From: Cherry, Brian K
Sent: 9/18/2012 5:20:08 PM
To: Clanon, Paul (paul.clanon@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: CPSD Consultant Report Issued in San Bruno OIIs

FYI

From: Togneri, Gabriel
Sent: Tuesday, September 18, 2012 3:32 PM
To: Earley Jr., Anthony; Johns, Christopher; Harvey, Kent M; Mistry, Dinyar; Pruett, Greg S.; Park, Hyun; Bottorff, Thomas E
Cc: Cherry, Brian K; Frizzell, Roger; Hayes, Kathleen (Law); Hertzog, Brian; Redacted Investor Relations (list); Bijur, Nicholas M.; Wells, Jason
Subject: FW: CPSD Consultant Report Issued in San Bruno OIIs

All,

IR has received numerous requests today for the Overland consulting report and we have been providing the redacted version that was sent to the service list this morning. Dan Ford at Barclays has issued the brief email summary and comments below. Their conclusion is that the analysis is flawed because the company would have difficulty raising more than $2 billion of equity with a 0% return potential, especially if the report is suggesting that some of that additional equity could be "raised" by cutting the dividend. The final point is that they expect this report will create an overhang to PCG stock performance in the near term.

Gabe

From: Daniel Ford, CFA [mailto:daniel.x.ford@barclays.com]
Sent: Tuesday, September 18, 2012 2:47 PM
To: Togneri, Gabriel
Subject: PCG: CPSD Consultant Report Issued in San Bruno OIIs

Daniel Ford, CFA +1 212 526 0836 daniel.x.ford@barclays.com BCI, New York
Ross A. Fowler, CFA +1 212 526 3432 ross.a.fowler@barclays.com BCI, New York

PCG: CPSD Consultant Report Issued in San Bruno OIIs

Stock Rating/Industry View: Equal Weight/Positive
Price Target: $51
Price (18-SEP-2012): $42.56
Potential Upside/Downside: +20%
Ticker: PCG

Overland Consulting Issues Report to California Public Utilities Commission's Consumer Product Safety Division Indicating $2.25B in Equity Issuance is the Threshold Level for the Company

On Tuesday September 18th, Overland Consulting issued a report to the Consumer Product Safety Division (CPSD) indicating that in their view a "reasonable estimate of PG&E's ability to raise equity capital is $2,250 million." (Overland Consulting Report to CPSD, page 13). This analysis seems to focus on the companies ability to do the following: (1) cut the dividend to a 50% payout ratio from current levels to raise internal equity; (2) raise additional needed equity that amounts to as much as 12% of the company's market cap because other comparable companies have been able to do so; (3) all this would have minimal stock price impacts as the market expectation is for a fine of between $500 and $750 million, and a fine and resolution of the San Bruno matter, in the consultant's view, could have a positive effect as the future cash flows of the company could be more certain ex post facto.

We view this analysis as flawed. We believe it would be difficult for a company to raise 12% of its market capitalization as equity to investors while offering a 0% return on that investment capital. Furthermore, it would be even more difficult to raise that said equity in an enviroment where the dividend is being cut. We believe that the report with such a high number vs. market expectations ($500-$750 million) for threshold equity issuance ($2.25 Billion) could make any ongoing settlement discussions incrementally more difficult. As a result, the expected fine amount by the market may increase and the expected timing of any settlement could be pushed out. We view the $2.25 billion in threshold equity issuance as a very punative outcome. We hope that settlement discussions lead to a more rational analysis of a fine or penalty that will be assessed to the company and that the system itself can be brought up to the necessary safety and performance standards for customers. We anticipate that this report will provide an overhang to share performance in the near term.

Investors should consider this communication as only a single factor in making their investment decision.

For analyst certifications and important disclosures including, where applicable, foreign affiliate disclosures, please **click here**.