

From: Cherry, Brian K
Sent: 4/20/2012 8:02:05 AM
To: Michael R. Peevey (michael.peevey@cpuc.ca.gov) (michael.peevey@cpuc.ca.gov)
Cc:
Bcc:
Subject: RE: Closing the Loop on the Staff Citation; Cost of Capital Filings Set for Tomorrow

FYI

Gabe Togneri | VP Investor Relations | PG&E Corporation | 415.267.7100

From: Brian Chin [<mailto:brian.chin@investmentresearch.citi.com>]
Sent: Thursday, April 19, 2012 7:04 PM
To: Investor Relations (mailbox)
Subject: PCG: Closing the Loop on the Staff Citation; Cost of Capital Filings Set for Tomorrow

PCG: Closing the Loop on the Staff Citation; Cost of Capital Filings Set for Tomorrow

Estimate Change

▪ Today, the CPUC Board reaffirmed the Administrative Law Judge's (ALJ) directive on the \$16.8 million citation, rejecting PG&E's appeal. Although the amount of the fine seems small relative to the size of PG&E, it is significant for a fine (we believe in the top 5 utility penalties in state history), and it sets a negative regulatory precedent which is the more important

takeaway. We are concerned that this new fast tracking citation program could lead to record-level fine assessments for each violation, which could cause investors to consider a valuation discount for future gas pipeline infrastructure investment to reflect unforeseen heavy-handed penalties in the future, particularly in a San Bruno-charged environment. Remember, this was the first citation issued under the CPUC Staff's new found authority to issue citations that are more minor in nature. See our note commenting on the citation when it was first issued for more details,

<https://www.citivelocity.com/>

▪ **Separately, we are tweaking our 1Q12 operating EPS estimate ahead of the earnings call.** We are lifting our 1Q12 EPS estimate to \$0.76/share from \$0.69/share to more accurately reflect seasonality factors. This minor tweak is not a reflection of any change to our longer term earnings outlook for the Company; our annual EPS estimates remain unchanged at \$3.16 / 3.00 / 3.43 per share.

▪ **Cost of Capital filings for the California electric utilities will be filed tomorrow.** As a reminder, the cost of capital proceeding will set ROEs and capital structures for three years beginning in 2013. In our model, we currently assume PG&E will earn a 10.4% return on equity in 2013 and 2014. It should be noted that the ROEs requested by the

utilities will likely be materially higher than the ROE assumed in our model.

[Click here for the document](#)

Analyst(s)	Brian Chin (+1-212-816-2861)
Sector	Electric Utilities
Region	North America
Company	PCG - PG&E Corp
Previous Rating	-
Current Rating	1
Previous Target Price	-
Current Target Price	US\$47.00
Current Target Price	US\$42.79
Market Cap	18,023.62 (US\$M)

Please call with any questions.
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