Application: 12-04-018
(U 39 M)
Exhibit No.: ____________
Date: June 28, 2012
Witnesses: Richard A. Patterson
Nicholas M. Bijur

PACIFIC GAS AND ELECTRIC COMPANY

2013 COST OF CAPITAL

SUPPLEMENTAL TESTIMONY

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A. Introduction

This testimony presents Pacific Gas and Electric Company's (PG&E) response to Administrative Law Judge (ALJ) Galvin's request at the June 4, 2012 Prehearing Conference for supplemental utility testimony in four areas. First, ALJ Galvin requested information, using California Public Utilities Commission (CPUC or Commission) authorized revenues for 2012, describing the utility's total CPUC jurisdictional costs, and the amount of those costs that are recoverable through balancing or memorandum accounts.[1] This request is the same as in the 2008 Cost of Capital (COC) proceeding, and PG&E is presenting the information on the same basis as in 2008 in Section B.

Second, ALJ Galvin requested a comparison over four to five years of authorized versus actual rates of return. This comparison is presented in Section C below, and includes both the return on rate base (ROR) and return on equity (ROE). The actual ROE is presented on both a ratemaking basis and a full financial basis using data from PG&E's financial statements as filed with the Securities and Exchange Commission (SEC).

Third, ALJ Galvin requested information from credit rating agencies, including utilities' actual credit ratings, as well as any comments the credit rating agencies may have made in conjunction with assessing the stability of current credit ratings, or regarding the prospects for future credit ratings downgrades or upgrades. These are presented in Section D below.

Fourth, ALJ Galvin asked for data showing publicly available buy-hold-sell recommendations by equity analysts of each utility's common stock. This data is shown in Section E.

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1 ALJ Galvin also asked for this information using 2013 authorized revenue requirements, but PG&E won't have those figures until late in 2012.

B. Cost Recovery Through Balancing Accounts

Before presenting the data specific to ALJ Galvin's first request, it is important to understand the two basic types of balancing accounts, and their impacts on the risk of cost recovery.

For purposes of this testimony, a balancing account is an account in which:

1) Expenses are compared with revenues from rates designed to recover those expenses, referred to here as a "cost balancing account" because PG&E is able to recover the actual costs incurred; or
2) Forecast revenues are compared with recorded revenues, referred to here as a "revenue or sales balancing account" because PG&E is only able to recover its approved forecast revenues, not actual incurred costs.

The resulting under- or over-collection, plus interest at the authorized rate, is recorded on PG&E's financial statements as an asset or liability, which is owed from or due to customers. Balances in balancing accounts, plus interest, are periodically amortized in rates.

Cost balancing accounts generally record variable costs that can vary significantly during a year, such as the cost of energy purchases (natural gas or wholesale electricity). These costs are largely outside the control of the utility, and the objective is for the utility to recover the actual costs it incurs, subject to some form of compliance review by the Commission. For these types of costs, the utility is at risk for possible cost disallowances, or may be subject to some incentive earnings or losses, but typically is not otherwise at risk if the actual costs incurred are different from the estimated costs which are incorporated in retail gas and electric rates.

For those types of costs that are not assumed to vary significantly over the period of a rate cycle—such as the costs of owning, operating and maintaining the utility's assets, revenue collection, and general and administrative costs—the utility recovers a forecast of these costs, referred to as a revenue requirement, that is authorized by the CPUC. Almost all of PG&E's authorized non-fuel costs are recovered on a forecast basis through a revenue requirement authorized by the Commission that is subject to a sales balancing account. For these types of costs, PG&E is at risk for any variations between the actual costs it incurs and the forecasted costs or revenue requirement authorized by the CPUC. For example, PG&E's authorized revenues reflect a certain level of customer growth and related increase in its rate base due to the required capital investment, and PG&E is at risk for higher costs if the required capital investment is greater than reflected in the authorized revenues, until the next rate case when the costs and authorized revenues can be reviewed and redetermined.

PG&E's authorized 2012 costs for the different utility functions (e.g., electric distribution, electric generation, etc.), and the portions that are recoverable through two-way *cost* balancing accounts, are shown in Table 1, and are presented on the same basis as in the 2008 COC proceeding. Excluded from these costs are: (1) revenues authorized for recovery in 2012 that relate to the amortization of balancing account balances from prior years; (2) the 2012 California Department of Water Resources (CDWR) revenue requirement for power it sells to PG&E customers and to service the CDWR bonds; and (3) costs of servicing Energy Recovery Bonds. Pursuant to ALJ Galvin's request that only CPUC jurisdictional costs be included, PG&E has omitted revenue requirements authorized by the Federal Energy Regulatory Commission (FERC).

TABLE 1
PACIFIC GAS AND ELECTRIC COMPANY
AMOUNTS RECOVERED THROUGH COST BALANCING ACCOUNTS
($ MILLIONS)

Line No.	Type of Cost	2012 Authorized Revenue Requirement	Recovered Through Cost Balancing Accounts
		(A)	(B)
1	<u>Electric</u>		
2	Electric Distribution	3,461	–
3	SmartMeter™ and Meter Read Cost	218	–
4	Miscellaneous Distribution(a)	85	–
5	Utility Retained Generation	1,777	–
6	Diablo Canyon Seismic Study	12	–
7	Electric Procurement(b)	3,609	3,609
8	Ongoing CTC and NSG	496	496
9	Nuclear Decommissioning	44	–
10	Mandated Programs(c)	688	–
11	Total Electric Costs	10,390	4,105
12	Percentage of Electric Costs Recovered Through Balancing Accounts		40%
13	<u>Gas</u>		
14	Gas Distribution and CPUC Fees	1,173	–
15	Gas Procurement	1,276	1,276
16	Mandated Programs(d)	169	–
17	Gas Transportation and Storage	428	–
18	SmartMeter™ and Meter Read Cost	116	–
19	Total Gas Costs	3,162	1,276
20	Percentage of Gas Costs Recovered Through Balancing Accounts		40%
21	Total Electric and Gas Costs	13,552	5,381
22	Percentage of Total Costs Recovered Through Balancing Accounts		40%

(a) Includes Environment Enhancement Corp., CPUC Fees, Customer Energy Efficiency Incentive and Cornerstone Improvement Program.

(b) Does not include CDWR power.

(c) Includes Public Purpose, California Solar Initiative, Demand Response and Self-Generation.

(d) Includes Public Purpose and Self-Generation.

Column A of Table 1 shows the Commission authorized revenue requirements for different types of costs in rates that make up PG&E's 2012 revenue requirement.

Column B shows the portion of each amount in Column A that is recovered through a two-way balancing account. For example, line 1, "Electric Distribution," has no corresponding amount in Column B. This means that all the dollars shown in Column A for Electric Distribution are at risk for the difference between the authorized costs shown in Column A, i.e., the authorized revenue requirement, and the actual cost incurred by the utility.[2]

Table 1 shows that about 40 percent of PG&E's 2012 authorized costs included in rates are comprised of costs recovered through a cost balancing account, subject to review for compliance with adopted standards. Conversely, for the other 60 percent of PG&E's 2012 authorized costs, PG&E is at risk for any variation between the forecasted cost adopted by the Commission and the actual cost incurred by PG&E. The comparable figure provided in the 2008 COC proceeding was 48 percent. This decline is largely the result of the substantial decrease in the price of natural gas, which impacts both electric and gas procurement costs. As those procurement costs decline while other fixed costs increase, procurement costs as a percentage of the total revenue requirement decrease.

Table 2 below lists all of PG&E's memorandum accounts that have been authorized by the CPUC to track various costs prior to CPUC approval to recover those costs in rates. The balances shown are actual costs recorded through May 2012. Once the CPUC approves a memorandum account balance for recovery, the balance is transferred to the appropriate balancing account for recovery, typically in a year subsequent to when the costs are incurred and recorded in the memorandum account. Table 2 does not include tracking accounts that are maintained solely for the purpose of gathering information about a certain type of cost, and the account isn't being used as a cost recovery mechanism. Table 2 also lists memorandum accounts that have been

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2 Since there are one-way balancing accounts for certain distribution costs, such as tree trimming activities, it is possible that the total spend for Electric Distribution could be less than authorized and PG&E could still incur losses if tree trimming costs exceeded the amount authorized for recovery under the one-way balancing account.

requested in various PG&E applications to track costs, but are not yet approved by the CPUC. Also, it is possible that some of the memorandum accounts in Table 2 are one-way, rather than two-way.

TABLE 2
PACIFIC GAS AND ELECTRIC COMPANY
MEMORANDUM ACCOUNTS AND BALANCES AS OF MAY 31, 2012
($ IN MILLIONS)

Line No.	Memorandum Account	Balance as of 5/31/2012
1	Electric	
2	Catastrophic Event Memorandum Account	27.4
3	Hazardous Substance Mechanism	16.7
4	Direct Access Discretionary Cost/Revenue Memo Account	7.3
5	Net Energy Metering Memorandum Account	-1.7
6	Distribution Bypass Deferral Rate Memo Account	2.0
7	Distributed Energy Resources Memorandum Account	10.7
8	Market Redesign and Technology Upgrade Memorandum Account	34.2
9	Electric Disconnection Memorandum Account	2.9
10	Low Income 2012 Memorandum Account	-2.0
11	SmartMeter™ Opt-Out Memorandum Account - Electric (SOMA-E)	2.0
12	Other(a)	2.8
13	Total Electric	102.36
14	Gas	
15	Hazardous Substance Mechanism	39.0
16	Gas Disconnection Memorandum Account	2.2
17	California Solar Initiative Solar Thermal Program Memorandum Account	4.2
18	AB32 Cost of Implementation Fee Memorandum Account (AFMA-G)	10.0
19	Low Income 2012 Memorandum Account	-4.8
20	SmartMeter™ Opt-Out Memorandum Account - Gas (SOMA-G)	2.3
21	Other(a)	0.1
22	Total Gas	53.15
23	Total Electric and Gas	155.51
24	Accounts Requested, Not Yet Authorized	
25	Natural Gas Transmission Pipeline Safety and Reliability Memorandum Account	
26	Virtual Net Energy Metering Site Assessment Fee Memorandum Account	
27	Greenhouse Gas Compressor Station Memorandum Account	

(a) Total of memorandum accounts with balances of less than $1 million.

C. Authorized vs. Actual Return on Rate Base and Return on Equity

PG&E's total gas and electric actual and authorized ROR and ROE, calculated on a regulatory basis, for the period 2006 through 2010 are as follows:[3]

TABLE 3
PACIFIC GAS AND ELECTRIC COMPANY
RECORDED VS. AUTHROIZED ROR AND ROE

Line No.	Year	Recorded ROR	Recorded ROE	CPUC Authorized ROR	CPUC Authorized ROE	FERC Requested ROR	FERC Requested ROE
1	2006	8.97%	11.80%	8.79%	11.35%	9.14%	12.00%
2	2007	9.27%	12.37%	8.79%	11.35%	9.17%	12.00%
3	2008	9.16%	12.16%	8.79%	11.35%	9.17%	12.00%
4	2009	8.67%	11.18%	8.79%	11.35%	9.27%	12.30%
5	2010	8.64%	11.19%	8.79%	11.35%	9.35%	12.30%

The recorded RORs shown above include combined CPUC and FERC jurisdictional operations. ROR and ROE reported under Rule 3.2 of the CPUC's Rules of Practice and Procedure are calculated on a "regulatory basis" for PG&E. Beginning with reported earnings from annual FERC Forms 1 and 2, below-the-line items such as such as lobbying, advertising, charitable contributions, political contributions, the equity portion of Allowance for Funds Used During Construction, and shareholder incentive revenues (customer energy efficiency shareholder incentives, core procurement incentive mechanism, reliability incentive mechanism. etc.) are excluded. "Regulatory" earnings also exclude the cost of non-utility related activities of PG&E Corporation. Below-the-line and non-utility related activities are excluded from "regulatory returns" because they are borne by shareholders and are not part of PG&E's cost of service based rates. For comparability purposes, PG&E also removes large out-of-period adjustments that are not reflective of the reported year's operations.

Below are ROE figures for the period 2006 through 2011, computed using PG&E's 10-K filings with the SEC:

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3 PG&E has not yet completed the work that converts all the 2011 financial data into the regulatory data needed to calculate the 2011 ROR and ROE.

TABLE 4
PACIFIC GAS AND ELECTRIC COMPANY
GAAP-BASED ROE

Line No.	Year	ROE
1	2006	12.66%
2	2007	12.02%
3	2008	12.88%
4	2009	12.08%
5	2010	9.89%
6	2011	7.05%

The recorded rates of return shown above include combined CPUC and FERC jurisdictional operations, and were calculated by dividing income available for common equity by the average book common equity for each year.

D. Historical Credit Ratings and Credit Rating Agencies Comments

The three tables below show changes in PG&E's issuer, or corporate, credit ratings by the three major credit rating agencies. PG&E has included relevant comments taken from the respective reports describing the changes.

TABLE 5
PACIFIC GAS AND ELECTRIC COMPANY
STANDARD AND POOR'S

Line No.	Date	Rating Action	Rating
1	12/8/11	Ratings downgrade from BBB+ to BBB. The rating actions reflect our view of the company's multiyear rebuilding of its natural gas operations, customer reputation, and regulatory relationships following the 2010 San Bruno gas transmission explosion that resulted from the utility's inadequate controls. The 'BBB' rating captures our view that the company is at the beginning of this process. The outlook is stable.	BBB/stable
2	3/16/11	Change in Outlook from stable to negative. Change in business profile assessment from "strong" to "excellent", indicating a more risky business profile. The outlook and business profile revisions reflect what we view as a series of miscues that has undermined management's credibility in both the public and regulatory environments. In our opinion, the ongoing San Bruno, Calif., pipeline explosion investigation, combined with disputes over advanced metering and the failed June 2010 ballot initiative, has weakened the firm's business profile.	BBB+/negative
3	12/15/10	Removed from CreditWatch with negative implications. Our rating affirmation and stable outlook reflect our current assessment of the potential credit impact of the September pipeline explosion in San Bruno, Calif.	BBB+/stable
4	8/10/10	Placed on CreditWatch with negative implications. Standard & Poor's Ratings Services placed its ratings on PG&E and PG&E Corp. on CreditWatch with negative implications. The listing is in response to an explosion resulting from the rupture of a PG&E-owned pipeline on Sept. 9, 2010.	BBB+/Watch Neg
5	5/31/07	Upgrade from BBB to BBB+. The rating action reflects the company's strengthening financial performance following its emergence from bankruptcy, improved regulatory support, and a narrow strategic focus that is limited to regulated utility operations. PG&E's financial ratios remain appropriate for the ratings after adjustments for debt like fixed obligations related to power-purchase agreements.	BBB+/Stable

TABLE 5
PACIFIC GAS AND ELECTRIC COMPANY
STANDARD AND POOR'S
(CONTINUED)

Line No.	Date	Rating Action	Rating
6	2/16/05	Upgrade from BBB- to BBB. The upgrade follows favorable regulatory developments that are viewed as supportive of credit quality and as strengthening legislative and regulatory protections created in response to California's 2000-2001 energy crisis. In particular, a December 2004 CPUC decision administratively extended legislative protection of the electric procurement component of operating cash flow that was set to expire in late 2005.	BBB/Stable
7	4/16/04	Upgrade from D to BBB. The CPUC pledge to act to restore and preserve investment-grade ratings for PG&E is an important component of the assigned credit ratings. Despite sound financial metrics, the assignment of higher ratings in the near term is unlikely because the CPUC needs to establish a track record of regulatory support for sound financial performance and PG&E will likely face significant operational issues in coming years.	BBB-/stable
8	12/19/03	Placed on CreditWatch for possible upgrade. The CreditWatch listing reflects the CPUC's December 18 decision to approve, with modifications, a compromise plan for the emergence of PG&E from bankruptcy. Assuming that the bankruptcy court concurs with the CPUC, the commission's decision should pave the way toward strengthening the utility's credit profile and its emergence from bankruptcy.	D/positive

TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
MOODY'S

Line No.	Date	Rating Action	Rating
1	4/4/12	Affirmation – no change. PG&E's A3 senior unsecured debt rating reflects the continuation of a credit supportive regulatory environment in California, the sustainability of strong credit metrics, a conservative financing strategy, and a corporate strategy centered around regulated rate base growth through infrastructure related investments. The rating balances these attributes against key issues facing the company including the fallout from the tragic San Bruno accident, a substantial capital spending program, high end-use customer rates and an improving but challenging service territory economy.	A3/stable
2	9/30/11	Affirmation – no change. PG&E's A3 senior unsecured rating reflects the sustainability of strong credit metrics due in large part to the continuation of a credit supportive regulatory environment in California as well as a corporate strategy centered around regulated rate base growth through infrastructure related investments. The rating affirmation and maintenance of a stable rating outlook also considers our review of the September 26th National Transportation Standards Board (NTSB) report concerning the September 2010 natural gas pipeline explosion in San Bruno. Moody's acknowledges that the NTSB report is highly critical of PG&E's management from a quality assurance, quality control and pipeline integrity standpoint. That being said, we also believe that efforts are underway to address these deficiencies at the company, which include recent appointments of new senior management, as the company focus remains on improving the utility's core operations.	A3/stable

TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
MOODY'S
(CONTINUED)

Line No.	Date	Rating Action	Rating
3	3/29/11	Affirmation – no change. Moody's has affirmed the ratings of PG&E (PG&E: A3 senior unsecured) and its parent, PG&E Corporation (PCG: Baa1 senior unsecured). The rating outlook for PG&E and PCG remains stable. PG&E's A3 senior unsecured rating reflects the sustainability of strong credit metrics due in large part to the continuation of a credit supportive regulatory environment in California as well as a corporate strategy centered around regulated rate base growth through infrastructure related investments. Moody's acknowledges that the San Bruno explosion, along with Proposition 16 and the SmartGrid rollout have collectively damaged the company's credibility with key state constituencies making it more difficult for the company to conduct its business. As such, we believe that these events more weakly positions PG&E in the "A"-rating category. That being said, we also believe that the likely outcome of the company's three key regulatory proceedings will serve to mitigate these factors from a financial perspective causing us to maintain a stable rating outlook at this juncture.	A3/stable
4	9/13/10	Affirmation – no change. Moody's Investors Service said today that the ratings of Pacific Gas and Electric Company (A3: senior unsecured; stable outlook) and its parent, PG&E Corporation (Baa1: senior unsecured; stable outlook) are unaffected by the explosion in a residential community in San Bruno, California. Moody's view of PG&E's and PCG's ratings consider the financial protection provided by the company's existing insurance policy and reflects the fact that the utility is currently well positioned in its rating category. Of greater concern is the potential impact the explosion and other recent negative events at PG&E may have on its relationship with its regulator and other key constituents in the state.	A3/stable
5	12/27/07	Upgrade from Baa1 to A3. "Today's rating action is an acknowledgement of the continued demonstration of a more constructive regulatory environment in California which should lead to sustainable and predictable credit metrics for PG&E and PCG," said A.J. Sabatelle, Vice President and Senior Credit Officer.	A3/stable

TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
MOODY'S
(CONTINUED)

Line No.	Date	Rating Action	Rating
6	4/9/07	Under review for possible upgrade. The review for possible upgrade reflects the expected improvement and predictability in the company's future cash flow due to the constructive General Rate Case (GRC) decision rendered by the CPUC last month which set rates through the end of 2010, a period in which the company has a large capital investment program.	Baa1/positive
7	3/3/05	Upgrade from Baa3 to Baa1. The upgrade concludes the review for possible upgrade that was initiated on December 13, 2004. Moody's also assigned a Baa3 Issuer Rating to PG&E Corporation (PCG). The rating upgrade reflects a number of recent positive developments, which collectively strengthen PG&E's credit quality. These events include: 1. Strong financial performance since PG&E emerged from bankruptcy and prospective financial metrics that are consistent with the higher rating. 2. PG&E's issuance of approximately $1.9 billion of Energy Reduction Bonds in February, which help to accelerate the recovery of the $3.7 billion pre-tax regulatory asset, that was established when the utility emerged from bankruptcy in April 2004. 3. The continuation of a more constructive regulatory environment as evidenced by the CPUC's decisions on various PG&E rate matters. 4. The extinguishment of PCG's ownership in National Energy & Gas Transmission during fourth quarter 2004 focuses the company's business on lower risk integrated utility operations. The rating could be upgraded if significant regulatory, legislative, and litigation uncertainties are favorably resolved. These include recovery of the remaining regulatory asset balance, the manner in which direct access or competition is reintroduced in the state, and adequate prospects for adding needed reliability related resources in a timely fashion. The rating could be downgraded if the recent improvement in regulatory and legislative support is not sustained or if the company manages its capital allocation requirements at the utility and at the parent more aggressively than expected.	Baa1/stable

TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
MOODY'S
(CONTINUED)

Line No.	Date	Rating Action	Rating
8	12/13/04	Under review for possible upgrade. The rating action reflects a number of positive developments that have occurred since PacGas emerged from bankruptcy in April 2004, which collectively strengthen the company's prospects for improving credit quality. The rating action also considers the continuation of more constructive regulatory decisions rendered by the CPUC. This includes PacGas' May 2004 GRC decision, which set revenue requirements for PacGas and established attrition revenues through 2006. Supportive regulatory decisions are an integral component of further strengthening of the company's credit quality.	Baa3/positive
9	3/12/04	Upgrade from Ba2 to Baa3. Moody's Investors Service upgraded the ratings of PG&E (Issuer Rating to Baa3 from Ba2), and assigned a (P)Baa2 senior secured rating to the $9.4 billion shelf registration that the company has filed in connection with its expected emergence from bankruptcy in April. The rating action reflects the expected stability of cash flows and operating earnings over the next several years through the implementation of the settlement agreement that was approved by the CPUC and confirmed by the bankruptcy judge as part of the company's Plan of Reorganization (POR). The rating action considers recent constructive actions taken by the CPUC and by the legislature to help stabilize the electric power market in California, as well as the improved working relationship between PG&E and other interested parties in the state, including consumer groups such as The Utility Reform Network.	Baa3/stable
10	12/23/03	Upgrade from B2 to Ba2. Moody's Investors Service upgraded the ratings of PG&E (Issuer Rating to Ba2 from B2) and kept the ratings under review for possible further upgrade. The rating action reflects the December 18th decision by the CPUC to approve the company's settlement agreement, and the December 22nd decision by the bankruptcy judge to confirm the company's POR. Assuming that the POR is implemented as currently proposed, that a timely exit from bankruptcy can occur, and that no litigation or challenges to the plan pose a serious threat to the company's on-going creditworthiness, the potential exists for PG&E's Issuer Rating to be upgraded to investment grade.	Ba2/positive

TABLE 6
PACIFIC GAS AND ELECTRIC COMPANY
MOODY'S
(CONTINUED)

Line No.	Date	Rating Action	Rating
11	10/23/03	Upgrade from Caa2 to B2. Moody's Investors Service upgraded the debt ratings of PG&E (Senior Unsecured Debt to B2 from Caa2). The rating action concludes a review for possible upgrade that was initiated on June 23, 2003. The rating outlook is positive. The rating action reflects significant progress towards resolving regulatory issues with the CPUC, apparent progress towards agreement on a POR, and Moody's belief that the company's emergence from bankruptcy is likely to occur sometime during 2004. The positive rating outlook reflects the proposed settlement agreement between PG&E, its parent PG&E Corporation, and the staff of the CPUC.	B2/positive
12	6/23/03	Under review for possible upgrade. Moody's Investors Service placed the ratings of PG&E, including its senior unsecured debt at Caa2, under review for possible upgrade following the announcement of a proposed settlement agreement between PG&E, its parent PG&E Corporation, and the staff of the CPUC. If this agreement is approved and adopted, it could allow the utility to exit bankruptcy by early 2004, avoiding long and protracted litigation between the utility and the CPUC. The rating review will assess the prospects for the settlement being adopted along with the financial implications of the settlement to PG&E's future earnings and cash flow profile.	Caa2

TABLE 7
PACIFIC GAS AND ELECTRIC COMPANY
FITCH

Line No.	Date	Rating Action	Rating
1	12/16/11	Downgrade to BBB+ from A-. The Ratings and Stable Outlook reflect the challenges and uncertainties in the aftermath of the San Bruno natural gas pipeline explosion and fire, including: • PCG's loss of the confidence of its key constituents due to the disaster. • The uncertain magnitude of future costs and fines related to the San Bruno accident and its ultimate impact on PCG's consolidated financials. • The uncertain outcome of the pending rule making docket underway at the CPUC. • Concern that the criminal investigation may further complicate the CPUC's investigation of PG&E natural gas safety records. Rating Downgraded, Outlook Stable: The credit rating downgrade and Stable Outlook reflect continued uncertainty regarding regulatory and legal investigations underway into the 2010 San Bruno explosion and fire and lower operating earnings in 2012. Specifically, the downgrade reflects uncertainty regarding CPUC investigations into the utility's natural gas operational practices and a nascent criminal investigation into the San Bruno disaster. Fitch believes PG&E and its parent, PCG, will be able to absorb reasonable worst-case outcomes within the 'BBB+' rating category.	BBB+/Stable

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TABLE 7
PACIFIC GAS AND ELECTRIC COMPANY
FITCH
(CONTINUED)

Line No.	Date	Rating Action	Rating
2	7/26/11	Affirmation of current ratings, and change in Outlook from Stable to Negative The Negative Rating Outlook reflects the challenges and uncertainties in the aftermath of the San Bruno natural gas pipeline fire, including: • PCG's loss of the confidence of its key constituents in the aftermath of the San Bruno explosion and fire. • The uncertain magnitude of future costs and fines related to the San Bruno accident and its ultimate impact on PCG's consolidated financials. • The uncertain outcome of the pending rule making docket underway at the CPUC. Key ratings drivers going forward include the outcome of the factors listed above, as well as: • Continuation of a balanced regulatory regime in the state of California. • Effective execution of PG&E's large capital program. • Balanced funding of PG&E's capex consistent with proscribed CPUC policy. • Consistency of utility capex with state and federal energy policy.	A-/Negative

TABLE 7
PACIFIC GAS AND ELECTRIC COMPANY
FITCH
(CONTINUED)

Line No.	Date	Rating Action	Final Rating
3	7/30/10	Upgrade from BBB+ to A-. PCG and PG&E's ratings and Stable Outlooks consider the core operating utility's strong, relatively predictable earnings and cash flows, manageable debt levels and the balanced regulatory/political environment in California. The ratings and Outlook also reflect Fitch's confidence in PG&E's ability to effectively execute, finance and recover its large, projected capital spending budget. The level of PG&E capital investment will be determined largely by the CPUC in a number of pending single-issue rate case decisions in filings seeking approval of renewable and enhanced electric distribution reliability projects. The ratings and Outlook also assume that regulatory mechanisms will continue to facilitate timely collection of power supply and other costs and a reasonable return on investment. These mechanisms include forward-looking test year and post-test-year attrition rate increases in regularly scheduled GRC proceedings, decoupling of electric and gas rates from sales volume, pre-approval of construction spending via GRC and single-issue filings and regulatory balancing accounts. These regulatory practices minimize earnings attrition, providing the utility with a reasonable opportunity to earn its authorized ROE and ameliorate concerns regarding recovery of planned infrastructure investment and other expenses.	A-/Stable

Note: PG&E does not subscribe to Fitch, and therefore does not have Fitch ratings reports prior to the last one shown in this table.

E. Equity Analyst Opinions

Table 8 below shows the number of equity analysts, as reported by Thomson Reuters, that recommend various actions on PG&E Corporation common stock, the sole shareholder of PG&E. These recommendations, shown for June 27, 2012, change periodically as the various analysts change their opinions.

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TABLE 8
PACIFIC GAS AND ELECTRIC COMPANY
EQUITY ANALYSTS BUY-HOLD-SELL RECOMMENDATIONS
JUNE 27, 2012

Line No.		
1	Buy	6
2	Hold	13
3	Sell	–

Note:
Data provided by Thompson/First Call
Source URL: http://finance.yahoo.com/q/ao?s=PCG+Analyst+Opinion