Deutsche Bank

3 November 2011

PG&E Corp

Reuters: **PCG.N** Bloomberg: **PCG UN** Exchange: **NYS** Ticker: **PCG**

Grasping the nettle

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Looking to 2014 earnings power; new CEO focused on operations

PCG provided disappointing 2012 guidance, driven lower by non-recurring system improvement work, but new CEO Tony Earley directly addressed operational concerns and laid out a clear (albeit expensive) improvement plan. He also indicated his commitment to earning the utility's authorized return in 2014. We see '14 earnings power in the $3.50 range, implying PCG is trading at a steep discount to large-cap regulated peers. While it may take longer to reach clarity, we believe PCG offers a path to higher value for the patient investor.

PCG reported solid Q3 results, but outlook overshadowed the quarter

PCG reported 3Q11 operating EPS of $1.08 above our $1.03E and $1.06 consensus. Versus our estimate, rate base earnings growth (+$0.03) and other miscellaneous items (+$0.02) were better than expected. PCG reaffirmed 2011 guidance of $3.45-$3.60 and issued new 2012 guidance of $3.10-$3.30. 2012 guidance was below our estimate of $3.65 and consensus of $3.67, which we attribute to two main drivers: an additional $200M of unrecoverable O&M to accelerate system improvements and higher equity needs.

Raising 2011; lowering 2012 and 2013

We are raising our 2011 EPS estimate to $3.50 from $3.45, reflecting the strong quarter (PCG was able to offset the impact of the Rancho Cordova charge that caused us to lower our estimate before the quarter). We are lowering our 2012 estimate to $3.20 from $3.65 and our 2013 estimate to $3.05 from $3.50 based on the extra $200M/yr of system improvement O&M (for 2012 and 2013 only) and higher equity expectations. We also assume, in addition to PCG's guidance, that the CPUC fines PCG $500M for San Bruno, which increases our equity needs for 2012 above PCG's $600M estimate. Despite these reduced expectations for 2012 and 2013, we see earnings power of $3.50 in 2014, assuming modest rate base growth and a ~10% earned ROE on rate base plus CWIP.

Lowering PT to $43 from $44

We are lowering our price target for PCG to $43 based on a ~12x P/E multiple on our 2014 earnings power estimate of $3.50. Downside risks include a larger-than-projected CPUC fine, inability to execute on current capital and expense plan, and major changes to PCG's pipeline safety enhancement plan (PSEP).

Forecasts and ratios

Year End Dec 31	2010A	2011E	2012E
1Q EPS[1]	0.79	**0.58A**	0.51
2Q EPS	0.91	**1.02A**	0.98
3Q EPS	1.02	**1.08A**	1.04
4Q EPS	0.70	**0.83**	0.75
FY EPS (USD)	3.42	**3.50**	3.20
OLD FY EPS (USD)	3.42	**3.45**	3.65
% Change	0.0%	**1.5%**	-12.5%
P/E (x)	13.0	**11.7**	12.8

Source: Deutsche Bank estimates, company data

[1] Includes the impact of FAS123R requiring the expensing of stock options.

Forecast Change

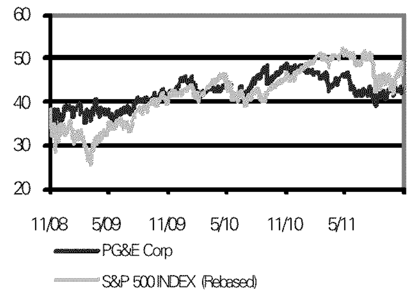
Buy

Price at 3 Nov 2011 (USD)	**40.86**
Price target	**43.00**
52-week range	**48.58 - 39.21**

Key changes

Price target	44.00 to 43.00 ↓	**-2.3%**
EPS (USD)	3.45 to 3.50 ↑	**1.5%**

Price/price relative

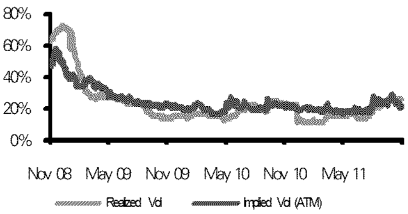


Performance (%)	1m	3m	12m
Absolute	*0.1*	*5.3*	*-11.9*
S&P 500 INDEX	*9.4*	*-1.3*	*3.7*

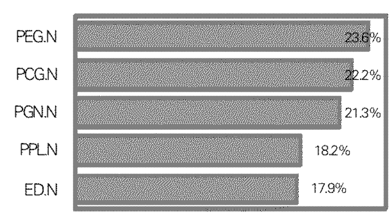
Stock & option liquidity data

Market cap (USDm)	16,323.1
Shares outstanding (m)	399.5
Free float (%)	100
Volume (3 Nov 2011)	799,043
Option volume (und. shrs., 1M avg.)	11,517
Short interest (m)	–
Short interest (%)	–
Institutional ownership (%)	–
DPS (USD)	1.82

Implied & Realized Volatility (3M)



Implied Volatility (3M, ATM) vs. Peers



*Weighted-avg. of index components
Data as of 02-Nov-11

Deutsche Bank Securities Inc.

Model updated:03 November 2011

Running the numbers

North America

United States

Utilities and Power

PG&E Corp

Reuters: PCG.N Bloomberg: PCG UN

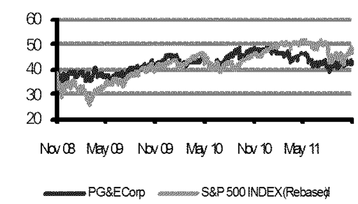
Buy

Price (3 Nov 11)	USD 40.86
Target price	USD 43.00
52-week Range	USD 39.21 - 48.58
Market Cap (m)	USDm 16,323 EURm 11,878

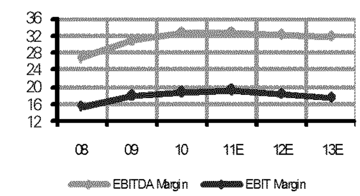
Company Profile

PG&E Corporation is a holding company that operates primarily through its regulated electric and gas utility subsidiary, Pacific Gas and Electric. Pacific Gas and Electric operates in northern and central California and serves 5.1M electric distribution customers and 4.3M natural gas distribution customers. The utility also owns operates electric and gas transmission lines, as well as electric generation and natural gas storage facilities. The utility is regulated by the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

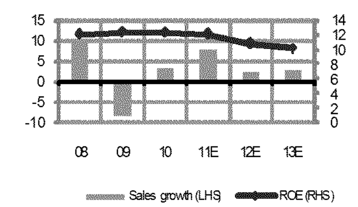
Price Performance



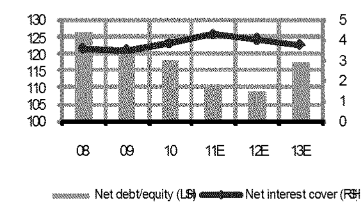
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2008	2009	2010	2011E	2012E	2013E
Financial Summary						
DB EPS (USD)	2.95	3.21	3.42	3.50	3.20	3.05
Reported EPS (USD)	2.95	3.24	3.40	3.50	3.20	3.05
DPS (USD)	1.56	1.68	1.82	1.82	1.82	1.92
BVPS (USD)	26.27	28.08	29.53	30.02	30.37	30.44
Valuation Metrics						
Price/Sales (x)	0.9	1.1	1.2	1.1	1.1	1.1
P/E (DB) (x)	13.1	12.3	13.0	11.7	12.8	13.4
P/E (Reported) (x)	13.2	12.2	13.1	11.7	12.8	13.4
P/BV (x)	1.5	1.6	1.6	1.4	1.3	1.3
FCF yield (%)	nm	nm	nm	0.5	nm	nm
Dividend yield (%)	4.0	4.3	4.1	4.5	4.5	4.7
EV/Sales	1.6	1.9	2.0	1.9	1.9	1.9
EV/EBITDA	6.1	6.1	6.3	5.7	5.9	6.0
EV/EBIT	10.6	10.6	10.9	9.6	10.3	10.9
Income Statement (USDm)						
Sales	14,628	13,371	13,841	14,940	15,333	15,796
EBITDA	3,912	4,120	4,496	4,890	4,916	5,005
EBIT	2,261	2,368	2,591	2,885	2,798	2,771
Pre-tax profit	1,623	1,763	2,012	2,218	2,116	2,040
Net income	**1,081**	**1,223**	**1,331**	**1,406**	**1,340**	**1,291**
Cash Flow (USDm)						
Cash flow from operations	**2,749**	**3,039**	**3,206**	**4,282**	**4,267**	**4,254**
Net Capex	-3,628	-3,958	-3,802	-4,194	-4,834	-4,471
Free cash flow	**-879**	**-919**	**-596**	**88**	**-567**	**-217**
Equity raised/(bought back)	225	219	303	500	760	-350
Dividends paid	-546	-590	-662	-741	-773	-811
Net inc/(dec) in borrowings	1,133	993	862	-4	502	1,300
Other investing/financing cash flows	-59	605	-143	183	100	100
Net cash flow	**-126**	**308**	**-236**	**25**	**22**	**22**
Change in working capital	*-840*	*-814*	*-400*	*0*	*0*	*0*
Balance Sheet (USDm)						
Cash and cash equivalents	219	527	291	316	339	360
Property, plant & equipment	26,261	28,892	31,449	33,392	35,862	37,853
Goodwill	0	0	0	0	0	0
Other assets	14,380	13,526	14,285	14,300	14,315	14,330
Total assets	**40,860**	**42,945**	**46,025**	**48,008**	**50,516**	**52,543**
Debt	12,043	13,021	13,647	13,643	14,145	15,445
Other liabilities	19,440	19,591	21,096	22,372	23,704	24,287
Total liabilities	**31,483**	**32,612**	**34,743**	**36,015**	**37,849**	**39,732**
Total shareholders' equity	**9,377**	**10,333**	**11,282**	**11,994**	**12,667**	**12,811**
Net debt	*11,824*	*12,494*	*13,356*	*13,327*	*13,806*	*15,085*
Key Company Metrics						
Sales growth (%)	10.5	-8.6	3.5	7.9	2.6	3.0
DB EPS growth (%)	6.1	8.8	6.5	2.4	-8.7	-4.5
Payout ratio (%)	51.5	50.6	52.2	51.7	56.7	62.6
EBITDA Margin (%)	26.7	30.8	32.5	32.7	32.1	31.7
EBIT Margin (%)	15.5	17.7	18.7	19.3	18.2	17.5
ROE (%)	12.1	12.4	12.3	12.1	10.9	10.1
Net debt/equity (%)	126.1	120.9	118.4	111.1	109.0	117.8
Net interest cover (x)	3.6	3.5	3.8	4.3	4.1	3.8
DuPont Analysis						
EBIT margin (%)	15.5	17.7	18.7	19.3	18.2	17.5
x Asset turnover (x)	0.4	0.3	0.3	0.3	0.3	0.3
x Financial cost ratio (x)	0.7	0.7	0.7	0.8	0.8	0.7
x Tax and other effects (x)	0.7	0.7	0.7	0.6	0.6	0.6
= ROA (post tax) (%)	**2.8**	**2.9**	**3.0**	**3.0**	**2.7**	**2.5**
x Financial leverage (x)	4.3	4.3	4.1	4.0	4.0	4.0
= ROE (%)	**12.1**	**12.4**	**12.3**	**12.1**	**10.9**	**10.1**
annual growth (%)	*-1.9*	*2.9*	*-0.8*	*-1.9*	*-10.0*	*-6.7*
x NTA/share (avg) (x)	24.5	26.1	27.6	29.0	29.4	30.1
= Reported EPS	**2.95**	**3.24**	**3.40**	**3.50**	**3.20**	**3.05**
annual growth (%)	*6.1*	*10.0*	*4.7*	*3.1*	*-8.7*	*-4.5*

Source: Company data, Deutsche Bank estimates

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Operational focus: near-term EPS hit, long-term gain?

PCG reported solid Q3 earnings of $1.08 versus our $1.03 estimate and $1.06 consensus. Investor focus, however, was on disappointing 2012 guidance and indications of a weaker-than-expected 2013. This was new CEO Tony Earley's first call with the company, and we believe he clearly and definitively laid out a plan to improve operations and subsequently rebuild relationships with key stakeholders (regulators, ratepayers, legislators, and the community). For anyone struggling to translate our title, it's a common British expression meaning "tackling a difficult problem boldly." The key driver of the weak outlook for 2012 and 2013 was a 2-year, $200M/yr system improvement project, which accelerates some already-planned work and adds new projects to further improve operations. Despite expecting two years of weaker-than-expected earnings, Earley indicated that PCG is committed to earning the utility's authorized return in 2014. Thus, our focus for PCG's valuation and outlook is now on 2014 earnings power, which we estimate at ~$3.50. We believe PCG is working toward improving its relationships with stakeholders by focusing on operations at the expense of near-term earnings. Ultimately, we believe it is positive that PCG has a new CEO in place to drive a change in culture and past operational practices, which we believe stakeholders have been pushing for since last year's San Bruno explosion. Earley's experience with difficult service territories (Detroit) and building strong community relationships should be particularly helpful at PCG, and we felt he 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.

On valuation, we note that PCG is currently trading at an 11% discount to regulated peers on our 2014 earnings power estimate, and a 19% discount to larger-cap regulated peers. Our $43 target implies a multiple nearly one turn below the current regulated average and 15% below the current large-cap regulated multiple. While we would not argue that PCG should trade in line with peers near term, we would expect the discount to narrow as PCG begins to implement its new operational excellence plan and various ongoing regulatory proceedings (which we discuss later) are wrapped up over the next year. Ultimately, once the various uncertainties are resolved we see no reason why the utility could not regain the premium valuation it has merited at times in the past. For sure, general regulatory uncertainty in California is also a factor, but we would note that our earnings power already factors in a lower ROE and lower equity in the capital structure. With the denominator already discounted we believe it would be double-counting to also argue for a steep discount in the numerator.

Revisiting 2012 and 2013; looking ahead to 2014

We are lowering our 2012 and 2013 EPS estimates by $0.45 to $3.20 and $3.05, respectively. Our 2012 estimate is at the midpoint of PCG's new guidance and reflects a rate base forecast in line with that provided by PCG ($24.5B), CWIP of $1.6B, and ~$0.35 of unrecoverable costs (the $200M/yr system improvement spending, weaker gas park-and-loan revenues, and higher other litigation costs). We believe that PCG's guidance contains some "cushion" (including the lower gas revenues and higher litigation costs and PCG's ability to improve other efficiencies to offset some of the system improvement costs) to give the company and investors more certainty that actual results will fall in the range even if certain assumptions end up being too aggressive (such as the pipeline plan being approved in full). In 2013, we assume capex of ~$4.5B based on ~$4B from already-approved cases and an additional $400M-$500M for the Pipeline Safety Enhancement Plan (PSEP). We continue to assume that the California Public Utilities Commission (CPUC) lowers PCG's authorized ROE by 100bps to 10.35% and its equity ratio to 50% from 52% in the 2013 cost of capital reset case (to be filed in April). We assume the unrecoverable costs expected in 2012 continue into 2013.

For 2014, we assume modest (~4%) rate base growth to $27.8B, although we note that given PCG's needed gas system spending and other operational improvements we expect them to request in the next General Rate Case (GRC) could keep spending at a much higher level. We then assume that PCG earns on half of its CWIP balance and still experiences ~$0.06 of lower gas revenues and higher litigation costs. Based on these drivers, we estimate 2014 earnings power in the ~$3.50 range. Figure 1 shows our EPS outlook, rate base, earned and allowed ROE assumptions for 2012-2014.

Figure 1: PCG EPS Estimates

	2012	2013	2014
Rate Base	24.5	26.7	27.8
CWIP	1.6	1.6	1.5
Authorized CPUC ROE	11.35%	10.35%	10.35%
Earned ROE	9.9%	9.1%	10.0%
Equity %	52%	50%	50%
Earnings	1,341	1,290	1,467
Share Count	419	423	419
EPS	3.20	3.05	3.50

Source: Deutsche Bank

Expecting sizable equity needs in 2012

PCG indicated equity needs of $600M for 4Q11 and 2012 combined, above our prior $350M estimate for 2012. In our model (and embedded in our estimates discussed above), we have assumed that PCG issues an additional $100M of equity during 4Q11, with the remaining $500M in 2012. In addition, we have assumed that the CPUC fines PCG $500M for the San Bruno explosion in an ongoing proceeding that we expect to be completed in late 2012. This drives our 2012 equity needs up by an additional $260M (reflecting 52% of the fine to allow PCG to maintain its authorized equity ratio). We assume that the CPUC lowers PCG's authorized equity ratio to 50% from 52% for 2013. In our model, we have assumed that PCG will buyback $350M of equity in 2013 to bring its equity ratio in line with the lower authorized level. In practice, however, the timing of the cost of capital proceeding and investigation into PCG's recordkeeping practices (where we would expect a potential fine to be levied) could result in PCG not needing to issue equity to fund the fine versus our $260M issuance in late 2012 and subsequent $350M buyback in 2012. We also note that if the CPUC does not adjust PCG's equity ratio for 2013, we would not expect a share buyback. In this case, however, earnings power would be higher as PCG would be allowed to earn on a higher equity base.

Regulatory, operational plan update

PCG is involved in two key pipeline-related proceedings before the CPUC. The first, an investigation into PCG's pipeline recordkeeping practices (I.11-02-016), is expected to be resolved in late 2012. The CPUC Legal Division is currently reviewing PCG's practices, and we expect a deadline for their report and assessment in late February. The second key case is the CPUC's rulemaking on gas pipeline safety and reliability (R.11-02-019). In this case, PCG has filed its Pipeline Safety Enhancement Plan (PSEP), outlining its plans to pressure test or replace its entire pipeline system, install automated valves, and move to a fully electronic recordkeeping system at a cost of $2.2B through 2014, of which PCG has proposed shareholders will pay for $2B. In addition, PCG's plan showed shareholders paying for additional work on post-1970s pipe and the document gathering in 2010 and 2012 (an additional $300M+). In this case, other parties' testimony on PCG's plan is due on January 31, 2012, and hearings are scheduled for mid-to-late March, implying a decision around mid-2012. We note that PCG's 2012 guidance assumes that their plan is approved.

In addition to these pending proceedings, PCG will file its next General Rate Case (for 2014-2016) in late 2012, and its next Gas Transmission & Storage Case will follow one year later. We expect that PCG will request recovery of ongoing additional system improvement costs to continue its push toward improving operations. We would not necessarily expect the magnitude of these ongoing costs to be equal to the $200M expected for 2012 and 2013, as ~1/3 of those expenses are to accelerate previously planned expenses for later periods (2014 and beyond).

Valuation and risks

We value PCG at $43 by applying a ~12x P/E multiple to our 2014 earnings power outlook of ~$3.50. We note that our target multiple for PCG reflects nearly a one-turn discount to where regulated utilities are currently trading, and a 15% discount to larger-cap regulateds.

The key downside risks for PCG, in our view, are higher-than-expected penalties or unrecovered pipeline costs as a result of the San Bruno accident and a greater-than-expected downward ROE adjustment than we assume. A significant adjustment to the capital growth plan would also be a risk to our estimates.

Figure 2: PCG Income Statement ($ in Millions, Except Per Share Data)

PG&E Corp. (NYSE: PCG) Income Statement	2006A	2007A	2008A	2009A	2010A	1Q11A	2Q11A	3Q11A	4Q11E	2011E	2012E	2013E
Operating Revenue	12,377	13,237	14,628	13,371	13,841	3,597	3,684	3,860	3,799	14,940	15,333	15,796
Fuel & Purchased Power	(5,019)	(5,472)	(6,515)	(5,002)	(5,189)	(1,396)	(1,164)	(1,394)	(1,865)	(5,819)	(5,901)	(5,984)
Gross Margin	**7,358**	**7,765**	**8,113**	**8,369**	**8,652**	**2,201**	**2,520**	**2,466**	**1,935**	**9,122**	**9,433**	**9,812**
O&M Expense	(3,648)	(3,881)	(4,201)	(4,249)	(4,156)	(1,175)	(1,161)	(1,094)	(802)	(4,232)	(4,517)	(4,807)
Taxes & Other	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**3,711**	**3,884**	**3,912**	**4,120**	**4,496**	**1,026**	**1,359**	**1,372**	**1,133**	**4,890**	**4,916**	**5,005**
EBITDA / Gross Margin	50.4%	50.0%	48.2%	49.2%	52.0%	46.6%	53.9%	55.6%	58.5%	53.6%	52.1%	51.0%
Depreciation & Amortization	(1,709)	(1,770)	(1,651)	(1,752)	(1,905)	(491)	(592)	(566)	(356)	(2,005)	(2,118)	(2,234)
EBIT	**2,002**	**2,114**	**2,261**	**2,368**	**2,591**	**535**	**767**	**806**	**777**	**2,885**	**2,798**	**2,771**
Interest Income / (Expense)	(550)	(598)	(634)	(672)	(675)	(175)	(172)	(174)	(150)	(671)	(687)	(736)
Other Income / (Expense)	1	43	(4)	67	96	17	21	18	(51)	5	5	5
Earnings Before Taxes	**1,453**	**1,559**	**1,623**	**1,763**	**2,012**	**377**	**616**	**650**	**575**	**2,218**	**2,116**	**2,040**
Income Tax Charge	(517)	(539)	(528)	(526)	(667)	(144)	(207)	(211)	(236)	(798)	(762)	(734)
Effective Tax Rate	*35.6%*	*34.6%*	*32.5%*	*29.8%*	*33.2%*	*38.2%*	*33.6%*	*32.5%*	*41.1%*	*36.0%*	*36.0%*	*36.0%*
Preferred Dividends	(14)	(14)	(14)	(14)	(14)	(3)	(3)	(3)	(5)	(14)	(14)	(14)
Minority & Other	-	-	-	17	8	-	-	-	-	-	-	-
Net Income - Operating	**922**	**1,006**	**1,081**	**1,240**	**1,339**	**230**	**406**	**436**	**334**	**1,406**	**1,340**	**1,291**
Adjustments, Net	69	-	257	(3)	(232)	(31)	(44)	(236)	(163)	(474)	(668)	-
Net Income - GAAP	**991**	**1,006**	**1,338**	**1,237**	**1,107**	**199**	**362**	**200**	**171**	**932**	**672**	**1,291**
EPS - Operating	**$2.57**	**$2.78**	**$2.95**	**$3.21**	**$3.42**	**$0.58**	**$1.02**	**$1.08**	**$0.83**	**$3.50**	**$3.20**	**$3.05**
EPS - GAAP	**$2.76**	**$2.78**	**$3.63**	**$3.20**	**$2.82**	**$0.50**	**$0.91**	**$0.50**	**$0.42**	**$2.32**	**$1.60**	**$3.05**
DPS - Period End Rate	$1.32	$1.44	$1.56	$1.68	$1.82	$0.46	$0.46	$0.46	$0.46	$1.82	$1.82	$1.92
Payout Ratio	51.4%	51.8%	52.9%	52.3%	53.2%	78.4%	44.6%	42.1%	54.8%	52.0%	56.9%	63.0%
Diluted Avg. Shares (MM)	*359*	*362*	*367*	*386*	*392*	*397*	*400*	*404*	*404*	*401*	*419*	*423*
End of Period Shares (MM)	*350*	*355*	*362*	*371*	*395*	*397*	*402*	*405*		*407*	*425*	*417*

Source: Deutsche Bank, PCG

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Figure 3: PCG Cash Flow Statement ($ in Millions, Except Per Share Data)

PG&E Corp. (NYSE: PCG) Cash Flow Statement	2006A	2007A	2008A	2009A	2010A	1Q11A	2Q11A	3Q11A	4Q11E	2011E	2012E	2013E
Net Income - GAAP	991	1,006	1,338	1,237	1,107	199	362	200	171	932	672	1,291
Depreciation & Amortization	1,756	1,894	1,863	1,947	2,151	550	648	450	603	2,251	2,364	2,480
Regulatory Assets & Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Non-Cash Extraordinary Items	(11)	(1)	(1)	-	-	-	-	-	-	-	-	-
Deferred Taxes	(285)	57	590	809	756	99	298	155	247	799	761	367
Other Operating Cash Flow	137	148	(201)	(140)	(408)	139	(151)	607	(295)	300	470	115
Working Capital Changes	126	(559)	(840)	(814)	(400)	101	(340)	(85)	324	-	-	-
Cash Flow From Operations	**2,714**	**2,545**	**2,749**	**3,039**	**3,206**	**1,088**	**817**	**1,327**	**1,050**	**4,282**	**4,267**	**4,254**
CFFO Excluding Working Capital	**2,588**	**3,104**	**3,589**	**3,853**	**3,606**	**987**	**1,157**	**1,412**	**726**	**4,282**	**4,267**	**4,254**
Capital Expenditures	(2,402)	(2,769)	(3,628)	(3,958)	(3,802)	(945)	(952)	(1,071)	(1,226)	(4,194)	(4,834)	(4,471)
Asset Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Asset Divestitures	17	21	26	-	-	-	-	-	-	-	-	-
Other Investing Cash Flow	(42)	82	(50)	622	(55)	62	130	(154)	145	183	100	100
Cash Flows From Investing	**(2,427)**	**(2,666)**	**(3,652)**	**(3,336)**	**(3,857)**	**(883)**	**(822)**	**(1,225)**	**(1,081)**	**(4,011)**	**(4,734)**	**(4,371)**
Change in Net Debt	(108)	295	1,133	993	862	(182)	129	(131)	180	(4)	502	1,300
Common Stock Issued	131	175	225	219	303	82	175	134	109	500	760	-
Common Stock Repurchased	(114)	-	-	-	-	-	-	-	-	-	-	(350)
Preferred Stock Issued (Net)	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Dividends	-	-	-	-	-	-	-	-	(14)	(14)	(14)	(14)
Common Dividends	(456)	(494)	(546)	(590)	(662)	(174)	(175)	(176)	(202)	(727)	(759)	(797)
Other Financing	3	34	(35)	(17)	(88)	18	(14)	(2)	(2)	-	-	-
Cash Flow From Financing	**(544)**	**10**	**777**	**605**	**415**	**(256)**	**115**	**(175)**	**71**	**(245)**	**489**	**139**
Other Cash Flow	-	-	-	-	-	-	-	-	-	-	-	-
Opening Cash & Equivalents	713	456	345	219	527	291	240	350	277	291	316	339
Closing Cash & Equivalents	456	345	219	527	291	240	350	277	316	316	339	360
Net Cash Flow	**(257)**	**(111)**	**(126)**	**308**	**(236)**	**(51)**	**110**	**(73)**	**39**	**25**	**22**	**22**
Unlevered Free Cash Flow	666	167	(451)	(447)	(145)	251	(21)	374	(88)	517	(127)	254
Free Cash Flow (Ex. Working Cap.)	186	335	(39)	(105)	(196)	42	205	341	(500)	88	(567)	(217)
FCF Per Share (Ex. Working Cap.)	$0.52	$0.93	($0.11)	($0.27)	($0.50)	$0.11	$0.51	$0.84	($1.24)	$0.22	($1.35)	($0.51)
FCF to Equity After Dividends	(270)	(159)	(585)	(695)	(858)	(132)	30	165	(717)	(654)	(1,340)	(1,028)

Source: Deutsche Bank, PCG

Figure 4: PCG Balance Sheet

PG&E Corp. (NYSE: PCG) Balance Sheet	2006A	2007A	2008A	2009A	2010A	1Q11A	2Q11A	3Q11A	4Q11E	2011E	2012E	2013E
ASSETS												
Cash & Cash Equivalents	456	345	219	527	291	240	350	277	316	316	339	360
Fuel Inventory & Other	330	371	423	314	357	292	356	417	357	357	357	357
Accounts Receivable	2,950	3,120	3,633	2,280	2,387	2,352	2,449	2,568	2,402	2,402	2,417	2,432
RegulatoryAssets	-	-	-	1,536	1,704	1,873	2,134	1,743	1,704	1,704	1,704	1,704
Other Current Assets	2,131	1,613	2,128	1,000	803	714	833	872	803	803	803	803
Total CurrentAssets	**5,867**	**5,449**	**6,403**	**5,657**	**5,542**	**5,471**	**6,122**	**5,877**	**5,582**	**5,582**	**5,620**	**5,656**
Net Property, Plant & Equipment	21,785	23,656	26,261	28,892	31,449	31,872	32,127	32,832	33,392	33,392	35,862	37,853
Long-Term Investments	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Nuclear Decommissioning Funds	1,876	1,979	1,718	1,899	2,009	2,054	2,069	1,964	2,009	2,009	2,009	2,009
RegulatoryAssets	4,902	4,459	5,996	5,522	5,846	5,655	5,905	5,714	5,846	5,846	5,846	5,846
Other Long-Term Assets	373	1,089	482	975	1,179	1,207	1,095	1,130	1,179	1,179	1,179	1,179
Total Assets	**34,803**	**36,632**	**40,860**	**42,945**	**46,025**	**46,259**	**47,318**	**47,517**	**48,008**	**48,008**	**50,516**	**52,543**
LIABILITIES												
Short Term Debt	759	519	287	833	853	1,288	1,210	1,137	1,153	1,153	1,078	1,378
Currently Maturing LT Debt	281	-	600	342	809	922	50	50	-	-	-	-
Accounts Payable	4,234	3,763	3,749	2,106	2,253	2,185	2,203	2,207	2,253	2,253	2,253	2,253
Regulatory Liabilities	-	-	-	281	256	531	529	421	256	256	256	256
Other Current Liabilities	2,346	2,071	2,620	2,865	2,610	2,437	2,617	2,585	2,615	2,615	2,620	2,625
Total Current Liabilities	**7,620**	**6,353**	**7,256**	**6,427**	**6,781**	**7,363**	**6,609**	**6,400**	**6,277**	**6,277**	**6,207**	**6,512**
Long Term Debt	9,263	10,107	10,904	11,594	11,733	11,024	12,102	12,044	12,238	12,238	12,815	13,815
Deferred Taxes	2,946	3,053	3,397	4,732	5,547	5,721	5,945	6,212	5,547	5,547	5,547	5,547
Asset RetirementObligations	1,466	1,579	1,684	1,593	1,586	1,583	1,582	1,591	1,586	1,586	1,586	1,586
Pension & Benefit Reserves	-	-	2,088	1,773	2,234	2,288	2,317	2,343	2,234	2,234	2,234	2,234
Regulatory Liabilities	3,392	4,448	3,657	4,125	4,525	4,584	4,654	4,596	4,525	4,525	4,525	4,525
Other Long-Term Liabilities	2,053	2,287	2,245	2,116	2,085	2,030	2,068	2,120	3,608	3,356	4,683	5,261
Total Long-Term Liabilities	**19,120**	**21,474**	**23,975**	**25,933**	**27,710**	**27,230**	**28,668**	**28,906**	**29,738**	**29,486**	**31,390**	**32,968**
MinorityInterest	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Stock	252	252	252	252	252	252	252	252	-	252	252	252
Common Equity	5,159	5,392	5,984	6,280	6,878	6,983	7,171	7,318	7,378	7,378	8,138	7,788
Retained Earnings / (Deficit)	2,671	3,151	3,614	4,213	4,606	4,624	4,802	4,817	4,811	4,811	4,724	5,218
Other Comprehensive Income	(19)	10	(221)	(160)	(202)	(193)	(184)	(176)	(195)	(195)	(195)	(195)
Total Shareholders' Equity	**7,811**	**8,553**	**9,377**	**10,333**	**11,282**	**11,414**	**11,789**	**11,959**	**11,994**	**11,994**	**12,667**	**12,811**
Total Liabilities & Equity	**34,803**	**36,632**	**40,860**	**42,945**	**46,025**	**46,259**	**47,318**	**47,517**	**48,008**	**48,008**	**50,516**	**52,543**

Source: Deutsche Bank, PCG

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Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
PG&E Corp	PCG.N	42.35 (USD) 2 Nov 11	1,6,14,15

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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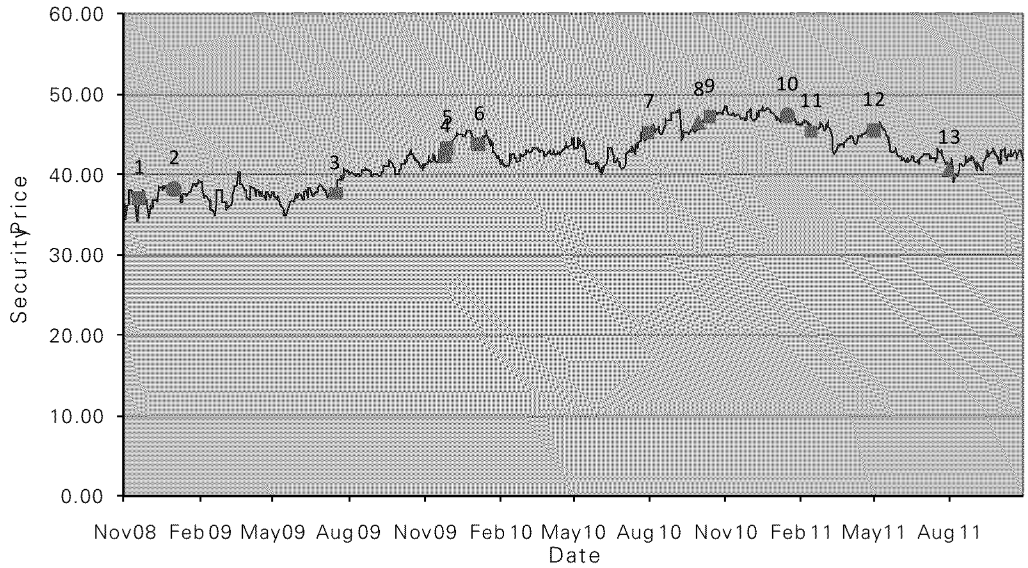
Historical recommendations and target price: PG&E Corp (PCG.N)

(as of 11/2/2011)



1.	11/24/2008:	Buy, Target Price Change USD44.00	8.	10/5/2010:	Upgrade to Buy, Target Price Change USD49.00
2.	1/6/2009:	Downgrade to Hold, Target Price Change USD39.00	9.	10/18/2010:	Buy, Target Price Change USD50.00
3.	7/20/2009:	No Recommendation, Target Price Change USD0.00	10.	1/20/2011:	Downgrade to Hold, USD50.00
4.	12/1/2009:	Hold, Target Price Change USD44.00	11.	2/18/2011:	Hold, Target Price Change USD49.00
5.	12/3/2009:	Hold, Target Price Change USD45.00	12.	5/5/2011:	Hold, Target Price Change USD45.00
6.	1/11/2010:	Hold, Target Price Change USD47.00	13.	8/5/2011:	Upgrade to Buy, Target Price Change USD44.00
7.	8/5/2010:	Hold, Target Price Change USD48.00			

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Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

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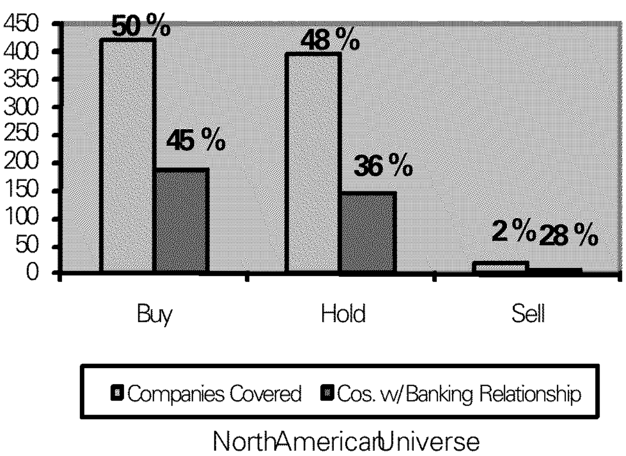
Equity rating dispersion and banking relationships



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Regulatory Disclosures

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