

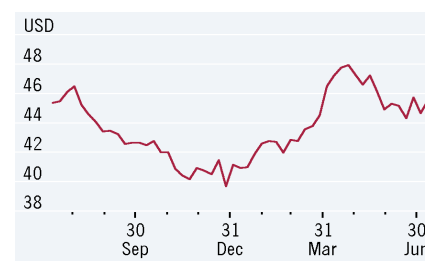
PG&E Corp (PCG)

Alert: San Bruno Update – CPSD to Amend Reply Brief

- What's happening:** CPSD's [Motion](#) to amend its Reply Brief is currently pending before the ALJ in the case of [San Bruno explosion and fire](#). If CPSD is allowed to amend its Reply Brief, we believe it could potentially alter the discussion of the amount of penalties ultimately imposed on PG&E – a potential overhang but we await the filing. While the extent of the proposed changes is unclear at this time, and the situation remains very fluid, we expect further clarity on Monday, 7/15 when the filing would be due. This is a key event investors should monitor.
- CPSD will amend its reply brief – the extent remains to be seen.** On 7/8/2013 CPSD filed a motion to amend its reply brief in the case of San Bruno explosion. The ALJ is expected to rule on the motion by the end of today (Friday, July 12, 2013), and if the motion is granted, we expect CPSD to file its amended response brief on Monday, July 15, 2013. Considering none of the major stakeholders opposed the motion, we think that the ALJ will approve the request. We note that in its filing CPSD indicated that the amended version of the brief would “moot” some of the points raised in the City of San Bruno's motion to strike CPSD's proposal to grant PG&E a credit against penalties.
- Background: San Bruno opposing a credit against penalties – no surprise there.** On July 1, the city of San Bruno filed a motion to strike CPSD's proposal with respect to granting PG&E a credit for the expenses already incurred in addressing pipeline safety towards any penalties that may be imposed on the company. In its motion San Bruno alleged the violation of due process claiming that the concept of such credit was not properly addressed during the evidentiary hearings and as such could not be introduced in the subsequent filings.
- Amended brief to address concerns – filing may or may not be material.** Since the motion to amend did not meet any substantial opposition from major stakeholders, we believe that it is likely to be granted, and that CPSD will file its amended reply on Monday, July 15, 2013. Based on the language of the motion, we expect the agency to address some of the City of San Bruno's concerns in its amended Brief; however, the full extent of possible revisions remains to be seen.

Buy	1
Price (12 Jul 13)	US\$45.27
Target price	US\$55.00
Expected share price return	21.5%
Expected dividend yield	4.0%
Expected total return	25.5%
Market Cap	US\$20,017M

Price Performance (RIC: PCG.N, BB: PCG US)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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PG&E Corp

Valuation

For PG&E, we assign a premium to group average 16.0x target PE multiple to 2015 earnings. Some recent regulatory overhangs have been lifted, such as the final decision on the gas pipeline OIR, the final decision on the Cost of Capital proceeding, and some additional clarity on the potential size of the San Bruno related fine. We also incorporate the Oakley generation project in our valuation. We estimate a total net EPS impact of +\$0.05, inclusive of assumed equity dilution. To calculate the equity value of PG&E, we multiply our 2015 pro forma operating EPS estimate of \$3.33 (includes \$0.05 of Oakley accretion) by our target PE multiple of 16.5x, subtract a small NPV of ~\$0.20/share for unrecoverable encroachment spending through 2017 and arrive at a rounded target price of \$55/share.

Risks

Risks that could affect PCG's target price include:

Regulatory risk – PG&E recently filed their general rate case to set rates and capital spending in the 2014-16 period. Failure to obtain fair recovery for capital expenditures or increases in operating costs could negatively affect PG&E's earnings and equity value.

San Bruno related items – The future political and regulatory impact from the San Bruno accident & investigation carries a risk not only in financial penalties and fines, but more importantly, potentially damaging the standing of the company, in front of the CPUC and other statewide stakeholders. PG&E is currently working through an order instituting investigation (OII) launched by the CPUC related to the San Bruno incident and PG&E's operation of their gas pipeline business. The fines levied by the CPUC could be significant and could be larger than we are expecting which would require PG&E to issue more dilutive equity. This would have a negative impact on PG&E shares. There is also an ongoing criminal investigation on PG&E's operation of their gas transmission business which also could result in significant fines.

Appendix A-1

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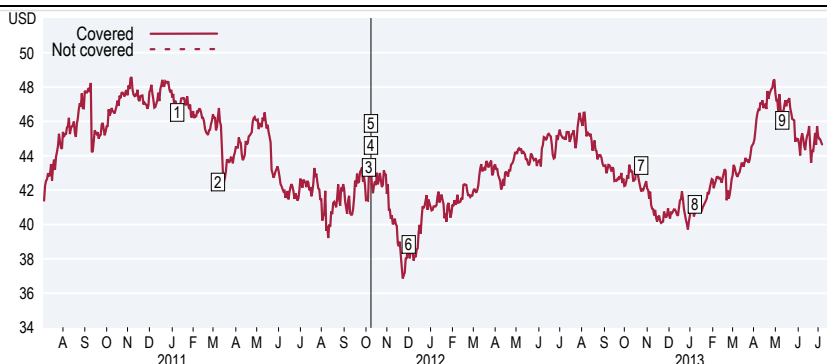
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PG&E Corp (PCG)

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Analyst: Shahriar (Shar) Pourreza, CFA
Covered since May 10 2013



	Date	Rating	Target Price	Closing Price
1	10-Jan-11	*2L	*48.00	46.52
2	8-Mar-11	2L	*46.00	46.27
3	6-Oct-11	*1L	*48.00	42.99

* Indicates change

	Date	Rating	Target Price	Closing Price
4	8-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	48.00	42.97
6	1-Dec-11	1	*47.00	38.52

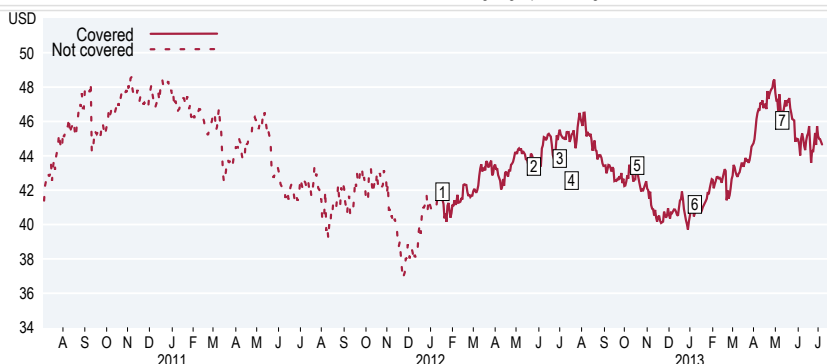
	Date	Rating	Target Price	Closing Price
7	24-Oct-12	1	*48.00	41.92
8	8-Jan-13	1	*45.00	40.67
9	10-May-13	1	*55.00	46.60

Rating/target price changes above reflect Eastern Standard Time

PG&E Corp (PCG)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Shahriar (Shar) Pourreza, CFA
Covered since May 10 2013



	Date	Rating	Target Price	Closing Price
1	18-Jan-12	*ADD MP	-	41.44
2	25-May-12	*REM MP	-	43.74
3	30-Jun-12	*N	-	45.27

* Indicates change

	Date	Rating	Target Price	Closing Price
4	18-Jul-12	*ADD MP	-	45.25
5	18-Oct-12	*REM MP	-	43.21
6	8-Jan-13	*ADD MP	-	40.67

	Date	Rating	Target Price	Closing Price
7	10-May-13	*REM MP	-	46.60

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Citi Research Equity Ratings Distribution

12 Month Rating

Relative Rating

Data current as of 30 Jun 2013

	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	48%	40%	12%	6%	88%	6%
% of companies in each rating category that are investment banking clients	53%	50%	45%	58%	51%	49%

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