PG&E Corporation

Price Objective Change

BUY

Equity | United States | Electric Utilities
12 April 2011

Quantifying San Bruno; major risk priced in. Maintain Buy

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San Bruno big overhang; will stay that way for awhile

San Bruno remains a major concern for PCG and the CPUC. Post our meetings with the CPUC and PCG management last week, we believe San Bruno and its ramifications will likely get worse before it gets better. We have done some scenario analysis and believe most of the San Bruno risk is priced in. We have adjusted our estimates down to reflect a reasonable downside scenario (additional $500M of non-recoverable costs). On our revised estimates PCG still trades at an 8% discount to peers. Maintain our Buy rating but lower PO to $48.

Lowering estimates on estimated San Bruno impact

We our adjusting our 2011-2014 PCG estimates to $3.65/$3.80/$3.79/$3.88 from $3.65/$3.89/$3.95/$4.05. We assume an additional $500M of non-recoverable costs associated with San Bruno (SB) on top of our previous estimate of $300M of direct costs (combination of direct costs and penalties) and fund the additional $500M entirely with equity. In addition, we lower the equity ratio in 2013 to 48% (in-line with EIX) from 52%. We issue $1.2B of debt and repurchase $1.2B of stock to lower the equity ratio. We believe our SB estimate is reasonable.

Fundamental utility story intact

Though the CPUC has been under strain as a result of San Bruno, the commissioners said they would treat PCG fairly in other matters including the upcoming GRC approval. In addition, we still see LT earnings growth from renewables investments to meet the state's RPS. Eventually, PCG will see rate base growth to enhance its gas system, but the transition from shareholder-funded spend to fix San Bruno to ratepayer-funded spend to achieve best-in-class safety is still uncertain.

Maintain Buy; Lowering PO to $48

Our PO is based on an industry average of 12.5x 2013E earnings. Risks are liability related to the explosion, approval of the settlement, regulatory changes.

Stock Data

Price	US$44.06
Price Objective	US$48.00
Date Established	12-Apr-2011
Investment Opinion	A-1-7
Volatility Risk	LOW
52-Week Range	US$34.95-48.63
Mrkt Val / Shares Out (mn)	US$17,496 / 397.1
BofAML Ticker / Exchange	PCG / NYS
Bloomberg / Reuters	PCG US / PCG.N
ROE (2011E)	12.4%
Total Dbt to Cap (Dec-2009A)	49.5%
Est. 5-Yr EPS / DPS Growth	3.0% / 4.0%

Key Changes

(US$)	Previous	Current
Price Obj.	50.00	48.00
2011E Rev (m)	14,810.0	15,088.4
2012E Rev (m)	15,337.1	15,589.6
2013E Rev (m)	15,380.6	15,480.6
2012E EPS	3.89	3.80
2013E EPS	3.95	3.79
2011E DPS	1.97	1.89

Estimates (Dec)

(US$)	2009A	2010A	2011E	2012E	2013E
EPS	3.20	3.43	3.65	3.80	3.79
GAAP EPS	3.20	2.84	2.12	3.80	3.79
EPS Change (YoY)	6.0%	7.2%	6.4%	4.1%	-0.3%
Consensus EPS (Bloomberg)			3.70	3.91	3.98
DPS	1.68	1.82	1.89	1.97	2.05

Valuation (Dec)

	2009A	2010A	2011E	2012E	2013E
P/E	13.8x	12.8x	12.1x	11.6x	11.6x
GAAP P/E	13.8x	15.5x	20.8x	11.6x	11.6x
Dividend Yield	3.8%	4.1%	4.3%	4.5%	4.6%
EV / EBITDA*	11.4x	11.1x	12.2x	9.1x	8.9x
Free Cash Flow Yield*	-5.3%	-3.4%	2.0%	1.5%	-2.7%

* For full definitions of *iQmethod*SM measures, see page 9.

Refer to important disclosures on page 10 to 12. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8. 11038356

iQprofile℠ PG&E Corporation

iQmethod℠ – Bus Performance*

(US$ Millions)	2009A	2010A	2011E	2012E	2013E
Return on Capital Employed	4.8%	4.0%	3.1%	4.8%	4.5%
Return on Equity	12.5%	12.4%	12.4%	12.1%	10.9%
Operating Margin	17.7%	16.9%	20.7%	21.6%	21.8%
Free Cash Flow	(919)	(596)	344	261	(480)

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2009A	2010A	2011E	2012E	2013E
Cash Realization Ratio	2.5x	2.4x	3.0x	2.6x	2.2x
Asset Replacement Ratio	2.3x	2.0x	2.3x	2.1x	2.0x
Tax Rate	27.2%	33.0%	39.0%	39.0%	39.0%
Net Debt-to-Equity Ratio	109.7%	108.7%	107.9%	97.0%	112.8%
Interest Cover	3.4x	3.4x	2.8x	4.2x	3.7x

Income Statement Data (Dec)

(US$ Millions)	2009A	2010A	2011E	2012E	2013E
Sales	13,399	13,841	15,088	15,590	15,481
% Change	-8.4%	3.3%	9.0%	3.3%	-0.7%
Gross Profit	8,397	8,652	9,829	10,308	10,176
% Change	3.5%	3.0%	13.6%	4.9%	-1.3%
EBITDA	4,118	4,240	3,858	5,171	5,275
% Change	8.6%	3.0%	-9.0%	34.0%	2.0%
Net Interest & Other Income	(672)	(675)	(771)	(798)	(910)
Net Income (Adjusted)	**1,234**	**1,345**	**1,449**	**1,567**	**1,503**
% Change	**14.2%**	**9.0%**	**7.8%**	**8.1%**	**-4.1%**

Free Cash Flow Data (Dec)

(US$ Millions)	2009A	2010A	2011E	2012E	2013E
Net Income from Cont Operations (GAAP)	1,234	1,113	841	1,567	1,503
Depreciation & Amortization	1,752	1,905	1,709	1,805	1,901
Change in Working Capital	(814)	(861)	0	0	0
Deferred Taxation Charge	809	756	(100)	(50)	(50)
Other Adjustments, Net	58	293	1,893	773	0
Capital Expenditure	(3,958)	(3,802)	(3,999)	(3,834)	(3,834)
Free Cash Flow	**-919**	**-596**	**344**	**261**	**-480**
% Change	**-4.6%**	**35.1%**	**NM**	**-24.1%**	**NM**

Balance Sheet Data (Dec)

(US$ Millions)	2009A	2010A	2011E	2012E	2013E
Cash & Equivalents	1,160	854	429	955	963
Trade Receivables	2,280	2,387	2,387	2,387	2,387
Other Current Assets	2,217	2,301	1,421	1,071	1,071
Property, Plant & Equipment	28,892	31,449	33,335	34,941	36,874
Other Non-Current Assets	8,396	9,034	9,034	9,634	9,634
Total Assets	**42,945**	**46,025**	**46,606**	**48,988**	**50,929**
Short-Term Debt	1,175	1,662	1,662	1,662	1,662
Other Current Liabilities	5,252	5,119	4,556	4,556	4,556
Long-Term Debt	11,594	11,733	12,129	12,906	15,006
Other Non-Current Liabilities	14,339	15,977	15,877	15,827	15,777
Total Liabilities	**32,360**	**34,491**	**34,224**	**34,951**	**37,001**
Total Equity	**10,585**	**11,534**	**12,382**	**14,037**	**13,928**
Total Equity & Liabilities	**42,945**	**46,025**	**46,606**	**48,988**	**50,929**

* For full definitions of *iQmethod*℠ measures, see page 9.

Company Description

PG&E Corp is one of the largest combination natural gas and electric utilities in the United States and the third largest regulated utility in our coverage universe. Based in San Francisco, California, the company primary business is the transmission and delivery of energy. The company provides natural gas and electric service to approximately 15 million people throughout a 70,000-square-mile service area to most of the northern two-thirds of California.

Investment Thesis

PCG offers a compelling regulated growth story with well below average risk. PCG benefits from very supportive state regulation in CA. Key positive CA regulatory mechanisms include revenue decoupling, cost of capital adjustment mechanism, and a pension balancing account. We project earnings growth of 6-7% over the next 5 years driven by a 10% growth in ratebase, through investments in transmission and distribution and generation. We expect PCG to increase the dividend as earnings grow.

Stock Data

Average Daily Volume	2,939,970

Quarterly Earnings Estimates

	2010	2011
Q1	0.79A	NA
Q2	0.91A	NA
Q3	1.02A	NA
Q4	0.72A	NA

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Quantifying San Bruno risk

San Bruno remains a major concern for PCG and the CPUC. Post our meetings with the CPUC and PCG management last week, we believe San Bruno and its ramifications will likely get worse before it gets better.

Last week, we met with four of the five CPUC commissioners as well as several other PUC members. Significant public pressure in the wake of the San Bruno explosion is clearly weighing on the agency. Please see our note on our California meetings "CA PUC meetings reasonable".

The following are major highlights in our approach to analyzing San Bruno and its impact on PCG.

- **San Bruno explosion is major overhang on PCG** and has pressured the CPUC considerably. San Bruno was a horrific event that turned a negative spotlight on PCG and the CPUC. It will take some time for both of them to regain credibility with the public. In the meantime, we expect considerable focus and political pressure on PCG, and tough treatment from regulators on recordkeeping and safety.

- **San Bruno newsflow will likely get worse before it gets better** and clarity is awhile away. Next steps include a hearing that was held on April 11, 2011 on the proposed stipulation; it is unclear to us whether this passes. A CPUC independent investigation is due in May that will likely have tough recommendations. The NTSB will issue its report in August/September along with the Order on Rulemaking which will likely recommend stricter standards for pipeline inspections and safety. The Order Instituting an Investigation will likely result in fines by year end.

We have done some scenario analysis and believe most of the San Bruno risk is priced in. We have adjusted our estimates down to reflect a reasonable downside scenario. On our revised estimates PCG still trades at an 8% discount to peers.

- **We assume a reasonable downside scenario for San Bruno impacts and find that PCG still trades at a material discount.** We have updated our estimates and price target to reflect higher San Bruno costs and a worse cost of capital decision. We now assume an additional $500M of direct costs (combination of un-recoverable costs and penalties) on top of PCG's current $200-$300M estimate. To be conservative we fund the entire additional $500M of costs by issuing equity, diluting earnings by about $0.10 annualized. Even so, on our new estimates the stock trades at an 8% discount to its peers (see Table 1 below).

  We believe PCG would have to realize an additional $1.5B of direct costs (instead of the $500M we assume) before the stock traded at an average to the group. We believe non-recoverable direct costs that high are very unlikely as eventually safety improvements on pipelines will be funded by ratepayers.

Maintain our Buy rating but lower price objective to $48

- **Fundamental utility story is intact.** Several commissioners mentioned that PCG will not be treated harsher than the other utilities due to San Bruno and our sense was that the GRC would likely be adopted. Longer-term we still believe CA is a constructive regulatory environment. We see LT earnings growth from renewables investments to meet the state's RPS of 33% by 2020.

Table 1: Regulated Utilities Comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E 2010A	P/E 2011E	P/E 2012E	P/E 2013E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$38.79	$4,301	14.3x	13.9x	13.1x	12.6x	4.4%	3.8%	63%	1.5x	53%
American Electric	AEP	34.78	16,733	11.5x	11.2x	11.0x	10.8x	5.3%	3.0%	61%	1.2x	43%
CMS Energy	CMS	18.90	4,765	13.9x	13.1x	12.4x	11.7x	4.4%	4.0%	62%	1.7x	29%
CenterPoint Energy	CNP	17.32	7,358	16.2x	15.8x	14.8x	14.0x	4.6%	1.3%	74%	2.3x	25%
Consolidated Edison	ED	50.22	14,676	14.6x	14.1x	13.6x	13.4x	4.8%	0.8%	70%	1.3x	51%
DPL Inc.	DPL	27.42	3,206	11.0x	11.5x	11.4x	14.7x	4.9%	4.5%	53%	2.6x	48%
DTE Energy	DTE	48.73	8,257	13.5x	13.5x	12.9x	12.2x	4.6%	5.0%	62%	1.2x	45%
Duke Energy	DUK	18.16	24,137	12.7x	13.5x	12.9x	12.5x	5.4%	2.0%	69%	1.1x	55%
Hawaiian Electric	HE	24.66	2,339	20.4x	16.4x	14.1x	12.9x	5.0%	0.0%	102%	1.6x	48%
Northeast Utilities	NU	34.19	6,035	15.8x	14.7x	14.0x	12.9x	3.2%	6.8%	51%	1.6x	43%
NSTAR	NST	45.02	4,663	17.6x	16.7x	16.1x	15.5x	3.8%	5.9%	66%	2.4x	42%
NV Energy	NVE	14.74	3,473	15.2x	15.0x	11.7x	11.6x	3.3%	8.4%	49%	1.0x	39%
PG&E	PCG	44.06	17,459	12.8x	12.1x	11.6x	11.6x	4.1%	4.0%	53%	1.5x	46%
Pinnacle West	PNW	42.45	4,618	13.8x	13.9x	12.3x	11.9x	4.9%	3.3%	68%	1.3x	51%
Portland General	POR	23.79	1,792	14.3x	12.6x	12.7x	11.8x	4.4%	1.9%	63%	1.1x	47%
Progress Energy	PGN	45.54	13,379	15.0x	14.5x	14.0x	13.4x	5.4%	0.5%	82%	1.3x	44%
SCANA	SCG	38.94	4,979	13.1x	12.5x	12.2x	11.4x	5.0%	2.1%	65%	1.3x	43%
Southern Company	SO	37.78	31,947	15.9x	14.9x	14.0x	13.2x	4.8%	4.0%	77%	1.9x	45%
TECO Energy	TE	18.69	4,016	14.5x	13.9x	13.2x	13.4x	4.4%	2.4%	64%	1.9x	40%
UIL Holdings	UIL	30.12	1,521	15.3x	15.9x	14.7x	14.3x	5.7%	0.0%	88%	1.4x	57%
Westar Energy	WR	25.90	2,941	14.2x	14.9x	12.8x	12.5x	4.9%	3.1%	70%	1.2x	44%
Wisconsin Energy	WEC	29.73	6,949	15.5x	14.4x	13.2x	12.8x	3.5%	10.9%	54%	1.8x	43%
Xcel Energy	XEL	23.51	11,795	14.3x	13.5x	12.9x	11.9x	4.3%	3.0%	62%	1.4x	46%
Average				**14.6x**	**14.0x**	**13.1x**	**12.7x**	**4.6%**	**3.4%**	**66%**	**1.6x**	**45%**

Source: BofA Merrill Lynch Global Research

San Bruno impacts...

Significant public pressure in the wake of the San Bruno explosion is clearly weighing on the CPUC. For PCG, San Bruno is a huge overhang with several proceedings pending that could result in penalties and higher direct spending.

The San Bruno accident has turned the spotlight on the PUC, and it may take awhile for the PUC and PG&E to regain its credibility. One of the commissioners commented on the negative publicity the CPUC has gotten as a result of San Bruno, and feels that the CPUC has its back against the wall. Moreover, many commissioners emphasized the need for utilities to honor the public contract, that is to provide safe and reliable service, not just focus on compliance.

Next steps in San Bruno include a hearing on the show cause order and stipulation that was held on April 11, 2011. It is unclear whether the stipulation in the current form will be passed, as some commissioners believe the $3M fine ($6M all-in) could be too low. The CPUC independent investigation is due in May and will likely include tough recommendations for all California utilities on safety. A final NTSB report is expected in August or September 2011, which will also give recommendations.

Sempra (SRE) is expected to file its gas records on April 15, 2011. From current indications it appears that SRE will compare favorably to PCG, further increasing the pressure on PCG to improve its operations.

The current Order Instituting Investigation (OII) is expected to be done this year and will likely result in fines for PCG. We note that previous fines from the CPUC have been in the $20-$30M range, however it is unclear how large the PCG fine will be. Some have compared this to EIX's penalty on its performance based rates issue which was about $180M. However, we note the actual fine for violating the Public Utilities Code was $30M, with the remainder being customer givebacks. One commissioner commented that he/she would need to see a substantial penalty to clear the air and move on to a discussion of safety.

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At some point, PCG will see rate base growth to enhance its gas system, but the transition from shareholder-funded spend to fix San Bruno to ratepayer-funded spend to achieve best-in-class safety is still uncertain.

Pipeline inspection costs

PCG has committed to 152 miles of hydrotesting or replacement by late this year. It may be difficult to get this done in time as gas supply issues arise. According to a commission staffer, hydrotesting costs $600,000/mile and replacement costs $3M per mile. Eventually PCG will need to address all 455 miles of its system.

PCG management thoughts

We met with PCG management last week to discuss San Bruno. Management characterized the event as horrific and emphasized its desire to learn from the event and establish an extremely safe utility operation (both gas and electric) going forward. To this end, the PCG Board has commissioned an independent study to evaluate how to create a world class gas business. Findings from this are expected to come out in 3Q 2011.

PCG management points out that it complied with the regulations set forth at the time of the pipe installations back in 1956. Recordkeeping was not required until post 1970 on pipes, and many of the older pipes were grandfathered in. As the standards on pipeline integrity and safety may chance, management believes that ratepayers may have to invest in this to allow PCG to meet new standards.

Adjusting estimates for San Bruno, cost of capital

We our adjusting our 2011-2014 PCG estimates to $3.65/$3.80/$3.79/$3.88

We our adjusting our 2011-2014 PCG estimates to $3.65/$3.80/$3.79/$3.88 from $3.65/$3.89/$3.95/$4.05. We have made the following adjustments to our model.

- **Assume an additional $500M of non-recoverable costs** associated with San Bruno. PCG currently assumes $200-$300M of direct costs associated with San Bruno. We assume the high end of $300M and an incremental $500M of costs. We fund the incremental $500M of costs with equity issued in 1Q 2012.
- **We lower the equity ratio in 2013 to 48%** (in-line with EIX) from 52%. We issue $1.2B of debt and repurchase $1.2B of stock to lower the equity ratio appropriately.
- **We had previously already reduced our 2013 and forward CPUC jurisdictional ROE by 50bps to 10.85%** from 11.35%. We did not reduce the FERC ROE, and maintain it at 12%. This gives a weighted average allowed ROE of ~11% down from PCG's current weighted average allowed ROE of 11.45%.

What level of San Bruno expense is in the stock?

We believe the current PCG stock price reflects about $1.5B of incremental costs funded through equity. We believe this downside case is unlikely given the moderate penalties imposed by the CPUC in the past

We believe the current PCG stock price reflects about $1.5B of incremental costs funded through equity. We believe this downside case is unlikely given the moderate penalties imposed by the CPUC in the past, and the eventuality that some of the ongoing costs could be borne by ratepayers.

That said, we do not see our current SB cost assumptions as the worst case scenario for the stock. Depending on the outcome of the OII, one possibility is that the eventual gas spend could earn a lower ROE than the PCG CPUC jurisdictional ROE.

Lowering PO to $48

Our PO is based on an industry average of 12.5x 2013E earnings. We believe an industry average is justified given that we are already cutting PCG estimates for the SB impact and potential ROE and equity layer reductions.

Financial update and dividend growth

Given the increased scrutiny on political pressure on PCG, we believe dividend growth may slow or take a pause for a year.

PCG had committed to giving 2012 guidance post its GRC, which we assume will get adopted relatively soon. The company plans to host an analyst day to update investors on San Bruno costs, long-term growth, capex and dividend policy. Given the increased scrutiny on political pressure on PCG, we believe dividend growth may slow or take a pause for a year. Historically PCG has grown its dividend by about 8% per year, however we have trimmed that to 4% in our estimates. We could also see PCG not growing the dividend this year, but resuming it in 2012. Even on our new, lower estimates PCG's payout ratio of 53% remains below the industry average (see Table 1).

GRC settlement still outstanding

We are still waiting for a final decision on PCG's Gas Storage & Transmission GRC and Electric & Gas GRC. Several commissioners mentioned that PCG will not be treated harsher than the other utilities due to San Bruno and our sense was that the GRC would likely be adopted especially given the largely unanimous support of the settlement by major parties.

Bonus D&A case seems to be moving in right direction

There is currently an open proceeding to address how the bonus D&A tax benefits will be utilized by the California utilities. We believe this case is moving in the right direction, with most commissioners supportive of the status quo. Currently utilities spend the bonus D&A on additional investments that offsets the hit to rate base in latter years from increased deferred taxes.

CA regulatory still long-term attractive

An ambitious renewables standard and increased focus on safety will drive rate base growth for all the California utilities.

Our visit with the CPUC reaffirmed our belief that the CA regulatory environment is still attractive LT. An ambitious renewables standard and increased focus on safety will drive rate base growth for all the California utilities. All of the commissioners acknowledged that CA will need healthy utilities, we have previously adjusted our estimates for a 50bps ROE cut in 2013.

Renewables remains key focus

The California State Assembly recently passed the bill (SB 2X1) that would require California utilities to get 33% of its power from renewable sources by 2020. Previously this bill was an executive order, and we expect Governor Brown to sign it into law. This is the most aggressive renewable standard in the country.

Moreover, Governor Brown conveyed his goals of making 33% a floor not a ceiling to his three recent appointments to the CPUC (Florio, Sandoval, Ferron).

We expect renewables to be a key driver of the 10%+ rate base growth for PCG and EIX

We expect the increased renewables standard to drive rate base investment in both renewable generation and transmission build. All the commissioners seem supportive of a combination of utility owned generation and purchased power contracts, particularly given the difficulty in transmission siting. We expect renewables to be a key driver of the 10%+ rate base growth for PCG and EIX.

Financial Summary

Our new 2011-2014 PCG estimates are $3.65/$3.80/$3.79/$3.88 from $3.65/$3.89/$3.95/$4.05. Tables 2 and 3 highlight our financial summary and modeling assumptions for PCG.

Table 2: Financial Summary

Financial Summary	2011E	2012E	2013E	2014E
EPS	$3.65	$3.80	$3.79	$3.88
Diluted Shares Outstanding	397	412	396	406
Dividends Per Share	$1.89	$1.97	$2.05	$2.13
DividendYield	4.2%	4.4%	4.6%	4.8%
Dividend Payout Ratio	52%	52%	54%	55%
Equity Ratio	49%	51%	47%	48%
FFO/Net Debt	33%	30%	21%	21%
Valuation Metrics				
P/E	12.3x	11.8x	11.8x	11.5x
Price/Book	1.4x	1.3x	1.3x	1.2x
Segment EPS				
Utility	$3.67	$3.80	$3.79	$3.88
Parent	(0.02)	(0.00)	0.00	0.01
Total EPS	**$3.65**	**$3.80**	**$3.79**	**$3.88**
Utility				
Realized ROE	11.9%	11.8%	11.3%	11.3%
Average Rate Base	$23,657	$25,591	$27,622	$28,974

Source: BofA Merrill Lynch Global Research

Table 3: Modeling Assumptions

Assumptions	2011E	2012E	2013E	2014E
Total Capital Spending by Segment ($M)				
Electric Distribution	$1,550	$1,550	$1,550	$1,550
Generation	375	375	375	375
Common Plant	350	350	350	350
Electric Transmission	950	950	950	950
Gas Transmission	200	200	200	200
AMI & Other	165	0	0	0
Total Capex	**$3,590**	**$3,425**	**$3,425**	**$3,425**
Financings ($M)				
Total Equity Issued/(Repurchased)	$150	$900	($800)	$400
Total Debt Issued/(Repurchased)	800	1,200	2,100	900
Sales Forecast				
Electric Customer Growth	0.0%	0.0%	0.0%	0.0%
Gas Customer Growth	1.8%	1.8%	1.8%	1.8%

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

PG&E Corporation (PCG)

Our $48 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) liability related to the San Bruno explosion, 2) approval of the settlement in the 2011 general rate case and 3) Any unforeseen changes to California regulation.

Link to Definitions

Energy

Click here for definitions of commonly used terms.

Analyst Certification

I, Steve Fleishman, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Electric Utilities/Competitive Power Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	American Water Works	AWK	AWK US	Steve Fleishman
	CenterPoint Energy, Inc.	CNP	CNP US	Steve Fleishman
	Edison International	EIX	EIX US	Steve Fleishman
	GenOn Energy, Inc.	GEN	GEN US	Ameet I. Thakkar
	NextEra Energy	NEE	NEE US	Steve Fleishman
	NV Energy	NVE	NVE US	Steve Fleishman
	PG&E Corporation	PCG	PCG US	Steve Fleishman
	Public Service Enterprise Group Inc.	PEG	PEG US	Steve Fleishman
	Southern Company	SO	SO US	Steve Fleishman
	Westar Energy	WR	WR US	Steve Fleishman
	Wisconsin Energy	WEC	WEC US	Alex Kania
	Xcel Energy	XEL	XEL US	Steve Fleishman
NEUTRAL				
	Alliant Energy	LNT	LNT US	Steve Fleishman
	American Electric Power	AEP	AEP US	Steve Fleishman
	Calpine	CPN	CPN US	Ameet I. Thakkar
	CMS Energy	CMS	CMS US	Steve Fleishman
	Consolidated Edison	ED	ED US	Steve Fleishman
	Constellation Energy Group	CEG	CEG US	Ameet I. Thakkar
	Dominion Resources	D	D US	Steve Fleishman
	Duke Energy	DUK	DUK US	Steve Fleishman
	Northeast Utilities	NU	NU US	Steve Fleishman
	NRG Energy	NRG	NRG US	Ameet I. Thakkar
	NSTAR	NST	NST US	Steve Fleishman
	Pinnacle West	PNW	PNW US	Steve Fleishman
	Portland General Electric Company	POR	POR US	Steve Fleishman
	TECO Energy	TE	TE US	Steve Fleishman
	UIL Holdings	UIL	UIL US	Steve Fleishman
UNDERPERFORM				
	Ameren Corp	AEE	AEE US	Steve Fleishman
	DPL Inc.	DPL	DPL US	Steve Fleishman
	DTE Energy	DTE	DTE US	Steve Fleishman
	Entergy	ETR	ETR US	Steve Fleishman
	Exelon	EXC	EXC US	Steve Fleishman
	FirstEnergy	FE	FE US	Steve Fleishman
	Hawaiian Electric Industries	HE	HE US	Steve Fleishman
	SCANA Corp.	SCG	SCG US	Steve Fleishman

US - Electric Utilities/Competitive Power Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
RSTR				
	PPL Corporation	PPL	PPL US	Steve Fleishman

*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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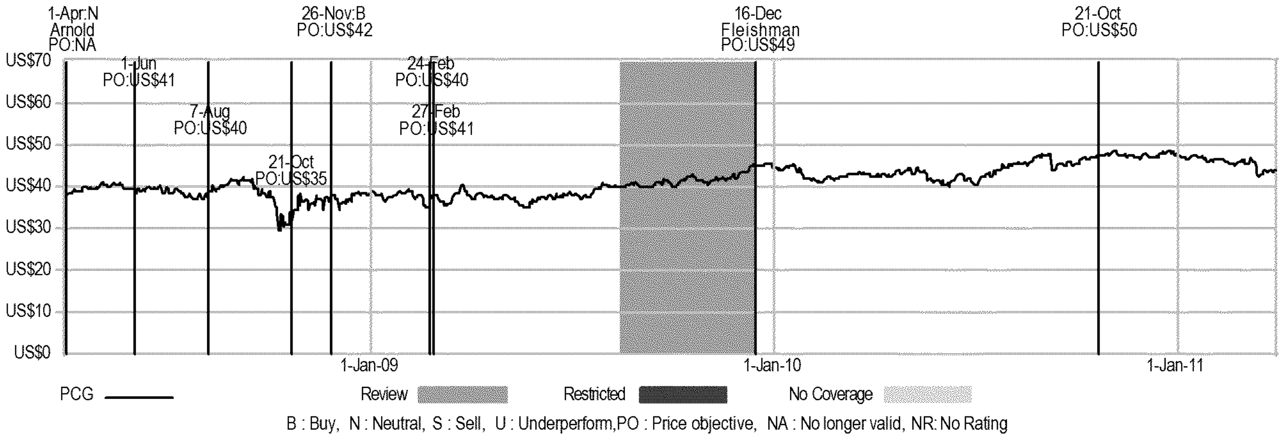
Important Disclosures

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 March 31, 2011 or such later date as indicated.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	42.08%	Buy	33	47.83%
Neutral	53	28.96%	Neutral	33	68.75%
Sell	53	28.96%	Sell	18	38.30%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2009	53.66%	Buy	912	49.89%
Neutral	955	25.51%	Neutral	439	50.93%
Sell	780	20.83%	Sell	257	35.11%

* 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%
Neutral	≥ 0%	≤ 30%
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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