From: Cherry, Brian K
Sent: 4/18/2013 4:46:19 PM
To: Mark Ferron (fer@cpuc.ca.gov) (fer@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Analyst Report – Deutsche Bank 2013 Industry Update

Mark - FYI

From: Redacted
Sent: Thursday, April 18, 2013 4:40 PM
To: Officers - All
Cc: Investor Relations (list)
Subject: Analyst Report – Deutsche Bank 2013 Industry Update

With first quarter earnings quickly approaching, various analysts will be publishing reports reflecting on utility stock performance in Q1 2013.

On Wednesday, Jonathan Arnold of Deutsche Bank issued an industry report highlighting the strong start to 2013 that utility stocks are exhibiting compared to a challenging 2012, when the utility sector was the worst-performing among all sectors that make up the market. While the S&P 500 is up 9% so far in 2013, utility stocks are up on average 14%. The two drivers that have helped boost the utilities' performance are low interest rates and increasing natural gas prices.

Regulated utilities' current valuation at 17x 2013 estimated earnings is approaching a multi-decade high, as investors continue to favor relative safe havens and yield. Jonathan views these utility valuations with some skepticism, but states that he can't ignore the macro and policy factors which are keeping interest rates lower and utility valuations higher. He also notes that regulated utilities are trading at levels which have not been sustained in the market for very long. For 2013, the average regulated utility implied returns (the combination of dividend yield and EPS growth) are around 8%, assuming a sub 4% dividend yield and EPS growth of 4-5%.

Diversified utilities are getting a boost with "the combination of a rally in near-term natural gas (in part weather-driven) and signs of life in longer-dated power curves." Jonathan also cites generation exposure as a "sensible hedge against an eventual unwind in current regulated utility valuations."

The report also touched briefly on PG&E specifically. Jonathan anticipates that resolution on the pipeline-related proceedings will be a turning point when "PCG will be able to regain its historical premium valuation." He views the California regulatory framework as constructive and believes "PCG will see strong rate base growth for several years as they replace aging infrastructure and continue their focus on safety."

The full report is attached for your reference.

Thanks,

Redacted

The contents of this email are provided solely for your information and are not intended as investment advice. We do not intend to endorse the opinions expressed in any externally prepared reports and you should not rely on them for investment advice

Redacted
Pacific Gas and Electric Company
Investor Relations
415.973.8281
Redacted