

From: Cherry, Brian K  
Sent: 7/6/2011 4:30:05 PM  
To: mpl@cpuc.ca.gov (mpl@cpuc.ca.gov)  
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Subject: Fw: Analyst reports - ISI and Bernstein

**From:** Togneri, Gabriel [mailto:Gabriel.Togneri@pge-corp.com]  
**Sent:** Wednesday, July 06, 2011 1:28 PM  
**To:** All PGE Officers Directors  
**Cc:** Investor Relations (list)  
**Subject:** Analyst reports - ISI and Bernstein

In the last 24 hours, two analyst reports have been issued. The first one by Greg Gordon of ISI is an "initiation report" in that ISI is initiating coverage of the utility sector, having hired long-time sell-side analyst Greg away from Morgan Stanley a few months ago. The second report by Hugh Wynne of Bernstein covers two recent filings that the company submitted to the CPUC.

The ISI report rates PCG a "Buy" with a \$47.50 price target, based on the fact that the stock has significantly underperformed other defensive utilities and Greg believes the discount at which PCG trades relative to the other companies is too large – "The stock appears to discount almost \$1.5 billion of value destruction in excess of our estimate. We think that is extreme." That said, his forecast expects flat EPS through 2013 based on a number of factors, including continued unrecovered expenses through 2012 in gas-related matters and a lower authorized ROE and equity ratio starting in 2013.

The Bernstein report covers the detailed information that the company filed in two separate submissions to the CPUC last week, dealing with (1) the company's system-wide verification of class designations for gas transmission pipelines and (2) the results of an internal investigation of underground electric enclosure inspections. The Bernstein report characterizes this information as revealing "new shortcomings in its (the Company's) record keeping and inspection practices related to its natural gas transmission pipeline network as well as its electric distribution system." Bernstein writes that the disclosure of falsified inspection reports now extends PG&E's safety

problems outside the realm of its relatively smaller natural gas transmission and storage operations. Nonetheless, Bernstein continues to believe that their estimate of total penalty exposure is large enough to accommodate this new information and they continue to rate PCG “Outperform” with a \$49 price target.

Gabe

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