

## East Meets West: an update on California



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### Commissioner changes at the CPUC; Peevey is key

We met with California Public Utilities Commissioner Tim Simon at the Wall Street Utility Group meeting in NY on 1/19/11. Comm. Simon is a current member of the CPUC, with his term expiring in 2013. Comm. Simon indicated that he expects Peevey will likely remain President of the CPUC. We view this as key, as Peevey has been a steady influence at the CPUC, and has led many electric utility issues. We believe Comm. Ryan appears unlikely to remain on the commission, as the CA Senate has not yet confirmed her appointment, which has a 1/20/11 deadline. Gov. Brown will therefore likely be appointing three new members to the CPUC.

### Potential new commissioners

Names that have been mentioned by Comm. Simon as potential new commissioners include Mike Florio, an attorney for TURN (The Utility Reform Network), Catherine Sandoval, a law professor and telecom expert, and Jack McNally, a former union representative and current labor consultant for CFEE (CA Foundation on the Environment and Economy). Based on our review, these potential candidates appear balanced and fair. If these candidates were appointed, we believe the CPUC would remain reasonable. The next two CPUC meetings are scheduled for 1/27/2011 and 2/24/2011. A quorum (three commissioners) is required to vote on issues, which may require Governor Brown to fill at least one of the vacancies relatively soon.

### PCG remains in spotlight

PCG remains in the spotlight in CA, with frequent negative press on San Bruno and opposition to smart meters gaining momentum. While we remain concerned by this overhang on PCG, we continue to believe the GRC settlement will be approved. Currently no major parties are opposed, and key intervenors such as DRA and TURN have signed on. While there could be some political sensitivities around the GRC, we do not expect it to impact the settlement.

### California economy, renewables a focus

The weak California economy and high unemployment rate (12.4%) remain a focus. We believe at least one of the new commissioners could be very focused on job creation, and potentially tie jobs to utilities' infrastructure spend. Renewables and the environment policy remain a key policy initiative for Gov. Brown and we believe the CPUC will remain committed to growing renewables. We do continue to expect some downward pressure for ROEs post 2012, but do not expect a drastic reduction.

### Fears on California could be overblown

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.

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### **Energy**

Click [here](#) for definitions of commonly used terms.

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