

From: Cherry, Brian K
Sent: 1/20/2011 3:17:30 PM
To: mpl@cpuc.ca.gov (mpl@cpuc.ca.gov); Brown Carol (cab@cpuc.ca.gov)
(cab@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Analyst Reports - Deutsche Downgrade & BofA-ML Manzana and California Updates

Mike/Carol - FYI.

From: Lam, Lisa
Sent: Thursday, January 20, 2011 3:10 PM
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Cc: Investor Relations (list)
Subject: Analyst Reports - Deutsche Downgrade & BofA-ML Manzana and California Updates

This morning analysts issued three reports discussing PG&E: a downgrade from Deutsche Bank; a summary of a Wall Street meeting with Commissioner Simon from Bank of America – Merrill Lynch; and an update on the Manzana project, also from BofA – Merrill.

Jonathan Arnold of Deutsche Bank downgraded PCG stock from “BUY” to “HOLD” given uncertainties over the composition of the Commission, and the assumption that PG&E’s authorized ROE, currently at 11.35%, will be lowered by 70 basis points beginning in 2013. Arnold believes continued negative press surrounding the San Bruno accident and NTSB investigation could drive further political and regulatory pressures on the company.

Arnold cited possible upside risks including no ROE or equity adjustment in 2013 and no major change in the regulatory tone and direction. He also presented the following potential downside risks for PG&E: (1) disallowance or disapproval of spend for capital projects necessary to grow rate base and earnings; (2) an earlier ROE adjustment if interest rates continue to decline; (3) an increase in cost sensitivities from customers which could impede growth plans; and (4) the inability to recover costs associated with the San Bruno accident.

Steve Fleishman of Bank of America – Merrill Lynch issued two reports today, (1) a summary of yesterday’s Wall Street Utility Group meeting with Commissioner Simon in New York and (2) a note on the status of the Manzana wind project. In both notes, Fleishman concluded that current investor concerns about California could be overblown; Fleishman remains supportive of California.

In the Wall Street meeting, Commissioner Simon pointed out that he expects Peevey will likely remain President of the CPUC, which Fleishman views as key given the consistent influence Peevey has provided the Commission. While PG&E remains in the media headlines, Fleishman does not expect this overhang to impact the GRC settlement. Fleishman believes, given California's weak economy and 12.4% unemployment rate, at least one of the new commissioners could focus on job creation, specifically jobs tied to utilities' infrastructure spend. He also noted an expectation that a slight reduction could be made to the authorized ROEs for California IOUs post 2012.

In his report on Manzana, Fleishman stated that PG&E filed a motion with the CPUC on January 19 to withdraw the Manzana wind project application after Iberdrola exercised its option to terminate the purchase and sale agreement. Fleishman does not believe investors should view the Manzana termination as a surprise given the CPUC Proposed Decision to deny the project, and assumes PG&E will require less equity in 2011 as a result.

In trading today, PCG closed down 0.7% at \$47.00, compared to the average comparator group company, which was up 0.4%. The S&P 500 was down 0.1%, and the Dow Jones Utility Average was up 0.6%.

For your reference, the full reports are attached.

Lisa

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Lisa Lam

PG&E Investor Relations

One Market Plaza, Spear Tower, 2400

San Francisco, CA 94105

(415) 817-8137

