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Sent: 8/5/2010 11:38:58 PM
To: 'mpl@cpuc.ca.gov' (mpl@cpuc.ca.gov)
Cc:
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Subject: Fw: Analyst Reports - Q2 Earnings Summary
FYI. Interesting speculation by the analysts.

From: Redacted
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Sent: Thu Aug 05 21:21:23 2010
Subject: Analyst Reports - Q2 Earnings Summary

A number of analyst notes were issued as a result of our Q2 2010 earnings release and conference call Wednesday.

Overall, the reports have a slightly more positive tone than we have seen previously on recurring hot topics such as the gubernatorial race and regulatory environment. PG&E's senior management took the opportunity during this earnings call to review the outcomes and progress on many 2010 regulatory items such as settlement on the FERC TO 12 and Gas Transmission & Storage rate cases, positive outcomes on Solar PV and Cornerstone, and moving along schedule with the GRC and the proposed Manzanita Wind Project. It seems that this message was reflected well in the analyst reports and fears of a change in the regulatory environment have been somewhat tempered.

The areas of focus for the reports are (1) risks around the GRC, (2) the gubernatorial race and its impact on the composition of the CPUC, (3) equity needs, and (4) how PCG trades relative to the group. In terms of risk around the GRC, analyst reports focused on the fact that there will be an overhang on the stock until the case is resolved. They noted a possible slippage in schedule based on past experiences in the rate case. However, some were reassured that rulings in other proceedings in 2010 are a sign that the CPUC will issue a constructive ruling in the rate case as well. Interestingly, Lasan Johong at RBC notes that although they do not find the rate case to be controversial, this is in disagreement with others who fear that, "the favorable regulatory climate is about to change" and as a result, "fear may rule investment decisions regarding PCG."

The discussion of the gubernatorial race elicits a few points of view. There are some analysts who believe it should have no significant impact on the make-up of the CPUC either way. There are others such as Dan Ford of Barclays who feel that if Meg

Whitman were to be elected, "she would want to install her own president at the commission and that Peevy [sic] may not want to continue to serve on the CPUC."

In terms of equity issuance, a few commented on the possibility that 2011 needs may be prefunded in the latter part of 2010, saying that this would not be a surprise given the solid performance of PCG's stock price and with an eye on the volatility in the broader markets. Regardless of their estimates on when and how much equity will be issued, the sentiment is that the overhang on our stock will not be removed until this uncertainty is cleared up, along with the other catalysts mentioned above.

The uncertainties on which the analysts have focused result in the overarching theme that PCG is trading at a discount but should eventually be trading at a premium. It's mentioned repeatedly that it won't be until we see resolution in the outstanding regulatory cases, an outcome in the November election, and equity needs are filled for 2011 that our stock will begin to trade at a higher premium to the group.

In terms of actual results, the company came in at \$0.91 per share, \$0.07 higher than in Q2 2009, and beat the Street consensus of \$0.90 per share. The analyst reports focused on the solid Q2 results and made few significant estimate changes. The only notable changes were: (1) Jonathan Arnold of Deutsche decreased EPS estimates for 2010 and 2011 by \$0.05 in each year to \$3.40 and \$3.70 as a reflection of slower CapEx spend and equity issuance timing, and (2) Lasan Johong of RBC downgraded PCG from "BUY" to "Neutral" but stated that "transparency of earnings, steady growth and productive California regulatory environment continues to make PCG a good investment. However, given the pending equity issue, resolution of rate case, and recent stock performance and valuation, we believe the stock is not likely to outperform its peer group at this time." Currently, the analyst community has 13 BUY recommendations and 6 HOLD recommendations on PCG stock.

Our stock closed today at \$45.23, down 0.2%. Our comparator group finished up 0.7%. The Dow Jones Industrials and S&P 500 were both down 0.1%. For the year-to-date, PCG is up 1.3% and our comparator group is up 3.6%. The Dow Jones Industrials are up 2.4% and S&P 500 up 1.0% year to date.

Attached are three of the more relevant analyst reports:

<<08-05-10 - Deutsche Q2 Earnings.pdf>> <<08-05-10 - BAS-ML Q2 Earnings.pdf>> <<08-05-10 - Barclays Q2 Earnings.pdf>>

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