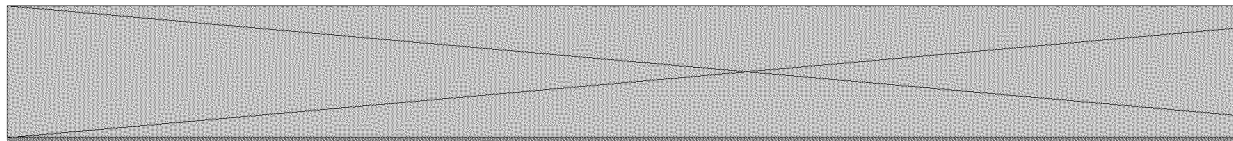


From: Daniel Ford, CFA
Sent: 12/20/2012 3:14:47 PM
To: Investor Relations (mailbox) (InvestorRelations2@pge-corp.com)
Cc:
Bcc:
Subject: California: Reasonable Cost of Capital Decision



EQUITY RESEARCH | INSTANT INSIGHTS

20 December 2012

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Reasonable Decision in California Cost of Capital Proceeding

Stock Rating/Industry View: Overweight / Positive

Price Target: \$49

Price (20-Dec-2012): \$46.05

Potential Upside/Downside: +6%

Ticker: EIX

Stock Rating/Industry View: Equal Weight / Positive

Price Target: \$45

Price (20-Dec-2012): \$41.92

Potential Upside/Downside: +7%

Ticker: PCG

Stock Rating/Industry View: Equal Weight / Positive

Price Target: \$70

Price (20-Dec-2012): \$71.95

Potential Upside/Downside: -3%

Ticker: SRE

Reasonable Decision in Cost of Capital Proceeding

-

Today, as part of the consent agenda, the California Public Utilities Commission (CPUC) passed a cost of capital decision roughly in line with the earlier issued proposed decision that was released in mid to late November. The only difference from the original proposed decision was an increase of 5bps in Southern California Edison's return on equity. This decision is consistent with our current models. Phase II of the cost of capital proceeding, dealing with whether to adopt an automatic adjustment mechanism will be taken up by the commission in 2013.

The details of the approved cost of capital decision as well as the company requests and intervener testimonies is provided in the figure below.

Figure 1: Cost of Capital Company Requests, Intervener Testimony, and Proposed Decision

Utility	Ticker	Request		DRA		TURN		Final Order	
		Allowed ROE	Equity Ratio	Allowed ROE	Equity Ratio	Allowed ROE	Equity Ratio	Allowed ROE	Equity Ratio
Pacific Gas & Electric	PCG	11.00%	52%	8.75%	52%	9.40%	52%	10.40%	52.0%
San Diego Gas & Electric – Electric	SRE	11.00%	52%	8.50%	52%	9.40%	52%	10.30%	50.5%
San Diego Gas & Electric – Gas	SRE	10.90%	52%	8.50%	52%	9.40%	52%	10.30%	50.5%
Southern California Gas	SRE	10.90%	52%	8.50%	52%	9.25%	52%	10.10%	52.0%
Southern California Edison	EIX	11.10%	48%	8.75%	48%	9.40%	48%	10.45%	48.0%

Source: California Public Utilities Commission, Barclays Research.

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