
From: NAYAK, VINAY [GIR] [mailto:VINAY.NAYAK@ny.gir.email.gs.com] **On Behalf Of** Lapedes, Michael [GIR]
Sent: Friday, April 22, 2011 1:32 AM
Subject: GS Utilities: Leadership changes may improve local sentiment; buy PCG



Leadership changes may improve local sentiment; buy PCG

News

After the close on Thursday, PG&E Corp (PCG, Conviction Buy) announced the retirement of Peter Darbee, the company's Chairman, CEO and President, effective April 30, 2011. The company's Board of Directors announced that its Lead Director, Lee Cox, will serve as interim Chairman and CEO until the Board appoints a new Chairman/CEO. Chris Johns will continue to lead the company's utility subsidiary as President of the Pacific Gas & Electric Company. The company announced a search process already is under way.

Analysis

Mr. Darbee's retirement comes not long after the departure of the company's COO, Jack Keenan, announced several weeks ago as part of a broader company realignment whereby PCG will create separate leadership roles for its electric and gas functions.

Per our discussions with customer groups and intervenors in California, sentiment turned highly negative towards PCG over the last 12-18 months, given (1) the San Bruno pipeline explosion, (2) consumer complaints regarding PCG's implementation of smart-meters, and (3) negative public reaction to Proposition 16, a failed ballot initiative proposed by PCG.

Implications

We reiterate our Buy rating on PCG. While modest near-term uncertainty may exist regarding the timeline for replacing Mr. Darbee, given the negative sentiment in California towards PCG, a change in executive leadership may serve as a potential positive catalyst for the shares.

We expect the California state utility regulator will likely approve the company's rate case – where an "all-party" settlement proposal exists – in the coming 1-2 months, removing a regulatory overhang. We also see upside to our 2013+ EPS estimates if a pipeline integrity program – to prevent future pipeline incidents – leads to incremental rate base growth. Our estimates and price target are unchanged.

INVESTMENT LIST MEMBERSHIP: Americas Buy List, Americas Conviction Buy List
COVERAGE VIEW: CAUTIOUS

Michael J. Lapedes

Goldman Sachs & Co.
212-357-6307

michael.lapedes@gs.com

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