

From: Cherry, Brian K  
Sent: 8/26/2010 1:29:37 PM  
To: Frank Lindh (frl@cpuc.ca.gov) (frl@cpuc.ca.gov)  
Cc:  
Bcc:  
Subject: FW: Analyst Report - Bernstein (California Visit)

Forgot to cc you !

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**From:** Cherry, Brian K  
**Sent:** Thursday, August 26, 2010 1:25 PM  
**To:** pac@cpuc.ca.gov; tas@cpuc.ca.gov; Brown, Pamela  
**Subject:** FW: Analyst Report - Bernstein (California Visit)

FYI. Final Bernstein report.

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**From:** Redacted  
**Sent:** Thursday, August 26, 2010 1:20 PM  
**To:** Arndt, William; Becker, James; Bedwell, Ed; Bell, Des; Bottorff, Thomas E; Burt, Helen; Cairns, Stephen J.; Cheng, Linda Y. H. (Corp. Sec.); Cherry, Brian K; Cherry, Sara A; Conway, John; Darbee, Peter; Document Retention-CPUC; Hapner, Dede; Harper III, William; Hartman, Sanford (Law); Harvey, Kent M; Hayes, William; Johns, Christopher; Johnson, Mark S; Keenan, Jack; Kiraly, Gregory; Kline, Steven L.; Kuga, Roy M; Lawicki, Patricia; Livingston, Randy; Malnight, Steven; Martinez, P.J. (ET); McFadden, Nancy; Mistry, Dinyar; Park, Hyun; Pruett, Greg S.; Rosenberg, Rand; Salas, Edward A (ET); Simon, John; Suri, Anil; Togneri, Gabriel; Torres, Albert; Wan, Fong; Williams, Geisha; Yura, Jane; Abrahamson, Brian J; Abranches, Andrew; Affonsa, Deborah; Agid, Bruce; Agid, Tara; Allen, Meredith; Almario, Benedict (ET); Altman, Brent; Alvarez, Roy; Andrews, Veronica (Merchant); Balistrieri, Phil; Baron, Ananda L; Battey, Jayne; Beasla, Raj S; Benz, Greg; Berkovitz, Trista (GT&D); Berman, Janice S; Berman, Kathi K; Bijur, Nicholas M.; Bird, Katherine R; Birdsall, Thomas H; Bober, Christopher; Bohan, Timothy W; Bragagnolo, Susan; Brown, Jess A; Brown, John (Jay); Buchholz, Kristine (ET); Burke, Brian; Burke, Michael; Busk, Paul; Busterud, John (Law); Campbell, Ben (NRD); Campbell, Walter; Campos, Stacy (Law); Caron, Mark T; Carter, Glen E; Chan, Candice; Chhabra, Vanita; Clare, David; Clendenin, Duncan; Cluff, Lloyd; Coleman, Steve T; Cooper, Shawn; Corey, Jana; Corippo, Peter; Cussimano, Craig; Daley, Erin; Dasso, Kevin; David, Steven; Delisle, Alyn; DeRosa, Darleen; Devereaux, William; Dhar, Amitava; Dickerson, Marianne; Dickson, Joel (ET); Dieterich, Robert (ISTS); Dietz, Sidney; Disse, Greg (ET); Document Retention-CPUC; Dore, Jay; Dowdell, Jennifer; Dvorak, Mike; Eisenman, Eric; Erdozaincy, Alain J; Everidge, Kelly A.; Fassett, Robert (GT&D); Faulk, Jon; Field, Lessly W; Fledderman, Jude; Foley, Beth; Fraser, Bruce; Frazier-Hampton, Janice Y; French, Tom; Fusco, Louis L (ET); Garber, Stephen (Law); Gardyne, Jennifer; Garrett, Ezra; Gee, Susan; Giesecke, Matt; Gilbert, David; Gleicher, Cliff (Law); Griffes, Peter; Guldemon, Bill; Ha, Trung Q; Hamilton, Gayle; Harbor, Cary; Harden, Lorene R; Henderson, Maria; Herrera, Gloria; Hertzog, Brian; Hessami, Shahrokh; Hogenson, Todd (GT&D); Hogle, Jessica; Horner, Trina; Hughes, John (Reg Rel); Hughes, Mark C (Dir SH&C); Hunter, Dale R (GT&D); Ibardolasa, Joyce; Issel, Meri; Ittner, Mary Ellen; Jacobson, Erik B (RegRel); Janis, Megan Smith; Jawed, Ferhaan (ET); Jayo, Juan (Law); Jeung, Gary P; Johnson, Aaron; Johnson, Kirk; Jones, Michael L (Pwr Gen); Jones, Thomas G&PR; Jordan, Lise (Law); Jordan, Nichole; Kauss, Kent; Kelly, Dave (Corp Sec); Kennedy, Rick; Kerr, Joan; King, Timothy; Kiyota, Travis; Knudsen, Chris; Kraska, David (Law); Krausse, Mark; Kress, Michael A; Kubota, Jodie; La Flash, Hal; Larson, Duane; Lavinson, Melissa A; Leach, Kevin; Leder, Steve; Lemler, Gregg; Lemons, Loren; Lewis, David; Loduca, Janet C.; Lokey, Felecia K; Ludemann, Doreen (Law); Maggard, Stephanie A; Manheim, William (Law); Maring, Jon; Marre, Charles; Marshall, Jonathan; Martin, Hudson T; Maturo, Christopher; McCarty, Steven; McCoy, Kevin L; McCune, Sara; McDonald, Brian; Meisel, David; Meko, Michael; Metague, Stephen; Middlekauff, Charles (Law); Miller, Suzy; Min, Elizabeth; Mitchell, Lavern; Moffat, John; Moller, David W; Monardi, Marino; Morris, Dave (Cust Care); Mukand, Rohini; Mullen, Patrick W; Narayanan, Kris; Nicco, Denise; Nichols, Steven J (Director); O'Flanagan, Joseph; Ouborg, Peter (Law); Owens, Crawford (ET); Park, Eugene; Parks, John; Parnell, Renee; Pate, Bill; Patrizio, Mark (Law); Peters, Kenneth; Petersen, Dennis; Peterson, Michael R (Corp Security); Pickett, Chris; Porter, Christa A.; Powell, Debbie; Priest, Helen; Pulling, Wendy; Putnam, Matthew T; Ramirez, Ruben; Rayburn, Stephen; Redding, Steve (M&C DIR); Reiling, Barbara; Rich, Brian; Riedhauser, Chuck; Roller, Paul James; Rondeno, Butler; Rose, Scott; Ross-leech, Diane; Roth, Karen; Rubin, David; Savage, Michael; Schirle, Stephen L (Law); Schroeder, Kurt; Schultz, Lance; Sellheim, Laura; Sharp, Loren; Sharp, Shelly; Shim, Gun; Singh, Amrit P; Sipp, Thomas E; Slack, Dave; Smith, Bruce T; Speck, Carl; Stablein, Jodi; Steel, Brian; Steiner, Diane; Stelling, Terry; Stock, William; Strauss, Todd; Suehiro, Bob; Susong, Mike; Swanson, Michael; Sweeney, Norman; Tang, Andrew; Thoma, Alvin; Thomason, David S; Thornbury, Gregory M; Thurman, Diane; Ton-Quinlivan, Van; Trovato, Dean; Turner, Chris (ET); Tyson, David; Vana, Chris; Veeneman, Robert; Vietor,

Barbara; Walter, Lynn E; Warnock, John; Watts, Vicki G; Weichhart, Stacy E; Weidemann, Mareijke; Wells, Jason; Wells, Kenneth (ET); Welsch, James; Westcott, Susan; Whelan, Steve (GT&D); Williams, Andrew; Williams, Ray; Williamson, Dana C; Wilson, Michelle (Law); Wilson, Thomas C (Env Remediation); Winnie, Terri; Winter, Linda; Woerner, Bob; Wolf, Malia; Wong, Corey; Wyspianski, Martin; Yamaguchi, Rich D (MTC Sr.Director); Yeung, Manho; Zambrano, Saul

**Subject:** Analyst Report - Bernstein (California Visit)

On Tuesday, Hugh Wynne from Bernstein brought a group of about 15 investors to meet with senior management. The group also met separately with Commissioner Simon and CPUC staff, TURN, and on Monday, they met with Edison International's senior management. Wynne released a report this morning summarizing the trip. His report was overall positive, yet well-balanced, and his main takeaway is that the meetings had, "highlighted the continuing strengths of California's regulatory framework as well as the important challenges that the system will face in the years ahead." The main focal points of his report were California's gubernatorial election, favorable regulatory framework, energy policy, and the threat of rising rates.

On the gubernatorial election, Wynne writes that the election will not be "transformational for the CPUC or the state's energy policies." Wynne acknowledges that CPUC President Peevey supports Jerry Brown and that the CPUC would likely maintain its current leadership and policies should Brown win. However, if Meg Whitman were to win, Wynne does not believe the CPUC would adopt a markedly different course given that, "Whitman can only derive political advantage from the continuation of well designed utility regulation in the state."

Wynne views California's regulatory framework favorably given forward test year rate cases, ROEs tied to a multi-year cost of capital mechanism, decoupled revenues from sales, and the extensive use of balancing accounts. In summary he states, "our recent meetings in California confirm our belief that these key elements of California's regulatory framework have become increasingly institutionalized and unlikely to be the subject of radical change."

Wynne comments that another feature of the California regulatory environment has been the broad consensus among utilities, regulators, and politicians on energy policy around resource adequacy, upgrading the transmission infrastructure, roll-out of an advance metering infrastructure, and increased reliance on renewable resources. Achieving these goals has created investment opportunities for the state's utilities and has driven rate base growth.

However, Wynne also observes that achieving the 33% RPS is a formidable and costly challenge and in his meetings with all parties, it was clear to him that electricity rates in CA are beginning to come under more scrutiny. Finally, Wynne reiterated his "BUY" rating on PCG stock and price target of \$49.

PCG hit a new 52-week high on Wednesday, closing at \$47.06. PCG is up 5.4% for the year, and as of yesterday, we are 6th in total shareholder return amongst our

comparator group, while we had been hovering around 11th for most of this year. The comparator group is up 3.7% for the year, the Dow Jones Utility Average down -2.7%, and the S&P 500 down -5.4%.

- Madeline

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