

Proposed decision adopts PCG GRC settlement

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ALJ adopts settlement in proposed decision (PD)

ALJ Fukutome issued his proposed decision on PCG's 2011 GRC settlement today. The settlement is adopted with modest modifications (\$448M revenue increase in 2011 vs \$395M in settlement). Modifications involve advice letter requirements for certain new non-tariffed products and services, reported related to cost reprioritizations, and gas distribution pipeline safety reporting. With regards to gas distribution pipeline safety reporting, the ALJ requires PCG to submit gas distribution pipeline safety reports to the CPUC every six months. None of the modifications have a material impact on revenue requirement or the terms of the settlement. We expect the CPUC to vote on the settlement at its 3/24/11 meeting.

President Peevey's Alt. PD modifies smart meter recovery

Approximately \$44M of the revenue requirement of the GRC was still subject to litigation and related to recovery of the investment in the conventional meters that Smart Meters replaced and not included in the \$395M settlement. The ALJ allows the recovery at a rate of return of 5.73%. CPUC President Peevey, in an Alternate Proposed Decision that he filed today, sets an overall rate of return of 7.42% on the balance. This results in an annual revenue requirement that is ~\$6M more than the revenue requirement in the ALJ's PD, or \$454M.

Terms of the settlement

The settlement calls for a \$395M rate increase in 2011 premised on a \$16.6B rate base. In addition, the settlement proposes a new balancing account for meter reading costs of \$113M (previously included in PCG's GRC request). The settlement also has attrition revenues of \$180M in 2012 and \$185M in 2013. We believe PCG will be able to generally earn its allowed ROE under the current settlement, though costs will need to be managed carefully.

Next Steps; vote should be positive catalyst

As a reminder, the CPUC must wait 30 days before voting on either of the proposed decisions. The next CPUC meeting post 30 days is on March 24, 2011 and we believe this will be voted on then. We believe Commissioner Florio may recuse himself from the vote as TURN, his prior employer, is a party to the settlement. Given the broad support for the settlement and the supporting PD, we expect the CPUC to approve the settlement, which should be a positive catalyst for the stock.

Still waiting on Gas Transmission & Storage PD

A proposed decision on the Gas Transmission & Storage case is still outstanding. This case was settled in mid-summer and we expect a proposed decision forthcoming relatively soon.

Stock Data

Price	US\$45.21
Price Objective	US\$50.00
Date Established	21-Oct-2010
Investment Opinion	A-1-7
Volatility Risk	LOW
BofAML Ticker / Exchange	PCG / NYS
Bloomberg / Reuters	PCG US / PCG.N

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Refer to important disclosures on page 3 to 6. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2. Link to Definitions on page 2. 11023293

Price objective basis & risk

PG&E Corporation (PCG)

Our \$50 price objective assumes an average P/E of 12.5x 2013E earnings, in line with the regulated utility average. Risks to our outlook are: 1) approval of the settlement in the 2011 general rate case and 2) Any unforeseen changes to California regulation.

Link to Definitions

Energy

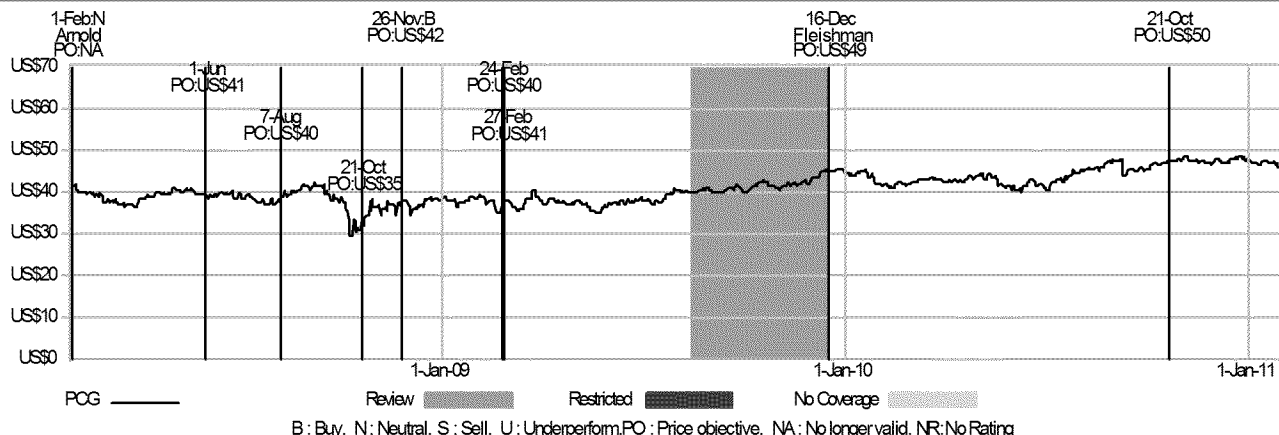
Click [here](#) for definitions of commonly used terms.

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Important Disclosures

PCG Price Chart



Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of January 31, 2011 or such later date as indicated.

Investment Rating Distribution: Utilities Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	74	39.57%	Buy	30	46.15%
Neutral	56	29.95%	Neutral	33	63.46%
Sell	57	30.48%	Sell	17	33.33%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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22 February 2011

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