18 April 2011
Americas/United States
Equity Research
Electric Utilities

CREDIT SUISSE

PG&E Corporation (PCG)

UPGRADE RATING

Rating	(from Neutral) **OUTPERFORM***
Price (15 Apr 11, US$)	44.86
Target price (US$)	(from 45.00) 50.00[1]
52-week price range	48.58 - 40.00
Market cap. (US$ m)	17,800
Enterprise value (US$ m)	31,427

*Stock ratings are relative to the relevant country benchmark.
[1]Target price is for 12 months.

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Headwinds Overdone; Upgrade to Outperform

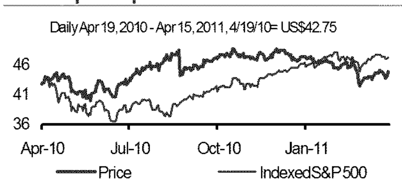
Our take: We are upgrading PCG on the view that well identified headwinds are overstated at current price with limited fundamental downside. PCG trades cheap to large cap peers with a) 7%+ rate base growth, b) earnings visibility with decoupling, forward rates and cost of capital set through 2012, c) a 2013 ROE reset to 10.5% already priced into stock, d) limited risk to Diablo Canyon, and e) realistic outcomes from San Bruno are not that bad. Patient ownership as headwinds are resolved should yield outperformance.

PCG shares have been hurt by several issues that are all addressable:

- **We think the biggest 'real' uncertainty facing PCG is the financial implication from the San Bruno natural gas pipeline accident in 2010.** To help assess we evaluated a range of outcomes including higher unrecoverable O&M expenses, a lower gas transmission ROE, and additional fines from the CPUC (Ex 2-10). And, while the financial exposure and human tragedy are real, we see a negative outcome already priced into the stock – so even under our worse case scenario of an ROE reset and significant financial penalties, the stock trades in-line with peers at 12-13x.
- **Diablo Canyon.** While fading, we still hear some concerns about the Diablo Canyon nuclear plant given simplified similarities to Japan (on the coast and located where earthquakes happen). We think plant specifics plus logistical realities limit risk of economic risk to PCG (Ex 11-12).
- **CPUC changes.** Three new commissioners clearly raise questions about the durability of CA's constructive regulation although we think state initiatives (carbon, 33% RPS) and existing tools (decoupling, 3-year forward looking rate cases) leave CA above average.

Our updated target price is $50 and 2011-13 estimates are $3.73, $3.92, and $3.74 with valuation assuming discounted P/E of 14x.

Share price performance



On 04/15/11 the S&P 500 index closed at 1319.68

Quarterly EPS	Q1	Q2	Q3	Q4
2010A	0.79	0.91	1.02	0.71
2011E	0.82	1.04	1.10	0.76
2012E	—	—	—	—

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EPS (CS adj.) (US$)	3.41	3.73	3.92	3.74
Prev. EPS (US$)	—	3.70	3.91	—
P/E (x)	13.2	12.0	11.4	12.0
P/E rel. (%)	86.3	90.3	97.2	—
Revenue (US$ m)	14,420.0	15,090.4	15,872.0	15,393.3
EBITDA (US$ m)	4,598	5,035	5,318	4,945
EV/EBITDA (current)	6.5	6.2	5.8	6.4
Net debt (US$ m)	12,118	13,627	13,139	13,634
FFO/Interest	3.9	4.3	4.3	3.7
FFO/Total Debt	0.22	0.25	0.26	0.23

Number of shares (m)	397	BV/share (current, US$)	29
Net debt (current, US$ m)	12,518	Dividend (current, US$)	1.82
Net debt/tot. cap. (current, %)	70.3	Dividend yield (%)	4.1

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

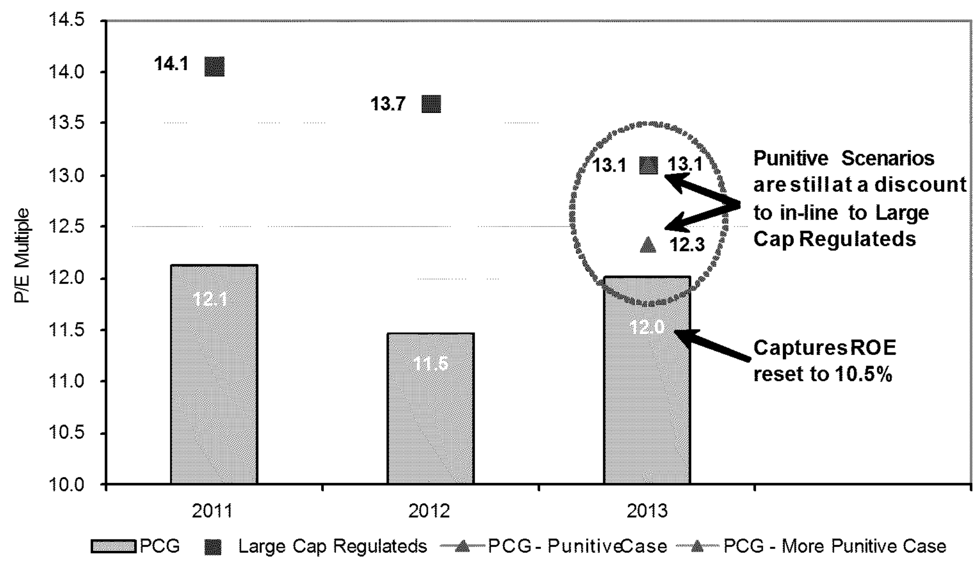
Upgrading to Outperform

We are raising our rating on PCG to Outperform from Neutral, reflecting an opportunistic entry point in shares that already appear to be pricing punitive outcomes on several fronts that with time should be resolved more reasonably offering upside to more patient holders.

We see PCG's investment thesis as straightforward:

- Strong utility rate base growth of over 7% / year to maintain a large distribution system and support CA energy policy goals that continue to grow (most recently with adoption of a 33% renewable energy standard by 2020 that will require even more infrastructure support like transmission, etc.).
- Constructive California regulatory mechanisms including 3-year forward rate cases, rate decoupling from volumes to support energy efficiency, and specific cost mechanism adjustors. These tools help PCG consistently earn at / near its allowed ROE.
- Market is already pricing in an ROE reset in 2013 with expiration of the existing cost of capital mechanism; a fear partly contributing to our fall 2010 downgrade was a drop in 2013 ROE that now appears to be well accepted by both investors and the Street as likely. We are now using a long-term 10.5% ROE versus the current 11.35% allowed; for reference each 25 bp of allowed ROE is about $0.07 of EPS in 2013. More importantly, we should note that even with the ROE reset PCG trades cheap to the Regulated Utility peer group in 2013.

Exhibit 1: **Relative P/E Multiples**



Source: Company data, FactSet, Credit Suisse estimates

The issues currently clouding the PCG story relate to several discrete items that are admittedly of concern, but as we walk through the economic implications in the following pages we have a hard time thinking they will lead to sustained downside in PCG shares from current levels even in a worse case scenario. The issues:

- Implications of the San Bruno pipeline explosion. We break down the financial impact by potential form of remediation but our Punitive and More Punitive Cases still leave PCG in-line to cheap relative to large cap regulated utility peers (Exhibit 3).

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- Diablo Canyon nuclear plant. Following the Japan nuclear accident, Diablo has been a common point of worry for investors given some basic plant similarities – on the Pacific Ocean coast and in an earthquake prone region. We walk through a number of specific reasons why we have a hard time imagining negative economic implications for PCG related to this plant.
- Changes at the CPUC. The California Public Utility Commission (CPUC) has added three (of five) new commissioners with the new Governor Brown administration which inevitably creates unease about the future of a regulatory body that has been a standard bearer for constructive regulatory policy in the US. We think the need for fair treatment of utilities to meet ambitious state energy policy goals plus an acceptance of a lower ROE by the market will ultimately keep CA a fair place to operate as a utility.

San Bruno Uncertainty

The damage caused by the San Bruno pipeline explosion was significant and could weigh on the stock as the market evaluates the financial liability and any impact to the durability of PCG's future earnings power.

For PCG investors, the questions rightly relate to the potential financial liability that could be borne by shareholders through some combination of lower allowed returns, higher non-recoverable costs and spending, or a discrete fine assessed by the CPUC. We should note these unknown costs would be on top of the ~$300 MM of costs already identified by PCG where no cost relief is expected (meaning shared sacrifice is already occurring). The company guided near-term liability split between insurance and the shareholder is shown in Exhibit 2.

A series of negative decisions around Gas Transmission could cost $0.10-0.28; we think all of these negative outcomes constitute an extreme response inconsistent with the last 7 years of CA utility policy

Exhibit 2: **San Bruno Related Expenses: Covered by Insurance or PCG**

	Third Party Liabiltiy Accural	Direct Costs Borne by PCG
Estimated 2011 Costs	$0-180MM	$200-300MM
Actual 2010 Costs	$220 MM Accrual	$63 MM

Source: Company data in 4Q Call

Over the following pages we put discrete numbers around each of the aforementioned issues and in total we see worse case scenarios that still leaves PCG trading in-line to cheap relative to other regulated utilities. Specifically, we see EPS downside of $0.10-0.28 under a range of negative outcomes from the proceedings around San Bruno that will admittedly take some time to resolve.

A quick summary of what could happen due to San Bruno

Looking to handicap financial implications, we would expect a fine to be assessed against PCG which is hard to determine today (we use $75 MM) but $100-200 MM seems like a painful enough fine to get the attention of all gas pipeline operators. Other outlets for financial pressure could come through higher unrecoverable O&M expenses for increased monitoring / assessment (we struggle to imagine more than a 10-15% increase), more capex that does not earn a timely return, or lower ROEs on the transmission business.

Added together, the Punitive Case seems possible if the CPUC decides to get more aggressive in response the accident; moving to our 'More Punitive' column feels like a stretch but we think framing the issue completely makes sense.

Exhibit 3: **2013 EPS and Valuation Implications of Different San Bruno Related Costs**

	Base Case	Punitive	More Punitive	
EPS if using 11.35% ROE	3.99	3.99	3.99	
EPS Published at 10.5% ROE	3.74	3.74	3.74	Our published ests already assume ROE cut
Transmission O&M	-	(0.06)	(0.17)	10% / 30% Unrecoverable O&M Cost Increase
Transmission Lower ROE	-	(0.02)	(0.05)	100 / 200 bp ROE cut (9.5% / 8.5%)
Dilution from San Bruno Fine	-	(0.01)	(0.05)	Equity fund $100 / 300 MM of fines
Adjusted EPS	**3.74**	**3.65**	**3.47**	
P/E	**12.0**	**12.3**	**12.9**	
San Bruno Fine	-	0.12	0.62	Fine of $100 / 300 MM
P/E Net of San Bruno Fine	**12.0**	**12.3**	**13.1**	

Source: Company data, Credit Suisse estimates

Higher Gas Transmission O&M Expenses

We think a realistic outcome of the San Bruno accident will be an increase in operating expenses in the gas pipeline business as PCG embarks on an even greater maintenance and surveillance program. We could see the burden of higher costs borne by PCG at least over the next couple years.

We admittedly have a hard time gauging the incremental operating expenses but for perspective Exhibit 4 shows the historic O&M expenses at the gas utility. In Exhibit 5 we show the EPS impact if varying levels of gas transmission cost inflation was absorbed by PCG - with even a big 20% jump in costs translating into a manageable $0.11 of EPS (which we think is short sighted to capitalize into perpetuity since ongoing valid work on the system would be captured in rates). In Exhibit 6 we got to a more extreme scenario and assume different levels of incremental cost inflation for the entire gas utility although we think costs like G&A are less likely to inflate – the focus of incremental work will need to be on the transmission operations.

A 20% increase in Transmission O&M is $0.11 if all unrecoverable; we would be leery about capitalizing this expense even if that big

Exhibit 4: **Historic Gas Utility Cost Breakdown**

	2008		2009	
Underground Storage Exp - Operating	11		12	
Underground Storage Exp - Maintenance	6		4	
Underground Storage Expenses - O&M	**17**	1%	**17**	1%
Transmission Expenses - Operating	326		331	
Transmission Expenses - Maintenance	22		26	
Transmission Expenses - O&M	**348**	24%	**357**	23%
Distribution Expenses - Operating	102		130	
Distribution Expenses - Maintenance	65		122	
Distribution Expenses - O&M	**166**	12%	**252**	16%
Customer Account Expenses - Operating	165		144	
Customer Service & Informn Exp - Operating	123		91	
Sales Expenses - Operating	9		7	
Admin & General Exp - Operating	296		327	
Maintenance of General Plant	7		6	
Admin & General Expenses - O&M	303		333	
Other O&M Expenses	**903**	63%	**909**	59%
Total Gas O&M	**1,435**	100%	**1,534**	100%

Source: Company data,

Exhibit 5: **EPS Impact of Unrecoverable Transmission Expense Cost Inflation**

Cost Inflation	5%	10%	15%	20%	25%	30%
EPS Impact	(0.03)	(0.06)	(0.08)	(0.11)	(0.14)	(0.17)
% '13 EPS	-0.8%	-1.5%	-2.3%	-3.0%	-3.8%	-4.5%

Source: Company data, Credit Suisse estimates

Exhibit 6: **EPS Impact of Unrecoverable Gas Utility Expense Cost Inflation**

Cost Inflation	2.5%	5.0%	7.5%	10.0%	12.5%	15.0%
EPS Impact	(0.06)	(0.12)	(0.18)	(0.24)	(0.30)	(0.36)
% '13 EPS	-1.6%	-3.2%	-4.8%	-6.5%	-8.1%	-9.7%

Source: Company data, Credit Suisse estimates

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ROE Reduction

Another potential route for penalty could be a reduction in allowed ROE for the gas transmission business although it is still unclear whether a change would be for the entire gas business or just gas new capex. We see this as a slippery slope for the California Commission (CPUC) to change the incentives around running important regulated businesses but nonetheless we have tried to assess the financial exposure for shareholders.

Total Pipeline EPS contribution is $0.25

As a starting point, in Exhibit 7 we show the total EPS contribution expected from the gas pipeline business in 2013 assuming gas transmission is 8% of rate base (from PCG) and using our future derated allowed ROE of 10.5%. In this context, total contribution from the gas transmission business is $0.25 or just under 7% of our total EPS estimate.

Exhibit 7: **2013 Estimated Total Gas Transmission EPS Contribution**

Adj Net Income (without Gas Transmission)	
Gas Transmission Rate Base	1,847
Equity Ratio	52%
Allowed ROE	10.50%
Net Income Contribution	**101**
EPS Impact	**0.25**
% 2013 EPS	**-6.6%**

Source: Company data, Credit Suisse estimates

Manageable even if ROEs are cut

Slashing Transmission ROEs to an unrealistically low 8.5% costs $0.05

If we then assume the CPUC goes to the extreme and cuts the ROE for the total transmission business rather than just on new capex, even a 200 basis point cut (to an exceptionally low 8.5% allowed ROE) would only cost $0.05 to EPS or just over a 1% reduction in projected total EPS.

Exhibit 8: **Impact to 2013 EPS from 0.5%-2.5% ROE reset**

ROE Reduction	0.5%	1.0%	1.5%	2.0%	2.5%
Adjusted Allowed ROE	10.00%	9.50%	9.00%	8.50%	8.00%
EPS Impact	(0.01)	(0.02)	(0.04)	(0.05)	(0.06)
% '13 EPS	-0.3%	-0.6%	-0.9%	-1.3%	-1.6%

Source: Company data, Credit Suisse estimates

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Fine or Penalty

We think some amount of fine will be levied against PCG for the accident by the CPUC (with interestingly the monies going to the CA general fund rather than to the pipeline system or citizens impacted by the accident). We struggle philosophically with the need for a significant fine against PCG considering the direct efforts by the company to those impacted impacted and the reality that PCG shareholders are already carrying the burden of ~$300 MM of expected costs that will not be recovered through either insurance or rate mechanisms; the impact of the accident will be clearly felt by PCG and recognized by all other pipeline operators in the US if this is the ultimate goal of a fine.

A big penalty push needs to be tempered by the $300 MM of non-recoverable costs already being borne by PCG

Sizing a fine

That said, we hear considerable consensus that a fine will be levied in our conversations both with investors and consultants in California. The question for many relates to the size of a fine and our numbers now assume a steep $75 MM penalty.

In Exhibit 9 we show a range of potential fines from San Bruno above and beyond the money already expected to be spent by PCG. Honestly we think even the left side of this chart is arguably punitive but the goal of our analysis is to better appreciate the value implications for PCG investors in case the CPUC is aggressive in their fines.

A big penalty is hard to see over $0.50 / sh of one-time value with dilution less than $0.05

For reference the top half of Exhibit 9 shows a range of fines and then the impact on a per share basis; the bottom half shows the impact to our 2013 EPS estimate assuming dilution with 100% of fines paid for with new equity.

In this case we still see the EPS dilution is hard to get over 2% on a long-term basis after absorbing the value hit for paying the fine.

Exhibit 9: Impact to 2013 EPS from Fines; Also Assume 100% New Equity Funding

San Bruno Fines ($ MM)	$50	$100	$150	$200	$250	$300
Per Share impact (no new equity)	0.12	0.25	0.37	0.49	0.62	0.74
13 EPS if 100% Equity Funded	3.73	3.72	3.71	3.70	3.69	3.68
EPS Dilution to '13 if Equity Funded	(0.01)	(0.02)	(0.03)	(0.04)	(0.05)	(0.06)
% '13 EPS	-0.3%	-0.5%	-0.8%	-1.1%	-1.4%	-1.6%

Source: Company data, Credit Suisse estimates

More Capex?

PCG might be required to invest even greater capital into the gas transmission business. We have a hard time gauging the amount of spending but using the current capex plans of ~$125 MM per year we show the EPS impact to PCG even if they had to spend comparable amounts of capex that did not earn a return; again the impact would be hard to exceed $0.05 in 2013 even if double the capex were invested for the next 3 years without a return.

Exhibit 10: Impact to 2011-13 Earnings From Varying Unrecoverable Capex

	2011	2012	2013
Gas Transmission Capex	113	125	125
ROE	52%	52%	52%
Equity Ratio	11.35%	11.35%	10.50%
Net Income	6.6	7.4	6.8
EPS	**0.02**	**0.02**	**0.02**
Cumulative EPS	**0.02**	**0.04**	**0.05**
% of Annual EPS	-0.5%	-1.0%	-1.4%

Source: Company data, Credit Suisse estimates

Diablo Canyon Risk – Unrealistic

We continue to have regular conversations about the likely implications on the US nuclear industry as a result of the damage at Fukushima Daiichi with investors looking to assess parallels to US utilities. And, not surprising, the most commonly referenced plants generally includes PCG's Diablo Canyon nuclear facility given basic similarities to Japan in that Diablo is also located on the Pacific coast and California is more prone to large earthquakes historically than other US geographies.

We do not see real risk to Diablo Canyon operationally or economically to PCG

We appreciate these worries and think all US plants will go through another wave of risk assessment / re-evaluation with some changes inevitably coming to make the plants even safer as we have experienced after past safety concerns created by Three Mile Island, Chernobyl and September 11th. Except for some particularly unique issues around a couple US plants that have significant, long-standing local opposition we think the US nuclear fleet will continue to operate with minor tweaks and modestly higher operating expenses.

Differences vs Japan

We think this issue has been well covered in the market, but looking at Diablo Canyon relative to Fukushima Daiichi we see several fundamental differences between the plans that would make a similar outcome occurring as fairly unrealistic. Specifically:

- Diablo Canyon is located on a cliff 85 feet above sea level and furthermore has a wall around the plant raising the exposure to protect against a storm surge
- Diablo Canyon is designed for a 0.75 ground acceleration (also referred to as G Force) relative to 0.2-0.3 for Fukushima. Experts that we have spoken with focus more on G Force than Richter Scale calculations since the G Force captures ability to absorb localized ground movement which is more likely to inflict damage on a plant.
- Diablo Canyon, like the US fleet broadly, has put considerable resource into multiple redundancies in back-up generation to support pump operations, etc. as well as use of buried fuel tanks which would avoid one of the major problems at Fukushima that arose when above ground fuel tanks for the back-up generation was washed away with the tsunami.

Exhibit 11: **Safety Measures**

	Diablo Canyon	Fukushima Daiichi
G Force Max Impact	0.75	0.2 - 0.3
Richter Scale Max	6 - 6.5	7.5
Back-up Diesel Location	85' Above Ground With Reinforcement	Near Plant

Source: Company data, Credit Suisse estimates

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Worst Case: Impact of Writing-off Diablo Canyon with no Regulatory Relief

In the spirit of pessimistic what-ifs for PCG, we also thought about what would happen if Diablo Canyon was closed and the CPUC decided that PCG should not receive any remuneration for the impaired asset. With a rate base of ~$1.9 BN (under 10% of total rate base), an impairment would represent a $0.26 reduction in ongoing EPS (or 7% of our 2013 EPS estimate).

Exhibit 12: **EPS Impact of Diablo Canyon Unrealistically Impaired without Relief**

Adj Net Income (without Diablo)	
Diablo Rate Base	1,900
Equity Ratio	52%
Allowed ROE	10.50%
Net Income Contribution	**104**
EPS Impact	**0.26**
% 2013 EPS	**-6.8%**

Source: Company data, Credit Suisse estimates

We struggle to imagine plant closure – esp without cost recovery – for a number of reasons

We have an exceptionally hard time believing a non-recoverable impairment is any realistic outcome for PCG for a variety of reasons:

- As discussed above, we do not ultimately see real parallels to the Japanese plants that would warrant closure.
- PCG recently invested over $1 BN in the plant for steam generator and vessel head replacements; these units are in good shape.
- Diablo Canyon supplies over 20% of PG&E's electricity demand; closure would be expensive to customers and unrealistic to accomplish in a timely fashion given the need for new generation construction to replace the plant if it were deemed no longer correct for CA customers.
- Last, and probably most important, even if the CPUC decided the plant was too great a risk relative to the significant benefits provided to CA customers, we think a decision to deny PCG recovery of previously invested capital would be a significant break from the regulatory construct that honors the utility's ability to earn a fair return on capital prudently invested (which Diablo Canyon meets). Failure to provide relief would force any prudent management team to significantly reconsider future capital investment in California if needed and performing assets are summarily denied fair treatment.

We think the nuclear worries that have surrounded PCG will fade over time without any appreciable financial impact to the utility.

CPUC Changes / Exposure

The California Public Utility Commission (CPUC) has seen considerable change in 2011 with Governor Brown coming to office, replacing / filling three slots on the commission. And, not surprisingly or unwarranted, the changes have created considerable speculation in the investment community around potential changes in strategic direction at the CPUC after years of effective regulatory treatment that has improved the financial health and rate of needed investment by CA utilities in the wake of the California Energy crisis in the early 2000s.

Market assuming an ROE cut in 2013 already

Admittedly no one can ever predict how a new group of regulators will behave or what initiatives will be of greatest priority. To some degree we have already incorporated risk into our expectations for PCG with the assumption that allowed ROEs will be cut to 10.5% from the current 11.35% in 2013 when the current cost of capital mechanism expires. When we downgraded PCG in fall 2010 we saw this as a valid risk that investors and the sell-side were not incorporating; based on conversations and downward movement in 2013 estimates we think the market has now absorbed this outcome in expectations.

Structurally constructive environment

Setting aside allowed ROEs, we think the CA regulatory design is built to provide innovative and fair mechanisms that offer opportunity for the utilities to earn a fair ROE while meeting a number of key state priorities around energy policy.

- CA uses a 3-year forward looking rate design including decoupling and specific cost trackers that allow the utilities to earn a timely, visible return on investment.
- CA just raised its renewable energy target to 33% of all electricity by 2020; to meet this goal will require significant investment in both renewables as well as the infrastructure necessary to deliver renewables to customers. Healthy utilities are vital to this goal.

We think all regulation is an evolutionary exercise but the combination of well established regulatory mechanisms and a strong state view on where policy is heading will necessitate a sustained constructive regulatory environment for CA utilities.

Exhibit 13: **Current CA Commission**

	Michael Peevy*	Tim Simon	Mike Florio	Catherine Sandoval	Mark Ferron
Term Expiration	Jan-15	Jan-13	Jan-17	Jan-17	**
Political Party	D	R	D	D	D

*Commission President

** Appointed March 22, 2011, not yet confirmed

Source: CPUC website

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Exhibit 14: PCG Income Statement

Income Statement	2010A	Q111E	Q211E	Q311E	Q411E	2011E	2012E	2013E	2014E	2015E
Gross Margin	**8,652**	**2,157**	**2,222**	**2,321**	**2,354**	**9,054**	**9,523**	**9,236**	**9,508**	**9,788**
Operation & Maintenance Expense	4,067	1,011	933	983	1,235	4,163	4,246	4,331	4,418	4,506
Public Purposed Programs	0	0	0	0	0	0				
O&M Related to Pension Funding	176	0	0	0	0	0	0	0	0	0
Taxes Other Than Income Taxes	0	0	0	0	0	0	0	0	0	0
Other Income	169	33	33	29	29	124	20	20	20	20
Energy Efficiency Incentives	21	0	0	0	21	21	21	21	21	21
EBITDA	**4,598**	**1,179**	**1,322**	**1,367**	**1,168**	**5,035**	**5,318**	**4,945**	**5,130**	**5,322**
Depreciation & Amortization	1,511	389	390	392	393	1,564	1,614	1,653	1,689	1,724
Securitization Amortization	386	99	99	104	102	404	423	71	71	71
Pension Funding Amortization	8	2	2	2	2	8	8	8	8	8
Operating Income	**2,693**	**689**	**831**	**870**	**670**	**3,060**	**3,273**	**3,214**	**3,363**	**3,520**
Net Interest Expense	644	174	179	183	187	723	766	804	846	886
		6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Weighted Avg. Cost of Debt	5.6%	5.5%	5.4%	5.5%	5.5%	5.5%	5.6%	5.8%	5.8%	5.9%
Securitization Interest Expense	31	5	4	3	2	13	4	-	-	-
Earnings Before Taxes	**2,018**	**510**	**649**	**684**	**481**	**2,323**	**2,503**	**2,410**	**2,517**	**2,634**
	(358)									
Income Tax Expense/(Benefit)	672	183	233	246	173	836	901	868	906	948
Effective Tax Rate	33.3%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Net Income	**1,346**	**326**	**415**	**438**	**308**	**1,487**	**1,602**	**1,542**	**1,611**	**1,686**
Preferred Securities	14	3	4	3	4	14	14	14	14	14
Recurring Net Income	**1,332**	**323**	**411**	**435**	**304**	**1,473**	**1,588**	**1,528**	**1,597**	**1,672**
Extraordinary Items										
Reported Net Income	1,332	323	411	435	304	1,473	1,588	1,528	1,597	1,672
Recurring Earnings per Share	**3.41**	**0.82**	**1.04**	**1.10**	**0.76**	**3.73**	**3.92**	**3.74**	**3.90**	**4.07**
Growth	5.2%	3.7%	15.1%	7.8%	8.2%	9.5%	5.2%	-4.6%	4.2%	4.3%
Reported EPS	3.41	0.82	1.04	1.10	0.76	3.73	3.92	3.74	3.90	4.07
Fully Diluted Shares Outstanding	391	393	394	396	398	395	405	409	410	411
9.5% Convertible	9	0	0	0	0	0	0	0	0	0
Stated Diluted Shares Outstanding	382	393	394	396	398	395	405	409	410	411
Share Price	44.49	46.47	46.94	47.41	47.88	47.17	51.71	54.81	58.10	61.59
Common Shares	382	393	394	396	398	395	405	409	410	411
Dividends Per Share	1.82	0.46	0.50	0.50	0.50	1.95	2.10	2.10	2.18	2.28
Growth	8.3%	0.0%	9.5%	9.5%	9.5%	7.1%	7.5%	0.0%	4.2%	4.3%
Dividend Payout Ratio	53%	55%	48%	45%	65%	52%	53%	56%	56%	56%

Source: Company data, Credit Suisse estimates

Exhibit 15: **PCG Cash Flow Statement**

Cash Flow Statement	2010A	Q111E	Q211E	Q311E	Q411E	2011E	2012E	2013E	2014E	2015E
Net Income	1,113	326	415	438	308	1,487	1,602	1,542	1,611	1,686
D&A	1,897	488	489	495	496	1,968	2,037	1,723	1,760	1,794
Other D&A	254	0	0	0	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0	0	0	0	0
Deferred Income Taxes	756	50	50	50	50	200	500	200	0	0
Changes in Working Capital	(6)	0	0	0	0	0	0	0	0	0
Energy Efficiency cash levelization	0	0	0	0	0	0	0	0	0	0
Other	(808)	(85)	(85)	(85)	(160)	(415)	0	0	0	0
Cash Flow From Operations	**3,206**	**779**	**869**	**898**	**693**	**3,239**	**4,138**	**3,466**	**3,371**	**3,480**
Capital Expenditures	(3,802)	(975)	(975)	(975)	(975)	(3,898)	(3,184)	(3,105)	(3,091)	(3,025)
Acquisitions of Assets & Sec.	0	0	0	0	0	0	0	0	0	0
Divestitures of Assets & Sec.	0	0	0	0	0	0	0	0	0	0
Other Investments	(55)	0	0	0	0	0	0	0	0	0
Cash Flow From Investing	**(3,857)**	**(975)**	**(975)**	**(975)**	**(975)**	**(3,898)**	**(3,184)**	**(3,105)**	**(3,091)**	**(3,025)**
Issuance/(Redemption) of Debt	1,248	400	326	302	481	1,509	(83)	566	586	452
Securitization Issuance / (Redemptio	(386)	(101)	(99)	(104)	(102)	(406)	(423)	(71)	(71)	(71)
Issuance/(Rep.) of Pref. Equity	0	0	0	0	0	0	0	0	0	0
Issuance/(Rep.) of Common Equity	303	75	75	75	100	325	400	0	100	100
Common Stock Dividends	(662)	(179)	(196)	(197)	(198)	(770)	(848)	(856)	(895)	(937)
Convert pass thru dividends	(17)	0	0	0	0	0	0	0	0	0
Other Financing	(71)	0	0	0	0	0	0	0	0	0
Cash Flow From Financing	**415**	**195**	**106**	**77**	**281**	**659**	**(954)**	**(361)**	**(280)**	**(455)**
Increase/(Decrease) in Cash	(236)	0	0	0	0	0	0	0	0	0
Cash at Beginning of Period	527	291	291	291	291	291	291	291	291	291
Cash at End of Period	**291**	**291**	**291**	**291**	**291**	**291**	**291**	**291**	**291**	**291**

Source: Company data, Credit Suisse estimates

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Exhibit 16: PCG Balance Sheet

Balance Sheet	2010A	Q111E	Q211E	Q311E	Q411E	2011E	2012E	2013E	2014E	2015E
Cash & Cash Equivalents	291	291	291	291	291	291	291	291	291	291
Restricted Cash	563	563	563	563	563	563	563	563	563	563
Accounts Receivable	3,492	3,492	3,492	3,492	3,492	3,492	3,492	3,492	3,492	3,492
Regulatory Balancing Accts.	599	599	599	599	599	599	599	599	599	599
Inventories	357	357	357	357	357	357	357	357	357	357
Prepaid Expenses and Other	240	240	240	240	240	240	240	240	240	240
Total Current Assets	**5,542**	**5,542**	**5,542**	**5,542**	**5,542**	**5,542**	**5,542**	**5,542**	**5,542**	**5,542**
Gross PP&E	46,289	47,264	48,238	49,213	50,187	50,187	53,371	56,476	59,567	62,592
Less Accum. Depreciation	(14,840)	(15,328)	(15,817)	(16,312)	(16,808)	(16,808)	(18,845)	(20,568)	(22,327)	(24,122)
Total PP&E	**31,449**	**31,936**	**32,421**	**32,900**	**33,379**	**33,379**	**34,527**	**35,909**	**37,240**	**38,471**
Other Noncurrent Assets										
Regulatory Assets	5,846	5,931	6,016	6,101	6,261	6,261	6,261	6,261	6,261	6,261
Nuclear Decommissiong Funds	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009
Other/Restricted Cash	1,179	1,179	1,179	1,179	1,179	1,179	1,179	1,179	1,179	1,179
Total Other Assets	**9,034**	**9,119**	**9,204**	**9,289**	**9,449**	**9,449**	**9,449**	**9,449**	**9,449**	**9,449**
Total Assets	**46,025**	**46,597**	**47,167**	**47,731**	**48,370**	**48,370**	**49,518**	**50,900**	**52,231**	**53,462**
Short Term Debt	1,662	1,662	1,662	1,662	1,662	1,662	1,662	1,662	1,662	1,662
Short Term Securitized Debt	404	404	404	404	404	404	(2)	(72)	(143)	(213)
Accounts Payable	2,509	2,509	2,509	2,509	2,509	2,509	2,509	2,509	2,509	2,509
Accrued Taxes	190	190	190	190	190	190	190	190	190	190
Other	2,420	2,420	2,420	2,420	2,420	2,420	2,420	2,420	2,420	2,420
Totai Current Liabilities	**7,185**	**7,185**	**7,185**	**7,185**	**7,185**	**7,185**	**6,779**	**6,709**	**6,638**	**6,568**
Long Term Debt	10,906	11,306	11,631	11,934	12,415	12,415	12,332	12,898	13,484	13,936
Convertible	0	0	0	0	0	0	0	0	0	0
Long Term Securitized Debt	423	322	223	120	17	17	0	0	0	0
Deferred income taxes	5,547	5,597	5,647	5,697	5,747	5,747	6,247	6,447	6,447	6,447
Regulatory Liabilities	4,525	4,525	4,525	4,525	4,525	4,525	4,525	4,525	4,525	4,525
Other	5,905	5,905	5,905	5,905	5,905	5,905	5,905	5,905	5,905	5,905
Total Long Term Liabilities	**27,306**	**27,655**	**27,932**	**28,181**	**28,610**	**28,610**	**29,009**	**29,775**	**30,361**	**30,813**
Pref. Stock of Subsidiaries	252	252	252	252	252	252	252	252	252	252
Stockholders' Equity										
Common Stock	6,878	6,953	7,028	7,103	7,203	7,203	7,603	7,603	7,703	7,803
Retained Earnings	4,606	4,754	4,972	5,213	5,323	5,323	6,076	6,762	7,479	8,228
Other Comprehensive Income	(202)	(202)	(202)	(202)	(202)	(202)	(202)	(202)	(202)	(202)
Total Stockholders' Equity	**11,282**	**11,505**	**11,798**	**12,114**	**12,324**	**12,324**	**13,477**	**14,163**	**14,980**	**15,829**
Total Liab. & Share. Equity	**46,025**	**46,597**	**47,167**	**47,731**	**48,370**	**48,370**	**49,518**	**50,900**	**52,231**	**53,462**

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 17 Apr 11)
PG&E Corporation (PCG, $44.86, OUTPERFORM, TP $50.00)

Disclosure Appendix

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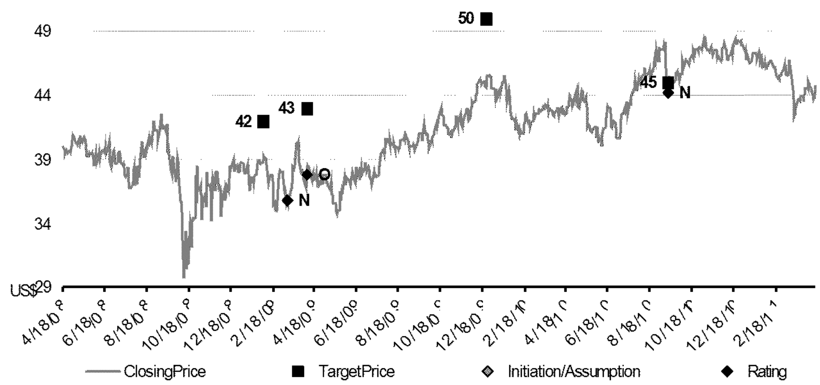
3-Year Price, Target Price and Rating Change History Chart for PCG

PCG Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
2/3/09	39.13	42		
3/10/09	35.84		N	
4/7/09	37.83	43	O	
12/23/09	44.75	50		
9/13/10	44.26	45	N	



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Price Target: (12 months) for (PCG)

Method: We reach our $50 target price on PG&E Corp. using a zero premium to group traditional mulitples - currently we are using discounted 2013 group multiples of 14x Price to Earnings (P/E).

Risks: Risks to our $50 target price on PG&E Corp include: (1) negative regulatory decisions that disallow PCG's planned capital spending, ROE degradation, or non-recoverable O&M (2) unknown liability of San Bruno gas pipe explosion (3) a significant increase in natural gas prices that raises the cost of electricity that is passed through to end use customers in PCG's northern California service territory, (4) Nuclear risk.

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