

From: Bolte, Michael
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To:
Cc:
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Subject: PCG: ALJ Recommends Scaled-Back Cornerstone Reliability Program

Regulated Electric Utilities

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PG&E Corp. (PCG-NYSE)--Market Perform (2)

Price as of 5/25/2010: \$41.25
FY 10 EPS: \$3.38
FY 11 EPS: \$3.70
Shares Out.: 365.8 MM
Market Cap.: \$15,089.25 MM

Sector Rating: Regulated Electric Utilities, Market Weight

PCG: ALJ Recommends Scaled-Back Cornerstone Reliability Program

Yesterday, an administrative law judge at the California Public Utility Commission (CPUC) issued a proposed decision regarding PG&E's Cornerstone Program. The goal of this proposed program is to increase the reliability of PG&E's electric distribution system. If adopted by the CPUC, the decision would authorize PG&E to spend \$357MM from 2010-2013 on specified reliability improvement projects. The recommended capital expenditures fall well below PG&E's request to spend roughly \$2B on the Cornerstone Program from 2010-2016. Comments on the proposed decision are due on June 14.

Specifically, the decision approves capital expenditures of ~\$25MM in 2010, ~\$98MM in 2011, ~\$118MM in 2012 and ~\$116MM in 2013. This compares to PG&E's request to spend ~\$101MM in 2010, ~\$283MM in 2011, ~\$384MM in 2012, ~\$395MM in 2013 and ~\$830MM from 2014-2016.

The proposed decision states that the utility has not demonstrated the need for the full Cornerstone Program. However, it recommends a scaled-back program that is more cost effective and targets worst performing circuits. The proposed decision estimates that the downsized program can still deliver 68% of the quantifiable reliability improvements identified by PG&E.

We note that the decision states that projects that are rejected at this time are done without prejudice and PG&E can address future distribution reliability matters in its 2014 GRC. However, PG&E will be required to file a value of service study for the 2014 GRC to determine what, if any, additional reliability improvements are necessary and to evaluate their cost-effectiveness.

If ultimately approved by the CPUC, we do not expect this decision to have a material impact on our 2010 and 2011 estimates. Our estimates are largely based on PG&E's low case for forecasted rate base and capital expenditures and the low capex case does not include any spending on Cornerstone in these

years. We'd also note that while we continue to believe California has a constructive regulatory climate, we do expect increased scrutiny on the benefits and cost-effectiveness of proposed projects.

The proposed decision is available at this link: https://www.pge.com/regulation/ElecDistReliabilityImprovProg/CPUC/Draft-Decisions/2010/ElecDistReliabilityImprovProg_CPUC_Draft-Dec_20100525-01.pdf

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I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed by me in this research report.

PCG - Rating and Valuation Range Changes

Date	Publication Price	Rating	Valuation Range	Closing Price
05/23/07	NA	MARKET PERFORM	NE	49.23
09/28/07	NA	Not Rated	NE	47.41
01/30/08	40.82	MARKET PERFORM	\$43-\$45	40.82
03/04/08	38.06	MARKET PERFORM	\$40-\$43	38.54
04/29/08	39.65	MARKET PERFORM	\$41-\$43	39.62
05/19/08	40.47	MARKET PERFORM	\$43-\$44	40.85
06/12/08	39.40	Suspended	NE	39.43
09/16/08	41.18	MARKET PERFORM	\$43-\$45	41.78
10/29/08	36.56	MARKET PERFORM	\$38-\$40	35.60
08/06/09	40.12	MARKET PERFORM	\$40-\$42	40.44
09/18/09	41.03	MARKET PERFORM	\$42-\$44	41.06
12/14/09	44.94	MARKET PERFORM	\$47-\$49	45.31
02/22/10	42.54	MARKET PERFORM	\$45-\$47	41.98

Additional information available upon request.

STOCK RATING

Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: May 26, 2010

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