

From: Cherry, Brian K
Sent: 1/21/2011 12:55:55 PM
To: mpl@cpuc.ca.gov (mpl@cpuc.ca.gov); Brown Carol (cab@cpuc.ca.gov)
(cab@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: UBS on PCG: CPUC End Game Begins

FYI

From: jim.vonriesemann@ubs.com [mailto:jim.vonriesemann@ubs.com]
Sent: Friday, January 21, 2011 12:31 PM
Subject: UBS on PCG: CPUC End Game Begins

Attached for your consideration are our latest thoughts on PG&E and the California PUC.

As always, call with questions.

Best,

Jim von Riesemann

CPUC End Game Begins

□ Senate fails to act on confirming Commissioner Ryan

We confirmed with the CPUC that Commissioner Ryan was not confirmed by the California Senate by the statutory deadline of January 20, 2011. This now leaves the five person CPUC in a two member, non-quorum position.

□ Governor Brown now has three appointments to make

Gov. Brown will now have three nominees to the CPUC, none of whom are known at this time. Our working assumption is that Gov Brown will want to have his nominees with him during the 100 year anniversary celebration of the CPUC, which is on January 27. We hope the new CPUC will continue to equitably balance consumer and shareholder interests; we believe Chairman Peevey has done just

that and has been a stabilizing balance on the commission.

□ Settlement decision delayed; cost of capital formula coming into focus

At a minimum, we believe there will be a further delay in rendering a decision in PCG's pending GRC settlement. In addition to the quorum issue, our view is the CPUC will need at least an additional month to "get up to speed" on this proceeding. Separately, the makeup of the CPUC commissioners could influence the cost of capital formula which was sanctioned and administered by the CPUC

and is due for re-examination in mid-2012.

□ Valuation – Fairly valued at current levels; Maintain Neutral rating

Our \$49 target price remains intact, and is derived using a combination of P/E, DDM, and DCF

valuation methodologies.

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