

PCG pulls Manzanera, may need less equity

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PCG withdraws Manzanera wind project

PCG withdrew its 246MW Manzanera Wind Project application with the CPUC. PCG had signed a Purchase and Sale Agreement (PSA) with Iberdrola Renewables, the current project owner. On 1/14/2011, Iberdrola gave PCG notice to terminate the PSA. As a reminder, the ALJ proposed decision on Manzanera, issued in late December, denying PCG's project request due to its cost and impact on the endangered CA condor. Thus, we do not believe the lack of a Manzanera wind project will come as a huge surprise to investors.

Lower rate base, lower equity needs

We had not included Manzanera in our estimates for PCG and maintain our 2011 estimate at \$3.71, in line with consensus. Manzanera would have added approximately \$900M to rate base, which we estimate to contribute ~\$0.11/sh annualized. That said, PCG had authorized up to a \$400M DRIBBLE program in 2011, most of which we estimate will no longer be needed since Manzanera is not being constructed. PCG had included up to \$580M for Manzanera in its high case for capex in 2011, but did not include any spending for the project in its low case. All in, we believe PCG will still be able to maintain its 2011 guidance of \$3.65-\$3.85

Bonus D&A will also benefit cash flow

In addition to a lower capex spend, PCG will also benefit from bonus D&A in 2011 and 2012. We estimate PCG could realize up to \$800M of cash flow benefit in 2011 and an additional \$400M in 2012. While bonus D&A does offset rate base through increased deferred taxes, we believe investors will view positively the potentially lowered equity needs to fund capex over the timeframe.

Update on California regulation

As written in our note "[An update on California](#)" we remain watchful of the upcoming changes at the CPUC. That said, we remain supportive of CA, and believe current investor concerns could be overblown. We note the pure play California utility, PCG, does not have any rate case risk for the next 3 years post the pending settlement. We believe the current Commissioner changes will have a modest overall impact to the CPUC.

Stock Data

Price	US\$47.11
Price Objective	US\$50.00
Date Established	21-Oct-2010
Investment Opinion	A-1-7
Volatility Risk	LOW
BofAML Ticker / Exchange	PCG / NYS
Bloomberg / Reuters	PCG US / PCG.N

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Refer to important disclosures on page 3 to 6. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2. Link to Definitions on page 2. 11011288

Price objective basis & risk

PG&E Corporation (PCG)

Our \$50 price objective assumes an average P/E of 13x 2012E earnings, in line with the regulated utility average. Risks to our outlook are: 1) approval of the settlement in the 2011 general rate case and 2) Any unforeseen changes to California regulation.

Link to Definitions

Energy

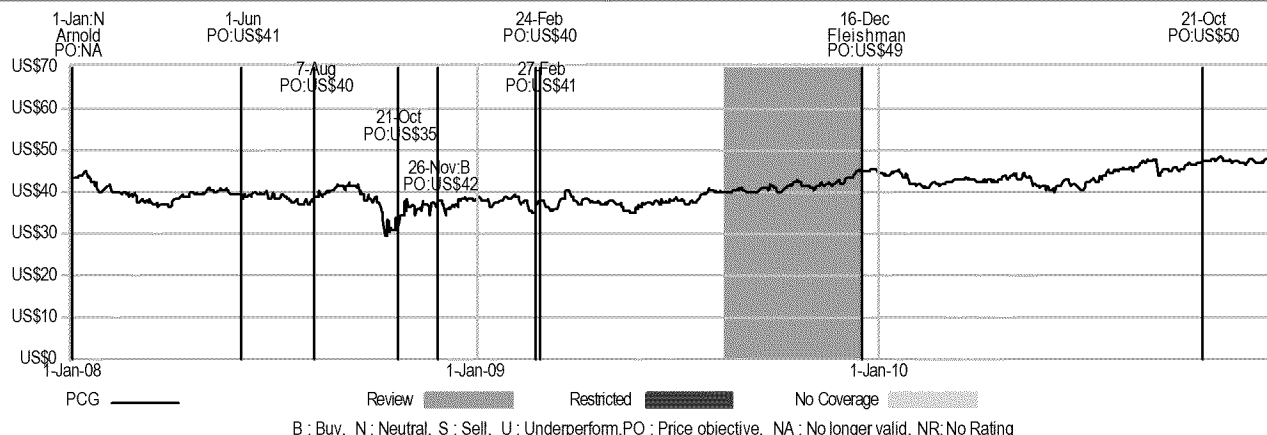
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PCG Price Chart



*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated. BofA Merrill Lynch price charts do not reflect analysts' coverage of the stock at prior firms."

Investment Rating Distribution: Utilities Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	74	39.57%	Buy	30	46.15%
Neutral	56	29.95%	Neutral	33	63.46%
Sell	57	30.48%	Sell	17	33.33%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Underperform	N/A	≥ 20%

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