

Independent panel releases report on San Bruno and PCG

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Independent review panel releases recommendations

An independent review panel appointed by the California Public Utilities Commission (CPUC) released recommendations on pipeline safety, PCG practices and the CPUC oversight. The report was critical of gas operations at PCG, citing a lack of oversight of the safety of the gas transmission system and lack of standalone gas operations. For the PUC, the panel recommended the PUC move to a performance based regulatory oversight of utility pipeline safety and increased staff, including consultants to provide technical oversight.

Recommendations to PCG both operational and managerial

The panel's recommendations to PCG include 1) undertaking a thorough review of integrity management; 2) commission an independent audit of the gas transmission and distribution functions; 3) establish multi-year program to collect and correct operating data for the gas transmission system; and 4) ensure gas transmission management have thorough gas transmission operations knowledge. The panel also was critical of PCG's proposed Pipeline 2020 program saying that it needed to be better reasoned.

CPUC passes OIR pipeline plan

CPUC passed the ALJ proposed decision for the OIR on natural gas safety. The decision orders PCG and SRE to file a comprehensive plan to cost effectively replace or test all gas pipeline that have not been pressure tested. The plan must include a prioritized schedule, cost estimates and proposed ratemaking. PCG only, must include a proposed cost sharing mechanism between ratepayers and shareholders. For more information please see "[ALJ on nat gas safety plan.](#)"

Believe our estimates reflect a reasonable worst case

We believe our current estimates (2012-2013: \$3.60/sh area) reflect a reasonable worst case scenario for PCG for the San Bruno disaster. We assume \$450M of San Bruno costs each year in 2011 and 2012. We assume \$400M of equity in 2011 and \$700M of equity in 2012 to fund capex and San Bruno costs. We currently do not assume any upside from potential recovery of pipeline capex spend related to San Bruno. That said, we continue to believe San Bruno and its ramifications will likely get worse before it gets better.

Next steps; CEO search outstanding

A pipeline testing implementation plan is due within 60 days for both PCG and SRE. The NTSB investigation is expected to issue a final report this Fall. The Order Instituting an Investigation (OII) will likely result in fines by year-end or early 2012. The CEO search remains ongoing.

Stock Data

Price	US\$41.96
Price Objective	US\$48.00
Date Established	12-Apr-2011
Investment Opinion	A-1-7
Volatility Risk	LOW
BofAML Ticker / Exchange	PCG / NYS
Bloomberg / Reuters	PCG US / PCG.N

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Refer to important disclosures on page 3 to 6. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2. Link to Definitions on page 2. 11058764

Price objective basis & risk

PG&E Corporation (PCG)

Our \$48 price objective assumes a P/E of 13.25x 2013E earnings. This is a modest premium to the industry average as we expect likely upside to our estimates. 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

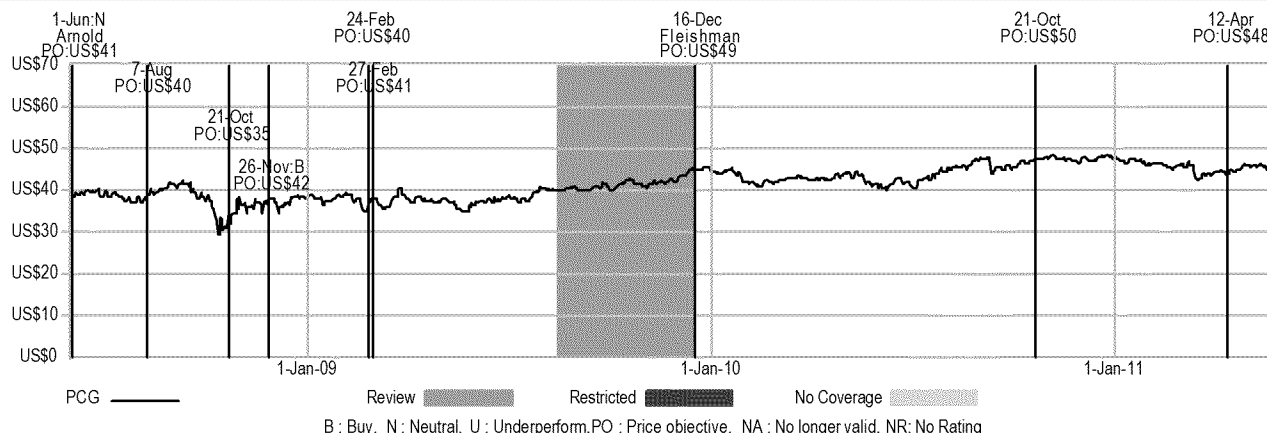
Click [here](#) for definitions of commonly used terms.

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Important Disclosures

PCG Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR : No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [May 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*
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Underperform	N/A	≥ 20%

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