

From: Cherry, Brian K
Sent: 8/12/2010 11:03:57 AM
To: 'mpl@cpuc.ca.gov' (mpl@cpuc.ca.gov)
Cc:
Bcc:
Subject: Fw: Video Conference with President Peevey

Looks like your interview got rave reviews.

From: Togneri, Gabriel
To: Darbee, Peter; Johns, Christopher; Harvey, Kent M; Keenan, Jack; Bottorff, Thomas E; Burt, Helen; Wan, Fong; Pruett, Greg S.; Park, Hyun; Cherry, Brian K; Cherry, Sara A; Mistry, Dinyar; Yura, Jane
Cc: Dore, Jay; Bijur, Nicholas M.; Ha, Trung Q; Hayes, Kathleen (Law); Reilly, Robin J (Law); Warner, Christopher (Law); Investor Relations (list)
Sent: Thu Aug 12 11:00:11 2010
Subject: Video Conference with President Peevey

Yesterday, Morgan Stanley analyst Greg Gordon held a video conference and Q&A with CPUC President Peevey. Participation was restricted to those in attendance at the Morgan Stanley offices. Today, Greg put out the attached short report, but I have also spoken to him and to others so that we can share a more detailed summary below.

Bottom line: A weak state economy has not damaged CA's regulatory environment

- President Peevey does not believe the CA utilities' (PCG, SRE, EIX) current allowed ROEs, that are above the national average, are too high. Made it very clear that current ROEs are within the realm of reason and has no interest in shrinking them. He also commented that authorized returns in the state had been relatively stable for many years.
- While recent ALJ comments suggested a settlement could be reached in PCG's pending rate case, Peevey thought a settlement on specific items was possible, but that an "umbrella" settlement was unlikely
- Opposition to CA renewable initiatives unlikely to emerge, so long as rate increases are kept reasonably in-line with CPI (~3-5%)... and does believe this is feasible, absent a natural gas price spike of the magnitude that occurred in '07. Did acknowledge current low fuel prices have provided headroom to execute asset development initiatives, and expects they will continue to benefit from this for the next several years
- While CA's hourly power prices are higher than some states, like TX, lower usage levels reduce risk of rate shock – noted that CA electricity bills as a % of total income are still lower than other markets across the country

- Will fall short of this year's 20% renewable requirement (will be closer to 17-18% for the three CA utilities altogether), but all of the transmission projects required to meet solar goal have been approved and are already under construction
- 4,600 MWs of incremental solar power could ultimately be introduced into the CA market... but the biggest challenge in his mind is how to integrate all of the other different renewable options into the system
- Showed a clear preference for solar. Wind generation seems to be priced close to conventional sources, but is too spotty... and while solar is more expensive, feels that it better matches demand peaks, and expects to see continued decline in solar's \$/kW cost with advances in technology
- While Meg Whitman is a little less vocal in support for renewables development, seems to be sufficiently on board to not disturb current plans if she's elected governor... Jerry Brown would intensify the push for renewables should he win CA's gubernatorial election on 11/2, which Peevey sees as the most likely outcome at this point
- Peevey, wants to see charging stations for electric vehicles developed as rapidly as possible. Thinks current projection of 1MM electric vehicles in CA by '20 is too conservative – believes it could be closer to 2MM, but acknowledged this would put considerable stress on distribution
- Expects to see a PD for CEE incentives out by the end of the month
- CA commission operates on specialty funding. Because they do not receive general funding, they're not as susceptible to staffing reductions that other state agencies face

In the market currently, PCG stock is at \$45.65, up \$0.39 (+0.86%) while the Dow Jones Utilities are down 0.64%. The market overall is down 0.69%, as reflected in both the Dow Jones Industrials and the S&P 500.

Gabe

<<08-12-10 Morgan Stanley - CA Regulation.pdf>>

Gabe Togneri

Vice President, Investor Relations

PG&E Corporation

One Market Plaza, Spear Tower-Suite 2400

San Francisco, CA 94105

415.267.7100

415.267.7262 (Fax)