SUPPORTING DOCUMENTS FOR
DIRECT TESTIMONY OF JAMES WEIL

Application 12-11-009, Investigation 13-03-007
Pacific Gas and Electric Company
Test Year 2014 General Rate Case

Served May 17, 2013

on behalf of

The Utility Reform Network
115 Sansome St #900
San Francisco, CA 94104

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PACIFIC GAS AND ELECTRIC COMPANY
2014 General Rate Case Phase I
Application 12-11-009
Data Response

PG&E Data Request No.:	TURN_024-01		
PG&E File Name:	GRC2014-Ph-I_DR_TURN_024-Q01		
Request Date:	February 1, 2013	Requester DR No.:	TURN-PG&E-24
Date Sent:	February 15, 2013	Requesting Party:	The Utility Reform Network
PG&E Witness:	Richard Patterson	Requester:	Hayley Goodson

SUBJECT: PG&E-10, CHAPTER 12 (FINANCIAL HEALTH)

QUESTION 1

In Exhibit (PG&E-10), p. 12-1, line 23, PG&E asserts that "continued access to capital markets provides benefits to customers and aligns shareholder and customer interests." At p. 12-5, line 4, PG&E asserts, "PG&E must attract and compete for equity capital, offering the potential for a solid return." Please provide brief descriptions of any specific problems that PG&E has experienced in attracting or competing for capital since January 2004.

ANSWER 1

Two examples of PG&E experiencing problems attracting or competing for capital since January 2004 are provided in Exhibit (PG&E-10), p. 11-10, lines 24-34 and p. 11-11, lines 1-5.

These two examples were also provided in PG&E's prepared testimony in the 2013 Cost of Capital filing (A.12-04-018), Exhibit 21, p. 1-10, lines 17-23 and p. 1-11, lines 1-5, as follows:

> "PG&E was denied credit during the financial crisis in 2008, when it was rated BBB+ by S&P and A- by Moody's and Fitch (S&P has subsequently lowered its rating of PG&E to BBB). Despite these relatively stronger credit ratings, PG&E was temporarily unable to access the debt markets at the peak of the financial crisis. In October 2008, several banks in PG&E's bank group, including a money-centered bank and a large, highly regarded investment bank, declined to participate in PG&E's letter of credit facility that was needed to support the issuance of pollution-control bonds. Again in April and May 2009, a majority of banks in PG&E's bank group refused to participate in a proposed $500 million bank revolver, a bank credit facility that was required to support PG&E's liquidity needs associated with energy procurement activities."

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PACIFIC GAS AND ELECTRIC COMPANY
2014 General Rate Case Phase I
Application 12-11-009
Data Response

PG&E Data Request No.:	TURN_024-02		
PG&E File Name:	GRC2014-Ph-I_DR_TURN_024-Q02		
Request Date:	February 1, 2013	Requester DR No.:	TURN-PG&E-24
Date Sent:	February 15, 2013	Requesting Party:	The Utility Reform Network
PG&E Witness:	David Thomason	Requester:	Hayley Goodson

SUBJECT: PG&E-10, CHAPTER 12 (FINANCIAL HEALTH)

QUESTION 2

In Exhibit (PG&E-10), p. 12-2, line 9, PG&E states, "PG&E will finance a portion of [approximately $16 billion in capital expenditures over this GRC cycle] with internally generated funds, but the balance of these investments must be financed externally, principally with long-term debt and common equity capital." At p. 12-5, line 28, PG&E states, "PG&E must be able to demonstrate to investors that they can expect to earn a competitive return." Please provide copies of PG&E's most current five year projected income statement, balance sheet, cash flow statement and credit quality metrics. (TURN is willing to treat this information confidentially at PG&E's request.) In preparing those documents, what assumptions did PG&E make regarding Commission authorization of the revenue requirement requests included in this general rate case? Explain the assumptions for test year 2014 and attrition years 2015 and 2016. (See Aglet Q/A 15, submitted February 8, 2010 in A.09-12-020, PG&E's test year 2011 GRC, and Aglet Q/A 193, submitted April 15, 2010 in the same proceeding.)

ANSWER 2

Attachments to this response have been marked CONFIDENTIAL and are submitted pursuant to the parties' Non-disclosure Agreement.

Attached are two sets of forecasted financial statements that were used to prepare the 2012-2016 Financial Outlook as presented to the Board of Directors in September 2012: The first set (GRC2014-Ph-I_DR_TURN_024-Q02Atch01CONF) assumed 2014 GRC revenues consistent with PG&E's 2014 GRC NOI filing including the attrition years 2015 and 2016. The second set (GRC2014-Ph-I_DR_TURN_024-Q02Atch02CONF) presents a negative outlook, which assumed, among other things, a 2014 GRC revenue increase that included large unidentified reductions from PG&E's requested expense and capital expenditure funding levels (as shown in the financial statements). The 2014 expense and capital funding reductions in the negative outlook were also carried into 2015 and 2016 to match reduced attrition revenue increases.

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PACIFIC GAS AND ELECTRIC COMPANY
2014 General Rate Case Phase I
Application 12-11-009
Data Response

PG&E Data Request No.:	TURN_024-04		
PG&E File Name:	GRC2014-Ph-I_DR_TURN_024-Q04		
Request Date:	February 1, 2013	Requester DR No.:	TURN-PG&E-24
Date Sent:	February 15, 2013	Requesting Party:	The Utility Reform Network
PG&E Witness:	Walter Campbell	Requester:	Hayley Goodson

SUBJECT: PG&E-10, CHAPTER 12 (FINANCIAL HEALTH)

QUESTION 4

In Exhibit (PG&E-10), p. 12-3, line 27, PG&E states that PG&E is now rated BBB by Standard & Poor's and A- by Moody's Investor Service. Please provide a listing of all changes to PG&E's corporate credit ratings by Standard & Poor's and Moody's from January 2000 through the present. Include all changes to the Standard & Poor's and Moody's outlook or credit watch status during the same period. (See Aglet Q/A 8, submitted February 8, 2010 in A.09-12-020, PG&E's test year 2011 GRC. Check the table entry for Standard & Poor's 02/16/05, which might have been BBB, not BBB-.)

ANSWER 4

A listing of all changes to PG&E's corporate credit ratings by Standard & Poor's and Moody's, from January 2000 through the present, appears on the following page.

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Pacific Gas and Electric Company
Historical Credit Ratings

Standard & Poor's			Moody's Investor Service		
Date	Corporate Credit Rating	Outlook	Date	Long Term Issuer Rating	Outlook
01/01/2000	A+	Stable	05/11/1995	A3	Stable
12/13/2000	A+	Negative	12/11/2000	A2	Stable
01/04/2001	BBB-	Negative	12/11/2000	A2	Negative
01/16/2001	CC	Negative	01/05/2001	Baa3	Negative
01/19/2001	CC	Stable	01/17/2001	Caa2	Negative
01/22/2001	D	Stable	06/23/2003	Caa2	Positive
04/16/2004	BBB-	Stable	10/23/2003	B2	Stable
02/16/2005	BBB	Stable	12/08/2003	B2	Positive
05/31/2007	BBB+	Stable	12/23/2003	Ba2	Positive
09/10/2010	BBB+	Negative	03/12/2004	Baa3	Stable
12/15/2010	BBB+	Stable	12/13/2004	Baa3	Positive
03/16/2011	BBB+	Negative	03/03/2005	Baa1	Stable
12/08/2011	BBB	Stable	04/09/2007	Baa1	Positive
			12/27/2007	A3	Stable

Source: S&P and Moody's websites

PACIFIC GAS AND ELECTRIC COMPANY
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PG&E Data Request No.:	TURN_024-09		
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Request Date:	February 1, 2013	Requester DR No.:	TURN-PG&E-24
Date Sent:	February 15, 2013	Requesting Party:	The Utility Reform Network
PG&E Witness:	Teresa Hoglund	Requester:	Hayley Goodson

SUBJECT: PG&E-10, CHAPTER 12 (FINANCIAL HEALTH)

QUESTION 9

In Exhibit (PG&E-10), p. 12-6, line 28, PG&E states that "cost-of-service regulation makes it unusual for utilities to materially exceed the equity returns authorized as reasonable by the commissions." Please provide a listing of PG&E's authorized and achieved annual returns on rate base (ROR) and returns on equity (ROE) for the years 2003 through 2012. Indicate general rate case test years. (See Aglet Q/A 9 and 9-Supplemental, submitted February 8, 2010 in A.09-12-020, PG&E's test year 2011 GRC.)

ANSWER 9

Please refer to GRC2014-Ph-I_DR_TURN_024-Q09Atch01 for PG&E's authorized and recorded annual Rate of Return (ROR) and Return on Equity (ROE) for the years 2003 through 2011.

PG&E objects to this question for 2012 to the extent the question asks for actual 2012 data while PG&E's 2014 GRC forecast uses a base year of 2011 recorded data in accordance with the Commission's Rate Case Plan. Notwithstanding the foregoing, and without waiving PG&E's right to object to the admissibility of the requested information into evidence, PG&E will respond when the 2012 financial data is available.

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PACIFIC GAS AND ELECTRIC COMPANY
ALL OPERATING DEPARTMENTS
RATES OF RETURN
YEARS 2003 through 2011

Line No.		Year	All Electric and Gas Operations Recorded Rates of Return		CPUC Authorized Rates of Return		FERC Electric Transmission Filed Rates of Return	
			ROR	ROE	ROR	ROE	ROR	ROE
1	GRC Test Year	2003	7.37%	7.34%	9.24%	11.22%	10.31%	13.50%
2		2004	8.33%	10.60%	8.53%	11.22%	9.81%	13.00%
3		2005	8.85%	11.57%	8.77%	11.22%	9.81%	13.00%
4		2006	8.97%	11.80%	8.79%	11.35%	9.14%	12.00%
5	GRC Test Year	2007	9.27%	12.37%	8.79%	11.35%	9.17%	12.00%
6		2008	9.16%	12.16%	8.79%	11.35%	9.17%	12.00%
7		2009	8.67%	11.18%	8.79%	11.35%	9.27%	12.30%
8		2010	8.64%	11.19%	8.79%	11.35%	9.35%	12.30%
9	GRC Test Year	2011	7.73%	9.53%	8.79%	11.35%	9.35%	12.30%

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PACIFIC GAS AND ELECTRIC COMPANY
2014 General Rate Case Phase I
Application 12-11-009
Data Response

PG&E Data Request No.:	TURN_024-10		
PG&E File Name:	GRC2014-Ph-I_DR_TURN_024-Q10		
Request Date:	February 1, 2013	Requester DR No.:	TURN-PG&E-24
Date Sent:	February 15, 2013	Requesting Party:	The Utility Reform Network
PG&E Witness:	Teresa Hoglund	Requester:	Hayley Goodson

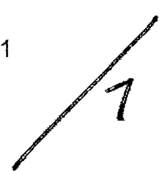
SUBJECT: PG&E-10, CHAPTER 12 (FINANCIAL HEALTH)

QUESTION 10

For each of the most recent seven PG&E general rate cases, please provide data for the test year, initial requested revenue requirements (base revenue amount, separated into electric distribution, gas distribution and electric generation), and the corresponding revenue requirements authorized by the Commission. (See Aglet Q/A 28, submitted February 8, 2010 in A.09-12-020, PG&E's test year 2011 GRC.)

ANSWER 10

Please refer to GRC2014-Ph-I_DR_TURN_024-Q10Atch01.



Pacific Gas and Electric Company
GRC History RRQ Requested vs Adopted

Line No.		1990 GRC[a]	1993 GRC[a]	1996 GRC[a]	1999 GRC[b]	2003 GRC	2007 GRC	2011 GRC
		D.89-12-057	D.92-12-037	D.95-12-055	D.00-02-046	D.04-05-055	D.07-03-044	D.11-05-018
1	Requested RRQ							
2	Generation					943,778	1,065,400	1,831,340
3	Electric Distribution				2,375,213	2,710,479	3,069,800	3,631,413
4	Total Electric	3,508,817	3,870,453	3,420,430	2,375,213	3,654,257	4,135,200	5,462,753
5	Gas Distribution				1,158,570	982,309	1,088,400	1,315,666
6	Total Gas	1,165,985	1,329,097	1,163,877	1,158,570	982,309	1,088,400	1,315,666
7	Total GRC	4,674,802	5,199,550	4,584,307	3,533,783	4,636,566	5,223,600	6,778,419
8	Adopted RRQ							
9	Generation					912,258	1,019,800	1,667,810
10	Electric Distribution				2,061,282	2,493,034	2,950,100	3,346,465
11	Total Electric	3,188,017	3,753,557	3,248,634	2,061,282	3,405,292	3,969,900	5,014,275
12	Gas Distribution				857,878	926,513	1,073,400	1,154,351
13	Total Gas	1,079,934	1,287,311	1,097,580	857,878	926,513	1,073,400	1,154,351
14	Total GRC	4,267,951	5,040,868	4,346,214	2,919,160	4,331,805	5,043,300	6,168,626
		91.3%	96.9	94.8	82.6	93.4	96.5	91.0

NOTES:
(a) Prior to 1999 GRC, the GRC revenue requirements were not unbundled to generation and distribution.
(b) No electric generation amounts are provided since generation base revenue requirement is established outside the 1999 GRC in compliance with D.97-12-096, as a result of electric industry restructuring.
(c) For all years, the Revenue Requiremenst (not the billed revenues) are shown.

Line No.		1990 GRC	1993 GRC	1996 GRC	1999 GRC	2003 GRC	2007 GRC	2011 GRC
15	Requested RRQ Source (References are to Decision order & JCE appendices unless otherwise noted.)							
16	Generation					(1) Exh 100, p2-25	Dec. Apdx C pC-21	Dec. Atch 2, Table 3-1, p2-27
17	Electric Distribution				(1) Exh 474, Table 2-1	(1) Exh 100, p2-4	Dec. Apdx C pC-21	Dec. Atch 4, p1
18	Total Electric	See Line 27-31 below	ApdxB, p2	ApdxB, pB-1				
19	Gas Distribution				(1) Exh 474, Table 2-5	(1) Exh 100, p2-15	Dec. Apdx C pC-21	Dec. Atch 2, Table 2-1, p2-14
20	Total Gas	See Line 27-31 below	ApdxD, p2	ApdxC, pC-1				
21	Adopted RRQ Source (References are to Decision order & appendices unless otherwise noted.)							
22	Generation					Order, Atch D pD3-2	Dec. Apdx C pC-21	Dec. Atch 2, Table 3-1, p2-27
23	Electric Distribution				Order, Apdx B pB3	Order, Atch D pD1-2	Dec. Apdx C pC-21	Dec. Atch 4, p1, AL 3869-E
24	Total Electric	ApdxB, p29	ApdxB, p2	ApdxB, pB-1				
25	Gas Distribution				Order, Apdx B pC3	Order, Atch D pD2-2	Dec. Apdx C pC-21	Dec. Atch 2, Table 2-1, p2-14
26	Total Gas	ApdxE, p26	ApdxD, p2	ApdxC, pC-1				

Line No.		1990 GRC Requested RRQ Calculation (to Line 4 above)		1990 GRC Requested RRQ Calculation (to Line 6 above)	
27					
28		Source	Electric Dept	Source	Gas Dept
29	Adopted RRQ	Order AppB pg 29	3,188,017	Order AppE pg 26	1,079,934
30	Less: Adopted Increase	Order pg 2	44,209	Order pg 2	39,005
30	Revenue at Present Rates	Calculated	3,143,808	Calculated	1,040,929
31	Add:Requested Increase	Order pg 2	365,009	Order pg 2	125,056
31	Requested RRQ	Calculated	3,508,817	Calculated	1,165,985

(1) References are to the comparison exhibit for these cases.

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PACIFIC GAS AND ELECTRIC COMPANY
2014 General Rate Case Phase I
Application 12-11-009
Data Response

PG&E Data Request No.:	TURN_024-11		
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Request Date:	February 1, 2013	Requester DR No.:	TURN-PG&E-24
Date Sent:	February 15, 2013	Requesting Party:	The Utility Reform Network
PG&E Witness:	Walter Campbell Jay Dore Jason Wells	Requester:	Hayley Goodson

SUBJECT: PG&E-10, CHAPTER 12 (FINANCIAL HEALTH)

QUESTION 11

If the Commission does not grant PG&E's test year and attrition year revenue requirement requests in this proceeding, what is PG&E's policy regarding spending and authorized revenue requirements? Will PG&E reduce its spending to stay within authorized revenue requirements, or will PG&E spend requested amounts despite Commission disallowances, or does PG&E have some other policy regarding spending levels? Explain the answers. (See Aglet Q/A 22, submitted February 8, 2010 in A.09-12-020, PG&E's test year 2011 GRC.)

ANSWER 11

With the goal of providing safe, reliable, affordable, and customer-focused service to its customers, PG&E attempts to operate its business within the cost levels authorized by the Commission. Should the Commission not grant PG&E's test year and attrition year revenue requirement requests in this proceeding, PG&E would, as it does in any given year, evaluate the work priorities and circumstances to determine an appropriate level of spending.

SB_GT&S_0050998

PACIFIC GAS AND ELECTRIC COMPANY
2014 General Rate Case Phase I
Application 12-11-009
Data Response

PG&E Data Request No.:	TURN_024-16		
PG&E File Name:	GRC2014-Ph-I_DR_TURN_024-Q16		
Request Date:	February 1, 2013	Requester DR No.:	TURN-PG&E-24
Date Sent:	February 15, 2013	Requesting Party:	The Utility Reform Network
PG&E Witness:	Walter Campbell Jay Dore Jason Wells	Requester:	Hayley Goodson

SUBJECT: PG&E-10, CHAPTER 12 (FINANCIAL HEALTH)

QUESTION 16

In A.09-11-020, PG&E's test year 2011 GRC, Aglet submitted the following discovery request: "In Exhibit (PG&E-1), p. 1-19, line 10, PG&E states, 'Overall, we believe the dollars and ratemaking mechanisms we are requesting in this case optimally meet the needs of our customers and allow us to provide safe and reliable service at a reasonable cost.' Using what measures does PG&E seek an optimum? Do those measures include high achieved ROE, or low growth in average rates? Do the needs of PG&E customers include the need for low utility rates?" PG&E responded, "PG&E seeks to balance the objective of providing safe and reliable service with its aspiration to provide low utility rates, both today and over time. PG&E considers earning a reasonable rate of return to be necessary to achieve this balance." (See Aglet Q/A 27, submitted February 8, 2010 in A.09-12-020.) Does PG&E hold the same views today? If no, explain the answer.

ANSWER 16

Yes. For a more complete exposition on the relationship between providing utility service and the need to earn a reasonable return, please see PG&E's direct testimony in this proceeding in Exhibit (PG&E-10), Chapter 12. See also PG&E's response to GRC2014-Ph-I_DR_TURN_024-Q11.

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SB_GT&S_0050999

PG&E Corporation and Pacific Gas and Electric Company

2009 ANNUAL REPORT

(excerpt)

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PG&E Corporation's and the Utility's financial condition depends upon the Utility's ability to recover its costs in a timely manner from the Utility's customers through regulated rates and otherwise execute its business strategy.
The Utility's financial condition particularly depends on its ability to recover in rates, in a timely manner, the costs of electricity and natural gas purchased for its customers, its operating expenses, and an adequate return of and on the capital invested in its utility assets, including the costs of long-term debt and equity issued to finance their acquisition. Unanticipated changes in operating expenses or capital expenditures can cause material differences between forecasted costs used to determine rates and actual costs incurred, which, in turn, affect the Utility's ability to earn its authorized rate of return. The Utility's revenue requirements for its basic electric and natural gas distribution operations and its electric generation operations have been set by the CPUC through 2010, and the Utility's next GRC will not be effective until January 1, 2011. In addition, the CPUC or the FERC may not allow the Utility to recover costs that it has already incurred on the basis that such costs were not reasonably or prudently incurred or for other reasons.

The CPUC also has authorized the Utility to collect rates to recover the costs of various public policy programs that provide customer incentives and subsidies for energy efficiency programs and for the development and use of renewable and self-generation technologies. In addition, the CPUC has authorized ratemaking mechanisms that permit the utilities to earn incentives (or incur a reimbursement obligation) depending on the extent to which the utilities meet the CPUC's energy savings and demand reduction goals over three-year program cycles. There is considerable uncertainty about how the costs and the savings attributable to these energy efficiency programs will be measured and verified. As customer rates rise to reflect these subsidies, customer incentives, or shareholder incentives, the risk may increase that the CPUC or another state authority will disallow recovery of some of the Utility's costs based on a determination that the costs were not reasonably incurred or for some other reason, resulting in stranded investment capital.

In addition, changes in laws and regulations or changes in the political and regulatory environment may have an adverse effect on the Utility's ability to timely recover its costs and earn its authorized rate of return. During the 2000–2001 energy crisis that followed the implementation of California's electric industry restructuring, the Utility could not recover in rates the high prices it had to pay for wholesale electricity, which ultimately caused the Utility to file a petition for reorganization under Chapter 11. In 2003, PG&E Corporation, the Utility, and the CPUC entered into a settlement agreement to resolve the Utility's Chapter 11 proceeding, which was incorporated into the Utility's plan of reorganization that became effective in April 2004. Even though the settlement agreement and current regulatory mechanisms contemplate that the CPUC will give the Utility the opportunity to recover its reasonable and prudent future costs of electricity and natural gas in its rates, the CPUC may not find that all of the Utility's costs are reasonable and prudent, or the CPUC may take actions or fail to take actions that would be to the Utility's detriment. In addition, the bankruptcy court having jurisdiction of the Chapter 11 settlement agreement or other courts may fail to implement or enforce the terms of the Chapter 11 settlement agreement and the Utility's plan of reorganization in a manner that would produce the economic results that PG&E Corporation and the Utility intend or anticipate.

The Utility's failure to recover any material amount of its costs through its rates in a timely manner would have a material adverse effect on PG&E Corporation's and the Utility's financial condition, results of operations, and cash flows.

The Utility faces uncertainties associated with the future level of bundled electric load for which it must procure electricity and secure generating capacity and, under certain circumstances, may not be able to recover all of its costs.
The Utility must procure electricity to meet customer demand, plus applicable reserve margins not satisfied from the Utility's own generation facilities and existing electricity contracts. When customer demand exceeds the amount of electricity that can be economically produced from the Utility's own generation facilities plus net energy purchase contracts (including DWR contracts allocated to the Utility's customers), the Utility will be in a "short" position. When the Utility's supply of electricity from its own generation resources plus net energy purchase contracts exceeds customer demand, the Utility is in a "long" position.

The amount of electricity the Utility needs to meet the demands of customers that is not satisfied from the Utility's own generation facilities, existing purchase contracts, or DWR contracts allocated to the Utility's customers could increase or decrease due to a variety of factors, including, without limitation a change in the number of the Utility's customers, periodic expirations, or terminations of the Utility's existing electricity purchase contracts termination of the DWR's obligations to provide electricity under purchase contracts allocated to the Utility's customers; execution of new energy and capacity purchase contracts; fluctuation in the output of hydroelectric and other renewable power facilities owned or under contract by the Utility; implementation of new

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FOR IMMEDIATE RELEASE

May 2, 2013

CONTACT: PG&E External Communications: 1-415-973-5930

PG&E CORPORATION REPORTS FIRST-QUARTER 2013 RESULTS

SAN FRANCISCO, Calif.—PG&E Corporation's (NYSE: PCG) first-quarter 2013 net income after dividends on preferred stock (also called "income available for common shareholders") was $239 million, or $0.55 per share, as reported in accordance with generally accepted accounting principles (GAAP). This compares with $233 million, or $0.56 per share, for the first quarter of 2012.

GAAP results include items that management does not consider part of normal, ongoing operations (items impacting comparability), which totaled $62 million pre-tax, or $0.08 per share for the quarter. The items impacting comparability all relate to natural gas matters, including costs to validate safe pipeline operating pressures and other safety improvements, as well as legal and other costs.

The total cost for natural gas pipeline-related actions incurred at shareholders' expense since the San Bruno accident in 2010 now exceeds $1.4 billion.

"We continued to make very good operational progress during the quarter, consistent with our focus on becoming one of the safest and most reliable utilities in the country," said Tony Earley, Chairman, CEO, and President of PG&E Corporation. "We delivered ongoing and significant gains in our gas safety program, completed a safe refueling outage at Diablo Canyon Power Plant, and provided customers with the best electric reliability in our history."

During the quarter, PG&E's gas operations team announced completion of three more of the National Transportation Safety Board's 12 safety recommendations that followed the San Bruno accident, and continued to make progress on the remaining five. The team also continued to strength-test and replace the utility's transmission pipelines and install additional automatic or remote shut-off valves as part of its safety program.

The first-quarter refueling outage at the company's nuclear plant was among the most successful in Diablo Canyon's history, given the depth and breadth of the work involved, the excellent employee safety performance, and its conclusion ahead of schedule.

In electric operations, PG&E's reliability performance for the quarter achieved a company record for the lowest frequency and duration of outages. Since the quarter ended, the utility also broke ground on the first of three new electric distribution control centers, which will serve to further enhance system reliability for customers over the long term.

Earnings from Operations

On a non-GAAP basis, excluding items impacting comparability, PG&E Corporation's earnings from operations in the first quarter of 2013 were $276 million, or $0.63 per share. During the same period in 2012, earnings from operations were $372 million, or $0.89 per share.

The quarter-over-quarter difference primarily reflects a number of factors that negatively impacted this year's first-quarter results. The lower regulated return on equity and debt as compared to last year was the single biggest factor, accounting for $0.10 of the decrease. Other factors included the cost of the regularly scheduled nuclear refueling outage, which accounted for a decrease of $0.06, and additional shares outstanding, which accounted for a decrease of $0.04.

2013 Earnings Guidance

PG&E Corporation is maintaining its previously issued 2013 guidance range for non-GAAP earnings from operations of $2.55 to $2.75 per share. On a GAAP basis, including the estimated amounts for the items impacting comparability for 2013, the range for projected earnings is also unchanged at $1.66 to $2.22 per share.

Guidance is based on various assumptions, including a lower authorized return on equity and additional equity issuances. These and other assumptions are provided in an appendix to the presentation accompanying the earnings release, available on PG&E Corporation's web site at: http://www.pgecorp.com/news/press_releases/Release_Archive2013/130502press_release.shtml.

PG&E Corporation discloses historical financial results and provides guidance based on "earnings from operations" in order to provide a measure that allows investors to compare the underlying financial performance of the business from one period to another, exclusive of items that management believes do not reflect the normal course of operations. Earnings from operations are not a substitute or alternative for consolidated income available for common shareholders presented in accordance with GAAP. See the accompanying exhibits for a reconciliation of the

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differences between results and guidance based on earnings from operations and results and guidance based on consolidated income available for common shareholders.

Supplemental Financial Information

In addition to the financial information accompanying this release, presentation slides for today's conference call with the financial community have been furnished to the Securities and Exchange Commission and are available on the corporation web site above.

Conference Call with the Financial Community to Discuss Financial Results

Today's call at 11:00 a.m., Eastern Time, is open to the public on a listen-only basis via webcast. Please visit http://www.pgecorp.com/investors/investor_info/conference/ for more information and instructions for accessing the webcast. The call will be archived on the website. Alternatively, a toll-free replay of the conference call may be accessed shortly after the live call until 8:00 p.m. Eastern Time, May 16, 2013, by dialing (866) 415-9493. International callers may dial (205) 289-3247. For both domestic and international callers, the pin number 23959# will be required to access the replay.

Management's statements regarding guidance for PG&E Corporation's future financial results and earnings from operations per common share and the underlying assumptions constitute forward-looking statements that are necessarily subject to various risks and uncertainties. These statements reflect management's judgment and opinions which are based on current expectations and various forecasts, estimates, and projections, the realization or resolution of which may be outside of management's control. PG&E Corporation and the utility are not able to predict all the factors that may affect future results. Some of the factors that could cause actual results to differ materially include:

- the outcome of pending investigations related to the utility's natural gas system operating practices and the San Bruno accident, including the ultimate amount of penalties (including criminal penalties, if any) and third-party liability the utility incurs;
- the outcomes of ratemaking proceedings, such as the 2014 General Rate Case, the electric transmission owner rate case, and the 2015 Gas Transmission and Storage rate case;
- the ultimate amount of costs the utility incurs in the future that are not recovered through rates;
- the outcome of future investigations or enforcement proceedings relating to the utility's compliance with laws, rules, regulations, or orders applicable to the operation, inspection, and maintenance of its electric and gas facilities;
- whether PG&E Corporation and the utility are able to repair the reputational harm that they have suffered, and may suffer in the future, due to the negative publicity surrounding the San Bruno accident, the related civil litigation, and the pending investigations, including any charge or finding of criminal liability;
- the level of equity contributions that PG&E Corporation must make to the utility to enable the utility to maintain its authorized capital structure as the utility incurs charges and costs, including costs associated with natural gas matters and penalties imposed in connection with the pending investigations, that are not recoverable through rates or insurance;
- the impact of environmental remediation laws, regulations, and orders; the ultimate amount of environmental remediation costs; the extent to which the utility is able to recover such costs from third parties or through rates or insurance; and the ultimate amount of environmental remediation costs the utility incurs that are not recoverable through rates or insurance, such as the remediation costs associated with the utility's natural gas compressor station site located near Hinkley, California;
- the impact of new legislation, regulations, recommendations, policies, decisions, or orders relating to the operations, seismic design, security, safety, or decommissioning of nuclear generation facilities, the storage of spent nuclear fuel or cooling water intake;
- the occurrence of events, including cyber-attacks, that can cause unplanned outages, reduce generating output, disrupt the utility's service to customers, or damage or disrupt the facilities, operations, or information technology and systems owned by the utility, its customers, or third parties on which the utility relies; and whether the occurrence of such events subject the utility to third-party liability for property damage or personal injury, or result in the imposition of civil, criminal, or regulatory penalties on the utility; and
- the other factors and risks discussed in PG&E Corporation's and the utility's 2012 Annual Report on Form 10-K and other reports filed with the Securities and Exchange Commission.

SHAREHOLDER INFO | DIVIDEND AND STOCK SPLIT HISTORY

Year	January	April	July	October
		PAYMENT DATE		
2013	$.455	$.455		
2012	$.455	$.455	$.455	$.455
2011	$.455	$.455	$.455	$.455
2010	$.420	$.455	$.455	$.455
2009	$.390	$.420	$.420	$.420
2008	$.360	$.390	$.390	$.390
2007	$.330	$.360	$.360	$.360
2006	$.330	$.330	$.330	$.330
2005	-	$.300	$.300	$.300
2004	-	-	-	-
2003	-	-	-	-
2002	-	-	-	-
2001	$.300 *	-	-	-

* This payment was for the fourth quarter 2000 dividend, which was paid in March 2001.

Dividends were suspended on January 1, 2001.

Year	January	April	July	October
2000	$.300	$.300	$.300	$.300
1999	$.300	$.300	$.300	$.300
1998	$.300	$.300	$.300	$.300

PG&E Corporation was formed as a holding company on January 1, 1997.

Year	January	April	July	October
1997	$.300	$.300	$.300	$.300
1996	$.490	$.490	$.490	$.490
1995	$.490	$.490	$.490	$.490
1994	$.470	$.490	$.490	$.490
1993	$.440	$.470	$.470	$.470
1992	$.410	$.440	$.440	$.440
1991	$.380	$.410	$.410	$.410
1990	$.350	$.380	$.380	$.380
1989	$.350	$.350	$.350	$.350
1988	$.480	$.480	$.480	$.350
1987	$.480	$.480	$.480	$.480
1986	$.460	$.460	$.480	$.480
1985	$.430	$.430	$.460	$.460
1984	$.400	$.400	$.430	$.430

A 2-for-1 stock split was announced on June 15, 1983; the dividend was paid on July 15, 1983.

Year	January	April	July	October
1983	$.750	$.750	$.400	$.400
1982	$.680	$.680	$.750	$.750
1981	$.650	$.680	$.680	$.680
1980	$.610	$.650	$.650	$.650

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January 2, 2013

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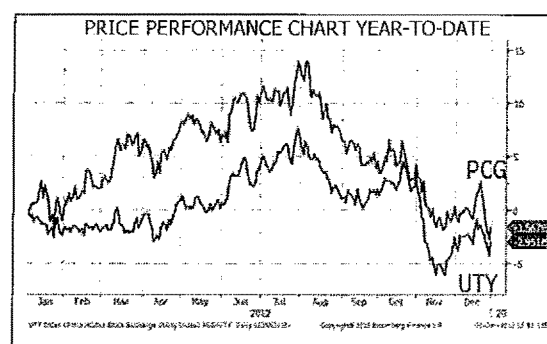
Utilities/Power Research

PG&E Corp. **BUY** (PCG, $40.18)

INITIATING WITH A BUY – SUBSTANTIAL NEAR-TERM OVERHANG BUT THE BEST VALUE IN THE GROUP

- Initiating coverage with a Buy rating.
- We want to increase our exposure to increasingly supportive CA regulation and PCG is, in our view, among the best values in the utility universe though at a relatively high risk level.
- We see the risk/reward in PCG as favorable and the downside limited, given what we see as the overall supportive attitude of CA regulators towards the utility, plus an above-average 4.5% yield and solid balance sheet.
- The main risk near term is that on Jan. 7, there is an announcement that no deal has been reached on the San Bruno issues and formal hearings would resume. The stock could take a modest near term hit if that happens. But we would consider the outlook still favorable both near and longer-term for an acceptable resolution to San Bruno, lead to an overall improvement in earning power.
- One school of investor thought is to wait for the equity issuance that is almost certain to follow any San Bruno resolution, with its likely penalty of perhaps $600mm. We would probably be buyers on any such issuance, but we feel that expected issuance is already well discounted in the stock and we are more concerned with missing the possible upside from a deal announcement.
- We continue to recommend the two other CA utilities, Edison International (NYSE:EIX, Buy) and Sempra Energy (NYSE:SRE, Buy). All three CA utes are among our favorite plays going into 2013.
- Our one-year price target for PCG is $47 based on a regulated group average year-ahead multiple of 14.9 times our 2014E of $3.15.
- Near term, we believe there is better than a 50% chance that in the near term PCG will reach a global settlement that puts to bed the contentious, long-running exposures of penalties and pipeline system rebuilding that came out of the fatal San Bruno explosion in September 2010.
- Due to recent improvements in levels of support provided by CA regulators, we now feel relatively comfortable recommending the stock even before the settlement and large equity issuance of $1B+ that is likely to follow. Even in the absence of a near term settlement, we feel strongly enough that CA regulation has turned generally supportive that we feel the risk/reward for investors in PCG is attractive.

PRICE PERFORMANCE CHART YEAR-TO-DATE



PCG:-1.57% UTY: -2.95%
Source: Bloomberg

Company Data	
Price ($)	40.18
2013 EPS Estimate	2.80
2013E P/E	14.4
2014 EPS Estimate	3.15
2014E P/E	12.8
52-Week Range ($)	39.40-47.03
Mkt Cap ($ B)	17.2
Price Target ($)	47
Shares Outstanding (M)	430
Dividend ($)	1.82
Yield	4.6%
L/T EPS Growth Rate	7%

PG&E Corporation is a holding company that holds interests in energy based businesses. The Company's holdings include a public utility operating in northern and central California that provides electricity and natural gas distribution; electricity generation, procurement, and transmission; and natural gas procurement, transportation, and storage. The company is headquartered in San Francisco, CA and the website is www.pgecorp.com.

Source: Bloomberg

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- Reports published in San Francisco newspapers have indicated that PCG has offered $550m as a penalty in a settlement, which would be a level already discounted in the stock in our view.
- Key near term date is Jan. 7 which could put pressure on for a settlement to be announced, otherwise protracted hearings get underway to litigate all the San Bruno issues before the CPUC. Even if hearings resume, a deal could still be struck at any time.
- We know from our discussions with commissioners, staff, and other parties that the regulators see PCG as a vehicle for improving the gas pipeline system going forward and for implementing other CA regulatory initiatives like carbon, renewables, and energy efficiency.
- We also believe that CEO Tony Earley, the long-time industry leader brought in to clean up the mess, is held in high regard by the regulators, helping make the case that PCG can build good relationships with the CPUC and earn reasonable returns on a high-growth rate base.

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January 2, 2013

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A Stable Regulated Utility Waiting to Happen

- A global settlement could clear the decks for a straightforward fully regulated utility play with EPS of $3.15 in 2014 following issuance of $1B+ in equity to pay a penalty, plus a general rate case that should conclude around year-end 2013.
- But we remain uncertain if the company can reach a settlement with the consumer/ratepayer groups in CA that want a public admission of guilt, which the company should not give, in our view.
- The next key date appears to be Jan. 7, when CPUC president Peevey has set as the date for resumption of formal proceedings if a settlement is not reached. However, investors are well aware that these deadlines have been far from hard in the past months, and we would continue to view the settlement possibility as a live one.
- The biggest issue for investors near term is that, without a settlement, it could take until 2H13 before the San Bruno issues are resolved through fully litigated proceedings at the CPUC. If there is a public indication that San Bruno is going to a fully litigated proceeding – which could be the news on Jan. 7, the deadline set by the CPUC for San Bruno hearings to resume - the stock could take a hit in the near term.
- We see potentially significant stock price upside of perhaps 5-10% near term if and when a settlement could be reached.
- However, we are encouraged by recent CPUC actions regarding PCG and other utilities that regulators want to put to rest the San Bruno issues and, in effect, see PCG rebuild its finances and operations to return to being a straightforward regulated utility.
- In particular, we see the CPUC's action on Dec. 20 in removing the penalty ROE - recommended by an ALJ - for future PCG investment in gas pipelines as indicating a strong desire to move beyond the penalty phase of the San Bruno proceedings. It's been well over two years since the explosion, and we see the CPUC as now aiming to return PCG to being a financially stable regulated utility, capable of financing the high level of cap ex contemplated under CA's aggressive infrastructure build program.
- CPUC president Peevey was reported in the SF papers on Dec. 23 as being "livid" that officials of the city of San Bruno and TURN, the consumer group, did not accept PCG's offer to settle the San Bruno issues for a penalty of $550mm. The utility opponents are reportedly sticking over wanting PCG to admit to violating state law in the San Bruno explosion, which PCG in our view should not admit as it could create an open-ended litigation quagmire (obviously the goal of plaintiff's lawyers on the case).
- Given the way the press laid out the negotiations – which fits with our information – we feel reasonably optimistic that there is an acceptable number and an acceptable verbal formulation that could get this deal done in the near term. However, it may have to go beyond Jan. 7 and an official resumption of the proceedings before a deal gets finalized.
- In another supportive move on Dec. 20 - also against the recommendation of an ALJ – the CPUC approved the large new gas plant, Oakley, for inclusion in PCG's future rate case. It implies that rates will be raised in the future to fund rate base and earnings growth, but Peevey strongly supported it based on the thesis that the new Oakley plant is an environmental improvement.
- We see all these regulatory actions as being part of CPUC President Peevey's overall effort to keep the utilities financially strong so that they can be used as part of the regulatory state's program to battle climate change, support renewables, encourage energy efficiency, and achieve other high-minded, expensive goals for CA society. In that effort, as we see Peevey and the CPUC

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generally, reducing ROE by a few tenths or otherwise dinging the shareholders is not only beside the point, it is counterproductive.

Basically, PCG in 2014 – assuming a settlement or litigated and reasonable outcome of the general rate case – could earn $3.10-3.20 in EPS and should get at least a regulated-average 14.9 multiple – potentially a $47-48 stock.

Without a more or less complete resolution of these open-ended issues through a global settlement, PCG stock could continue to struggle for 6-9 months if the litigation of those issues goes to a full term through 2013.

We are confident enough about the improving trend in CA regulation that we feel the downside is limited for PCG stock, especially considering the above-average 4.5% yield.

However, even if CA regulators restart the litigation path for the complex San Bruno/pipeline issues, we believe an eventual global settlement remains a real possibility.

The case for improving regulation in CA

On Dec. 20, the CPUC took two significant actions, contradicting its own administrative law judges, that we see as supportive of PCG and the thesis that

Our support for EIX and SRE stocks continues to be, significantly, a play on improving CA regulation which was much in evidence yesterday.

The CA Public Utilities Commission (CPUC), at its meeting on 12/20, took no fewer than four different actions that were supportive of the CA utilities:

- Modestly raised EIX's allowed ROE to 10.45%, vs. 10.4% in the proposed decision, after the company made its case in recent meetings with the commissioners. That improves EPS by about $0.015 by our estimate, but more important it is a sign of directional improvement in regulation and earning potential for a stock that has recently turned back into a fully regulated CA utility by moving to deconsolidate its bankrupt unregulated generation unit EME.
- Raised the equity ratio for SRE's SDG&E utility to 52%, vs. 50.5% in the PD, also a slight boost to SRE's EPS but a big boost to our confidence in CA regulation.
- Raised PCG's ROE on designated future pipeline safety investments (PSEP) from the punitive ROE in the PD to a full equity return. PCG still objects to the substantial effective disallowance of future capital spending on pipeline safety that is embedded in the decision. But we see the change in the ROE as indicating that the CPUC wants to continue to incent future investment from PCG.
- Allowed PCG to go ahead with the acquisition of a new gas plant, Oakley. This represents a significant future growth opportunity for the utility as the plant is added to rate base upon completion. The CPUC went ahead with this boost to PCG's prospects over the objections of existing unregulated generators in CA, and against the PD for not allowing it as costly to ratepayers. Tellingly, president Peevey pushed the PCG acquisition of the project, among other reasons, because it was a way that the CPUC could use the utility to advance state environmental goals.

The CPUC is increasingly reflecting the strong influence of president Peevey, who in our view sees the utilities as instruments of ambitious policy goals in CA for which they need to be incented and kept financially strong. Peevey was not Gov. Brown's man but has gained the governor's favor and his ear for using the utilities as implementers of policy goals, such as climate change and renewables. We view yesterday's votes an indicating that Peevey has also converted to this way of thinking commissioners Florio, who was the consumer

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advocate opposing the utilities for many years, and Ferron, who earlier in 2012 was making investors very nervous by suggesting that CA utility ROEs were well above the national average and were significantly too high.

Peevey in our analysis uses his influence to downplay the importance of ROEs and generally of utilities' earnings as a consumer issue – the default position for many regulators such as the MD chairman Nazarian, who especially pounds on Pepco Holdings (NYSE:POM, Hold). Instead, he talks frequently about the need to have financially strong utilities to undertake the major rate base expansion that he considers important for CA – new transmission lines to support remote renewable projects, smart grid, rooftop solar – and also as vehicles for influencing and implementing the social projects that Brown and Sacramento generally favor. At yesterday's meeting, Peevey spoke about how the proposed awards for energy efficiency for the utilities were too low – clearly he believes that a few extra dollars in utility earnings through slightly higher rates is a small price to pay for CA to be a leader on issues like efficiency that he considers important.

One obvious example of quietly supportive regulation was the improvement in SRE's equity ratio to 52%. Mathematically, increasing the regulatory equity level leads as directly to higher utility earnings as raising the allowed ROE. But it is a much less politically sensitive topic and the SRE equity layer was raised by the CPUC with virtually no public comment or objection.

PCG settlement? We have no doubt from our prior visits and discussions with CPUC members and their staffs that the commissioners would like the huge San Bruno/pipeline issues dealt with through a global settlement. The CPUC does not want to conduct lengthy, messy proceedings that could last most of 2013 for an incident that occurred over two years ago, as bad as it was. If we are right that the CPUC sees the utilities as instruments of state policy to be kept financially sound, then the PCG gas issues are a massive distraction and even counterproductive, since any dollars PCG pays in penalties is a dollar that goes to the CA general fund and not into pipeline safety or any other CPUC goal.

The potential PCG global settlement has been talked about by the company, investors, and the regulatory parties for numerous months now. Our belief is that the division of ratepayer advocates (DRA) continues to push for an admission of guilt by PCG which is legally impossible. We see the CPUC's decision to improve the PSEP ROE as a signal to parties including the DRA that the CPUC would like to be done with the San Bruno penalty issues and look towards rebuilding the gas system in the future.

Gov. Brown's appointment of Carla Peterman to the CPUC is an incremental negative but we feel her impact on the commission should be minor. Her negative points include: her youth and inexperience (34); she has been a board member and treasurer of the consumer group/utility opponent TURN; her "jobs" have mainly been as a student (still working on a doctorate in how to finance renewable energy) and regulator (at the CA Energy Commission); and she was a Rhodes Scholar, which seems increasingly to pre-select future politicians. She once was an analyst in investment banking at Lehman before the collapse, which some have taken as a positive from an investment perspective. Her replacing Tim Simon, an experienced Republican securities lawyer, will not help the balance of power on the CPUC from an investor perspective.

However, as with other commissioners including Florio with his decades working at TURN, we feel it is possible that she can be educated about the fair balance legally required of CPUC members between consumer and investor interests, as well as president Peevey's interest in maintaining the financial strength of the utilities to use them as vehicles for implement state policies.

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At the core, PCG is a pure-play CA utility, owner of the northern CA power and gas distribution and transmission assets (and some residual regulated generation).

We see EPS reaching a more normalized level of $3.10-3.20 in 2014, based on various assumptions about the resolution of the San Bruno issues and a reasonable outcome of the general rate case that should be decided around the end of 2013.

Upcoming events:

Settlement?

Jan. 7 hearings may resume – the stock would likely have a negative reaction if hearings resume, as it implies a deal could not be reached near term. But we believe a deal would remain a live possibility even if hearings resume.

General rate case runs through 2013. Given the round of CPUC decisions in the months leading up to Dec. 20, which we view as constructive overall, we are cautiously optimistic that the GRC should go reasonably well. However, it will be the first time that the new commissioner, Carla Peterman, can weigh in, and we are concerned that her background implies a less constructive view of utilities than the commissioner she replaced, Timothy Simon.

Late February – Q4 call, possible guidance for 2013 EPS. We think 2013 looks like $2.80-2.85. Guidance lower than this range could be a negative as indicating general EPS trend. However, absent a settlement, and given that a general rate case is underway in 2014, PCG has an interest in giving full weight to the negative impacts on its earnings. The more important guidance will come in association with a settlement or final resolution of the San Bruno proceedings, whether they come before or after February.

The San Bruno gas explosion in September 2010, which killed 8 people and caused extensive injuries and property damage, has led to a series of criminal and civil legal proceedings and three investigations by the CA Public Utilities Commission (CPUC). We do not believe that the criminal investigations will result in significant hurts to shareholders, and the civil litigation has largely been circled by the company, we believe.

The simple way to look at the ultimate resolution of the San Bruno/gas issues is that PCG is likely to pay a $600mm+ penalty to clear the decks to earn a reasonable return on its existing rate base and the large investment it will make in the future.

In other words, once San Bruno is resolved and the equity issued – and based on our interpretation of public and private indications from the CPUC – PCG should be a stable, fully regulated, high growth utility with earning power that we estimate at $3.15 in 2014 and rising robustly from there.

Earnings and Financial Outlook: $3.15 EPS in 2014 following $1B+ in new equity

We see the underlying utility growth rate as 6-8% over the middle term. The CPUC under Peevey continues to implement the increasing CA political consensus that CO2 reduction, renewable support, energy efficiency, and various support mechanisms for those goals should be an aggressive part of state policy, more or less regardless

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of cost.

In addition, PCG has the specific driver of higher cap ex in expanded investment for pipeline safety through the PSEP program.

We see capex as rising from $4.7B in 2012 to $5.0B in 2014, versus depreciation in the range of $2.5-2.9B, indicating substantial net new rate base formation at a rate of about 10% annually.

Since some of that rate base growth will be funded with new equity, the implied EPS growth is lower but still well above the industry average. Given supportive CA regulation with its cycle of three-year general rate cases that set the level of investment and operating costs, while the separate cost of capital proceeding sets ROE, we feel reasonably confident that translating substantial net new investment into earnings growth can continue for the foreseeable future.

The biggest financial issue facing PCG in the near term is the penalty of perhaps $600mm that is likely to be imposed by the CPUC for the San Bruno accident. Management has made it clear that the penalty, as a dead loss of capital, will be funded by equity issuance more or less when it is imposed. So one key part of the resolution of the San Bruno overhang, along with exact details and amounts of a penalty and the completeness of the resolution, is how much equity PCG is likely to issue.

Management

Tony Earley took over as CEO in August 2011 as the PG&E board moved to strengthen operations and to signal to the regulators that a new era of thoroughness and responsibility was in place. He had previously been chairman and executive chairman of DTE Energy for more than ten years, where he got rave reviews from both investors and from political leaders in Michigan and Detroit.

In our view, Earley is one of the most respected and skillful leaders in the utility industry. Most important, we believe he is regarded that way by the regulators at the CPUC.

Kent Harvey is Senior Vice President and Chief Financial Officer for PG&E Corporation. Harvey oversees the financial activities of the $40 billion company, including accounting, treasury, tax, risk, business and financial planning, and investor relations.

Valuation

Following resolution of the San Bruno/gas issues, PCG should begin to trade as a standard fully regulated utility. The fact that CA is a high-growth environment and regulation has recently, very broadly, turned more constructive in our view, should point to a premium valuation for CA stocks in our view. Against that, there could likely with some negative adjustment for a period of time from lingering investor concern that CA regulators may have some remaining impulses to continue punishing shareholders for the San Bruno disaster. So we think it is reasonable to net these puts and takes and use an average regulated utility target multiple.

At a regulated utility consensus year-ahead multiple of 14.9, we would use a one-year price target for PCG of $47, assuming as we do that the San Bruno issues and the general rate case (GRC) are resolved favorably. The supportive outcomes of the recent GRC for EIX and the cost of capital proceeding in CA – including PCG's 10.4% allowed ROE – and our own visits with CA regulators and staff suggest that the commission may be generally favorable to putting PCG back on solid financial ground once there is a resolution to the San Bruno issues.

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Risks

- The outcome of the gas issues, including size of a penalty, is the major overhang in the near term.
- Equity issuance resulting from the penalty and other gas pipeline and general cap ex requirements could be $1B or greater in 2013.
- Ongoing costs and uncertainties of addressing the upgrading of the gas pipeline network.
- The general rate case that should run through 2013.
- Ongoing regulatory questions and problems in CA.
- Interest rates.

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Table 1

PG&E Corp.

EPS

BGC Partners LP

	2012E	2013E	2014E
Rate Base ($B's)	24.5	26	28.2
Requested			28.7
CWIP	1.6	1.6	1.6
Total Rate Base	26.1	27.6	29.8
Allowed ROE	11.35%	10.40%	10.40%
Allowed Equity	52%	52%	52%
"Allowed" Net Income (mm)	$ 1,540	$ 1,493	$ 1,612
"Allowed" EPS		$ 3.30	$ 3.46
Incremental Spend, aftx	(150)	(150)	-
Legal and Other work, aftx	(88)	(95)	(95)
CWIP Offset	(47)	(87)	(87)
Other	100	105	35
Net income	$ 1,355	$ 1,267	$ 1,466
EPS	**$ 3.15**	**$ 2.80**	**$ 3.15**
Consensus	$ 3.18	$ 2.83	$ 3.23
Guidance	3.10-3.30		
Shares O/S	430	452	466
Share Year End	440	463	468
Dividend	$ 1.82	$ 1.82	$ 1.82
Dividend Payout Ratio	58%	65%	58%

Sources: Company guidance, BGC Financial

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Table 2

PG&E Corp.

Cash Flow and Balance Sheet

BGC Partners LP

	2012E	2013E	2014E
Net Income	$ 1,355	$ 1,267	$ 1,466
D&A	2,500	2,700	2,900
Deferred Taxes & Other	800	800	850
San Bruno penalty	-	(650)	-
Operating Cash Flows	**4,655**	**4,117**	**5,216**
CapEx	(4,700)	(4,750)	(5,000)
Equity Conversion and Issuance	750	1,000	250
Net Debt Issuance	200	800	500
Dividends	(783)	(822)	(848)
Cash after Investing & Dividends	**$ 122**	**$ 345**	**$ 118**
Equity	13,385	14,830	15,697
LTD	12,915	13,715	14,215
Equity/Total Cap Ratio	51%	52%	52%

Sources: Company guidance, BGC Financial

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Disclosure Appendix

Analyst Certification

The analyst primarily responsible for this research report, and whose name appears on the front cover, certifies that: (i) all of the views expressed in this research report accurately reflects his or her personal views about any and all of the subject securities or issuers featured in this report; and (ii) no part of any of the research analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed by the research analyst in this report.

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Lead or Co-manager: Neither BGC Financial, L.P., nor its affiliates, have acted as lead or co-manager in a public offering of equity and/or debt securities for any of the companies referenced within this report within the last 12 months

BGC Financial, L.P. rating system

BUY: We have a positive outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors add to their position.
HOLD: We have a neutral outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation.
SELL: We have a negative outlook on the stock based on our expected 12 month return relative to its risk. The expected return is based on our view of the company and industry fundamentals, catalysts, and valuation. We recommend investors reduce their position.
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Distribution of Ratings/Investment Banking Services (IB) as of 12/31/12
BGC

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [B]	19	50.00	0	0
HOLD [H]	17	45.00	0	0
SELL [S]	2	5.00	0	0

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(excerpt)

North America
United States
Industrials
Utilities and Power

Industry
Utilities & Power 2013 Outlook

Date
18 December 2012

Industry Update

Putting 2012 behind us: rolling forward valuations to 2015

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From last to first and back to last – so much for low volatility
With 2012 almost done, we shift focus to 2013 and roll forward our estimates and valuations from 2014 to a 2015 basis. Having beaten the market by 15% in 2011, finishing first among all sectors, utilities are currently on track to finish dead last in 2012. This also looks set to be the third year in four where the sector has lagged by double-digits. Relative P/Es remain high by historical standards, but are underpinned by low bond yields despite dividend tax concerns. While we do not foresee as tough a year as 2012, outperformance in 2013 likely requires a market pullback (not DB's core view) or a following wind from natural gas and/or power prices (elusive to date)

Regulated utilities: Sticking with superior growth, catalysts; upgrading DUK
Regulateds mostly outperformed commodity-exposed generators in 2012, but fell well short of their 2011 defensive gains. Near term is clouded by the dividend tax rate overhang, which makes directional 2013 calls seem premature. While stocks likely react positively to dividend taxes of 25% or lower, we doubt utilities will be at the top of the average PM's shopping list in a market relief rally. When the dust settles, the level of fiscal drag will be a key factor – with utilities seeing a safety bid if the economy disappoints. Regulated Buys are mostly where we see above-average growth and below-average regulatory risk at a fair price, ideally with catalysts. With sales under pressure from secular trends (e.g. efficiency) and ROEs drifting down, we increasingly see higher value in decoupling mechanisms, trackers or lack of rate cases. DUK does not tick all these boxes, but looks the best value of large cap regulateds and would benefit in the event of a favorable tax rate outcome.

Less regulated: Fundamentals still difficult; cutting FE to focus on EXC
Generators remain challenged by depressed gas and power curves. And with scant help from demand, bulls are reliant on a supply side retirement thesis playing out. While gas was on an uptrend until late November, absence of any real cold so far leaves the curve vulnerable to a re-run of last winter. Power forwards do not reflect tightening through 2015, perhaps a sign of poor liquidity but also raising fundamental questions. Our recent EXC upgrade focused on an expected dividend cut we see taking out an overhang and cleaning up upside optionality. While we view EXC as a value, we see no rush to turn broadly bullish on generation fundamentals. To that end we are cutting FE to Hold and focusing our limited enthusiasm for commodity exposure on EXC which has the more favorable near-term catalyst set-up.

Valuations rolled forward to 2015; regulated targets based on 13x P/E
We are basing regulated utility values on 13x our new 2015 estimates. This is more or less where regulateds trade on 2015 so we effectively assume no multiple expansion. For context the current 12M forward premium versus the S&P 500 is around 15%, well above the 15% historic discount but down from 20%+ a year ago and 25%+ in April. Provided interest rates continue to be kept low we believe utilities can sustain premium values but with little scope for fundamental upside. For competitive generation/retail we use 8.0x 2015 EBITDA. While some might target a higher number given the low cost of capital and a cyclical trough, we find this unpersuasive considering that our 2015s are based on $4.50 natgas which is 1) above the $4.17 curve for 2015 and 2) the kind of number likely to bring back some marginal production.

Companies Featured

Company	Rating
American Electric Power (AEP.N),USD43.53	Hold
CMS Energy (CMS.N),USD24.53	Buy
Calpine (CPN.N),USD17.93	Hold
Dominion Resources (D.N),USD51.96	Hold
DTE Energy (DTE.N),USD61.21	Hold
Duke Energy (DUK.N),USD64.76	Buy
Con Edison (ED.N),USD56.98	Hold
Edison International (EIX.N),USD44.99	Buy
Entergy Corp. (ETR.N),USD64.35	Hold
Exelon (EXC.N),USD29.93	Buy
FirstEnergy (FE.N),USD41.23	Hold
ITC Holdings (ITC.N),USD77.98	Buy
NextEra Energy (NEE.N),USD70.52	Hold
Northeast Utilities (NU.N),USD39.27	Hold
PG&E Corp (PCG.N),USD40.98	Buy
PSEG (PEG.N),USD30.64	Hold
Portland General Electric (POR.N),USD27.48	Buy
PPL Corp. (PPL.N),USD29.27	Hold
Southern Company (SO.N),USD43.74	Hold
TECO Energy (TE.N),USD16.83	Hold
Xcel Energy (XEL.N),USD27.34	Hold

This note changes Rec and TP for various stocks, a summary of which is provided in Fig 3 on page 7

Deutsche Bank Securities Inc.

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testimony the complainants now allege that the ROE should be reduced to 9.0%). This testimony will be the first time that Staff has filed a position in any of the complaints against transmission ROE at FERC and is likely to be an important catalyst for companies with exposure to transmission like NU. Recall that every 50 basis point reduction in ROE negatively impacts our 2014E by $0.04/sh and our price target by $0.50/sh. Acknowledging the risk that NU's ROE could be reduced as a result of the current challenge, our price target embeds a 50 basis point reduction.

Maintaining estimates

We are maintaining our 2012-2015 estimates of $2.27, $2.50, $2.70, and $2.85. Our 2012 and 2013 estimates are in-line with management guidance, which was released at their early October Analyst Day, of $2.25-$2.30 and $2.40-$2.60 for 2012 and 2013, respectively. Our forecasts are based on the company's projections for capital investment of $5.4B from 2013 to 2015. We continue to assume meaningful capital investment on the $1.1B high-voltage direct current Northern Pass Transmission line commences in 2014 allowing for an in-service date in late 2016 or early 2017. We believe this could be an optimistic assumption, however, as NU still has not yet filed an alternative route with the Department of Energy as originally expected by the end of this quarter.

Valuation

Our $40 price target is based on a 14.3x P/E multiple applied to an "ROE-adjusted" 2015E. We currently project 2015 EPS of $2.85, which assumes no change to NU's base transmission ROE of 11.14%. Since we believe a modest reduction is possible, we adjust our forecast for a 50 basis point change in ROE which results in an EPS estimate of $2.81. On our analysis, every 50 basis point reduction in transmission ROE equates to a $0.04 hit to EPS. We believe NU merits a 14.3x P/E multiple, representing a 10% premium vs. our regulated utility target multiple, given above average earnings growth potential, a lower risk business profile as a mostly T&D utility, above average exposure to FERC regulated transmission, a strong management team, below average regulatory risk, and no need for new equity in the near future.

Risks

Downside risks include transmission project delays or cancellations, reduced support for transmission at FERC, a larger-than-anticipated reduction in base transmission ROEs, lower-than-expected synergies from the merger with NSTAR, lower-than-expected capital expenditures on growth investments, lower-than-anticipated sales, and higher-than-anticipated financing needs. Upside risks include stronger-than-expected merger synergies, acceleration of growth projects, higher sales, and lower financing needs/costs.

PG&E Corp. (PCG): Reiterating Buy; PT to $45

We are reiterating our Buy on PCG but lowering our price target to $45 from $46. We view 2013 as a transition year for PCG, where we at last expect resolution of the pending San Bruno proceedings, and upon which we expect earnings growth to resume in 2014. We also see the potential for dividend growth to resume in 2H13 as the 2014 General Rate Case (GRC) progresses. We continue to see a favorable risk/reward, as we believe our below-consensus estimates already reflect sufficient downside risk. We believe resolution of the San Bruno cases, whether through a settlement (best case) or a litigated outcome, will be a positive catalyst, as the uncertainty of the ultimate penalty for the 2010 explosion continues to weigh on the stock. The first potential opportunity on this front could be this Thursday, as the CPUC could vote on PCG's Pipeline Safety Enhancement Plan (PSEP). This would allow PCG

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to begin recovering the costs of its plan and at least provide investors one piece of the San Bruno cost puzzle.

Maintaining 2013E; trimming 2014; introducing 2015

We are maintaining our 2013 EPS estimate of $2.70 but lowering our 2014 EPS estimate to $3.15 from $3.20. We have lowered our rate base estimates to reflect a larger haircut to PCG's 2014 General Rate Case (GRC) request, partially offset by a higher assumed ROE (we use 10.4% in line with the cost of capital proposed decision). We are also introducing our 2015 EPS estimate of $3.30. We expect strong rate base growth in 2015, based on PCG's 2014 GRC request as well as the first year of the next Gas Transmission & Storage (GT&S) case. We continue to assume PCG is assessed a $500M fine related to San Bruno in our estimates, and we have also assumed that the proposed decision in the PSEP case is adopted.

Valuation

We value PCG by applying a 13.7x P/E multiple to our 2015 EPS estimate of $3.30. Our multiple reflects a 5% premium to our target regulated utility multiple of 13x. This is down from our prior 7% premium primarily based on the fact that our valuation year estimate includes results from two separate rate cases (GRC and GT&S) increasing the uncertainty. However, we still believe a premium is justified based on our view that PCG will be able to begin to regain its historical premium valuation as pipeline-related proceedings are resolved. We view the California regulatory framework as constructive and believe PCG will see strong rate base growth for several years as they replace aging infrastructure and continue their focus on safety.

Risks

The key downside risks for PCG, in our view, are higher-than-expected penalties or unrecovered pipeline costs as a result of the San Bruno accident and a greater-than-expected downward ROE adjustment than we assume. A significant adjustment to the capital growth plan would also be a risk to our estimates.

Portland General Electric (POR): Reiterating Buy; PT to $29.50

We are reiterating our Buy on POR and raising our price target to $29.50 from $28.50. We continue to view POR as a solid pure-play utility with above-average growth prospects depending on the outcome of the ongoing requests for proposals (RFPs) for new generation. We believe the conclusion of those RFPs in 1H13 will be a key catalyst for POR. We also note that in the event the RFPs do not result in rate base growth opportunities for POR, we would expect the utility to request approval from the Oregon Public Utility Commission (OPUC) for a higher equity ratio that would provide earnings growth. We would not expect an equity issuance to be needed to achieve that higher equity level as POR is already building up extra equity based on its current capex outlook. We believe POR's growth opportunity set merits a slight premium valuation to regulated peers.

Maintaining 2012-2014 estimates; introducing 2015

We are maintaining our 2012/2013/2014 EPS estimates of $1.93/$1.95/$2.05, respectively. We continue to expect earnings growth in 2014 based on our expectation that POR will file a new rate case early next year. We are also introducing our 2015 EPS estimate of $2.20. Our estimate assumes that POR wins the capacity portion of the capacity and energy RFP, with the plant coming online for 2015. We have not assumed any rate base growth related to the energy portion of the RFP, although we would not expect that project to be online for 2015. We see additional growth potential

MOODY'S
INVESTORS SERVICE

Credit Opinion: PG&E Corporation

Global Credit Research - 04 Apr 2012

San Francisco, California, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility	Baa1
Senior Unsecured	Baa1
Subordinate Shelf	(P)Baa2
Pref. Shelf	(P)Baa3
Pacific Gas & Electric Company	
Outlook	Stable
Issuer Rating	A3
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Pref. Stock	Baa2
Commercial Paper	P-2
Other Short Term	P-2

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Key Indicators

[1]**PG&E Corporation**

	2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	5.9x	5.3x	5.0x	5.3x
(CFO Pre-W/C) / Debt	24.1%	22.8%	24.2%	25.7%
(CFO Pre-W/C - Dividends) / Debt	20.1%	18.6%	20.2%	21.8%
Debt / Book Capitalization	48.8%	48.1%	49.1%	52.0%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

-San Bruno remains a significant overhang

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-Credit supportive regulation continues

-Strong financial metrics expected to continue

-Economy improving but challenges remain

-Sizable capital investment program

-New management focused on credibility issues

-Conservative capital structure and dividend policy

-Modest level of holding company debt and rate regulated strategy

Corporate Profile

PG&E Corporation (PCG) is a holding company headquartered in San Francisco, California that conducts nearly all of its business through Pacific Gas and Electric Company (PG&E), an integrated utility serving northern and central California. PG&E serves 5.2 million electric distribution customers and approximately 4.3 million natural gas customers.

At year-end 2011, PCG's revenues of $14.96 billion were equal to those of PG&E's, and PG&E's assets of around $49.2 billion represented 99% of PCG's consolidated assets. PG&E is regulated by the California Public Utilities Commission (CPUC) and by the Federal Energy Regulatory Commission (FERC).

SUMMARY RATING RATIONALE

PCG's Baa1 rating reflect 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 also benefits from a lower risk business strategy as virtually all of PCG's consolidated revenues, earnings, and cash flow are derived from its regulated utility business. These attributes are balanced against the financial and credibility overhang from the tragic San Bruno accident, a substantial capital spending program, and a improving but challenging service territory economy. PCG's rating factors in the modest level of holding company debt along with the degree of structural subordination given the existence of over $13.1 billion of utility level funded debt and $423 million of securitization debt.

DETAILED RATING CONSIDERATIONS

-San Bruno

The San Bruno accident continues to be the dominant rating factor for PCG. While progress was made during 2011 to begin to resolve matters relating to the accident, additional challenges remain, with San Bruno continuing to be a credit overhang through at least the end of 2012.

The CPUC has commenced three investigations pertaining to the company's natural gas transmission operations covering 1) safety recordkeeping for the entire gas transmission system, 2) PG&E's operation of its natural gas transmission pipeline system near higher population density locations and 3) whether PG&E violated applicable laws, rules, orders, requirements, and industry safety standards related to the pipeline business. PCG has concluded that PG&E will likely be required to pay penalties associated with these matters and has set up a $200 million reserve as a minimum estimate for such future penalty.

During 2011, PGG incurred $483 million of expenses for hydrostatic pressure tests and other pipeline-related activities that will not be recovered through rates. In 2012, PCG forecasts that it will incur costs associated with its natural gas pipeline system ranging from $450 million to $550 million that also may not be recoverable through rates. In addition, the company incurred a cumulative charge of $375 million ($155 million in 2011 and $220 million in 2010) for third-party claims related to the San Bruno accident and estimates that it is reasonably possible it will incur up to an additional $225 million, for a total possible loss of $600 million. The utility also expects to spend $200 million in each of 2012 and 2013 for other operational enhancements across the business unrelated to San Bruno but intended to improve operational performance. To date, we calculate that shareholders will bear approximately $1.6 to $1.7 billion of costs related to San Bruno.

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On August 26th, PG&E filed its proposed pipeline safety enhancement plan (PSEP) with the CPUC to conduct pressure tests, replace certain natural gas pipeline segments, install automatic or remote control shut-off valves, and perform other activities to improve its natural gas pipeline system. PG&E forecasts that its total expenditures over the four-year period of 2011 through 2014 will be about $2.2 billion, of which $1.4 billion is estimated to be capital expenditures and $750 million in operating expenses. PG&E's ability to secure a reasonable outcome to this multi-year request is a key consideration in the direction of the company's rating.

In the end, while we fully anticipate financial results to continue to be negatively affected by San Bruno related charges, our current rating and stable outlook assumes that such costs are more likely to occur in a concentrated, shorter-term period and less likely to occur over a multi-year period. In that vein, we expect the company to pay a very sizeable penalty for the San Bruno accident but also believe that the outcome of the PSEP filing will be concluded in a relatively constructive manner as we view many of these costs and capital investments as being new requirements of both the state and federal authorities. We also recognize that the state's other gas investor-owned gas pipeline filed their respective multi-year PSEP plan and we anticipate the CPUC will render a decision that provides timely recovery of costs and a reasonable return on the capital invested. While we recognize that the company's credibility problems in the state, including the CPUC, we believe that it will be difficult for the commission to render a decision that is materially different than one rendered for the state's other gas utility, particularly given the nature of the rate request. Moreover, PG&E, along with the other California utilities, play an important role in advancing various energy policy initiatives across the state which would become compromised if investor-benign, multi-year regulatory decisions are not rendered.

For more information on San Bruno, please refer to the PG&E Credit Opinion found on www.moodys.com.

--Credit supportive regulatory environment

In recent years, CPUC regulation has been increasingly more predictable and credit supportive, driving capital market support for investment in large infrastructure projects within the state. Regulatory outcomes in the company's three rate cases during 2011 were credit supportive and help to underpin financial performance.

Specifically, the CPUC approved PG&E's 2011 test-year general electric and gas rate case on May 5, 2011 authorizing $450 million of additional revenue requirement for 2011 and authorized additional attrition increases of $180 million in 2012 and $185 million in 2013. During 2011, the CPUC also approved Gas Accord V, which establishes PG&E's gas transmission and storage rates and related revenue requirements for the four year period of 2011 through 2014.

During 2012, there are several key regulatory decisions expected by the CPUC that could influence future financial performance. As previously mentioned, there are separate investigations underway relating to San Bruno which we believe will likely result in a material financial penalty for the company. While it is difficult to predict the exact timing of these decisions, the current schedule implies that the investigations will continue at least the end of 2012. While PCG has already set aside a $200 million reserve for San Bruno related penalties, we would not be surprised if the amount of penalty exceeded this level. We understand that the company plans to fund the penalty amount with the issuance of new common equity. Also, the cost of capital hearings for all of the California utilities will occur during 2012 with a decision scheduled towards the end of 2012 to be effective January 1, 2013. We believe that the current allowed returns for all of the California utilities (including PG&E's current authorized return of 11.35% based on a 52% common equity ratio) could be adjusted downward at the end of the cost of capital review due to the existence of low interest rates and in recognition of a weak California economy. That said, we believe that the California utilities will end up with above-average return prospects (as compared to the rest of the country) in light of the substantial financing requirements of the state's utilities intended to aggressively advance renewable standards and replace aging infrastructure. Third, a decision on PG&E's $2.2 billion PSEP could be reached sometime during 2012. PG&E's ability to secure a reasonable outcome to this multi-year request is a key consideration in the direction of the company's rating.

For more information on our view of the regulatory environment affecting PG&E, please refer to the PG&E credit opinion found on www.moodys.com.

-Strong financial metrics expected to continue

PCG continues to produce credit metrics that are strong for its rating category, positioning it well when compared to other Baa1-rated utility holding companies. For example, Moody's calculates PCG's average cash flow (CFO/pre-WC) to debt for the past three fiscal years at 23.7 %, retained cash flow to debt of 19.6% and average cash flow

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coverage of interest expense at 5.4x, all of which position the company well in the "Baa" rating category. Going forward, while we expect the company to remain free cash flow negative due to a sizeable capital expenditure program, we believe the company's metrics will continue to position it as a strong Baa rated concern.

-Economy improving but challenges remain

California's economy has improved slightly but continues to face pressures created by a depressed housing market and state budget cuts. According to Moody's Economy.com, job growth has rebounded after stalling in the second quarter of 2011 and is now outpacing the US rate. However, in December 2011 the state's unemployment rate remained high at 11.9%, and according to Moody's Economy.com, will remain above 10% through 2013 due to the slow recovery of housing-related industries. We understand that approximately 28% of PG&E's residential customers are enrolled in the company's California Alternative Rates for Energy program which provides a 20% discount on gas services and up to 75% discount on electric services. Offsetting the effects of a weakened service territory is an extremely diverse customer mix that exists across the company's electric and natural gas Northern California service territory along with a decoupling mechanism for the company's electric and natural gas bussinesses which eliminates volatility in revenues due to changes in customer demand caused by the economy or by weather. Notwithstanding the benefits of decoupling, which are material from a credit perspective, a weak service territory can magnify affordability issues for customers. Current customer rates for electricity and natural gas have been aided by low natural gas prices and by comparably low customer usage, reducing the monthly bill for end-use consumers.

-Significant capital expenditure program

During 2011, PG&E spent $4.0 billion in capital investments and expects to spend approximately $4.6 to $4.8 billion in 2012. The increase in capital spending relates primarily to capital requirements at the natural gas pipeline business. A large portion of these forecasted capital expenses have been authorized and are recoverable under rate case decisions rendered in 2011.

-New management dedicated to improving company creditability

The PG&E brand, along with the firm's credibility across key constituencies, has been severely damaged by San Bruno with such remediation, most likely, taking years to repair. We also believe that efforts are underway to address this important factor, which includes the recent appointment of a new CEO along with the organizational separation of the company's natural gas business under new leadership. We view the changes at the top as an important step in the right direction to improve the firm's credibility but we also recognize that it will take time to alter key constituents' views around PCG. In our opinion, some of this negative bias is unrelated to San Bruno and stems from previous management's mishandling of a ballot initiative as well as the manner in which SmartMeters were implemented across the service territory. In the end, actions by the company will be the only way to slowly change the perception of the company in the minds of key stakeholders, but such transformation will be difficult and require a several year process.

-Conservative capital structure and dividend policy

PCG has been able to maintain its credit metrics along with its current rating and outlook largely because a substantial portion of the costs related to the San Bruno accident and pipeline enhancements have been funded with the issuance of common equity. In 2011, PCG issued $686 million to fund costs related to San Bruno and other operational expenditures and PCG has indicated plans to issue an additional $600 million of common equity during 2012. To that end, on March 14th, PCG sold 5.9 million shares of common stock, raising nearly $254 million. We expect PG&E to continue financing its negative free cash flow, including San Bruno related costs, with a eye towards maintaining a 52% equity ratio.

PCG's dividend policy is rather conservative when compared to other peer companies, particularly given the predictable nature of this rate regulated business. PCG's target dividend policy is 50% to 70% of its continuing earnings, with an objective to remain in the lower end of the range. In 2011, PCG announced that in light of the expected costs and challenges relating to San Bruno, they would maintain the common dividend at $1.82 per share. Moody's calculates PCG's dividend payout ratio at 52%, 65%, and 87% for 2009, 2010, and 2011, respectively. The increase in the 2011 payout ratio is primarily due to pipeline related expenses which decreased earnings per share by approximately 41% to $2.10 share. Excluding the San Bruno related expenditures and charges taken for environmental matters, PCG's earnings for 2011 would have been $3.58 share, suggesting a dividend payout of around 50%. Our current rating and stable rating outlook incorporates the expectation that over the long-term the

company will maintain a conservative dividend policy.

-Modest Holding Company Debt and Rate Regulated Strategy

PCG's rate regulated focused business strategy and the low level of holding company debt are viewed favorably from a credit perspective . With $350 million of PCG holding company indebtedness, Moody's calculates that holding company debt represented less than 3% of PCG's consolidated debt at 12/31/2011. In light of the rate regulated business and the modest holding company debt, the notching between the senior unsecured rating at the utility and the holding company is likely to remain narrow.

Liquidity

PCG and PG&E maintain separate bank accounts and separate bank facilities. At December 31, 2011, PCG on a stand-alone basis had cash of about $209 million; PG&E had unrestricted cash of approximately $304 million and restricted cash of about $380 million.

On May 31, 2011, PCG and PG&E both replaced their previous credit facilities with new $300 million and $3.0 billion facilities, respectively, that expire on May 31, 2016. As of December 31, 2011, PCG had no commercial paper or letters of credit outstanding with full availability under its facility. PG&E had $1.389 billion of outstanding commercial paper and $343 million of outstanding letters of credit, leaving $1.268 billion available under its credit facility for other working capital needs. Borrowings under the facilities are not subject to a MAC representation and both facilities require each company to maintain a debt to total capitalization ratio of no more than 65%. At December 31, 2011, PCG and PG&E were in compliance with this financial covenant.

For the fiscal year 2011, we calculate that PCG generated about $3.7 billion of cash from operating activities. After payment of $404 million of principal amortization on securitized bond offerings, internal cash flow of around $3.3 billion covered about 70% of the company's $4.0 billion of capital expenditures and $704 million of common dividends. We expect PCG to remain free cash flow negative given the size of the company's capital investment program. We also believe that bonus depreciation will reduce external funding requirements at the utility during 2012.

During 2011, the company issued approximately $1.1 billion of debt comprised of $250 million floating rate senior notes due 2012, $250 million 3.25% senior notes due 2021, $300 million 4.25% senior notes due 2021, and $250 million 4.5% senior notes due 2041. Net proceeds from these issuances were used to support PG&E's commodity hedging activities, repay a portion of outstanding commercial paper, redeem $200 million principal amount of Series 1996 A pollution control bonds, and for other working capital needs.

Aside from securitization debt of $423 million that has a separate non-bypassable recovery mechanism, the next debt maturity occurs in 2013 when a $400 million senior note at PG&E matures. Subsequent to these modest maturities, the next scheduled maturity occurs in 2014 when two senior notes of $350 million and $1.0 billion mature.

Rating Outlook

The stable rating outlook for PCG reflects the expected predictability of cash flows over the next several years due to the credit supportive mechanisms currently in place within the California regulatory compact that reduces cash flow volatility, coupled with the company's low business risk strategy. The stable rating outlook also factors in the company's plans to finance its sizeable capital spending over the next several years with sufficient equity capital to maintain a 52% equity ratio at the utility. Given PCG's strong reliance on cash flows from the utility, any rating change at PG&E would result in a rating change at PCG.

What Could Change the Rating - Up

In light of the very large capital investment program and the challenges that the company faces from the San Bruno explosion along with rebuilding its brand with key stakeholders, limited prospects exist for the ratings at PCG to be upgraded in the near-term.

What Could Change the Rating - Down

The rating of PCG could be downgraded if the company's credibility issues reach the point where the current regulatory compact is altered such that there is meaningful cost recovery leakage over an extended period or that the utility's cash flow to total debt declines to below 22% , the utility's retained cash flow to total debt declines below

18% or the ratio of the utility's cash flow to total interest falls below 4.5x for an extended period.

Other Considerations

Moody's evaluates PCG's consolidated financial performance relative to the Regulated Electric and Gas Utilities rating methodology published in August 2009 and as depicted in the grid below, PCG's indicated rating under this methodology is A3 compared to the company's current Baa1 senior unsecured rating. The primary reason for the differential reflects the structural subordination that exists for creditors at the holding company.

Rating Factors

PG&E Corporation

Regulated Electric and Gas Utilities Industry [1][2]	**FY 12/31/2011**		**Moody's 12-18 month Forward View* As of April 2012**	
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Regulatory Framework		A		A
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		A		A
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		A		A
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	5.4x	A	5.3x - 5.8x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	23.7%	A	22% - 26%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	19.6%	A	17% - 21%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	48.7%	Baa	43% - 50%	Baa
Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2011(LTM); Source: Moody's Financial Metrics

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February 24, 2011

Summary:
Pacific Gas and Electric Co.

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Summary:

Pacific Gas and Electric Co.

Credit Rating: BBB+/Stable/A-2

Rationale

The 'BBB+' corporate credit ratings on PG&E Corp. and electric and gas utility subsidiary Pacific Gas and Electric Co. (PG&E) reflect a "significant" consolidated financial profile and an "excellent" business profile that may be under strain from the possibility that PG&E's operational practices contributed to the Sept. 9, 2010, San Bruno, Calif., pipeline explosion that killed eight people, injured numerous others, and destroyed or damaged 55 homes.

The aftermath of the accident is evolving into an important near-term credit driver for the company. The cost implications for the company continue to be manageable, in our view, despite management's revisions to its estimates as part of its Feb. 17 earnings release. We base this conclusion on the utility's robust liability policy of $992 million (less a $10 million deductible), which is expected to cover third-party claims that are estimated to be as much as $400 million. Last year, PG&E Corp. booked a pretax charge of $220 million, representing the lower end of estimated third-party claims. From a credit perspective, although the utility has expensed the majority of the estimated claims obligation, it has yet to experience significant cash outflows. We do not expect PG&E to begin to resolve most of the third-party claims until the end of this year, at the earliest. Once they are resolved, a lag will likely occur between the payment of claims and the receipt of insurance proceeds, but we view PG&E's "adequate" liquidity as sufficient to support any gaps.

Direct costs, which include investigation costs, pipeline testing, and potentially substantial investment in infrastructure or systems, are also a consideration. Direct costs were limited in 2010, in the area of $100 million, and consisted largely of $62 million to provide immediate assistance to the San Bruno community. The company also incurred $59 million after tax to complete an accelerated leak survey of its entire gas system. Direct costs have certainly increased in the first quarter of 2011 due to a massive record search effort the company has undertaken. For 2011 alone, management estimates that its pretax direct costs will range from $200 million to $300 million. To put this estimate in perspective, PG&E Corp.'s consolidated operations generated $3.2 billion in operating cash flow last year. As a result, we expect 2011 direct costs can be absorbed without significant impact on PG&E's financial performance.

The bigger question is how much PG&E's direct costs will grow beyond this year -- as a function of infrastructure, operational, or regulatory compliance changes that PG&E is directed to make -- and how much of these costs the California Public Utilities Commission (CPUC) will allow PG&E to collect from customers to implement these changes that it will contemplate this year. We expect that the resolution of this question ultimately hinges on how much PG&E's practices are perceived to have contributed to the events that caused the San Bruno incident. Although we expect the CPUC will remain constructive, the ongoing assessments of PG&E's system, its records, and management's response to the accident will undoubtedly influence the process of arriving at a fair allocation of costs to ratepayers versus shareholders. That assessment could also levy fines and penalties on PG&E, which have not been specified and which could be revised as part of new regulations the CPUC is expected to develop. This week the CPUC announced it will launch an investigation into establishing a new model of natural gas pipeline safety

regulation applicable to all California pipeline operators.

Federal investigations into the cause of the blast are also continuing. We expect that the National Transportation Safety Board (NTSB), the lead federal agency investigating the accident, will release a trove of new reports on March 1, the start of three days of hearings on San Bruno that it plans to hold at its headquarters in Washington, D.C. Separately, on March 15 PG&E is scheduled to report to the CPUC the results of an exhaustive record search to validate the operating pressures on its gas transmission system. The records search follows the NTSB's urgent recommendation issued on Jan. 3 that PG&E verify its pipeline records based on findings that the ruptured San Bruno line was welded and had a seam, and was not, as PG&E's records had indicated, seamless.

As state and federal scrutiny grows regarding its day-to-day gas transmission system operations, the company's business risks are increasing. Although no conclusions have been reached that find PG&E at fault, questions have been raised about the adequacy of PG&E's record keeping and its methods for establishing safe operating pressures for its gas transmission systems.

Outside of San Bruno, regulatory outcomes and other aspects of the company's financial performance continue to be stable. PG&E has two key rate proceedings in front of the CPUC: a general rate case (GRC) for its electric and gas distribution and electric generation operations covering the 2011-2013 period, and a gas transportation and storage case. This week, the CPUC issued two draft decisions -- a proposal and an alternative in the company's GRC -- that, if approved, will continue to support the company's needs for revenue increases. The Feb. 22 draft decisions follow an October 2010 settlement the company reached with virtually all parties.

Under the GRC settlement, parties agreed to a PG&E revenue increase of $395 million for 2011 (with additional attrition adjustments of $180 million in 2012 and $185 million in 2013). The settlement did not address PG&E's request to recover $44 million that reflects a return on the undepreciated value of older meters it is replacing with automated meters, a process it expects to complete in 2012. Both the alternative and proposed decisions adopt the settlement levels and would authorize recovery of meter costs at levels slightly in excess of the company's requested amount (due to the use of a different rate of return on metering equipment). The timing of the draft decisions allows for a CPUC vote no earlier than March 24. We expect that the CPUC vote will be in line with the draft decisions and that, in keeping with past practices, the GRC retail rate increase will be made retroactive to Jan. 1, 2011.

PG&E also reached a settlement with parties in its gas transportation and storage services rate case in late August, and we expect a proposed decision in that case soon. Any revenue adjustments will also be made retroactive to Jan. 1. The CPUC's decision to address gas pipeline safety issues in a separate proceeding is key for a timely resolution of the gas case, in our view, and we expect that a vote can occur sometime in the spring.

The CPUC is experiencing commissioner turnover at levels it has not seen in recent years. Three of the five commission slots were vacant in early 2011, but late last month newly serving Governor Jerry Brown named an experienced consumer activist and a telecommunications expert to the CPUC. A third commission vacancy remains unfilled. Commissioners serve six-year terms; both appointments are subject to state senate confirmation. As part of the appointments, the governor indicated his intent to have Commissioner Michael Peevey continue in his long-time role as president of the CPUC. (Peevey's term does not expire until the end of 2014, but the Governor appoints the president from the sitting commissioners.) We expect this decision to provide continuity during a period of transition.

There has been widespread speculation that the reconstitution of the CPUC could result in a sharp departure from

credit-supportive ratemaking that has been the norm since the end of the California energy crisis. We do not share that view. Although PG&E is under scrutiny at a time when we expect the CPUC will adopt a more pro-consumer tone, many of the key features of regulation in California are well established. These features include the use of a strong fuel and purchased-power adjustment mechanism, a formulaic approach to determining cost of capital, a process for filing single-issue rate cases, and a framework that preapproves power supply contracts as long as the utility follows established procurement procedures.

As a result, we continue to see PG&E's key regulatory risks as centering on how well it has operated its gas pipeline system and how quickly it is able to restore its reputation with regulators and customers.

Liquidity

We view parent and utility liquidity on a consolidated basis. Consolidated liquidity is "adequate" under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors (exceptional, strong, adequate, less than adequate, and weak). This assessment considers projected sources of consolidated liquidity and the company's operating cash flow and available bank lines against expected projected uses, necessary capital expenditures, debt maturities, and common dividends. On a consolidated basis, sources of cash divided by uses of cash is 1.3x. This assessment includes the assumption that in the next 12 months PG&E could be required to fund as much as $700 million of obligations related to the San Bruno accident (the maximum expected liability claim of $400 million and a high-end estimate for direct costs of $300 million). Of this total, we presume $400 million would be eligible for insurance reimbursement at a later date. (We note, however, that these outflows are approximate: Insurance proceeds could extend well into 2012, and our liquidity assessment includes the assumption that PG&E must fund the entire costs from cash flows and credit facilities.)

As of Dec. 31, 2010, availability under the company's three credit lines totaled $1.945 billion. The parent, PG&E Corp., maintains a $187 million revolving credit facility that was fully available as of that date. The utility has a $1.94 billion facility, of which about $1 billion was available as of that date. In June 2010, PG&E added a $750 million credit facility. There were no borrowings under the facility as of Dec. 31, 2010. Under the new facility, the utility has the right to increase its capacity by $250 million under certain conditions. We do not consider this amount in our liquidity calculations. All three facilities expire Feb. 26, 2012, and as a result are included in our assessment of consolidated liquidity, which considers all facilities whose expiration is more than a year away. We expect that the company will shortly begin negotiations to extend its credit facilities beyond 2012 and that, given its credit profile, it will be able to be able to renew its credit facilities. We note that if estimates of third-party liability and direct costs are higher than a presumed maximum of $700 million, we would expect the company to obtain additional liquidity to shore up its position and assure that its liquidity remains "adequate" -- that is, above 1.2x.

Outlook

The ratings are predicated on two key assumptions. First, although investigations are certain to find areas for improvement for PG&E's gas system, we assume that PG&E's operating practices for its gas business will not be found acutely deficient. Specifically, investigative findings that suggest that PG&E's pipeline practices meaningfully depart from industry standards and are contributing to safety risks could result in lower ratings. The ratings also incorporate our assumption that state regulatory and legislative response will continue to constructively balance the requirement that PG&E shoulder some liability for improvements to its gas system, which will almost certainly be ordered, against the need to maintain its financial health. We expect consolidated financial performance to remain

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approximately in line with 2010 results, with adjusted funds from operations (FFO) to total debt in the area of 20%, FFO interest coverage of around 4.5x, and adjusted total debt to capitalization of slightly less than 60%. Weaker cash flow metrics could occur in 2011 and 2012, depending on the timing of outflows to resolve third-party claims, the receipt of insurance proceeds, and the level of spending needed to respond to ongoing investigations. So long as this weakness stems from temporary cash flow timing issues, the ratings would not come under pressure. A permanent weakening caused by disallowance of cost recovery or large penalties could trigger a downgrade. We see no potential for ratings improvement over the next two years, due to the issues the gas business is confronting.

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December 8, 2011

Research Update:

PG&E Corp. And Utility Ratings Lowered To 'BBB'; Outlook Stable

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Research Update:

PG&E Corp. And Utility Ratings Lowered To 'BBB'; Outlook Stable

Overview

- Standard & Poor's Ratings Services has lowered the corporate credit ratings on PG&E Corp. and its electric utility subsidiary Pacific Gas and Electric Co. (PG&E) to 'BBB' from 'BBB+'. We lowered the rating to 'BBB-' from 'BBB' on PG&E Corp.'s senior unsecured debt. We also lowered the rating to 'BBB' from 'BBB+' on PG&E's senior unsecured debt. In addition, we lowered the utility's preferred stock rating to 'BB+' from 'BBB-'. We affirmed the short-term rating on the utility at 'A-2'. The outlook is stable.
- Our rating action reflects what we view will be a multiyear rebuilding of the company's natural gas operations, customer reputation, and regulatory relationships following the 2010 San Bruno, Calif. gas transmission explosion that resulted from the utility's inadequate controls.
- Executive management changes at the firm position the company to improve its gas transmission infrastructure and to overhaul its safety culture. Management's commitment to fund any penalties imposed by the California Public Utilities Commission with equity issuances should buffer the credit impact of unexpected costs not funded by ratepayers that could arise during the next few years.
- The stable outlook reflects that we anticipate the company will gradually repair its image and reform its operations while achieving cash flow projections in line with our base case expectations of funds from operations to debt of 20% and adjusted debt to capitalization in the area of 58%.

Rating Action

Standard & Poor's Ratings Services lowered its corporate credit ratings (CCR) to 'BBB' from 'BBB+' on PG&E Corp. and electric and gas utility subsidiary Pacific Gas and Electric Co. (PG&E). We also lowered our rating on PG&E Corp.'s senior unsecured debt to 'BBB-' from 'BBB'.

The rating on the utility's senior unsecured debt was lowered to 'BBB' from 'BBB+'. The rating on its preferred stock was lowered to 'BB+' from 'BBB-'. The utility's short-term rating is affirmed at 'A-2'. The outlook is stable.

Rationale

The 'BBB' CCR on PG&E Corp. and its electric and gas utility subsidiary Pacific Gas and Electric Co. (PG&E) reflects our view of a significant consolidated financial profile and a strong business profile that continues to be weighed

down by the San Bruno, Calif. gas transmission pipeline explosion of September 2010.

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 September final report issued by the National Transportation Safety Board (NTSB), which was tasked with investigating the blast that killed eight and damaged or destroyed 70 homes, laid virtually all the blame on PG&E. The NTSB concluded that "multiple and recurring deficiencies in PG&E operational practices indicate a systemic problem." Weaknesses that have been identified include the company's recordkeeping and gas integrity pipeline program, both of which the company has been working diligently to correct through key changes in management and sizable out-of-pocket spending to test and strengthen its gas transmission system. Yet as the company has acknowledged, every facet of its business is likely to be under intense scrutiny for years to come.

Key management changes made this year, including the appointment of a new CEO at PG&E Corp. in September and the hire of a new leader of its gas business in June, have helped to deliver a credible plan to correct the company's operational shortcomings. At the same time, the rebuilding of its relationships with the public and regulators will be a slow process, and the company is in a major transition as it begins to lay the foundations needed to build a stronger safety culture.

Our rating action also reflects our expectation that the financial profile, while remaining significant, will weaken under our base case projections through 2013 and could be subject to additional stress as the company works through the financial, legal, and regulatory aftermath of the accident. We anticipate that the company will incur at least $1.3 billion in out-of-pocket costs and fines -- not recoverable in customer rates.

This total includes:

- At least $413 million anticipated this year in out-of-pocket costs, mostly for record validation and testing of the company's gas transmission lines;
- $243 million in 2012 and $213 million in 2013 which includes amounts for a variety of self-funded gas and electric projects volunteered by the company in its recent earnings call; and
- A $38 million fine recently approved by the CPUC involving a 2008 natural gas leak that killed one in a suburb of Sacramento.

This figure also reflects our assumption that the CPUC will levy a fine on the company of approximately $400 million sometime in the next two years due to recordkeeping lapses. None of these costs will be recouped from ratepayers.

Although the financial profile may sustain additional out-of-pocket costs or fines that are larger than we anticipate, management's commitment to issue equity to pay any future fines backstops the consolidated significant financial profile. Delays in resolving the fine at the CPUC could extend the resolution of this issue well into 2013. The CPUC's response to date for the San Bruno explosion suggests that regulatory rulings and ratemaking will continue to be constructive, offering the company an opportunity to resume its historically solid financial performance after 2013, when fines and out-of-pocket costs and fines to remedy its gas operations are behind it. Our baseline forecast is that adjusted, consolidated funds from operations (FFO) to total debt will be slightly above 20% in 2012, and adjusted debt to total capitalization in the area of 58%. These numbers will in part be sustained by the deferred tax benefits from bonus depreciation.

Liquidity

We view parent and utility liquidity on a consolidated basis. Consolidated liquidity is adequate under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard categories. (See "Methodology and Assumptions: Liquidity Descriptors for Global Corporate Issuers," published Sept. 28, 2011 on RatingsDirect on the Global Credit Portal.) This assessment takes into consideration projected sources of consolidated liquidity as well as the company's operating cash flow and available bank lines against projected uses, necessary capital expenditures, debt maturities, and common dividends.

On a consolidated basis, we expect the company's liquidity sources over the next 12 months to exceed its uses by more than 1.2x. This calculation includes a potential call on the company's liquidity from four revenue bonds (California Infrastructure and Economic Development Banks' refunding revenue bonds series 2009A, 2009B, 2009C, and 2009D) that are backed by bank letters of credit. Under our joint support methodology, if the bank becomes insolvent, the investors can put the obligation back to the utility. As a result, we have included this as a potential use of utility liquidity in our calculations.

In May, PG&E Corp. and the utility entered into new five-year credit facilities that are $300 million for the parent and $3 billion for the utility. Total capacity under the two revolving facilities was nearly $2.1 billion as of Sept. 30, 2011. Last month, the utility also issued $250 million in floating senior unsecured notes due next year to support its gas and power hedging transactions and $250 million of 30-year senior unsecured notes.

Both revolving credit facilities require PG&E Corp. and the utility to maintain total debt to consolidated capitalization of at most 65%, measured quarterly. The corporation is further bound by the requirement to own, directly or indirectly, 80% of common stock and at least 70% of voting capital stock of the utility.

Recovery analysis

PG&E Corp.'s senior unsecured debt is structurally subordinated to utility obligations and is thus rated 'BBB-' -- that is, one notch below the utility's senior unsecured debt. The utility's unsecured debt is capped at its CCR. The utility does not issue first mortgage bonds (FMBs). As a result, it is not eligible for notching above its CCR under our FMB criteria.

Outlook

The stable outlook reflects that we anticipate the company will continue repairing its business practices and produce cash flow projections in line with our base case expectations of FFO to total debt of 20% and adjusted debt to capitalization in the area of 58% next year. We could lower the ratings if leverage exceeds 60% and FFO to total debt falls to less than 15% on a sustained basis. We could raise the ratings if financial performance meets our base case expectations and the business profile strengthens, which would be evidenced by improved operations for the utility's gas transmission system and refocused efforts on building safety into the corporate culture, and continued constructive regulatory outcomes.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008

Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
PG&E Corp.		
Corporate Credit Rating	BBB/Stable/NR	BBB+/Negative/NR
Pacific Gas & Electric Co.		
Corporate Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2

Downgraded

	To	From
PG&E Corp.		
Senior Unsecured (1 issue)	BBB-	BBB
Pacific Gas & Electric Co.		
Senior Unsecured (16 issues)	BBB	BBB+
Preferred Stock (10 issues)	BB+	BBB-

Ratings Affirmed

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Pacific Gas & Electric Co.	
Senior Unsecured (1 issue)	A-2
Commercial Paper (1 issue)	A-2

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Standard & Poor's Research

Summary:

Pacific Gas & Electric Co.

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Summary:
Pacific Gas & Electric Co.

Credit Rating: BBB/Stable/A-2

Rationale

The ratings on Pacific Gas and Electric Co. (PGE) reflect parent PG&E Corp.'s consolidated credit profile, including PGE's "strong" business risk profile and PG&E's "significant" financial risk profile under Standard & Poor's Ratings Services' criteria.

PGE distributes electricity and gas to 5.2 million customers and 4.3 million customers, respectively, in northern and central California. The company also owns and operates more than 7,400 megawatts of generating capacity, of which nuclear power represents more than 30%.

The strong business risk profile represents the company's generally lower risk monopolistic rate-regulated integrated electric utility business and its natural gas distribution utility business, offset by the September 2010 San Bruno gas transmission explosion. We expect that it will require multiple years for the company to rebuild its reputation and regulatory relationships.

Since the San Bruno incident, the company has made management changes, including the appointment of a new CEO; was fined almost $20 million for gas pipeline inspection and record-keeping violations by the California Public Utility Commission (CPUC); separated its electric and gas business units; reached an agreement with the City of San Bruno that includes a $70 million contribution; and continues to validate safe pipeline operating pressures and conduct strength testing. However, the company continues to face civil suits, multiple investigations by the CPUC, and an ongoing criminal investigation.

Regarding the civil suits, PGE has already settled some of the wrongful death cases and serious injury cases. The company has stated that it is liable for the San Bruno accident and has accepted financial responsibility. Our ratings are based on the assumption that the company's $992 million liability insurance policy (less a $10 million deductible) will cover the vast majority of these claims. Through Sept. 30, 2012, the company accrued $455 million, paid $145 million to third parties, and recovered $135 million from insurance companies.

The CPUC has initiated multiple investigations regarding the company's record keeping, its classification of gas pipelines, and the San Bruno explosion. Based on the results of these investigations, we believe there is a high probability that the CPUC will issue a material fine. The CPUC's final decisions are expected before the end of the first quarter of 2013.

In 2011, PGE filed its proposed pipeline safety enhancement program (PSEP), proposing to spend about $750 million in operations and maintenance (O&M) and $1.4 billion in capital to enhance safety. Under the plan, the company proposed that ratepayers pay for about 90%, but the CPUC could modify this plan and require shareholders to fund a

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larger portion than PGE has proposed. The CPUC's final decision is expected before year-end 2012. In October 2012, the administrative law judge (ALJ) issued a proposed decision that limited the company's O&M recovery to $167 million and limited capital recovery to about $1 billion. In addition, the ALJ limited the company's return on equity to the company's cost of debt. While we do not view the ALJ's decision as credit supportive, under Standard & Poor's base case scenario, we have assumed that the CPUC will approve the ALJ's recommendation.

In total, we assume that the company will incur at least $1.7 billion in out-of-pocket costs and fines not recoverable in customer rates. The company recently estimated that total unrecoverable pipeline-safety costs and regulatory penalties related to the San Bruno pipeline explosion could range from $1.5 billion to $2 billion.

In November 2012, the ALJ recommended under the cost of capital preceding that PGE reduce its return on equity (ROE) to 10.4% from 11.35%. The company filed for an 11% ROE, and the ALJ maintained the company's equity capital structure at 52%. Under the ALJ's proposed recommendation, PGE's revenue requirement would be reduced by more than $160 million. Under our base case scenario, we assume that the proposed recommendation will be effective as of the beginning of 2013.

In November 2012, the company filed for an approximate $1.3 billion revenue increases for rates effective as of the beginning of 2014. Under our base case scenario, we assume that the company improves its management of regulatory risk and receives a credit-supportive rate order.

To achieve a higher rating, the company would have to improve its business risk profile by resolving all of the San Bruno issues, including the related CPUC investigations and the lawsuits, and meet its commitment to issue equity, maintaining its regulatory capital structure. In addition, the company will have to demonstrate that it is far along a realistic path of restoring credibility with customers, regulators, and politicians.

The significant financial risk profile reflects our expectation that management will continue to issue common equity, if necessary, to maintain its existing regulated capital structure. The significant financial risk profile also reflects Standard & Poor's base case scenario that funds from operations (FFO) to debt will weaken over the next year to about 16% and then generally improve to about 18.5% staring in 2014. For the 12 months ended Sept. 30, 2012, adjusted FFO to total debt dropped to 19.6% from 19.9% at the end of 2011, adjusted debt to EBITDA improved to 4.3x compared to 4.5x at year-end 2011, and adjusted debt to total capital also improved to 58.6% from 60.7% at the end of 2011. We expect that the cash flow measures will weaken in 2013, reflecting our expectation of material fines and out of pocket costs, directly related to the San Bruno incident, that will be more than $1.7 billion. The gradual improvement of financial measures starting in 2014 reflects our expectation that the company's 2014 general rate case will be credit supportive.

We expect PG&E's discretionary cash flow will remain negative over the next three years, reflecting increased capital expenditures of more than $4.6 billion annually. Fundamentally, we expect that the company will fund these investments in a manner that minimally preserves its credit quality.

Liquidity

Our short-term rating on Pacific Gas & Electric is 'A-2'. The consolidated company has "adequate" liquidity and can more than cover its needs for the short term, even if EBITDA decreases.

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Our liquidity assessment is based on the following factors and assumptions:

- We expect the company's consolidated liquidity sources (including cash, FFO, and credit facility availability) to exceed its uses by more than 1.2x over the next 12 months.
- Consolidated long-term debt maturities are manageable in 2013, with about $400 million maturing.
- Even if consolidated EBITDA decreases by 15%, we believe net sources will be well in excess of liquidity requirements.
- The company can absorb high-impact, low-probability events with limited need for refinancing, has the flexibility to lower capital spending, has sound bank relationships and solid standing in the credit markets, and has generally prudent risk management.

In our analysis, we assumed consolidated liquidity of about $4.7 billion over the next 12 months, primarily consisting of cash, FFO, and availability under the credit facilities. As of Sept. 30, 2012, PG&E and its subsidiaries had an aggregate amount of about $2.8 billion available under its $3.3 billion revolving credit facilities. These credit facilities expire in May 2016. We estimate the consolidated company will use about $3.8 billion over the same period for maintenance capital spending, debt maturities, working capital needs, and shareholder dividends. Also included within the liquidity use analysis is a potential call on the company's liquidity from four revenue bonds (California Infrastructure and Economic Development Banks' refunding revenue bonds series 2009A, 2009B, 2009C, and 2009D) that are backed by bank letters of credit. Under our joint support methodology, if the bank becomes insolvent, investors can put the obligation back to the utility.

PG&E's credit agreement includes a financial covenant limiting its debt to capitalization to 65%. As of Sept. 30, 2012, PG&E was complying with this covenant.

Outlook

The stable outlook incorporates our base case scenario that cash flow measure will weaken in 2013, reflecting our expectation that the company will pay significant penalties and out of pocket costs resulting from the San Bruno incident. Specifically, we expect FFO to total debt of about 16%, debt to EBITDA of about 4.8x, and total debt to total capital of about 60%. Starting in 2014, we expect that the cash flow measures will gradually improve so that FFO to debt is about 18.5% and debt to EBITDA is about 4x.

We could raise the ratings if financial performance meets our base-case expectation and the business profile strengthens, which would be demonstrated by improved operations for the utility's gas system, refocused efforts on building safety into the corporate culture, and continued constructive regulatory outcomes.

Although less likely, we could lower the ratings if the business risk profile does not strengthen and the financial measures weaken over a sustained period so that FFO to debt is consistently less than 15%, debt to EBITDA more than 4.2x, and FFO to total debt higher than 60%.

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Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Temporary contact numbers: Gabe Grosberg 917-232-8057; Dimitri Nikas 646-584-8438

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The McGraw-Hill Companies

October 24, 2012

Equity Research (excerpt)

PG&E Corp.

PCG: Lowering EPS Outlook After Vetting Model

Market Perform

- **Summary.** We recently assumed coverage of PG&E Corp. and have updated our earnings model. Our 2012-16E ongoing EPS are $3.13, $2.85, $3.30, $3.45 and $3.65, respectively. PCG shares trade at 12.8x and 12.2x our 2014E and 2015E EPS which represents a roughly 10% discount to peers. We believe the discount is warranted given the high degree of uncertainty surrounding potential regulatory repercussions following the 2010 San Bruno pipeline explosion. We reiterate our Market Perform rating.
- **Thesis.** We view California regulation as reasonably constructive. However, the outcomes in PG&E's pending regulatory proceedings are likely to be impacted by the San Bruno incident. As a consequence, we expect near-term EPS to be pressured from unrecoverable San Bruno related costs before rebounding sharply in 2014 driven by rate relief. Our Market Perform rating reflects our belief that PCG's relative valuation is warranted given the high degree of uncertainty.
- **EPS Outlook.** Our 2012-16E ongoing EPS are $3.13, $2.85, $3.30, $3.45 and $3.65 versus $3.16, $3.16, $3.46, N/E and N/E previously. Relative to peers, our level of confidence in the EPS outlook is low due to the numerous regulatory issues pending. Key assumptions include: 1) a 10.3% allowed ROE in the pending cost of capital, 2) a global settlement is reached by year-end covering the three OII's and the PSEP and 3) $2.4B of new equity is issued by 2016. Specific to the global settlement, we have assumed rough adoption of the PSEP proposed decision and approximately $750MM of fines/penalties ($550MM incremental to PCG's $200MM reserve).
- **Highly Levered To CPUC Decisions.** PG&E has three main "items" pending. 1) *Cost of capital*: PG&E requested an 11% ROE. The DRA recommended an 8.75% ROE. A proposed decision is scheduled for 11/19 with new rates effective 1/1/13. 2) *2014 GRC*: PG&E's draft application proposes a $1.25B base revenue increase in 2014 as well as $0.5B attrition increases in 2015 and 2016. 3) *San Bruno & Gas Infrastructure Related*: ALJs suspended hearings 10/11 in PG&E's three OII proceedings to facilitate settlement talks. Also, a proposed decision was issued 10/12 with regards to PG&E's proposed Pipeline Safety Enhancement Plan (PSEP). PCG management is hopeful that a global settlement can be reached with the various parties to resolve all four related issues. The CPUC's Consumer Protection and Safety Division will submit a settlement status report on 10/25.

Sector: Regulated Electric Utilities
Market Weight

Earnings Estimate Revised Down

	2011A	2012E		2013E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	$0.58	$0.89 A	NC	NE	
Q2 (June)	1.02	0.83 A	0.83	NE	
Q3 (Sep.)	1.08	0.84	NC	NE	
Q4 (Dec.)	0.89	0.60	0.62	NE	
FY	$3.58	$3.13	3.16	$2.85	3.16
CY	$3.58	$3.13		$2.85	
FY P/E	11.8x	13.5x		14.8x	
Rev.(MM)	$14,956	$15,261		$15,527	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ♠ = Company is on the Priority Stock List

Ticker	PCG
Price (10/23/2012)	$42.18
52-Week Range:	$36-48
Shares Outstanding: (MM)	426.0
Market Cap.: (MM)	$17,968.7
S&P 500:	1,448.68
Avg. Daily Vol.:	2,498,870
Dividend/Yield:	$1.82/4.3%
LT Debt: (MM)	$12,166.0
LT Debt/Total Cap.:	45.9%
ROE:	10.0%
3-5 Yr. Est. Growth Rate:	0.0%
CY 2012 Est. P/E-to-Growth:	NM
Last Reporting Date:	08/07/2012 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Valuation Range: $45.00 to $46.00
Our $45-46/sh valuation range is based on a P/E multiple (apply a ~10% discount to the 13E regulated electric median multiple of 15X to our 14E of $3.30) and dividend discount model. Key risks include unfavorable regulatory outcomes and higher than expected unrecoverable San Bruno pipeline explosion costs.

Investment Thesis:
We view California regulation as reasonably constructive. However, the outcomes in PG&E's pending regulatory proceedings are likely to be impacted by the San Bruno incident. Our Market Perform rating reflects our belief that PCG's discount valuation is warranted given the high degree of uncertainty. At this time, we do not see enough upside to justify investors taking on the elevated regulatory risks.

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Together we'll go far

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Dow ↑0.32% Nasdaq ↑0.49%

More On PCG
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Income Statement
Balance Sheet
Cash Flow

PG&E Corp. (PCG) - NYSE

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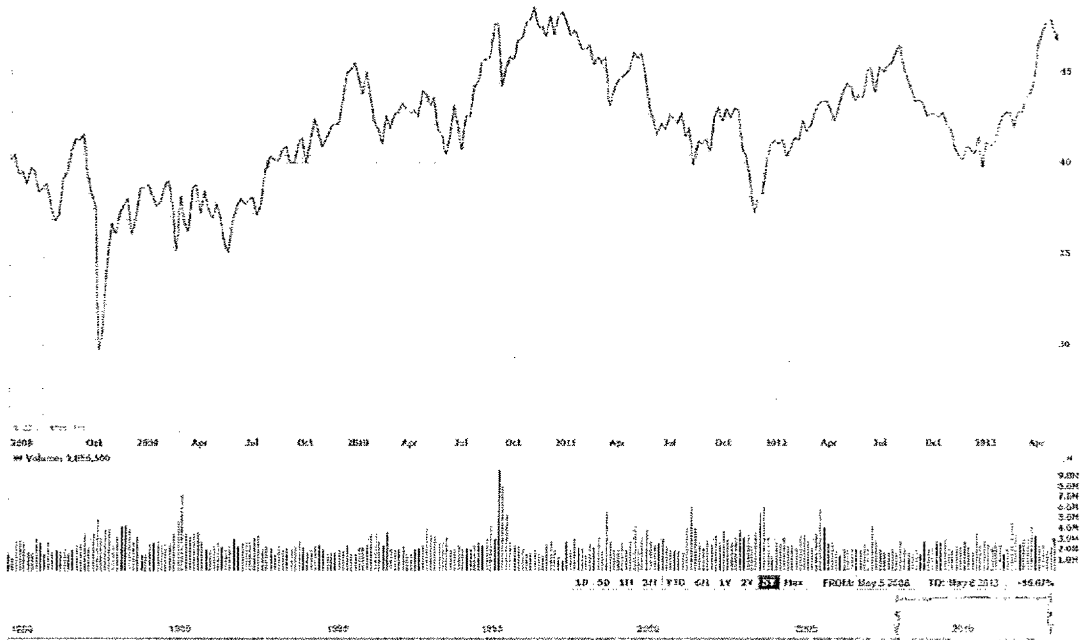
46.90 ↓0.69(1.45%) 4:03PM EDT | After Hours : 47.01 0.11 (0.23%) 6:22PM EDT



Basic Chart | Full Screen | Print | Share | Send Feedback

PG&E Corp. (PCG) - NYSE

Prev Close:	47.59	Day's Range:	46.70 - 47.75
Open:	47.39	52wk Range:	39.40 - 48.50
Bid:	45.81 x 200	Volume:	2,726,134
Ask:	47.83 x 200	Avg Vol (3m):	2,949,210
1y Target Est:	46.84	Market Cap:	20.35B
Beta:	0.29	P/E (ttm):	24.52
Next Earnings Date:	5-Aug-13	EPS (ttm):	1.91
		Div & Yield:	1.82 (3.90%)

Quotes delayed, except where indicated otherwise. Currency in USD.

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Details

Headlines

- PG&E Celebrates Success Of First-Ever Month Of Service Program For Employee Volunteers PR Newswire Wed 7:05PM EDT
- PG&E Lauds U.S. Senators Shaheen And Portman For Leadership In Introducing Important Energy Efficiency Legislation PR Newswire Wed 5:29PM EDT
- PG&E Corp (PCG): Today's Featured Utilities Laggard at TheStreet Wed 5:01PM EDT
- PG&E CORP Financials EDGAR Online Financials Wed 1:04PM EDT

What Happens When You Take a Testosterone Supplement... » (TestX180)