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Technical Director – File Reference 1240-100
Financial Accounting Standards Board
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LETTER OF COMMENT NO.

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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).

PG&E Corporation is an energy-based holding company with approximately \$13 billion in annual revenues and \$37 billion in assets at December 31, 2007. 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.

PG&E Corporation is not supportive of the proposal to use the end-of-period share price, rather than the average share price over the period, in the treasury stock method. As stated in paragraph 11 of the exposure draft, “The objective of diluted EPS is consistent with that of basic EPS – to measure the performance of an entity over the reporting period – while giving effect to all dilutive potential common shares that were outstanding during the period.” PG&E Corporation believes that the use of the average share price provides a better representation of the dilutive impact of potential common shares over a reporting period.

To illustrate our position, we use outstanding stock options as an example. Under current EPS guidance (SFAS No. 128), all outstanding “in-the-money” stock options are assumed exercised and proceeds received from that exercise are assumed to be used to purchase outstanding shares of an entity’s common stock at the average market price. Theoretically, the exercise and assumed repurchase of all outstanding stock options could occur at any point in time over the reporting period, assuming that no stock option holder would exercise a stock option that is “out-of-the-money.” The average market price over the reporting period gives consideration to the stock option holders’ ability to exercise their stock options as a company’s stock price fluctuates throughout the reporting period. The use of the end-of-period share price in the treasury stock method would depict the impact of stock options at the end of the reporting period, rather than over the reporting period. Therefore, PG&E Corporation believes that the end-of-period share price over the reporting period would not be appropriate under the treasury stock method, as

diluted EPS is a measure of a company's performance over a reporting period, rather than at the end of the reporting period.

We would like to note that the proposed changes to the if-converted and treasury stock method would cause inconsistency between various potential common share instruments, namely stock options/warrants and convertible debt. The proposed changes state that stock options are to be assumed to be exercised at the end of the reporting period. Convertible debt, however, is assumed to be converted at the beginning of the reporting period, due to the requirements to add back interest charges and adjusting income for any interest-dependent computations as if the interest was never recognized for the period.

Issue 1: Do you agree that the fair value changes sufficiently reflect the effect of those instruments on current shareholders and that recognizing those changes in earnings eliminates the need to include those instruments in determining the denominator of diluted EPS or in computing EPS under the two-class method? If not, why not?

In the interest of simplifying the calculation of EPS, we agree that the fair value changes recognized in earnings sufficiently reflect the effect of those instruments on shareholders for diluted EPS purposes, as earnings are increased or reduced through the fair valuation of such instruments, and that those changes in earnings eliminate the need to include those instruments in determining the denominator of diluted EPS.

Alternatively, if the Board decides to include such instruments in the calculation of EPS, we suggest that the if-converted method/treasury stock method, utilizing the average market share price over the period, be used to calculate diluted EPS if the instrument is not a participating security, with the fair value changes in earnings reversed (net of tax), settlement of the associated liability considered assumed proceeds, and additional common shares be assumed issued. Under this alternative, most convertible instruments would be calculated using the same method for diluted EPS purposes (some convertible instruments would be subject to the two-class method if that particular instrument is a participating security).

In cases where such instruments are a participating security, PG&E suggests that the two-class method, as revised by the proposed amendments in this exposure draft, be used to calculate basic and diluted EPS.

Issue 2: This proposed Statement would clarify that an entity would not reduce income from continuing operations (or net income) by the amount of additional dividends that would be assumed to be declared for potential common shares or potential participating securities that are assumed to be outstanding. The Board reasoned that an entity may make a different decision on the per-share amount of dividends declared if that per-share amount was distributed to all potential common shares or participating securities. Do you agree? If not, why not?

We agree that income from continuing operations (or net income) should not be reduced by the amount of additional dividends that would be assumed to be declared for potential common shares or potential participating securities when calculating diluted EPS. We believe that the allocation of undistributed earnings between common shareholders (which includes additional

potential common shares) and participating securities is sufficient. To support our position, we note that in cases where dividends can be settled in shares of common stock, the assumption of additional dividends and share settlement would result in a circular calculation that is not meaningful.

Issue 3: The Board decided that the amendments in this proposed Statement would not warrant additional disclosures beyond those already required by U.S. GAAP. Do you agree that additional disclosures are not warranted? If not, what additional disclosures should be required and why?

We agree that additional disclosures are not warranted, as current disclosure requirements between SFAS No. 128 and SFAS No. 123(R) are sufficient.

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

Sincerely,



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