

November 30, 2005

Technical Director – File Reference 1240-001
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

RE: Proposed Statement of Financial Accounting Standards, “Earnings Per Share, an amendment of FASB Statement No. 128”

PG&E Corporation is pleased to have the opportunity to comment on the Financial Accounting Standards Board’s (the Board) Exposure Draft, “Earnings Per Share, an amendment of FASB Statement No. 128” (Exposure Draft). The additional changes to the requirements of Statement 128 proposed by the Board in its redeliberations of the December 2003 exposure draft are not expected to impact PG&E Corporation at this time. However, we believe it is important to participate in the process of developing emerging guidance.

PG&E Corporation is an energy-based holding company with approximately \$11 billion in annual revenues and \$35 billion in assets at December 31, 2004. PG&E Corporation conducts its business primarily through its main subsidiary, Pacific Gas and Electric Company, a utility that provides natural gas and electricity services to its customers in Northern and Central California.

We support the Board’s international convergence objective. However, we are concerned that certain proposed changes to the statement will not result in convergence with IAS 33. The Exposure Draft proposes to expand the method of computation of assumed proceeds within the treasury stock method per paragraph 17 of Statement 128, “Earnings Per Share,” to include the carrying amount of a liability potentially settled in shares. IAS 33 does not specifically include the carrying amount of an extinguished liability as part of assumed proceeds in calculating diluted EPS. However, we understand the IASB is currently working on this matter and we encourage the Boards to work together to achieve international convergence.

We have the following comments in response to the issues posed by the FASB in the Exposure Draft.

Issue 1: Should the carrying amount of a liability that is potentially settled in shares be included as assumed proceeds in applying the treasury stock method? Should this provision apply only to instruments subject to the treasury stock method and not instruments subject to the if-converted method?

We agree that in extinguishing a liability in exchange for issuing shares, the carrying amount of the liability instrument should be included as assumed proceeds in applying the treasury stock method. We concur with the Board’s view that if that liability were actually settled in shares, the liability would be extinguished with no sacrifice of assets. Net assets would increase which is equivalent to receiving cash proceeds from issuing shares in exchange for cash. Therefore, it is appropriate to treat the increase in net assets attributable to the extinguishment of the liability as assumed proceeds.

Currently, Statement 128 does not identify whether a liability that can be settled in shares should apply the treasury stock method or the if-converted method in computing diluted EPS. The Exposure Draft contemplates that for such a liability, the treasury stock method should be applied unless the economic

substance of the instrument is that of convertible debt. Considering the Board has chosen not to resolve current practice issues in determining what instrument should be accounted for as convertible debt, the proposed guidance may result in additional practice issues in addition to widening the gap in international convergence. We understand the IASB is presently considering this matter and we encourage convergence efforts.

Issue 2: Should assumed proceeds be determined as A) the carrying value of the liability at the end of the period or B) a liability computed using an end-of-the-period share price equal to the average share price used in the treasury stock method that results in no incremental shares?

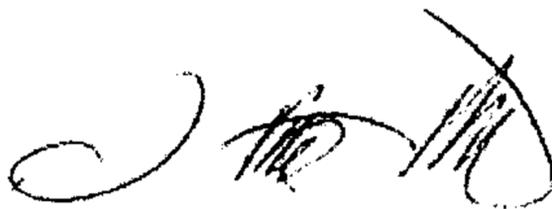
We support the latter computation method of assumed proceeds, using an end-of-the-period share price equal to the average share price used in the treasury stock method (Measurement B), as it is consistent with our support for Issue 1. We agree that the extinguishment of a liability that is maintained at fair value does not result in any further economic sacrifice and that there should be no incremental effect on diluted EPS. Central to our support of this proposal is that any potentially dilutive effect of settling the liability in shares is captured as changes in the fair value of the liability are recognized in net income; the numerator of the EPS computation.

Furthermore, the SEC supports the view that shares issued at fair value should not have a dilutive effect as noted in their announced changes to EITF topic D98 "Classification and Measurement of Redeemable Securities" at the September 2005 EITF meeting. Paragraph 19 of EITF Topic D-98 states "a redemption at fair value does not amount to a preferential distribution." Measurement B is the best reflection of the economics (see paragraph A13 of the Exposure Draft).

However, we believe an acceptable alternative to Measurement B is to allow a scope exception for a liability that is potentially share settled at fair value from the computation of diluted EPS. Issuing shares at the current fair value will not be dilutive and; therefore, it is meaningless to include such instruments in a diluted EPS computation. A scope exception provides an equivalent solution to Measurement B without expanding the definition of assumed proceeds under the current treasury stock method or granting a measurement exception under the current treasury stock method.

We would be pleased to discuss our comments with the Board or its staff at your convenience. Thank you for your consideration.

Sincerely,



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