

May 26, 2010

PG&E

(PCG-NYSE)

Stock Rating: Market Perform
Industry Rating: Market Perform

Electric Utilities and Independent Power

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ALJ Recommends Scaled-Back Investment

Event

On May 25, 2010, an administrative law judge (ALJ) at the California commission issued a proposed decision that, if adopted, would authorize Pacific Gas and Electric capital expenditures of \$357 million (2011-2013) to implement electric distribution reliability improvement projects. The proposed decision states that PG&E had not demonstrated the need for its proposed \$2 billion six-year electric distribution reliability improvement program; the ALJ recommends a scaled-back program to implement specific elements of the utility's proposed program.

Impact

We view the ALJ's recommendation as unfavorable in that it does not currently support the entire proposed investment program. However, we note that the ALJ indicated that additional investment in reliability projects could be considered in PG&E's 2014 and subsequent general rate cases. Comments on the proposed decision are due on June 14, 2010.

Forecasts

No change in estimates based on the ALJ's recommendation.

Valuation

Trading in line with industry average multiples, we find PCG shares fairly valued in the current market.

Recommendation

We reiterate our **MARKET PERFORM** rating.

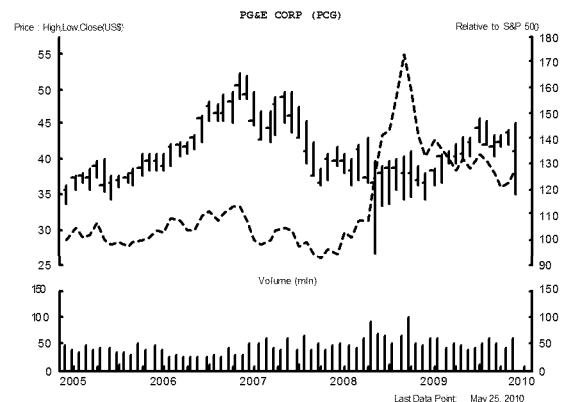
SecuritiesInfo

Price Intraday	\$41.31	Target Price	\$48
52-Wk High/Low	\$46/\$35	Dividend	\$1.82
MktCap(mm)	\$15,382	Yield	4.4%
Shs O/S (mm, BASIC)	372.3	Float O/S (mm)	371.6
Options O/S (mm)	31.1	ADVol (30-day, 000s)	2,991

Selected Bond Iss	Ind Prc	Rat'g	Mtys/S&P	YTW	Spread
Pacific G&E 4.8% '14	108	A3 / BBB+		2.67%	156bp
Pacific G&E 6.1% '34	105	A3 / BBB+		5.67%	165bp

Bond data from Bloomberg.

Price Performance



Valuation/Financial Data

(FY-Dec.)	2008A	2009A	2010E	2011E
EPS Pro Forma	\$2.95	\$3.20	\$3.45	\$3.76
P/E			12.0x	11.0x
First Call Cons.			\$3.41	\$3.72
EPS GAAP	\$3.63	na	na	na
FCF	-\$2.52	-\$2.07	-\$0.99	-\$0.09
P/FCF			nm	nm
EBITDA (\$mm)	\$3,912	\$4,160	\$4,505	\$4,935
EV/EBITDA			5.5x	5.0x
Rev. (\$mm)	\$14,628	\$15,128	\$15,736	\$16,373
EV/Rev			1.6x	1.5x
FCF after Div. (\$mm)	-\$1,449	-\$1,357	-\$950	na
Quarterly EPS	1Q	2Q	3Q	4Q
2009A	\$0.66	\$0.83	\$0.93	\$0.80
2010E	\$0.79	na	na	na

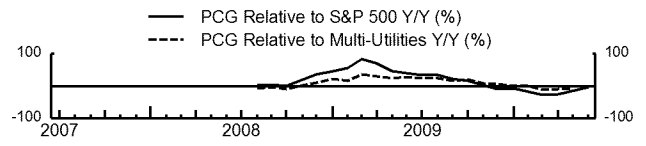
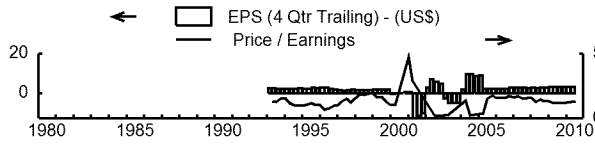
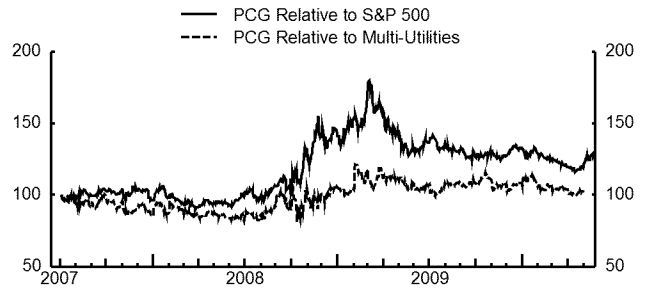
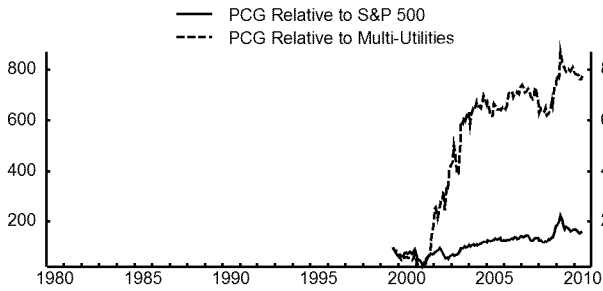
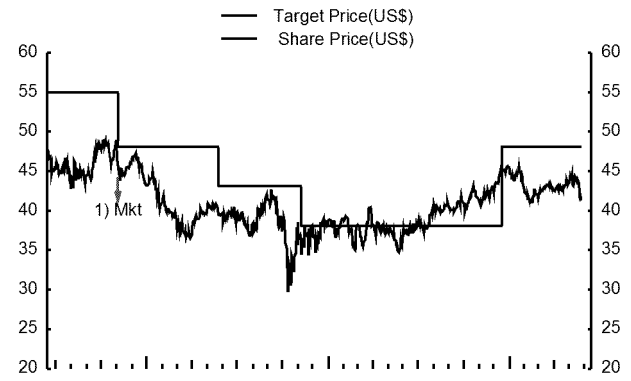
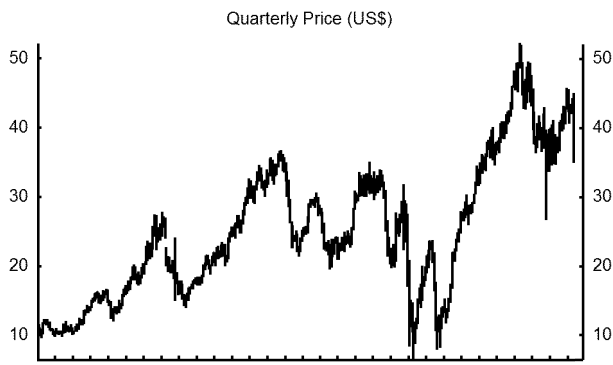
Balance Sheet Data (03/31/10)

Net Debt (\$mm)	\$9,421	Total Debt/EBITDA	2.9x
Total Debt (\$mm)	\$13,079	EBITDA/IntExp	5.7x
Net Debt/Cap.	40.2%	Price/Book	1.5x

Notes: All values in US\$.

Source: BMO Capital Markets estimates, Bloomberg, FactSet, Global Insight, Reuters, and Thomson Financial.

PG&E CORP (PCG)



PCG - Rating as of 14-Jun-07 = OP

Date	Rating Change	Share Price
1 2-Nov-07	OP to Mkt	\$46.25

Last Daily Data Point: May 25, 2010

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Methodology and Risks to Our Price Target/Valuation

Methodology: Our valuation is based on a combination of our DCF analysis and current industry P/E multiples.

Risks: A material decline in power prices and / or a change in the regulatory environment could affect our price target.

Distribution of Ratings (Mar. 31, 2010)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	32.9%	13.1%	36.4%	39.4%	47.9%	53%
Hold	Market Perform	63.2%	11.9%	63.6%	55.3%	48.5%	41%
Sell	Underperform	3.9%	0%	0%	5.2%	3.6%	6%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

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