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 Industrials Utilities and Power

Deutsche Bank



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PG&E Corp

Reuters: **PCG.N** Bloomberg: **PCG UN** Exchange: **NYS** Ticker: **PCG**

Strong Q2, but not ruling out pre-emptive equity strike

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PCG beat Q2 estimates and left 2010/2011 guidance unchanged

PCG posted Q2 operating EPS of \$0.91 vs. \$0.83 in Q2 2009 (+10%). This beat our estimate by \$0.03 and consensus by \$0.02 with drivers largely as we expected except for \$0.03 of Miscellaneous positives which are now +\$0.06 YTD. CFO Kent Harvey suggested PCG might pre-fund some planned 2011 equity issuance this year - presumably eyeing recent strong stock performance - but noted that the number is a moving target depending on regulatory outcomes. Trimming 2010/2011E but raising target by \$1 to \$48. Reiterate Hold.

Guidance reaffirmed despite running behind on 2010 capital spend

PCG reaffirmed their guidance ranges for \$3.35-\$3.50 for 2010 and \$3.65-\$3.85 for 2011. Capital spending through June was just under \$1.8B or about 46% of this year's base target of \$3.9B. Management attributed this to unfavorable weather and permitting delays but expect to catch-up to their spending target by year-end. Timing of decisions on incremental projects such as Solar PV and the Cornerstone reliability program mean little will end up being spent on these in calendar 2010.

Key upcoming regulatory decisions are 2011 GRC and Manzanera wind

On the regulatory front hearings recently concluded in the 2011 General Rate Case (GRC) which is the key variable for future capital plans and growth. A proposed decision from the ALJ is expected in November with a final in December. Away from the GRC we are focused on the Manzanera wind case with ~\$0.10 of earnings (net of equity needs) included in our 2012E from this proposed project.

Lowering 2010E and 2011E by \$0.05 on equity timing; 2012E unchanged

We have trimmed 2010E to \$3.40 and 2011E to \$3.70. This year we also reflect slower base capital spend while for 2011 the change mainly reflects roughly half of our assumed \$650M of non-DRIP equity being in place for the full year.

Price target now \$48 based on 5% premium to 11.5x target multiple

We have raised our target by \$1 to \$48 bringing our base target multiple on 2012E into line with our other regulated utility targets. Our premium for PCG is now 5% designed to balance positive growth attributes of the CA utility with regulatory uncertainty around the pending 2011 GRC, Manzanera wind project and heightened political risk given the CA fiscal situation and upcoming elections. Downside risks include the disallowance of capital spending projects, inability to finance spending, and increased political/regulatory overhang. The main upside risk is the approval of capex beyond our forecast. (See page 5 for details on valuation and risks).

Forecasts and ratios

Year End Dec 31	2009A	2010E	2011E
2Q EPS	0.83	0.91A	-
OLD FY EPS (USD)	3.21	3.45	3.75
P/E (x)	12.3	13.3	12.2
DPS (USD)	1.68	1.82	1.96
Dividend yield (%)	4.3	4.0	4.3

Source: Deutsche Bank estimates, company data

¹ Includes the impact of FAS123R requiring the expensing of stock options.

Deutsche Bank Securities Inc.

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Results

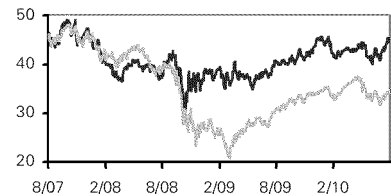
Hold

Price at 3 Aug 2010 (USD)	45.09
Price target	48.00
52-week range	45.60 - 39.79

Key changes

Price target	47.00 to 48.00	↑	2.1%
EPS (USD)	3.45 to 3.40	↓	-1.2%

Price/price relative

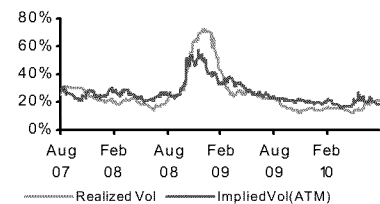


Performance (%)	1m	3m	12m
Absolute	11.2	2.8	11.7
S&P 500 INDEX	10.2	-4.0	12.1

Stock & option liquidity data

Market cap (USDm)	17,462.9
Shares outstanding (m)	385.5
Free float (%)	100
Volume (3 Aug 2010)	694,500
Option volume (und. shrs., 1M avg.)	22,167
Short interest (m)	-
Short interest (%)	-
Institutional ownership (%)	-
DPS (USD)	1.82

Implied & Realized Volatility (3M)



Implied Volatility (3M, ATM) vs. Peers



*Weighted-avg. of index components
 Data as of 03-Aug-10

Model updated:05 August 2010

Running the numbers**North America****United States****Utilities and Power****PG&E Corp**

Reuters: PCG.N

Bloomberg: PCG UN

Hold

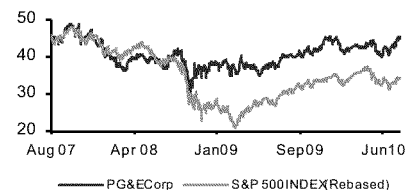
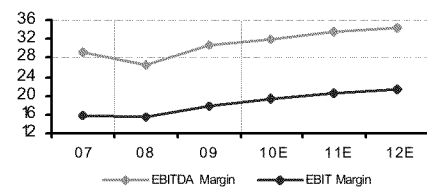
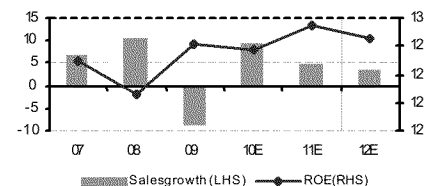
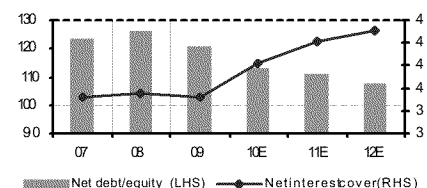
Price (3 Aug 10) USD 45.09

Target price USD 48.00

52-week Range USD 39.79 - 45.60

Market Cap (m) USDm 17,463
EURm 13,286**Company Profile**

PG&E Corporation is a holding company that operates primarily through its regulated electric and gas utility subsidiary, Pacific Gas and Electric. Pacific Gas and Electric operates in northern and central California and serves 5.1M electric distribution customers and 4.3M natural gas distribution customers. The utility also owns operates electric and gas transmission lines, as well as electric generation and natural gas storage facilities. The utility is regulated by the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

Price Performance**Margin Trends****Growth & Profitability****Solvency**

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Fiscal year end 31-Dec

Financial Summary

	2007	2008	2009	2010E	2011E	2012E
DB EPS (USD)	2.78	2.95	3.21	3.40	3.70	3.95
Reported EPS (USD)	2.78	2.95	3.24	3.40	3.70	3.95
DPS (USD)	1.44	1.56	1.68	1.82	1.96	2.08
BVPS (USD)	24.37	26.27	28.08	29.82	31.16	33.06

Valuation Metrics

Price/Sales (x)	1.2	0.9	1.1	1.2	1.2	1.2
P/E (DB) (x)	16.9	13.1	12.3	13.3	12.2	11.5
P/E (Reported) (x)	16.9	13.2	12.2	13.3	12.2	11.5
P/BV (x)	1.8	1.5	1.6	1.5	1.5	1.4
FCF yield (%)	nm	nm	nm	nm	nm	nm
Dividend yield (%)	3.1	4.0	4.3	4.0	4.3	4.6
EV/Sales	1.9	1.6	1.9	2.0	2.0	2.0
EV/EBITDA	6.4	6.1	6.1	6.1	6.0	5.8
EV/EBIT	11.8	10.6	10.6	10.0	9.7	9.3

Income Statement (USDm)

Sales	13,237	14,628	13,371	14,611	15,280	15,796
EBITDA	3,884	3,912	4,120	4,690	5,125	5,466
EBIT	2,114	2,261	2,368	2,840	3,168	3,403
Pre-tax profit	1,559	1,623	1,763	2,122	2,386	2,581
Net income	1,006	1,081	1,223	1,351	1,520	1,649

Cash Flow (USDm)

Cash flow from operations	2,545	2,749	3,039	3,342	3,672	3,906
Net Capex	-2,769	-3,628	-3,958	-3,935	-4,555	-3,925
Free cash flow	-224	-879	-919	-593	-883	-19
Equity raised/(bought back)	175	225	219	550	500	200
Dividends paid	-494	-546	-590	-702	-801	-865
Net inc/(dec) in borrowings	295	1,133	993	1,264	746	677
Other investing/financing cash flows	137	-59	605	0	0	0
Net cash flow	-111	-126	308	518	-438	-7
Change in working capital	-559	-840	-814	0	0	0

Balance Sheet (USDm)

Cash and cash equivalents	345	219	527	1,045	608	601
Property, plant & equipment	23,656	26,261	28,892	30,781	33,185	34,852
Goodwill	0	0	0	0	0	0
Other assets	12,631	14,380	13,526	13,541	13,556	13,571
Total assets	36,632	40,860	42,945	45,368	47,348	49,024
Debt	10,878	12,043	13,021	14,005	14,751	15,428
Other liabilities	17,201	19,440	19,591	19,866	19,867	19,868
Total liabilities	28,079	31,483	32,612	33,871	34,618	35,296
Total shareholders' equity	8,553	9,377	10,333	11,497	12,730	13,728
Net debt	10,533	11,824	12,494	12,960	14,143	14,827

Key Company Metrics

Sales growth (%)	6.9	10.5	-8.6	9.3	4.6	3.4
DB EPS growth (%)	8.2	6.1	8.8	6.1	8.7	6.7
Payout ratio (%)	50.2	51.5	50.6	51.9	52.7	52.4
EBITDA Margin (%)	29.3	26.7	30.8	32.1	33.5	34.6
EBIT Margin (%)	16.0	15.5	17.7	19.4	20.7	21.5
ROE (%)	12.3	12.1	12.4	12.4	12.5	12.5
Net debt/equity (%)	123.1	126.1	120.9	112.7	111.1	108.0
Net interest cover (x)	3.5	3.6	3.5	3.8	4.0	4.1

DuPont Analysis

EBIT margin (%)	16.0	15.5	17.7	19.4	20.7	21.5
x Asset turnover (x)	0.4	0.4	0.3	0.3	0.3	0.3
x Financial cost ratio (x)	0.7	0.7	0.7	0.7	0.8	0.8
x Tax and other effects (x)	0.7	0.7	0.7	0.6	0.6	0.6
= ROA (post tax) (%)	2.8	2.8	2.9	3.1	3.3	3.4
x Financial leverage (x)	4.4	4.3	4.3	4.0	3.8	3.6
= ROE (%)	12.3	12.1	12.4	12.4	12.5	12.5
annual growth (%)	4.2	-1.9	2.9	-0.3	1.4	-0.7
x NTA/share (avg) (x)	22.6	24.5	26.1	27.5	29.5	31.7
= Reported EPS	2.78	2.95	3.24	3.40	3.70	3.95
annual growth (%)	8.1	6.1	10.0	5.0	8.7	6.7

Source: Company data, Deutsche Bank estimates

Strong Q2 but not ruling out pre-emptive equity strike

Miscellaneous line drives Q2 earnings beat

PCG posted Q2 operating EPS of \$0.91 versus \$0.83 in Q2 2009 (+10%). This result beat our \$0.88E by \$0.03 and consensus by \$0.02 with the key drivers largely as we expected. The exception was the miscellaneous items line which was a positive of \$0.03 for the quarter and is now running at +\$0.06 year-to-date with no particular item singled out. In addition there was a positive variance noted for absence of Q2 2009 severance costs (+\$0.01) although this had not been called out last year and was presumably included in miscellaneous. Lower uncollectibles expense (+\$0.01) was another unanticipated positive. The more expected drivers included higher rate base revenues (+\$0.05 vs. our +\$0.06E); absence of an environmental liability charge (+\$0.01 vs. our +\$0.02E); market performance of benefit trusts (-\$0.02 vs. our -\$0.01E); and dilution from higher shares outstanding (-\$0.01 vs. our -\$0.02E). Share issuance under ongoing plans continued more or less on plan in Q2 with \$95M issued through June versus PCG's annual target of around \$200M.

Behind on base 2010 capex but expecting to catch up

As noted rate base revenues fell a penny short of our estimate and management noted that their base capital spending continues to track below plan – as had been the case in Q1. Per the cash flow statement spending through June was running at \$1,786M or some 46% of this year's base capital spend target of \$3.9B. Management attributes this shortfall to factors including unfavorable weather (longer winter than normal with rains lasting into April and May) and permitting delays, but expressed confidence that they should still be "largely on track" by year-end. Capex in Q2 was \$931M up from \$855M in Q3, but the quarterly run-rate will still need to accelerate by another \$125M or so in order to hit the full year target.

Timing of Solar PV decision will likely limit 2010 spend to ~\$20M

Outside of the base capital spend management indicated that timing of the California Public Utilities Commission (CPUC) decision on their Solar PV program would mean that only \$20M or so will end up being spent here in 2010. The overall program calls for \$1.45B over 5 years and guidance at the March analyst meeting had shown high-end capex of \$160M followed by up to \$300M in 2011.

Spending on limited Cornerstone project will begin mainly in 2011

Separately, the Cornerstone reliability program which the CPUC approved at \$350M through 2013 (versus PCG's \$2B proposal) will not see any material spend during 2010 and ramps up more into 2011. Cornerstone had been included for up to \$100M in 2010 at the time of the March meeting. Management put a relatively positive spin on this decision highlighting the fact that a need to step up reliability to a higher level was identified with the possibility of larger dollars being committed in the context of the next GRC cycle (i.e. 2014 and beyond).

Targeting September/October for Manzanita wind PD

The most significant non-GRC (i.e. off-cycle) capital spending item still pending before the CPUC is the Manzanita wind project. Hearings recently wrapped up in the Manzanita case where PCG is proposing to spend ~\$900M on a 246-MW wind farm being developed by Iberdrola Renovables. The case has been fairly contentious, with a particular focus on the relatively high price tag equivalent of over \$3,600/kW. PCG expects an ALJ proposed decision (PD) on Manzanita in the September/October time frame and has requested a final

decision by year-end. Given the apparent alignment with California's renewable targets we have included ~\$0.10 of earnings power (net of incremental equity needs) from Manzanita in our 2012E but note that final approval remains uncertain. In terms of capital spending PCG noted on the earnings call that they anticipate spending around \$280M of capital and payments to the developer by year-end assuming CPUC approval on that time frame. This is consistent with the zero to \$280M range presented at the March analyst meeting.

2011 GRC remains the key regulatory variable

The pending 2011 General Rate Case (GRC) remains the key determinant for future capital spending levels and hearings were recently completed. Management noted how intervenors had focused on spending levels in the current GRC cycle but expressed confidence in the strength of their case. Briefs and reply briefs are the next stages with a proposed decision due from the ALJ in November (11/16) and a final CPUC decision slated for December (12/16). We note, however, that decisions in most recent GRCs for both PG&E and other California utilities have tended to drag beyond – often well beyond – the year-end target. While a delayed decision would typically be made retroactive to January 1, the other dynamic at play this year is that pushing the decision beyond year-end would potentially mean the case would be decided by at least two new commissioners. Terms end in January for two commissioners – Dian Grueneich and John Bohn – while Nancy Ryan needs to be confirmed by the Senate to continue serving beyond January 2011. President Peevey might conceivably not continue to serve out his term in the event he were replaced as President by the incoming governor. While there is no particular basis yet to assume this will happen (or that the GRC will be delayed even beyond year-end) the timing of this GRC certainly makes for a heightened level of political/regulatory uncertainty versus prior cases.

November elections just over the horizon

As we have discussed before and noted above the November 2010 elections carry an unusual amount of political uncertainty for the California utilities with two-term governor Schwarzenegger leaving office and the state facing critical fiscal and budget issues which might reasonably be expected to have some bearing on commitment levels to the overall cleaner energy agenda which is fueling a good amount of the utilities' recent spending and ongoing plans. While neither of the candidates for governor – Jerry Brown (D) and Meg Whitman (R) – have explicitly addressed such issues there is a key initiative on the November ballot (Proposition 23) which might at least give some cause to reassess current priorities.

Prop. 23 would suspend AB32 carbon bill and bears watching

Proposition 23 is targeted at suspending implementation AB32, California's landmark Global Warming Act of 2006, until such time as unemployment in the state drops to 5.5% or below for four consecutive quarters. PCG has come out formally opposing Proposition 23 – hardly surprising given their vocal support for carbon emissions reductions – and CEO Peter Darbee indicated that he does not see material implications for the company's investment plans in the reportedly unlikely event that the initiative were to pass. In making this argument management focuses on their low carbon footprint and on the fact that much of their investment focus is geared around the state's renewable generation targets which are separate from and not directly linked into AB 32. While we accept this as technically accurate, we still have a hard time believing that there would not be at least some follow-on implications for investment were Proposition 23 to prevail in the November ballot.

Legislature again looking at 33% RPS – which would be a positive

Above commentary notwithstanding, potential implications for utilities of Proposition 23 passing could be substantially mitigated if this year's effort in the state legislature to codify California's 33% Renewable Portfolio Standard (RPS) ends up succeeding and this time avoids Governor Schwarzenegger's veto. Legislation enacting the 33% target would be a

positive in that it would be less vulnerable to reversal by an incoming governor than the current Executive Order. The utilities and municipals are currently subject to a 33% by 2020 RPS which Governor Schwarzenegger implemented via Executive Order last September having vetoed a similar bill which passed the state legislature but precluded compliance via out of state sources. This year another 33% RPS bill (SB 722) has been making its way through the legislature with a view to addressing the concerns which led to last year's veto. In late June SB 722 passed the Assembly Natural Resources Committee (5-3) having previously passed the Utilities and Commerce Committee (9-2). In the most recent update a new version of the bill was posted on Monday (8/2) with what appear to be minor changes. One of these relates to the language around eligible out of state resources which would now cover those able to "supply" rather than "deliver" renewable energy to California customers. Another would require the interim target of 20% to be reached by 2012 – as opposed to 2013 in a prior draft and 2010 under the current statute.

Guidance ranges reaffirmed; pre-emptive equity suggested

Along with earnings management reaffirmed their guidance ranges of \$3.35-\$3.50 for 2010 and \$3.65-\$3.85 for 2011. Trailing 12M earnings are running at \$3.43 through June, but the scheduled maturity of convertibles at the end of June adds 16.4M shares (~4% of outstanding) which will be a factor in the second half. CFO Kent Harvey also indicated on the call that PCG might pre-fund some of their planned 2011 equity issuance noting that they do not want to "wait until the last minute". We imagine that in saying this management is both eyeing recent strong stock performance and mindful of volatile market conditions. Based on the March analyst meeting PCG was indicating an equity issuance range of \$430M-\$900M with \$200M expected to come from the ongoing DRIP program. We assume equity needs of \$850M in 2011 (with \$300M pre-funded later this year) in our model reflecting inclusion of the Manzana wind project and a conservative view on the availability of further bonus depreciation cash flow.

Lowering 2010E and 2011E by \$0.05 on capex and equity timing

Given PCG's equity comments we have trimmed our 2010E and 2011E by \$0.05 each to \$3.40 and \$3.70, respectively. For this year our adjustment reflects the slower pace of capital spending year-to-date along with the possibility that equity for 2011 – or at least some of it – might be pre-funded in 2010. For next year our change primarily reflects assuming that roughly half of expected 2011 non-DRIP equity needs are in place for the full year as opposed to issued mid-year. Our 2012E remains unchanged at \$3.95 although we note that this includes ~\$0.10 of earnings (net of equity needs) related to the Manzana project which has yet to be approved.

Target raised to \$48 on realignment with utility target multiples

Our price target increased by \$1 from \$47 to \$48 as we are bringing our base target multiple on 2012E into line with our targets for other regulated utilities. Our premium for PCG is now 5% designed to balance the positive growth attributes we see with the California utility (two years of which are already captured in our 2012E denominator) with regulatory uncertainty around the 2011 GRC; the Manzana wind decision; and heightened political risk given the CA fiscal situation and upcoming elections. Downside risks include the disallowance of capital spending projects; inability to finance spending; increased political/regulatory overhang; and potential changes to allowed returns and/or capital structure when the current mechanism expires in 2013. The main upside risks to our target are the approval of capital spending beyond our forecasts and outperformance of utilities based on macro factors such as slower economic recovery and longer than expected periods of low interest rates.

Figure 1: PCG Income Statement (\$ in Millions, Except Per Share Data)

PG&E Corp. (NYSE: PCG)													
Income Statement	2006A	2007A	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	2010E	2011E	2012E
Operating Revenue	12,377	13,237	14,628	3,431	3,166	3,235	3,539	13,371	3,475	3,232	14,611	15,280	15,796
Fuel & Purchased Power	(5,019)	(5,472)	(6,515)	(1,440)	(1,071)	(1,131)	(1,360)	(5,002)	(1,415)	(1,110)	(5,484)	(5,617)	(5,701)
Gross Margin	7,358	7,765	8,113	1,991	2,095	2,104	2,179	8,369	2,060	2,122	9,127	9,663	10,095
O&M Expense	(3,648)	(3,881)	(4,201)	(1,054)	(1,027)	(997)	(1,171)	(4,249)	(991)	(959)	(4,437)	(4,538)	(4,629)
Taxes & Other	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	3,711	3,884	3,912	937	1,068	1,107	1,008	4,120	1,069	1,163	4,690	5,125	5,466
EBITDA / Gross Margin	50.4%	50.0%	48.2%	47.1%	51.0%	52.6%	46.3%	49.2%	51.9%	54.8%	51.4%	53.0%	54.1%
Depreciation & Amortization	(1,709)	(1,770)	(1,651)	(419)	(429)	(450)	(454)	(1,752)	(451)	(468)	(1,851)	(1,957)	(2,063)
EBIT	2,002	2,114	2,261	518	639	657	554	2,368	618	695	2,840	3,168	3,403
Interest Income / (Expense)	(550)	(598)	(634)	(172)	(161)	(173)	(166)	(672)	(166)	(173)	(743)	(787)	(827)
Other Income / (Expense)	1	43	(4)	18	22	23	4	67	32	33	25	5	5
Earnings Before Taxes	1,453	1,559	1,623	364	500	507	392	1,763	484	555	2,122	2,386	2,581
Income Tax Charge	(517)	(539)	(528)	(115)	(181)	(146)	(84)	(526)	(178)	(198)	(757)	(852)	(918)
Effective Tax Rate	35.6%	34.6%	32.5%	31.6%	36.2%	28.8%	21.4%	29.8%	36.8%	35.6%	35.7%	35.7%	35.6%
Preferred Dividends	(14)	(14)	(14)	(3)	(4)	(3)	(4)	(14)	(3)	(4)	(14)	(14)	(14)
Minority & Other	-	-	-	-	-	-	-	17	4	4	-	-	-
Net Income - Operating	922	1,006	1,081	246	315	358	304	1,240	307	357	1,351	1,520	1,649
Adjustments, Net	69	-	257	(5)	73	(40)	(31)	(3)	(45)	(20)	(55)	-	-
Net Income - GAAP	991	1,006	1,338	241	388	318	273	1,237	262	337	1,296	1,520	1,649
EPS - Operating	\$2.57	\$2.78	\$2.95	\$0.66	\$0.83	\$0.94	\$0.80	\$3.21	\$0.79	\$0.91	\$3.40	\$3.70	\$3.95
EPS - GAAP	\$2.76	\$2.78	\$3.63	\$0.65	\$1.02	\$0.84	\$0.72	\$3.20	\$0.67	\$0.86	\$3.27	\$3.70	\$3.95
DPS - Period End Rate	\$1.32	\$1.44	\$1.56	\$0.39	\$0.42	\$0.42	\$0.42	\$1.68	\$0.42	\$0.46	\$1.82	\$1.96	\$2.08
Payout Ratio	51.4%	51.8%	52.9%	59.1%	50.6%	44.7%	52.5%	52.3%	53.2%	50.5%	53.5%	53.0%	52.7%
Diluted Avg. Shares (MM)	359	362	367	372	379	380	380	386	389	390	397	411	417
End of Period Shares (MM)	350	355	362	367	370	372	371	371	371	390	402	413	417

Source: Deutsche Bank, company data

Figure 2: PCG Cash Flow Statement (\$ in Millions, Except Per Share Data)

PG&E Corp. (NYSE: PCG) Cash Flow Statement	2006A	2007A	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	2010E	2011E	2012E
Net Income - GAAP	991	1,006	1,338	241	388	318	273	1,237	262	337	1,296	1,520	1,649
Depreciation & Amortization	1,756	1,894	1,863	463	481	511	492	1,947	506	532	2,046	2,152	2,258
Regulatory Assets & Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Cash Extraordinary Items	(11)	(1)	(1)	-	-	-	-	-	-	-	-	-	-
Deferred Taxes	(285)	57	590	235	142	(76)	508	809	137	(140)	-	-	-
Other Operating Cash Flow	137	148	(201)	(71)	(12)	87	(127)	(140)	(116)	(39)	-	-	-
Working Capital Changes	126	(559)	(840)	22	(135)	213	(914)	(814)	(394)	288	-	-	-
Cash Flow From Operations	2,714	2,545	2,749	890	864	1,053	232	3,039	395	978	3,342	3,672	3,906
FFO Excluding Working Capital	2,588	3,104	3,589	868	999	840	1,146	3,853	789	690	3,342	3,672	3,906
Capital Expenditures	(2,402)	(2,769)	(3,628)	(1,079)	(998)	(945)	(936)	(3,958)	(855)	(931)	(3,935)	(4,555)	(3,925)
Asset Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Divestitures	17	21	26	2	3	(5)	-	-	-	-	-	-	-
Other Investing Cash Flow	(42)	82	(50)	(9)	-	713	(82)	622	7	36	-	-	-
Cash Flows From Investing	(2,427)	(2,666)	(3,652)	(1,086)	(995)	(237)	(1,018)	(3,336)	(848)	(895)	(3,935)	(4,555)	(3,925)
Change in Net Debt	(108)	295	1,133	291	271	(342)	773	993	325	11	1,264	746	677
Common Stock Issued	131	175	225	96	86	29	8	219	10	79	550	500	200
Common Stock Repurchased	(114)	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Stock Issued (Net)	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Dividends	-	-	-	-	-	-	-	-	-	-	(14)	(14)	(14)
Common Dividends	(456)	(494)	(546)	(138)	(148)	(149)	(155)	(590)	(157)	(163)	(688)	(787)	(851)
Other Financing	3	34	(35)	(1)	(11)	8	(13)	(17)	6	(3)	-	-	-
Cash Flow From Financing	(544)	10	777	248	198	(454)	613	605	184	(76)	1,112	445	12
Other Cash Flow	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening Cash & Equivalents	713	456	345	219	271	338	700	219	527	258	527	1,045	608
Closing Cash & Equivalents	456	345	219	271	338	700	527	527	258	265	1,045	608	601
Net Cash Flow	(257)	(111)	(126)	52	67	362	(173)	308	(269)	7	518	(438)	(7)
Unlevered Free Cash Flow	666	167	(451)	(71)	(31)	231	(574)	(447)	(355)	158	(116)	(377)	514
Free Cash Flow (Ex. Working Cap.)	186	335	(39)	(211)	1	(105)	210	(105)	(66)	(241)	(593)	(883)	(19)
FCF Per Share (Ex. Working Cap.)	\$0.52	\$0.93	(\$0.11)	(\$0.57)	\$0.00	(\$0.28)	\$0.55	(\$0.27)	(\$0.17)	(\$0.62)	(\$1.50)	(\$2.15)	(\$0.04)
FCF to Equity After Dividends	(270)	(159)	(585)	(349)	(147)	(254)	55	(695)	(223)	(404)	(1,296)	(1,684)	(884)

Source: Deutsche Bank, company data



Figure 3: PCG Balance Sheet (\$ in Millions, Except Per Share Data)

PG&E Corp. (NYSE: PCG) Balance Sheet	2006A	2007A	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	2010E	2011E	2012E
ASSETS													
Cash & Cash Equivalents	456	345	219	271	338	700	527	527	258	265	1,045	608	601
Fuel Inventory & Other	330	371	423	257	311	345	314	314	255	334	314	314	314
Accounts Receivable	2,950	3,120	3,633	3,507	3,542	3,298	3,389	3,389	3,634	3,696	3,404	3,419	3,434
Regulatory Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets	2,131	1,613	2,128	2,162	2,237	1,267	1,427	1,427	1,474	1,317	1,427	1,427	1,427
Total Current Assets	5,867	5,449	6,403	6,197	6,428	5,610	5,657	5,657	5,621	5,612	6,190	5,768	5,776
Net Property, Plant & Equipment	21,785	23,656	26,261	26,923	27,599	28,184	28,892	28,892	29,377	29,983	30,781	33,185	34,852
Long-Term Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-
Nuclear Decommissioning Funds	1,876	1,979	1,718	1,634	1,740	1,870	1,899	1,899	1,929	1,854	1,899	1,899	1,899
Regulatory Assets	4,902	4,459	5,996	6,087	5,969	5,931	5,522	5,522	5,602	5,610	5,522	5,522	5,522
Other Long-Term Assets	373	1,089	482	494	461	956	975	975	1,011	1,159	975	975	975
Total Assets	34,803	36,632	40,860	41,335	42,197	42,551	42,945	42,945	43,540	44,218	45,368	47,348	49,024
LIABILITIES													
Short Term Debt	759	519	287	385	743	500	833	833	1,251	1,057	1,083	1,033	733
Currently Maturing LT Debt	281	-	600	-	252	342	342	342	842	595	500	-	-
Accounts Payable	4,234	3,763	3,749	3,526	3,393	2,679	2,387	2,387	2,447	2,459	2,387	2,387	2,387
Regulatory Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Liabilities	2,346	2,071	2,620	2,665	2,666	3,046	2,865	2,865	2,850	3,113	2,870	2,875	2,880
Total Current Liabilities	7,620	6,353	7,256	6,576	7,054	6,567	6,427	6,427	7,390	7,224	6,840	6,295	6,000
Long Term Debt	9,263	10,107	10,904	11,679	11,342	11,149	11,594	11,594	11,002	11,210	12,170	13,466	14,443
Deferred Taxes	2,946	3,053	3,397	3,588	3,907	4,411	4,732	4,732	4,656	4,637	4,732	4,732	4,732
Asset Retirement Obligations	1,466	1,579	1,684	1,530	1,539	1,545	1,593	1,593	1,603	1,600	1,593	1,593	1,593
Pension & Benefit Reserves	-	-	2,088	2,133	2,177	2,221	1,773	1,773	1,968	2,018	1,773	1,773	1,773
Regulatory Liabilities	3,392	4,448	3,657	3,770	3,838	4,152	4,125	4,125	4,190	4,275	4,125	4,125	4,125
Other Long-Term Liabilities	2,053	2,287	2,245	2,197	2,142	2,092	2,116	2,116	2,110	2,131	2,386	2,382	2,378
Total Long-Term Liabilities	19,120	21,474	23,975	24,897	24,945	25,570	25,933	25,933	25,529	25,871	26,779	28,071	29,044
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Stock	252	252	252	252	252	252	252	252	252	252	252	252	252
Common Equity	5,159	5,392	5,984	6,123	6,219	6,265	6,280	6,280	6,307	6,646	6,830	7,330	7,530
Retained Earnings / (Deficit)	2,671	3,151	3,614	3,701	3,934	4,097	4,213	4,213	4,302	4,457	4,821	5,554	6,352
Other Comprehensive Income	(19)	10	(221)	(214)	(207)	(200)	(160)	(160)	(240)	(232)	(154)	(154)	(154)
Total Shareholders' Equity	7,811	8,553	9,377	9,610	9,946	10,162	10,333	10,333	10,369	10,871	11,497	12,730	13,728
Total Liabilities & Equity	34,803	36,632	40,860	41,335	42,197	42,551	42,945	42,945	43,540	44,218	45,368	47,348	49,024

Source: Deutsche Bank, company data

Figure 4: PCG Credit & Other Metrics (\$ in Millions, Except Per Share Data)

PG&E Corp. (NYSE: PCG)													
Credit & Other Metrics	2006A	2007A	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	2010E	2011E	2012E
Short Term Debt	759	519	287	385	743	500	833	833	1,251	1,057	1,083	1,033	733
Long Term Debt	9,544	10,107	11,504	11,679	11,594	11,491	11,936	11,936	11,844	11,805	12,670	13,466	14,443
Less Cash & Equivalents	(456)	(345)	(219)	(271)	(338)	(700)	(527)	(527)	(258)	(265)	(1,045)	(608)	(601)
Net Debt (GAAP)	9,847	10,281	11,572	11,793	11,999	11,291	12,242	12,242	12,837	12,597	12,708	13,891	14,575
Minority & Preferred	252	252	252	252	252	252	252	252	252	252	252	252	252
Shareholders' Equity	7,811	8,553	9,377	9,610	9,946	10,162	10,333	10,333	10,369	10,871	11,497	12,730	13,728
Total Capitalization	17,910	19,086	21,201	21,655	22,197	21,705	22,827	22,827	23,458	23,720	24,456	26,874	28,555
Less Securitization Debt Plus Leases and Other	(2,566)	(1,936)	(1,583)	(1,494)	(1,409)	(1,310)	(1,213)	(1,213)	(1,120)	(1,031)	(827)	(423)	-
Adjusted Net Debt	7,281	8,345	9,989	10,299	10,590	9,981	11,029	11,029	11,717	11,566	11,881	13,468	14,575
Adjusted Capitalization	15,344	17,150	19,618	20,161	20,788	20,395	21,614	21,614	22,338	22,689	23,629	26,451	28,555
EBITDA - Income Statement	3,711	3,884	3,912	937	1,068	1,107	1,008	4,120	1,069	1,163	4,690	5,125	5,466
Securitization Adjustment	(753)	(750)	(428)	(104)	(100)	(114)	(112)	(431)	(104)	(100)	(432)	(433)	(433)
Lease & Other Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA - Adjusted	2,958	3,134	3,484	833	968	993	896	3,689	965	1,063	4,259	4,692	5,033
Net Debt / Capitalization	55.0%	53.9%	54.6%	54.5%	54.1%	52.0%	53.6%	53.6%	54.7%	53.1%	52.0%	51.7%	51.0%
Net Debt / Capitalization (Adjusted)	47.5%	48.7%	50.9%	51.1%	50.9%	48.9%	51.0%	51.0%	52.5%	51.0%	50.3%	50.9%	51.0%
Net Debt / EBITDA	2.7x	2.6x	3.0x	--	--	--	--	3.0x	--	--	2.7x	2.7x	2.7x
Net Debt / EBITDA (Adjusted)	2.5x	2.7x	2.9x	--	--	--	--	3.0x	--	--	2.8x	2.9x	2.9x
EBITDA / Interest	6.7x	6.5x	6.2x	5.4x	6.6x	6.4x	6.1x	6.1x	6.4x	6.7x	6.3x	6.5x	6.6x
Retained Cash Flow / Capex	0.9x	0.7x	0.6x	0.7x	0.7x	1.0x	0.1x	0.6x	0.3x	0.9x	0.7x	0.6x	0.8x
Recurring Net Income	922	1,006	1,081	--	--	--	--	1,240	--	--	1,351	1,520	1,649
Total Assets (Avg.)	34,422	35,547	38,486	--	--	--	--	41,978	--	--	44,156	46,358	48,186
Return on Assets	2.7%	2.8%	2.8%	--	--	--	--	3.0%	--	--	3.1%	3.3%	3.4%
Recurring NOPAT	1,290	1,383	1,525	--	--	--	--	1,661	--	--	1,827	2,037	2,192
Capital Employed (Avg.)	14,361	18,938	20,082	--	--	--	--	22,328	--	--	24,428	26,492	28,319
Return on Capital Employed	9.0%	7.3%	7.6%	--	--	--	--	7.4%	--	--	7.5%	7.7%	7.7%
Recurring Net Income	922	1,006	1,081	--	--	--	--	1,240	--	--	1,351	1,520	1,649
Shareholders' Equity (Avg.)	7,598	8,187	8,932	--	--	--	--	9,886	--	--	10,915	12,114	13,229
Return on Equity	12.1%	12.3%	12.1%	--	--	--	--	12.5%	--	--	12.4%	12.5%	12.5%
Book Value per Share	\$22.35	\$24.09	\$25.88	\$26.18	\$26.92	\$27.35	\$27.83	\$27.83	\$27.93	\$27.87	\$28.60	\$30.81	\$32.89

Source: Deutsche Bank, company data



Figure 5: PCG Valuation & Growth Metrics (\$ in Millions, Except Per Share Data)

PG&E Corp. (NYSE: PCG)													
Valuation & Growth Metrics	2006A	2007A	2008A	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	2010E	2011E	2012E
Diluted EPS - Operating	\$2.57	\$2.78	\$2.95	\$0.66	\$0.83	\$0.94	\$0.80	\$3.21	\$0.79	\$0.91	\$3.40	\$3.70	\$3.95
Diluted EPS - GAAP	\$2.76	\$2.78	\$3.63	\$0.65	\$1.02	\$0.84	\$0.72	\$3.20	\$0.67	\$0.86	\$3.27	\$3.70	\$3.95
DPS - Period End Rate	\$1.32	\$1.44	\$1.56	\$0.39	\$0.42	\$0.42	\$0.42	\$1.68	\$0.42	\$0.46	\$1.82	\$1.96	\$2.08
Payout Ratio	51.4%	51.8%	52.9%	--	--	--	--	52.3%	--	--	53.5%	53.0%	52.7%
Op. CFPS - Excl. Working Capital	\$7.21	\$8.57	\$9.79	\$2.33	\$2.64	\$2.21	\$3.02	\$9.98	\$2.03	\$1.77	\$8.42	\$8.94	\$9.36
Free CFPS - Excl. Working Capital	\$0.52	\$0.93	(\$0.11)	(\$0.57)	\$0.00	(\$0.28)	\$0.55	(\$0.27)	(\$0.17)	(\$0.62)	(\$1.50)	(\$2.15)	(\$0.04)
Pricing Date (Period End/Current)	12/31/06	12/31/07	12/31/08	3/31/09	6/30/09	9/30/09	12/31/10	12/31/10	3/31/10	6/30/10	8/4/10	8/4/10	8/4/10
Stock Price (\$/Sh)	\$47.33	\$43.09	\$38.71	\$38.22	\$38.44	\$40.49	\$42.80	\$42.80	\$42.42	\$41.10	\$42.34	\$42.34	\$42.34
P/E Operating	18.4x	15.5x	13.1x	--	--	--	--	13.3x	--	--	12.5x	11.4x	10.7x
P/E GAAP	17.1x	15.5x	10.7x	--	--	--	--	13.4x	--	--	12.9x	11.4x	10.7x
P/CF	6.6x	5.0x	4.0x	--	--	--	--	4.3x	--	--	5.0x	4.7x	4.5x
P/FCF	91.0x	46.3x	(351.9x)	--	--	--	--	(158.5x)	--	--	(28.2x)	(19.7x)	NA
P/BV	2.1x	1.8x	1.5x	1.5x	1.4x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.4x	1.3x
Market Capitalization	16,543	15,296	14,026	14,028	14,204	15,044	15,890	15,890	15,747	16,033	17,023	17,493	17,673
Adjusted Net Debt	7,281	8,345	9,989	10,299	10,590	9,981	11,029	11,029	11,717	11,566	11,881	13,468	14,575
Adjusted Enterprise Value	23,824	23,641	24,015	24,327	24,794	25,025	26,919	26,919	27,464	27,599	28,903	30,961	32,248
Adjusted EBITDA	2,958	3,134	3,484	--	--	--	--	3,689	--	--	4,259	4,692	5,033
Adjusted EV/EBITDA	8.1x	7.5x	6.9x	--	--	--	--	7.3x	--	--	6.8x	6.6x	6.4x
Earnings Yield	5.4%	6.5%	7.6%	--	--	--	--	7.5%	--	--	8.0%	8.7%	9.3%
Dividend Yield	2.8%	3.3%	4.0%	--	--	--	--	3.9%	--	--	4.3%	4.6%	4.9%
FCF Yield	1.1%	2.2%	-0.3%	--	--	--	--	-0.6%	--	--	-3.5%	-5.1%	-0.1%
Growth & Return													
Revenue	--	6.9%	10.5%	-8.1%	-11.5%	-11.9%	-2.9%	-8.6%	1.3%	2.1%	9.3%	4.6%	3.4%
EBITDA	--	4.7%	0.7%	4.7%	6.5%	4.6%	5.4%	5.3%	14.1%	8.9%	13.8%	9.3%	6.7%
Net Income - Operating	--	9.1%	7.5%	9.8%	7.5%	17.8%	16.9%	14.7%	24.8%	13.3%	8.9%	12.5%	8.4%
Operating EPS	--	8.2%	6.1%	6.5%	3.7%	13.3%	14.3%	8.8%	19.7%	9.6%	5.9%	8.8%	6.8%
DPS Growth	--	9.1%	8.3%	8.3%	7.7%	7.7%	7.7%	7.7%	7.7%	9.5%	8.3%	7.7%	6.1%
ROCE	9.0%	7.3%	7.6%	--	--	--	--	7.4%	--	--	7.5%	7.7%	7.7%
Cost of Debt (A-T)	3.7%	3.9%	4.0%	--	--	--	--	4.0%	--	--	3.8%	3.8%	3.7%
Cost of Equity	5.4%	6.5%	7.6%	--	--	--	--	7.5%	--	--	8.0%	8.7%	9.3%
WACC	4.6%	5.0%	5.6%	--	--	--	--	5.6%	--	--	5.7%	6.1%	6.4%
Calculated EVA	626	435	396	--	--	--	--	422	--	--	433	431	393
Calculated EVA/Share	\$1.74	\$1.20	\$1.08	--	--	--	--	\$1.09	--	--	\$1.09	\$1.05	\$0.94

Source: Deutsche Bank, company data



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
PG&E Corp	PCG.N	45.30 (USD) 4 Aug 10	1,6,7,8,14,15,17

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
8. Deutsche Bank and/or its affiliate(s) expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.
14. Deutsche Bank and/or its affiliate(s) has received non-investment banking related compensation from this company within the past year.
15. This company has been a client of Deutsche Bank Securities Inc. within the past year, during which time it received non-investment banking securities-related services.

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1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
17. Deutsche Bank and or/its affiliate(s) has a significant Non-Equity financial interest (this can include Bonds, Convertible Bonds, Credit Derivatives and Traded Loans) where the aggregate net exposure to the following issuer(s), or issuer(s) group, is more than 25m Euros.

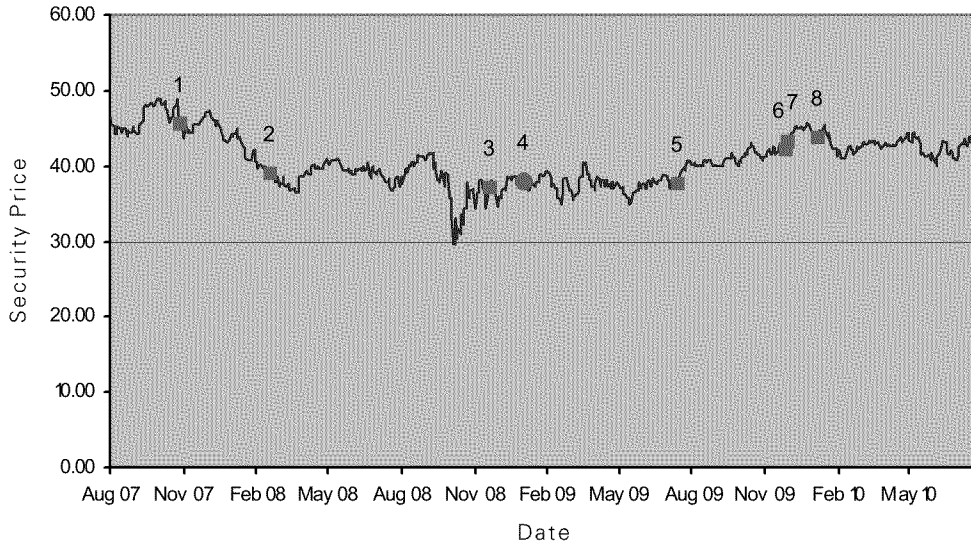
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=PCG.N>.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Jonathan Arnold

Historical recommendations and target price: PG&E Corp (PCG.N)

(as of 04/08/2010)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	11/2/2007:	Buy, Target Price Change USD50.00	5.	7/20/2009:	No Recommendation, Target Price Change USD0.00
2.	2/22/2008:	Buy, Target Price Change USD47.00	6.	12/1/2009:	Hold, Target Price Change USD44.00
3.	11/24/2008:	Buy, Target Price Change USD44.00	7.	12/3/2009:	Hold, Target Price Change USD45.00
4.	1/6/2009:	Downgrade to Hold, Target Price Change USD39.00	8.	1/11/2010:	Hold, Target Price Change USD47.00

Equity rating key

Equity rating dispersion and banking relationships

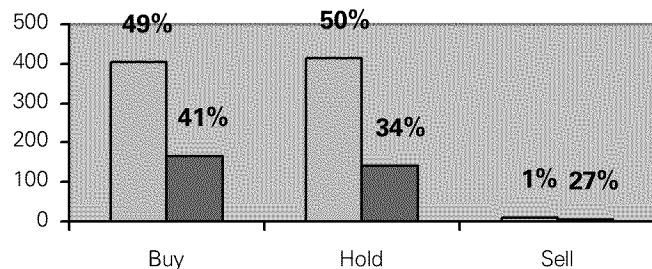
Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

- Newly issued research recommendations and target prices always supersede previously published research.
- Ratings definitions prior to 27 January, 2007 were:
 - Buy: Expected total return (including dividends) of 10% or more over a 12-month period
 - Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
 - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



■ Companies Covered ■ Cos. w/ Banking Relationship

North American Universe

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