

From: Cherry, Brian K
Sent: 2/22/2013 2:25:07 PM
To: Mark Ferron (fer@cpuc.ca.gov) (fer@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Analyst Reports: Q4 2012 Earnings Call

From: [Redacted]
Sent: Friday, February 22, 2013 2:15 PM
To: Officers - All
Cc: Investor Relations (list)
Subject: Analyst Reports: Q4 2012 Earnings Call

On Thursday, the company hosted its quarterly earnings call to review 2012 results and future outlook with investors. On the call, management provided guidance for 2013 earnings from operation of \$2.55 to \$2.75 per share including guidance on key factors such as unrecovered costs, capex, rate base, equity issuance, and return on equity that will impact earnings going forward. The call also included directional information about capex and rate base growth between 2014 and 2016. Tony, Chris, and Kent reiterated a commitment to resolving the remaining gas-related issues as soon as possible, and to move PG&E closer to becoming the high-performing gas and electric utility that our customer, regulators, and shareholders deserve.

Over the past several months, the Investor Relations team has been engaging frequently with the largest holders in the stock as well as several of the “lead steer” equity research analysts to reiterate information provided in investor communications, ensure that they were clear on the current challenges facing the company and as a consequence the likely reality of lower performance in 2013, and in an effort to bring the expectations of the rest of the market to a reasonable level. This strategy was not sufficient, as shown when the market reacted negatively to the earnings call. Recurring themes included questions around the unrecovered costs, including the new estimate of \$500 million over five years to clear encroachment on gas rights of way, and integrity management costs increasing in 2013 and 2014 before being trued up in the next Gas Transmission case. The market also reacted to the incremental capex and equity needs in 2013 (and associated share dilution in 2013 and beyond), and uncertainty around approval levels for ambitious capex plans in the upcoming GRC and GT&S rate cases. Additional discussions included pushback on the concept of the rights of way constituting a nonrecurring item, or item impacting comparability, given its five-year timeframe and in spite of the fact that it provides more transparency on these costs going forward.

A number of analysts that cover PCG issued reports incorporating implications from management's guidance into their earnings estimates. Attached are reports from Barclays and Credit Suisse.

Dan Ford of Barclays lowered his EPS forecast from \$2.80 and \$3.20 to \$2.65 and \$3.05 for 2013 and 2014 respectively, and introduced a 2015 EPS estimate of \$3.25. Dan wrote "we struggle to see the shares performing in the near term as uncertainty over the ultimate outcome related to the ongoing San Bruno matter remains."

Dan Eggers of Credit Suisse reduced 2013-2015 EPS estimates from \$2.85, \$3.19, and \$3.31 to \$2.68, \$3.07, and \$3.29. Regarding the right-of-way cost estimates, Dan states "we appreciate market frustration over this announcement both for the absolute cost (the hits like these to shareholders have been large and frequent) but also treatment as a non-recurring earnings hit even though it spans 5 years and relates to costs for deficiencies not related to San Bruno."

In trading yesterday, PCG closed down 4.0%, while the average comparator company closed down 0.2%. The S&P 500 and Dow Jones Industrials closed down 0.6% and 0.3%, respectively. Today in trading, PCG closed up 1.4%, and the average comparator company closed up 1.1%. The S&P 500 and Dow Jones Industrials both closed up 0.9%.

The full reports are attached for your reference.

Thanks,

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Pacific Gas and Electric Company

Investor Relations

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