

From: Cherry, Brian K
Sent: 2/15/2011 3:19:04 PM
To: 'mpl@cpuc.ca.gov' (mpl@cpuc.ca.gov)
Cc:
Bcc:
Subject: Fw: Analyst Reports - UBS on the CPUC & BofA-ML Pressure on 2011 Earnings
You've seen the UBS report. Also included here is the BofA report.

From: Lam, Lisa
Sent: Tuesday, February 15, 2011 03:10 PM
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Cc: Investor Relations (list)
Subject: Analyst Reports - UBS on the CPUC & BofA-ML Pressure on 2011 Earnings

This morning two analysts issued reports on the CPUC and PG&E: UBS issued a report summarizing perspectives at the CPUC, including a discussion with Commissioner Florio, while Bank of America – Merrill Lynch issued a report on the potential for downward pressure on PCG's 2011 earnings resulting from San Bruno costs.

Jim von Riesenmann of UBS provided key takeaways from his meeting with Commissioner Florio including: (1) Commissioner Florio wants to remain a "consensus builder" as a member of the CPUC; (2) while supportive of the cost of capital methodology and process, Florio suggests that the state's authorized ROEs are "pretty high"; and (3) Florio feels that California needs to balance capex spending with the replacement of aging pipeline infrastructure. Additionally, Florio confirmed that he will recuse himself from all pending proceedings over which he presided as a senior attorney for TURN, and he also suggested he could take over as lead commissioner of the San Bruno pipeline investigation from President Peevey.

The report also states that an ALJ and alternate proposed decision for the GRC could be released as early as next week, and suggested that the alternate PD would discuss the one issue not handled by the uncontested settlement, namely the ratemaking treatment for PG&E's legacy meters being replaced through the SmartMeter program. The report also states that a PD for the GT&S ratemaking proceeding will be issued soon and a PD for the newly added safety phase of the GT&S proceeding is expected in late March.

Other issues mentioned in the UBS report include an evolving approach to the energy efficiency incentive program, intended to emulate the success from the natural gas hedging incentive program; SB2x, the renewable legislation that von Riesenmann suggests is likely to be passed this year; and UBS speculation that former CEC commissioner John Geesman could be the fifth and final commissioner appointed by Governor Brown.

Steve Fleishmann of BofA-ML noted in his report that San Bruno continues to be an overhang on PCG's regulatory and political environment. The report suggested PCG could see some additional one-time cost increases in 2011 as a result of the CPUC and NTSB investigations that prescribe an increased need for inspections of pipeline pressure, record-keeping and possible leak assessments. As a result, Fleishmann reduces his 2011 EPS estimate. The report also notes the proposed resolution pending before the CPUC dealing with bonus depreciation cash benefits. Fleishmann expects a moderate impact to PCG's equity needs for 2011. Lastly, the report indicates that authorized ROEs in California could face some downward pressure and are likely to come down modestly when they are reviewed for 2013.

In trading today, the utility sector outperformed the broader markets. PCG's stock price remained flat at \$46.21, compared to the average comparator group company, which was up 0.5%. The S&P 500 was down 0.3%, and the Dow Jones Utility Average was up 0.2%.

For your reference, the full reports are attached.

Lisa

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Lisa Lam

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