From: Cherry, Brian K
Sent: 6/24/2011 4:38:40 PM
To: tas@cpuc.ca.gov (tas@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Analyst Reports: RBC Initiation and Deutsche on Regulated Utilities

FYI

From: Lam, Lisa [mailto:LxLy@pge.com]
Sent: Friday, June 24, 2011 4:35 PM
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Cc: Investor Relations (list)
Subject: Analyst Reports: RBC Initiation and Deutsche on Regulated Utilities

This week, Shelby Tucker at RBC Capital Markets initiated coverage of PCG with an "Outperform" rating and Jonathan Arnold at Deutsche Bank issued a report that provides perspective on valuations in the regulated utility sector.

Tucker, who recently replaced Lasan Johong as the lead analyst at RBC Capital Markets, notes that PCG's stock price represents an attractive entry point for a stock with a reasonable rate base growth profile made up of electric distribution investments and capital spend associated with the increased California renewable standards.

Tucker's earnings per share estimates for 2011, 2012 and 2013 are $3.53, $3.71, and $3.74 respectively, assuming that most costs associated San Bruno will be recoverable in 2012 and anticipating a 50 basis point reduction in the allowed return on equity (ROE) in 2013. The report identifies that the biggest risk to their PCG estimates is the combination of non-recoverable costs associated with the San Bruno accident and the CPUC setting a lower 2013 ROE. Both of these risks are associated with the CPUC that Tucker describes thus: "The new commissioners (which could form a majority block) are regulatory unknowns. While we would be very surprised if decisions were reached that threatened the utility's financial outlook, we only need to go back to the California crisis to be reminded that such decisions have been reached in the past by prior commissioners."

Jonathan Arnold's report looks more broadly at the utility sector, with the S&P Utilities currently trading at a ~9% premium compared to the S&P 500. Regulated utilities are currently trading about 6% higher than the utility sector as a whole, or at a premium of about 16% compared to the broader market. The report reviews the rationale for regulated utilities to trade at a premium to the market when slow growth is expected in other sectors combined with low interest rates. Even so, the report concludes that the regulated utilities will struggle to sustain current valuation levels when the market regains a growth footing and treasury yields move higher.

In trading this week, PCG closed down 0.9% to $41.81 versus the average comparator company which was also down 0.9%. The Dow Jones Utility Average was down 0.7% and the S&P 500 was down 0.2% for the week.

The full reports are attached for your reference.

Lisa

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