From: Cherry, Brian K
Sent: 4/19/2011 10:28:21 AM
To: mf1@cpuc.ca.gov (mf1@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Analyst Report - Credit Suisse Upgrade

FYI

From: Lam, Lisa
Sent: Tuesday, April 19, 2011 9:19 AM
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Cc: Investor Relations (list)
Subject: Analyst Report - Credit Suisse Upgrade

Yesterday, Dan Eggers of Credit Suisse upgraded PCG from "HOLD" to "BUY" reflecting an "opportunistic entry point in shares" based on his assessment that the risk of punitive outcomes is already priced into the stock and there is limited downside. In his note, Eggers highlights three issues for PCG shareholders: implications of the San Bruno accident, Redacted following the Japanese nuclear situation, and changes at the CPUC. He advises that with time, patient holders of PCG's stock will be rewarded once the current issues are resolved. The basic investment case for PCG as summarized by Eggers calls for strong utility rate base growth, constructive California regulatory mechanisms helping PCG earn the authorized ROE, and the market pricing in all of the current uncertainties.

The report takes the view that negative outcomes resulting from the San Bruno accident are already priced into the stock. It bases this on an assessment of a "worst-case scenario" of an ROE reduction for the gas transmission business, an increase in operations and maintenance costs for gas transmission operations to be borne by PCG over the next couple of years, and significant financial penalties. Taking these into account, the report finds that the stock trades in line with peers. While Eggers struggles "philosophically" with the need for the CPUC to issue a significant fine against PCG, he does expect that a fine could ultimately be imposed. He shows a range of potential fines of up to $300 million as a result of the San Bruno accident. The report states that the impact of the fine will be felt by PCG and recognized by all other pipeline operators in the US.

Regarding Redacted Eggers mentions what he calls "simplified" similarities to Japan – located on a coast and where earthquakes happen. The report points out fundamental differences between the Fukushima Daiichi plant and DCPP and concludes that there is not a real risk to Redacted operationally or to PCG economically. Eggers considers an extreme scenario of the closure of Redacte but indicates the CPUC is unlikely to decide that PCG should not receive any cost recovery for the impaired asset in such a scenario.

Considerable regulatory change has taken place in 2011 with Governor Brown taking office and appointing three new commissioners to the CPUC. While the report notes that it's still too early to predict what role the new commissioners will play or initiatives will be of greatest priority, it concludes that the regulatory environment in California is built to provide innovative and fair mechanisms that offer opportunity for the utilities to earn a fair ROE while meeting the state's energy policy.

In trading yesterday, PCG closed down 0.5% at $44.65, slightly better performance than the average comparator group company, which was down 0.9%. The S&P 500 closed down 1.1%, and the Dow Jones Utility Average was down 0.9%. The broader market finished in negative territory on news that S&P downgraded its rating outlook on the United States to "Negative" from "Stable."

For your reference, the full report is attached.

Lisa

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