

PCG files \$2.2B pipeline safety enhancement plan

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PCG files \$2.2B Phase 1 plan, shareholder portion \$535M

On August 26, 2011, PCG filed a two-phase pipeline safety enhancement plan as part of the OIR post the San Bruno explosion. Phase 1 is from 2011-2014 which focuses on older pipelines (pre-1970s) in highly populated areas, totaling approximately 1,405 miles of pipe. Total expenditures for Phase 1 are \$1.433B in capital expenditures and \$750.5M in O&M costs. PCG is proposing that shareholders cover all 2010 and 2011 pipeline-related costs and costs for future work associated with existing regulations, currently estimated at \$535M. We see this as an initial negotiating position put forth by PCG and believe the CPUC could require shareholders to bear a larger portion of the costs.

Details of the pipeline plan, rate base growth

PCG proposes replacing 186 miles of pipe, strength testing on 738 miles, in-line inspection on 234 miles, and retrofit 199 miles. The second phase is primarily for rural areas. Total capital expenditures are expected at \$1.43B. This capex spend is different from traditional rate base spend as PCG is proposing to only recover capital costs in rates after specific projects have been placed in operation. Thus, the rate base does not reflect the total capex spend until post 2014. Given the current proposal, we see earnings accretion of about \$0.04/sh (based on a lower 48% equity ratio, 10.85% ROE). The shareholder cost is \$535M or \$0.85/sh.

Shareholder impact less than we currently estimate

PCG is proposing shareholders cover all 2010 and 2011 pipeline related costs and costs for future work for existing regulations. In aggregate this is about \$535M over the 2011-2014 timeframe. This does not include any potential fines or penalties. We currently estimate \$900M of unrecoverable expenses for San Bruno (~\$1.40/sh) over the timeframe. We do not include any rate base growth for pipeline capex spend in our estimates. We note the \$750M is for pipeline enhancement only and does include post 1970 expense. Total O&M including pipeline integrity plan expense (including customer portion), post 1970 expense and additional costs are estimates to be \$1.06B. Thus shareholders are paying for \$221M of the \$750M pipeline plan expense. The remaining \$314M (to get to the total of \$535M) is for post 1970 pipeline expense and additional gas pipeline-related expenses.

Recovery of costs will be key

The key things to watch are what portion of this money is funded by shareholders versus ratepayers. Another issue the CPUC has raised is that it may potentially lower the ROE just on the pipeline spend.

Next Steps; NTSB investigation conclusions 8/30

A pre-hearing conference will be held post the NTSB. On 10/17 intervenor testimony is due, 10/28 rebuttal testimony and hearings will be held from 11/7-11/10 and on 11/14.

Stock Data

Price	US\$41.09
Price Objective	US\$47.00
Date Established	4-Aug-2011
Investment Opinion	B-1-7
Volatility Risk	MEDIUM
BofAML Ticker / Exchange	PCG / NYS
Bloomberg / Reuters	PCG US / PCG.N

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Refer to important disclosures on page 3 to 5. Analyst Certification on Page 2. Price Objective Basis/Risk on page 2. Link to Definitions on page 2. 11083882

Price objective basis & risk

PG&E Corporation (PCG)

Our \$47 price objective assumes a P/E of 13x 2013E earnings. This is in-line to the industry average of 13x. 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

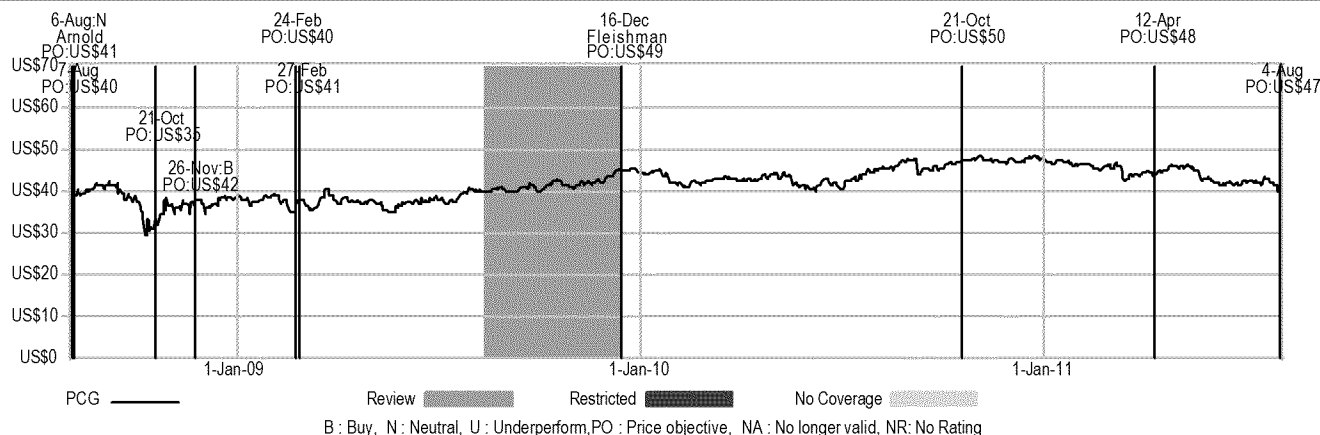
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PCG Price Chart



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Investment Rating Distribution: Utilities Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	42.22%	Buy	35	51.47%
Neutral	48	26.67%	Neutral	30	69.77%
Sell	56	31.11%	Sell	20	40.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2024	53.94%	Buy	935	50.68%
Neutral	944	25.16%	Neutral	442	51.64%
Sell	784	20.90%	Sell	273	37.24%

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