

## PG&E CORP.

### Solid Quarter, Guidance Reiterated

**Still an Undervalued Story:** We reiterate our 1-Overweight rating and our EPS estimates of \$3.43/\$3.67/\$3.90 for '10/11/12, respectively. We are raising our price target from \$48 to \$50 premised upon multiple expansion. Our prior target of \$48 was premised upon a 10% regulatory jurisdiction premium to the then utility multiple of 11.1x our '12E EPS of \$3.90. Our current target of \$50 is premised upon a 5% regulatory jurisdiction premium to the current utility multiple of 12.1x our '12E EPS of \$3.90. Our current target implies a total return upside of 14% inclusive of a 4% dividend yield.

**California Concerns Overdone:** It is our view that the market has become overly concerned about deterioration of the California regulatory environment. We do not believe there is any "retaliatory" order forthcoming from the CPUC as a result of the company's failed Proposition 16 efforts. Further, we believe the CPUC order will be constructive. Open seats on the CPUC should not be an issue until 2011 after the company's general rate case is completed. The Governor's race has yet to politicize the process and any resultant impacts on the CPUC from a Brown or Whitman win would similarly not be felt until 2011. That said, the hearings will begin soon, and that should increase the risk premium in the shares. We have incorporated this into our price target by lowering our regulatory jurisdiction premium from 10% to 5%.

**Risks:** Risks to our view, which we view as low, would be a less than constructive order from the CPUC in December, and management not executing on approved levels of capital expenditures and/or mismanaging the operating expenditures of the company. We view all these risks as relatively low in nature.

#### PCG: Quarterly and Annual EPS USD

FY Dec	2009		2010		2011		Change y/y		
	Actual	Old	New	Cons	Old	New	Cons	2010	2011
Q1	0.66A	0.79A	0.79A	0.79A	N/A	N/A	0.79E	20%	N/A
Q2	0.83A	0.90E	0.91A	0.90E	N/A	N/A	0.97E	10%	N/A
Q3	0.93A	N/A	N/A	0.97E	N/A	N/A	1.06E	N/A	N/A
Q4	0.80A	N/A	N/A	0.76E	N/A	N/A	0.85E	N/A	N/A
Year	3.21A	3.43E	3.43E	3.41E	3.67E	3.67E	3.71E	7%	7%
P/E			13.2			12.3			

Source: Barclays Capital  
Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

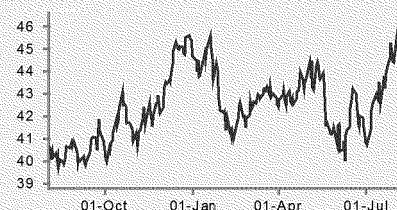
Stock Rating	<b>1-OVERWEIGHT</b> Unchanged
Sector View	<b>1-POSITIVE</b> Unchanged
Price Target	<b>USD 50.00</b> raised 4% from USD 48.00

Price (03-Aug-2010)	USD 45.09
Potential Upside/Downside	+11%
Tickers	PCG

Market Cap (USD mn)	16789
Shares Outstanding (mn)	372.35
Free Float (%)	99.89
52 Wk Avg Daily Volume (mn)	2.3
Dividend Yield (%)	4.0
Return on Equity TTM (%)	11.96
Current BVPS (USD)	27.90

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 45.80-34.95



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#### U.S. Utilities

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## Regulatory Activity

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### *TO12 Settled, TO13 Filed*

On July 27 the FERC approved a settlement in the Transmission Owner 12 rate case which called for a base revenue requirement of \$875 million with the necessary increase retroactively effective to March 1, 2010. One day later, on July 28, the company filed its Transmission Owner 13 rate case which requests a \$151 million increase, or a base revenue requirement of \$1.026 billion. This is premised upon capital expenditures of \$765 Million in 2010 and \$810 million in 2011 to add capacity, improve reliability, perform general maintenance and substation work, and to expand automation efforts. The new rates are requested to become effective on October 1 of this year, and the company expects a typical five month suspension of rates by the FERC, leading to a March 1, 2011 rate effective date.

### *Request for Offers*

On July 29 the CPUC approved the Marsh Landing, Contra Costa Unit 6 and Unit 7, and Midway Sunset purchase power agreements. The Oakley purchase and sales agreement was denied. The CPUC determined that 950-1,000MW in resources needed to be procured by the company.

### *Cornerstone Improvement Program*

In late June the CPUC approved \$357 million in capital expenditures related to reliability upgrades on the company's distribution network. Also approved was \$9 million in operating expenditures. The period of spend will go from 2010-2013. The company had originally submitted a six-year \$2 billion proposal. While this was not approved in full, the CPUC has authorized submittal of additional spending related to Cornerstone within the next general rate case.

### *Solar Photovoltaic Program*

Also earlier in the quarter the CPUC authorized 250MWs of owned solar PV generation for a total cost of \$1.5 billion over the next five years and PPAs for another 250MWs of solar PV generation over the same timeframe. The utility owned half of the projects will receive traditional return of and on capital under typical utility rate base regulation.

### *Manzana Wind Project*

We expect a decision on the Manzana Wind project by the CPUC in September of this year. The project would allow the acquisition of the completed 186-246MW wind farm to be built by Iberdrola Renewables, Inc. for capital costs of approximately \$900 million at the total 246MWs. Our model incorporates approval of the Manzana Wind project in our estimates.

### *General Rate Cases, California Elections*

Opening and reply briefs in the 2011 general rate case will be filed this month. An Administrative Law Judge proposed decision is expected in November and a final decision is due in December. Prior rate cases have been extended past their deadline, however, if that happens in this case rates would in all likelihood be retroactive to January 1, 2011. Rates are expected to be effective on January 1 of next year. Also to be decided by year end is the Gas Transmission & Storage case. Hearings were postponed to this month to continue prospective settlement discussions.

We continue to believe based upon the rulings discussed above that the CPUC will issue a constructive ruling in the current general rate case. The Governor's race between Jerry Brown (D) and Meg Whitman (R) has so far not politicized the regulatory process. The composition of the current commission in our view is likely to remain until the completion of the current GRC. A Brown win, in our opinion, could result in CPUC President Mike Peevy staying on in that role. We are less certain of the potential for President Peevy to stay on should Whitman be elected Governor. Our view is that she would want to install her own president at the commission and that Peevy may not want to continue to serve on the CPUC.

## Solid Quarter, Guidance Reiterated

For the quarter the company reported ongoing earnings per share of \$0.91 vs. \$0.83 last year, consensus of \$0.90 and our estimate of \$0.90. Our estimate incorporated a smaller positive impact from miscellaneous items than actually achieved in the quarter. On a year over year basis, earnings were driven by an increase in base rate revenues, severance costs, lower uncollectable expenses, and other miscellaneous items. These positive factors were offset by the market performance of benefit investment trusts and the impact of share dilution. Management reiterated guidance of \$3.35-\$3.50 for 2010 and \$3.65-\$3.85 for 2011.

The company also released sensitivities to the outcome of the ongoing general rate case and other factors. They are provided in the table below.

**Figure 1: PCG General Earnings Sensitivities**

Variable	Change	2010 Earnings Impact	2011 Earnings Impact
Rate Base	+/- \$100 Million	+/- \$6 Million	+/- \$6 Million
Return on Equity	+/- 0.1% in Allowed	+/- \$11 Million	+/- \$13 Million
Share Count	+/- 1% in Avg. Shares	+/- \$0.03 per share	+/- \$0.04 per share
At Risk Revenues	+/- \$7 Million pre-tax	+/- \$0.01 per share	+/- \$0.01 per share

At Risk Revenues include Electric Transmission and California Gas Transmission  
Source: Company Press Release.

A roll forward of 2Q 2010 earnings per share is provided below.

**Figure 2: 2Q 2010 EPS Roll Forward**

<b>2Q 2009 Ongoing EPS</b>	<b>\$0.83</b>
Increase in Base Rate Revenues	\$0.05
Severance Costs	\$0.01
Uncollectable Expenses	\$0.01
Environmental Remediation/Liability	\$0.01
Miscellaneous Items	\$0.03
Mkt. Performance – Benefit Investment Trusts	(\$0.02)
Increase in Shares Outstanding	(\$0.01)
<b>2Q 2010 Ongoing EPS</b>	<b>\$0.91</b>

Source: Company Press Release, Barclays Capital.

A full financial summary follows in Figure 3 below.

Figure 3: Full Financial Summary

Barclays Capital	(US \$'s 000,000)					
US Equity Research						PG&E CORPORATION
SUMMARY FINANCIALS	2009A	2010E	2011E	2012E	2013E	4-Yr CAGR
<b>Valuation Ratios</b>						
EV/EBITDA	7.0x	6.4x	6.2x	6.1x	5.9x	
P/E	14.0x	13.1x	12.3x	11.5x	10.7x	
Dividend Yield	3.7%	4.0%	4.3%	4.5%	4.8%	
<b>Income Statement</b>						
Electric	10,224	10,835	10,992	11,100	11,214	2.34%
Gas	3,142	3,088	3,379	3,545	3,654	3.85%
<b>Revenues Total</b>	<b>\$13,366</b>	<b>\$13,924</b>	<b>\$14,370</b>	<b>\$14,645</b>	<b>\$14,868</b>	<b>2.70%</b>
Electric	6,513	7,098	7,227	7,308	7,394	3.23%
Gas	1,851	1,851	1,851	1,851	1,851	0.00%
<b>Gross Income Total</b>	<b>\$8,364</b>	<b>\$8,949</b>	<b>\$9,078</b>	<b>\$9,159</b>	<b>\$9,245</b>	<b>2.54%</b>
<b>Gross Income %</b>	<b>62.6%</b>	<b>64.3%</b>	<b>63.2%</b>	<b>62.5%</b>	<b>62.2%</b>	
PG&E	4,127	4,809	5,178	5,559	5,940	9.53%
<b>EBITDA</b>	<b>\$4,127</b>	<b>\$4,809</b>	<b>\$5,178</b>	<b>\$5,559</b>	<b>\$5,940</b>	<b>9.53%</b>
<b>EBITDA %</b>	<b>30.9%</b>	<b>34.5%</b>	<b>36.0%</b>	<b>38.0%</b>	<b>40.0%</b>	
PG&E	1,752	2,273	2,405	2,538	2,671	11.12%
<b>Depreciation</b>	<b>\$1,752</b>	<b>\$2,273</b>	<b>\$2,405</b>	<b>\$2,538</b>	<b>\$2,671</b>	<b>11.12%</b>
PG&E	92	92	92	92	92	0.00%
Corporate	8	8	8	8	8	0.00%
<b>Other Income</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>0.00%</b>
PG&E	662	711	744	796	843	6.22%
Corporate	43	22	31	31	31	-7.94%
<b>Interest</b>	<b>\$705</b>	<b>\$733</b>	<b>\$775</b>	<b>\$827</b>	<b>\$874</b>	<b>5.50%</b>
PG&E	482	533	590	645	701	9.81%
Corporate	48	36	38	42	46	-0.84%
<b>Income Tax</b>	<b>\$530</b>	<b>\$570</b>	<b>\$628</b>	<b>\$687</b>	<b>\$747</b>	<b>8.97%</b>
PG&E	1,250	1,383	1,530	1,672	1,818	9.81%
Corporate	(10)	(50)	(61)	(65)	(69)	62.25%
<b>Net Income</b>	<b>\$1,240</b>	<b>\$1,333</b>	<b>\$1,469</b>	<b>\$1,607</b>	<b>\$1,749</b>	<b>8.97%</b>
<b>Avg. Diluted Shares Outstanding</b>	<b>386.0</b>	<b>388.8</b>	<b>400.7</b>	<b>412.1</b>	<b>416.5</b>	<b>1.92%</b>

Source: Company Filings, Barclays Capital.

Figure 4: Full Financial Summary (Continued)

	2009A	2010E	2011E	2012E	2013E	4-Yr CAGR
Electric Delivery	\$3.24	\$3.56	\$3.82	\$4.06	\$4.36	7.74%
Corporate	(\$0.03)	(\$0.13)	(\$0.15)	(\$0.16)	(\$0.17)	59.19%
<b>EPS Total</b>	<b>\$3.21</b>	<b>\$3.43</b>	<b>\$3.67</b>	<b>\$3.90</b>	<b>\$4.20</b>	<b>6.92%</b>
<b>Dividend per share</b>	<b>\$ 1.68</b>	<b>\$ 1.82</b>	<b>\$ 1.93</b>	<b>\$ 2.04</b>	<b>\$ 2.17</b>	<b>6.58%</b>
Payout Ratio	52%	53%	53%	52%	52%	
<b>Cash Flow</b>						
FFO	\$3,087	\$3,616	\$3,885	\$4,155	\$4,430	9.45%
CFO	3,039	3,505	4,253	4,388	4,668	11.33%
<b>Capex</b>	<b>(\$3,958)</b>	<b>(\$4,230)</b>	<b>(\$4,633)</b>	<b>(\$4,653)</b>	<b>(\$4,653)</b>	<b>4.12%</b>
Asset Disposals	0	0	0	0	0	
Asset Acquisitions	0	0	0	0	0	
Dividends	(590)	(708)	(773)	(843)	(903)	11.22%
Free Cash flow Pre-div	(919)	(725)	(379)	(264)	15	NM%
Free Cash flow Post-div	(1,509)	(1,433)	(1,152)	(1,107)	(888)	-12.43%
Free Cash flow Yield	-5.29%	-4.14%	-2.10%	-1.42%	0.08%	NM%
<b>Balance Sheet</b>						
Cash	\$527	\$12	\$23	\$41	\$51	
ST Debt (not inc RRBs & ERBs)	833	833	833	833	833	
LT Debt (not inc RRBs & ERBs)	10,824	11,953	12,773	14,199	14,974	
Shareowners Equity	10,333	11,204	12,722	13,682	14,724	
Total Capital	21,990	23,990	26,328	28,714	30,531	
Equity/Capital	47.0%	46.7%	48.3%	47.6%	48.2%	
Return on Equity (ROE)	12.7%	12.4%	12.3%	12.2%	12.3%	
Return on Invested Capital	11.5%	11.0%	11.0%	11.0%	11.0%	
<b>Credit Ratios</b>						
Interest Coverage	5.9x	6.6x	6.7x	6.7x	6.8x	
Debt/EBITDA	2.8x	2.7x	2.6x	2.7x	2.7x	

Notes: FFO = Net Income + Depreciation; Interest Coverage = EBITDA/Interest Expense; ROIC = EBIT/Avg. Total Capital.

Source: Company Filings, Barclays Capital.

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### Primary Stocks (Ticker, Date, Price)

PG&E Corp. (PCG, 03-Aug-2010, USD 45.09), 1-Overweight / 1-Positive

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Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**RS-Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Sector View

**1-Positive** - sector coverage universe fundamentals/valuations are improving.

**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

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DTE Energy (DTE)	Duke Energy (DUK)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	ITC Holdings (ITC)	NiSource, Inc. (NI)
Northeast Utilities (NU)	NSTAR (NST)	NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)	Pepco Holdings (POM)	PG&E Corp. (PCG)
Pinnacle West Capital (PNW)	PNM Resources (PNM)	Portland General Electric Co. (POR)
Progress Energy (PGN)	Sempra Energy (SRE)	Southern Co. (SO)
TECO Energy (TE)	Westar Energy (WR)	Wisconsin Energy (WEC)
Xcel Energy (XEL)		

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**IMPORTANT DISCLOSURES CONTINUED**

**PG&E Corp. (PCG)**

USD 45.09 (03-Aug-2010)

Stock Rating

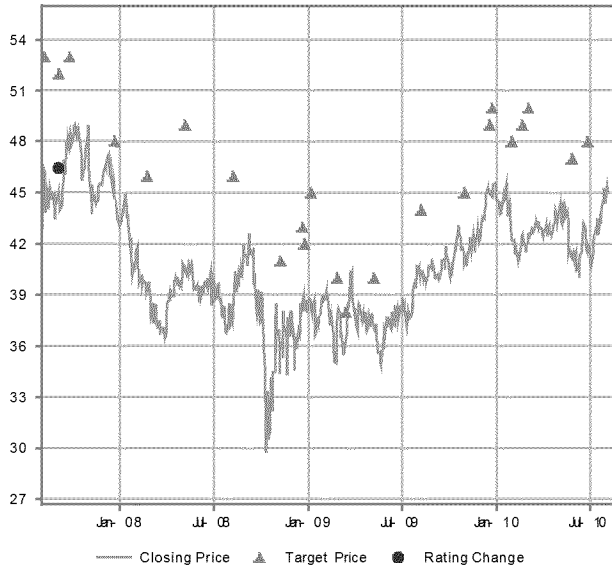
**1-OVERWEIGHT**

Sector View

**1-POSITIVE**

Rating and Price Target Chart - USD (as of 03-Aug-2010)

Currency=USD



Date	Closing Price	Rating	Price Target
25-Jun-2010	42.01		48.00
26-May-2010	41.21		47.00
03-Mar-2010	42.31		50.00
19-Feb-2010	42.61		49.00
29-Jan-2010	42.24		48.00
22-Dec-2009	44.81		50.00
17-Dec-2009	44.98		49.00
29-Oct-2009	41.40		45.00
06-Aug-2009	40.44		44.00
07-May-2009	37.25		40.00
13-Mar-2009	36.22		38.00
25-Feb-2009	37.53		40.00
05-Jan-2009	0.00		45.00
23-Dec-2008	38.05		42.00
19-Dec-2008	0.00		43.00
07-Nov-2008	34.36		41.00
07-Aug-2008	38.50		46.00
06-May-2008	40.71		49.00
22-Feb-2008	39.17		46.00
21-Dec-2007	45.73		48.00
25-Sep-2007	47.75		53.00
04-Sep-2007	44.37	1-Overweight	52.00
07-Aug-2007	45.16		53.00

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**Valuation Methodology:** Our price target of \$50 is premised upon a 5% regulatory jurisdictional premium to the '12E regulatory group multiple of 12.1x our '12E eps of \$3.90E.

**Risks which May Impede the Achievement of the Price Target:** Key risks include California and Federal regulation, rating agency actions, interest rates and access to capital markets.



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