EXHIBIT 1

Ex Parte OII – Communications At Issue

	Category 1	Category 2	Category 3	Total
Communications Identified in OII	36 (parties agreed to remove 2 items)	10	0	46
Additional Communications Identified by Non-PG&E Parties	99	14	21	134
Total	135	24	21	180

Category 1: Category 1 consists of transmittal emails with attachments. The Parties propose including the additional items in the scope of the proceeding and will submit stipulations for all of them by August 12, 2016.

Category 2: Category 2 consists of emails that describe oral communications or meetings. The Non-PG&E Parties request additional information to assess whether or not the communication described is an ex parte violation (and, if so, to provide information concerning the appropriate penalty). While not agreeing with the Non-PG&E Parties' position, PG&E has agreed to conduct diligence and provide additional information about the Category 2 communications by following the agreed protocol to answer the Data Requests.

Category 3: Category 3 consists of communications that reference potential oral communications, including meetings, meals, encounters, or site visits involving PG&E personnel and CPUC personnel, but do not provide much detail concerning those events. The Non-PG&E Parties have requested these Category 3 communications be included in the proceeding asserting that while they do not appear to be ex parte violations themselves, they suggest that a communication that could possibly be a violation may have occurred. PG&E objects to including these communications because, among other things, the events described in the emails do not indicate any ex parte violation occurred, and adding such communications would require substantial diligence for communications that are poorly identified and therefore even more difficult to subject to efficient and reasonable diligence. The Parties will brief whether these communications should be included in the scope of this OII.

EXHIBIT 2

From: Horner, Trina
Sent: Thursday, April 21, 2011 8:42 PM
To: Horner, Trina; Hogle, Jessica; Johnson, Kirk; Lavinson, Melissa A; Kline, Steven L.; Livingston, Randy
Cc: Ittner, Mary Ellen; Stock, William; Cherry, Brian K; Bottorff, Thomas E
Subject: RE: Meeting next week?

I should have made clear that Commissioner Florio told her office that they support PG&E's program, if that wasn't already clear.

From: Horner, Trina
Sent: Thursday, April 21, 2011 5:35 PM
To: Hogle, Jessica; Johnson, Kirk; Lavinson, Melissa A; Kline, Steven L.; Livingston, Randy
Cc: Ittner, Mary Ellen; Stock, William; Cherry, Brian K; Bottorff, Thomas E
Subject: RE: Meeting next week?

All,

I understand Commissioner Florio's conference call meeting with Rep. Speier's office today (Congresswoman not attending, but Commissioner did), went very well. They met with Richard. The CPUC discussed some of the reasons for hydrotesting and a bit about how it's done, but left most of the details to be covered in PG&E's meeting w/ her office. They appear to have addressed *some* of her office's concerns with hydrotesting in her District, but they have many questions left. You should know that if, after our meeting with her office, she still has concerns with the hydrotesting in her District, Commissioner Florio is prepared to support her request for alternative measures or at least a delay (from the May test).

One additional question that came up that the CPUC couldn't answer, that we should be prepared to answer, is how alternate natural gas supply will be provided to critical customers like hospitals, etc., during the time the pipe is out of service? This question is a more general question, I think, not necessarily limited to her District.

Let me know if you have questions.
Trina

From: Hogle, Jessica
Sent: Thursday, April 21, 2011 2:13 PM
To: Johnson, Kirk; Lavinson, Melissa A; Kline, Steven L.; Livingston, Randy
Cc: Ittner, Mary Ellen; Horner, Trina
Subject: FW: Meeting next week?

All:
See questions from the Congresswoman below.

What would it cost to replace all the pipes? When would it be done?

What would it cost to hydro-test the pipes?

Will hydro-testing fatigue the pipes?

I believe we were already planning on addressing most of these, but not on the scale that she is asking.

Please let me know how you would like to proceed.

Thanks,
Jessica

Jessica C. Hogle
Director, Political & Federal Affairs
Pacific Gas & Electric Company
900 7th St, NW Suite 950
Washington, DC 20001
(202) 638-3503 O
(202) 638-3522 F
** ***Please note my new email address: j8h1@pge.com***

From: Steffen, Richard [mailto:Richard.Steffen@mail.house.gov]
Sent: Thursday, April 21, 2011 4:58 PM
To: Hogle, Jessica
Cc: Larsen, Tina; REDACTED
Subject: RE: Meeting next week?

Jessica: Jackie said she wanted PG&E to have answers to the following:

What would it cost to replace all the pipes? When would it be done?

What would it cost to hydro-test the pipes?

Will hydro-testing fatigue the pipes?

I assume this is the 150 miles of pipeline identified by PG&E.

Let me know if there will be responses to these questions by next Tuesday.

Thanks,

Richard

From: Hogle, Jessica [mailto:j8h1@pge.com]
Sent: Thursday, April 21, 2011 8:57 AM
To: Steffen, Richard
Cc: Larsen, Tina; REDACTED
Subject: Meeting next week?

Richard, Tina:

I just wanted to follow up and see if the Congresswoman is available to meet on Tuesday morning, the 26th to go over hydrostatic pressure testing as we discussed? We can come to your district offices, just let me know what works or if there is a better time from your end.

Thanks,

Jessica

Jessica C. Hogle

Director, Political & Federal Affairs

Pacific Gas & Electric Company

900 7th St, NW Suite 950

Washington, DC 20001

(202) 638-3503 O

(202) 638-3522 F

** *Please note my new email address: j8h1@pge.com*

From: Jacobson, Erik B (RegRel
Sent: 5/11/2011 9:20:49 AM
To: Stock, William (WCS3@pge.com)
Cc:
Bcc:
Subject: RE: May 19th LaHood, Speier Work-Site Visit/Press Conference

Thanks.....it appears to reject CPSD's recommendation for determining MAOP. We should be aligned with Sempra on the cost sharing proposal.

-----Original Message-----
From: Stock, William
Sent: Wednesday, May 11, 2011 8:28 AM
To: Jacobson, Erik B (RegRel)
Subject: RE: May 19th LaHood, Speier Work-Site Visit/Press Conference

By and large I think it is about as good as we could hope for. Attached is a summary that REDACTED did which well summarizes the PD.

-----Original Message-----
From: Jacobson, Erik B (RegRel)
Sent: Wednesday, May 11, 2011 8:21 AM
To: Stock, William
Subject: RE: May 19th LaHood, Speier Work-Site Visit/Press Conference

Great......when you get a chance, tell me what I should think about the PD that came out yesterday (I haven't reviewed it).

-----Original Message-----
From: Stock, William
Sent: Wednesday, May 11, 2011 8:16 AM
To: Jacobson, Erik B (RegRel)
Subject: RE: May 19th LaHood, Speier Work-Site Visit/Press Conference

I plan on attending.

-----Original Message-----
From: Jacobson, Erik B (RegRel)
Sent: Wednesday, May 11, 2011 7:31 AM
To: Stock, William
Subject: Fw: May 19th LaHood, Speier Work-Site Visit/Press Conference

You planning to attend? Would be good to have someone there, paticularly if Florio attends.

----- Original Message -----
From: Allen, Meredith
Sent: Tuesday, May 10, 2011 08:45 PM
To: Cherry, Brian K; Horner, Trina; Jacobson, Erik B (RegRel)
Subject: Fw: May 19th LaHood, Speier Work-Site Visit/Press Conference

----- Original Message -----
From: Lavinson, Melissa A
Sent: Tuesday, May 10, 2011 04:10 PM
To: Leder, Steve; Pruett, Greg S.; Loduca, Janet C.; Kline, Steven L.
Cc: Johnson, Kirk; Yura, Jane; REDACTED Allen, Meredith; Bedwell, Ed; Kiyota, Travis; Hogle, Jessica; Foley, Beth
Subject: May 19th LaHood, Speier Work-Site Visit/Press Conference

Steve, Greg, Janet and Steve --

Per previous conversations, I have confirmed that Secretary LaHood will be in San Bruno on May 19th, and that he and Congresswoman Speier would like to tour a nearby gas pipeline work-site and hold a pipeline safety-related press event at the work-site.

Working with REDACTED, we have confirmed with REDACTED that there will be gas pipeline replacement activities (through GPRP) occurring in the Congresswoman's district close to San Bruno. I provided this information to both the Congresswoman's staff and the Secretary's staff, and they thought that it sounded like a good opportunity. I also indicated that we had time blocked on Chris's calendar to participate in the visit, and they were very pleased.

To provide additional context, earlier in the afternoon, the Secretary will hold a closed-door meeting with Congresswoman Speier, Mayor Ruane, members of the San Bruno City Council, and victims and their relatives (this is similar to what he did in Allentown about a month ago). He will then tour the San Bruno accident site and, finally, head to our work-site.

In terms of next steps, REDACTED is going to confirm the exact work-site location, nature of the work, etc. Once we have that information, we will provide it to both the Secretary's office and the Congresswoman's office so they can make a final determination and proceed with arrangements. The likely timing of the visit and press conference would be around 3:00 to 3:45 on 5/19.

They would want to tour the site, have our team explain what we're doing at the site and how it improves the overall safety of the system. The Secretary would then host a press conference regarding pipeline safety and his visit to San Bruno. It is unclear, at this juncture, if Chris would have a speaking role in the press conference.

We also heard from Congresswoman Speier's office that Commissioner Florio and perhaps Cynthia Quarterman (PHMSA Administrator) may attend as well. (Trina Horner confirmed that Commissioner Florio's office had been contacted about the visit).

Secretary LaHood's office also indicated that his advance and security team will arrive on May 17th and would want to tour the work-site to assess the security situation and scope out where best to hold the press conference. I confirmed with REDACTED that he could accommodate this. I would also recommend that, given the many moving pieces associated with a visit like this, we have someone from PG&E with previous political advance work experience accompany the Secretary's team along with REDACTED -- much like what Pat Mullen did at Diablo Canyon for Senator Feinstein's tour.

In terms of day-before (5/18) and day-of (5/19) staffing, I will be out to support the various activities and visit, and REDACTED indicated that he would be available to be on site on 5/19 to provide technical support and help explain the activities taking place.

I think this visit provides an opportunity for us to highlight the various activities we are undertaking to enhance safety and restore confidence in our system. Both the Congresswoman's office and the Secretary's office

confirmed that the purpose of the press conference was not to be a "gotcha" moment, but rather to focus on what needs to be done, nationally, and what's being done.
If you all could advise who else you would like to help support of this effort over the next week, I will reach out to them and schedule a coordination call/meeting. I will also provide updates to this group, as we receive information.

Thanks very much in advance for the support for this effort.

Melissa

From: Cherry, Brian K

Sent: 5/17/2011 6:21:42 PM

To: Jacobson, Erik B (RegRel) (/O=PG&E/OU=Corporate/cn=Recipients/cn=EBJ1)

Cc:

Bcc:

Subject: Re: prep for May 27th LLNL visit

Agreed. We should not have a problem in this area.

From: Jacobson, Erik B (RegRel)
Sent: Tuesday, May 17, 2011 06:18 PM
To: Cherry, Brian K
Subject: RE: prep for May 27th LLNL visit

Brian, We need to be careful that this meeting stays away from issues being considered in the gas OIR or we risk having to file an ex parte --- given that we are participating in the meeting. Erik

From: REDACTED [mailto REDACTED isageenergy.com]
Sent: Tuesday, May 17, 2011 5:22 PM
To: Dowdell, Jennifer; Cherry, Brian K; Jacobson, Erik B (RegRel)
Subject: RE: prep for May 27th LLNL visit

Hi Jennifer,

Thanks for your assistance on scheduling this meeting. The subject of the presentation is pipeline safety and gas flow modeling. Insofar as, Commissioner Florio is the Assigned Commissioner for Pipeline Safety LLNL wanted to discuss their capabilities in this area as well.

Best regards,

REDACTE

REDACTED

Visage Energy Corp.

office and cell: REDACTED

From: Dowdell, Jennifer [mailto:JKD5@pge.com]
Sent: Tuesday, May 17, 2011 2:36 PM
To: REDACTED; Cherry, Brian K; Jacobson, Erik B (RegRel)
Subject: RE: prep for May 27th LLNL visit

REDACTE

Am trying to get this set up ASAP, but please can you tell me if the subject of the presentation is Gas flow modeling or hydrostatic testing work? I think it is gas flows but if you would please confirm that would be great.

Jennifer

From: REDACTED [mailtoREDACTEDisageenergy.com]
Sent: Monday, May 16, 2011 6:10 PM
To: Cherry, Brian K; Dowdell, Jennifer; Jacobson, Erik B (RegRel)
Subject: RE: prep for May 27th LLNL visit

Great, I look forward to hearing back from Jennifer and Erik regarding the best time on Tuesday and where to meet at PG&E.

REDACTED

office and cell: REDACTED

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Monday, May 16, 2011 6:05 PM
To: REDACT@visageenergy.com'; Dowdell, Jennifer; Jacobson, Erik B (RegRel)
Subject: Re: prep for May 27th LLNL visit

Tuesday is fine. I'm not important. Jane and Trina and Anil and Trista are more important. Jennifer and Erik will facilitate getting them there.

From: REDACTED ›visageenergy.com]
Sent: Monday, May 16, 2011 06:03 PM
To: Cherry, Brian K
Subject: RE: prep for May 27th LLNL visit

What day would be better for you?

REDACTED

Visage Energy Corp.

office and cell: REDACTED

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Monday, May 16, 2011 5:59 PM
To: 'REDAC]@visageenergy.com'
Subject: Re: prep for May 27th LLNL visit

Not sure.

From: REDACTED ›visageenergy.com]
Sent: Monday, May 16, 2011 05:48 PM
To: Cherry, Brian K
Cc: Dowdell, Jennifer; Jacobson, Erik B (RegRel)
Subject: RE: prep for May 27th LLNL visit

Brian,

Great, does next Tuesday fit your schedule. If so, I will coordinate a time with Bernadette.

Best regards,

REDACTED

Visage Energy Corp.

office and cell: REDACTED

From: Dowdell, Jennifer [mailto:JKD5@pge.com]
Sent: Monday, May 16, 2011 5:37 PM
To: Cherry, Brian K; REDACTED visageenergy.com; Jacobson, Erik B (RegRel)
Subject: Re: prep for May 27th LLNL visit

REDACTE

Would be interested in attending that presentation. Also, I might suggest inviting Trista Berkovitz who works for Jane and possibly Todd Strauss who works for Fong. Brian and Erik, do you concur?

From: Cherry, Brian K
Sent: Monday, May 16, 2011 05:27 PM
To: REDACTED visageenergy.com>; Jacobson, Erik B (RegRel); Dowdell, Jennifer; Horner, Trina; Yura, Jane
Subject: Re: prep for May 27th LLNL visit

A preview might be good.

Jane/Trina - you might want to attend.

From: REDACTED visageenergy.com]
Sent: Monday, May 16, 2011 04:52 PM
To: Cherry, Brian K
Subject: prep for May 27th LLNL visit

Hi Brian,

Thanks for arranging to have Fong and Anil Suri join Commissioner Florios LLNL tour. Livermore is working on their Pipeline Analysis presentation and was wondering if you, Fong or Anil Suri would be interested in a pre-briefing early next week.

Best regards,

REDACTED

Visage Energy Corp.

office and cell: REDACTED

From: Cherry, Brian K

Sent: 6/3/2011 2:03:47 PM

To: 'Sandoval, Catherine J.K.' (catherine.sandoval@cpuc.ca.gov)

Cc:

Bcc:

Subject: Re: Analyst Report - J.P. Morgan CA Investor Tour

Thanks Catherine. I think you are taking the correct approach. However, know that no matter what you do, these guys always form their own opinions that are sometimes not based on reality !

From: Sandoval, Catherine J.K. [mailto:catherine.sandoval@cpuc.ca.gov]
Sent: Friday, June 03, 2011 1:06 PM
To: Cherry, Brian K
Subject: RE: Analyst Report - J.P. Morgan CA Investor Tour

Brian, Thanks. I am glad they at least moved their view of the CPUC to neutral. I have stressed to all of the investor groups that the CPUC's role is to be a regulator, not an adversary as the Wall Street Journal tried to depict us. I told Chris Johns that I want PG&E to be successful as the public wants and needs the company to be successful. I will continue to stress this in my meetings with investors. Hope all is well with you. Enjoy the rainy weekend. Cathy

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Thu 6/2/2011 3:55 PM
To: Sandoval, Catherine J.K.
Subject: FW: Analyst Report - J.P. Morgan CA Investor Tour

FYI

From: Lam, Lisa [mailto:LxLy@pge.com]
Sent: Thursday, June 02, 2011 1:51 PM
To: Officers of PG&E Corporation; Officers of Pacific Gas and Electric
Cc: Investor Relations (list)
Subject: Analyst Report - J.P. Morgan CA Investor Tour

This morning, Andy Smith of J.P. Morgan issued a report summarizing the recent utility investor tour of California that he led last week. Investors met with Sempra, Edison International, and PG&E Corporation in their home cities, and also staff from the CPUC. Overall, Smith believes that the CPUC may be more constructive than initially expected following Governor Brown's appointment of three new Commissioners earlier this year, but still treat the California utilities less favorably compared to the past. The report finds that residual regulatory risk in California will continue to be an overhang on the companies. For PCG, this relates to uncertainty in the resolution of San Bruno issues, and for SRE and EIX the risk relates to pending general rate cases that won't be resolved until 2012. As a result, J.P. Morgan maintains a Neutral rating on all three California companies.

Smith believes PCG will continue to face cost pressures from the San Bruno accident with a significant chance that it will continue to absorb ongoing costs in 2012. While the company has applied for a memorandum account to track costs related to pipeline spending, there is no clear indication on when or if the CPUC may authorize such an account and/or the recovery of costs.

With respect to earnings guidance, the report questions if a new CEO could take the opportunity to "rebase" near-term EPS expectations and growth aspirations for PCG, which is one other factor that could also weigh on the stock. The report also mentions that it's unclear if PCG will be in a position to raise its dividend in 2012, and that a dividend hike in 2012, if any, will be very modest. As a result of its updated view of the issues facing the company, J.P. Morgan reduces its 2011 and 2012 EPS estimates for PCG to $3.45 and $3.70, respectively.

In trading today, PCG, SRE and EIX each closed down 0.8%, compared to the average comparator group company which was down 0.2%. The Dow Jones Utility Average was down 0.4% and the S&P 500 was down 0.1%.

For your reference, the full report is attached.

Lisa

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

Lisa Lam

PG&E Investor Relations

One Market Plaza, Spear Tower, 2400

San Francisco, CA 94105

(415) 817-8137

Supplement

From: Lam, Lisa

Sent: 6/2/2011 1:51:03 PM

To: Officers of PG&E Corporation (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=OFFICERS); Officers of Pacific Gas and Electric (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=OPCEC)

Cc: Investor Relations (list) (/O=PG&E/OU=Corporate/cn=Recipients/cn=Investor Relations)

Bcc:

Subject: Analyst Report - J.P. Morgan CA Investor Tour

This morning, Andy Smith of J.P. Morgan issued a report summarizing the recent utility investor tour of California that he led last week. Investors met with Sempra, Edison International, and PG&E Corporation in their home cities, and also staff from the CPUC. Overall, Smith believes that the CPUC may be more constructive than initially expected following Governor Brown's appointment of three new Commissioners earlier this year, but still treat the California utilities less favorably compared to the past. The report finds that residual regulatory risk in California will continue to be an overhang on the companies. For PCG, this relates to uncertainty in the resolution of San Bruno issues, and for SRE and EIX the risk relates to pending general rate cases that won't be resolved until 2012. As a result, J.P. Morgan maintains a Neutral rating on all three California companies.

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With respect to earnings guidance, the report questions if a new CEO could take the opportunity to "rebase" near-term EPS expectations and growth aspirations for PCG, which is one other factor that could also weigh on the stock. The report also mentions that it's unclear if PCG will be in a position to raise its dividend in 2012, and that a dividend hike in 2012, if any, will be very modest. As a result of its updated view of the issues facing the company, J.P. Morgan reduces its 2011 and 2012 EPS estimates for PCG to $3.45 and $3.70, respectively.

In trading today, PCG, SRE and EIX each closed down 0.8%, compared to the average comparator group company which was down 0.2%. The Dow Jones Utility Average was down 0.4% and the S&P 500 was down 0.1%.

For your reference, the full report is attached.

J.P.Morgan

Electric Utilities

CA Investor Tour: CA Regulatory Uncertainty Remains; Resuming Coverage of SRE with a Neutral Rating and a $58 PT

Electric Utilities

Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Stefka Gerova, CFA
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

J.P. Morgan Securities LLC

We hoped to return from our West Coast investor tour with increased visibility into the outlook for California regulation and, accordingly, get more constructive on the California utility stocks given that the shares are among the poorest performers in the sector YTD. However, we believe the residual regulatory risk in California will continue to overhang the shares. We are maintaining our Neutral ratings on PG&E and Edison International. We are resuming coverage of Sempra and lowering our rating to Neutral from Overweight (when we were restricted in February 2010).

- **PG&E trades at a material discount, but appears most at risk of the California utilities.** PG&E has been one of the poorest performing stocks in the sector YTD, falling almost 10%, versus a gain of 5.8% for the UTY. It trades at a 25% discount to its regulated peers on 2011E P/E. We believe this steep discount could make the shares attractive; however, we expect the discount on the shares to persist, because following our trip to the West Coast, we believe PG&E will continue to face regulatory pressure as it continues to addresses the fallout from its San Bruno pipeline explosion.

- **The long-term unregulated fundamentals for Edison International appear to be improving, but the California rate case should be the near-term EPS driver.** Edision Mission Energy, EIX's unregulated arm, and the pressure it is facing as a result of weak power markets and environmental compliance requirements was the focus of investors for much of last year. Our meeting with management led us to believe that trends for the business are improving. However, investors' focus in 2011 has increasingly been on the pending rate case at EIX's electric utility. We estimate a favorable or unfavorable outcome to the rate case could swing 2012E EPS by +/- $0.20-0.25 per share versus our current estimate. We do not expect resolution of the rate case until likely early 2012, so we expect this uncertainty to overhang the stock.

- **Sempra businesses performing well, but California regulatory uncertainty likely keeps the stock from working in the near term.** Sempra has restructured itself over the past ~12 months, as it divested its commodity trading JV, launched a share buyback and materially boosted its dividend. Its remaining businesses should provide a more stable EPS profile and drive attractive EPS growth; however, like EIX, it also has rate cases pending at the California Public Utility Commission (CPUC). We expect uncertainty about the outcome of its pending rate cases to weigh on the stock in the near term; accordingly, we are resuming coverage of the company with a Neutral rating.

Equity Ratings and Price Targets

Company	Symbol	Mkt Cap ($ mn)	Price($)	Rating Cur	Rating Prev	Price Target Cur	Price Target Prev
Edison International	EIX	12,742.47	39.11	N	n/c	37.00	38.00
PG&E Corp.	PCG	16,849.23	43.12	N	n/c	50.00	54.00
Sempra Energy	SRE	14,257.23	54.21	N	OW	58.00	63.00

Source: Company data, Bloomberg, J.P. Morgan estimates. n/c = no change. All prices as of 01 Jun 11.

See page 15 for analyst certification and important disclosures.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

- **Resuming coverage of Sempra Energy.** We were restricted on Sempra Energy (SRE) due to J.P. Morgan's involvement in the transaction announced on 16 February 2010. Now that the transaction is complete, we are resuming coverage of Sempra Energy with a Neutral rating (previously Overweight) and a December 2011 price target of $58 (previously a December 2010 price target of $63).

Neutral

Company Data	
Price ($)	39.11
Date Of Price	01 Jun 11
52-week Range ($)	40.15 - 31.06
Mkt Cap ($ mn)	12,742.47
Fiscal Year End	Dec
Shares O/S (mn)	326
Price Target ($)	37.00
Price Target End Date	31 Dec 11

Edison International (EIX;EIX US)

	2010A	2011E (New)	2011E (Old)	2012E (New)	2012E (Old)
EPS Reported ($)					
Q1 (Mar)	0.82	0.62A	0.65A		
Q2 (Jun)	0.62				
Q3 (Sep)	1.46				
Q4 (Dec)	0.58				
FY	3.48	2.75	3.00	2.75	3.20
Bloomberg EPS FY ($)	3.48	2.81		2.69	
P/E FY	11.2	14.2	13.0	14.2	12.2

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomberg' above denotes Bloomberg consensus estimates.

Neutral

Company Data	
Price ($)	43.12
Date Of Price	01 Jun 11
52-week Range ($)	48.63 - 39.87
Mkt Cap ($ mn)	16,849.23
Fiscal Year End	Dec
Shares O/S (mn)	391
Price Target ($)	50.00
Price Target End Date	31 Dec 11

PG&E Corp. (PCG;PCG US)

	2010A	2011E (New)	2011E (Old)	2012E (New)	2012E (Old)
EPS Reported ($)					
Q1 (Mar)	0.79	0.70A	0.80A		
Q2 (Jun)	0.91				
Q3 (Sep)	1.00				
Q4 (Dec)	0.70				
FY	3.42	3.45	3.80	3.70	4.00
Bloomberg EPS FY ($)	3.43	3.57		3.75	
P/E FY	12.6	12.5	11.3	11.7	10.8

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomberg' above denotes Bloomberg consensus estimates.

Neutral

Company Data	
Price ($)	54.21
Date Of Price	01 Jun 11
52-week Range ($)	55.97 - 44.40
Mkt Cap ($ bn)	14.26
Fiscal Year End	Dec
Shares O/S (mn)	263
Price Target ($)	58.00
Price Target End Date	31 Dec 11

Sempra Energy (SRE;SRE US)

	2010A	2011E	2012E
EPS ($)			
Q1 (Mar)	0.80	1.07A	
Q2 (Jun)	0.89		
Q3 (Sep)	1.06		
Q4 (Dec)	1.18		
FY	3.61	4.15	4.45
P/E FY	15.0	13.1	12.2

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomberg' above denotes Bloomberg consensus estimates.

Conclusions

PG&E

PG&E's steep discount likely to persist

We embarked on our West Coast investor tour hoping to come away with a more constructive view on California regulation, especially for PCG, given that it trades at about a 25% discount to its regulated peers on 2011E P/E (and EPS estimates that already reflect fallout from costs associated with addressing increased compliance and inspection efforts at its pipeline transmission business following the explosion at one of its pipelines in San Bruno). Our meeting at the CPUC leads us to believe that the CPUC overall may be more constructive than we initially thought following

Governor Brown's appointment of three new CPUC Commissioners earlier this year. However, we believe PG&E faces increased scrutiny as a result of the ongoing focus on its pipeline operations following the San Bruno explosion.

GRC resolved favorably
One factor that makes PG&E more attractive versus its California peers, in our opinion, is that its rate case settlement was recently approved by the CPUC, so outside of the San Bruno issues, the company does not have to seek rate relief from regulators in the near term. We believe the settlement of its rate case was constructive, but note that the settlement was brokered before the three new commissioners were appointed to the CPUC.

San Bruno problems remain
We believe the company will continue to face cost pressures from its San Bruno explosion as it gathers and documents records on pipeline pressure testing, types of pipelines in the ground, as well as maintenance efforts on its pipeline system, etc. The company already lowered its 2011 outlook by 5% ($0.20 per share) to reflect costs related to the San Bruno explosion as well as higher costs elsewhere in the business. The company is seeking a ruling from the CPUC that will allow it to start memorandum accounting (and set the stage for potential recovery) for its San Bruno-related costs, but it is unclear to us if/when the CPUC might adopt such a measure. We believe there is a significant chance that the company will have to absorb ongoing costs from its San Bruno explosion in 2012.

Pipeline inspection process just beginning – could be expensive
It appears as though the CPUC may only accept hydrostatic testing or pipeline replacement as acceptable types of remediation for pipelines that do not have sufficient documentation to ensure their safe operation. PG&E has identified 152 miles of pipelines that it initially intends to hydrostatic test, but notes that the absolute length of pipelines involved in the initial round of testing is closer to 200 miles because of the configuration of the system (effectively it has to look at 200 miles of pipelines to capture the 152 miles). The company has indicated that it expects to incur $350-550 million of pipeline inspection/replacement costs. We believe PG&E will be able to recover the capital outlay for this program, although we believe its ability to earn a return on its efforts is likely limited. It is also unclear when/how the CPUC may authorize recovery. Accordingly, we believe the company is facing some risk (although likely unavoidable) as it is spending money on its pipeline system with no clear path to recovering its investment.

New CEO likely a short-term catalyst for the stock
PG&E reiterated that it plans to announce a new CEO in a matter of week***s*** (company emphasis). The prior CEO of PG&E departed in the wake of the San Bruno explosion. We believe appointment of a new CEO will likely be a short-term catalyst for the stock, as a new CEO offers the opportunity to begin to repair regulatory, political, and customer relationships as well as target a strategy toward addressing perceived and/or real operational problems at PG&E's gas pipeline business. However, we believe these steps take time, so following appointment of a new CEO, we expect the ongoing resolution of the residual pipeline explosion issues to temper the stock reaction.

NTSB review not due until the fall

For example, the NTSB's review of the San Bruno explosion is not due until the fall, and PG&E indicated to us that the CPUC might launch an additional investigation depending on the findings of the NTSB. We believe the CPUC may be inclined to launch an investigation, because in our meeting at the Commission, it was highlighted that the CPUC is facing significant public scrutiny in the wake of the San Bruno explosion as it is entrusted with overseeing pipeline safety. Accordingly, we believe it is difficult to fault the CPUC in the court of public opinion if it launches an additional investigation, but easy to raise questions about CPUC oversight if it chooses to not advance an additional investigation. We believe this could result in resolution of the San Bruno issues taking longer than expected.

New CEO might rebase EPS expectations

One other factor that we believe could weigh on the shares following the announcement of a new CEO is that the new CEO may take the opportunity to rebase near-term EPS expectations as well as growth aspirations for the company. We have no way of knowing if a new CEO might take this step, but we believe such a move could serve two purposes : 1) gain some political and customer goodwill on a tempered outlook and 2) set a more readily achievable goals for new leadership.

2012 dividend hike likely modest, if at all

The company recently told investors that it will not raise its dividend in 2011. We believe this step was not only to preserve cash in the face of uncertainty, but also to send a signal to the public, regulators, and lawmakers that the company is focused on preserving its resources to address its pipeline business and any shortcomings. Given the scrutiny on the company, it is unclear if the company will be in a position to raise the dividend in 2012. We believe a dividend hike in 2012, if any, will be very modest given the current political/regulatory/customer climate in California.

Cutting our 2011E, 2012E EPS and December 2011 price target

We are cutting our 2011E EPS to $3.45 from $3.80 and our 2012E EPS to $3.70 from $4.00 to reflect the ongoing costs of the San Bruno explosion. We are also cutting our December 2011 price target to $50 from $54 to reflect our reduced EPS outlook. We discuss our price target derivation later in this report.

Edison International

We expect EIX's outstanding rate case to result in the shares performing in line with peers. Much of the company's potential EPS variability stems from its unregulated business, Edison Mission Energy (EME), for which fundamentals appear to be improving; however, the company has a rate case pending at its electric utility that could have a material impact on 2012 earnings, and we expect the uncertainty to be an overhang on the shares.

Long-term unregulated fundamentals improving

Management discussed at length its thought process around the value proposition for its unregulated business, highlighting that ~18 months ago, when the shares were likely reflecting zero, or negative, equity value for EME, management outlined several factors that it focused on as value drivers for the business and its belief that those drivers were likely to improve.

Power demand
One factor the company highlighted was power demand, especially driven by economic recovery. Management noted that the supply/demand outlook has improved since it initially outlined its strategic analysis framework.

Capacity prices
Capacity prices are a key driver of value for many power plants, and EIX management expressed over the past several quarters that it expected capacity prices to improve. The most recent PJM capacity auction results were released a few weeks ago, and RTO capacity prices, which impact a significant portion of EME's capacity, increased almost fivefold.

Environmental regulations
One factor that we consistently heard troubled investors was EME's ability to invest in required environmental controls on its power plants and earn an appropriate return on investment. EME entered into an agreement with Illinois to control emissions at its fleet before the current proposed EPA rules were announced. Accordingly, it was not clear if EME was investing in environmental retrofits that might simply increase its costs (capital and operating) versus competing power plants, which would have put EME at a significant disadvantage. Subsequently, the EPA issued proposed emissions limits that, according to EIX management, "could not have been written better" from the standpoint of putting power plants on equal competitive footing in terms of environmental emissions limits. Management also noted that it expects the work it is doing to retrofit its plants will meet or exceed EPA requirements.

Environmental compliance costs/capability
Not only does EME appear to be able to meet EPA emissions requirements, it also appears that it may be able to meet the rules with lower costs and greater flexibility. When EME's environmental retrofit program was initially envisioned following its agreement with Illinois, we believe wet scrubbing was generally viewed as the only viable technology to meet emissions limits. However, the company has worked diligently to test and evaluate dry sorbent injection (DSI) technology at its plants. It appears that DSI technology can meet much of its environmental needs. We note that DSI is less capital intensive than wet scrubbing, albeit at a somewhat higher variable cost. We believe this has improved the economics of its environmental compliance program.

Natural gas prices
One factor that remains essentially unchanged over the past 18 months since Edison started talking to investors about its strategic framework for evaluating EME is natural gas prices, although we note that prices have not weakened further.

Rail/Coal remains mixed
The other factor that remains undetermined at EME is how rail and coal costs may impact the company. EME faces expiration of its existing rail contract with Union Pacific and it is unclear where this contract will price going forward, although we assume EME's rail costs increase in our forecast. It is unclear how coal costs may impact EME.

Studying how best to address emissions requirements at Homer City
Edison management indicated that it continues to evaluate how best to address environmental compliance requirements at Homer City, its Pennsylvania coal plant,

but noted that its lease agreement with GE includes a mechanism whereby the capital for installing environmental controls is financed by GE through terms of the lease.

EIX may refinance EME
EIX management indicated to us that one initiative it is undertaking is consideration of refinancing its maturities at EME given current high yield debt market conditions. We believe refinancing EME could be a positive catalyst for the stock, because pushing out maturities gives EME even more time to benefit from market recovery and implement its environmental strategies, etc. We expect refinancing efforts to take several months.

Rate case a key 2012 earnings driver, but not likely resolved until early 2012
EIX has a pending rate case at its Southern California Electric regulated electric utility subsidiary. The company has received a response from the Division of Ratepayer Advocates (DRA), which, as par for the course, recommended substantially less rate relief than the utility requested. EIX management indicated to us that nothing in the DRA filing surprised them and that much of the DRA disallowances were as expected and typical for a DRA filing. Intervenor filings were due yesterday, and we expect these filings to also recommend far less rate relief than the utility is seeking, as is typical.

Ultimately, the CPUC is not likely to rule on the case until early next year (with rates retroactive to January 1st). It is unclear how the CPUC may rule in the case, especially given that three of the five commissioners were appointed earlier this year. We assume that EIX is granted 45% of its rate request, consistent with the outcome in its last rate case, but note that a better or worse outcome in the rate case could swing 2012E EPS +/- $0.20-0.25. Accordingly, we expect the uncertain outcome of the rate case to be an overhang on the shares.

Cutting estimates and price target
We are cutting our 2011E and 2012E EPS to $2.75 for both years from $3.00 and $3.20, respectively, primarily to reflect lower expected results at the company's unregulated businesses which are under pressure in the near term despite long-term fundamentals appearing to start to improve. We are also cutting our December 2011 price target to $37 from $38, which reflects lower EPS, offset partly by expansion of the group multiple. We discuss our price target derivation later in this report.

Sempra Energy

We were restricted on Sempra Energy (SRE) due to J.P. Morgan's involvement in the transaction announced on 16 February 2010. Now that the transaction is complete, we are resuming coverage of Sempra Energy with a Neutral rating (previously Overweight) and a $58 December 2011 price target (previously a December 2010 price target of $63).

Sale of commodity business streamlines the business
Sempra exited its commodity trading JV with RBS last year. The business contributed significant EPS, but also potential EPS volatility; accordingly, we believe it weighed on Sempra's valuation. Following the sale of the business, the company redeployed proceeds from the sale to launch a $500 million share buyback in September 2010 as well as boosted its dividend by 23% in February of this year.

We believe these steps by management reflect the increased stability for the remaining Sempra businesses.

Regulated utilities remain strong
Sempra operates two California regulated utilities: San Diego Gas & Electric and Southern California Gas. Both businesses appear to be operating well and have a number of investment opportunities. For example, the company expects to invest heavily to meet California's 33% renewable energy standard that was recently enacted into law.

Pipelines appear to be in better shape than PG&E's pipelines
Sempra was prompted to review its pipeline records (records are required to validate pressure testing or pipeline conditions to ensure safe operation of the pipeline) in the wake of the San Bruno explosion, and it appears to have fared better than PG&E. The company only incurred a cost of about $1.5 million versus the $50 million cost incurred by PG&E to review its records, which to us implies that Sempra's record keeping likely is in better condition. It is unclear to us what impact the PG&E San Bruno explosion may have on requirements for Sempra to test/upgrade its pipeline system, but given that its initial results appear to compare favorably versus PG&E, we believe Sempra faces less risk from pipeline remediation requirements.

Rate case outcomes should be a key driver for the utilities
Sempra has pending rate cases for gas and electric rates at San Diego Gas & Electric as well as a pending gas rate case at Southern California Gas. Like EIX, we expect the cases to likely get resolved in early 2012, with rates retroactive to the first of the year. It is unclear how the cases will be resolved, as it is early in the process, but our base case EPS estimates assume a similar level of rate relief at each of the utilities as they were granted in the last round of rate cases, which implies the company will get 66% of its requested $237 million rate increase at the electric utility, 21% of its requested $39 million rate increase at San Diego Gas & Electric's gas utility and 42% of its $308 million rate increase request at Southern California Gas. We expect the outcome of the rate cases to have a significant impact on 2012E EPS.

Sempra Generation has ample renewable energy investment opportunities
We toured the Copper Mountain solar facility as part of our West Coast tour. The plant sells its output, along with the output of the neighboring El Dorado solar farm, to PG&E under a 20-year contract. We expect the company to develop a number of additional solar projects to meet increasing renewable energy requirements. For example, the company plans to develop 250 MWs of new solar generation, which is already sold under long-term contract, between now and 2013. In addition to solar, the company also owns 50% of a 200 MW wind farm in operation with BP and is developing an additional 125 MW in a 50/50 partnership with BP that sells its output under long-term contract. We expect the company to pursue additional renewable investments, although we do not include incremental unannounced projects in our analysis.

Attractive international acquisition recently completed
Sempra recently completed an attractive acquisition at its pipeline and storage business, in our view, whereby it is increasing its stake in Latin American utilities it already owned. We believe the transaction illustrates Sempra's strategic focus, as a significant portion of the transaction was funded by cash trapped in-country and the transaction is expected to be about $0.22 accretive to 2012E EPS, or ~5%.

Furthermore, Sempra is simply expanding ownership of businesses where it already has a foothold, so we believe it was a relatively low risk undertaking.

LNG

Sempra's LNG business likely has the weakest outlook of its subsidiaries, as LNG imports in the US have fallen in the face of lower US gas prices, followed by an increased international appetite for LNG following the Japanese earthquake which curtailed the country's nuclear power production. It does not appear that the LNG business will improve any time soon. However, we note that Sempra's contracts at its LNG terminals largely insulate it from vagaries of the LNG market as its contracts result in Sempra being paid whether LNG cargoes are delivered through its terminals or not.

Neutral rating a function of California uncertainty

We downgraded the two other California utilities, PG&E and Edison International, to Neutral from Overweight earlier this year following the initial appointments to the CPUC by Governor Brown. Our concern was, and is, that the CPUC may treat the California utilities less favorably than they have been treated in the past. Accordingly, we are resuming coverage of Sempra with a Neutral rating (previously Overweight). We continue to expect strong performance from the balance of the company, and the California regulation may remain constructive; however, the uncertainty around California still prompts us to move to the sidelines.

Investment Thesis

PG&E

Our Neutral rating is prompted by the expected overhang from ongoing pressure at PG&E following the explosion at its San Bruno pipeline last year. The company recently resolved a rate case at its utility, so it should not be back in front of regulators with a rate increase request for some time. The shares trade at a significant discount to the peer group based on 2011E P/E; however, the company is incurring significant costs to respond to inquiries following the pipeline explosion. It is unclear when the pipeline-related costs will ease and/or if/when the company will be allowed to recover costs related to its pipeline remediation efforts. Accordingly, we remain on the sidelines.

Edison International

Our Neutral rating is the result of uncertainty about California regulation, especially as Edison has a significant rate case pending before the CPUC. Three new commissioners were appointed to the CPUC earlier this year, and it remains unclear how constructively they may treat the utilities. Following our trip to the West Coast, we believe the CPUC may be balanced in its treatment of the utilities, but this remains uncertain. We continue to believe that Edison's unregulated business, Edison Mission Energy, can contribute material equity value, as long-term fundamentals for this business appear to be improving, but in the short term we expect the regulatory environment in California to be the primary driver for the stock.

Sempra Energy

Our Neutral rating is the result of uncertainty about California regulation, especially as Sempra has three rate cases pending before the CPUC. The company eliminated its largest source of potential EPS variability with the sale of its commodity trading JV, and it redeployed the proceeds into a share buyback and dividend hike, which we believe illustrates management's view of the more stable nature of the remaining businesses. However, we expect the outstanding rate cases to remain an overhang on the shares, thus our Neutral rating.

Valuation

We present our valuation and rating analysis in Table 1.

Table 1: Valuation and Rating Analysis

Tkr	JPM Rtg	2011E EPS	Group P/E	Prem/ (Disc)	Justified '11E P/E	Price Target	Prior PT	Price Target Rationale
EIX	N	2.75	**14.0x**	-5%	13.3x	$37	$38	Our modest valuation discount reflects Edison's business mix and concerns over California's regulatory regime. While EIX derives ~70% of its EPS from its utility, which benefits from attractive investment opportunities that drive above-average rate base and EPS growth, we believe this is partly offset by regulatory headwinds in California. Also partly offsetting the utility's growth trajectory is discounted valuation on the balance of Edison's merchant operations to account for their inherent volatility.
PCG	N	3.45	**15.3x**	-5%	14.5x	$50	$54	Our discounted peer group multiple reflects regulatory uncertainty resulting from recent changes at the PUC, which we expect to weigh on the stock, even though California has traditionally offered some of the most constructive regulation in the US. We expect the company to also face ongoing pressure from continued remediation efforts at its natural gas business following the explosion at its San Bruno pipeline.
SRE	N	4.15	**14.0x**	0%	14.0x	$58	$63	We assign an in-line valuation to derive our price target for Sempra. We believe Sempra's California utilities are above average versus those of its regulated peers; however, we believe investors value some of the company's unregulated businesses, such as its LNG and generation operations at a discount. Furthermore, we believe near-term uncertainty around regulatory trends in California given the appointment of threer new Commissioners earlier this year continues to weigh on the utility's valuation.

Source: J.P. Morgan. * We use the Regulated Utilities group P/E for PCG and the Hybrid group multiple for EIX and SRE.

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Risks to Ratings and Price Targets

Risks to our ratings and price targets are shown in Table 2.

Table 2: Risks to Ratings and Price Targets

Tkr	Risks to Our Rating
EIX	Our Neutral rating could be wrong if EIX receives a more or a less favorable rate case outcome than we expect, its pipeline of investment at the utility falters or accelerates, electricity demand falls/improves sharply or new power plant capacity is added to the system, it is unable to meet its IL environmental limits with its current plan, or commodity prices rise or fall sharply.
PCG	There could be upside to our Neutral rating if regulatory uncertainty in California dissipates following the recent changes in the makeup of the CPUC. There could be upside or downside to our rating if PCG's cost for remedial efforts at its pipelines following the San Bruno explosion is higher or lower than expected and/or its regulatory recovery is better or worse than anticipated, its pipeline of investment opportunities is better or weaker than we expect, or PCG is not able to maintain its cost structure.
SRE	Our Neutral rating could be wrong if California regulation is more or less constructive than we expect. Our Neutral rating could also be wrong if the recently appointed Commissioners in California somehow signal to investors that the Commission will continue to treat the utilities favorably. Our rating could also be wrong if Sempra's unregulated businesses are more or less successful in redeploying capital than we expect.

Source: J.P. Morgan.

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Edison International: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	12,409	12,768	13,047	-
COGS	4,102	4,313	4,323	-
D&A	1,522	1,700	1,790	-
Operations and maintenance	4,612	4,843	5,033	-
Other expenses	-	-	-	-
Total operating expenses	10,283	10,855	11,146	-
Other income / (expense)	204	178	178	-
EBIT	**2,330**	**2,091**	**2,079**	**-**
EBITDA	**3,852**	**3,791**	**3,869**	**-**
Interest expense	724	788	812	-
Income tax provision	354	395	367	-
Tax rate	22.0%	30.3%	29.0%	-
Discontinued operations and other	4	0	0	-
Preferred dividends	-	-	-	-
Net income	**1,256**	**908**	**900**	**-**
Total non-recurring items	112	0	0	-
Net income (Recurring)	**1,144**	**908**	**900**	**-**
Diluted shares outstanding	**329**	**329**	**329**	**-**
Diluted EPS	**3.48**	**2.75**	**2.75**	**-**
DPS ($)	1.26	1.33	1.39	-
Payout ratio	36.0%	47.7%	50.5%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	1,456	67	67	-
Current assets	2,966	2,966	2,966	-
PP&E	30,184	33,009	34,700	-
Non-current assets	10,924	11,024	11,124	-
Total assets	**45,530**	**47,066**	**48,857**	**-**
Current liabilities	12,371	12,619	12,119	-
Long-term Debt	907	907	907	-
Preferred stock	17,713	17,713	17,713	-
Other non-current liabilities	4	4	4	-
Common equity	10,583	11,058	11,503	-
Total liabilities & equity	45,530	47,066	48,857	-
Net income	1,256	908	900	-
D&A	1,522	1,700	1,790	-
Change in working capital	(852)	0	0	-
Change in other assets	3,022	1,818	1,908	-
Net operating cash flow	**3,477**	**2,725**	**2,808**	**-**
Cash flow from investing activities	**(4,814)**	**(4,743)**	**(3,699)**	**-**
Net common equity issued/(repurchased)	(16)	0	0	-
Net debt issued/(repurchased)	1,570	1,061	1,346	-
Common dividends paid	411	433	454	-
Other financing activity	(90)	0	0	-
Cash flow from financing activities	**1,053**	**629**	**891**	**-**
Increase/(decrease) in cash	(284)	(1,389)	0	-
Cash at beginning of the period	1,673	1,389	0	-
Cash at end of the period	1,389	0	0	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	0.4%	2.9%	2.2%	-
EBITDA growth	31.6%	(1.6%)	2.1%	-
EBIT growth	54.4%	(10.3%)	(0.6%)	-
Net income (recurring) growth	7.5%	(20.7%)	(0.8%)	-
COGS growth	(3.9%)	5.1%	0.2%	-
Total operating expenses growth	(6.2%)	5.6%	2.7%	-
Diluted EPS growth	6.9%	(20.9%)	0.0%	-
Gross margin	66.9%	66.2%	66.9%	-
Operating margin	18.8%	16.4%	15.9%	-
Debt / Capital (book)	-	-	-	-
Times interest earned	3.2	2.7	2.6	-
FFO / Interest	7.0	4.5	4.5	-
FFO / Debt	40.3%	25.8%	24.2%	-
ROE	10.8%	8.2%	7.8%	-
Return on invested capital (ROIC)	3.6%	2.7%	2.7%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

PG&E Corp.: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	13,841	14,859	15,385	-
COGS	5,188	5,281	5,375	-
D&A	1,905	1,979	2,051	-
Operations and maintenance	4,439	4,581	4,716	-
Other expenses	-	-	-	-
Total operating expenses	11,532	11,842	12,142	-
Other income / (expense)	27	13	13	-
EBIT	**2,337**	**3,031**	**3,256**	**-**
EBITDA	**4,241**	**5,010**	**5,307**	**-**
Interest expense	691	677	687	-
Income tax provision	547	885	966	-
Tax rate	33.2%	37.6%	37.6%	-
Discontinued operations and other	235	0	0	-
Preferred dividends	-	-	-	-
Net income	**1,334**	**1,469**	**1,603**	**-**
Total non-recurring items	0	0	0	-
Net income (Recurring)	**1,334**	**1,469**	**1,603**	**-**
Diluted shares outstanding	**392**	**410**	**419**	**-**
Diluted EPS	**3.42**	**3.45**	**3.70**	**-**
DPS ($)	1.78	1.82	1.82	-
Payout ratio	52.9%	51.2%	47.9%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	854	563	1,233	-
Current assets	4,688	4,688	4,688	-
PP&E	31,449	33,245	33,593	-
Non-current assets	9,034	9,034	9,034	-
Total assets	**46,025**	**47,530**	**48,548**	**-**
Current liabilities	6,376	6,511	5,119	-
Long-term Debt	11,715	12,415	13,615	-
Preferred stock	252	252	252	-
Other non-current liabilities	16,400	15,977	15,977	-
Common equity	11,282	12,374	13,585	-
Total liabilities & equity	46,025	47,530	48,548	-
Net income	1,334	1,469	1,603	-
D&A	1,905	1,979	2,051	-
Change in working capital	(117)	0	0	-
Change in other assets	169	0	0	-
Net operating cash flow	**3,206**	**3,435**	**3,640**	**-**
Cash flow from investing activities	**(3,857)**	**(3,775)**	**(2,400)**	**-**
Net common equity issued/(repurchased)	303	400	400	-
Net debt issued/(repurchased)	1,248	816	231	-
Common dividends paid	(662)	(763)	(778)	-
Other financing activity	(474)	(404)	(423)	-
Cash flow from financing activities	**415**	**49**	**(571)**	**-**
Increase/(decrease) in cash	(236)	(291)	670	-
Cash at beginning of the period	527	0	0	-
Cash at end of the period	291	(291)	670	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	3.3%	7.4%	3.5%	-
EBITDA growth	3.0%	18.1%	5.9%	-
EBIT growth	(1.2%)	29.7%	7.4%	-
Net income (recurring) growth	8.1%	10.1%	9.1%	-
COGS growth	3.7%	1.8%	1.8%	-
Total operating expenses growth	3.9%	2.7%	2.5%	-
Diluted EPS growth	10.9%	0.9%	7.2%	-
Gross margin	62.5%	64.5%	65.1%	-
Operating margin	16.9%	20.4%	21.2%	-
Debt / Capital (book)	52.1%	51.5%	49.6%	-
Times interest earned	3.4	4.5	4.7	-
FFO / Interest	5.8	6.1	6.3	-
FFO / Debt	31.9%	30.7%	31.8%	-
ROE	11.8%	11.9%	11.8%	-
Return on invested capital (ROIC)	4.1%	4.4%	4.8%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

Sempra Energy: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	9,003	9,162	9,611	-
COGS	3,783	3,487	3,601	-
D&A	867	977	1,082	-
Operations and maintenance	2,979	2,883	2,924	-
Other expenses	-	-	-	-
Total operating expenses	7,629	7,348	7,607	-
Other income / (expense)	189	124	130	-
EBIT	**1,563**	**1,938**	**2,134**	**-**
EBITDA	**2,430**	**2,916**	**3,217**	**-**
Interest expense	430	435	514	-
Income tax provision	102	496	535	-
Tax rate	9.0%	33.0%	33.0%	-
Discontinued operations and other	449	0	0	-
Preferred dividends	-	-	-	-
Net income	**896**	**1,007**	**1,086**	**-**
Total non-recurring items	0	0	0	-
Net income (Recurring)	**896**	**1,007**	**1,086**	**-**
Diluted shares outstanding	**248**	**243**	**244**	**-**
Diluted EPS	**3.61**	**4.15**	**4.45**	**-**
DPS ($)	1.56	1.16	1.16	1.16
Payout ratio	42.7%	45.7%	46.9%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	912	0	0	-
Current assets	2,441	2,441	2,441	-
PP&E	19,876	22,714	25,086	-
Non-current assets	7,054	6,054	6,054	-
Total assets	**30,283**	**31,209**	**33,581**	**-**
Current liabilities	3,786	4,190	5,905	-
Long-term Debt	9,329	9,329	9,329	-
Preferred stock	-	-	-	-
Other non-current liabilities	8,141	8,240	8,070	-
Common equity	9,027	9,449	10,277	-
Total liabilities & equity	30,283	31,209	33,581	-
Net income	896	1,007	1,086	-
D&A	867	977	1,082	-
Change in working capital	107	0	0	-
Change in other assets	156	1,000	0	-
Net operating cash flow	**2,310**	**3,984**	**2,168**	**-**
Cash flow from investing activities	**(1,283)**	**(3,815)**	**(3,455)**	**-**
Net common equity issued/(repurchased)	(462)	(125)	250	-
Net debt issued/(repurchased)	220	503	1,545	-
Common dividends paid	(364)	(460)	(508)	-
Other financing activity	(31)	0	0	-
Cash flow from financing activities	**(637)**	**(81)**	**1,287**	**-**
Increase/(decrease) in cash	390	88	0	-
Cash at beginning of the period	110	912	0	-
Cash at end of the period	500	1,000	0	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	11.1%	1.8%	4.9%	-
EBITDA growth	6.1%	20.0%	10.3%	-
EBIT growth	3.1%	24.0%	10.1%	-
Net income (recurring) growth	(19.8%)	12.4%	7.8%	-
COGS growth	16.1%	(7.8%)	3.3%	-
Total operating expenses growth	12.1%	(3.7%)	3.5%	-
Diluted EPS growth	(20.0%)	14.8%	7.2%	-
Gross margin	58.0%	61.9%	62.5%	-
Operating margin	17.4%	21.2%	22.2%	-
Debt / Capital (book)	50.5%	50.6%	52.2%	-
Times interest earned	3.6	4.5	4.2	-
FFO / Interest	5.8	7.9	5.2	-
FFO / Debt	26.1%	34.2%	23.2%	-
ROE	9.9%	10.7%	10.6%	-
Return on invested capital (ROIC)	4.5%	4.7%	4.9%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

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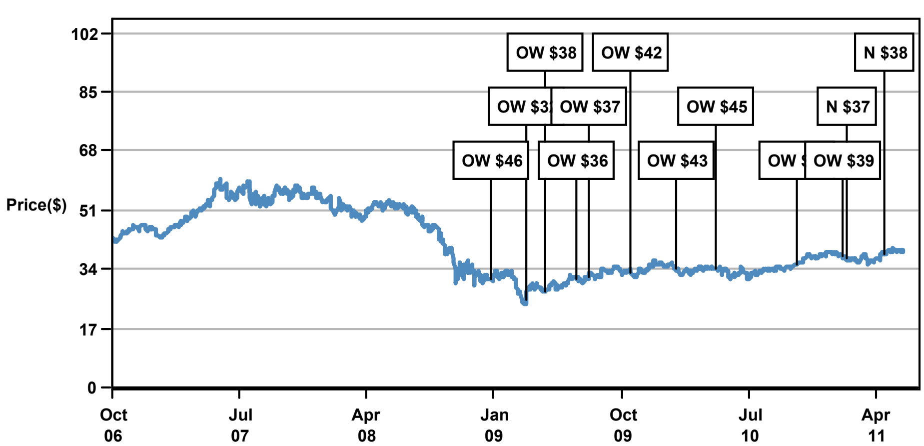
Edison International (EIX) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
23-Dec-08	OW	30.91	46.00
12-Mar-09	OW	25.21	32.00
20-Apr-09	OW	27.81	38.00
26-Jun-09	OW	31.29	36.00
22-Jul-09	OW	31.48	37.00
22-Oct-09	OW	33.19	42.00
26-Jan-10	OW	34.20	43.00
20-Apr-10	OW	33.85	45.00
12-Oct-10	OW	35.35	38.00
20-Jan-11	OW	37.70	39.00
27-Jan-11	N	37.16	37.00
20-Apr-11	N	38.18	38.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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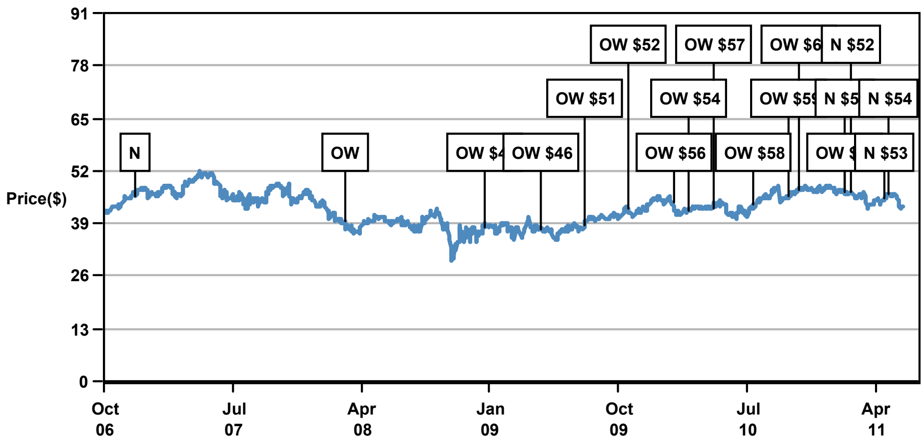
PG&E Corp. (PCG) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
08-Dec-06	N	45.88	-
26-Feb-08	OW	39.81	-
23-Dec-08	OW	38.05	45.00
20-Apr-09	OW	37.66	46.00
22-Jul-09	OW	38.50	51.00
22-Oct-09	OW	42.44	52.00
26-Jan-10	OW	44.07	56.00
26-Feb-10	OW	41.92	54.00
20-Apr-10	OW	42.75	57.00
16-Jul-10	OW	43.52	58.00
29-Sep-10	OW	45.55	59.00
19-Oct-10	OW	47.21	60.00
24-Jan-11	OW	47.46	62.00
27-Jan-11	N	46.98	51.00
09-Feb-11	N	46.72	52.00
21-Apr-11	N	45.18	53.00
28-Apr-11	N	46.20	54.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 11, 2004 - Sep 07, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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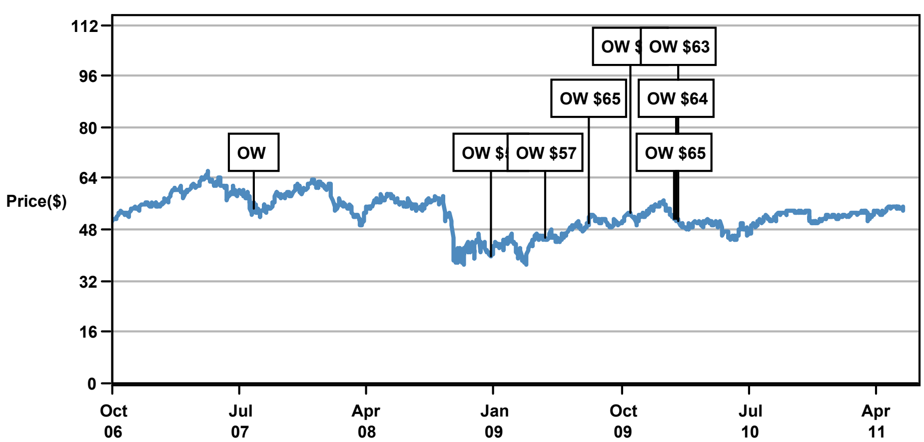
Sempra Energy (SRE) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
01-Aug-07	OW	54.85	--
23-Dec-08	OW	39.68	54.00
20-Apr-09	OW	45.31	57.00
22-Jul-09	OW	49.86	65.00
22-Oct-09	OW	53.45	72.00
22-Jan-10	OW	51.55	65.00
26-Jan-10	OW	51.45	64.00
01-Feb-10	OW	50.75	63.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Oct 12, 2005 - Jun 30, 2006. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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Electric Utilities

CA Investor Tour: CA Regulatory Uncertainty Remains; Resuming Coverage of SRE with a Neutral Rating and a $58 PT

Electric Utilities

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J.P. Morgan Securities LLC

We hoped to return from our West Coast investor tour with increased visibility into the outlook for California regulation and, accordingly, get more constructive on the California utility stocks given that the shares are among the poorest performers in the sector YTD. However, we believe the residual regulatory risk in California will continue to overhang the shares. We are maintaining our Neutral ratings on PG&E and Edison International. We are resuming coverage of Sempra and lowering our rating to Neutral from Overweight (when we were restricted in February 2010).

- **PG&E trades at a material discount, but appears most at risk of the California utilities.** PG&E has been one of the poorest performing stocks in the sector YTD, falling almost 10%, versus a gain of 5.8% for the UTY. It trades at a 25% discount to its regulated peers on 2011E P/E. We believe this steep discount could make the shares attractive; however, we expect the discount on the shares to persist, because following our trip to the West Coast, we believe PG&E will continue to face regulatory pressure as it continues to addresses the fallout from its San Bruno pipeline explosion.

- **The long-term unregulated fundamentals for Edison International appear to be improving, but the California rate case should be the near-term EPS driver.** Edison Mission Energy, EIX's unregulated arm, and the pressure it is facing as a result of weak power markets and environmental compliance requirements was the focus of investors for much of last year. Our meeting with management led us to believe that trends for the business are improving. However, investors' focus in 2011 has increasingly been on the pending rate case at EIX's electric utility. We estimate a favorable or unfavorable outcome to the rate case could swing 2012E EPS by +/- $0.20-0.25 per share versus our current estimate. We do not expect resolution of the rate case until likely early 2012, so we expect this uncertainty to overhang the stock.

- **Sempra businesses performing well, but California regulatory uncertainty likely keeps the stock from working in the near term.** Sempra has restructured itself over the past ~12 months, as it divested its commodity trading JV, launched a share buyback and materially boosted its dividend. Its remaining businesses should provide a more stable EPS profile and drive attractive EPS growth; however, like EIX, it also has rate cases pending at the California Public Utility Commission (CPUC). We expect uncertainty about the outcome of its pending rate cases to weigh on the stock in the near term; accordingly, we are resuming coverage of the company with a Neutral rating.

Equity Ratings and Price Targets

		Mkt Cap		Rating		Price Target	
Company	Symbol	($ mn)	Price($)	Cur	Prev	Cur	Prev
Edison International	EIX	12,742.47	39.11	N	n/c	37.00	38.00
PG&E Corp.	PCG	16,849.23	43.12	N	n/c	50.00	54.00
Sempra Energy	SRE	14,257.23	54.21	N	OW	58.00	63.00

Source: Compan y data, Bloomber g, J.P.Morgan estimates. n/c = no change. All prices as of 01 Jun 11.

See page 15 for analyst certification and important disclosures.

- **Resuming coverage of Sempra Energy.** We were restricted on Sempra Energy (SRE) due to J.P. Morgan's involvement in the transaction announced on 16 February 2010. Now that the transaction is complete, we are resuming coverage of Sempra Energy with a Neutral rating (previously Overweight) and a December 2011 price target of $58 (previously a December 2010 price target of $63).

Neutral

Company Data	
Price ($)	39.11
Date Of Price	01 Jun 11
52-week Range ($)	40.15 - 31.06
Mkt Cap ($ mn)	12,742.47
Fiscal Year End	Dec
Shares O/S (mn)	326
Price Target ($)	37.00
Price Target End Date	31 Dec 11

Edison International (EIX;EIX US)

	2010A	2011E *(New)*	2011E *(Old)*	2012E *(New)*	2012E *(Old)*
EPS Reported ($)					
Q1 (Mar)	0.82	0.62A	0.65A		
Q2 (Jun)	0.62				
Q3 (Sep)	1.46				
Q4 (Dec)	0.58				
FY	3.48	2.75	3.00	2.75	3.20
Bloomberg EPS FY ($)	3.48	2.81		2.69	
P/E FY	11.2	14.2	13.0	14.2	12.2

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomber g' above denotes Bloomber g consensus estimates.

Neutral

Company Data	
Price ($)	43.12
Date Of Price	01 Jun 11
52-week Range ($)	48.63 - 39.87
Mkt Cap ($ mn)	16,849.23
Fiscal Year End	Dec
Shares O/S (mn)	391
Price Target ($)	50.00
Price Target End Date	31 Dec 11

PG&E Corp. (PCG;PCG US)

	2010A	2011E *(New)*	2011E *(Old)*	2012E *(New)*	2012E *(Old)*
EPS Reported ($)					
Q1 (Mar)	0.79	0.70A	0.80A		
Q2 (Jun)	0.91				
Q3 (Sep)	1.00				
Q4 (Dec)	0.70				
FY	3.42	3.45	3.80	3.70	4.00
Bloomberg EPS FY ($)	3.43	3.57		3.75	
P/E FY	12.6	12.5	11.3	11.7	10.8

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomber g' above denotes Bloomber g consensus estimates.

Neutral

Company Data	
Price ($)	54.21
Date Of Price	01 Jun 11
52-week Range ($)	55.97 - 44.40
Mkt Cap ($ bn)	14.26
Fiscal Year End	Dec
Shares O/S (mn)	263
Price Target ($)	58.00
Price Target End Date	31 Dec 11

Sempra Energy (SRE;SRE US)

	2010A	2011E	2012E
EPS ($)			
Q1 (Mar)	0.80	1.07A	
Q2 (Jun)	0.89		
Q3 (Sep)	1.06		
Q4 (Dec)	1.18		
FY	3.61	4.15	4.45
P/E FY	15.0	13.1	12.2

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomberg' above denotes Bloomberg consensus estimates.

Conclusions

PG&E

PG&E's steep discount likely to persist

We embarked on our West Coast investor tour hoping to come away with a more constructive view on California regulation, especially for PCG, given that it trades at about a 25% discount to its regulated peers on 2011E P/E (and EPS estimates that already reflect fallout from costs associated with addressing increased compliance and inspection efforts at its pipeline transmission business following the explosion at one of its pipelines in San Bruno). Our meeting at the CPUC leads us to believe that the CPUC overall may be more constructive than we initially thought following

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Governor Brown's appointment of three new CPUC Commissioners earlier this year. However, we believe PG&E faces increased scrutiny as a result of the ongoing focus on its pipeline operations following the San Bruno explosion.

GRC resolved favorably

One factor that makes PG&E more attractive versus its California peers, in our opinion, is that its rate case settlement was recently approved by the CPUC, so outside of the San Bruno issues, the company does not have to seek rate relief from regulators in the near term. We believe the settlement of its rate case was constructive, but note that the settlement was brokered before the three new commissioners were appointed to the CPUC.

San Bruno problems remain

We believe the company will continue to face cost pressures from its San Bruno explosion as it gathers and documents records on pipeline pressure testing, types of pipelines in the ground, as well as maintenance efforts on its pipeline system, etc. The company already lowered its 2011 outlook by 5% ($0.20 per share) to reflect costs related to the San Bruno explosion as well as higher costs elsewhere in the business. The company is seeking a ruling from the CPUC that will allow it to start memorandum accounting (and set the stage for potential recovery) for its San Bruno-related costs, but it is unclear to us if/when the CPUC might adopt such a measure. We believe there is a significant chance that the company will have to absorb ongoing costs from its San Bruno explosion in 2012.

Pipeline inspection process just beginning – could be expensive

It appears as though the CPUC may only accept hydrostatic testing or pipeline replacement as acceptable types of remediation for pipelines that do not have sufficient documentation to ensure their safe operation. PG&E has identified 152 miles of pipelines that it initially intends to hydrostatic test, but notes that the absolute length of pipelines involved in the initial round of testing is closer to 200 miles because of the configuration of the system (effectively it has to look at 200 miles of pipelines to capture the 152 miles). The company has indicated that it expects to incur $350-550 million of pipeline inspection/replacement costs. We believe PG&E will be able to recover the capital outlay for this program, although we believe its ability to earn a return on its efforts is likely limited. It is also unclear when/how the CPUC may authorize recovery. Accordingly, we believe the company is facing some risk (although likely unavoidable) as it is spending money on its pipeline system with no clear path to recovering its investment.

New CEO likely a short-term catalyst for the stock

PG&E reiterated that it plans to announce a new CEO in a matter of week<u>s</u> (company emphasis). The prior CEO of PG&E departed in the wake of the San Bruno explosion. We believe appointment of a new CEO will likely be a short-term catalyst for the stock, as a new CEO offers the opportunity to begin to repair regulatory, political, and customer relationships as well as target a strategy toward addressing perceived and/or real operational problems at PG&E's gas pipeline business. However, we believe these steps take time, so following appointment of a new CEO, we expect the ongoing resolution of the residual pipeline explosion issues to temper the stock reaction.

NTSB review not due until the fall
For example, the NTSB's review of the San Bruno explosion is not due until the fall, and PG&E indicated to us that the CPUC might launch an additional investigation depending on the findings of the NTSB. We believe the CPUC may be inclined to launch an investigation, because in our meeting at the Commission, it was highlighted that the CPUC is facing significant public scrutiny in the wake of the San Bruno explosion as it is entrusted with overseeing pipeline safety. Accordingly, we believe it is difficult to fault the CPUC in the court of public opinion if it launches an additional investigation, but easy to raise questions about CPUC oversight if it chooses to not advance an additional investigation. We believe this could result in resolution of the San Bruno issues taking longer than expected.

New CEO might rebase EPS expectations
One other factor that we believe could weigh on the shares following the announcement of a new CEO is that the new CEO may take the opportunity to rebase near-term EPS expectations as well as growth aspirations for the company. We have no way of knowing if a new CEO might take this step, but we believe such a move could serve two purposes : 1) gain some political and customer goodwill on a tempered outlook and 2) set a more readily achievable goals for new leadership.

2012 dividend hike likely modest, if at all
The company recently told investors that it will not raise its dividend in 2011. We believe this step was not only to preserve cash in the face of uncertainty, but also to send a signal to the public, regulators, and lawmakers that the company is focused on preserving its resources to address its pipeline business and any shortcomings. Given the scrutiny on the company, it is unclear if the company will be in a position to raise the dividend in 2012. We believe a dividend hike in 2012, if any, will be very modest given the current political/regulatory/customer climate in California.

Cutting our 2011E, 2012E EPS and December 2011 price target
We are cutting our 2011E EPS to \$3.45 from \$3.80 and our 2012E EPS to \$3.70 from \$4.00 to reflect the ongoing costs of the San Bruno explosion. We are also cutting our December 2011 price target to \$50 from \$54 to reflect our reduced EPS outlook. We discuss our price target derivation later in this report.

Edison International

We expect EIX's outstanding rate case to result in the shares performing in line with peers. Much of the company's potential EPS variability stems from its unregulated business, Edison Mission Energy (EME), for which fundamentals appear to be improving; however, the company has a rate case pending at its electric utility that could have a material impact on 2012 earnings, and we expect the uncertainty to be an overhang on the shares.

Long-term unregulated fundamentals improving
Management discussed at length its thought process around the value proposition for its unregulated business, highlighting that ~18 months ago, when the shares were likely reflecting zero, or negative, equity value for EME, management outlined several factors that it focused on as value drivers for the business and its belief that those drivers were likely to improve.

Power demand
One factor the company highlighted was power demand, especially driven by economic recovery. Management noted that the supply/demand outlook has improved since it initially outlined its strategic analysis framework.

Capacity prices
Capacity prices are a key driver of value for many power plants, and EIX management expressed over the past several quarters that it expected capacity prices to improve. The most recent PJM capacity auction results were released a few weeks ago, and RTO capacity prices, which impact a significant portion of EME's capacity, increased almost fivefold.

Environmental regulations
One factor that we consistently heard troubled investors was EME's ability to invest in required environmental controls on its power plants and earn an appropriate return on investment. EME entered into an agreement with Illinois to control emissions at its fleet before the current proposed EPA rules were announced. Accordingly, it was not clear if EME was investing in environmental retrofits that might simply increase its costs (capital and operating) versus competing power plants, which would have put EME at a significant disadvantage. Subsequently, the EPA issued proposed emissions limits that, according to EIX management, "could not have been written better" from the standpoint of putting power plants on equal competitive footing in terms of environmental emissions limits. Management also noted that it expects the work it is doing to retrofit its plants will meet or exceed EPA requirements.

Environmental compliance costs/capability
Not only does EME appear to be able to meet EPA emissions requirements, it also appears that it may be able to meet the rules with lower costs and greater flexibility. When EME's environmental retrofit program was initially envisioned following its agreement with Illinois, we believe wet scrubbing was generally viewed as the only viable technology to meet emissions limits. However, the company has worked diligently to test and evaluate dry sorbent injection (DSI) technology at its plants. It appears that DSI technology can meet much of its environmental needs. We note that DSI is less capital intensive than wet scrubbing, albeit at a somewhat higher variable cost. We believe this has improved the economics of its environmental compliance program.

Natural gas prices
One factor that remains essentially unchanged over the past 18 months since Edison started talking to investors about its strategic framework for evaluating EME is natural gas prices, although we note that prices have not weakened further.

Rail/Coal remains mixed
The other factor that remains undetermined at EME is how rail and coal costs may impact the company. EME faces expiration of its existing rail contract with Union Pacific and it is unclear where this contract will price going forward, although we assume EME's rail costs increase in our forecast. It is unclear how coal costs may impact EME.

Studying how best to address emissions requirements at Homer City
Edison management indicated that it continues to evaluate how best to address environmental compliance requirements at Homer City, its Pennsylvania coal plant,

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but noted that its lease agreement with GE includes a mechanism whereby the capital for installing environmental controls is financed by GE through terms of the lease.

EIX may refinance EME

EIX management indicated to us that one initiative it is undertaking is consideration of refinancing its maturities at EME given current high yield debt market conditions. We believe refinancing EME could be a positive catalyst for the stock, because pushing out maturities gives EME even more time to benefit from market recovery and implement its environmental strategies, etc. We expect refinancing efforts to take several months.

Rate case a key 2012 earnings driver, but not likely resolved until early 2012

EIX has a pending rate case at its Southern California Electric regulated electric utility subsidiary. The company has received a response from the Division of Ratepayer Advocates (DRA), which, as par for the course, recommended substantially less rate relief than the utility requested. EIX management indicated to us that nothing in the DRA filing surprised them and that much of the DRA disallowances were as expected and typical for a DRA filing. Intervenor filings were due yesterday, and we expect these filings to also recommend far less rate relief than the utility is seeking, as is typical.

Ultimately, the CPUC is not likely to rule on the case until early next year (with rates retroactive to January 1st). It is unclear how the CPUC may rule in the case, especially given that three of the five commissioners were appointed earlier this year. We assume that EIX is granted 45% of its rate request, consistent with the outcome in its last rate case, but note that a better or worse outcome in the rate case could swing 2012E EPS +/- $0.20-0.25. Accordingly, we expect the uncertain outcome of the rate case to be an overhang on the shares.

Cutting estimates and price target

We are cutting our 2011E and 2012E EPS to $2.75 for both years from $3.00 and $3.20, respectively, primarily to reflect lower expected results at the company's unregulated businesses which are under pressure in the near term despite long-term fundamentals appearing to start to improve. We are also cutting our December 2011 price target to $37 from $38, which reflects lower EPS, offset partly by expansion of the group multiple. We discuss our price target derivation later in this report.

Sempra Energy

We were restricted on Sempra Energy (SRE) due to J.P. Morgan's involvement in the transaction announced on 16 February 2010. Now that the transaction is complete, we are resuming coverage of Sempra Energy with a Neutral rating (previously Overweight) and a $58 December 2011 price target (previously a December 2010 price target of $63).

Sale of commodity business streamlines the business

Sempra exited its commodity trading JV with RBS last year. The business contributed significant EPS, but also potential EPS volatility; accordingly, we believe it weighed on Sempra's valuation. Following the sale of the business, the company redeployed proceeds from the sale to launch a $500 million share buyback in September 2010 as well as boosted its dividend by 23% in February of this year.

We believe these steps by management reflect the increased stability for the remaining Sempra businesses.

Regulated utilities remain strong
Sempra operates two California regulated utilities: San Diego Gas & Electric and Southern California Gas. Both businesses appear to be operating well and have a number of investment opportunities. For example, the company expects to invest heavily to meet California's 33% renewable energy standard that was recently enacted into law.

Pipelines appear to be in better shape than PG&E's pipelines
Sempra was prompted to review its pipeline records (records are required to validate pressure testing or pipeline conditions to ensure safe operation of the pipeline) in the wake of the San Bruno explosion, and it appears to have fared better than PG&E. The company only incurred a cost of about $1.5 million versus the $50 million cost incurred by PG&E to review its records, which to us implies that Sempra's record keeping likely is in better condition. It is unclear to us what impact the PG&E San Bruno explosion may have on requirements for Sempra to test/upgrade its pipeline system, but given that its initial results appear to compare favorably versus PG&E, we believe Sempra faces less risk from pipeline remediation requirements.

Rate case outcomes should be a key driver for the utilities
Sempra has pending rate cases for gas and electric rates at San Diego Gas & Electric as well as a pending gas rate case at Southern California Gas. Like EIX, we expect the cases to likely get resolved in early 2012, with rates retroactive to the first of the year. It is unclear how the cases will be resolved, as it is early in the process, but our base case EPS estimates assume a similar level of rate relief at each of the utilities as they were granted in the last round of rate cases, which implies the company will get 66% of its requested $237 million rate increase at the electric utility, 21% of its requested $39 million rate increase at San Diego Gas & Electric's gas utility and 42% of its $308 million rate increase request at Southern California Gas. We expect the outcome of the rate cases to have a significant impact on 2012E EPS.

Sempra Generation has ample renewable energy investment opportunities
We toured the Copper Mountain solar facility as part of our West Coast tour. The plant sells its output, along with the output of the neighboring El Dorado solar farm, to PG&E under a 20-year contract. We expect the company to develop a number of additional solar projects to meet increasing renewable energy requirements. For example, the company plans to develop 250 MWs of new solar generation, which is already sold under long-term contract, between now and 2013. In addition to solar, the company also owns 50% of a 200 MW wind farm in operation with BP and is developing an additional 125 MW in a 50/50 partnership with BP that sells its output under long-term contract. We expect the company to pursue additional renewable investments, although we do not include incremental unannounced projects in our analysis.

Attractive international acquisition recently completed
Sempra recently completed an attractive acquisition at its pipeline and storage business, in our view, whereby it is increasing its stake in Latin American utilities it already owned. We believe the transaction illustrates Sempra's strategic focus, as a significant portion of the transaction was funded by cash trapped in-country and the transaction is expected to be about $0.22 accretive to 2012E EPS, or ~5%.

Furthermore, Sempra is simply expanding ownership of businesses where it already has a foothold, so we believe it was a relatively low risk undertaking.

LNG

Sempra's LNG business likely has the weakest outlook of its subsidiaries, as LNG imports in the US have fallen in the face of lower US gas prices, followed by an increased international appetite for LNG following the Japanese earthquake which curtailed the country's nuclear power production. It does not appear that the LNG business will improve any time soon. However, we note that Sempra's contracts at its LNG terminals largely insulate it from vagaries of the LNG market as its contracts result in Sempra being paid whether LNG cargoes are delivered through its terminals or not.

Neutral rating a function of California uncertainty

We downgraded the two other California utilities, PG&E and Edison International, to Neutral from Overweight earlier this year following the initial appointments to the CPUC by Governor Brown. Our concern was, and is, that the CPUC may treat the California utilities less favorably than they have been treated in the past. Accordingly, we are resuming coverage of Sempra with a Neutral rating (previously Overweight). We continue to expect strong performance from the balance of the company, and the California regulation may remain constructive; however, the uncertainty around California still prompts us to move to the sidelines.

Investment Thesis

PG&E

Our Neutral rating is prompted by the expected overhang from ongoing pressure at PG&E following the explosion at its San Bruno pipeline last year. The company recently resolved a rate case at its utility, so it should not be back in front of regulators with a rate increase request for some time. The shares trade at a significant discount to the peer group based on 2011E P/E; however, the company is incurring significant costs to respond to inquiries following the pipeline explosion. It is unclear when the pipeline-related costs will ease and/or if/when the company will be allowed to recover costs related to its pipeline remediation efforts. Accordingly, we remain on the sidelines.

Edison International

Our Neutral rating is the result of uncertainty about California regulation, especially as Edison has a significant rate case pending before the CPUC. Three new commissioners were appointed to the CPUC earlier this year, and it remains unclear how constructively they may treat the utilities. Following our trip to the West Coast, we believe the CPUC may be balanced in its treatment of the utilities, but this remains uncertain. We continue to believe that Edison's unregulated business, Edison Mission Energy, can contribute material equity value, as long-term fundamentals for this business appear to be improving, but in the short term we expect the regulatory environment in California to be the primary driver for the stock.

Sempra Energy

Our Neutral rating is the result of uncertainty about California regulation, especially as Sempra has three rate cases pending before the CPUC. The company eliminated its largest source of potential EPS variability with the sale of its commodity trading JV, and it redeployed the proceeds into a share buyback and dividend hike, which we believe illustrates management's view of the more stable nature of the remaining businesses. However, we expect the outstanding rate cases to remain an overhang on the shares, thus our Neutral rating.

Valuation

We present our valuation and rating analysis in Table 1.

Table 1: Valuation and Rating Analysis

Tkr	JPM Rtg	2011E EPS	Group P/E	Prem/ (Disc)	Justified '11E P/E	Price Target	Prior PT	Price Target Rationale
EIX	N	2.75	**14.0x**	-5%	13.3x	$37	$38	Our modest valuation discount reflects Edison's business mix and concerns over California's regulatory regime. While EIX derives ~70% of its EPS from its utility, which benefits from attractive investment opportunities that drive above-average rate base and EPS growth, we believe this is partly offset by regulatory headwinds in California. Also partly offsetting the utility's growth trajectory is discounted valuation on the balance of Edison's merchant operations to account for their inherent volatility.
PCG	N	3.45	**15.3x**	-5%	14.5x	$50	$54	Our discounted peer group multiple reflects regulatory uncertainty resulting from recent changes at the PUC, which we expect to weigh on the stock, even though California has traditionally offered some of the most constructive regulation in the US. We expect the company to also face ongoing pressure from continued remediation efforts at its natural gas business following the explosion at its San Bruno pipeline.
SRE	N	4.15	**14.0x**	0%	14.0x	$58	$63	We assign an in-line valuation to derive our price target for Sempra. We believe Sempra's California utilities are above average versus those of its regulated peers; however, we believe investors value some of the company's unregulated businesses, such as its LNG and generation operations at a discount. Furthermore, we believe near-term uncertainty around regulatory trends in California given the appointment of threer new Commissioners earlier this year continues to weigh on the utility's valuation.

Source: J.P. Morgan. * We use the Regulated Utilities group P/E for PCG and the Hybrid group multiple for EIX and SRE.

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Risks to Ratings and Price Targets

Risks to our ratings and price targets are shown in Table 2.

Table 2: Risks to Ratings and Price Targets

Tkr	Risks to Our Rating
EIX	Our Neutral rating could be wrong if EIX receives a more or a less favorable rate case outcome than we expect, its pipeline of investment at the utility falters or accelerates, electricity demand falls/improves sharply or new power plant capacity is added to the system, it is unable to meet its IL environmental limits with its current plan, or commodity prices rise or fall sharply.
PCG	There could be upside to our Neutral rating if regulatory uncertainty in California dissipates following the recent changes in the makeup of the CPUC. There could be upside or downside to our rating if PCG's cost for remedial efforts at its pipelines following the San Bruno explosion is higher or lower than expected and/or its regulatory recovery is better or worse than anticipated, its pipeline of investment opportunities is better or weaker than we expect, or PCG is not able to maintain its cost structure.
SRE	Our Neutral rating could be wrong if California regulation is more or less constructive than we expect. Our Neutral rating could also be wrong if the recently appointed Commissioners in California somehow signal to investors that the Commission will continue to treat the utilities favorably. Our rating could also be wrong if Sempra's unregulated businesses are more or less successful in redeploying capital than we expect.

Source: J.P. Morgan.

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Edison International: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	12,409	12,768	13,047	-
COGS	4,102	4,313	4,323	-
D&A	1,522	1,700	1,790	-
Operations and maintenance	4,612	4,843	5,033	-
Other expenses	-	-	-	-
Total operating expenses	10,283	10,855	11,146	-
Other income / (expense)	204	178	178	-
EBIT	**2,330**	**2,091**	**2,079**	**-**
EBITDA	**3,852**	**3,791**	**3,869**	**-**
Interest expense	724	788	812	-
Income tax provision	354	395	367	-
Tax rate	22.0%	30.3%	29.0%	-
Discontinued operations and other	4	0	0	-
Preferred dividends	-	-	-	-
Net income	**1,256**	**908**	**900**	**-**
Total non-recurring items	112	0	0	-
Net income (Recurring)	**1,144**	**908**	**900**	**-**
Diluted shares outstanding	**329**	**329**	**329**	**-**
Diluted EPS	**3.48**	**2.75**	**2.75**	**-**
DPS ($)	1.26	1.33	1.39	-
Payout ratio	36.0%	47.7%	50.5%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	1,456	67	67	-
Current assets	2,966	2,966	2,966	-
PP&E	30,184	33,009	34,700	-
Non-current assets	10,924	11,024	11,124	-
Total assets	**45,530**	**47,066**	**48,857**	**-**
Current liabilities	12,371	12,619	12,119	-
Long-term Debt	907	907	907	-
Preferred stock	17,713	17,713	17,713	-
Other non-current liabilities	4	4	4	-
Common equity	10,583	11,058	11,503	-
Total liabilities & equity	45,530	47,066	48,857	-
Net income	1,256	908	900	-
D&A	1,522	1,700	1,790	-
Change in working capital	(852)	0	0	-
Change in other assets	3,022	1,818	1,908	-
Net operating cash flow	**3,477**	**2,725**	**2,808**	**-**
Cash flow from investing activities	**(4,814)**	**(4,743)**	**(3,699)**	**-**
Net common equity issued/(repurchased)	(16)	0	0	-
Net debt issued/(repurchased)	1,570	1,061	1,346	-
Common dividends paid	411	433	454	-
Other financing activity	(90)	0	0	-
Cash flow from financing activities	**1,053**	**629**	**891**	**-**
Increase/(decrease) in cash	(284)	(1,389)	0	-
Cash at beginning of the period	1,673	1,389	0	-
Cash at end of the period	1,389	0	0	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	0.4%	2.9%	2.2%	-
EBITDA growth	31.6%	(1.6%)	2.1%	-
EBIT growth	54.4%	(10.3%)	(0.6%)	-
Net income (recurring) growth	7.5%	(20.7%)	(0.8%)	-
COGS growth	(3.9%)	5.1%	0.2%	-
Total operating expenses growth	(6.2%)	5.6%	2.7%	-
Diluted EPS growth	6.9%	(20.9%)	0.0%	-
Gross margin	66.9%	66.2%	66.9%	-
Operating margin	18.8%	16.4%	15.9%	-
Debt / Capital (book)	-	-	-	-
Times interest earned	3.2	2.7	2.6	-
FFO / Interest	7.0	4.5	4.5	-
FFO / Debt	40.3%	25.8%	24.2%	-
ROE	10.8%	8.2%	7.8%	-
Return on invested capital (ROIC)	3.6%	2.7%	2.7%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

PG&E Corp.: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	13,841	14,859	15,385	-
COGS	5,188	5,281	5,375	-
D&A	1,905	1,979	2,051	-
Operations and maintenance	4,439	4,581	4,716	-
Other expenses	-	-	-	-
Total operating expenses	11,532	11,842	12,142	-
Other income / (expense)	27	13	13	-
EBIT	**2,337**	**3,031**	**3,256**	**-**
EBITDA	**4,241**	**5,010**	**5,307**	**-**
Interest expense	691	677	687	-
Income tax provision	547	885	966	-
Tax rate	33.2%	37.6%	37.6%	-
Discontinued operations and other	235	0	0	-
Preferred dividends	-	-	-	-
Net income	**1,334**	**1,469**	**1,603**	**-**
Total non-recurring items	0	0	0	-
Net income (Recurring)	**1,334**	**1,469**	**1,603**	**-**
Diluted shares outstanding	**392**	**410**	**419**	**-**
Diluted EPS	**3.42**	**3.45**	**3.70**	**-**
DPS ($)	1.78	1.82	1.82	-
Payout ratio	52.9%	51.2%	47.9%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	854	563	1,233	-
Current assets	4,688	4,688	4,688	-
PP&E	31,449	33,245	33,593	-
Non-current assets	9,034	9,034	9,034	-
Total assets	**46,025**	**47,530**	**48,548**	**-**
Current liabilities	6,376	6,511	5,119	-
Long-term Debt	11,715	12,415	13,615	-
Preferred stock	252	252	252	-
Other non-current liabilities	16,400	15,977	15,977	-
Common equity	11,282	12,374	13,585	-
Total liabilities & equity	46,025	47,530	48,548	-
Net income	1,334	1,469	1,603	-
D&A	1,905	1,979	2,051	-
Change in working capital	(117)	0	0	-
Change in other assets	169	0	0	-
Net operating cash flow	**3,206**	**3,435**	**3,640**	**-**
Cash flow from investing activities	**(3,857)**	**(3,775)**	**(2,400)**	**-**
Net common equity issued/(repurchased)	303	400	400	-
Net debt issued/(repurchased)	1,248	816	231	-
Common dividends paid	(662)	(763)	(778)	-
Other financing activity	(474)	(404)	(423)	-
Cash flow from financing activities	**415**	**49**	**(571)**	**-**
Increase/(decrease) in cash	(236)	(291)	670	-
Cash at beginning of the period	527	0	0	-
Cash at end of the period	291	(291)	670	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	3.3%	7.4%	3.5%	-
EBITDA growth	3.0%	18.1%	5.9%	-
EBIT growth	(1.2%)	29.7%	7.4%	-
Net income (recurring) growth	8.1%	10.1%	9.1%	-
COGS growth	3.7%	1.8%	1.8%	-
Total operating expenses growth	3.9%	2.7%	2.5%	-
Diluted EPS growth	10.9%	0.9%	7.2%	-
Gross margin	62.5%	64.5%	65.1%	-
Operating margin	16.9%	20.4%	21.2%	-
Debt / Capital (book)	52.1%	51.5%	49.6%	-
Times interest earned	3.4	4.5	4.7	-
FFO / Interest	5.8	6.1	6.3	-
FFO / Debt	31.9%	30.7%	31.8%	-
ROE	11.8%	11.9%	11.8%	-
Return on invested capital (ROIC)	4.1%	4.4%	4.8%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

Sempra Energy: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	9,003	9,162	9,611	-
COGS	3,783	3,487	3,601	-
D&A	867	977	1,082	-
Operations and maintenance	2,979	2,883	2,924	-
Other expenses	-	-	-	-
Total operating expenses	7,629	7,348	7,607	-
Other income / (expense)	189	124	130	-
EBIT	**1,563**	**1,938**	**2,134**	**-**
EBITDA	**2,430**	**2,916**	**3,217**	**-**
Interest expense	430	435	514	-
Income tax provision	102	496	535	-
Tax rate	9.0%	33.0%	33.0%	-
Discontinued operations and other	449	0	0	-
Preferred dividends	-	-	-	-
Net income	**896**	**1,007**	**1,086**	**-**
Total non-recurring items	0	0	0	-
Net income (Recurring)	**896**	**1,007**	**1,086**	**-**
Diluted shares outstanding	**248**	**243**	**244**	**-**
Diluted EPS	**3.61**	**4.15**	**4.45**	**-**
DPS ($)	1.56	1.16	1.16	1.16
Payout ratio	42.7%	45.7%	46.9%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	912	0	0	-
Current assets	2,441	2,441	2,441	-
PP&E	19,876	22,714	25,086	-
Non-current assets	7,054	6,054	6,054	-
Total assets	**30,283**	**31,209**	**33,581**	**-**
Current liabilities	3,786	4,190	5,905	-
Long-term Debt	9,329	9,329	9,329	-
Preferred stock	-	-	-	-
Other non-current liabilities	8,141	8,240	8,070	-
Common equity	9,027	9,449	10,277	-
Total liabilities & equity	30,283	31,209	33,581	-
Net income	896	1,007	1,086	-
D&A	867	977	1,082	-
Change in working capital	107	0	0	-
Change in other assets	156	1,000	0	-
Net operating cash flow	**2,310**	**3,984**	**2,168**	**-**
Cash flow from investing activities	**(1,283)**	**(3,815)**	**(3,455)**	**-**
Net common equity issued/(repurchased)	(462)	(125)	250	-
Net debt issued/(repurchased)	220	503	1,545	-
Common dividends paid	(364)	(460)	(508)	-
Other financing activity	(31)	0	0	-
Cash flow from financing activities	**(637)**	**(81)**	**1,287**	**-**
Increase/(decrease) in cash	390	88	0	-
Cash at beginning of the period	110	912	0	-
Cash at end of the period	500	1,000	0	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	11.1%	1.8%	4.9%	-
EBITDA growth	6.1%	20.0%	10.3%	-
EBIT growth	3.1%	24.0%	10.1%	-
Net income (recurring) growth	(19.8%)	12.4%	7.8%	-
COGS growth	16.1%	(7.8%)	3.3%	-
Total operating expenses growth	12.1%	(3.7%)	3.5%	-
Diluted EPS growth	(20.0%)	14.8%	7.2%	-
Gross margin	58.0%	61.9%	62.5%	-
Operating margin	17.4%	21.2%	22.2%	-
Debt / Capital (book)	50.5%	50.6%	52.2%	-
Times interest earned	3.6	4.5	4.2	-
FFO / Interest	5.8	7.9	5.2	-
FFO / Debt	26.1%	34.2%	23.2%	-
ROE	9.9%	10.7%	10.6%	-
Return on invested capital (ROIC)	4.5%	4.7%	4.9%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

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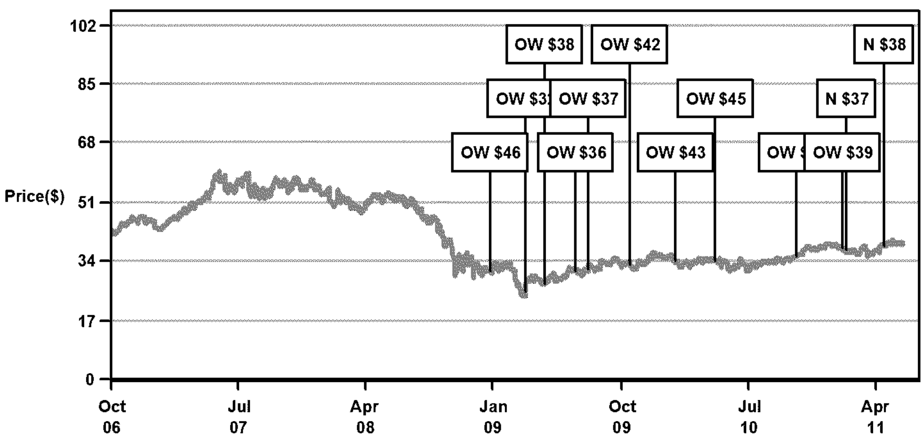
Edison International (EIX) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
23-Dec-08	OW	30.91	46.00
12-Mar-09	OW	25.21	32.00
20-Apr-09	OW	27.81	38.00
26-Jun-09	OW	31.29	36.00
22-Jul-09	OW	31.48	37.00
22-Oct-09	OW	33.19	42.00
26-Jan-10	OW	34.20	43.00
20-Apr-10	OW	33.85	45.00
12-Oct-10	OW	35.35	38.00
20-Jan-11	OW	37.70	39.00
27-Jan-11	N	37.16	37.00
20-Apr-11	N	38.18	38.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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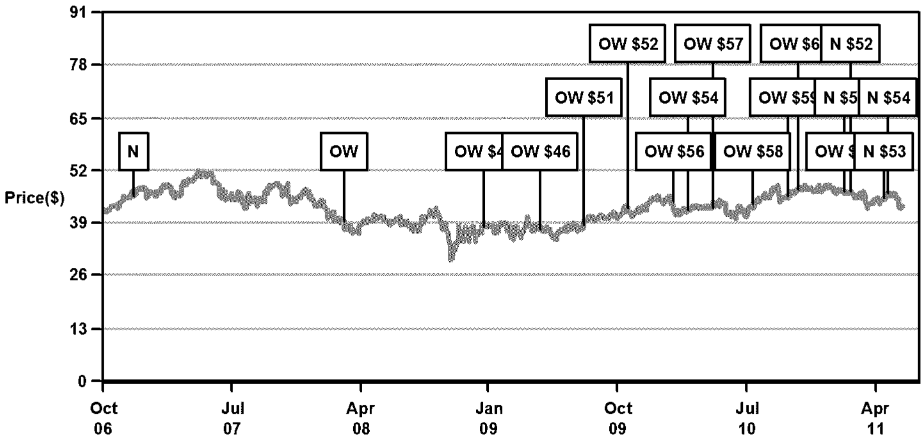
PG&E Corp. (PCG) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
08-Dec-06	N	45.88	-
26-Feb-08	OW	39.81	-
23-Dec-08	OW	38.05	45.00
20-Apr-09	OW	37.66	46.00
22-Jul-09	OW	38.50	51.00
22-Oct-09	OW	42.44	52.00
26-Jan-10	OW	44.07	56.00
26-Feb-10	OW	41.92	54.00
20-Apr-10	OW	42.75	57.00
16-Jul-10	OW	43.52	58.00
29-Sep-10	OW	45.55	59.00
19-Oct-10	OW	47.21	60.00
24-Jan-11	OW	47.46	62.00
27-Jan-11	N	46.98	51.00
09-Feb-11	N	46.72	52.00
21-Apr-11	N	45.18	53.00
28-Apr-11	N	46.20	54.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 11, 2004 - Sep 07, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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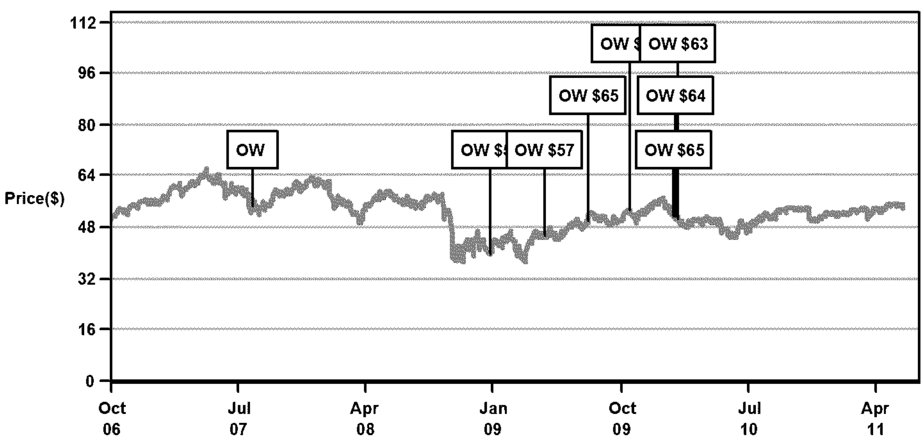
Sempra Energy (SRE) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
01-Aug-07	OW	54.85	--
23-Dec-08	OW	39.68	54.00
20-Apr-09	OW	45.31	57.00
22-Jul-09	OW	49.86	65.00
22-Oct-09	OW	53.45	72.00
22-Jan-10	OW	51.55	65.00
26-Jan-10	OW	51.45	64.00
01-Feb-10	OW	50.75	63.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Oct 12, 2005 - Jun 30, 2006. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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"Other Disclosures" last revised January 8, 2011.

From: Cherry, Brian K
Sent: 8/2/2011 6:14:00 PM
To: 'Ferron, Mark J.' (mark.ferron@cpuc.ca.gov)
Cc:
Bcc:
Subject: Re: Debt Equivalence

Amen..

-----Original Message-----
From: Ferron, Mark J. [mailto:mark.ferron@cpuc.ca.gov]
Sent: Tuesday, August 02, 2011 5:59 PM
To: Cherry, Brian K
Subject: Re: Debt Equivalence

No, I appreciated the effort. It did make me think that there is a lot of benefit to the Commission articulating clearly and consistently its desire to attract capital to the sector...

On Aug 2, 2011, at 5:53 PM, "Cherry, Brian K" <BKC7@pge.com> wrote:

> You're welcome. I hope we didn't bore you too much yesterday....
>
> -----Original Message-----
> From: Ferron, Mark J. [mailto:mark.ferron@cpuc.ca.gov]
> Sent: Tuesday, August 02, 2011 5:52 PM
> To: Cherry, Brian K
> Subject: Re: Debt Equivalence
>
> Brian,
>
> Thanks very much fir the quick follow up.
>
> Regards
> Mark
>
>
>
> On Aug 2, 2011, at 4:53 PM, "Cherry, Brian K" <BKC7@pge.com> wrote:
>
>> FYI
>> :
>>
>>
>>
>>
>>
>> <DE Appendix.doc>

>> <Richard_Cortright_Harvard_2007_ratings.pdf>

Supplement

From: Cherry, Brian K

Sent: 8/2/2011 4:53:39 PM

To: Mark Ferron (fcr@cpuc.ca.gov) (fer@cpuc.ca.gov)

Cc: Hughes, John (Reg Rel) (/O=PG&E/OU=Corporate/cn=Recipients/cn=J8HS)

Bcc:

Subject: Debt Equivalence

FYI

<<...>> <<...>>

Appendix: Standard and Poor's PPA Debt Equivalence and Credit Statistics Calculatious

PPA Debt Equivalence Methodology

S&P initially addressed the "pros and cons" of utilities' purchasing power rather than building their own plants in a "Credit Comment" published in November, 1991. In that report S&P noted the benefits associated with purchased power while pointing out S&P's belief that utilities absorb significant market, operating, regulatory, and financial risks when they enter into purchased power contracts with non-utility generators. S&P went on to present its method of adjusting a utility's financial statements to capture the off-balance sheet obligations associated with purchased power. Since that report was published, S&P has periodically adjusted its approach, and its most recent refinements were adopted in November, 2006. The debt equivalence and credit statistic algorithms used in the analysis presented in this paper are consistent with S&P's current approach, which is described below and in Table 1.

In November 2006 S&P proposed that contract fixed (capacity) payments be treated as perpetuities, or "evergreened," to reflect the long-term load serving obligations borne by utilities. However, S&P's analyst for PG&E has indicated that, with the level and quality of forecast detail PG&E provides, S&P does not deem it necessary to apply evergreening to PG&E's forecast of PPA contract capacity payments. S&P also reported that it plans to refine its traditional approach for estimating the capacity payments for renewables and other PPAs where the contract price is stated as a single, all-in energy price. Instead of assuming one half of the all-in energy payment is for capacity, S&P plans to estimate capacity payments by employing an as yet unpublished proxy capacity charge, stated in dollars per kilowatt-year, and multiply that figure by the number of kilowatts under contract. S&P's analyst noted that they have not moved forward on this proposal and she continues to assume half of PG&E's renewables payments are for capacity.

S&P determines debt equivalence as the present value of PPA capacity payments, discounted at the utility's average cost of debt, and multiplied by a risk factor. The risk factor reflects the credit analysts' assessment of the probability that PPA costs will be recovered in rates and it varies depending on state legislative and regulatory policies. Greater certainty of recovery manifests itself in a lower risk factor, which in turn reduces the equivalent debt ascribed to the utility. Risk factors range from zero to 100 percent, and S&P applies a 25 percent risk factor to California utility PPAs.

The risk-adjusted PPA debt equivalence is added to the balance sheet debt to help determine the credit strength of a company. This can also be used to calculate the amount of additional equity that would be required to rebalance the capital structure. Other factors associated with PPAs that affect credit strength estimates include imputed interest, which is debt equivalence multiplied by the average cost of debt, and implied depreciation, which is added to Funds from Operations and is the difference between risk-adjusted fixed contract payments and imputed interest.

The cost of PPA debt equivalence stems from its weakening effect on credit strength and the consequent higher cost of capital. The CPUC has held that consideration for recovery of this cost is within the scope of the Cost of Capital Proceedings. While the CPUC has not adopted a formal debt equivalence policy, it does recognize that PPA debt equivalence can affect utility credit ratings and it considers the impact of such risk in authorizing the Utility's capital structure and rate of return.

Table 1. Credit Statistics Calculations

FFO Interest Coverage = (FFO + Total Interest Expense)/Total Interest Expense

FFO = Net Income – AFUDC - Pfd Div + Depreciation (Excluding Securitization Principal Payments) + Change in Deferred Tax + Other Net Cash from Operations + [redacted].

Total Interest Expense = Interest + [redacted] + 50% of Preferred Dividend.

Total Debt to Total Capital = Total Debt/Total Capitalization

Total Debt = Long-Term Debt + Short-Term Debt + 50% of Preferred Stock + [redacted].

Total Capitalization = Common Equity + 50% of Preferred Stock + Total Debt.

FFO to Average Total Debt = FFO/Average Total Debt

FFO = Net Income – AFUDC - Pfd Div + Depreciation (Excluding Securitization Principal Payments) + Change in Deferred Tax + Other Net Cash from Operations + [redacted].

Average Total Debt = Average of Beginning of Year and End of Year Total Debt.

Notes: Highlighted items indicate adjustments that are related to PPA debt equivalence. All calculations exclude securitized debt and non-recurring items.

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"Debt By Any Other Name: Are Ratings Reality? Does the Accounting Make It So?"

Harvard Electricity Policy Group
Cambridge, MA
May 30, 2008

Richard W. Cortright, Jr., Managing Director
U.S. Utilities and Infrastructure Ratings

What is A Credit Rating?

Most Fundamentally, A Credit Rating Represents Standard & Poor's Opinion Regarding ...

- The Likelihood That An Issuer Will Default On Its Financial Obligations
- The Capacity And Willingness Of An Issuer Or Obligor To Pay Principal And Interest In Accordance With The Terms Of The Obligations

A Rating Is Derived from Art, not Science

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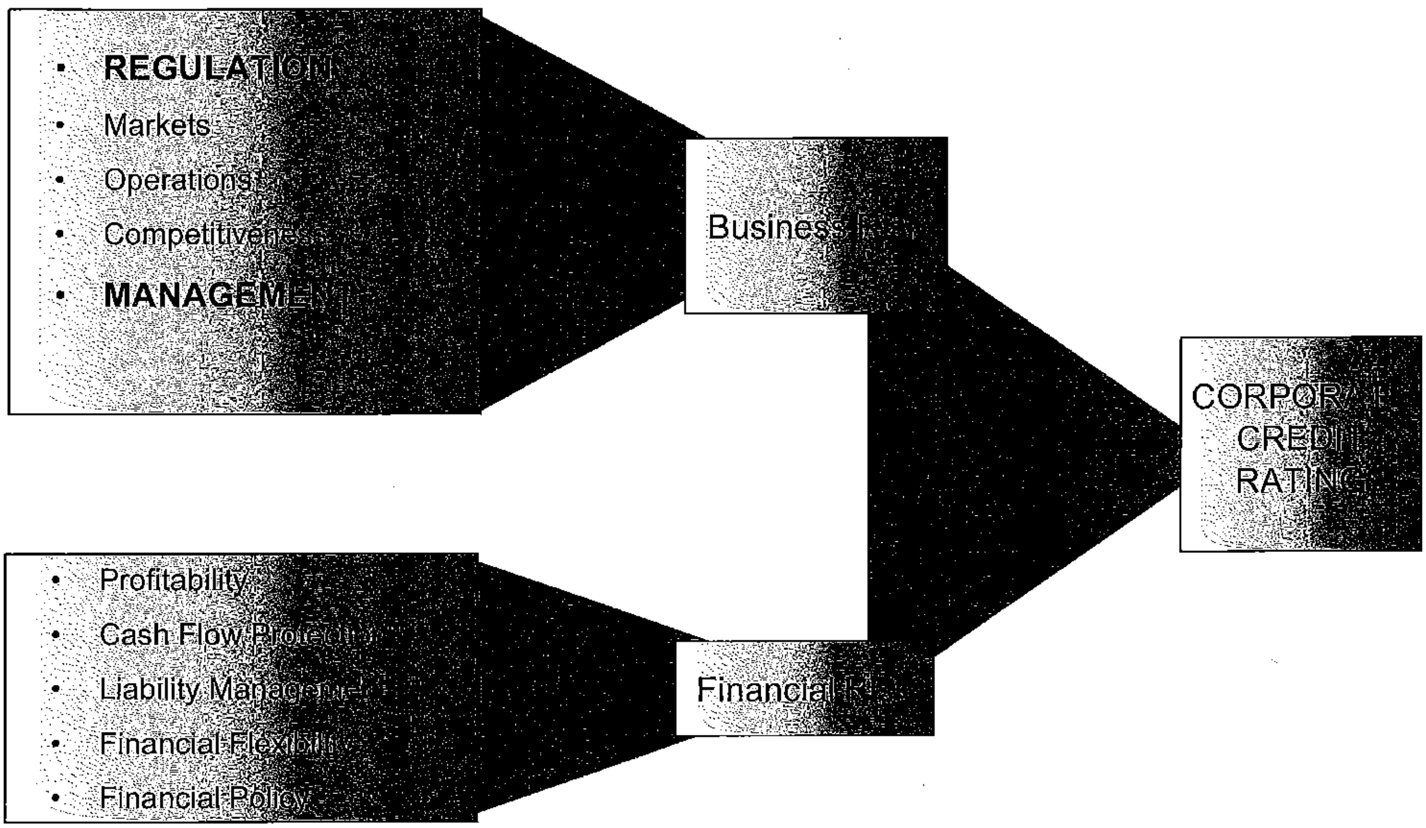
The Analytical Process: Deriving The Corporate Credit Rating



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TURN_GT&S00539327

Rationale for Adjusting Financial Statements

- Issuers' Audited Financial Statements Are Not Necessarily Viewed As Representative Of Analytical "Truth"
- Adjustments Create A More Accurate Depiction Of The Economic Reality Of An Issuer's Risks, Rights And Benefits
- Adjustments Enable More Meaningful Peer And Period-over-period Comparisons

STANDARD &POOR'S

Principal Adjustments to Financial Statements

Common Adjustments

Additions To The Balance Sheet:

- **Operating And Capital Leases (PPA Exception)**
- **Purchased Power Agreements**
- **Pensions And Post-retirement Benefit Obligations**
- **Asset Retirement Obligations**

Subtractions From The Balance Sheet:

- **Stranded Cost Securitization Financings**
- **Hybrid Preferred Instruments**

Key Ratios Affected

- **Funds From Operations (FFO) To Total Debt**
- **FFO To Interest Coverage**
- **Total Debt To Total Capitalization**

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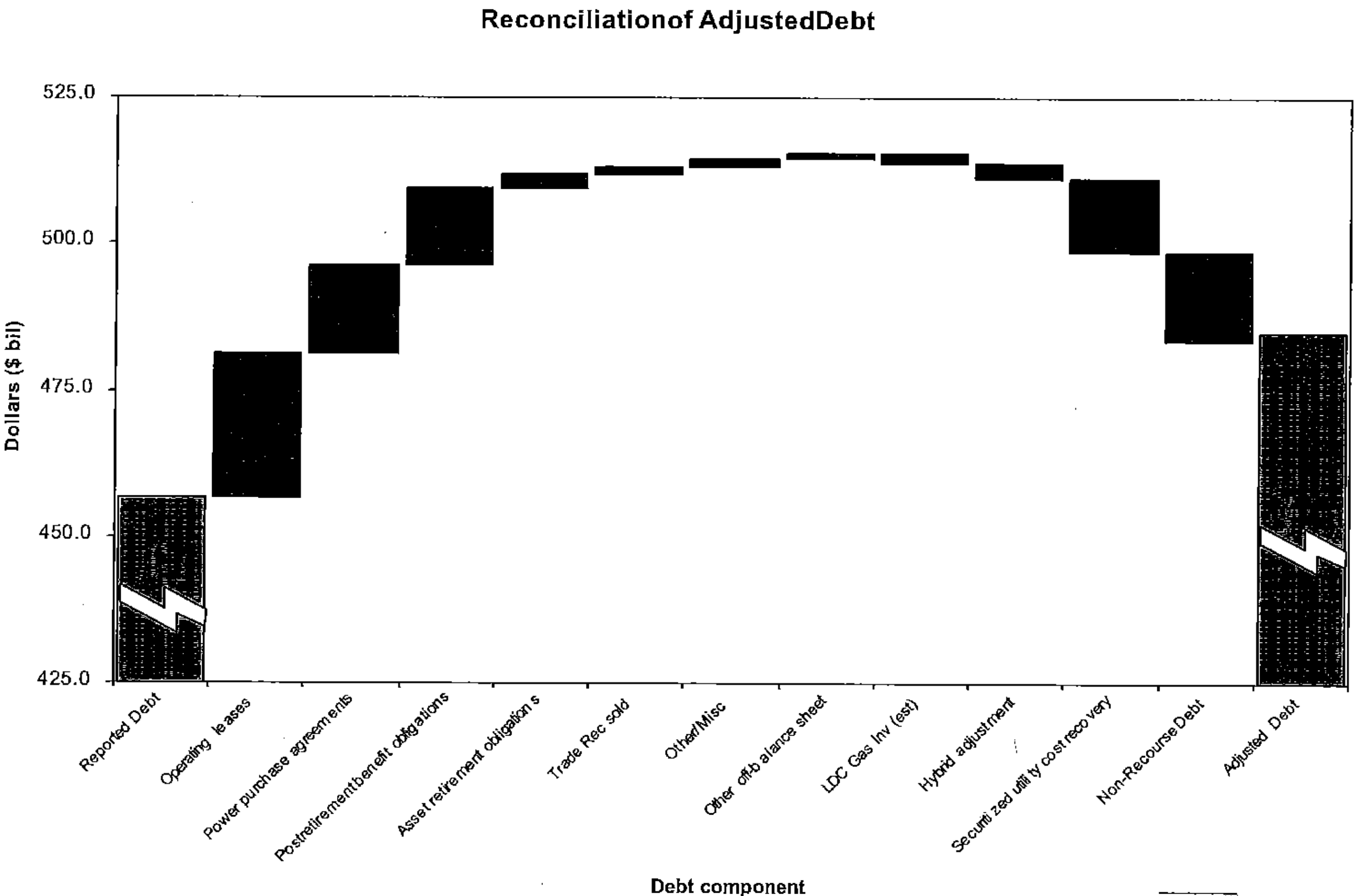
Components of Imputed Debt



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Purchased Power Agreements --- Credit Characteristics

PPA Debt Imputation Was Born From The Need To Make Meaningful Comparisons Between Utilities That Build And Those That Buy

- Benefits
  - Shifts Construction Risk And Operating Risk On To Third Party
  - Reduces Cost Variability
  - Provides Degree of Supply Diversity
- Risks
  - Creates A Fixed, Debt-Like Financial Obligation
  - Ultimate Recovery Remains Subject to Regulatory Approvals

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Debt Imputation of PPAs

- PPAs Represent Fixed Obligations
  - The Capacity Payments Owed To The Provider
- Standard & Poor's Imputes A Debt Equivalent That Is Based On This Fixed Obligation
  - The Goal Is To Reflect In Our Financial Metrics The Credit Exposure That A PPA Entails
- Imputation Seeks To Achieve Comparability Of Financial Commitments
  - Without Adjustments, A Company That Builds Generation To Meet Requirements Reflects 100% Of Generation Debt On The Company Balance Sheet

But...

  - A Company That Exclusively Purchases Has An Obligation Which Is Not Reflected On Its Balance Sheet

STANDARD & POOR'S

Calculation of PPA Debt Equivalent

- Calculate NPV Of Capacity Payments
  - The Discount Rate Reflects Utility's Average Cost Of Debt
  - NPV Calculation Is Applied From Contract Inception Through Termination
- A "Risk Factor" Adjustment Is Made To The Result, Typically Either 0%, 25% Or 50%
- This Resulting Amount, As Well As An Imputed Interest Expense And Depreciation Expense, Are Incorporated Into The Utility's Financial Statements
- Financial Metrics Are Adjusted Accordingly

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What is a Risk Factor and Why is it Used?

- A Risk Factor Incorporates A Recognition That PPAs Are Not In Fact Debt, And Adjusts Downward The Off-Balance Sheet Debt Imputation
- The Key Consideration Is The Regulatory Mechanism In Place For Full And Timely Recovery Of Fixed Commitment That A PPA Represents
- A Risk Factor Attempts To Measure, And Distinguish, The Level Of Risk Of Recovery By Jurisdiction
- Use Of A Risk Factor Acknowledges Regulators' History Of Allowing Recovery Of PPA Costs

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Guidelines for Determining Risk Factors

- 50% Risk Factor – Utility Passes Capacity Payments Through In Base Rates
- 25% Risk Factor – Utility Passes Capacity Payments Through In A Fuel Clause Adjuster
- 0%– Utility Has Legislative Authority To Pass Through Costs

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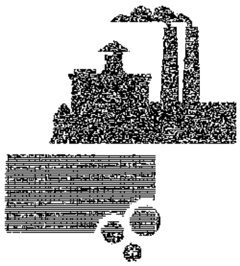
Example – 12-Year PPA Recovered Through FAC



Year	$m
1	500
2	500
3	500
4	500
5	500
Thereafter	4,000
Total	$6,500

1. Review PPA Terms

2. Isolate fixed capacity per year

NPV@ 6.5%
= $4,079

25% * $4,079 =
$1,020

3. Calculate NPV using utility's average cost of debt over last 3 years

4. Multiply by risk factor between 0 - 50%

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Using Results to Adjust S&P Ratios

	Year 1	Year 2	Year 3	Year 4	Year 5	...	Year 12
Funds from operations	2,500						
Interest expense	650						
Directly issued debt	10,000						
Shareholder equity	9,000						
Fixed capacity commitments	500	500	500	500	500	...	500

NPV of fixed capacity payments	$4,079	@ 6.5% discount rate
Applying 25% risk factor	$1,020	=$1,020 * 0.25
Imputed interest	$66	=$1,020 * 6.5%
Depreciation expense	$59	=($500 * 0.25%) - $66

S&P Credit Metrics - Without PPA Adjustments

FFO/interest x	4.8	= 2,500 + 650 / 650
FFO/total debt (%)	25%	= 2,500 / 10,000
Debt/Capitalization (%)	53%	=10,000 / 10,000 + 9,000

S&P Credit Metrics - With S&P PPA Adjustments

FFO/interest x	4.6	= 2,500 + 650 + 66 + 59/ 650
FFO/total debt (%)	23%	= 2,500 + 59 / 10,000 + 1,020
Debt/Capitalization (%)	55%	=10,000 + 1,020 / 10,000 + 9,000 + 1,020

Renewable Energy PPAs

- Renewable PPAs Also Constitute An Obligation That Standard & Poor's Will Capture Under Its Debt Imputation Methodology
  - As With "Conventional" PPA, The Utility Is Making A Decision To Purchase Rather Than Build Capacity
  - Conceptually, Logic For Imputing Renewable PPAs Is No Different
- Unlike Traditional PPAs, There Is Often No Defined Capacity Payment
  - Wind Energy Is Typically "As Available," With Developer Assuming Output Risk
  - Solar Is Similar
  - Nuclear Can Be Structured This Way --- Point Beach
- As A Practical Matter, An Extra Step Is Required To Determine "Capacity" Payment
- A Proxy Cost of Regional Capacity --- Stay Tuned

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Regulatory Response To This Criteria

- State Regulatory Commissions Have Generally Been Silent On Addressing PPA-Related Debt Imputation
- Exceptions
  - Florida
  - California

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Top 10 Power Purchase Agreements

Company	Rating	PPA Adj	Total Debt	Percent
Exelon Corp.	BBB+/Stable/A-2	2,098.6	16,128.4	13%
Edison International	BBB-/Stable/--	1,513.8	14,685.0	10%
FPL Group Inc.	A/Stable/--	1,165.8	11,687.7	10%
Xcel Energy Inc.	BBB+/Stable/A-2	1,142.5	9,456.8	12%
Progress Energy Inc.	BBB+/Stable/A-2	1,053.1	11,607.6	9%
Southern Co.	A/Stable/A-1	921.6	16,902.0	5%
Sierra Pacific Resources	BB/Stable/B-2	659.3	5,090.9	13%
Constellation Energy Group Inc.	BBB+/Negative/A-2	496.1	7,837.5	6%
MidAmerican Energy Holdings Co.	BBB/Negative/--	494.8	19,946.1	2%
Sempra Energy	BBB+/Stable/A-2	483.1	7,216.9	7%

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APPENDIX

Principal Adjustments – Operating Leases

Distinction Between Operating And Capital Leases Considered Artificial From Analytical Perspective

- Capitalize Discounted Stream Of Minimum Operating Lease Payments And Add To Balance Sheet As Debt
- Operating-Lease-Related Expense Is Apportioned To Interest And Depreciation Components
  - Interest Expense Is Increased By Product Of The Discount Rate And An Average Of Lease Payments
  - Depreciation Expense Is Increased By Difference Between Lease Payment And Implicit Interest Component

- Results Can Be Significant
  - American Electric Power's Debt And Interest Expense Both Increase By About 20%

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Principal Adjustments – Asset Retirement Obligations

AROs Viewed As Debt-Like

- Capitalize Discounted Stream Of Retirement Obligations, Net Of Any Dedicated Retirement Fund Assets, Salvage Value, Tax Savings, And Add As Debt
  - Reallocate To Interest Expense An Imputed Interest Cost
- Standard & Poor's Recognizes Limitations on This Analysis Given Nature of Utility Assets, And Accordingly Discounts Adjustments Analytically
- Nuclear Decommissioning Trusts Require No Debt Imputation
  - Funded Through Customer Rates, And Probable Nature Of Recovery Result Is A Substantive Liability Defeasance
  - Safeguards Ensure Funding Sufficiency And Collection Of Decommissioning Costs In Rates

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Principal Adjustments – Pensions and OPEB Obligations

Pension, Retiree Health Care And Life Insurance, And Other Deferred Compensation Viewed As Debt-like

- Objective Is To Reflect Level Of Underfunding Of Defined-Benefit Pension Obligations And Health Care Obligations (Usually Not Funded), Retiree Lump Sum Payments, Etc.
  - Debt Grossed Up By Tax-Effected Unfunded PRB Obligation
  - Equity Adjusted By Difference Between Amount Accrued On Balance Sheet And Amount Of Net Over-/Under-funded Obligation, Net Of Tax
  - Various Other Adjustments Related To Income And Cash Flow Statements
- NOTE: Standard & Poor's Analytically Recognizes History Of Regulatory Support For These Expenses

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Principal Adjustments – Stranded Costs

From Standard & Poor's Encyclopedia Of Analytical Adjustments:

- For Rate-Regulated Utilities, We Remove The Effects Of Debt Related To Securitization Of Stranded Costs To The Extent That Debt Is Serviced Separately By The Utilities' Customers Through Direct Inclusion In Rates.
- Because Customers, Not The Utility, Are Responsible, By Statute, For Principal And Interest Payments, We Remove Debt From The Balance Sheet For Analytical Purposes.
- We Also Remove Related Amounts From Revenue, Depreciation, And Interest.

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From: Cherry, Brian K
Sent: 8/25/2011 5:20:44 PM
To: 'Ferron, Mark J.' (mark.ferron@cpuc.ca.gov)
Cc: Bottorff, Thomas E (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=TEB3); TerKeurst, Charlotte (charlotte.terkeurst@cpuc.ca.gov); Thomas, Sarah R. (srt@cpuc.ca.gov); Banks, Juliane (juliane.banks@cpuc.ca.gov)
Bcc:
Subject: Re: October 12 Tour of PG&E Facilities and Officer Meetings

Done. Tentatively lets schedule it for noon at Boulevard.

From: Ferron, Mark J. [mailto:mark.ferron@cpuc.ca.gov]
Sent: Thursday, August 25, 2011 5:12 PM
To: Cherry, Brian K
Cc: TerKeurst, Charlotte; Banks, Juliane; Thomas, Sarah R.; Bottorff, Thomas E
Subject: Re: October 12 Tour of PG&E Facilities and Officer Meetings

Let's shoot for the Monday the 26th. Thanks very much.

Mark J. Ferron
Commissioner
California Public Utilities Commission
mark.ferron@cpuc.ca.gov

On [25 Aug 11], at 25 Aug 16:30, Cherry, Brian K wrote:

Mark - Sept 27 or Sept 26 in that order. If that works, we will pick a time and a restaurant to meet.

From: Cooper, Shawn [mailto:shawn.cooper@pge-corp.com]
Sent: Thursday, August 25, 2011 3:20 PM
To: Cherry, Brian K
Cc: Redacted .; Bottorff, Thomas E; Redacted
Subject: September lunch with Comm Ferron

Brian:

September 20 and 21 are PG&E board dates but the 26 and 27 work on Tony's calendar for lunch with Commissioner Ferron.

First Choice -- Tuesday, September 27.

Second Choice – Monday, September 26.

We'll look at these same dates (September 26 & 27), to also schedule a prep session with you and Tom with Tony prior to the luncheon.

Shawn

Shawn E. Cooper

Senior Director-Chief of Staff

Office of the Chairman

PG&E Corporation

One Market, Spear Tower, 24th Floor

San Francisco, CA 94105

(415) 267-7068

From: Ferron, Mark J. [mailto:mark.ferron@cpuc.ca.gov]
Sent: Wednesday, August 24, 2011 4:54 PM
To: Cherry, Brian K
Cc: Thomas, Sarah; TerKeurst, Charlotte; Banks, Juliane
Subject: Re: October 12 Tour of PG&E Facilities and Officer Meetings

Brian,
My preference would be to have lunch (some where we can show off SF cuisine vs that of Detroit....). I'm happy to make it near your HQ.

I am copying my assistant, Juliane Banks, to expedite finding a mutually agreeable date but Sep 20, 21, 26, 27 all look feasible for me.

Thanks for organizing this.

Mark

Mark J. Ferron
Commissioner
California Public Utilities Commission
mark.ferron@cpuc.ca.gov

On [24 Aug 11], at 24 Aug 15:36, Cherry, Brian K wrote:

Mark - Anthony Earley, our new CEO, needs to attend a Board Meeting in Detroit (Ford Motor Company) on October 12. He was scheduled to meet you (and Chris Johns) for lunch on the day of your tour at PG&E.. He has asked me to reach out and see if he can meet with you sometime after he arrives at PG&E on September 13. He is happy to have lunch or meet in your office to talk - your choice. If you have a few dates in mind, send them to me and I will get him scheduled. Thanks

Brian

From: Cherry, Brian K

Sent: 9/30/2011 1:34:55 PM

To: Stavropoulos, Nickolas (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=N1SL)

Cc: Redacted Hurley, Lisa M. (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=LMHO); Scarbrough, Glenda (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=GASB)

Bcc:

Subject: Re: Gas Employee Recognition

Thanks for the quick response.

From: Stavropoulos, Nickolas
Sent: Friday, September 30, 2011 12:30 PM
To: Cherry, Brian K
Cc: Scarbrough, Glenda; Redacted Hurley, Lisa M.
Subject: RE: Gas Employee Recognition

Hi Brian,

I've copied Glenda and Kim to work out the details with you. They should be able to answer your who question and determine if they have been recognized internally.

Best, Nick

From: Cherry, Brian K

Sent: Friday, September 30, 2011 11:41 AM

To: Stavropoulos, Nickolas; Bottorff, Thomas E

Cc: Jacobson, Erik B (RegRel)

Subject: Gas Employee Recognition

Nick - When Commissioner Florio visited us last week, he suggested that the company and the Commission recognize the employees who took the initiative to shut off the valves on Line 132 the night of the San Bruno accident. Have we recognized these employees yet ? Do we have a list (and how many of them are there) ? I'm going to suggest Commissioner Florio sponsor a resolution for these employees. Do you have issues with that ?

From: Cherry, Brian K

Sent: 11/2/2011 7:15:36 AM

To: Bottorff, Thomas E (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=TEB3); 'catherine.sandoval@cpuc.ca.gov' (catherine.sandoval@cpuc.ca.gov); 'ditas.katague@cpuc.ca.gov' (ditas.katague@cpuc.ca.gov)

Cc:

Bcc:

Subject: RE: Thank you

Thanks Catherine. Let us know if there is anything else you need.

From: Sandoval, Catherine J.K. [mailto:catherine.sandoval@cpuc.ca.gov]
Sent: Tuesday, November 01, 2011 09:19 PM
To: Cherry, Brian K; Bottorff, Thomas E; Katague, Ditas <ditas.katague@cpuc.ca.gov>
Subject: RE: Thank you

Thanks to the PG&E team for hosting our office. Our meetings were very informative. We appreciate your time, efforts,and updates. Commissioner Sandoval

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Tue 11/1/2011 1:16 PM
To: Bottorff, Thomas E; Katague, Ditas
Cc: Sandoval, Catherine J.K.
Subject: RE: Thank you

My sentiments exactly. Thanks again.

-----Original Message-----
From: Bottorff, Thomas E
Sent: Tuesday, November 01, 2011 12:28 PM
To: 'Katague, Ditas'; Cherry, Brian K
Cc: Catherine J.K. Sandoval
Subject: RE: Thank you

Ditas,
Thanks very much for your note. I'm glad to hear that the day's events proved to be productive and worthwhile.

I'll make sure to share your kind words with the PG&E team members who attended; they'll be happy to hear that their efforts were appreciated.
Tom

-----Original Message-----
From: Katague, Ditas [mailto:ditas.katague@cpuc.ca.gov]
Sent: Tuesday, November 01, 2011 10:44 AM
To: Bottorff, Thomas E; Cherry, Brian K
Cc: Catherine J.K. Sandoval

Subject: Thank you

Tom and Brian,
I wanted to extend a huge thank you for hosting Commissioner Sandoval and our entire team for the whole day. The tour and meeting your key people was invaluable. We look forward to a productive partnership. I apologize for having to leave early, I actually ended up being sick for the rest of the week with a bad cold.

Thank you again and please let all of the people we met with know how much we appreciated their time. Please let me know if you need anything.

Ditas Katague

Sent from my iPad

From: Cherry, Brian K
Sent: 12/13/2011 3:08:19 PM
To: Mark Ferron (fer@cpuc.ca.gov) (fer@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: Pacific Gas and Electric Company News Release: PG&E STATES IT IS LIABLE FOR THE SAN BRUNO PIPELINE ACCIDENT

Mark - FYI. Good to see you today. It was a surprise but welcome.

From: Corporate Relations Mailbox
Sent: Tuesday, December 13, 2011 2:26 PM
To: News Release Distribution
Subject: Pacific Gas and Electric Company News Release: PG&E STATES IT IS LIABLE FOR THE SAN BRUNO PIPELINE ACCIDENT

Pacific Gas and Electric Company issued the following release entitled:

PG&E STATES IT IS LIABLE FOR THE SAN BRUNO PIPELINE ACCIDENT

Utility takes on financial responsibility to compensate victims

SAN FRANCISCO, Calif. – Pacific Gas and Electric Company (PG&E) today stated that it is liable for the fatal natural gas pipeline accident in San Bruno in September 2010.

This means that PG&E is taking on financial responsibility to compensate all of the victims for the injuries they suffered as a result of the accident. PG&E has made this statement in response to a San Mateo County Superior Court judge's request for PG&E's official position and comes ahead of a court hearing Friday to discuss various issues regarding the case.

"PG&E is hopeful that today's announcement will allow the families affected by this terrible tragedy to receive compensation sooner, without unnecessary legal proceedings," said PG&E President Chris Johns. "We are affirming our commitment to do the right thing in our response to this accident."

Over the past 14 months, PG&E has been working with those impacted by the accident to resolve all claims fairly and promptly. The company remains committed to helping the city of San Bruno and the victims of the accident and their families recover and rebuild.

Today's announcement also makes clear that none of the plaintiffs, San Bruno residents or the city itself is at fault. "We would never consider holding the residents accountable for this accident," Johns added. "Since the accident, PG&E has stood by the community of San Bruno, and we will bear the cost to make things right for the city and its people."

Pacific Gas and Electric Company, a subsidiary of PG&E Corporation (NYSE:PCG), is one of the largest combined natural gas and electric utilities in the United States. Based in San Francisco, with 20,000 employees, the company delivers some of the nation's cleanest energy to 15 million people in Northern and Central California. For more information, visit http://www.pge.com/about/newsroom/.

- 30 -

From: Cherry, Brian K

Sent: 12/16/2011 7:48:33 AM

To: Bottorff, Thomas E (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=TEB3); Jacobson, Erik B (RegRel) (/O=PG&E/OU=Corporate/cn=Recipients/cn=EBJ1)

Cc:

Bcc:

Subject: RE: Florio Comment

Thanks Erik. I agree.

-----Original Message-----
From: Jacobson, Erik B (RegRel)
Sent: Thursday, December 15, 2011 7:02 PM
To: Cherry, Brian K
Subject: Florio Comment

I wanted to let you know that after the Commission meeting today, Mike told me that he was very impressed by Tony Earley's press briefing on the San Bruno liability issue. He said, "The more I hear him, the more impressed I am." So we should continue to look for opportunities to get Tony in front of Mike, particularly on SB related matters next year.

From: Cherry, Brian K
Sent: 2/6/2012 7:49:58 AM
To: 'ditas.katague@cpuc.ca.gov' (ditas.katague@cpuc.ca.gov)
Cc:
Bcc:
Subject: RE: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

Good. Done. See you in the lobby when you get done. No rush.

From: Katague, Ditas [mailto:ditas.katague@cpuc.ca.gov]
Sent: Monday, February 06, 2012 07:49 AM
To: Cherry, Brian K
Subject: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

She just told me we could be late for the 1:15 pm. She likes Legal Seafood. Can you make reservations there? Not sure what time the telco business session ends probably 11:45 so noon may work. She needs to vote on stuff.

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Monday, February 06, 2012 07:43 AM
To: Katague, Ditas
Subject: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

I haven't made reservations but understand the need to get her back in time. Should we do lunch in the hotel ?

From: Katague, Ditas [mailto:ditas.katague@cpuc.ca.gov]
Sent: Monday, February 06, 2012 07:35 AM
To: Cherry, Brian K
Subject: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

Hi brian,
Have you made reservations for lunch yet? We will be in the Telco mtg from 10:45-noon. Legal Seafood at noon or Clyde's or the Cajun place? We do need to be back for the 1:15 Spectrum discussion.

Ditas

Sent from my iPad

On Jan 26, 2012, at 4:32 PM, "Cherry, Brian K" <BKC7@pge.com> wrote:

> Yes. I believe there is a Cajun restaurant across the street.
>
> **From**: Katague, Ditas [mailto:ditas.katague@cpuc.ca.gov]
> **Sent**: Thursday, January 26, 2012 12:09 PM
> **To**: Chan, Jovita <jovita.chan@cpuc.ca.gov>; Cherry, Brian K; Redacted

Subject: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

Brian,
Are you available on Monday 2/6 for an early lunch with Cathy? She has to be back for the Telecom spectrum discussion by 1:15 pm. So would 11:30 or 11:45 am work? And do you know of restaurants close to the Hotel? I will join you.

Ditas

Sent from my iPad

On Jan 10, 2012, at 10:38 AM, "Chan, Jovita" <jovita.chan@cpuc.ca.gov> wrote:

> Ditas,
> Please advise.
> Thank you.
>
> **From:** Redacted
> **Sent:** Monday, January 09, 2012 1:36 PM
> **To:** Chan, Jovita
> **Subject:** Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6
>
> Hi Jovita -
>
> Brian Cherry would like to know if Commissioner Sandoval would like to have lunch with him while they're attending NARUC next month. Will she be available on Monday, February 6?
>
> Thank you. Hope you're doing well.
>
> Redacted
> ***Executive Assistant to Brian Cherry***
> ***Vice President Regulation and Rates***
> Redacted

From: Cherry, Brian K

Sent: 2/6/2012 8:10:47 AM

To: 'ditas.katague@cpuc.ca.gov' (ditas.katague@cpuc.ca.gov)

Cc:

Bcc:

Subject: RE: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

It will be me and Laura Doll.

From: Katague, Ditas [mailto:ditas.katague@cpuc.ca.gov]
Sent: Monday, February 06, 2012 07:49 AM
To: Cherry, Brian K
Subject: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

Perfect

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Monday, February 06, 2012 07:47 AM
To: Katague, Ditas
Subject: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

Let's do Legal Seafood. I will make reservations there and meet you in the lobby at around noon ?

From: Katague, Ditas [mailto:ditas.katague@cpuc.ca.gov]
Sent: Monday, February 06, 2012 07:35 AM
To: Cherry, Brian K
Subject: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

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> **To**: Chan, Jovita <jovita.chan@cpuc.ca.gov>; Cherry, Brian K; Redacted
> **Subject**: Re: Lunch with Commissioner Sandoval while at NARUC, Monday, Feb. 6

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>
> Thank you. Hope you're doing well.
>
> Redacted
> ***Executive Assistant to Brian Cherry***
> ***Vice President Regulation and Rates***
> Redacted

From: Cherry, Brian K

Sent: 3/30/2012 8:58:40 AM

To: Kersten, Colette (colette.kersten@cpuc.ca.gov); 'Sandoval, Catherine J.K.' (catherine.sandoval@cpuc.ca.gov); Katague, Ditas (ditas.katague@cpuc.ca.gov)

Cc:

Bcc:

Subject: RE: Taking Action: A New Perspective on Employee and Public Safety

Thanks Catherine. All good questions. Let me get you an answer.

From: Sandoval, Catherine J.K. [mailto:catherine.sandoval@cpuc.ca.gov]
Sent: Friday, March 30, 2012 8:58 AM
To: Cherry, Brian K; Kersten, Colette; Katague, Ditas
Subject: Re: Taking Action: A New Perspective on Employee and Public Safety

Brian, Great message. Has PG&E commissioned employee focus groups to analyze perceived barriers to safety practices or reporting of potential issues? I wonder if some of the big issues such as pipeline maintenance, the need for more computerization + records integration and management, and pipeline type, e.g. Adyl A, get lost in budget issues and because their scope is so large. Has PG&E reached out to other utilities to identify safety and reporting best practices, including how to encourage and support employee reporting? The independent report is a great idea and I am glad to see such analysis. Glad to hear Des is safety coordinator. The focus on safety by all of us is so critical. Thanks, Commissioner Sandoval

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Thursday, March 29, 2012 02:11 PM
To: Sandoval, Catherine J.K.
Subject: FW: Taking Action: A New Perspective on Employee and Public Safety

FYI

From: A Safety Message from Des Bell
Sent: Thursday, March 29, 2012 1:44 PM
To: All PG&E Mail Recipients; All PGE Corp Employees
Subject: Taking Action: A New Perspective on Employee and Public Safety

Taking Action: A New Perspective on Employee and Public Safety

Taking Action: A New Perspective on Employee and Public Safety

Team:

I know that every single one of us believes in protecting the health and safety of our employees and the public. Nothing is more important. The fact is, as we close out the first quarter of the year, we're still having serious incidents. My commitment—and I need your commitment, too—is to change that. We have a plan to get there and we are taking action. None of us, however, can do it alone. You are the most important part of our safety strategy and it's critical that you understand our plan and get behind it.

Last year, the company dedicated a lot of time and resources to assess our safety programs and processes, and I thank all of you who provided important feedback as part of that effort. The assessment findings—coupled with the NTSB and CPUC reports following the San Bruno tragedy—helped shape our new safety strategy and the initiatives that are now moving forward. Click here for a summary of the assessment findings.

Ever since I was appointed the company's lead safety officer, I have made it a priority to take stock and determine our path forward. We've established an Executive Safety Steering Committee comprised of senior leaders from each line of business (LOB) to develop our strategy and plan, and to promote public and employee safety across PG&E. Tony Earley, our chairman, CEO and president, has also created the Chairman's Safety Review Committee as a forum for regularly reviewing our safety strategy, serious incidents and the overall effectiveness of our safety programs. Both committees include IBEW and ESC leadership. With this leadership structure in place, and our plan taking shape, we have begun to take some important new steps to improve our safety performance. Let's take a look at some of them:

Creating a trust-based safety climate

At the heart of our safety strategy is the need to make safety the most fundamental and critical element of how we conduct our business. Employees across the company have told us we need to create a climate where every one of us feels confident and encouraged to talk openly about honest mistakes and report near hits. Right now, this doesn't always happen, and it's a missed opportunity to identify risks. We've got to work together to build a climate of trust, and break down barriers both to learning and to continuous improvement. That work starts now.

Nick Stavropoulos, executive vice president of Gas Operations, recently shared a great example of employees stepping up for public safety when they reported that maps were missing from our leak survey schedule. Click here to review Nick's message. I believe that there are similar examples across the company that demonstrate how PG&Eers put public and employee safety first; however, we've also received a lot of feedback telling us that our recognition and discipline efforts don't foster this type of climate. We are taking action to change that through initiatives that are under way. We also know that our LOB grassroots programs are effective at building healthy safety climates, and we're looking at ways to provide additional support and structure to help our grassroots teams be even more effective.

Developing our leaders

Our leaders are critical in creating and sustaining a work environment where safety comes first. One example of how we're addressing this is through our Supervisor Leadership Program (SLP). In April, we will roll out SLP 2.0 which is even more focused on how supervisors can work with their employees to build a trust-based safety climate.

Changing our metrics to identify risks before they become incidents

We've taken a hard look at how we measure our safety performance and made changes—most notably in our revised STIP metrics. Our uncompromising focus on safety is reflected in our 2012 STIP, which carries a 40 percent weighting on safety and sets a new industry benchmark. Our primary focus on OSHA recordable injury (RI) rates wasn't helping us reduce serious incidents so we've made a change and have not set a target for RIs in 2012. We will still track them, but our first priority is to prevent serious incidents, and the 2012 safety dashboard begins to move us from after-the-fact measures to those that look ahead and help eliminate risks and exposure. We are also addressing gaps in our safety plans and creating a foundation for continuous improvement through several new companywide initiatives that build upon programs and processes already in place.

Following work procedures and improving Process Safety Management

An improved near-hit reporting process is on the way, as is a companywide Leadership Field Observation program that's intended to reinforce the importance of following our work procedures and improving communication around safety. Another initiative, known as Process Safety Management, focuses on safety as a key part of how we design, build, operate and maintain our systems. This includes documenting the work that has been performed; the last step to be completed before we can say a job is done.

When it comes to personal performance, it's also important to note that we have revised our competencies so that they are easier to understand and apply in promoting safety.

We all have a responsibility to work safely, speak up when we see potential risks and to stop a job when safety is at stake. That requires a climate where we feel supported and confident to communicate openly and raise concerns. The senior leadership team is committed to creating a climate of trust and openness, and we are counting on you to make that commitment, too.

I welcome your ideas and feedback. Click here to share.

Best,

Des

From: Cherry, Brian K

Sent: 7/13/2012 3:07:10 PM

To: Sandoval, Catherine J.K. (catherine.sandoval@cpuc.ca.gov) (catherine.sandoval@cpuc.ca.gov)

Cc:

Bcc:

Subject: PG&E Ride Along with Gas or Electric Personnel

Catherine - I would like to extend an invitation to you and/or your staff for a ride along with one of our Gas Service Representatives or Electric Line Crews. If you are interested in spending a day with one of our crew personnel in the gas or electric areas, just let me know. I would be happy to make arrangements for you at your convenience depending upon your scheduled availability.

Brian

From: Cherry, Brian K
Sent: 7/26/2012 1:32:37 PM
To: Ferron, Mark J. (mark.ferron@cpuc.ca.gov)
Cc: Bottorff, Thomas E (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=TEB3); Redacted
TerKeurst, Charlotte (charlotte.terkeurst@cpuc.ca.gov); Banks, Juliane (juliane.banks@cpuc.ca.gov); Allen, Meredith (/O=PG&E/OU=Corporate/cn=Recipients/cn=MEAe)
Bcc:
Subject: RE: PG&E Ride Along with Gas or Electric Personnel

Thanks Mark. I will have Redacted work with Julianne.

From: Ferron, Mark J. [mailto:mark.ferron@cpuc.ca.gov]
Sent: Thursday, July 26, 2012 12:58 PM
To: Cherry, Brian K
Cc: Banks, Juliane; TerKeurst, Charlotte
Subject: Re: PG&E Ride Along with Gas or Electric Personnel

Hi Brian,

I think this would be a very interesting activity to do at some point. Given vacations and workload schedules, I think this would need to wait until after the summer. If you wouldn't mind coordinating with my assistant, Julian Banks, let's see if we can find an appropriate time.

Thanks

Mark

Mark J. Ferron
Commissioner
California Public Utilities Commission
mark.ferron@cpuc.ca.gov

On [13 Jul 12], at 13 Jul 15:08, Cherry, Brian K wrote:

Mark - I would like to extend an invitation to you and/or your staff for a ride along with one of our Gas Service Representatives or Electric Line Crews. If you are interested in spending a day with one of our crew personnel in the gas or electric areas, just let me know. I would be happy to make arrangements for you at your convenience depending upon your scheduled availability.

Brian

From: Cherry, Brian K
Sent: 10/31/2012 2:13:24 PM
To: Mark Ferron (fer@cpuc.ca.gov) (fer@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: S1 CPUC Deck

Mark – FYI. This is the slide deck Tony will be using tomorrow.

From: Zigelman, Jacob
Sent: Wednesday, October 31, 2012 1:57 PM
To: Bottorff, Thomas E; Cherry, Brian K
Subject: S1 CPUC Deck

Tom & Brian,

Attached please find the pre-read deck to send Commissioners Ferron and Sandoval for the meetings tomorrow and Friday afternoon.

Thanks,

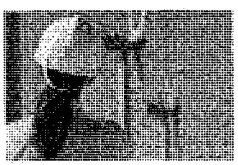
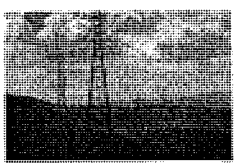
Jake

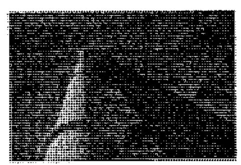
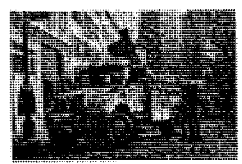
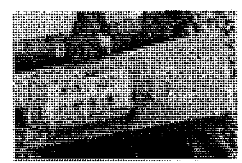
Jake Zigelman
Office of the Chairman | PG&E
(W): 415.973.4242 (C): 415.730.7027
jacob.zigelman@pge-corp.com

PG&E Corporation

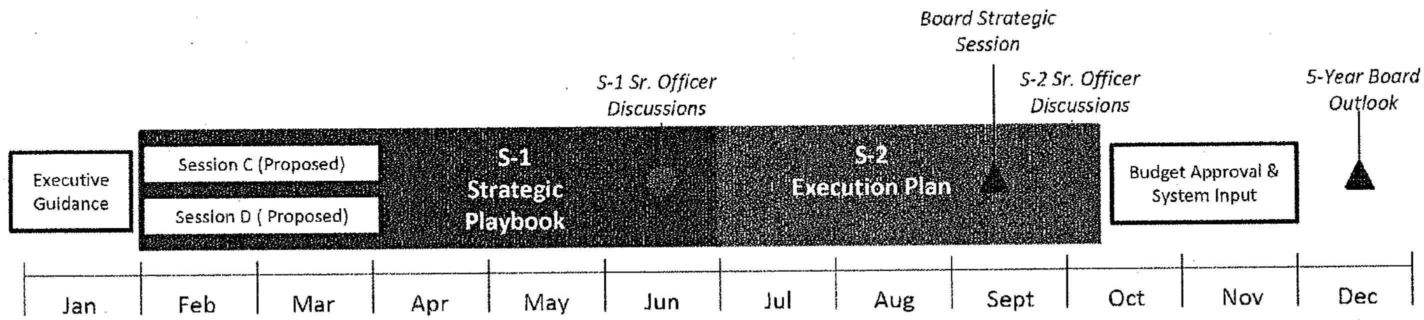
Pacific Gas and Electric Company

Pacific Gas & Electric Company Strategic Playbook

The Integrated Planning Process



A rolling year-over-year approach . . .starting the next year based on the previous year's results

Process overview

- **CEO-led effort** – multi-year planning process modeled on GE best practices
- **Strategic planning drives execution** – bottoms up strategic decision making prior to execution and budget planning
- **PG&E's operating rhythm** – integrates all major governance and regulatory processes, including human resources, risk, compliance, and governance

Key components

- **S-1 Strategic Playbook** – overview of LOB goals & strategies, emphasizing a 5-year horizon
- **S-2 Execution Plan** – translation of the S-1 into an execution plan and budget request
- **Session C** – HR talent review and succession planning for key roles
- **Session D** – review of key LOB compliance requirements and enterprise-wide risk mitigation plans

Process to position PG&E for long term success

Key Focus Areas

Public Safety

Improve operations that will have the biggest impact in terms of improving system safety and reducing potential risk to the public

Employee Safety

Reduce serious injuries and preventable motor vehicle incidents

Reliable Operations

Move operational performance aggressively towards first quartile by identifying and closing gaps using benchmarking and continuous improvement

Customer Trust

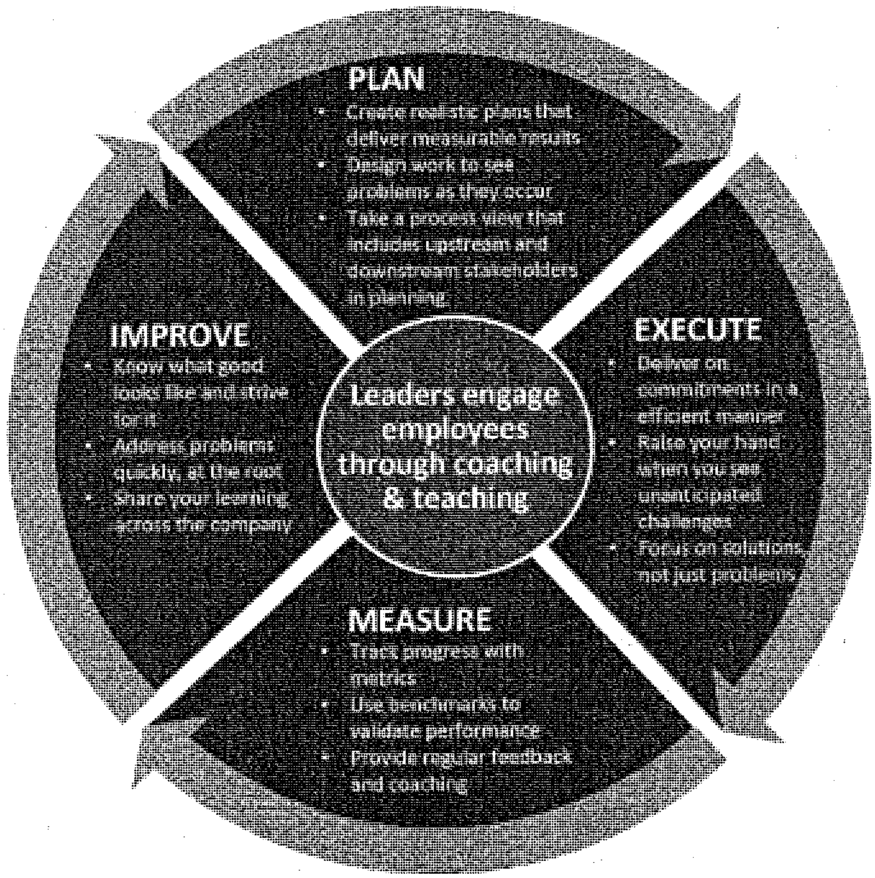
Deliver on commitments made to customers

Affordable

Reduce unit costs while completing all planned work safely with quality

Back to basics . . . with a sense of urgency → Operational Excellence

Operating Model to be the Leading Utility



Operating Model drives achievement of 1st quartile performance

PG&E's S-1 Strategic Playbook

Strategic Business Units: deliver safe, reliable, and affordable electricity & natural gas

Electric Operations

Zero public safety incidents
1^{st} quartile employee safety performance
100% compliance
1^{st} quartile SAIFI & 2^{nd} quartile SAIDI
95% customer commitments met
1^{st} quartile customer [illegible]
2^{nd} quartile O&M cost per customer

Gas Operations

Zero public safety incidents
1^{st} quartile employee safety performance
100% compliance
Cold winter day / abnormal peak day performance at design pressure and flow rate
1^{st} quartile customer [illegible]

Energy Supply

Zero public safety incidents
1^{st} quartile employee safety performance
100% compliance
Value Base Reliability implementation
Increase Employee [illegible] 5%
A comprehensive [illegible]

Support Services: improve effectiveness & reduce cost of services provided

Customer Care
- Deliver customer-facing processes that are consistent and simple
- Engage with local communities and deliver programs to help customers save

IT
- Deliver technology across the Strategic Business Objectives
- Build foundational technology to support the business strategy

Shared Services
- Implement a comprehensive new approach to safety
- Deliver cost effective & timely products & services

Regulatory Relations
- Obtain revenues needed to deliver safe, reliable service
- Shape energy policies with the intent of minimizing rate increases

Finance & Risk
- Streamline and enhance planning effectiveness
- Build out enterprise risk and compliance programs

Human Resources
- Improve employee & public safety
- Shape culture & engagement
- Address changing workforce

Corporate Affairs
- Rebuild trust in PG&E
- Drive policy
- Engage in the community

General Counsel
- Focus on providing effective legal advice
- Develop and implement more rigorous resource utilization and budget controls

Benchmarking & continuous improvement increase performance levels across the company

Leading utility . . . measured by top quartile performance

Strategic issues raised in the S-1 process

Top Strategic Issues Requiring Company Examination

Identifying & Shaping Policies	Reducing Regulatory Complexity	Resource Integration	Change Management	Employee Engagement	Capital Availability	Cyber Security
Distributed Generation / NEM	Electric Vehicles	Competitive Transmission	Capacity Markets	Clean Energy Policy	Dynamic Pricing / Rate Design	Safety Climate

Strategic Issues by LOBs

Electric Operations

- Distributed generation
- FERC 1000 - transmission competition
- Energy storage
- Alternative fuel prices / incentives
- Renewable resource penetration
- Demand-side management, net energy metering
- Electric vehicle adoption

Gas Operations

- Skilled labor availability
- Industry-wide regulatory policies and mandates
- Risk of materials and services supply availability as the industry increases investment in gas integrity work

Energy Supply

- Renewables integration
- Declining natural gas prices
- UOG portfolio optimization
- Market exposure to renewables prices
- Long term impact of AB32
- Fukushima impact on nuclear industry in CA
- Growth opportunities
- Shaping capacity markets

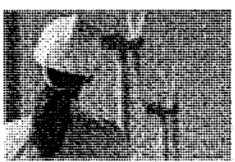
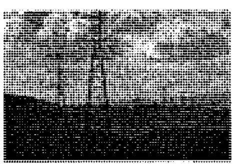
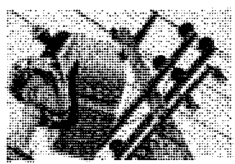
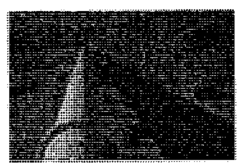
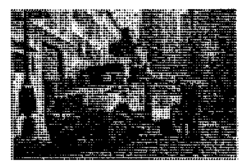
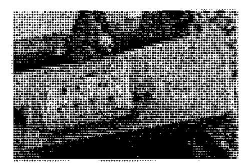
Support Services

- Reducing regulatory complexity/ changing regulatory paradigm
- Rate design/vision for dynamic pricing
- Technology innovation, Standardization, and Integration
- Customer data/privacy issues
- Cyber Security
- Capital availability
- Rising costs of services and materials
- Improving availability and unit costs of materials and services

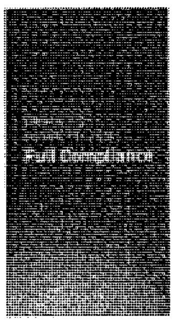
PG&E Corporation

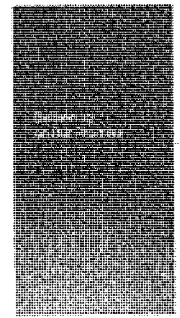
Pacific Gas and Electric Company

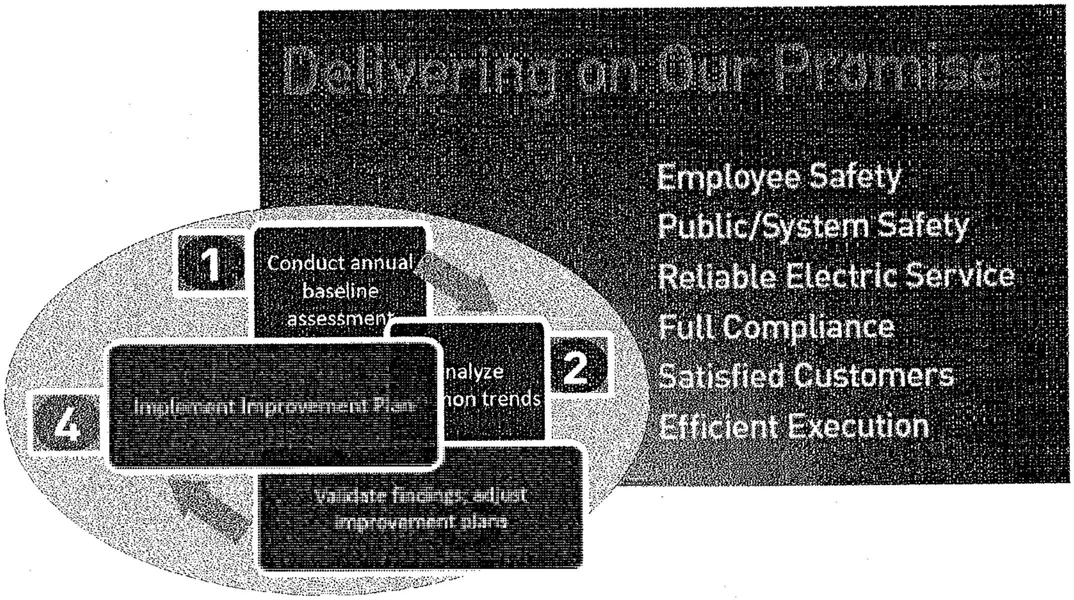
Electric Operations Strategic Playbook

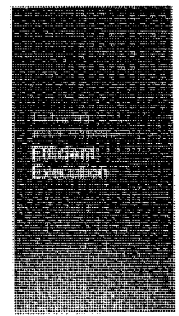







Improvement Plan









Key Enablers

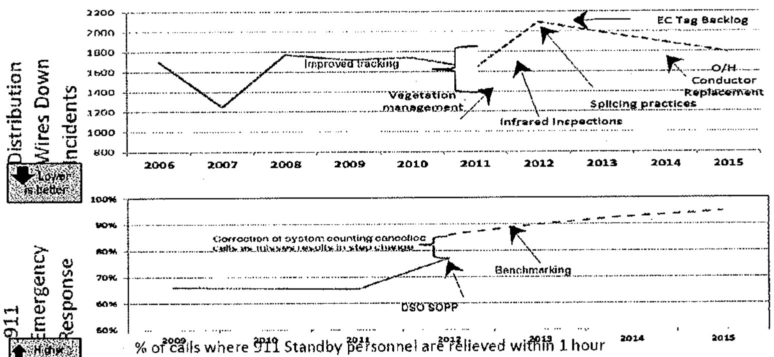
Continuous Improvement
Workforce Strategy
Technology Roadmap

Anticipated Results

First quartile employee safety performance
No public safety incidents
No missed compliance obligations
> 95% customer commitments met
First quartile customer satisfaction
First quartile SAIFI / Second quartile SAIDI
Second quartile cost position

Improvement Plan Areas

Public Safety



Note: Arrows indicate when improvement plan actions begin; dotted lines indicate directional improvement

Overview / Long Term Goals

- Use a risk-based approach to develop investment strategy with emphasis on public safety to plan, design, maintain and operate our electric system safely and reliably
- Significantly improve our system-wide data management capabilities to utilize risk-based approach

Tactics

Implement risk-based framework

Develop/implement a methodology that better prioritizes system safety risk

Benchmark to know what success looks like

Continue "no regrets" actions

Mitigate known issues including wildfire mitigation

Improve data quality

Emergency Response

Engage customers and communities

Employee Safety

Metric	2011 Performance	2014 Target	2015 Target
[redacted]			

Overview / Long Term Goals

- Develop a safety climate where all employees demonstrate a commitment to safety and have the skillset to safely execute work

Tactics

Create Ownership of Safety & Accountability

Reach Every Employee

Shift the Safety Focus to Recognizing & Controlling Exposure & Risk

Hazard identification & risk exposure reduction

Enhance Human Performance and Training

Continuous Improvement via Assessment Learnings & Best Practices

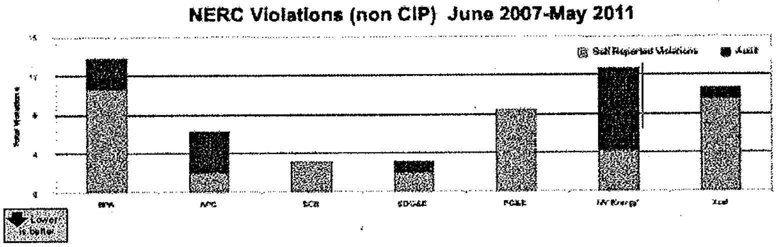
Knowledge and skills assessment

Red = New Initiative beginning in 2012 or beyond

Improvement Plan Areas (cont.)

Compliance

NERC Violations (non CIP) June 2007-May 2011



Overview / Long Term Goals

- Meet compliance obligations in four major areas:
  - NERC/WECC
  - CPUC General Orders
  - Environmental regulations
  - Other regulatory requirements
- Infuse both the letter and spirit of compliance requirements into all work
- Identify all compliance obligations, analyze our processes, determine gaps, evaluate risk and implement initiatives with priority based on risk

Tactics

Confirm compliance obligations

Focus on risk management / public safety

Analyze and identify gaps

Define core processes, document and understand handoffs

Assess effectiveness of controls

Evaluate risk and prioritize initiatives to close gaps

Analyze risks and compliance requirements associated with assets and all core processes

Execute improvement initiatives including preventive and detective controls

Red = New Initiative beginning in 2012 or beyond

Reliability

Metric	2011 Quartile	2014 Target	2015 Target

[redacted]

- Implement a data-driven approach to initiate system-wide and local actions to improve reliability
- Partner with Customer Care and Corporate Communications to communicate reliability information to our customers and the public

Tactics

Improve Asset Performance

Reduce Outage Frequency and Duration

Develop programs to reduce customer interruption, reduce the size and duration of customer interruptions

Improve System Safety and Integrity

Accelerate plans to reduce infrastructure related backlogs

Influence Customer Satisfaction

Reduce the number of customers who experience multiple interruptions (CEMI)

Improvement Plan Areas (cont.)

Customer Satisfaction			
Metric	2011 Performance	2014 Target	2015 Target
[redacted]			

Work Efficiency			
Metric	2011 Quartile	2014 Quartile Goal	2015 Quartile Goal
FERC T&D O&M Per Customer	3rd	3rd	2nd
FERC T&D Capital Spend Per Customer *	4th	4th	4th
FERC T&D O&M Per Primary Conductor Mile	2nd	2nd	1st
FERC T&D Capital Per Primary Conductor Mile	1st	2nd	2nd

* Capital spend per customer to remain in 4th quartile based on current capital investment plan

Overview / Long Term Goals (Customer Satisfaction)

- Fundamentally revise our customer order fulfillment mindset by setting objectives, designing operating procedures and coordinating construction work to efficiently give customers exactly what they want, when they want it

Tactics

Become much easier to do business with

Make our processes and documentation much simpler

Commit to the customer's schedule

Deliver as promised

Leverage technology to streamline workflow

Keep the customer informed

Focus on truly satisfying the customer

Energize the workforce to provide great customer service

Red = New Initiative beginning in 2012 or beyond

Overview / Long Term Goals (Work Efficiency)

- Electric Operations is less cost competitive than high performing peers and its previous structure did not enable efficient work execution
- Implement a data-driven approach to reduce costs, develop more executable work plans and increase efficiency in field & support operations

Tactics

Reduce Cost Structure

Review and adjust labor and contracting strategies

Identify and capture opportunities for improved alignment and reduction of shared costs and direct costs / internal overheads

Improve Operational Efficiency

Prioritized focus on high cost programs

More efficient internal resource utilization via specific initiatives

Improvement Plan Enablers

Identify & Prioritize Projects

- Performance against benchmarks
- Business pressure
- Areas of cost growth
- High spend programs

Drive & Implement Change

- LSS standard methodology

D M A I C

Govern & Sustain Results

- Internally resource teams
- Monthly review
- Monitor changes & impact

Significant Projects

2012

Unit Cost
Distribution poles unit cost
Emergency unit cost
New Business unit cost
SCADA unit cost
Work Methods
Planned shutdown reduction (Hot Work)
Labor Optimization
Crew size standardization
Central contracting

2013

Work Methods
Planned outage reduction (Hot Work)
Labor Optimization
Crew size standardization – ph2
Estimating Improvements
Schedule Optimization
Bundling work
Location redeployment

2014

Labor Optimization
T200/T300 work mix
OT/DT management
Schedule Optimization
Location redeployment
Design Optimization
Design standards simplification
Equipment variety rationalization

Asset and Records Management

- Implement technologies to collect, manage and provide access to accurate asset information
  - Condition Based Maintenance
    - Substation
    - Network
  - Electric Distribution GIS/AM
  - Field Asset Inventory
  - Convert Records to Electronic

Workforce Mobilization

[illegible]

Electric System Operations

- Equip operators with tools to safely and reliably operate increasingly and more complex electric T&D system
- Support the effective consolidation of Distribution Control Centers
  - T&D SCADA Data Historian
  - Distribution Management System
  - Transmission Outage Management System
  - Emergency Outage Response Technology

Design and Work Management

[illegible]

Labor Trends

Work Demands

Work Mix & Volume

Supply vs. Demand

Understand long term workforce needs and develop pipeline of skilled leaders and workers

2012 — **Workforce Solution Roadmap** — **2013**

2012	2013
Talent Acquisition	
Pre-apprentice program	Targeted talent acquisition to address attrition risks
D&I hiring strategy	Critical workforce long term pipeline development (e.g. entry level engineers)
Custom supply model	
Journeymen/Linemen hiring strategy	
Training	
Supervisor & manager leadership programs	Crew lead training
Rubber glove	Enhanced apprentice cable splicer program
Safety initiative	Rubber glove and hot stick / live line phase 2
Hot stick / live line	Establish training governance process
NERC certification	
Crew lead tailboards	
Organizational Development	
Line / support and span of control analyses	Labor contracting strategy
Labor agreement	Optimize line / support and span of control
Knowledge Management	
Increase knowledge transfer process maturity	Sustainable knowledge repository
Knowledge transfer re-scan	
Retention	
Attrition management strategy development	Implement attrition management strategy
Long term demand model	Critical workforce retention

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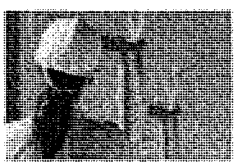
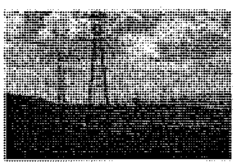
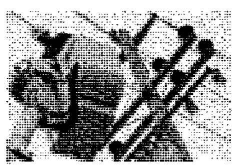
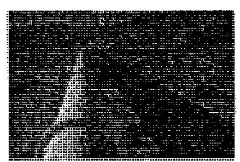
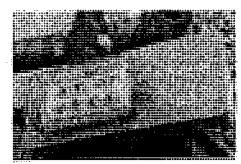
PG&E Corporation

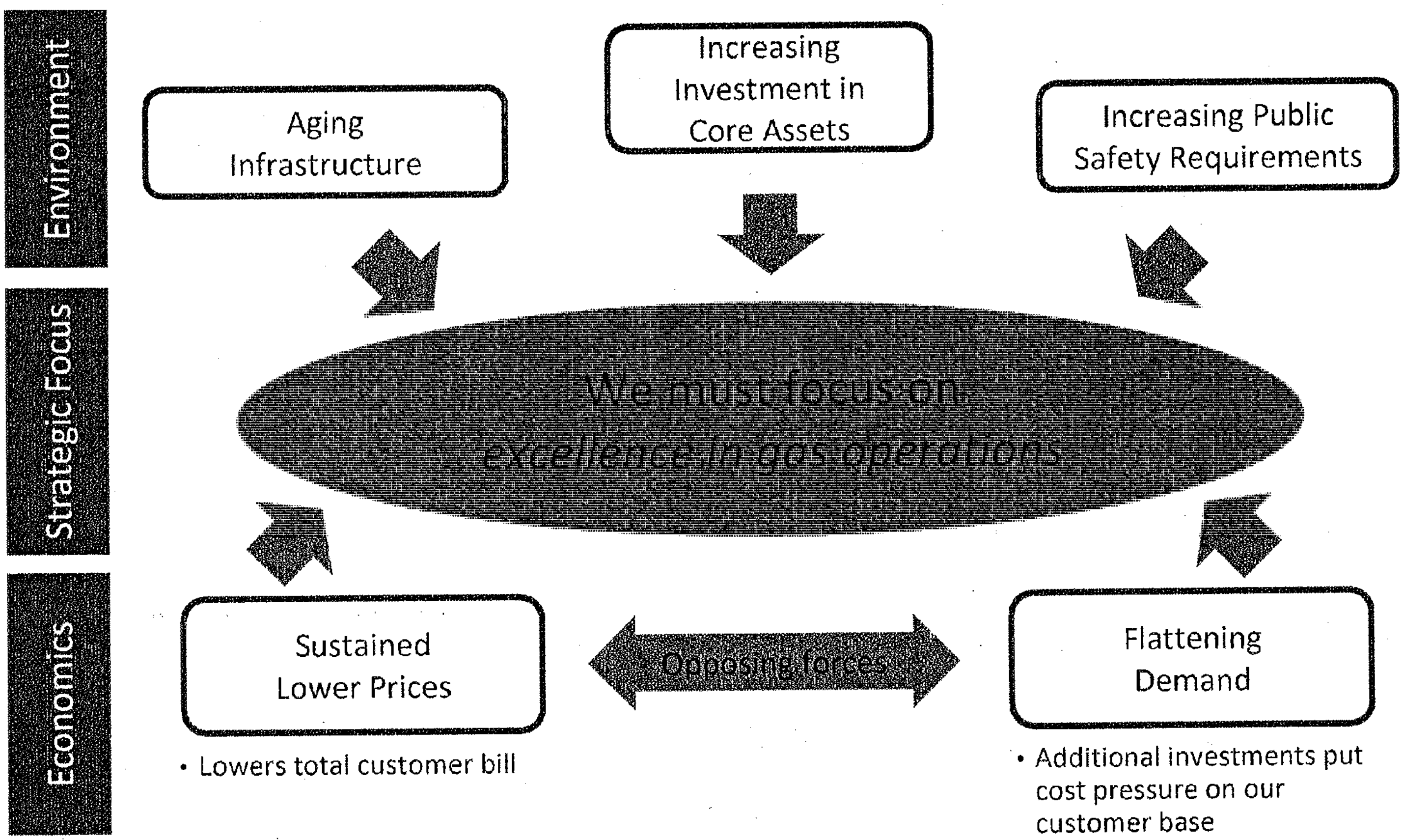
Pacific Gas and Electric Company

Gas Operations Strategic Playbook

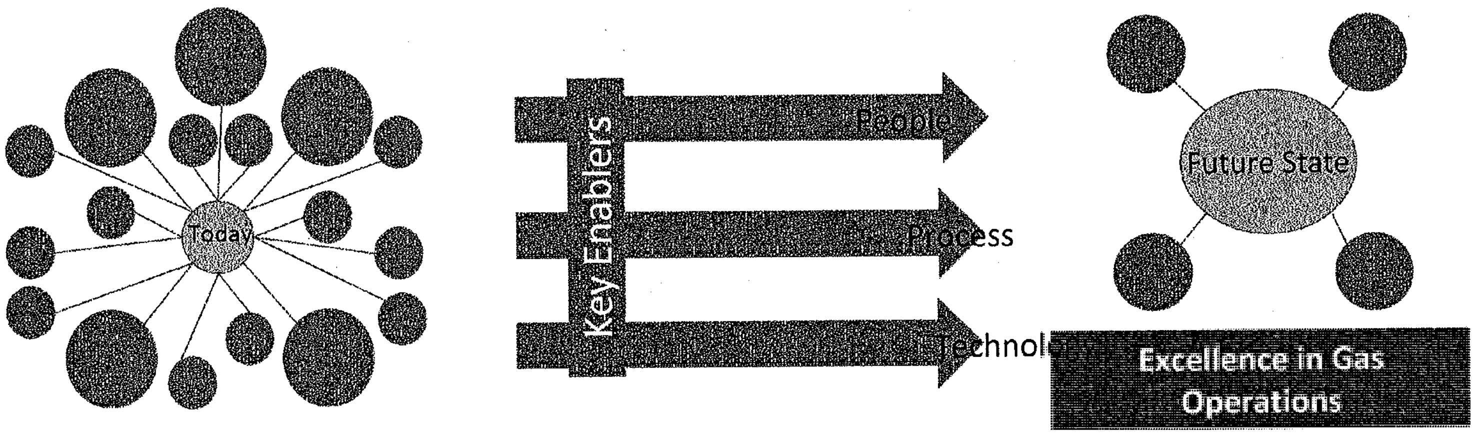







Current Operating Environment Leads to a Single Strategic Focus



Our Vision: Be the Safest, Most Reliable Gas Company



Strategic Objectives	Aspirational Results
Public Safety	Zero public safety incidents
Employee & Contractor Safety	Top quartile employee & contractor safety
Compliance	100% on compliance obligations
Reliability	CWD / APD performance at design*
Customer Satisfaction	Achieve Utility Customer Satisfaction Goals
Efficiency	1st Quartile Controllable Costs

* CWD: Cold Winter Day; APD: Abnormal Peak Day

Gas Operations Evolution

San Bruno (9/2010) — Q1,2011 — We are Here — 2014

Stabilize (Address Immediate Safety Risks)

- Implemented immediate pressure reductions
- Performed accelerated system safety assessments
- Built and executed contingency plans to avoid service interruptions
- Collected and reviewed strength test records for all HCA transmission lines

Remediate (Build the Foundation)

- Continue to identify gaps and prioritize their remediation
- Execute Pipeline Safety Enhancement Plan
- Rewrite and implement Gas Operations standards and procedures
- Improve integrity management process
- Leverage technology to improve accessibility and reliability of asset information
- Develop Risk Register & risk-based investment prioritization
- Continue to improve Process Safety Management

Build excellence in fundamental gas operations

Improve (Achieve Excellence in Gas Operations)

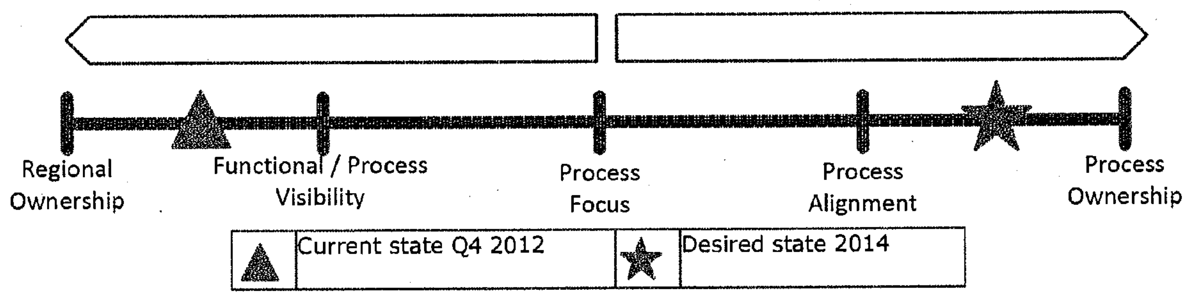
- Achieve and sustain PAS 55 certification that leads to a world class asset management system
- Rebuild long-term trust with our stakeholders (customers, regulators, and shareholders)
- Achieve 1st quartile performance across critical benchmarks
- Improve operational efficiency without compromising safety

Key Enabler – Process

Developing Asset Management System consistent with the requirements of PAS 55

Overview

Develop standardized end-to-end processes with clear accountabilities for performance and focus on driving safety, compliance, efficiency, reliability and continuous improvement in our operations



Current State:
- Dominant functional orientation with regional differences in ownership for process steps
- Process owners assigned, varying levels of maturity in initiating and developing process improvements

Future State:
- Centralized, functional organization aligned to support standardized processes
- Clear responsibilities and dual accountability for process & functional results

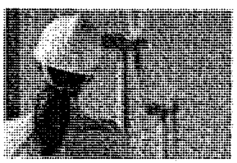
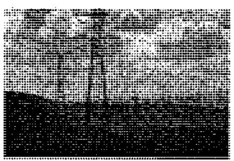
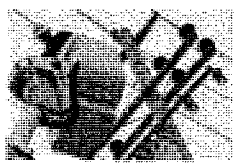
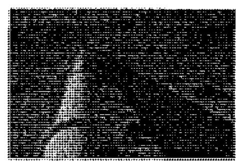
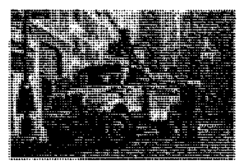
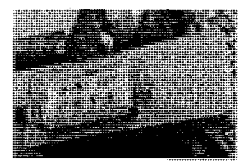
Challenges

- Significant disparity in regional process execution
- Cultural resistance to central, standardized efforts

PG&E Corporation

Pacific Gas and Electric Company

Energy Supply Strategic Playbook

Energy Supply S-1 Playbook

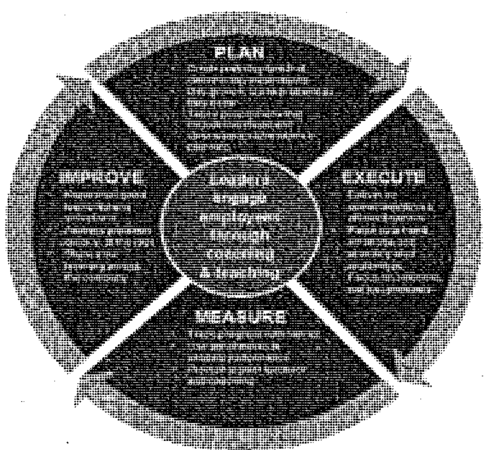
Playbook Objectives

- Safe and Reliable Operations
- Implementation of Regulatory Requirements
- Affordability and Value
- Investment in Human Talent
- Renewable Integration
- Policy Shaping and Influence

Anticipated Results

- No significant public safety incidents associated with our generation assets
- All compliance obligations met
- A safe, reliable, affordable, and clean energy supply mix
- Successful implementation of Value-Based Reliability
- Improved level of employee engagement
- A comprehensive state clean energy policy

Operating Model

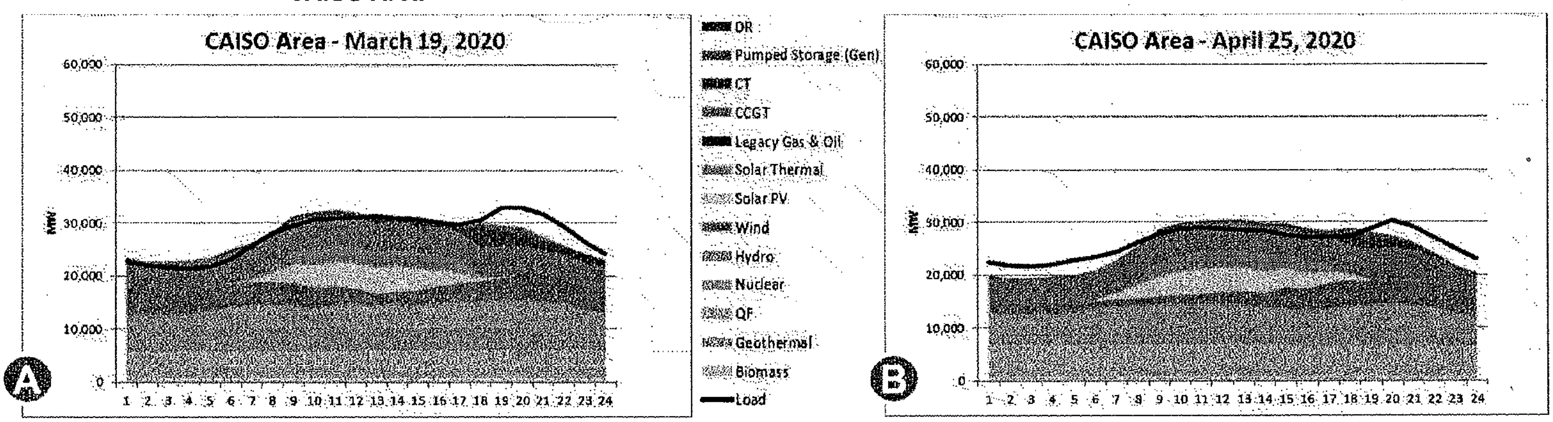


Key Enablers

- Continuous Improvement
- Regulatory & Government Relations
- Technology Roadmap
- Human Capital

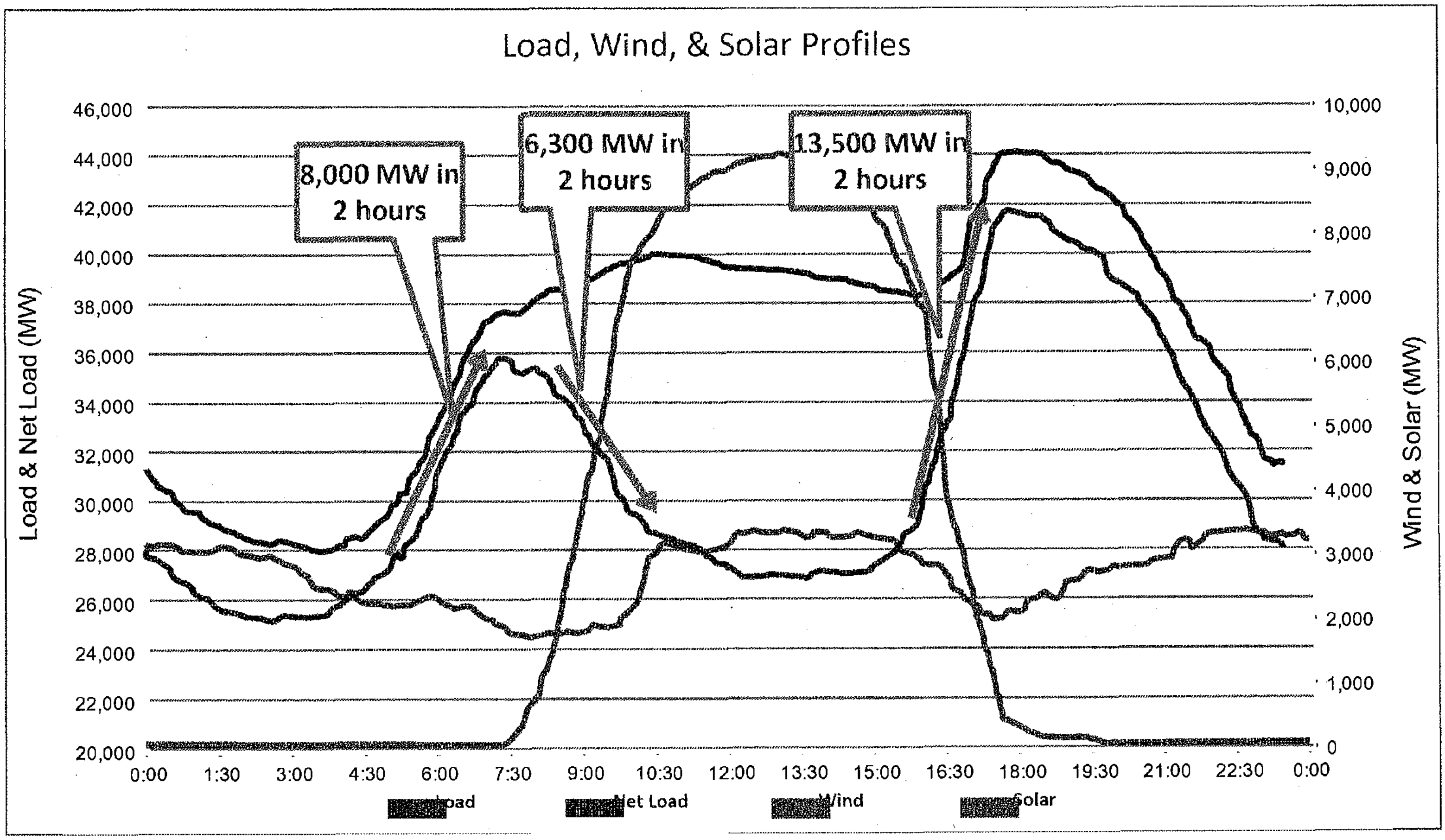
The Challenge of Resource Integration: Balancing Electricity Supply and Demand

CAISO Area CAISO Area



- CAISO analysis based on IOUs 2010 public RPS filing
- Solar PV supply potentially understated
- Over-generation is forecast on more than 50% of days in the year

Change in Net Load Shape



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Energy Supply Strategy

Gas Fleet

Current Profile
- Colusa: 530 MW GS
- Gateway: 530 MW GS
- Humboldt Bay: 163 MW GS

Pending
- Oakley: 624 MW GS

Key Activities
- Reliability
- Flexibility

Renewables - PV

Current Profile
- PV Solar Stations: 102 MW

Pending
- 50 MW under development in Program Year 3

Key Activities
- Complete Program Year 3 development

Nuclear

Current Profile
- Diablo Canyon: 2 Units, 2,240 MW

Pending
- DCPP License Renewal application

Key Activities
- Fukushima and Emergency Plan rulemaking
- DCPP 5-year comprehensive cost and efficiency plan
- Refueling outage planning and execution

Energy Procurement

Current Profile
- $3.7 billion electric procurement portfolio managed by 275 employees

Pending
- Market Redesign

Key Activities
- Greenhouse Gas / AB32 Strategy
- Value Based Reliability initiative
- IT Compliance Related projects
- Flexible procurement contracting strategy

Hydro Fleet

Current Profile
- Helms Pumped Storage: 1,212 MW
- Conventional Hydro: 67 powerhouses, 106 units, 2,684 MW

Pending
- FERC relicensing.
- Currently 3 major projects in progress: Upper North Fork Feather River, McCloud-Pit, and Drum-Spaulding

Key Activities
- Hydro Public Safety initiative
- Improve Reliability and Facility Material Condition initiative
- Hydro ERM and Asset Mgmt program

From: Doll, Laura

Sent: 7/22/2013 1:53:16 PM

To: Cherry, Brian K (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=BKC7); Allen, Meredith (/O=PG&E/OU=Corporate/cn=Recipients/cn=MEAe)

Cc: Bottorff, Thomas E (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=TEB3)

Bcc:

Subject: Re: Gas Extension

Thanks -- we are still going to wait for Paul's letter.

----- Original Message -----
From: Cherry, Brian K
Sent: Monday, July 22, 2013 01:24 PM
To: Allen, Meredith; Doll, Laura
Cc: Bottorff, Thomas E
Subject: Gas Extension

Florio told me he just signed off on the PSEP extension. He is giving us the full 120 days.

Sent from my iPad

From: Cherry, Brian K

Sent: 12/4/2013 9:54:22 AM

To: Charlotte TerKeurst (charlotte.terkeurst@cpuc.ca.gov) (charlotte.terkeurst@cpuc.ca.gov); Mark Ferron (fer@cpuc.ca.gov) (fer@cpuc.ca.gov)

Cc:

Bcc:

Subject: Gas Operations Visit

Mark and Charlotte – I'd like to invite you to tour our Gas Transmission and Distribution Operations Center in San Ramon at your convenience. We are doing some state-of-the- art work over there and welcome your visit. Commissioner Florio and his staff visited yesterday and you might ask them about their experience. Figure 2 hours at the maximum for the tour.

From: Vallejo, Alejandro (Law
Sent: 12/6/2013 11:20:09 AM
To: Doll, Laura (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=LRDD)
Cc:
Bcc:
Subject: RE: Transcript of Florio's remarks yesterday ; more Commissioners are signing up for a tour!

Nice! Any chance of getting Commrs Sandoval or Ferron to go?

From: Doll, Laura
Sent: Friday, December 06, 2013 11:18 AM
To: Christopher, Melvin J. (GSO)
Cc: Stavropoulos, Nickolas; Soto, Jesus (SVP); Yura, Jane; Vallejo, Alejandro (Law); Ittner, Mary Ellen
Subject: Transcript of Florio's remarks yesterday ; more Commissioners are signing up for a tour!

During Commissioner Reports, Commissioner Michel Florio spoke about his 12/3/13 tour of PG&E's Gas Transmission and Distribution Operations Center in San Ramon:

"On Tuesday, I along with my chief of staff, Sepideh Khosrowjah, visited and toured the new PG&E Gas Control Center in San Ramon. This is a brand new, state of the art facility that's really quite remarkable. I would say it has moved PG&E from 1960s to the 2020s in one leap - an incredible facility.

I know everyone's a little nervous about all the enforcement proceedings we have going now but this was not a lobbying meeting this was a tour of the facility that just has remarkable capabilities beyond anything that PG&E had before – in the ability to zoom in on areas where work is being done and interactively write on a schematic where work is going to be done and then have the people in the field see that in real-time and reducing response times to trouble calls dramatically.

While we complete our work on determining what happened in the past, there's some really great work being done going forward and I would encourage all my colleagues and other people who are interested in this topic to take advantage of the opportunity to see this exciting facility which is really quite impressive. Thank you."

Laura Doll

Director, Regulatory Relations

lrdd@pge.com

office: 415.973.8663

mobile: 415.828.3739

From: Cherry, Brian K
Sent: 2/6/2014 4:03:43 PM
To: Sandoval, Catherine J.K. (CatherineJ.K.Sandoval@cpuc.ca.gov) (CatherineJ.K.Sandoval@cpuc.ca.gov)
Cc:
Bcc:
Subject: FW: PG&E Gas leak optimization pilot program -- Sacramento field visit opportunities

Catherine – any interest ?

From: Doll, Laura
Sent: Thursday, February 06, 2014 3:45 PM
To: elizaveta.malashenko@cpuc.ca.gov; kenneth.bruno@cpuc.ca.gov; 'Robertson, Michael'; dennis.lee@cpuc.ca.gov; Clanon, Paul; Turner, Brian; richard.myers@cpuc.ca.gov; Cadenasso, Eugene (eugene.cadenasso@cpuc.ca.gov); Kahlon, Gurbux (gurbux.kahlon@cpuc.ca.gov)
Cc: Terrie D.' 'Prosper (terrie.prosper@cpuc.ca.gov)
Subject: PG&E Gas leak optimization pilot program -- Sacramento field visit opportunities

You may recall that in December I told you about a gas leak detection and repair pilot program that we are rolling out, now in Sacramento, that uses the Picarro technology (mobile, car-mounted), and a cross-functional field crew team deployment. The idea is to compress the time between leak detection and repair, and improve efficiency in the process.

Several of you expressed an interest in seeing this pilot in action, and I wanted to let you know that there are opportunities in two upcoming weeks in Sacramento:

•□□□□□□□□ February 10-14

and

•□□□□□□□□ February 24-28

The teams will move each day, and the schedule is somewhat dynamic, but if you have an interest in visiting the sites, we can easily coordinate with you and get you to the right place.

You should plan on at least an hour, preferably two hours, for a visit. You'll be walking around outside. The best work times are between 8:00 am and 3:00 pm. We would generally like to limit visitors to around 4-5 per day, but we will definitely work to make things fit your schedule and interests.

Would you let me know if this is of interest and if there are some specific days that would likely work best for you? When you identify a date we can provide more detailed instruction on where to show up and who will be the site contact person. If you are unsure about these weeks, feel free to let me know the day before. We can accommodate last minute scheduling if necessary.

We look forward to seeing you if your schedule allows!

Thanks

Laura

Laura Doll

Director, Regulatory Relations

lrdd@pge.com

office: 415.973.8663

mobile: 415.828.3739

From: Cherry, Brian K
Sent: 2/8/2014 4:03:01 PM
To: Picker, Michael (Michael.Picker@cpuc.ca.gov)
Cc:
Bcc:
Subject: Re: PG&E Gas leak optimization pilot program -- Sacramento field visit opportunities

Michael - great. I will set something up.

Brian K. CCherry
PG&E Company
VP, Regulatory Relations
77 Beale Street
San Francisco, CA. 94105
(415) 973-4977

On Feb 8, 2014, at 12:00 PM, "Picker, Michael" <Michael.Picker@cpuc.ca.gov> wrote:

> Love to have breakfast with you and Laura (and maybe Tom Bottorff) but unlikely to connect with the Picarro tour. Contact Julianne Banks to schedule, and please be patient with me as we get set up.
>
> Michael Picker
> (916) 425-2131
> Mpicker@pacbell.net
>
> On Feb 6, 2014, at 4:15 PM, "Cherry, Brian K" <BKC7@pge.com> wrote:
>
>> Michael – pleasure to meet you. I'm VP of Regulatory Relations here at PG&E. I'm sorry I didn't get a chance to meet you at the PUC meeting but I'm sure our paths will cross soon. If you are interested in learning about our Picarro technology, Laura would be happy to set something up for you.
>>
>> **From:** Doll, Laura

Sent: Thursday, February 06, 2014 3:45 PM
To: elizaveta.malashenko@cpuc.ca.gov; kenneth.bruno@cpuc.ca.gov; 'Robertson, Michael'; dennis.lee@cpuc.ca.gov; Clanon, Paul; Turner, Brian; richard.myers@cpuc.ca.gov; Cadenasso, Eugene (eugene.cadenasso@cpuc.ca.gov); Kahlon, Gurbux (gurbux.kahlon@cpuc.ca.gov)
Cc: Terrie D.' 'Prosper (terrie.prosper@cpuc.ca.gov)
Subject: PG&E Gas leak optimization pilot program -- Sacramento field visit opportunities

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•□□□□□□□□ February 10-14

and

•□□□□□□□□ February 24-28

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Subject: RE: SFO NARUC - Gas Control Tour

Brian,

Please call me when you get in today. (202) REDACTED

Thanks,

REDACTED

REDACTED | **Vice President, Government Relations**
American Gas Association
400 North Capitol St., NW | Washington, DC 20001
P: 202.REDACTED |F: 202-REDACTED3| REDACTED@aga.org

The American Gas Association represents 201 local energy companies committed to the safe delivery of clean natural gas to more than 64 million customers throughout the nation.

From: Cherry, Brian K [mailto:BKC7@pge.com]
Sent: Wednesday, August 27, 2014 6:47 PM
To: REDACTED
Cc: Doll, Laura; Allen, Meredith
Subject: SFO NARUC - Gas Control Tour

REDACTED - we've been working with California Commissioner Mike Florio about providing tours of PG&E's state of the art Transmission and Distribution Gas Control Center in San Ramon during the upcoming NARUC meeting in San Francisco. Mike has been working with Commissioner Smitherman (sp ?) and the Gas Committee on this issue but the hitch has been some committee members concern that because PG&E is under a criminal indictment, they don't want PG&E to sponsor the tour. Commissioner Florio and Smitherman suggested that if a third party (i.e. AGA) wanted to host the tours, then that would alleviate any of their concerns about PG&E as host. So, I'm reaching out to you at their direction and wondering if you are interested ? If you are, I'll have you work with my person on the point, Laura Doll, who I've cc'd here. If not, then let me know and I will inform Commissioner Florio that it can't be done.