From: Cherry, Brian K
Sent: 11/4/2011 4:49:57 PM
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Cc:
Bcc:
Subject: FW: Analyst Reports - Q3 2011 Earnings

FYI

From: Lam, Lisa
Sent: Friday, November 04, 2011 2:48 PM
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Cc: Investor Relations (list)
Subject: Analyst Reports - Q3 2011 Earnings

Yesterday's quarterly earnings release and conference call provided what analysts viewed as a lower than expected 2012 outlook. This resulted from the company unveiling its plan to spend additional amounts to improve operational performance and the associated reduction in guidance, shifting analysts' focus to the company's earning power in 2014. Following the call, 12 of the 19 analysts that cover PCG issued reports. The two reports attached are from Bank of America-Merrill Lynch and Deutsche Bank.

Major themes in the analysts' reports focus on: (1) the company's plan to spend an additional $200 million in operational expenses for 2012 and a similar amount in 2013 to accelerate work previously planned and new work identified through a review of operations; (2) expectations of greater clarity in ongoing regulatory proceedings in 2012; and (3) the positive reaction to Tony Earley's first earnings call with PCG and the direction he articulated for the company moving forward.

Analysts have accepted the need to focus on the company's operations through incremental spending as reflected by Steve Fleishman of BofA-Merrill Lynch - "management is taking the right steps to fix the company." The expectation is that the company will return to more normalized earnings by 2014. Jonathan Arnold of Deutsche Bank notes that PCG "offers a path to higher value for the patient investor."

Clarity around pipeline-related regulatory proceedings is anticipated later in 2012. In the meantime, the BofA-ML and Deutsche reports both assume a $500 million fine as an outcome of the CPUC's recordkeeping investigation and incorporate it into their estimates. In addition, analysts estimate reductions to PCG's authorized rate of return and equity ratio in the 2013 Cost of Capital proceeding. BofA-ML estimates the equity ratio will be cut to 50% from 52% and the authorized ROE is reduced to 10.5% from 11.35% while Deutsche Bank assumes an equity ratio of 50% and authorized ROE of 10.35%.

In the first earnings call since Tony Earley's appointment as Chairman and CEO, analysts viewed his onboarding as a positive. Arnold noted that Earley "came across as both engaged and highly focused at driving towards tangible improvements while recognizing that this is unlikely to be a quick process in terms of regaining stakeholder trust."

In trading yesterday, PCG closed down 3.5% compared to the average company in the comparator group which finished up 1.5%. The S&P 500 closed up 1.9% and the Dow Jones Industrials were up 1.8%.

The full reports are attached for your reference.

Lisa

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