

PG&E Corp
 Form 10-Q
 July 31, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C., 20549
 FORM 10-Q

(Mark One)
 [X]

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

For the quarterly period ended June 30, 2013

OR

[]

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

For the transition period from _____ to _____

Commission File Number	Exact Name of Registrant as Specified in its Charter	State or Other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609 1-2348	PG&E Corporation Pacific Gas and Electric Company	California California	94-3234914 94-0742640

Pacific Gas and Electric Company
 77 Beale Street
 P.O. Box 770000
 San Francisco, California 94177

PG&E Corporation
 77 Beale Street
 P.O. Box 770000
 San Francisco, California 94177

Address of principal executive offices, including zip code
 Pacific Gas and Electric Company
 (415) 973-7000

PG&E Corporation
 (415) 973-1000

Registrant's telephone number, including area code

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes No

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

PG&E Corporation: Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company
Pacific Gas and Electric Company: Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock outstanding as of July 22, 2013:
PG&E Corporation: 445,151,814
Pacific Gas and Electric Company: 264,374,809

PG&E CORPORATION AND
PACIFIC GAS AND ELECTRIC COMPANY
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013
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GLOSSARY

The following terms and abbreviations appearing in the text of this report have the meanings indicated below.

2012 Annual Report	PG&E Corporation's and Pacific Gas and Electric Company's combined Annual Report on Form 10-K for the year ended December 31, 2012
AFUDC	allowance for funds used during construction
ALJ	administrative law judge
ASU	accounting standards update
CAISO	California Independent System Operator
CARB	California Air Resources Board
CCSF	City and County of San Francisco
CPUC	California Public Utilities Commission
CRRs	congestion revenue rights
DRA	Division of Ratepayer Advocates
DTSC	California Department of Toxic Substances Control
EPA	Environmental Protection Agency
EPS	earnings per common share
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	generally accepted accounting principles
GHG	greenhouse gas
GRC	general rate case
GT&S	gas transmission and storage
IRS	Internal Revenue Service
NEIL	Nuclear Electric Insurance Limited
NRC	Nuclear Regulatory Commission
NTSB	National Transportation Safety Board
PSEP	pipeline safety enhancement plan
ROE	return on equity
SED	Safety and Enforcement Division of the CPUC, formerly known as the Consumer Protection and Safety Division or the CPSD
TO	transmission owner
TURN	The Utility Reform Network
Utility	Pacific Gas and Electric Company
VIE(s)	variable interest entity(ies)

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PG&E CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	(Unaudited)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Operating Revenues				
Electric	\$3,059	\$2,931	\$5,858	\$5,703
Natural gas	717	662	1,590	1,531
Total operating revenues	3,776	3,593	7,448	7,234
Operating Expenses				
Cost of electricity	1,189	962	2,172	1,821
Cost of natural gas	179	132	525	475
Operating and maintenance	1,256	1,426	2,594	2,794
Depreciation, amortization, and decommissioning	516	606	1,019	1,190
Total operating expenses	3,140	3,126	6,310	6,280
Operating Income	636	467	1,138	954
Interest income	2	3	4	4
Interest expense	(177)	(176)	(353)	(350)
Other income, net	24	32	52	58
Income Before Income Taxes	485	326	841	666
Income tax provision	153	87	267	191
Net Income	332	239	574	475
Preferred stock dividend requirement of subsidiary	4	4	7	7
Income Available for Common Shareholders	\$328	\$235	\$567	\$468
Weighted Average Common Shares Outstanding, Basic	442	423	438	419
Weighted Average Common Shares Outstanding, Diluted	443	425	439	421
Net Earnings Per Common Share, Basic	\$0.74	\$0.56	\$1.29	\$1.12
Net Earnings Per Common Share, Diluted	\$0.74	\$0.55	\$1.29	\$1.11
Dividends Declared Per Common Share	\$0.46	\$0.46	\$0.91	\$0.91

See accompanying Notes to the Condensed Consolidated Financial Statements.

PG&E CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	(Unaudited)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net Income	\$332	\$239	\$574	\$475
Other Comprehensive Income, net of income tax				
Pension and other postretirement benefit plans				
Unrecognized prior service credit	6	6	12	12
Unrecognized net gain	17	19	34	40
Unrecognized net transition obligation	-	4	-	8
Transfer to regulatory account	(19)	(21)	(38)	(42)
Other investments	16	-	22	-
Total other comprehensive income, net of income tax	20	8	30	18
Comprehensive Income	352	247	604	493
Preferred stock dividend requirement of subsidiary	4	4	7	7
Comprehensive Income Attributable to Common Shareholders	\$348	\$243	\$597	\$486

See accompanying Notes to the Condensed Consolidated Financial Statements.

PG&E CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) Balance At	
	June 30, 2013	December 31, 2012
(in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$281	\$401
Restricted cash	305	330
Accounts receivable:		
Customers (net of allowance for doubtful accounts of \$80 and \$87 at respective dates)	1,034	937
Accrued unbilled revenue	766	761
Regulatory balancing accounts	1,205	936
Other	272	365
Regulatory assets	508	564
Inventories:		
Gas stored underground and fuel oil	148	135
Materials and supplies	327	309
Income taxes receivable	365	211
Other	231	172
Total current assets	5,442	5,121
Property, Plant, and Equipment		
Electric	41,227	39,701
Gas	13,162	12,571
Construction work in progress	2,030	1,894
Other	1	1
Total property, plant, and equipment	56,420	54,167
Accumulated depreciation	(17,353)	(16,644)
Net property, plant, and equipment	39,067	37,523
Other Noncurrent Assets		
Regulatory assets	6,786	6,809
Nuclear decommissioning trusts	2,214	2,161
Income taxes receivable	126	176
Other	689	659
Total other noncurrent assets	9,815	9,805
TOTAL ASSETS	\$54,324	\$52,449

See accompanying Notes to the Condensed Consolidated Financial Statements.

PG&E CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)	(Unaudited) Balance At	
	June 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term borrowings	\$952	\$492
Long-term debt, classified as current	1,288	400
Accounts payable:		
Trade creditors	1,155	1,241
Disputed claims and customer refunds	156	157
Regulatory balancing accounts	1,002	634
Other	456	444
Interest payable	877	870
Income taxes payable	17	6
Deferred income taxes	106	-
Other	1,373	2,012
Total current liabilities	7,382	6,256
Noncurrent Liabilities		
Long-term debt	11,917	12,517
Regulatory liabilities	5,226	5,088
Pension and other postretirement benefits	3,665	3,575
Asset retirement obligations	2,932	2,919
Deferred income taxes	6,988	6,748
Other	2,092	2,020
Total noncurrent liabilities	32,820	32,867
Commitments and Contingencies (Note 10)		
Equity		
Shareholders' Equity		
Preferred stock	-	-
Common stock, no par value, authorized 800,000,000 shares, 444,717,704 and 430,718,293 shares outstanding at respective dates	9,032	8,428
Reinvested earnings	4,909	4,747
Accumulated other comprehensive loss	(71)	(101)
Total shareholders' equity	13,870	13,074
Noncontrolling Interest - Preferred Stock of Subsidiary	252	252
Total equity	14,122	13,326
TOTAL LIABILITIES AND EQUITY	\$54,324	\$52,449

See accompanying Notes to the Condensed Consolidated Financial Statements.

PG&E CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	(Unaudited)	
	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$574	\$475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and decommissioning	1,019	1,190
Allowance for equity funds used during construction	(52)	(53)
Deferred income taxes and tax credits, net	346	234
Other	157	137
Effect of changes in operating assets and liabilities:		
Accounts receivable	(22)	13
Inventories	(31)	5
Accounts payable	28	(125)
Income taxes receivable/payable	(143)	153
Other current assets and liabilities	(367)	74
Regulatory assets, liabilities, and balancing accounts, net	(192)	(115)
Other noncurrent assets and liabilities	142	186
Net cash provided by operating activities	1,459	2,174
Cash Flows from Investing Activities		
Capital expenditures	(2,521)	(2,219)
Decrease (increase) in restricted cash	25	(1)
Proceeds from sales and maturities of nuclear decommissioning trust investments	795	666
Purchases of nuclear decommissioning trust investments	(786)	(716)
Other	16	64
Net cash used in investing activities	(2,471)	(2,206)
Cash Flows from Financing Activities		
Borrowings under revolving credit facilities	140	-
Net issuances (repayments) of commercial paper, net of discount of \$1 and \$2 at respective dates	321	(566)
Proceeds from issuance of long-term debt, net of premium, discount, and issuance costs of \$8 and \$6 at respective dates	742	394
Long-term debt matured or repurchased	(461)	(50)
Energy recovery bonds matured	-	(200)
Common stock issued	562	561
Common stock dividends paid	(386)	(368)
Other	(26)	40
Net cash provided by (used in) financing activities	892	(189)
Net change in cash and cash equivalents	(120)	(221)
Cash and cash equivalents at January 1	401	513
Cash and cash equivalents at June 30	\$281	\$292
Supplemental disclosures of cash flow information		

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Cash received (paid) for:

Interest, net of amounts capitalized	\$(312)	\$(319)
Income taxes, net	(65)	114
Supplemental disclosures of noncash investing and financing activities		
Common stock dividends declared but not yet paid	\$202	\$194
Capital expenditures financed through accounts payable	253	256
Noncash common stock issuances	11	12
Terminated capital leases	-	136

See accompanying Notes to the Condensed Consolidated Financial Statements.

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions)	(Unaudited)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues				
Electric	\$3,057	\$2,930	\$5,855	\$5,701
Natural gas	718	662	1,591	1,531
Total operating revenues	3,775	3,592	7,446	7,232
Operating Expenses				
Cost of electricity	1,189	962	2,172	1,821
Cost of natural gas	179	132	525	475
Operating and maintenance	1,256	1,425	2,592	2,791
Depreciation, amortization, and decommissioning	516	606	1,019	1,190
Total operating expenses	3,140	3,125	6,308	6,277
Operating Income	635	467	1,138	955
Interest income	3	2	4	3
Interest expense	(171)	(171)	(341)	(339)
Other income, net	22	22	46	45
Income Before Income Taxes	489	320	847	664
Income tax provision	160	93	281	206
Net Income	329	227	566	458
Preferred stock dividend requirement	4	4	7	7
Income Available for Common Stock	\$325	\$223	\$559	\$451

See accompanying Notes to the Condensed Consolidated Financial Statements.

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)	(Unaudited)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net Income	\$329	\$227	\$566	\$458
Other Comprehensive Income, net of income tax				
Pension and other postretirement benefit plans				
Unrecognized prior service credit	6	6	12	12
Unrecognized net gain	17	19	35	40
Unrecognized net transition obligation	-	4	-	8
Transfer to regulatory account	(19)	(21)	(38)	(42)
Total other comprehensive income, net of income tax	4	8	9	18
Comprehensive Income	\$333	\$235	\$575	\$476

See accompanying Notes to the Condensed Consolidated Financial Statements.

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)	(Unaudited) Balance At	
	June 30, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$61	\$194
Restricted cash	305	330
Accounts receivable:		
Customers (net of allowance for doubtful accounts of \$80 and \$87 at respective dates)	1,034	937
Accrued unbilled revenue	766	761
Regulatory balancing accounts	1,205	936
Other	275	366
Regulatory assets	508	564
Inventories:		
Gas stored underground and fuel oil	148	135
Materials and supplies	327	309
Income taxes receivable	361	186
Other	169	160
Total current assets	5,159	4,878
Property, Plant, and Equipment		
Electric	41,227	39,701
Gas	13,162	12,571
Construction work in progress	2,030	1,894
Total property, plant, and equipment	56,419	54,166
Accumulated depreciation	(17,352)	(16,643)
Net property, plant, and equipment	39,067	37,523
Other Noncurrent Assets		
Regulatory assets	6,786	6,809
Nuclear decommissioning trusts	2,214	2,161
Income taxes receivable	122	171
Other	417	381
Total other noncurrent assets	9,539	9,522
TOTAL ASSETS	\$53,765	\$51,923

See accompanying Notes to the Condensed Consolidated Financial Statements.

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) Balance At	
	June 30, 2013	December 31, 2012
(in millions, except share amounts)		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$692	\$372
Long-term debt, classified as current	938	400
Accounts payable:		
Trade creditors	1,155	1,241
Disputed claims and customer refunds	156	157
Regulatory balancing accounts	1,002	634
Other	471	419
Interest payable	872	865
Income taxes payable	25	12
Deferred income taxes	85	-
Other	1,155	1,794
Total current liabilities	6,551	5,894
Noncurrent Liabilities		
Long-term debt	11,917	12,167
Regulatory liabilities	5,226	5,088
Pension and other postretirement benefits	3,583	3,497
Asset retirement obligations	2,932	2,919
Deferred income taxes	7,191	6,939
Other	2,031	1,959
Total noncurrent liabilities	32,880	32,569
Commitments and Contingencies (Note 10)		
Shareholders' Equity		
Preferred stock	258	258
Common stock, \$5 par value, authorized 800,000,000 shares, 264,374,809 shares outstanding at respective dates	1,322	1,322
Additional paid-in capital	5,346	4,682
Reinvested earnings	7,492	7,291
Accumulated other comprehensive loss	(84)	(93)
Total shareholders' equity	14,334	13,460
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$53,765	\$51,923

See accompanying Notes to the Condensed Consolidated Financial Statements.

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	(Unaudited)	
	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income	\$566	\$458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and decommissioning	1,019	1,190
Allowance for equity funds used during construction	(52)	(53)
Deferred income taxes and tax credits, net	337	242
Other	126	108
Effect of changes in operating assets and liabilities:		
Accounts receivable	(24)	(50)
Inventories	(31)	5
Accounts payable	68	(107)
Income taxes receivable/payable	(162)	216
Other current assets and liabilities	(317)	78
Regulatory assets, liabilities, and balancing accounts, net	(192)	(115)
Other noncurrent assets and liabilities	126	202
Net cash provided by operating activities	1,464	2,174
Cash Flows from Investing Activities		
Capital expenditures	(2,521)	(2,219)
Decrease (increase) in restricted cash	25	(1)
Proceeds from sales and maturities of nuclear decommissioning trust investments	795	666
Purchases of nuclear decommissioning trust investments	(786)	(716)
Other	8	11
Net cash used in investing activities	(2,479)	(2,259)
Cash Flows from Financing Activities		
Net issuances (repayments) of commercial paper, net of discount of \$1 and \$2 at respective dates	321	(566)
Proceeds from issuance of long-term debt, net of premium, discount, and issuance costs of \$8 and \$6 at respective dates	742	394
Long-term debt matured or repurchased	(461)	(50)
Energy recovery bonds matured	-	(200)
Preferred stock dividends paid	(7)	(7)
Common stock dividends paid	(358)	(358)
Equity contribution	665	565
Other	(20)	48
Net cash provided by (used in) financing activities	882	(174)
Net change in cash and cash equivalents	(133)	(259)
Cash and cash equivalents at January 1	194	304
Cash and cash equivalents at June 30	\$61	\$45
Supplemental disclosures of cash flow information		

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Cash received (paid) for:		
Interest, net of amounts capitalized	\$ (300)	\$ (309)
Income taxes, net	(86)	111
Supplemental disclosures of noncash investing and financing activities		
Capital expenditures financed through accounts payable	\$253	\$256
Terminated capital leases	-	136

See accompanying Notes to the Condensed Consolidated Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1: ORGANIZATION AND BASIS OF PRESENTATION

PG&E Corporation is a holding company that conducts its business through Pacific Gas and Electric Company, a public utility operating in northern and central California. The Utility generates revenues mainly through the sale and delivery of electricity and natural gas to customers. The Utility is primarily regulated by the CPUC and the FERC. In addition, the NRC oversees the licensing, construction, operation, and decommissioning of the Utility's nuclear generation facilities. The Utility's accounts for electric and gas operations are maintained in accordance with the Uniform System of Accounts prescribed by the FERC.

This quarterly report on Form 10-Q is a combined report of PG&E Corporation and the Utility that includes separate Condensed Consolidated Financial Statements for each company. The Notes to the Condensed Consolidated Financial Statements apply to both PG&E Corporation and the Utility. PG&E Corporation's Condensed Consolidated Financial Statements include the accounts of PG&E Corporation, the Utility, and other wholly owned and controlled subsidiaries. The Utility's Condensed Consolidated Financial Statements include the accounts of the Utility and its wholly owned and controlled subsidiaries. All intercompany transactions have been eliminated. PG&E Corporation and the Utility operate in one segment.

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with GAAP for interim financial statements and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the U.S. Securities and Exchange Commission and therefore do not contain all of the information and footnotes required by GAAP and the U.S. Securities and Exchange Commission for annual financial statements. PG&E Corporation's and the Utility's Condensed Consolidated Financial Statements reflect all adjustments (consisting only of normal recurring adjustments) that management believes are necessary for the fair presentation of their financial condition, results of operations, and cash flows for the periods presented. The information at December 31, 2012 in the Condensed Consolidated Balance Sheets included in this quarterly report was derived from the audited Consolidated Balance Sheets incorporated by reference into the 2012 Annual Report. This quarterly report should be read in conjunction with the 2012 Annual Report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on a wide range of factors, including future regulatory decisions and economic conditions, that are difficult to predict. Some of the more critical estimates and assumptions relate to the Utility's regulatory assets and liabilities, legal and regulatory contingencies, environmental remediation liabilities, asset retirement obligations, and pension and other postretirement benefit plans obligations. Management believes that its estimates and assumptions reflected in the Condensed Consolidated Financial Statements are appropriate and reasonable. Actual results could differ materially from those estimates.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by PG&E Corporation and the Utility are discussed in Note 2 of the Notes to the Consolidated Financial Statements in the 2012 Annual Report.

Pension and Other Postretirement Benefits

PG&E Corporation and the Utility provide a non-contributory defined benefit pension plan for eligible employees, as well as contributory postretirement medical plans for retirees and their eligible dependents, and non-contributory postretirement life insurance plans for eligible employees and retirees.

The net periodic benefit costs reflected in PG&E Corporation's Condensed Consolidated Financial Statements for the three and six months ended June 30, 2013 and 2012 were as follows:

(in millions)	Pension Benefits		Other Benefits	
	Three Months Ended June 30,			
	2013	2012	2013	2012
Service cost for benefits earned	\$115	\$98	\$13	\$11
Interest cost	156	165	18	21
Expected return on plan assets	(163)	(150)	(20)	(20)
Amortization of transition obligation	-	-	-	6
Amortization of prior service cost	5	5	5	6
Amortization of unrecognized loss	28	32	2	2
Net periodic benefit cost	141	150	18	26
Less: transfer to regulatory account (1)	(56)	(75)	-	-
Total	\$85	\$75	\$18	\$26

(1) The Utility recorded these amounts to a regulatory account since they are probable of recovery from customers in futures rates.

(in millions)	Pension Benefits		Other Benefits	
	Six Months Ended June 30,			
	2013	2012	2013	2012
Service cost for benefits earned	\$230	\$197	\$26	\$23
Interest cost	312	329	37	42
Expected return on plan assets	(325)	(299)	(40)	(39)
Amortization of transition obligation	-	-	-	12
Amortization of prior service cost	10	10	11	12
Amortization of unrecognized loss	55	63	3	3
Net periodic benefit cost	282	300	37	53
Less: transfer to regulatory account (1)	(113)	(150)	-	-
Total	\$169	\$150	\$37	\$53

(1) The Utility recorded these amounts to a regulatory account since they are probable of recovery from customers in future rates.

There was no material difference between PG&E Corporation and the Utility for the information disclosed above.

Variable Interest Entities

A VIE is an entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties, or whose equity investors lack any characteristics of a controlling financial interest. An enterprise that has a controlling financial interest in a VIE is known as the VIE's primary beneficiary and is required to consolidate the VIE. In determining whether consolidation of a particular entity is required, PG&E Corporation and the Utility first evaluate whether the entity is a VIE. If the entity is a VIE, PG&E Corporation and the Utility use a qualitative approach to determine if either is the primary beneficiary of the VIE.

Some of the counterparties to the Utility's power purchase agreements are considered VIEs. Each of these VIEs was designed to own a power plant that would generate electricity for sale to the Utility. To determine whether the Utility was the primary beneficiary of any of these VIEs at June 30, 2013, it assessed whether it absorbs any of the VIE's expected losses or receives any portion of the VIE's expected residual returns under the terms of the power purchase agreement, analyzed the variability in the VIE's gross margin, and considered whether it had any decision-making rights associated with the activities that are most significant to the VIE's performance, such as dispatch rights and operating and maintenance activities. The Utility's financial exposure is limited to the amount the Utility pays for delivered electricity and capacity. The Utility did not have any decision-making rights associated with any of the activities that are most significant to the economic performance of any of these VIEs. Since the Utility was not the primary beneficiary of any of these VIEs at June 30, 2013, it did not consolidate any of them.

PG&E Corporation affiliates have entered into four tax equity agreements to fund residential and commercial retail solar energy installations with two privately held companies that are considered VIEs. Under these agreements, PG&E Corporation has made cumulative lease payments and investment contributions of \$363 million to these companies in exchange for the right to receive benefits from local rebates, federal grants, and a share of the customer payments made to these companies. At June 30, 2013 and December 31, 2012, the carrying amount of PG&E Corporation's investment in these agreements was \$143 million and \$166 million, respectively. PG&E Corporation determined that it does not have control over the companies' significant economic activities, such as the design of the companies, vendor selection, construction, and the ongoing operations of the companies. PG&E Corporation has no material remaining commitment to fund these agreements. Since PG&E Corporation was not the primary beneficiary of any of these VIEs at June 30, 2013, it did not consolidate any of them.

Adoption of New Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities

In January 2013, the FASB issued an ASU that clarifies the scope of disclosures about offsetting assets and liabilities. The guidance requires an entity to disclose gross and net information about derivatives that are offset in the balance sheet or subject to an enforceable master-netting arrangement or similar agreement. The ASU became effective for PG&E Corporation and the Utility on January 1, 2013. (See Note 7 below.)

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an ASU that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income. The ASU became effective for PG&E Corporation and the Utility on January 1, 2013.

The changes, net of income tax, in PG&E Corporation's other comprehensive income for the three and six months ended June 30, 2013 consist of the following:

(in millions, net of income tax)	Pension and Other		Total
	Postretirement Benefit Plans	Other Investments	
	Three Months Ended June 30, 2013		
Beginning balance	\$ (101)	\$10	\$(91)
Other comprehensive income before reclassifications	(19)	16	(3)
Amounts reclassified from other comprehensive income:			
Amortization of prior service cost (1)	6	-	6
Amortization of actuarial gains (1)	17	-	17
Net current period other comprehensive income	4	16	20
Ending balance	\$ (97)	\$26	\$(71)

(1) These other comprehensive income components are included in the computation of net periodic pension and other postretirement costs. (See the "Pension and Other Postretirement Benefits" table above for additional details.)

(in millions, net of income tax)	Pension and Other		Total
	Postretirement Benefit Plans	Other Investments	
	Six Months Ended June 30, 2013		
Beginning balance	\$ (105)	\$4	\$(101)
Other comprehensive income before reclassifications	(38)	22	(16)
Amounts reclassified from other comprehensive income:			
Amortization of prior service cost (1)	12	-	12
Amortization of actuarial gains (1)	34	-	34
Net current period other comprehensive income	8	22	30
Ending balance	\$ (97)	\$26	\$(71)

(1) These other comprehensive income components are included in the computation of net periodic pension and other postretirement costs. (See the "Pension and Other Postretirement Benefits" table above for additional details.)

There was no material difference between PG&E Corporation and the Utility for the information disclosed above, with the exception of other investments which are held by PG&E Corporation.

NOTE 3: REGULATORY ASSETS, LIABILITIES, AND BALANCING ACCOUNTS

Regulatory Assets

Long-Term Regulatory Assets

Long-term regulatory assets are composed of the following:

(in millions)	Balance at	
	June 30, 2013	December 31, 2012
Pension benefits	\$3,324	\$3,275
Deferred income taxes	1,700	1,627
Utility retained generation	527	552
Environmental compliance costs	604	604
Price risk management	163	210
Electromechanical meters	165	194
Unamortized loss, net of gain, on reacquired debt	146	141
Other	157	206
Total long-term regulatory assets	\$6,786	\$6,809

Regulatory Liabilities

Long-Term Regulatory Liabilities

Long-term regulatory liabilities are composed of the following:

(in millions)	Balance at	
	June 30, 2013	December 31, 2012
Cost of removal obligations	\$3,763	\$3,625
Recoveries in excess of asset retirement obligations	633	620
Public purpose programs	571	590
Other	259	253
Total long-term regulatory liabilities	\$5,226	\$5,088

Regulatory Balancing Accounts

The Utility's recovery of a significant portion of revenue requirements and costs is decoupled from the volume of sales. The Utility records (1) differences between actual customer billings and the Utility's authorized revenue requirement, and (2) differences between incurred costs and customer billings. To the extent these differences are probable of recovery or refund, the Utility records a regulatory balancing account receivable or payable. Regulatory balancing accounts receivable and payable will fluctuate during the year based on seasonal electric and gas usage and the timing of when costs are incurred and customer revenues are collected.

Current Regulatory Balancing Accounts, Net

Receivable (Payable)
Balance at

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(in millions)	June 30, 2013	December 31, 2012
Distribution revenue adjustment mechanism	\$407	\$219
Utility generation	267	117
Hazardous substance	75	56
Public purpose programs	(151)	(83)
Gas fixed cost	25	44
Energy recovery bonds	(181)	(43)
Energy procurement	13	77
U.S. Department of Energy Settlement	(279)	(250)
GHG allowance auction proceeds (1)	(199)	-
Other	226	165
Total regulatory balancing accounts, net	\$203	\$302

(1) The CARB has adopted regulations that established a state-wide, “cap-and-trade” program (effective January 1, 2013) that sets a gradually declining limit on the amount of GHGs that may be emitted each year. This balancing account is used to record proceeds collected by the Utility for GHG emission allowances associated with the cap-and-trade program. These amounts will be refunded to customers in future periods.

NOTE 4: DEBT

Senior Notes

In June 2013, the Utility issued \$375 million principal amount of 3.25% Senior Notes due June 15, 2023 and \$375 million principal amount of 4.60% Senior Notes due June 15, 2043. The proceeds were used to repurchase \$461 million principal amount, net of \$21 million of premiums and accrued interest, of the Utility's \$1.0 billion outstanding 4.80% Senior Notes due March 1, 2014, to repay a portion of outstanding commercial paper, and for general corporate purposes.

Revolving Credit Facilities

In April 2013, PG&E Corporation and the Utility amended and restated their revolving credit facilities to extend their termination dates from May 31, 2016 to April 1, 2018. These agreements contain substantially similar terms as their original 2011 credit agreements.

At June 30, 2013, PG&E Corporation had \$260 million of cash borrowings and no letters of credit outstanding under its \$300 million revolving credit facility.

At June 30, 2013, the Utility had no cash borrowings and \$91 million of letters of credit outstanding under its \$3.0 billion revolving credit facility.

Pollution Control Bonds

At June 30, 2013, the interest rates on the \$614 million principal amount of pollution control bonds Series 1996 C, E, F, and 1997 B and the related loan agreements ranged from 0.04% to 0.06%. At June 30, 2013, the interest rates on the \$309 million principal amount of pollution control bonds Series 2009 A-D and the related loan agreements ranged from 0.01% to 0.05%.

Commercial Paper Program

At June 30, 2013, the Utility had \$692 million of commercial paper outstanding under its revolving credit facility.

NOTE 5: EQUITY

PG&E Corporation's and the Utility's changes in equity for the six months ended June 30, 2013 were as follows:

(in millions)	PG&E Corporation Total Equity	Utility Total Shareholders' Equity
Balance at December 31, 2012	\$ 13,326	\$ 13,460
Comprehensive income	604	575
Common stock issued	573	-
Share-based compensation expense	31	(1)
Common stock dividends declared	(405)	(358)
Preferred stock dividend requirement	-	(7)
Preferred stock dividend requirement of subsidiary	(7)	-

Equity contributions	-	665
Balance at June 30, 2013	\$ 14,122	\$ 14,334

In May 2013, PG&E Corporation entered into a new Equity Distribution Agreement providing for the sale of PG&E Corporation common stock having an aggregate gross sales price of up to \$400 million. As of June 30, 2013, PG&E Corporation common stock having an aggregate gross sales price of \$50 million had been sold under this equity distribution agreement.

During the six months ended June 30, 2013, PG&E Corporation issued 14 million shares of its common stock for aggregate net cash proceeds of \$562 million in the following transactions:

- 7 million shares were sold in an underwritten public offering for cash proceeds of \$300 million, net of fees and commissions;
- 4 million shares were issued for cash proceeds of \$149 million under the PG&E Corporation 401(k) plan, the Dividend Reinvestment and Stock Purchase Plan, and share-based compensation plans; and
- 3 million shares were sold for cash proceeds of \$113 million, net of commissions paid of \$1 million, under the equity distribution agreements.

During the six months ended June 30, 2013, PG&E Corporation contributed equity of \$665 million to the Utility to maintain the Utility's CPUC-authorized capital structure, which consists of 52% common equity and 48% debt and preferred stock.

NOTE 6: EARNINGS PER SHARE

PG&E Corporation's basic EPS is calculated by dividing the income available for common shareholders by the weighted average number of common shares outstanding. PG&E Corporation applies the treasury stock method of reflecting the dilutive effect of outstanding share-based compensation in the calculation of diluted EPS. The following is a reconciliation of PG&E Corporation's income available for common shareholders and weighted average common shares outstanding for calculating diluted EPS:

(in millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Income available for common shareholders	\$328	\$235	\$567	\$468
Weighted average common shares outstanding, basic	442	423	438	419
Add incremental shares from assumed conversions:				
Employee share-based compensation	1	2	1	2
Weighted average common share outstanding, diluted	443	425	439	421
Total earnings per common share, diluted	\$0.74	\$0.55	\$1.29	\$1.11

For each of the periods presented above, the calculation of weighted average common shares outstanding on a diluted basis excluded an insignificant amount of options and securities that were antidilutive.

NOTE 7: DERIVATIVES

The Utility uses both derivative and non-derivative contracts in managing its exposure to commodity-related price risk, including forward contracts, swap agreements, futures contracts, and option contracts.

These instruments are not held for speculative purposes and are subject to certain regulatory requirements. Customer rates are designed to recover the Utility's reasonable costs of providing services, including the costs related to price risk management activities.

Price risk management activities that meet the definition of derivatives are recorded at fair value on the Condensed Consolidated Balance Sheets. As long as the current ratemaking mechanism remains in place and the Utility's price risk management activities are carried out in accordance with CPUC directives, the Utility expects to recover fully, in rates, all costs related to derivatives. Therefore, all unrealized gains and losses associated with the change in fair value of these derivatives are deferred and recorded within the Utility's regulatory assets and liabilities. (See Note 3 above.) Net realized gains or losses on commodity derivatives are recorded in the cost of electricity or the cost of natural gas with corresponding increases or decreases to regulatory balancing accounts for recovery from or refund to customers.

The Utility elects the normal purchase and sale exception for eligible derivatives. Derivatives that require physical delivery in quantities that are expected to be used by the Utility over a reasonable period in the normal course of business, and do not contain pricing provisions unrelated to the commodity delivered are eligible for the normal purchase and sale exception. The fair value of derivatives that are eligible for the normal purchase and sales exception are not reflected in the Condensed Consolidated Balance Sheets.

Presentation of Derivative Instruments in the Financial Statements

In the Condensed Consolidated Balance Sheets, derivatives are presented on a net basis by counterparty where the right and the intention to offset exists under a master netting agreement. All derivatives that are subject to a master netting arrangement have been netted. The net balances include outstanding cash collateral associated with derivative

positions.

At June 30, 2013, PG&E Corporation's and the Utility's outstanding derivative balances were as follows:

(in millions)	Commodity Risk			Total Balance
	Gross	Netting	Cash	
	Balance		Collateral	
Current assets – other	\$31	\$(11)	\$28	\$48
Other noncurrent assets – other	71	(5)	-	66
Current liabilities – other	(188)	11	133	(44)
Noncurrent liabilities – other	(168)	5	40	(123)
Total commodity risk	\$(254)	\$-	\$201	\$(53)

At December 31, 2012, PG&E Corporation's and the Utility's outstanding derivative balances were as follows:

(in millions)	Commodity Risk			Total Balance
	Gross	Netting	Cash	
	Balance		Collateral	
Current assets – other	\$48	\$(25)	\$36	\$59
Other noncurrent assets – other	99	(11)	-	88
Current liabilities – other	(255)	25	115	(115)
Noncurrent liabilities – other	(221)	11	14	(196)
Total commodity risk	\$(329)	\$-	\$165	\$(164)

Gains and losses associated with price risk management activities were recorded as follows:

(in millions)	Commodity Risk			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Unrealized gain/(loss) - regulatory assets and liabilities (1)	\$(23)	\$219	\$75	\$165
Realized loss - cost of electricity (2)	(31)	(125)	(79)	(275)
Realized loss - cost of natural gas (2)	(4)	(5)	(12)	(27)
Total commodity risk	\$(58)	\$89	\$(16)	\$(137)

(1) Unrealized gains and losses on commodity risk-related derivative instruments are recorded to regulatory assets or liabilities, rather than being recorded to the Condensed Consolidated Statements of Income. These amounts exclude the impact of cash collateral postings.

(2) These amounts are fully passed through to customers in rates. Accordingly, net income was not impacted by realized amounts on these instruments.

Volume of Derivative Activity

At June 30, 2013, the volumes of PG&E Corporation's and the Utility's outstanding derivatives were as follows:

Underlying Product	Instruments	Contract Volume (1)			
		Less Than 1 Year	Less Than 3 Years	3 Years or Greater but Less Than 5 Years	5 Years or Greater (2)
Natural Gas (3) (MMBtus (4))	Forwards and Swaps	290,542,776	86,670,000	6,900,000	-
	Options	209,492,494	136,515,176	4,950,000	-
Electricity (Megawatt-hours)	Forwards and Swaps	3,088,879	2,782,480	2,008,046	2,077,424
	Options	55,051	239,233	239,015	64,456
	Congestion Revenue Rights	55,926,491	74,483,974	68,123,543	14,274,162

(1) Amounts shown reflect the total gross derivative volumes by commodity type that are expected to settle in each period.

(2) Derivatives in this category expire between 2018 and 2022.

(3) Amounts shown are for the combined positions of the electric fuels and core gas portfolios.

(4) Million British Thermal Units.

At December 31, 2012, the volumes of PG&E Corporation's and the Utility's outstanding derivatives were as follows:

Underlying Product	Instruments	Contract Volume (1)			
		Less Than 1 Year	Less Than 3 Years	3 Years or Greater but Less Than 5 Years	5 Years or Greater (2)
Natural Gas (3)	Forwards and				

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(MMBtus (4))	Swaps	329,466,510	98,628,398	5,490,000	-
	Options	221,587,431	216,279,767	10,050,000	-
Electricity (Megawatt-hours)	Forwards and				
	Swaps	2,537,023	3,541,046	2,009,505	2,538,718
	Options	-	239,015	239,233	119,508
	Congestion Revenue Rights	74,198,690	74,187,803	74,240,147	25,699,804

(1) Amounts shown reflect the total gross derivative volumes by commodity type that are expected to settle in each period.

(2) Derivatives in this category expire between 2018 and 2022.

(3) Amounts shown are for the combined positions of the electric fuels and core gas portfolios.

(4) Million British Thermal Units.

The majority of the Utility's derivatives contain collateral posting provisions tied to the Utility's credit rating from each of the major credit rating agencies. At June 30, 2013, the Utility's credit rating was investment grade. If the Utility's credit rating were to fall below investment grade, the Utility would be required to post additional cash immediately to fully collateralize some of its net liability derivative positions.

The additional cash collateral that the Utility would be required to post if the credit risk-related contingency features were triggered was as follows:

(in millions)	June 30, 2013	Balance at December 31, 2012
Derivatives in a liability position with credit risk-related contingencies that are not fully collateralized	\$(116)	\$(266)
Related derivatives in an asset position	4	59
Collateral posting in the normal course of business related to these derivatives	96	103
Net position of derivative contracts/additional collateral posting requirements (1)	\$(16)	\$(104)

(1) This calculation excludes the impact of closed but unpaid positions, as their settlement is not impacted by any of the Utility's credit risk-related contingencies.

NOTE 8: FAIR VALUE MEASUREMENTS

PG&E Corporation and the Utility measure their cash equivalents, trust assets, price risk management instruments, and other investments at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
 - Level 2 – Other inputs that are directly or indirectly observable in the marketplace.
 - Level 3 – Unobservable inputs which are supported by little or no market activities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Assets and liabilities measured at fair value on a recurring basis for PG&E Corporation and the Utility are summarized below (assets held in rabbi trusts and other investments are held by PG&E Corporation and not the Utility):

(in millions)	Fair Value Measurements At June 30, 2013				Total
	Level 1	Level 2	Level 3	Netting (1)	
Assets:					
Money market investments	\$ 222	\$ -	\$ -	\$ -	\$ 222
Nuclear decommissioning trusts					
Money market investments	32	-	-	-	32
U.S. equity securities	956	10	-	-	966
Non-U.S. equity securities	391	-	-	-	391
U.S. government and agency securities	759	135	-	-	894
Municipal securities	-	31	-	-	31
Other fixed-income securities	-	166	-	-	166
Total nuclear decommissioning trusts (2)	2,138	342	-	-	2,480
Price risk management instruments (Note 7)					
Electricity	-	26			