

From: [Redacted]  
Sent: 12/15/2010 4:05:48 AM  
To:  
Cc:  
Bcc:  
Subject: PCG: NTSB Issues Update in San Bruno Pipeline Explosion Investigation; We Reiterate Our Outperform Rating

***Regulated Electric Utilities***

[Redacted], Senior Analyst [Redacted]

**PG&E Corp. (PCG-NYSE)--Outperform (1)**

Price as of 12/14/2010: \$47.67  
FY 10 EPS: \$3.43  
FY 11 EPS: \$3.70  
Shares Out.: 390.0 MM  
Market Cap.: \$18,591.3 MM

Sector Rating: Regulated Electric Utilities, Market Weight

**PCG: NTSB Issues Update in San Bruno Pipeline Explosion Investigation; We Reiterate Our Outperform Rating**

Yesterday (12/14) afternoon, the National Transportation Safety Board (NTSB) issued an update on the continuing investigation of the San Bruno pipeline explosion. In the update, the NTSB stated that ruptured pipeline pieces revealed no evidence of external corrosion, no physical indications consistent with excavation damage were observed and no physical evidence suggests that a pre-existing leak occurred in the ruptured pipe pieces.

However, the update stated that although PG&E records indicate the pipeline was constructed of seamless pipe evidence obtained so far indicates the pipeline in the area of the rupture was constructed, at least in part, with seam-welded pipe. In a press release (and also in our discussions with the company), PCG noted that the discrepancy does not impact the required maintenance and inspection protocols since they are the same for both seamed and seamless pipe.

NTSB investigators have also found that while the longitudinal seams on some of the pipe were fusion-welded from both inside and outside the pipe, some were fusion-welded only from the outside of the pipe. To understand this variance, investigators are researching pipe welding standards in place when the pipeline was installed in 1956.

*Our Key Takeaway* - While the discrepancy in the pipeline records and the differences in fusion-welding techniques are a modest concern, we consider these preliminary NTSB findings as a net positive for PCG since the lack of evidence of corrosion, excavation damage or pre-existing leaks suggests to us that poor maintenance procedures were not the cause of the explosion. We reiterate our Outperform rating.

Redacted

Equity Research - Integrated Utilities & Merchant Power

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I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

**PCG - Rating and Valuation Range Changes**

Date	Publication Price	Rating	Valuation Range	Closing Price
12/12/07	NA	Not Rated	NE	46.25
01/30/08	40.82	MARKET PERFORM	\$43-\$45	40.82
03/04/08	38.06	MARKET PERFORM	\$40-\$43	38.54
04/29/08	39.65	MARKET PERFORM	\$41-\$43	39.62
05/19/08	40.47	MARKET PERFORM	\$43-\$44	40.85
06/12/08	39.40	Suspended	NE	39.43
09/16/08	41.18	MARKET PERFORM	\$43-\$45	41.78
10/29/08	36.56	MARKET PERFORM	\$38-\$40	35.60
08/06/09	40.12	MARKET PERFORM	\$40-\$42	40.44
09/18/09	41.03	MARKET PERFORM	\$42-\$44	41.06
12/14/09	44.94	MARKET PERFORM	\$47-\$49	45.31
02/22/10	42.54	MARKET PERFORM	\$45-\$47	41.98
09/14/10	44.26	MARKET PERFORM	\$44-\$46	44.86
10/18/10	46.90	OUTPERFORM	\$50-\$52	47.21
11/05/10	48.45	OUTPERFORM	\$51-\$53	48.58

**Additional information available upon request.**

Wells Fargo Securities, LLC or its affiliates may have a significant financial interest in PG&E Corp..

## STOCK RATING

**Outperform:** The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

**Market Perform:** The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

**Underperform:** The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

## SECTOR RATING

**O = Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**M = Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**U = Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

## VOLATILITY RATING

**V =** A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: December 15, 2010

45% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

53% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.

Wells Fargo Securities, LLC has provided investment banking services for 44% of its Outperform-rated companies.

Wells Fargo Securities, LLC has provided investment banking services for 43% of its Market Perform-rated companies.

Wells Fargo Securities, LLC has provided investment banking services for 45% of its Underperform-rated companies.

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