

UBS Investment Research

PG&E Corporation

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.

Highlights (US\$m)	12/08	12/09	12/10E	12/11E	12/12E
Revenues	14,628	13,399	13,900	14,495	15,013
EBIT (UBS)	2,337	2,385	2,742	3,091	3,308
Net Income (UBS)	1,081	1,220	1,347	1,496	1,580
EPS (UBS, US\$)	2.95	3.16	3.45	3.71	3.87
Net DPS (UBS, US\$)	1.56	1.65	1.79	1.93	2.04
Profitability & Valuation	5-yr hist av.	12/09	12/10E	12/11E	12/12E
EBIT margin %	26.6	17.8	19.7	21.3	22.0
ROIC (EBIT) %	12.1	7.1	7.5	8.0	8.1
EV/EBITDA (core) x	-	9.3	9.3	8.4	7.8
PE (UBS) x	12.7	12.5	13.6	12.7	12.1
Net dividend yield %	2.7	4.2	3.8	4.1	4.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$47.00 on 20 Jan 2011 19:40 EST

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Global Equity Research

Americas

Electric Utilities

12-month rating **Neutral**
Unchanged

12m price target **US\$49.00**
Unchanged

Price **US\$47.00**

RIC: PCG.N BBG: PCG US

21 January 2011

Trading data

52-wk range **US\$48.58-40.00**
Market cap. **US\$17.4bn**
Shares o/s **371m (COM)**
Free float **100%**
Avg. daily volume ('000) **741**
Avg. daily value (m) **US\$35.2**

Balance sheet data 12/10E

Shareholders' equity **US\$11.2bn**
P/BV (UBS) **1.6x**
Net Cash (debt) **(US\$13.8bn)**

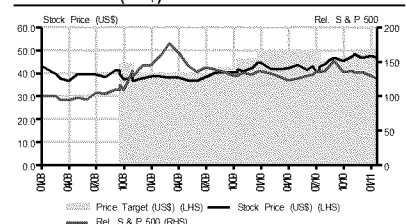
Forecast returns

Forecast price appreciation **+4.3%**
Forecast dividend yield **4.1%**
Forecast stock return **+8.4%**
Market return assumption **5.6%**
Forecast excess return **+2.8%**

EPS (UBS, US\$)

	12/10E		12/09
	UBS	Cons.	Actual
Q1	0.79	0.79	0.66
Q2	0.91	0.91	0.83
Q3	1.02	1.02	0.93
Q4E	0.73	0.72	0.79
12/10E	3.45	3.43	
12/11E	3.71	3.71	

Performance (US\$)



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PG&E Corporation operates principally through its regulated utility, Pacific Gas & Electric, which provides both electric and gas transmission and distribution services, in addition to electric generation. The T&D business serves 5.1 million electric and 4.3 million gas customers in central and northern California, covering an area of approximately 70,000 square miles. The company also operates a generation fleet of 6,300 MW, consisting mostly of hydroelectric and nuclear power.

■ **Statement of Risk**

Investors should be aware of the following risks to PCG shares: Unreasonable or unexpected regulatory/legal decisions; the potential impact of rising energy use to exceed mitigation targets; adverse CPUC decisions, particularly in its Cost of Capital and (General Rate Case) GRC filings; adverse FERC decisions regarding its federally regulated transmission assets; failure to implement adequate and unexpected changes to the financial health of the company that could result in debt downgrades and collateral calls from counter parties.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities LLC: Jim von Riesemann; Julien Dumoulin-Smith; David Eads.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
PG&E Corporation ^{2, 4, 5, 6, 16}	PCG.N	Neutral	N/A	US\$47.00	20 Jan 2011

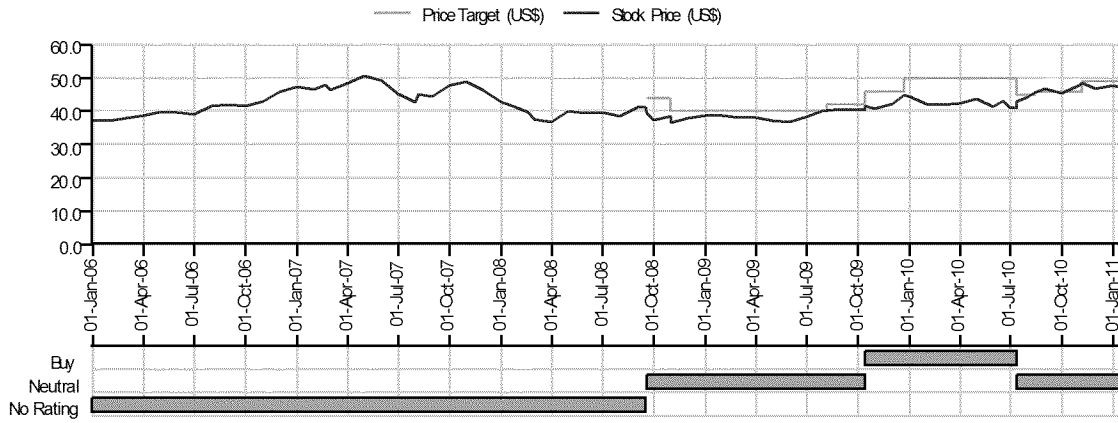
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

PG&E Corporation (US\$)



Source: UBS; as of 20 Jan 2011

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