee will consider nominees recommended by shareholders for election to the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company. The names of such nominees, accompanied by relevant biographical information, should be submitted in writing to the Vice President and Corporate Secretary of PG&E Corporation or Pacific Gas and Electric Company (as the case may be). The Nominating and Compensation Committee seeks qualified, dedicated, and highly regarded individuals who have experience relevant to PG&E Corporation's or Pacific Gas and Electric Company's business operations, who understand the complexities of PG&E Corporation's or Pacific Gas and Electric Company's business environment, and who will represent the best interests of all the shareholders of PG&E Corporation or Pacific Gas and Electric Company. In accordance with PG&E Corporation's and Pacific Gas and Electric Company's commitment to equal opportunity, the Committee continues to seek qualified women and minority candidates for the Boards.

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### PUBLIC POLICY COMMITTEE

The Public Policy Committee of PG&E Corporation (three meetings were held in 2000) advises and assists the Board of Directors with respect to public policy issues which could affect significantly the interests of the customers, shareholders, or employees of PG&E Corporation or its subsidiaries. The Public Policy Committee reviews the policies and practices of PG&E Corporation and its subsidiaries with respect to protection and improvement of the quality of the environment, charitable and community service organizations and activities, equal opportunity in hiring and promoting employees, and development of minority-owned and women-owned businesses as suppliers to PG&E Corporation and its subsidiaries. The Committee also reviews significant societal, governmental, and environmental trends and issues that may affect the operations of PG&E Corporation or its subsidiaries.

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One member of the Committee, who is neither a current nor former employee of, nor current consultant to, PG&E Corporation or any of its subsidiaries, is appointed by the Board of Directors as the Committee's Chair.

### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Thirteen meetings of the PG&E Corporation Board of Directors and 29 meetings of the PG&E Corporation Board committees were held in 2000. Overall attendance of incumbent directors at such meetings was 97%. Individual attendance at meetings of the PG&E Corporation Board of Directors and Board committees was as follows: D. R. Andrews 100%, D. A. Coulter 94%, C. L. Cox 96%, W. S. Davila 100%, R. D. Glynn, Jr. 100%, D. M. Lawrence 90%, M. S. Metz 95%, C. E. Reichardt 100%, and B. L. Williams 100%.

Ten meetings of the Pacific Gas and Electric Company Board of Directors were held in 2000. Overall attendance of incumbent directors at these meetings was 97%. Individual attendance at the meetings was as follows: D. R. Andrews 100%, D. A. Coulter 90%, C. L. Cox 90%, W. S. Davila 100%, R. D. Glynn, Jr. 100%, D. M. Lawrence 90%, M. S. Metz 100%, C. E. Reichardt 100%, G. R. Smith 100%, and B. L. Williams 100%. There were no meetings of the Pacific Gas and Electric Company Executive Committee in 2000.

### COMPENSATION OF DIRECTORS

Each director who is not an officer or employee of PG&E Corporation or Pacific Gas and Electric Company receives a quarterly retainer of \$7,500 plus a fee of \$1,000 for each Board or Board committee meeting attended. Non-employee directors who chair Board committees receive an additional quarterly retainer of \$625. Under the Deferred Compensation Plan for Non-Employee Directors, directors of PG&E Corporation or Pacific Gas and Electric Company may elect to defer all or part of such compensation for varying periods. Directors who participate in the Deferred Compensation Plan may convert their deferred compensation into a number of common stock equivalents, the value of which is tied to the market value of PG&E Corporation common stock. Alternatively, participating directors may direct that their deferred compensation earn interest.

No director who serves on both the PG&E Corporation and Pacific Gas and Electric Company Boards and corresponding committees is paid additional compensation for concurrent service on Pacific Gas and Electric Company's Board or its committees, except that separate meeting fees are paid for each meeting of the Pacific Gas and Electric Company Board, or a Pacific Gas and Electric Company Board committee, that is not held concurrently or sequentially with a meeting of the PG&E Corporation Board or a corresponding PG&E Corporation Board committee. It is the usual practice of PG&E Corporation and Pacific Gas and

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Electric Company that meetings of the respective Boards and corresponding committees are held concurrently and, therefore, that a single meeting fee is paid to each director for each set of meetings.

In addition, directors of PG&E Corporation or Pacific Gas and Electric Company are reimbursed for reasonable expenses incurred in attending Board or committee meetings. Directors of PG&E Corporation or Pacific Gas and Electric Company also are reimbursed for reasonable expenses incurred in connection with other activities undertaken on behalf of or for the benefit of PG&E Corporation or Pacific Gas and Electric Company.

Effective January 1, 1998, the PG&E Corporation Retirement Plan for Non-Employee Directors was terminated. Directors who had accrued benefits under the Plan were given a one-time option of receiving at retirement the benefit accrued through 1997, or of converting the present value of their accrued benefit into a PG&E Corporation common stock equivalent investment held in the Deferred Compensation Plan for Non-Employee Directors. The payment of frozen accrued retirement benefits, or distributions from the Deferred Compensation Plan attributable to the conversion of retirement benefits, cannot be made until the later of age 65 or retirement from the Board.

Under the Non-Employee Director Stock Incentive Plan, a component of the PG&E Corporation Long-Term Incentive Program, on the first business day of January of each year, each non-employee director of PG&E Corporation is entitled to receive stock-based grants with a total aggregate equity value of \$30,000, composed of (1) restricted shares of PG&E Corporation common stock valued at \$10,000 (based on the closing price of PG&E Corporation common stock on the first business day of the year), and (2) a combination of non-qualified stock options and common stock equivalents with a total equity value of \$20,000, based on equity value increments of \$5,000. The exercise price of stock options is equal to the market value of PG&E Corporation common stock (i.e., the closing price) on the date of grant. Restricted stock and stock options vest over the five-year period following the date of grant, except that restricted stock and stock options will vest immediately upon mandatory retirement from the Board at age 70, upon a director's death or disability, or in the event of a change in control. Common stock equivalents awarded are payable in the form of PG&E Corporation common stock only following a

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director's retirement from the Board, upon a director's death or disability, or in the event of a change in control. Unvested awards are forfeited if the recipient ceases to be a director for any other reason.

On January 3, 2000, each non-employee director received 504 restricted shares of PG&E Corporation common stock. In addition, directors who were granted stock options received options to purchase 1,915 shares of PG&E Corporation common stock for each \$5,000 increment of equity value (subject to the aggregate \$20,000 limit) at an exercise price of \$19.8125 per share, and directors who were granted common stock equivalents received 252 common stock equivalent units for each \$5,000 increment of equity value (subject to the aggregate \$20,000 limit).

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Andrews, a director of PG&E Corporation and Pacific Gas and Electric Company, is a member at the law firm of McCutchen, Doyle, Brown & Enersen, LLP. Although Mr. Andrews does not personally provide legal services to PG&E Corporation, Pacific Gas and Electric Company, or their affiliates, Mr. Andrews' law firm has provided general legal services to Pacific Gas and Electric Company in the normal course of business, and such services could continue in the

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future.

### BOARD OF DIRECTORS RETIREMENT POLICY

It is the policy of the Boards of Directors of PG&E Corporation and Pacific Gas and Electric Company that a person may not be designated as a candidate for election or re-election as a director after he or she has reached the age of 70.

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### SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth the number of shares of PG&E Corporation common stock beneficially owned (as defined in the rules of the Securities and Exchange Commission) as of March 31, 2001, by the respective directors of PG&E Corporation and Pacific Gas and Electric Company, the nominees for director, the current executive officers of PG&E Corporation and Pacific Gas and Electric Company named in the Summary Compensation Table on pages 31-32, and all directors and executive officers of PG&E Corporation and Pacific Gas and Electric Company as a group. The number of shares shown for each such person, and for the directors, nominees for director, and executive officers as a group, constituted less than 1 percent of the outstanding shares of PG&E Corporation common stock. As of March 31, 2001, no director, nominee for director, or executive officer owned shares of any class of Pacific Gas and Electric Company securities. The table also sets forth common stock equivalents credited to the accounts of directors and executive officers under PG&E Corporation's deferred compensation and equity plans.

NAME	BENEFICIAL STOCK OWNERSHIP (1) (2)	COMMON STOCK EQUIVALENTS (3)	T
David R. Andrews(4)	511	766	
David A. Coulter(4)	4,115	10,919	
C. Lee Cox(4)	18,155	1,506	
William S. Davila(4)	14,188	10,501	
Robert D. Glynn, Jr.(5)	762,623	99,181	8
David M. Lawrence, MD(4)	17,681	2,306	
Mary S. Metz(4)	11,709	1,748	
Carl E. Reichardt(4)	9,980	13,600	
Gordon R. Smith(6)	345,684	20,058	3
Barry Lawson Williams(4)	9,280	5,689	
Thomas G. Boren(7)	26,483	55,109	
Peter A. Darbee(7)	35,397	10,345	
P. Chrisman Iribe(7)	117,482	21,298	1
Thomas B. King(7)	58,750	97,245	1
L. E. Maddox(7)	213,784	33,349	2
Kent M. Harvey(8)	85,973	0	
Roger J. Peters(8)	79,054	0	
James K. Randolph(8)	101,659	141	1
Daniel D. Richard, Jr.(8)	63,102	438	
Gregory M. Rueger(8)	163,096	0	1
All PG&E Corporation directors and executive officers as a group (18 persons)	2,098,352	421,079	2,5
All Pacific Gas and Electric Company directors and executive officers as a group (15 persons)	1,686,810	166,853	1,8

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- (1) Includes any shares held in the name of the spouse, minor children, or other relatives sharing the home of the director or executive officer and, in the case of executive officers, includes shares of PG&E Corporation common stock held in the defined contribution retirement plans maintained by PG&E Corporation, Pacific Gas and Electric Company, and their subsidiaries. Except as otherwise indicated below, the directors, nominees for director, and executive officers have sole voting and investment power over the shares shown. Voting power includes the power to direct the voting of the shares held, and investment power includes the power to direct the disposition of the shares held.

Also includes the following shares of PG&E Corporation common stock in which the beneficial owners share voting and investment power: Mr. Coulter 4,155 shares, Mr. Cox 12,666 shares, Mr. Davila 200 shares, Dr. Metz 4,868 shares, Mr. Smith 3,884 shares, Mr. Peters 3,042 shares, all PG&E Corporation directors and executive officers as a group 29,031 shares, and all Pacific Gas and Electric Company directors and executive officers as a group 28,815 shares.

- (2) Includes shares of PG&E Corporation common stock which the directors and executive officers have the right to acquire within 60 days of March 31, 2001, through the exercise of vested stock options granted under the PG&E Corporation Long-Term Incentive Program, as follows: Mr. Cox 5,489 shares, Mr. Glynn 739,791 shares,

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Dr. Lawrence 5,489 shares, Dr. Metz 4,614 shares, Mr. Reichardt 5,489 shares, Mr. Smith 322,301 shares, Mr. Williams 4,991 shares, Mr. Boren 11,718 shares, Mr. Iribe 99,234 shares, Mr. King 50,001 shares, Mr. Maddox 213,035 shares, Mr. Harvey 82,968 shares, Mr. Peters 72,968 shares, Mr. Randolph 100,968 shares, Mr. Richard 62,668 shares, Mr. Rueger 156,601 shares, all PG&E Corporation directors and executive officers as a group 1,873,954 shares, and all Pacific Gas and Electric Company directors and executive officers as a group 1,564,337 shares. The directors and executive officers have neither voting power nor investment power with respect to shares shown unless and until such shares are purchased through the exercise of the options, pursuant to the terms of the PG&E Corporation Long-Term Incentive Program.

- (3) Reflects the number of stock units purchased by officers and directors through salary and other compensation deferrals or awarded under equity compensation plans. The value of each stock unit is equal to the value of a share of PG&E Corporation common stock and fluctuates daily based on the market price of PG&E Corporation common stock. The directors and officers who own these stock units share the same market risk as PG&E Corporation shareholders, although they do not have voting rights with respect to these stock units.
- (4) Mr. Andrews, Mr. Coulter, Mr. Cox, Mr. Davila, Dr. Lawrence, Dr. Metz, Mr. Reichardt, and Mr. Williams are directors of both PG&E Corporation and Pacific Gas and Electric Company.
- (5) Mr. Glynn is a director and executive officer of PG&E Corporation, and also is Chairman of the Board of Directors of Pacific Gas and Electric Company. He is named in the Summary Compensation Table on pages 31-32.
- (6) Mr. Smith is a director and an executive officer of Pacific Gas and Electric Company, and also is an executive officer of PG&E Corporation. He is named in the Summary Compensation Table on pages 31-32.



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- (7) Mr. Boren, Mr. Darbee, Mr. Iribe, Mr. King, and Mr. Maddox are executive officers of PG&E Corporation named in the Summary Compensation Table on pages 31-32.
- (8) Mr. Harvey, Mr. Peters, Mr. Randolph, Mr. Richard, and Mr. Rueger are executive officers of Pacific Gas and Electric Company named in the Summary Compensation Table on pages 31-32.

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Item No. 2:

Ratification of Appointment of Independent Public Accountants

On the recommendation of the Audit Committees of PG&E Corporation and Pacific Gas and Electric Company, the Boards of Directors of those entities have selected Deloitte & Touche LLP as the independent public accountants to examine the consolidated financial statements of PG&E Corporation and Pacific Gas and Electric Company for the year 2001. Deloitte & Touche LLP is a major national accounting firm with substantial expertise in the energy and utility businesses. Deloitte & Touche LLP has been employed to perform this function for PG&E Corporation and Pacific Gas and Electric Company since 1999.

Audit Fees. For the year ended December 31, 2000, estimated fees for services rendered by Deloitte & Touche LLP for the reviews of Forms 10-Q and for the audits of the financial statements of PG&E Corporation and its subsidiaries are \$3.1 million. This amount includes fees for stand-alone audits of various subsidiaries, including estimated fees of \$1.1 million for Pacific Gas and Electric Company and its subsidiaries.

Financial Information Systems Design and Implementation Fees. For the year ended December 31, 2000, Deloitte & Touche LLP and its affiliates did not render any services related to the design and implementation of financial information systems for PG&E Corporation or Pacific Gas and Electric Company.

All Other Fees. For the year ended December 31, 2000, aggregate fees for all other services rendered by Deloitte & Touche LLP and its affiliates to PG&E Corporation and its subsidiaries were \$11.3 million. This amount includes \$4.4 million for Pacific Gas and Electric Company and its subsidiaries.

One or more representatives of Deloitte & Touche LLP will be present at the annual meetings, with the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

The affirmative vote of a majority of the shares represented and voting on the proposal is required to ratify the appointment of the independent public accountants and the affirmative votes must constitute a majority of the required quorum. Abstentions will have the same effect as a vote against the proposal. Unless indicated to the contrary, properly executed proxies received by PG&E Corporation or Pacific Gas and Electric Company prior to or at the annual meetings will be voted "FOR" this proposal.

This appointment is not required to be submitted to a vote of the shareholders. If the shareholders of either PG&E Corporation or Pacific Gas and Electric Company should not ratify the appointment, the respective Audit Committee will investigate the reasons for rejection by the shareholders and the respective Board of Directors will reconsider the appointment.

THE BOARDS OF DIRECTORS OF PG&E CORPORATION AND PACIFIC GAS AND ELECTRIC COMPANY  
UNANIMOUSLY RECOMMEND A VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF  
DELOITTE & TOUCHE LLP.

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IF YOU DO NOT HOLD ANY SHARES OF PG&E CORPORATION COMMON STOCK, YOU ARE NOT ENTITLED TO VOTE ON THE FOLLOWING MANAGEMENT PROPOSAL.

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Item No. 3:  
Management Proposal

TO BE VOTED ON BY PG&E CORPORATION SHAREHOLDERS ONLY

The following proposal has been submitted by PG&E Corporation's management for action at the Corporation's annual meeting. To be approved, this proposal must receive the affirmative vote of a majority of the PG&E Corporation shares represented and voting on the proposal and the affirmative votes must constitute at least a majority of the required quorum. Abstentions will be counted in the number of shares represented and voting, and will have the same effect as a vote against the proposal. Broker non-votes with respect to the proposal, if any, will be counted for purposes of determining the presence or absence of a quorum, but will not be counted in the number of shares represented and voting on the proposal. Unless indicated to the contrary, properly executed proxies received by PG&E Corporation prior to or at the annual meeting will be voted "FOR" this proposal.

ITEM NO. 3: MANAGEMENT PROPOSAL REGARDING INCREASE IN SHARES AVAILABLE TO BE ISSUED UNDER THE LONG-TERM INCENTIVE PROGRAM

The PG&E Corporation Board of Directors has unanimously approved, and recommends to the shareholders for approval, an increase in the number of shares of PG&E Corporation common stock available to be issued under the PG&E Corporation Long-Term Incentive Program (the "LTIP"). There are currently 34,389,230 shares of PG&E Corporation common stock reserved for issuance under the LTIP. As of April 4, 2001, approximately 1.9 million shares of the Corporation's common stock already had been issued pursuant to stock options granted under the LTIP and approximately 31.5 million shares were subject to outstanding awards under the LTIP, leaving approximately 1 million shares available to be issued pursuant to future awards under the LTIP. If the shareholders approve the proposed increase, an additional 15 million shares would be reserved for use under the LTIP, bringing the approximate number of shares available to be issued pursuant to future awards under the LTIP to 16 million.

#### PURPOSE

The LTIP is designed to advance the interests of the Corporation and its shareholders by providing officers, key management employees, and other eligible participants with financial incentives tied directly to the Corporation's long-term business objectives. The LTIP encompasses and supplements three plans: the Stock Option Plan, the Performance Unit Plan, and the Non-Employee Director Stock Incentive Plan, each of which is described below. In addition, other types of incentive awards may be granted to eligible participants in accordance with such terms as may be adopted by the Committee.

The Nominating and Compensation Committee (the "Committee") of the PG&E Corporation Board of Directors, a committee composed entirely of outside directors, recommended that the Board of Directors approve the proposed increase in the number of shares available to be issued under the LTIP.

#### TYPES OF INCENTIVE AWARDS

The LTIP contains a number of optional forms of incentive awards that may

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be used at the sole discretion of the Committee. Incentive awards under the LTIP may take the form of stock options, stock appreciation rights ("SARs"), dividend equivalents, performance units, restricted stock, common stock equivalents, or other stock-based awards. The stock options may be incentive stock options ("ISOs") intended to qualify for special tax treatment or non-qualified stock options ("NQSOs").

At the present time, PG&E Corporation uses the LTIP to grant stock options and other stock-based awards to eligible employees, to award performance units to eligible employees, and to grant options, restricted stock, and common stock equivalents to eligible non-employee directors pursuant to the formula provisions of the Non-Employee Director Stock Incentive Plan component of the LTIP. Under the LTIP, no more than 2 million of the currently authorized shares may be issued in the form of restricted stock, and no more than 3 million of the proposed additional shares could be issued in the form of restricted stock.

The type of incentive award to be granted, as well as the terms and conditions of the award, is determined by the Committee at the time of grant, except that, as described below, non-employee directors are not eligible to

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receive any form of incentive award under the LTIP other than pursuant to the formula provisions of the Non-Employee Director Stock Incentive Plan. (See "Non-Employee Director Stock Incentive Plan" below.)

### ELIGIBILITY

All officers of PG&E Corporation are eligible to participate in the LTIP. Also eligible to participate, if so identified by the Committee (or by the Chief Executive Officer of PG&E Corporation, to the extent authorized by the LTIP), are officers of wholly owned subsidiaries of PG&E Corporation, other key management employees of PG&E Corporation or any wholly owned subsidiary of the Corporation, other employees or consultants of PG&E Corporation or any subsidiary or affiliate of the Corporation, and other persons whose participation in the LTIP is deemed by the Committee to be in the best interests of the Corporation. As of December 31, 2000, there were 23 current or former officers of PG&E Corporation, 128 current or former officers of PG&E Corporation subsidiaries, 917 current or former key management employees of PG&E Corporation and its subsidiaries, and no other persons participating in the LTIP.

Non-employee directors of PG&E Corporation are eligible to receive grants of incentive awards in accordance with, and subject to, the terms and conditions of the Non-Employee Director Stock Incentive Plan component of the LTIP. Non-employee directors are not eligible to receive any other incentive award under the LTIP. There currently are eight non-employee directors of PG&E Corporation, all of whom are eligible to receive incentive awards under the formula provisions of the Non-Employee Director Stock Incentive Plan.

### ADMINISTRATION OF THE LTIP

Except with respect to incentive awards granted to non-employee directors, the Committee determines the eligible participants who will be granted incentive awards, determines the amount and type of award, determines the terms and conditions of awards, construes and interprets the LTIP, and makes all other determinations with respect to the LTIP, to the extent permitted by applicable law and subject to certain restrictions specified in the LTIP. The Chief Executive Officer of PG&E Corporation has authority to grant incentive awards in conformance with the guidelines approved by the Committee to eligible participants who are neither officers nor directors of the Corporation.

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### EFFECTIVE DATE AND DURATION OF THE LTIP

The LTIP became effective as of January 1, 1992, and will terminate on December 31, 2005, unless terminated sooner according to the terms of the LTIP.

### SHARES SUBJECT TO THE LTIP

If the shareholders approve the proposed increase in shares, the LTIP would permit a maximum of 49,389,230 shares of PG&E Corporation common stock for use under the LTIP, of which approximately 16 million would be available to be issued pursuant to future awards. No more than 2 million shares currently reserved for issuance under the LTIP, and no more than 3 million of the 15 million proposed additional shares, could take the form of restricted stock. Shares of PG&E Corporation common stock covered by previously granted incentive awards may be reused or added back to the LTIP under certain circumstances set forth in the LTIP and to the extent permitted by applicable law.

### STOCK OPTION PLAN

The Committee may grant ISOs, NQSOs, tandem SARs, and tandem dividend equivalents to eligible participants (see "Eligibility" above), subject to the terms and conditions of the Stock Option Plan adopted by the Committee.

Stock Options. Stock options allow the optionee to buy a certain number of shares of PG&E Corporation common stock at an exercise price equal to the market price at the time the option is granted. The option may not be exercised until the right to do so has vested under a schedule approved by the Committee. Although vesting schedules may vary, the vesting schedule currently used by the Committee generally provides that one-third of the options may be exercised on or after the second anniversary of the date of grant, two-thirds on or after the third anniversary, and 100 percent on or after the fourth anniversary. Options which are granted in lieu of bonus generally are vested immediately, although the options may not be exercised for at least one year after the date of grant.

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Tandem SARs. At the discretion of the Committee, options may be granted with or without tandem SARs which permit an optionee to surrender an option or a portion thereof in exchange for a cash payment equal to the difference between the current market value of PG&E Corporation common stock and the exercise price. A tandem SAR is subject to the same terms and conditions as the related option, except that it may be exercised only when the market value exceeds the exercise price. Certain restrictions also exist with respect to the payment of the dividend equivalent account to the optionee (see "Tandem Dividend Equivalents" below). In addition, SARs held by executive officers of PG&E Corporation and other participants who are subject to Section 16 of the Securities Exchange Act of 1934 may be exercised only during certain quarterly window periods. No SARs have been granted since 1991.

Tandem Dividend Equivalents. Options may be granted with or without tandem dividend equivalents. When an option is granted with tandem dividend equivalents, a dividend equivalent account is established for the optionee. On each dividend record date for PG&E Corporation common stock, the optionee's account is credited with an amount equal to the dividend on PG&E Corporation common stock subject to the unexercised portion of the option. Funds in the account are accessible only when (1) the option or related tandem SAR is exercised, and (2) if an SAR is exercised, the market value of PG&E Corporation common stock has increased by an average of at least 5 percent per year for the first five years after the grant or, in the case of options held for longer than five years, such market value has increased by at least 25 percent. In June 1997, the Committee determined to discontinue granting tandem dividend

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equivalents with options and no option grants with dividend equivalents have been made since that time.

Payment for Shares Upon Exercise of Stock Options. At the time an option is exercised, shares of PG&E Corporation common stock may be purchased using (1) cash (including any dividend equivalent account funds), (2) shares of PG&E Corporation common stock owned by the optionee for at least one year, (3) a "cashless exercise" procedure (whereby a broker sells the shares or holds them as collateral for a margin loan, and delivers the option sale or loan proceeds to the optionee), or (4) any combination of the foregoing or any other method of payment which the Committee may allow. The Corporation will not make loans to optionees for the purpose of exercising options.

Term of Options and Tandem SARs. Although the Committee has the discretion to vary the term of an option and any related tandem SAR, in general, the term of each ISO and related tandem SAR is 10 years and the term of each NQSO and related tandem SAR is 10 years and one day, subject to earlier termination, as described below.

Termination of Employment or Relationship with the Corporation. Upon termination of the optionee's employment or relationship with the Corporation without cause, (1) any unexercised options shall be canceled and terminated immediately, except that any unexercised options which are vested may be exercised during the balance of their term or within 30 days of termination, whichever is shorter, and (2) the optionee's dividend equivalent account (if any) shall not be credited with any dividends paid after the date of termination. However, if an optionee is covered by the PG&E Corporation Officer Severance Policy, unvested options will continue to vest after termination of employment for a certain time period and all vested options will be exercisable for a certain time period after termination of employment. If an optionee is terminated for cause any unexercised options will be terminated immediately. If an optionee's employment is terminated by reason of retirement, death, disability, or divestiture or change in control of a subsidiary of PG&E Corporation, or if an optionee's employment is terminated without cause within one year after a change in control of PG&E Corporation, (1) special rules allow the optionee to exercise all vested and unvested options within certain time periods after termination, and (2) the optionee's dividend equivalent account (if any) shall continue to be credited with dividends on unexercised options as long as those options remain exercisable. For more information, see "Termination of Employment and Change in Control Provisions" on page 37.

Limitation on Options and SARs Awarded to Any Optionee. The LTIP provides that, during any calendar year, an eligible participant may be granted options and SARs representing no more than 2 percent of the total number of shares reserved for use under the LTIP.

### PERFORMANCE UNIT PLAN

The Committee may grant performance units to certain officers of PG&E Corporation and such other employees of PG&E Corporation, other companies, affiliates, subsidiaries, or associations as may be designated by the Committee, subject to the terms and conditions of the Performance Unit Plan adopted by the Committee. The number of units granted to a recipient is determined by the Committee based upon recommendations made by the Chief Executive Officer of PG&E Corporation. The number of units granted is based on the Corporation's financial

success, its future business plans, relevant compensation, general economic conditions, and other appropriate factors.

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Vesting. The performance units vest one-third in each of the three years following the year of grant. At the time of the annual grant of units, the Committee establishes performance targets to be met within the vesting period as a condition of earning the units. Performance targets may be based entirely on corporate goals, entirely on business unit goals, or partially on corporate goals and partially on business unit goals. Performance targets may be adjusted during the vesting period, at the Committee's sole discretion, to reflect extraordinary events beyond management's control.

For example, the Committee has approved the following performance target for the 2001 performance unit grants: to achieve a three-year cumulative total shareholder return that equals at least the 75th percentile of the three-year cumulative total shareholder return of the 12 company comparator group. To the extent that this performance target is met, the recipient would receive 100 percent of the vested units; performance below the target results in a reduction or elimination entirely of the number of units paid to the recipient; and performance above the target can result in an increase up to 200 percent. The value of a unit at payment is equal to the average market price of PG&E Corporation common stock for the 30 calendar day period prior to the end of the year in which the unit qualifies for payment.

Dividend Equivalents. Each time a cash dividend is declared on PG&E Corporation common stock, an amount equal to the cash dividend per share multiplied by the number of outstanding but unearned units held by the recipient of a performance unit will be accrued on behalf of the recipient. As soon as practicable following the end of each year, recipients will receive a cash payment of the dividends accrued for the year, modified by performance for that year as measured against the applicable performance target.

Termination of Employment or Relationship with the Corporation. If the employment of a recipient of performance units is terminated by the Corporation without cause, unvested awards will be forfeited. However, if the recipient is covered by the PG&E Corporation Officer Severance Policy, awards under the Performance Unit Plan will continue to vest and be payable during a certain period of time after termination of employment. Any unvested awards remaining at the end of such period will be forfeited. If a recipient's employment is terminated by reason of retirement, death, or disability, awards will continue to be payable, subject to modification based upon performance in the year during which employment terminated. For more information, see "Termination of Employment and Change in Control Provisions" on page 37.

### NON-EMPLOYEE DIRECTOR STOCK INCENTIVE PLAN

On the first business day of each calendar year during the term of the LTIP, each PG&E Corporation director who is not an employee of the Corporation automatically receives incentive awards with an aggregate fair market value (as determined in accordance with the Plan) of \$30,000. The incentive awards are composed of restricted stock having an aggregate fair market value as of the first business day of each calendar year of \$10,000, and a combination of stock options and common stock equivalents having an aggregate value (as is determined in accordance with the Plan) of \$20,000 as of the first business day of the calendar year.

Restricted Stock. Shares of restricted stock may be forfeited to PG&E Corporation to the extent that they are not vested. Such shares generally will vest at the rate of 20 percent on each anniversary of the grant date. Non-employee directors will have all of the rights of a PG&E Corporation shareholder with respect to all outstanding shares of restricted stock, including the right to vote and receive dividends, whether or not such shares are vested. Upon termination of service as a PG&E Corporation director, any unvested shares of restricted stock will be forfeited. In the event of a termination by reason of mandatory retirement at the age specified in the PG&E Corporation Board of

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Directors retirement policy, by reason of death or disability, or by reason of a change in control, all shares of restricted stock will become fully vested.

Stock Options. The number of stock options to purchase shares of PG&E Corporation common stock is determined by dividing the equity value increment (subject to aggregate \$20,000 limit) by the per-option value on the first business day of the year. The per-option value is based on the Black-Scholes stock option valuation method, discounting the resulting value by 20 percent. Stock options awarded under the Plan to non-employee directors become exercisable as to one-third of the options on or after the second anniversary of the date of grant, as to two-thirds of the options on or after the third anniversary, and as to 100 percent on or after the fourth anniversary. The option exercise price is equal to the fair market value of PG&E Corporation common stock on the date of grant. Dividend equivalents are not granted in connection with the options. The term of each option is 10 years and one day from the date of grant. Upon termination of a director's service on the Board by reason of

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death, disability, mandatory retirement at age 70, or retirement after five years of continuous service on the Board, all options will become fully exercisable. Options will be exercisable for the longer of the remainder of the option term or five years in the case of termination by reason of mandatory retirement, or one year in the case of termination by reason of death or disability. If termination is for any other reason, unvested options shall terminate and vested options shall remain exercisable for three months after termination or the remainder of the option term, whichever is shorter.

Common Stock Equivalents. Each common stock equivalent unit awarded under the Plan to non-employee directors is equal to one share of PG&E Corporation common stock. The number of common stock equivalents is determined by dividing the equity value increment (subject to the aggregate \$20,000 limit) by the closing price of PG&E Corporation common stock on the first business day of the year. On each dividend payment date, additional common stock equivalents are credited to a director's account determined by dividing the aggregate amount of the dividends (the dividend multiplied by the number of common stock equivalent units on the dividend record date) by the closing price of PG&E Corporation common stock on the dividend payment date. Common stock equivalents are distributed to the director in the form of an equal number of shares of PG&E Corporation common stock upon the director's retirement from the Board after five years of continuous service or upon a director's mandatory retirement at age 70. Common stock equivalents also become payable immediately in the event of the director's death or disability. If a director's service on the Board terminates for any other reason, all common stock equivalents are forfeited on the date of termination.

### OTHER INCENTIVE AWARDS

The Committee also may grant other types of incentive awards, including stand-alone SARs or stand-alone dividend equivalents (SARs or dividend equivalents granted without options), stock grants, and limited SARs (SARs which are exercisable only in the event of a change in control). In October 1997, the Committee approved the Executive Stock Ownership Program under which certain officers are subject to stock ownership guidelines and, if they meet or exceed those guidelines, are entitled to receive a type of incentive award under the LTIP called a Special Incentive Stock Ownership Premium ("SISOP") to the extent the eligible officers reach certain designated stock ownership target levels. (For a further discussion of the Executive Stock Ownership Program, see "Nominating and Compensation Committee Report on Compensation" on pages 26-30.) SISOPs are credited to the officer's account under the PG&E Corporation Deferred

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Compensation Plan. SISOPs, once vested in accordance with the Executive Stock Ownership Program, will be distributed to the officer in accordance with the Deferred Compensation Plan in the form of an equal number of shares of PG&E Corporation common stock. When SISOPs are awarded, the shares of PG&E Corporation common stock subject to distribution upon settlement of the SISOPs are deducted from the pool of shares reserved for issuance under the LTIP. If SISOPs are forfeited, the shares previously subject to the SISOPs will become available again under the LTIP.

### TAX WITHHOLDING

To the extent that a recipient of an incentive award incurs any tax liability in connection with the exercise or receipt of an incentive award, the recipient's withholding obligation may be satisfied through payroll deductions or a direct cash payment to PG&E Corporation. In addition, the Committee may allow the recipient to satisfy all or part of such withholding obligation by allowing PG&E Corporation to withhold a portion of the shares to be issued to the recipient.

### RE-PRICING PROHIBITED

PG&E Corporation does not re-price or change the terms of options once they have been granted. The Committee may allow a recipient of an incentive award to surrender or exchange an unexercised option or award for another award of the same or a different type, as long as the exercise price or purchase price of the new option or award is not lower than the exercise price or purchase price of the original option or award.

### DEFERRAL OF PAYMENTS

The Committee may allow the deferral of any cash payments that may become due under the LTIP.

### ADJUSTMENT UPON CHANGES IN NUMBER OR VALUE OF SHARES OF COMMON STOCK

In order to prevent enlargement or dilution of rights resulting from stock dividends, stock splits, recapitalizations, mergers, consolidations, or other events that materially increase or decrease the number or value

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of shares of PG&E Corporation common stock, the Committee may make such adjustments as it deems appropriate.

### NON-TRANSFERABILITY OF INCENTIVE AWARDS

Incentive awards shall not be transferable otherwise than by will or by the laws of descent and distribution, and generally may be exercised during the lifetime of the recipient only by the recipient.

### CHANGE IN CONTROL

Upon the occurrence of a change in control (as defined in the LTIP), (1) any time periods relating to the exercise or realization of any incentive award will be accelerated so that such award may be exercised or realized in full immediately upon the change in control, (2) all shares of restricted stock will immediately cease to be forfeitable, and (3) all conditions relating to the realization of any stock-based award will immediately terminate. For more information, see "Termination of Employment and Change in Control Provisions" on page 37.



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### AMENDMENT AND TERMINATION OF THE LTIP AND INCENTIVE AWARDS

The PG&E Corporation Board of Directors or the Committee may at any time suspend, terminate, modify, or amend the LTIP in any respect. However, shareholder approval of amendments shall be obtained in the manner and to the degree required by applicable laws or regulations. The Committee also may amend or modify the terms and conditions of any incentive award, or may cancel or annul any grant of an award. No suspension, termination, modification, or amendment of the LTIP, and no amendment, modification, cancellation, or annulment of any incentive award, may adversely affect a recipient's rights under the LTIP or such incentive award without the recipient's consent. The Committee may not reduce the exercise price or purchase price of any outstanding option or incentive award below the original exercise price or purchase price.

### FUNDING

Inasmuch as the LTIP is designed to encourage financial performance and to improve the value of shareholders' investment in PG&E Corporation, the costs of the LTIP will be funded from corporate earnings.

### FEDERAL INCOME TAX CONSEQUENCES

The following is a brief description of the federal income tax consequences of stock options, tandem SARS, tandem dividend equivalents, performance units, common stock equivalents, and restricted stock granted under the LTIP under present tax laws.

**Non-Qualified Stock Options.** There will be no federal income tax consequences to either the optionee or PG&E Corporation upon the grant of a NQSO. Upon the exercise of a NQSO, the optionee generally will have taxable ordinary income equal to the difference between the current market value of the shares and the option exercise price, and the Corporation will be entitled to a federal income tax deduction of that amount.

**Incentive Stock Options.** There will be no federal income tax consequences to either the optionee or PG&E Corporation upon the grant or exercise of an ISO. However, unless the holding period requirements discussed below are violated, upon exercise of an ISO, an optionee will be deemed to have a tax preference item (equal to the difference between the current market value of the shares on the date of exercise and the option exercise price) that may result in alternative minimum tax liability. If an optionee exercises an ISO and does not dispose of the shares within two years from the date of grant or within one year from the date the shares are transferred to the optionee, any gain realized upon disposition will be taxable to the employee as long-term capital gain, and the Corporation will not be entitled to any deduction. If an optionee violates the holding period requirements, the optionee will realize ordinary income in the year of disposition, and the Corporation will be entitled to a corresponding deduction in an amount equal to the excess of (1) the lesser of (a) the amount realized on the sale or exchange or (b) the fair market value of the shares on the date of exercise, over (2) the option exercise price.

An ISO which is exercised more than three months after the optionee terminates employment with the Corporation will be treated as a NQSO for federal income tax purposes.

**Tandem Stock Appreciation Rights.** There will be no federal income tax consequences to either the optionee or PG&E Corporation upon the grant of a tandem SAR or during the period that the unexercised right remains outstanding. Upon the exercise of a tandem SAR, the amount received will be taxable to the optionee as ordinary income, and the Corporation will be entitled to a corresponding deduction.

Tandem Dividend Equivalents. There will be no federal income tax consequences to either the optionee or PG&E Corporation upon the establishment of a dividend equivalent account or during the period that funds accrue in the account. Amounts paid from the account will be taxable to the optionee as ordinary income, and the Corporation will be entitled to a corresponding deduction.

Performance Units. There will be no federal income tax consequences to either the recipient or PG&E Corporation upon the grant of performance units. Dividend equivalents paid on performance units will be taxable to the recipient as ordinary income, and the Corporation will be entitled to a corresponding deduction. Upon the payment of performance units, the amount received will be taxable to the recipient as ordinary income, and the Corporation will be entitled to a corresponding deduction.

Common Stock Equivalents. There will be no federal income tax consequences to either the recipient or PG&E Corporation upon the grant of common stock equivalents. The recipient will not recognize any income when additional common stock equivalents are credited to the recipient's account upon conversion of dividend equivalents. Upon distribution of common stock equivalents to the recipient, the recipient will recognize ordinary income equal to the value of the cash or securities distributed, and the Corporation will be entitled to a corresponding deduction.

Restricted Stock. Upon the grant of restricted stock subject to a vesting schedule, the recipient will be deemed to receive taxable ordinary income equal to the fair market value of the shares at the time they vest. Upon the sale or disposition of the shares, the recipient will realize capital gain or loss in an amount equal to the difference between the fair market value of the shares on each vesting date and the sale or disposition price.

Section 83(b) of the Internal Revenue Code permits a recipient to elect, within 30 days after the grant of any shares of restricted stock subject to a vesting schedule, to be taxed at the time of grant at ordinary income rates on the fair market value of all shares received, based on the fair market value of the shares on the date of grant. If the recipient makes a Section 83(b) election, any later appreciation in the value of the shares will be taxable as capital gain instead of ordinary income when they are sold or transferred.

At the time a recipient elects to be taxed on the grant of restricted stock, the Corporation will be entitled to a federal income tax deduction in an amount equal to the ordinary income recognized by the recipient.

#### BENEFITS UNDER THE LTIP

Subject to certain limitations, the Committee has full discretion to determine the number, type, and value of incentive awards to be granted to eligible participants under the LTIP. Thus, the benefits and amounts that will be received by or allocated to the officers, directors, and employees of PG&E Corporation are not determinable. Information regarding incentive awards granted to the named executive officers during the past year is presented in "Option/SAR Grants in 2000" on page 33 and "Long-Term Incentive Program--Awards in 2000" on page 35. The amount of incentive awards to be received by each non-employee director is determined under the formula provisions of the Non-Employee Director Stock Incentive Plan, as discussed above.

THE BOARD OF DIRECTORS OF PG&E CORPORATION UNANIMOUSLY RECOMMENDS THAT  
SHAREHOLDERS VOTE FOR THIS PROPOSAL.

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IF YOU DO NOT HOLD ANY SHARES OF PG&E CORPORATION COMMON STOCK, YOU ARE NOT ENTITLED TO VOTE ON THE FOLLOWING FIVE SHAREHOLDER PROPOSALS.

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Item Nos. 4 to 8:  
Shareholder Proposals

TO BE VOTED ON BY PG&E CORPORATION SHAREHOLDERS ONLY

The following proposals have been submitted by shareholders for action at the PG&E Corporation annual meeting. To be approved, each properly presented proposal must receive the affirmative vote of a majority of the PG&E Corporation shares represented and voting on the proposal, and the affirmative votes must constitute at least a majority of the required quorum. Abstentions will be counted in the number of shares represented and voting, and will have the same effect as a vote against the proposal. Broker non-votes with respect to a particular proposal will be counted for purposes of determining the presence or absence of a quorum, but will not be counted in the number of shares represented and voting on the proposal. Unless indicated to the contrary, properly executed proxies received by PG&E Corporation prior to or at the annual meeting will be voted "AGAINST" these proposals.

ITEM NO. 4: SHAREHOLDER PROPOSAL REGARDING CONFIDENTIAL SHAREHOLDER VOTING

Mr. Chris Rossi, P.O. Box 249, Boonville, California 95415, holder of 1,000 shares of PG&E Corporation common stock, has given notice of his intention to present the following proposal for action at the PG&E Corporation annual meeting:

"RESOLVED:

CONFIDENTIAL SHAREHOLDER VOTING  
ADOPT PROPOSAL THAT WON 50%-PLUS SHAREHOLDER VOTE IN 2000

(The 50%-plus vote was 48%-plus even if abstentions are counted as no votes. Clearly, shareholders who voted to abstain did not vote no.)

PG&E shareholders recommend that the board adopt a bylaw requiring confidentiality for all proxies, ballots and voting tabulations that identify how shareholders vote and that the inspectors of election be independent and not employees of the company.

SUPPORTING STATEMENT:

The confidential ballot is fundamental to the American system. This protection ensures that shareholders are not subjected to:

- Actual
- Perceived or
- Potential coercive pressure.

The PG&E proxy solicitor has elaborate databases to match street-name shareholder account numbers with the actual identity of many shareholders.

The Investor Responsibility Research Center (IRRC) reported that confidential voting proposals won 52% shareholder approval in 2000. IRRC reported that 75% of institutional investors surveyed said they consistently support confidential voting resolutions. PG&E is majority-owned by institutional shareholders.

The 50%-plus margin has added significance since management-appointed trustees vote large blocks of PG&E stock, including substantial employee-owned shares listed on page 40 of the 2001 proxy under State Street Bank. Many institutional investors believe that such trustees follow management's recommendations.

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WHAT INCENTIVE IS THERE FOR IMPROVING CORPORATE GOVERNANCE -- HIGHLIGHTED BY CONFIDENTIAL VOTING?

A new survey by McKinsey & Co., international management consultant shows that institutional investors are prepared to pay an 18% premium for good corporate governance.

McKinsey warns that companies that fail to reform will find themselves at a competitive disadvantage in attracting capital to finance growth.

Wall Street Journal

June 19, 2000

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LIMIT UNDEMOCRATIC MANAGEMENT INFLUENCE

This need for this reform is demonstrated by the Lucent Technologies position statement. It said that by using non-confidential voting Lucent wanted "the ability to determine how an institution voted and engage in a dialogue with that institution regarding its concerns." Lucent management could thus disproportionately influence the ballot by identifying large shareholders -- not voting with management -- and lobby those shareholders to change their vote.

WHAT ISSUES HIGHLIGHT CONCERN ABOUT IMPROVING PG&E'S PERFORMANCE?

The 1998 directors and key-employees stock option plan has a total potential stock dilution of 8% - compared to 2% stock dilution for PG&E peer group.

Investor Responsibility Research Center

PG&E Annual Meeting Report

March 1999

- PG&E ran up a deficit equal to half its net worth in just 4 months -- buying electricity in the state's deregulated market.
- The PG&E shortfall is so enormous that analysts expect its deficit to exceed \$3 billion by Oct. 31 -- more than half of the \$5.7 billion PG&E shareholder equity.

Wall Street Journal

Sept. 27, 2000

To improve management accountability vote yes:

CONFIDENTIAL SHAREHOLDER VOTING

YES ON 4"

THE BOARD OF DIRECTORS OF PG&E CORPORATION RECOMMENDS A VOTE AGAINST THIS PROPOSAL.

In 2000, PG&E Corporation formalized its Confidential Voting Policy. Under this policy, all proxies, ballots, and voting tabulations that reveal how a particular shareholder has voted are treated as confidential. This policy ensures that shareholders can vote or give a proxy free from coercive pressure. Therefore, the Board of Directors believes this shareholder proposal is unnecessary.

The Corporation supports policies and practices that maintain the confidentiality of its proxy solicitation and balloting processes and has incorporated these protections into its Confidential Voting Policy (set forth on page 2 of this proxy statement). However, the Corporation cannot support this shareholder proposal because it does not include exemptions for proxy contests or situations in which disclosure of a shareholder's vote is legally required.

In the case of a proxy contest, the proposed confidential voting policy would not apply to the third party that was soliciting proxies, yet could continue to apply to the Corporation, thereby giving the third party dissident an unfair advantage. The dissident would be able to view shareholder voting

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decisions and other information, and use that information to persuade individual shareholders to vote in the dissident's favor. This advantage is not only unfair, but could be detrimental to shareholders. In contesting the dissident's solicitation of proxies, the Corporation's Board of Directors has a legal obligation to act in the best interests of shareholders as a group, whereas the dissident would have no such obligation and would be free to act purely in his or her own self-interest. Given the unfair advantage the dissident would gain from having access to voting information, the Board's ability to act in the best interests of shareholders would be hindered because the directors would not have the same access to that information.

This shareholder proposal also fails to permit exceptions in disputes regarding the authenticity of proxies or ballots, or when access to the shareholder voting information is required in response to federal or state legal requirements or may be necessary to assist the Corporation in making a claim or defending against a claim.

For these reasons, the PG&E Corporation Board of Directors unanimously recommends that shareholders vote AGAINST this proposal.

### ITEM NO. 5: SHAREHOLDER PROPOSAL REGARDING SHAREHOLDER DEMOCRACY

Mrs. Sydell B. Lemerman, 1855 Capistrano, Berkeley, California 94707, holder of 1,291 shares of PG&E Corporation common stock, has given notice of her intention to present the following proposal for action at the PG&E Corporation annual meeting:

"The shareholders of PG&E Corporation request the Board of Directors take the necessary steps to amend the company's governing instruments to adopt the following.

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### SHAREHOLDER DEMOCRACY

"RESULTS FROM VOTING ON PROPOSALS WILL BE DETERMINED ONLY BY THE YES AND NO VOTES CAST. ABSTENTION VOTES WILL NOT BE COUNTED."

We live in a Democracy and our vote is our sacred right. When the election votes are tallied, the abstentions are NOT counted (think of the chaos if they were), yet PG&E Corp. denies that right when it comes to voting on company proposals.

"Accordingly, abstentions will have the same effect as a vote against a proposal." page 2 - Joint notice of 2000 Annual Meetings - Joint Proxy Statement.

It is not in the law! It is not in the rules and regulations of the S.E.C! The Corporation is not mandated in overriding the shareholders majority vote, it has made its own ruling to do so.

A Yes vote means YES! A No vote means NO! An Abstention means I am present but I am not voting.

In defense of their stance, the Corporation likes to state that the SEC does not object and that all other companies do the same thing and therefore it is the right thing to do. WRONG!! A Yes vote means YES! A No vote means NO! An Abstention means neither yes or no and should NOT be counted. There is no other way.

If a proposal does not gather sufficient votes, it is proposed again until

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it is either accepted or rejected for lack of sufficient support. That's the way it is now, except that PG&E Corp. uses the abstentions to have their way and this is WRONG!!

Make your vote count and mean what you would like it to mean. YES, NO, NO VOTE!!!

Do not let the Corporation override our majority vote.

Vote YES for Shareholder Democracy."

THE BOARD OF DIRECTORS OF PG&E CORPORATION RECOMMENDS A VOTE AGAINST THIS PROPOSAL.

The standard for determining whether shareholders have approved a matter submitted to them is controlled by the law of the state under which the corporation is incorporated. Although most publicly traded corporations are incorporated in Delaware, PG&E Corporation is incorporated in California. Under California law, most matters presented to shareholders are considered approved by shareholders if (1) the matter receives the affirmative vote of a majority of the shares "represented and voting," and if (2) the affirmative votes constitute at least a majority of the required quorum. SEC rules require that the proxy statement disclose the treatment of abstentions for each item to be voted upon by shareholders (except for the ratification of accountants). PG&E Corporation reports all affirmative votes, negative votes, and abstentions cast at each annual meeting in its first quarterly report on Form 10-Q filed with the SEC after the meeting.

Although California law does not specifically address the treatment of abstentions, other states do. For example, in Delaware, where the majority of publicly traded corporations are incorporated, most matters submitted to shareholders are considered approved if the matter receives the affirmative vote of a majority of the shares "present and entitled to vote." Under Delaware law, abstentions are included in determining the number of shares "present and entitled to vote." In the absence of controlling authority under California law, PG&E Corporation has chosen to follow the law of Delaware and treat abstentions as shares "present and voting." PG&E Corporation believes that most investors in public corporations understand and expect this treatment of abstentions. The Corporation's proxy statement fully discloses this intended treatment so that a shareholder can make an informed decision in deciding whether to cast an abstention.

Further, California law requires that some matters submitted to shareholders, such as proposed amendments to the Corporation's Articles of Incorporation, be approved by the holders of a majority of the Corporation's outstanding shares. Under this approval standard, abstentions must be counted, since the abstaining shareholder's shares are outstanding. Therefore, the shareholder proposal would be legally impossible to implement, as it would require the Corporation to violate California law.

For these reasons, the PG&E Corporation Board of Directors unanimously recommends that shareholders vote AGAINST this proposal.

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ITEM NO. 6: SHAREHOLDER PROPOSAL REGARDING CUMULATIVE VOTING

Mr. Simon Levine, Trustee of the Simon Levine Living Trust, 960 Shorepoint Court, No. 306, Alameda, California 94501, holder of 5,000 shares of PG&E Corporation common stock, has given notice of his intention to present the following proposal for action at the PG&E Corporation annual meeting:

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"The shareholders of PG&E Corporation request the Board of Directors take the necessary steps to amend the company's governing instruments to adopt the following:

REINSTATE CUMULATIVE VOTING FOR THE ELECTION OF PG&E CORP. DIRECTORS.

Cumulative Voting is of the utmost importance in order to let us, the shareholders, have a voice in the corporation. It is essential in letting us express ourselves as OWNERS.

When we are not in agreement with those in whom we put our faith and trust and we want them to know that in no uncertain terms, cumulative voting HELPS emphasize our concern by disavowing them and voting them out. It provides us the necessary tools to CHOOSE the directors we want.

It is to US, the owners of the company, to PROVIDE the leadership necessary to run the company well and profitably.

Thousands of dollars are spent in preparing for and holding the annual meetings. As with prior annual meetings, the 1999 annual meeting was held in San Francisco, there were 261 shareholders and proxyholders in attendance. Last year, the annual meeting was held in Boston, Mass. Consider the extra thousands of dollars that was spent in transporting, housing and feeding Mr. Glynn, Mr. Smith, Ms. Everett, the Board of Directors and the numerous staff members to that meeting which had 36 shareholders and proxyholders in attendance. Who outnumbered who? Is this the way to run a company? Spending the extra time and money for 36?

Last year, about 33% voted in favor of Cumulative Voting. We only need an additional 18% in favor to reassert our right. (source of number and percentage-PG&E Corp.)

It has been said that the beginning of a 1000 mile journey is in taking the first step. Our first step is to make sure WE VOTE FOR CUMULATIVE VOTING. It is our right and responsibility!!!

VOTE "YES" TO REINSTATE CUMULATIVE VOTING FOR THE ELECTION OF DIRECTORS."

THE BOARD OF DIRECTORS OF PG&E CORPORATION RECOMMENDS A VOTE AGAINST THIS PROPOSAL.

PG&E Corporation believes that cumulative voting would erode shareholders' ability to elect directors who represent the interests of the shareholders as a whole. Under cumulative voting, the total number of votes that each shareholder may cast in an election for directors is determined by multiplying the number of directors to be elected by the number of votes to which the shareholder's shares are entitled. Each shareholder may "cumulate" his or her votes by giving them all to one candidate, or may distribute his or her votes among as many candidates as the shareholder sees fit. For example, if nine directors were to be elected, a shareholder or group of shareholders holding 10 percent of the shares voting at the meeting would be capable of electing a director. This is true even if the holders of the remaining 90 percent of the voting shares are opposed to the election of that candidate and cast their votes to elect nine other directors.

Cumulative voting would give a disproportionate and unfair weight to the votes cast by a minority shareholder or shareholders. Not adopting cumulative voting ensures that all directors are elected or removed only by a majority vote of shareholders voting in the election.

For this reason, the PG&E Corporation Board of Directors unanimously

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recommends that shareholders vote AGAINST this proposal.

### ITEM NO. 7: SHAREHOLDER PROPOSAL REGARDING MINIMUM NUMBER OF DIRECTORS

Mr. Clifford Brauff, 3101 Melendy Drive, San Carlos, California 94040, holder of 245 shares of PG&E Corporation common stock, has given notice of his intention to present the following proposal for action at the PG&E Corporation annual meeting:

"Resolved:

REINSTATE BOARD SIZE TO AT LEAST 9 DIRECTORS

To enhance shareholder value PG&E shareholders recommend to reinstate board size to at least 9 directors. The 9 director minimum requirement was the rule at PG&E until 2000. In 2000 the minimum

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number of directors was cut to 7 directors for our \$22 billion company. Thus there could legally be only 6 directors to monitor and advise the insider Chairman/CEO/President, the 7th director.

This could drop to only 4 experienced directors -- not counting the insider Chairman/CEO/President -- if one director resigned and another director had an extended illness. This could result in an added problem since certain current PG&E directors are heavily committed as presidents of outside organizations and further committed beyond their presidencies to 3 outside directorships each.

Directors could also be overextended with only 7 directors, and at times possibly only 4 experienced directors, to fill the seats of the 5 Board Committees

Audit Committee  
Nominating & Compensation Committee  
Public Policy Committee  
Executive Committee  
Finance Committee

Since the 7-director minimum was recommended by management in 2000, there has been further work by the Securities and Exchange Commission to mandate increased qualifications for the Audit Committee. The 7-director minimum and unforeseen circumstances could at times result in an undue burden on the board to quickly fill a vacancy for a qualified director for the audit committee:

A director that combines the both the mandated higher qualifications specific to the audit committee with broader qualifications to be an asset to the entire board.

#### EXTENSIVE STUDIES FAVOR LARGER BOARDS:

Bigger boards may contribute to better financial performance, said a research study by Dan Dalton, Dean of Indiana University's Kelley School of Business. Dalton reviewed 27 studies on board size compiled over the last 40 years. Dalton said there is good reason to opt for 9 directors instead of 6.

Wall Street Journal                      Aug. 24, 2000

Dan Dalton, Indiana University said larger boards are better able to secure critical resources through networks their directors create. In addition, larger boards allow coalitions to form that are more likely to challenge CEOs and moderate their dominating influence.

Director's Monthly                      Aug. 2000

The current smaller board permitted allows the one person who holds



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the 3 titles of PG&E Chairman/ CEO/President, to yield more control and leverage over the board. Paradoxically, the board is responsible for the independent oversight of this one person to protect shareholder value.

If shareholders have any doubt on the need for more effective director oversight of management, compare PG&E's stock price today with its \$36 price 8 years ago and the 63% higher dividend 5 years ago.

REINSTATE BOARD SIZE TO AT LEAST 9 DIRECTORS  
YES ON 7"

THE BOARD OF DIRECTORS OF PG&E CORPORATION RECOMMENDS A VOTE AGAINST THIS PROPOSAL.

The Board believes there is no need to change the authorized minimum number of directors from 7 to 9. At the 2000 annual meeting of PG&E Corporation shareholders, 96 percent of the shares present and voting approved a management proposal to establish an authorized Board size of from 7 to 13 directors. As noted in the 2000 joint proxy statement, the Board believes that the establishment of the existing range of the minimum and maximum number of directors is consistent with current corporate governance practices.

For this reason, the PG&E Corporation Board of Directors unanimously recommends that shareholders vote AGAINST this proposal.

ITEM NO. 8: SHAREHOLDER PROPOSAL REGARDING SIMPLE MAJORITY VOTE

Mr. Nick Rossi, P.O. Box 249, Boonville, California 95415, holder of 600 shares of PG&E Corporation common stock, has given notice of his intention to present the following proposal for action at the PG&E Corporation annual meeting:

"Resolved:  
ENHANCE SIMPLE MAJORITY VOTE PROPOSAL APPROVED BY A 93% VOTE IN 2000

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Shareholders recommend to enhance the company Simple Majority Vote proposal approved by 93% of shareholders. It was approved as Item No. 3 at the 2000 shareholder meeting and adopted by the company.

Under this enhanced proposal the simple majority vote needed to effect a merger or business combination as specified in Item No. 3 in the 2000 proxy statement is to be the sole requirement. It alone is to entirely replace the added or combined requirements of (1) the business combination must be approved by a disinterested board or (2) the fair price criteria must be met. Simple majority vote will thus be all that is necessary to effect a merger or business combination.

A major institutional shareholder advisor firm stated that fair price provisions rarely protect shareholders. Instead they are designed to discourage would-be acquirers from taking a controlling interest in the company and offering shareholders an opportunity to sell shares at a premium in instances where management does not favor an acquisition.

Hence shareholders could be denied a premium price for their stock simply because management opposed the transaction for personal reasons.

This independent firm strongly maintains that a simple majority of voting shares should be all that is necessary to effect changes regarding a company and its corporate governance provisions. Requiring more than a simple majority may permit management to entrench itself by blocking amendments that are in shareholders' best interest.

To increase shareholder value:

ENHANCE SIMPLE MAJORITY VOTE PROPOSAL APPROVED BY A 93% VOTE IN 2000

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VOTE YES FOR ITEM NO. 8"

THE BOARD OF DIRECTORS OF PG&E CORPORATION RECOMMENDS A VOTE AGAINST THIS PROPOSAL.

At the 2000 annual meeting of PG&E Corporation shareholders, 93 percent of the shares present and voting approved an amendment to the "fair price" provision in Article Eighth of the Restated Articles of Incorporation of PG&E Corporation. This proposal would change that amendment to the shareholders' detriment.

A majority vote requirement alone (as advocated in this shareholder proposal) is not sufficient to protect shareholders against transactions that are not necessarily in the best interests of all shareholders. The Corporation's fair price provision, as approved by the shareholders last year, is not intended to, and does not, prevent or impede a potential acquiror from acquiring control of PG&E Corporation at a fair price. Instead, the fair price provision is intended to inhibit abusive conduct on the part of a potential acquiror and is designed to protect shareholders against practices that do not treat all shareholders fairly and equally, including inadequate or coercive takeovers or self-dealing transactions. The current fair price provision will ensure that a proposal resulting in a business combination will be scrutinized by the disinterested directors on the Board of Directors or that the consideration paid to shareholders in the business combination is no less than certain minimum price requirements set forth in the fair price provision.

The fair price provision does not prevent business combinations opposed by management. If a potential acquiror is willing to pay shareholders a price that meets the minimum price requirements set forth in the fair price provision, such business combination need only be approved by majority vote. If a potential acquiror is not willing to pay shareholders a price that meets the minimum fair price requirements, then the potential acquiror must negotiate directly with the disinterested directors of the Board of Directors to reach terms that are fair and provide the best results for all shareholders.

For these reasons, the PG&E Corporation Board of Directors unanimously recommends that shareholders vote AGAINST this proposal.

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### Executive Compensation

#### NOMINATING AND COMPENSATION COMMITTEE REPORT ON COMPENSATION

The Nominating and Compensation Committee of the PG&E Corporation Board of Directors (the "Committee") is responsible for overseeing and establishing executive compensation policies for PG&E Corporation and its subsidiaries, including Pacific Gas and Electric Company. The Committee also oversees the PG&E Corporation Long-Term Incentive Program and other employee benefit plans.

This report relates to the compensation paid to executive officers of PG&E Corporation and Pacific Gas and Electric Company during the fiscal year ended December 31, 2000. Compensation for the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company is approved by their respective Board of Directors based on the recommendation of the Committee, which is composed of independent non-employee directors. In establishing the 2000 compensation of the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company, each Board of Directors approved the recommendations of the Committee without modification. Compensation for all other PG&E Corporation and subsidiary officers is approved by the Committee, except that the Committee

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has delegated to the PG&E Corporation Chief Executive Officer the authority to approve compensation for certain officers of PG&E Corporation and its subsidiaries.

The Committee established compensation programs for 2000 to meet four objectives:

- To emphasize long-term incentives to further align shareholder and officers' interests and focus employees on enhancing total return for the Corporation's shareholders.
- To attract, retain, and motivate employees with the necessary mix of skills and experience for the development of PG&E Corporation's unregulated businesses, as well as the successful operation and expansion of its utility business.
- To minimize short-term and long-term costs and reduce corporate exposure to longer-term financial risk.
- To achieve maximum value from PG&E Corporation's collective workforce by designing compensation programs that facilitate movement by employees among the Corporation and its subsidiaries.

The Committee retains an independent consultant, Hewitt Associates, to help evaluate PG&E Corporation's compensation policies, to provide information about industry compensation practices and competitive pay levels, and to recommend compensation alternatives which are consistent with PG&E Corporation's compensation policies. Founded in 1940, Hewitt Associates is an international firm of consultants and actuaries specializing in the design and administration of employee compensation and benefit programs.

To meet its objective of paying compensation that is competitive with similar companies in 2000, the Committee selected a group consisting of 12 major energy companies (the "comparator group"). These companies were selected by the Committee because they were comparable to PG&E Corporation in size and because their approach to compensation emphasized long-term incentives. All of the companies in the comparator group were included in the Standard & Poor's 500 Stock Index.

For 2000, the Committee established the following specific compensation targets for officers:

- A significant component of every officer's compensation should be tied directly to PG&E Corporation's performance for shareholders.
- Annual cash compensation (base salary and target annual incentive) and benefits should be equal to the average compensation paid to comparable officers of companies in the comparator group.
- For targeted performance, long-term incentives should be equal to the 75th percentile compensation paid to comparable officers of companies in the comparator group.

Finally, in evaluating compensation program alternatives, the Committee considers the potential impact on PG&E Corporation of Section 162(m) of the Internal Revenue Code. Section 162(m) eliminates the deductibility of compensation over \$1 million paid to the five highest paid executive officers of public corporations, excluding "performance-based compensation." Compensation programs will qualify as performance-based if (1) the performance targets are pre-established objective standards, (2) the programs have been approved by shareholders, and (3) there is no discretion to modify or alter payments after the performance targets have been established for the year.

The Committee believes that compensation paid under two of PG&E Corporation's three performance-based plans is deductible under Section 162(m). A substantial portion of the compensation paid to the executive officers of PG&E Corporation and Pacific Gas and Electric Company is paid under these qualifying performance-based plans. Although short-term compensation paid under PG&E Corporation's third performance-based plan will not be excluded from the deduction limit under Section 162(m), payments under this plan are conditioned primarily on the achievement of pre-established corporate financial objectives.

To the extent consistent with the Committee's overall policy of maintaining a competitive, performance-based compensation program, it is PG&E Corporation's intent to maintain the tax deductibility of the compensation which it pays. However, due to the restrictive nature of Section 162(m), technical compliance with its requirements can reduce or eliminate the value of using certain types of plans designed to provide incentives to increase shareholder value. As a result, although the Committee, in designing and maintaining a competitive incentive compensation program, will qualify as much of the compensation for deduction under Section 162(m) as is reasonably possible, such qualification is not a mandatory precondition to payments where technical compliance is inconsistent with the Committee's objective of incenting performance which results in increased shareholder value. It is anticipated that the amount of any tax deduction that may be forgone due to the impact of the Section 162(m) limit will be insignificant.

#### PRINCIPAL COMPONENTS OF COMPENSATION

##### BASE SALARY

##### PG&E Corporation Base Salary

PG&E Corporation's executive salaries are reviewed annually by the Committee based on (1) the results achieved by each individual, (2) expected corporate financial performance, measured by combined earnings per share, dividends, and stock price performance, and (3) changes in the average salaries paid to comparable executives by companies in the comparator group.

In setting the 2000 salary levels for PG&E Corporation's executive officers, the Committee's objective was that the overall average of the salaries paid to all officers as a group (including the Chief Executive Officer) should be approximately equal to the target competitive level.

Robert D. Glynn, Jr., Chief Executive Officer of PG&E Corporation, received an annual base salary of \$900,000 in 2000. The salary level for Mr. Glynn is comparable to the average salary of chief executive officers of the 12 companies in the comparator group. The overall average of the base salaries received by all PG&E Corporation officers (including Mr. Glynn) for 2000 was comparable to the average salary paid to all officers of the comparator group.

##### Pacific Gas and Electric Company Base Salary

Pacific Gas and Electric Company's executive salaries are reviewed annually by the Committee based on (1) the results achieved by each individual, (2) expected corporate financial performance, measured by combined earnings per share, dividends, and stock price performance, and (3) changes in the average salaries paid to comparable executives by companies in the comparator group.

In setting the 2000 salary levels for Pacific Gas and Electric Company's executive officers, the Committee's objective was that the overall average of

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the salaries paid to all officers as a group (including the Chief Executive Officer) should be approximately equal to the target competitive level.

Gordon R. Smith, Chief Executive Officer of Pacific Gas and Electric Company, received an annual base salary of \$630,000 in 2000. The salary level for Mr. Smith is comparable to the average salary of senior executives in comparable positions in the 12 companies in the comparator group. The overall average of the base salaries received by all Pacific Gas and Electric Company officers (including Mr. Smith) for 2000 was comparable to the average salary paid to all officers of the comparator group.

### SHORT-TERM INCENTIVES

#### PG&E Corporation Annual Incentive

The PG&E Corporation Short-Term Incentive Plan for 2000 was designed to provide annual incentives to all executive officers based largely on PG&E Corporation's success in meeting the 2000 corporate operating earnings per share objective. This objective emphasizes the impact of on-going results of operations by eliminating the

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effect of extraordinary gains or losses. Annual incentives for executive officers with operating responsibility for the Corporation's major lines of business, Pacific Gas and Electric Company and PG&E National Energy Group, are based on a combination of corporate operating earnings and the results of their line of business.

At the beginning of the year, target awards are set based on each executive's responsibilities and salary level. Final awards are determined by the Committee and may range from zero to twice the target, depending on the extent to which the corporate operating earnings per share objective is achieved. The Committee has discretion to modify or eliminate awards.

In 2000, PG&E Corporation's corporate operating earnings per share were \$2.54. Executive officers whose principal responsibilities are corporate in nature received no Short-Term Incentive Plan awards. Certain executive officers whose principal responsibilities are primarily for operations of the PG&E National Energy Group received awards for the portion of their Short-Term Incentive Plan target based on the performance of that line of business, and received no award for the portion of their target based on corporate performance. Awards paid to executive officers with senior operating responsibility for the PG&E National Energy Group ranged from 93.5 percent to 150 percent of their total target awards.

#### Pacific Gas and Electric Company Annual Incentive

The Pacific Gas and Electric Company Short-Term Incentive Plan for 2000 was designed to provide annual incentives to all executive officers based on meeting financial, service, and other