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Sent: 8/22/2013 1:54:35 PM  
To: Paul Clanon (paul.clanon@cpuc.ca.gov)  
Cc:  
Bcc:  
Subject: Fwd: PG&E and California Utilities: Time To Move On Due To Negative  
Regulatory Environment

FYI.

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Begin forwarded message:

**From:** "Pruett, Greg S." <[Greg.Pruett@pge-corp.com](mailto:Greg.Pruett@pge-corp.com)>  
**Date:** August 22, 2013, 9:47:33 AM PDT  
**Subject:** **PG&E and California Utilities: Time To Move On Due To  
Negative Regulatory Environment**

Sr. Officer Team,

Please see the following article that appeared earlier today on an  
investment website called, "Seeking Alpha."

Very good article.

**PG&E and California Utilities: Time To Move On Due To Negative  
Regulatory Environment**

Aug 22 2013, 7:45 | by Jon Parepoynt | about: PCG

If you own PG&E Corp ([PCG](#)), it is time to sell and move on. Utility investments should not carry the risk state officials could force bankruptcy on its shareholders, but it is a situation that PCG finds itself in - again. PCG may be forced to file for bankruptcy for the second time in 12 years due to actions within its regulatory environment.

PCG is California's largest regulated utility company. PG&E experienced a gas pipeline explosion in 2010 that killed eight people in San Bruno, CA. Since the explosion, PCG has spent or is anticipating spending \$2.2 billion in upgrades to its pipeline system. The California Public Utility Commission has now proposed an additional penalty of \$2.25 billion on the company.

As not to affect its creditworthiness, supporters of the penalty are suggesting the company just raises additional capital by selling more stock. At a 13% discount to its current market price, which may be required to generate interest, the company would need to sell an additional 63 million shares. This would equate to a 13% dilution and increase annual dividend payment liabilities by over \$110 million if the \$1.82 dividend remains unchanged. The penalty would not be recoverable through rate increases and the \$2.25 billion would not be included in PCG's regulated asset base.

The company has suggested it may be preferable to file for bankruptcy than to accept the structural changes this financial penalty would impose. According to the company, the proposal penalty is more than four times the company's net income in 2012 and is 15 years' worth of earnings for the gas utility business. The company has agreed to a similar penalty, but capital expenditures to update and upgrade its pipeline network would be credited against the settlement.

However, not everyone is impressed with the company's reaction to the penalty. According to an [article](#) in Bloomberg, Mindy Spatt, a representative for the Utility Reform Network, a customer advocacy group based in San Francisco, said, "Penalties should hurt a little. PG&E seems to think penalties should not hurt at all. They're just whining."

Just whining? Resisting the imposition of a penalty that would structurally change the finances of the company is just whining?

Both Moody's and Standard & Poor's have announced they will put California's regulatory environment under review if the penalty is imposed. S&P ranks California as "More Credit Supportive" when evaluating the regulatory environment for regulated utilities. This is the second highest category (there is no state in the highest "Most Credit Supportive" category) and includes only eight states. A map of S&P US Utility

**Regulatory Environment Assessment is below:**

If these credit agencies downgrade the regulatory environment in California, it will affect the creditworthiness, and potentially credit rating, of all California utilities, PCG included. If the credit agencies downgrade utility credit ratings due to a perceived growing unfriendly regulatory environment, operating costs will most likely increase due to higher interest payments that accompany downgrades.

In late March, I wrote an SA article titled "Is It Time to Tiptoe Back into California Regulated Utilities?" In that article, I suggested maybe the regulatory environment had vastly improved since the 2001 Electricity Financial Crisis that was aggravated by rulings from the PUC. However, I would now offer extreme caution to all current investors in CA utilities and would humbly suggest other non-California utilities to potential PCG investors.

Investors look to electric and gas regulated utilities for stability and growth of earnings and dividends. Long-term stability is largely based on achieving an adequate return on a growing base of regulated assets. If the CA PUC imposes its punitive penalty, achieving an adequate return will become more difficult for PCG shareholders.

The final ruling for PCG is in the hands of two Administrative Law Judges who will offer their opinion to the 5-member PUC board. The PUC is expected to impose its final ruling by year's end. I personally prefer to have the future of my stock selections rest more in the hands of capable business managers than those of PUC board members.

California is ranked 15th in power generation from wind as a percentage of total power generation. According to the Wind energy Association, about 4.9% of total power generated in CA is from wind farms. Over the next few years, CA electric utilities will be subjected to bigger problems caused by the disruptive nature of the current regulated wind power programs. Adding further regulatory uncertainty in the form of punitive penalties of PCG's magnitude may tip the scales further away from shareholder interests.

Investors should go to the sidelines and watch how this plays out. Additional investments in PCG over the next six months could be a risky affair that is not rewarded by either higher share prices or larger dividends.

Author's Note: Please review important disclaimer in author's profile.

**Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.**