

# PG&E Corporation

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Pacific Gas and Electric Company

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# Cautionary Language Regarding Forward-Looking Statements

This presentation contains management's guidance for PG&E Corporation's 2010 and 2011 earnings per share from operations, projections of Pacific Gas and Electric Company's (Utility) capital expenditures, construction work in progress (CWIP), rate base and rate base growth, and projections of PG&E Corporation's and the Utility's financing needs. These statements and projections, as well as the underlying assumptions, are forward-looking statements that are based on current expectations which management believes are reasonable. These statements and assumptions are necessarily subject to various risks and uncertainties, the realization or resolution of which may be outside of management's control. Actual results may differ materially. Factors that could cause actual results to differ materially include:

- the Utility's ability to manage capital expenditures and its operating and maintenance expenses within authorized levels
- the outcome of pending and future regulatory proceedings and whether the Utility is able to timely recover its costs through rates;
- the adequacy and price of electricity and natural gas supplies, and the ability of the Utility to manage and respond to the volatility of the electricity and natural gas markets, including the ability of the Utility and its counterparties to post or return collateral;
- explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and systems, and similar events that can cause unplanned outages, reduce generating output, damage the Utility's assets or operations, subject the Utility to third-party claims for property damage or personal injury, or result in the imposition of civil, criminal, or regulatory fines or penalties on the Utility;
- the impact of storms, earthquakes, floods, drought, wildfires, disease and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand, or that damage or disrupt the facilities, operations, or information technology and systems owned by the Utility, its customers, or third parties on which the Utility relies;
- the potential impacts of climate change on the Utility's electricity and natural gas businesses;
- changes in customer demand for electricity and natural gas resulting from unanticipated population growth or decline, general economic and financial market conditions, changes in technology, including the development of alternative technologies that enable customers to increase their reliance on self-generation, or other reasons;
- the occurrence of unplanned outages at the Utility's two nuclear generating units at Diablo Canyon, the availability of nuclear fuel, the outcome of the Utility's application to renew the operating licenses for Diablo Canyon, and potential changes in laws or regulations with respect to the storage of spent nuclear fuel, security, safety or other matters associated with the operations at Diablo Canyon;
- whether the Utility can maintain the cost savings it has recognized from operating efficiencies it has achieved and identify and successfully implement additional sustainable cost-saving measures;
- whether the Utility earns incentive revenues or incurs obligations under incentive ratemaking mechanisms;
- the impact of changes in federal or state laws, or their interpretation, on energy policy and the regulation of utilities and their holding companies;
- whether the new wholesale electricity markets in California will continue to function effectively and whether the Utility can successfully implement "dynamic pricing" for its electricity customers;
- how the CPUC administers the conditions imposed on PG&E Corporation when it became the Utility's holding company;
- the extent to which PG&E Corporation or the Utility incurs costs and liabilities in connection with litigation that are not recoverable through rates, from insurance, or from other third parties;
- the ability of PG&E Corporation, the Utility, and counterparties to access capital markets and other sources of credit in a timely manner on acceptable terms;
- the impact of environmental laws and regulations and the costs of compliance and remediation;
- the effect of municipalization, direct access, community choice aggregation, or other forms of bypass;
- the outcome of federal or state tax audits and the impact of changes in federal or state tax laws, policies, or regulations; and
- other factors and risks discussed in PG&E Corporation's and the Utility's 2009 Annual Report on Form 10-K and other reports filed with the Securities and Exchange Commission.

# Vision & Values

## OUR VISION

The  
leading  
utility in the  
United States

## OUR GOALS

Delighted Customers  
Energized Employees  
Rewarded Shareholders  
Environmental Leadership

## OUR STRATEGIES

Customer Focus  
Operational Excellence

## OUR VALUES

- We act with integrity and communicate honestly and openly
- We are passionate about meeting our customers' needs and delivering for our shareholders
- We are accountable for all of our own actions: these include safety, protecting the environment, and supporting our communities
- We work together as a team and are committed to excellence and innovation
- We respect each other and celebrate our diversity



# PCG Investment Case

**Excellent service at reasonable cost**

**Constructive regulatory environment**

**Investment in infrastructure-  
providing solid, regulated growth**

**Clean generation and world-class energy  
efficiency programs**

**Stable capital structure and return**

**Reliable, growing dividend**



# Regulatory Environment

## Key Regulatory Cases

- **Gas Transmission & Storage**
- **Transmission Owner Case**
- **General Rate Case**



# 2011 Gas Transmission and Storage Rate Case

**Sets revenue requirements, rates, terms and conditions for PG&E's Gas Transmission and Storage services for 2011 – 2014**

**Revenue Requirement Request: \$529M**

**\$67M increase over 2010 revenue requirement**

**\$235M Capital Expenditures**

**Allows for upgrades to backbone transmission, local transmission, and storage facilities, and maintenance of equipment**

**Proposed attrition mechanism similar to General Rate Case**



**Final decision requested by Q4 2010**

# FERC TO12 Filing

**Sets revenue requirements for PG&E's Electric Transmission business in 2010-2011**

**Original Revenue Requirement Request: \$946 million  
\$800M Capital Expenditures**

**All-Party Settlement reached in March, 2010: \$875 million**

**Adds additional transmission capacity and performance of maintenance and replacement work on our substations improving overall reliability of our system**



	Request	Settlement
<b>TO 10</b>	\$760.5M	\$718M
<b>TO 11</b>	\$846M	\$776M

**Final decision expected in Q2 or Q3 2010**

# 2011 General Rate Case

**Sets revenue requirements for Gas and Electric Distribution and Electric Generation businesses for 2011 – 2013**

**Revenue Requirement Request: \$6.7B**

**\$1.048 billion increase**

**\$2.7B average capital expenditures per year**

**Allows for necessary investments in energy infrastructure to deliver energy safely and reliably to customers**

**Key capital projects will focus on:**

- replacement of gas and electric systems that are at or near the end of their useful lives
- replacement of aging generation infrastructure, hydro relicensing requirements
- replacement of aging fleet, buildings and IT systems





# 2011 General Rate Case

Filing includes a flexible attrition mechanism adjusting for:

- labor cost adjustments
- materials and services adjustments
- capital related adjustments
- other adjustments, such as changes in franchise, payroll or other taxes

Attrition revenues are currently forecasted to be \$275M and \$343M in 2012 and 2013

Items not included in the 2011 GRC:

- SmartMeter™ and SmartMeter™ Upgrade programs
- PV Project, Cornerstone, Manzana, Diablo Relicensing

June - July

August

November

December

***New Rates  
in Effect***

Hearings

Opening and  
Reply Briefs

Proposed  
Decision

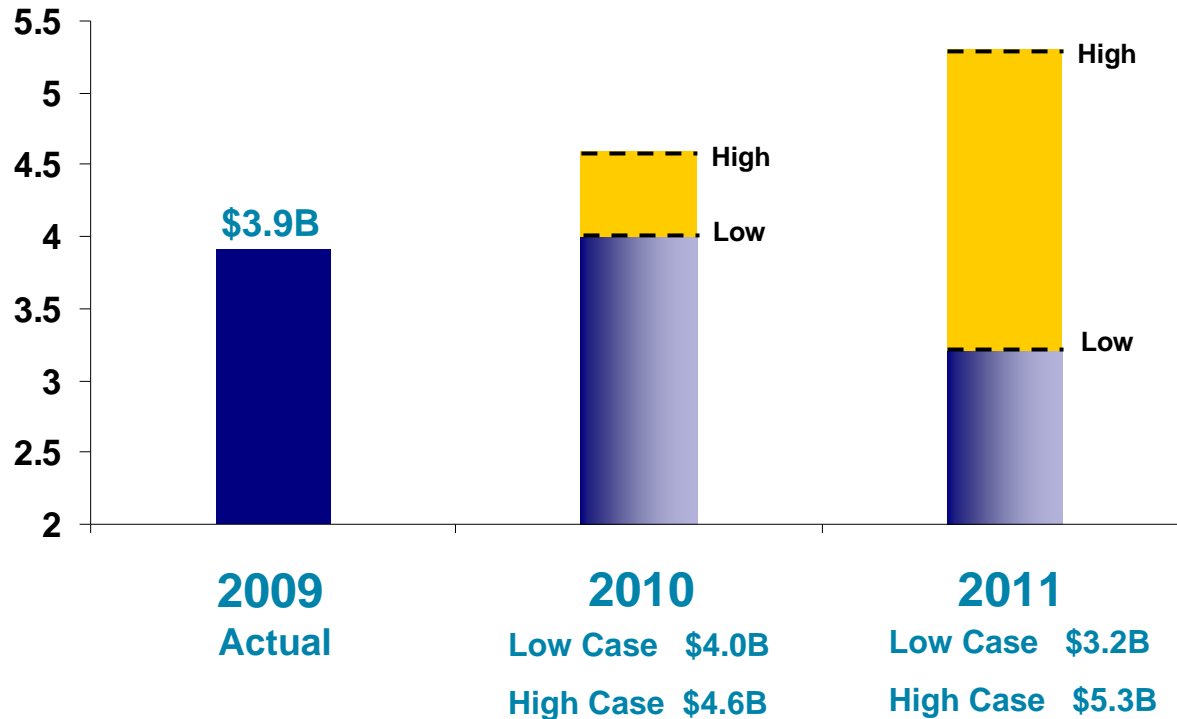
Final  
Decision

***Jan 1 2011***



# Capital Expenditure Outlook

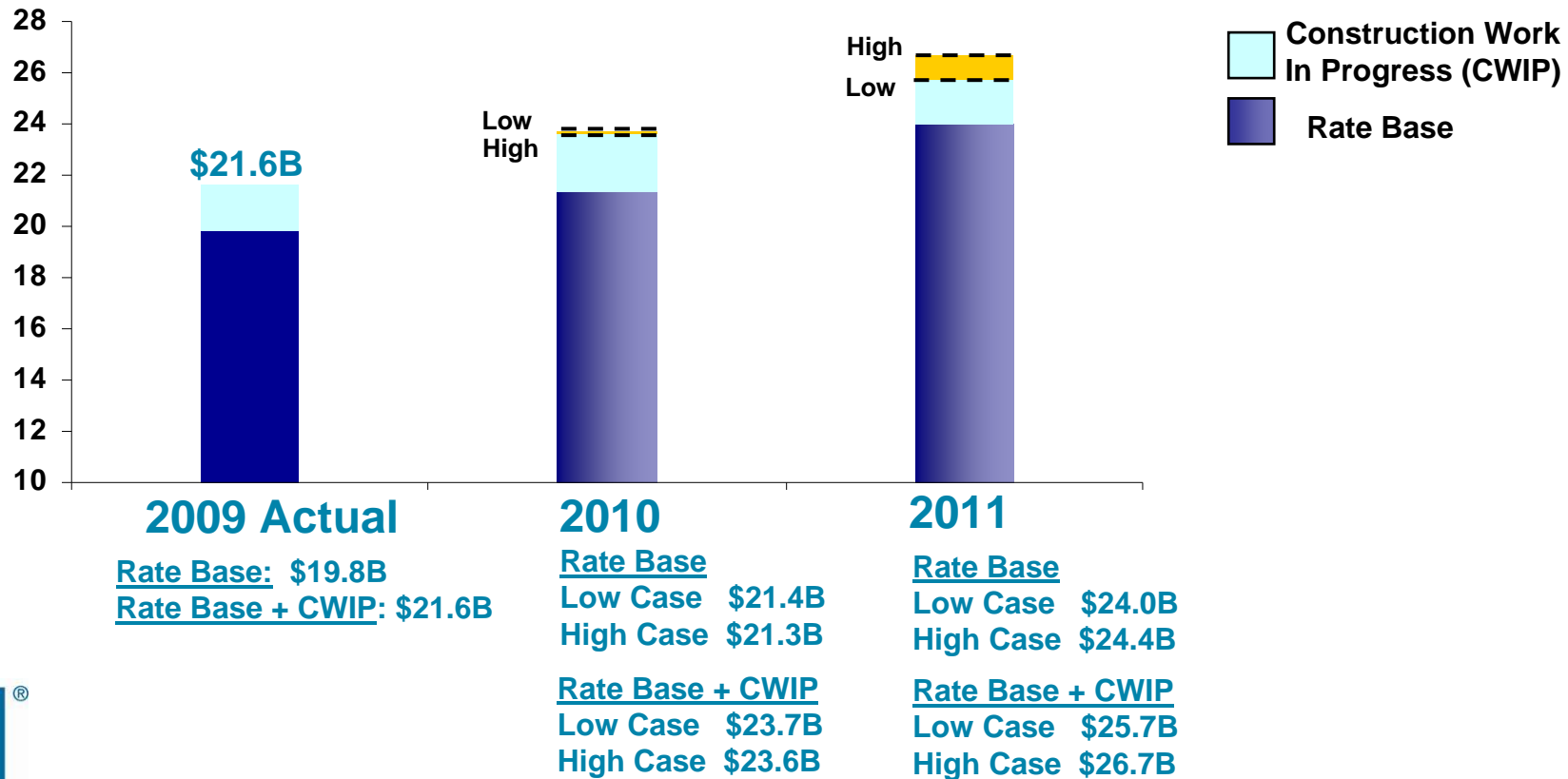
## Cap Ex Forecast (\$B)



CapEx ranges have not been updated for recent developments in the Solar PV project.

# Rate Base and CWIP

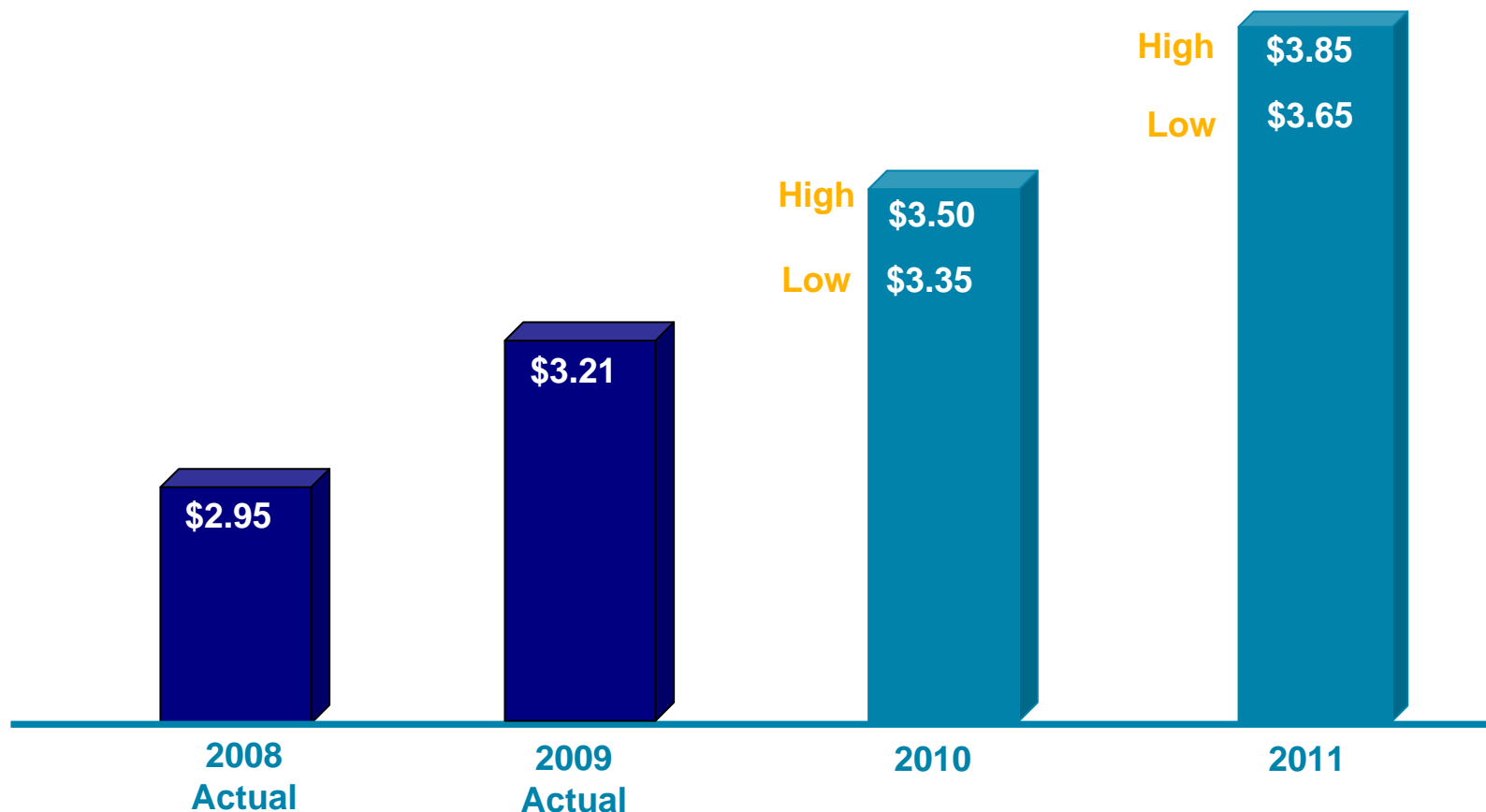
## Weighted Average Rate Base\* and Construction Work in Progress (\$B)



\* Projected 2010-2011 rate base is not adjusted for the impact of the carrying cost credit that results from the second series of the Energy Recovery Bonds. Earnings will be reduced by an amount equal to the deferred tax balance associated with the Energy Recovery Bonds regulatory asset, multiplied by the Utility's equity ratio and by its equity return. This rate base offset carrying cost declines to zero when the taxes are fully paid in 2012.

# EPS Guidance

## Earnings per Share from Operations\*



\* Reg G reconciliation to GAAP for 2008 and 2009 EPS from Operations, and 2010–2011 EPS Guidance available in Appendix and at [www.pge-corp.com](http://www.pge-corp.com)

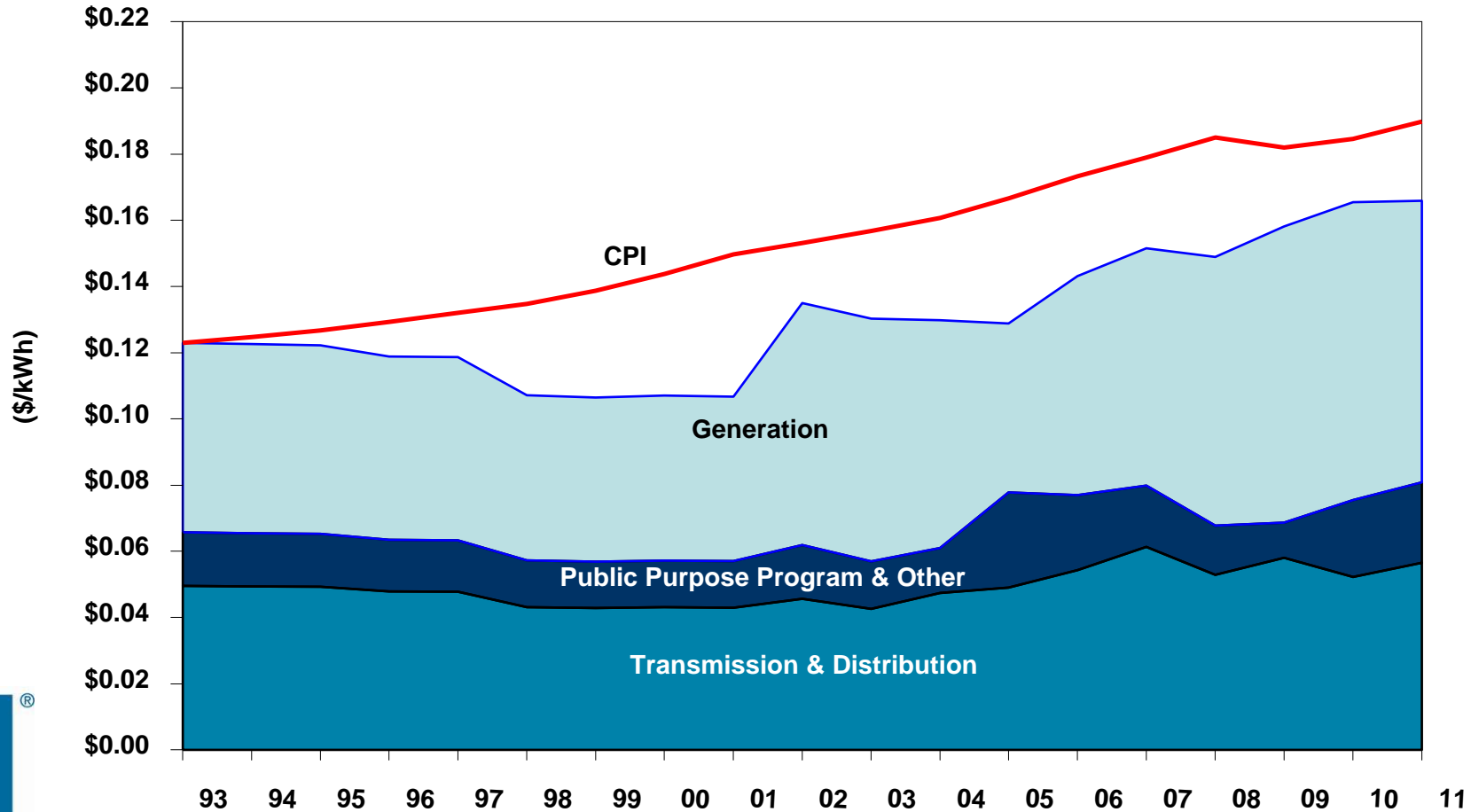
# Excellent Service / Reasonable Cost

## **PG&E is sensitive to customer needs**

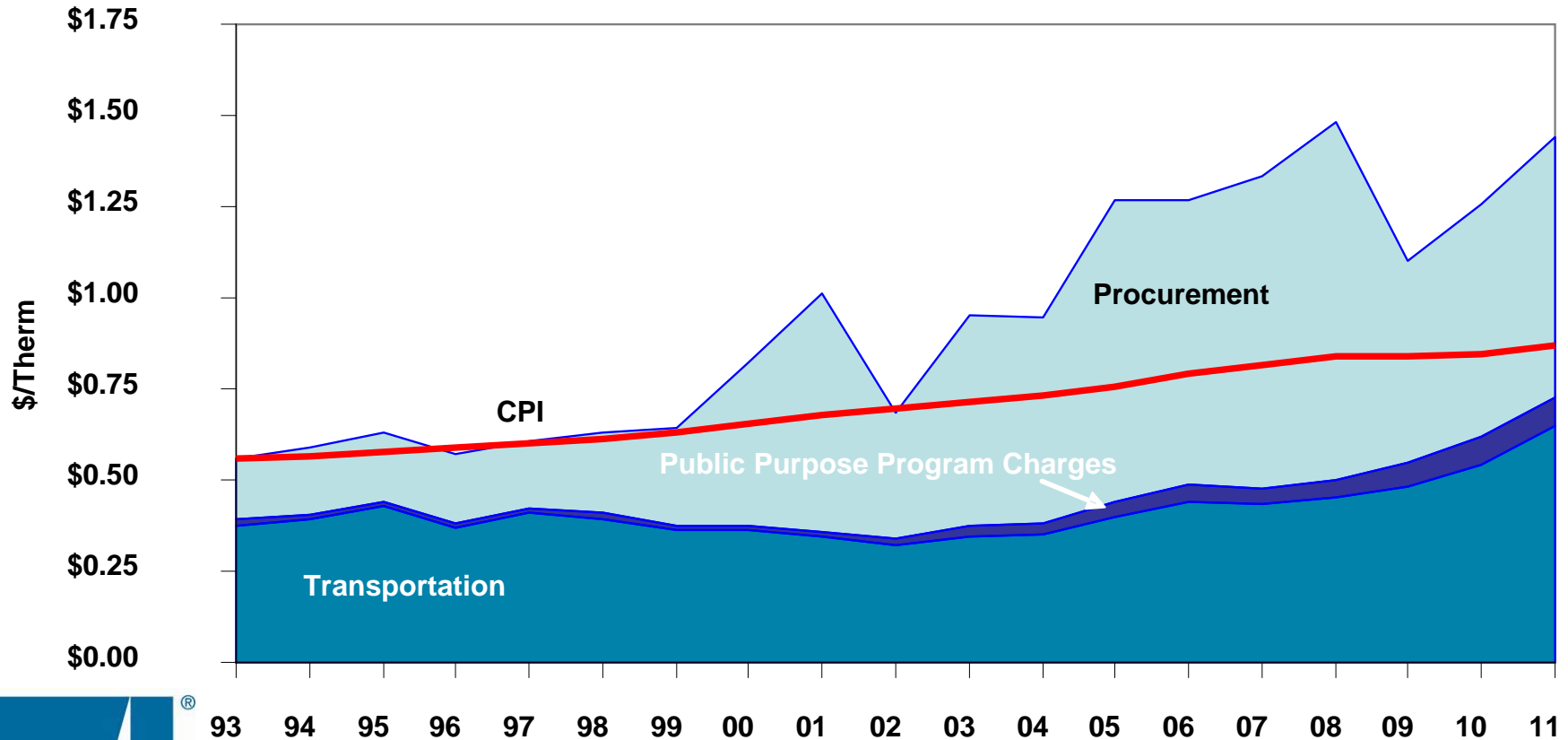
- **Historic trend in prices**
  - **Current comparisons**
    - **Plan to restructure residential electric tiers**



# Residential Avg. Electric Rate



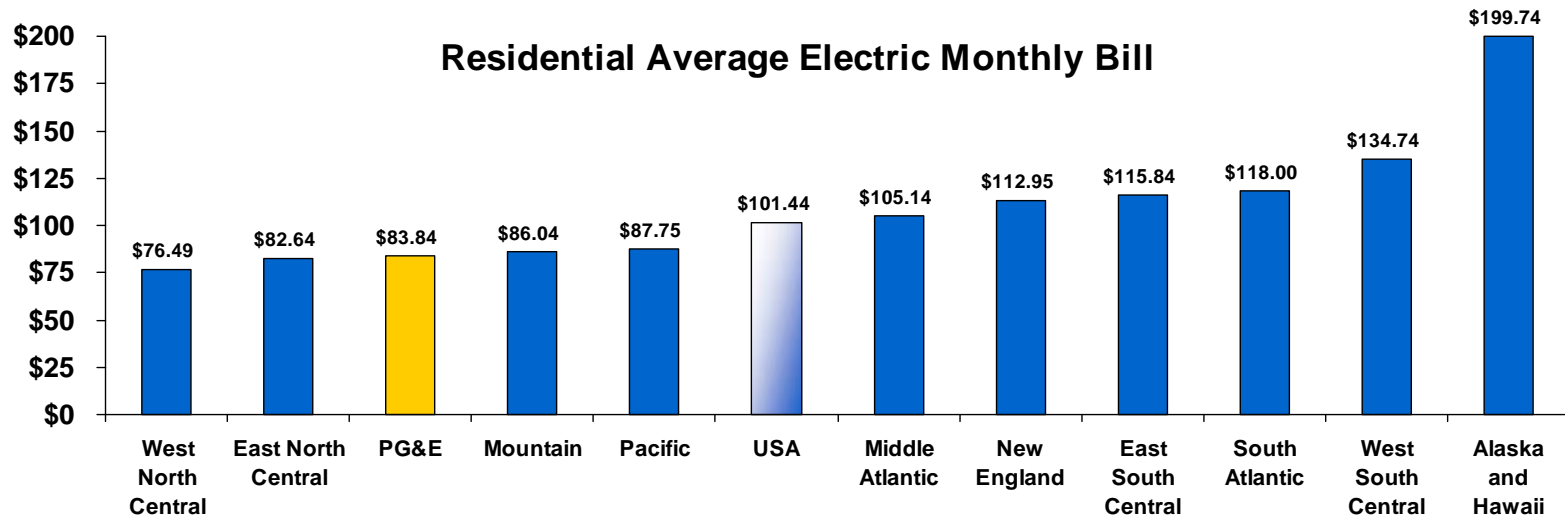
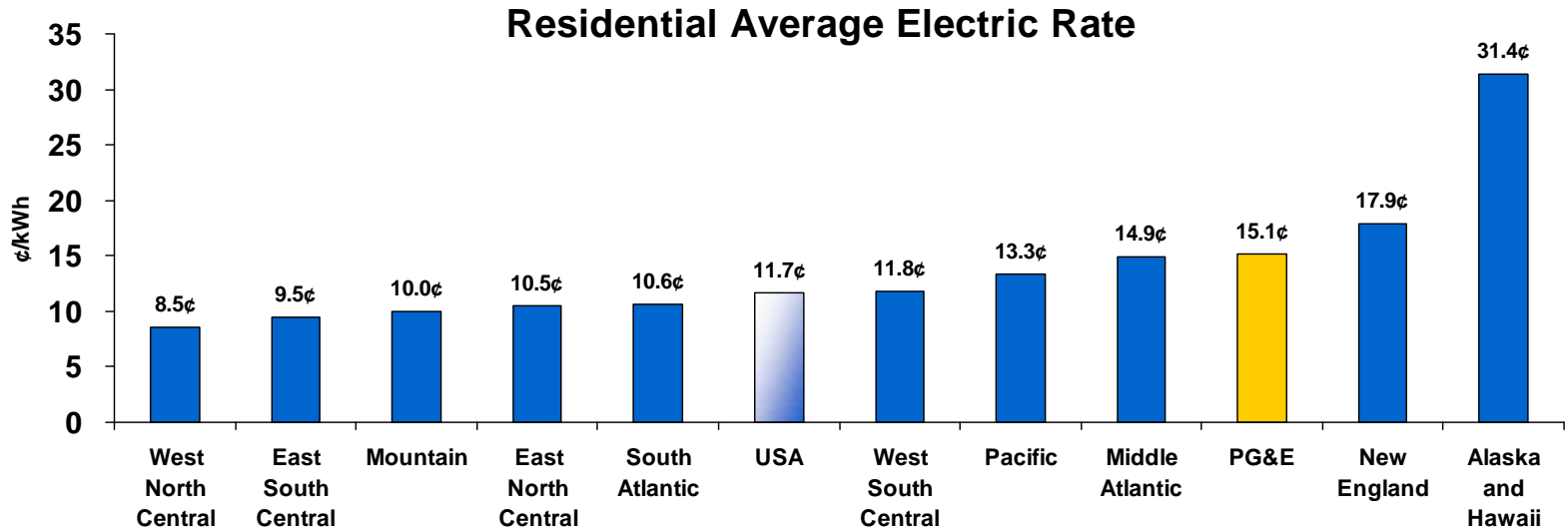
# Residential Avg. Gas Rate



**Procurement** includes: Gas Supply, Transport to CA Border, Backbone Transmission and Storage

**Transportation** includes: Distribution, Local Transmission, SmartMeter, Solar Programs and Balancing Accounts

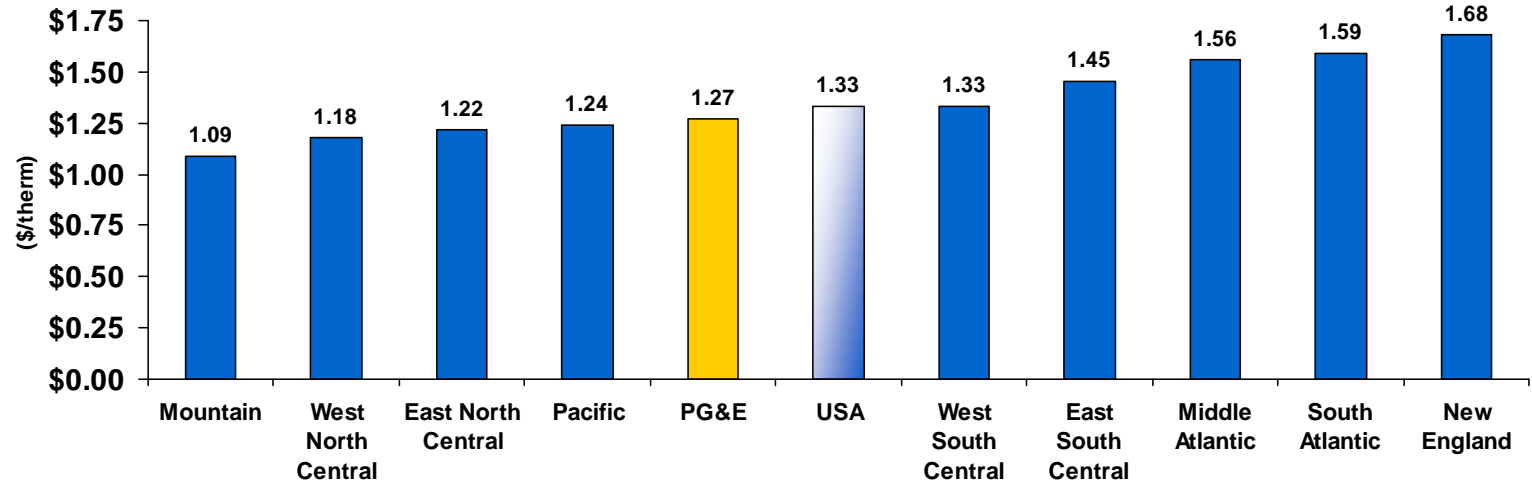
# Electric Rates vs. Bills



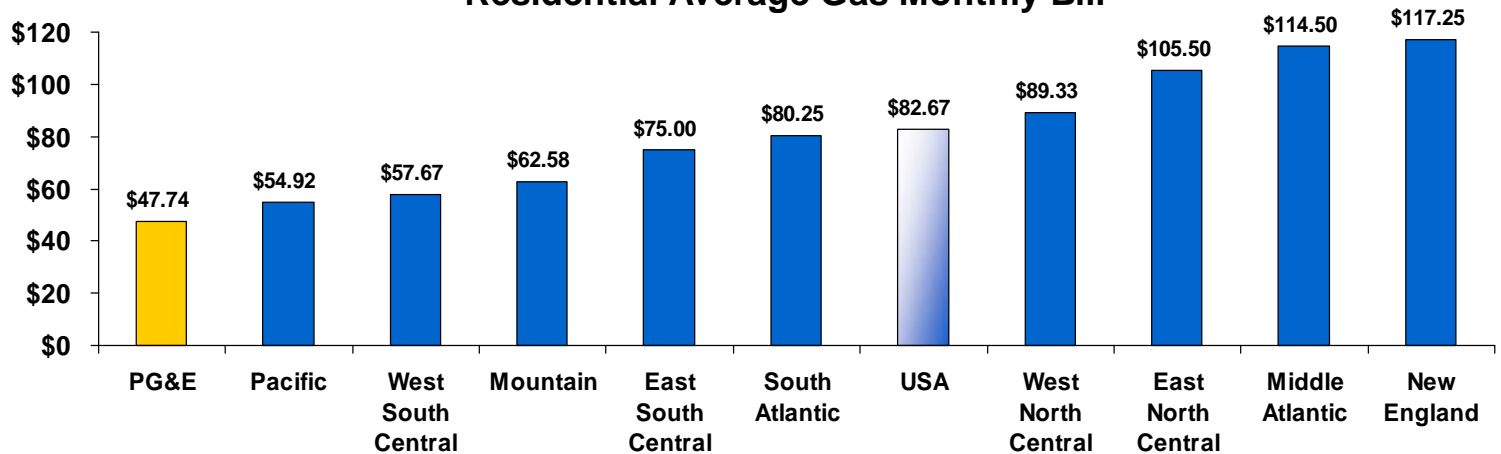


# Gas Rates vs. Bills

## Residential Average Gas Rate

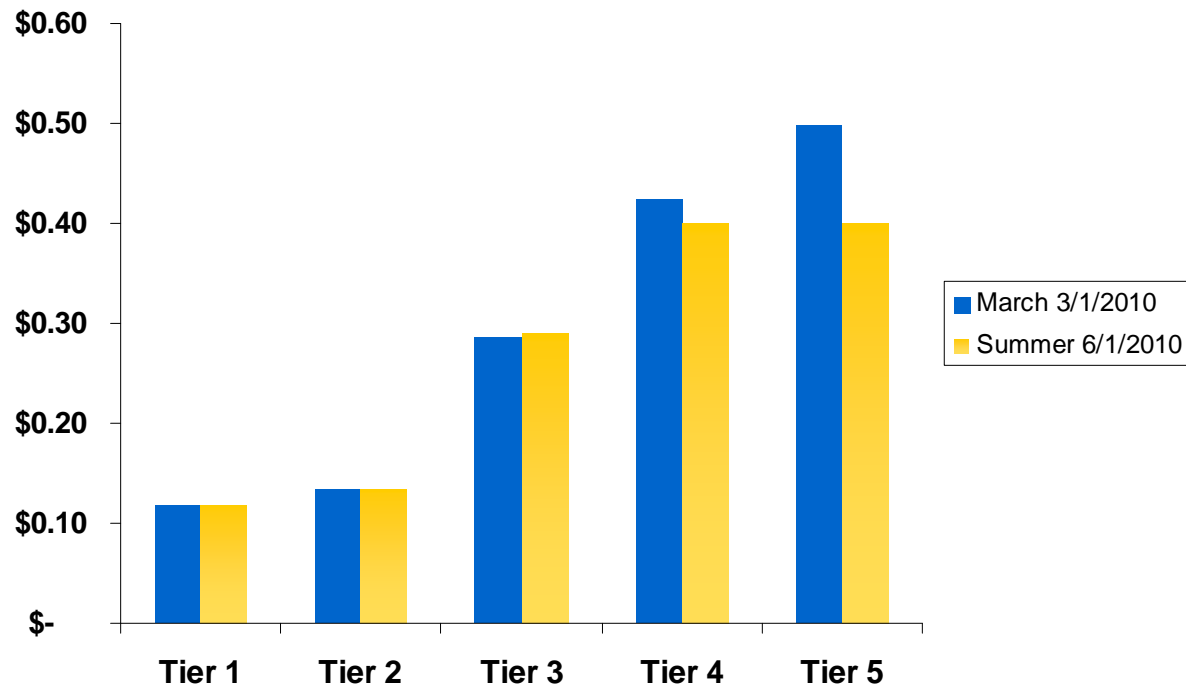


## Residential Average Gas Monthly Bill



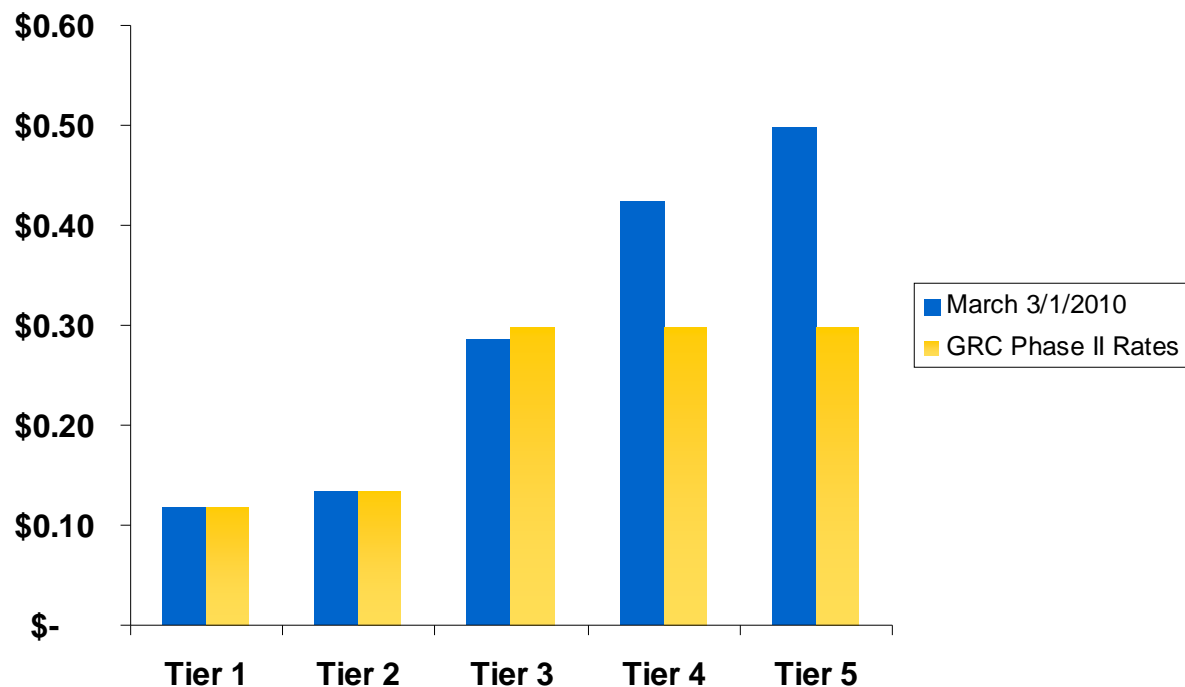
# Proposed Summer Rate Relief

Reduce overall rates by \$400M, about 3%, effective June 1, 2010  
Collapse Tiers 4 and 5 into one tier and substantially reduce the rates, and moderately increase Tier 3



# GRC Phase 2 - Residential Rate Design

**Collapse Tiers 3, 4 and 5 into a single Tier 3**



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# Appendix



# Key Regulatory Proceedings

Regulatory Case	Docket #	Expected Decision Date
Nuclear Relicensing	A.10-01-022	TBD
2011 General Rate Case ("GRC") 2011 GRC Phase II	A.09-12-020 A.10-03-014	Final decision is expected in Q4 2010 Final decision is expected in Q2 2011
Manzana Wind Project	A.09-12-002	Final decision is requested by the end of Q4 2010
Request for New Generation Offers and Potential New Utility-Owned Generation	R.06-02-013 A.09-04-001 A.09-09-021	TBD
Gas Transmission & Storage Rate Case	A.09-09-013	Final decision is expected in Q4 2010
Transmission Owner ("TO") 12 Rate Case	ER09-1521-000	All-party settlement reached Final approval is expected by Q3 2010
Energy Efficiency Order Instituting Rulemaking Post-2005	R.09-01-019 D.09-12-045	Final decision is requested by end of Q4 2010
SmartGrid OIR	R.08-12-009 D.09-12-046	Initial policy decision issued in December 2009, timing of subsequent rulemaking proceedings in 2010 and 2011 TBD
Cornerstone Improvement Program	A.08-05-023	Final decision is expected in Q2 or Q3 2010



# Cost of Capital

**52% Equity Level** · **11.35% ROE** · **Adjustment Mechanism**

- Decided separately from General Rate Case
- Current terms in place until **2013**

## Mechanism

- Triggers change to ROE if average Moody's Utility (A or Baa) bond yield index over a 12 month period moves up or down by 100 basis points over benchmarks.
- 12 month period is October through the following September (i.e. October 2009 through September 2010).

<i>Monthly Values for 2011 Test Year</i>	<b>A</b>	<b>Baa</b>
Oct-09	5.55	6.14
Nov-09	5.64	6.18
Dec-09	5.79	6.26
Jan-10	5.77	6.16
Feb-10	5.87	6.25
Mar-10	5.84	6.22
Apr-10	5.81	6.19
Oct '09-Apr '10 Average	5.75	6.20
Benchmark (Dec. 08-05-035)	6.02	6.26



# Financial Assumptions: 2010-2011

## **GUIDANCE REFLECTS:**

**Capital expenditures consistent with low and high case ranges**

**Utility earns ROE of at least 11.35%**

**Ratemaking capital structure maintained at 52% equity**

**CEE incentives and tax cash flow consistent with high and low case ranges**

**Resolution of FERC generator claims in 2011 results in financing needs partially in 2011 (low case) or entirely in 2012 and beyond (high case)**





# 2009 EPS – Reg G Reconciliation

	<u>2009</u>
EPS on an Earnings from Operations Basis <sup>(1)</sup>	\$3.21
Items Impacting Comparability <sup>(2)</sup>	
Tax Benefit <sup>(3)</sup>	0.18
Recovery of hydro divestiture costs <sup>(4)</sup>	0.07
Accelerated work on gas system <sup>(5)</sup>	(0.16)
Severance costs <sup>(6)</sup>	<u>(0.10)</u>
EPS on a GAAP Basis	\$3.20

<sup>(1)</sup> *Earnings per share from operations is a non-GAAP measure. This non-GAAP measure is used because it allows investors to compare the core underlying financial performance from one period to another, exclusive of items that do not reflect the normal course of operations.*

<sup>(2)</sup> *Items impacting comparability reconcile earnings from operations with consolidated net income as reported in accordance with GAAP.*

<sup>(3)</sup> *For the twelve months ended December 31, 2009, PG&E Corporation recognized \$66 million, after-tax, for the interest and state tax benefit associated with a federal tax refund, for 1998 and 1999.*

<sup>(4)</sup> *For the twelve months ended December 31, 2009, PG&E Corporation recognized \$28 million, after-tax, related to the CPUC's authorization to recover costs previously incurred in connection with the Utility's hydroelectric generation facilities.*

<sup>(5)</sup> *For the twelve months ended December 31, 2009, PG&E Corporation incurred \$59 million, after-tax of costs to perform accelerated system-wide natural gas integrity surveys and associated remedial work.*

<sup>(6)</sup> *For the twelve months ended December 31, 2009, PG&E Corporation accrued \$38 million, after-tax of severance costs related to the elimination of approximately 2% percent of the Utility's workforce.*



# EPS Guidance – Reg G Reconciliation

2010	Guidance Range	
	Low	High
EPS Guidance on an Earnings from Operations Basis <sup>(1)</sup>	\$3.35	\$3.50
Estimated Items Impacting Comparability <sup>(2)</sup>		
Statewide Ballot Initiative <sup>(3)</sup>	(0.09)	(\$0.09)
Federal Healthcare Law <sup>(4)</sup>	(0.05)	(\$0.05)
Estimated EPS on a GAAP Basis	\$3.21	\$3.36

2011	Guidance Range	
	Low	High
EPS Guidance on an Earnings from Operations Basis <sup>(1)</sup>	\$3.65	\$3.85
Estimated Items Impacting Comparability	0.00	0.00
Estimated EPS on a GAAP Basis	\$3.65	\$3.85



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<sup>(2)</sup> *Items impacting comparability reconcile earnings from operations with consolidated net income as reported in accordance with GAAP.*

<sup>(3)</sup> *Costs related to Proposition 16 - The Taxpayers' Right to Vote Act*

<sup>(4)</sup> *Reduction in the deferred tax asset corresponding to the loss of tax deductibility of Medicare Part D federal subsidies.*