From: Cherry, Brian K
Sent: 2/10/2011 9:32:31 AM
To: Deal, Matthew (MJD@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Analyst Report - Utility-Owned Renewable Generation in California

Interesting.

From: Lam, Lisa
Sent: Thursday, February 10, 2011 9:07 AM
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Cc: Investor Relations (list)
Subject: Analyst Report - Utility-Owned Renewable Generation in California

Yesterday, Hugh Wynne of Sanford Bernstein & Co issued a lengthy report questioning the future of utility-owned renewable generation (UOG) in California, and the impact on future rate base and earnings growth for utilities in the state. His report and associated questions were spurred by the proposed decision (PD) issued by the CPUC in December that would deny PG&E's Manzana wind project application, based in part on utility customers paying for the project as part of rate base even if it didn't generate as many kWh as projected. (On January 14, 2011, Iberdrola Renewables notified PG&E that it was exercising its right to terminate the contract, and on January 19, PG&E requested that the CPUC permit the Utility to withdraw the Manzana wind project application.)

The report states that utility participation in what is potentially a large capital investment opportunity, and an important upside to rate base growth for California's utilities over the next decade, may be limited if the Manzana PD has broader applicability to renewable ownership by California utilities in general. The report notes that a clearer opportunity for rate base growth is investment in renewable-related transmission lines, a clearly unmet need in California. It also states that, of the three California IOUs, SCE is the best positioned for this opportunity, while PG&E has relatively little exposure.

Wynne also notes that even with a PPA-driven approach, where utilities contract to purchase power from Independent Power Producer (IPP) owned renewable projects, rate payers would still bear the cost of renewable generation through rate increases. As such, potential customer backlash from rising utility bills to meet a 33% renewable standard by 2020 is still a risk facing the state's utilities.

The complete report is attached for your reference.

Lisa

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Lisa Lam

PG&E Investor Relations

One Market Plaza, Spear Tower, 2400

San Francisco, CA 94105

(415) 817-8137