



# PG&E Corporation

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Chairman, President and CEO

**Merrill Lynch  
Power and Gas Leaders Conference  
September 23 - 24, 2008  
New York City**



*This presentation is not complete without the accompanying statements made by management on September 23, 2008.  
A replay is available on PG&E Corporation's homepage at [www.pge-corp.com](http://www.pge-corp.com).*

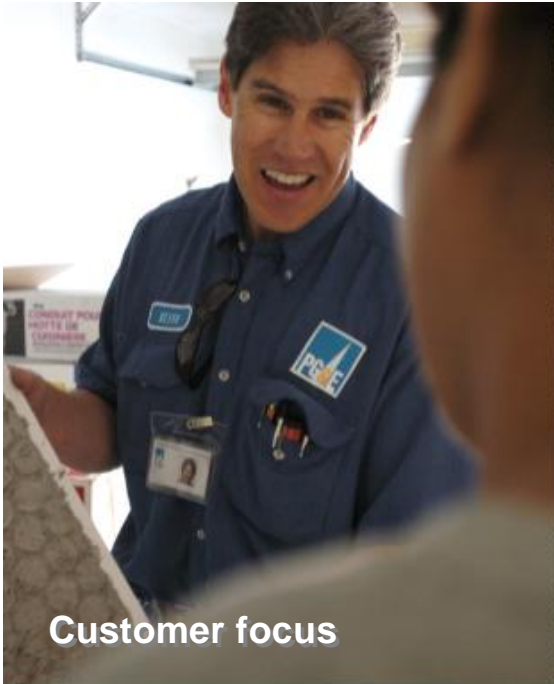
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# Currents of Change



**G R O W T H**



**Customer focus**



**Operational excellence**



**Regulatory alignment**



**Climate strategy**



**Community engagement**



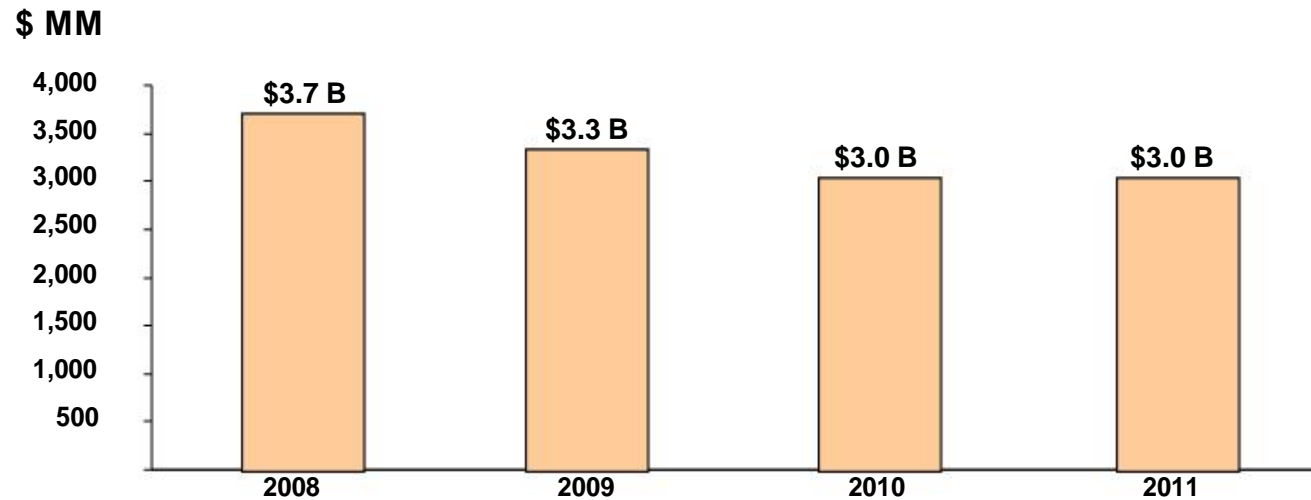
# The Virtuous Circle







# Capital Expenditure Outlook



*Proposed projects not included in forecasts include: SmartMeter™ Upgrade, Cornerstone Improvement Program, Tesla, additional generation and gas pipeline investments, and British Columbia (BC) Electric Transmission Line*



## **Additional CapEx - Proposed Projects Above 2008-2011 Base Forecast**

- **SmartMeter™ Program Upgrade**
- **Cornerstone Improvement Program**
- **Tesla Power Plant**
- **BC Electric Transmission Line**
- **Pacific Connector LNG Pipeline**



# PCG Investment Case

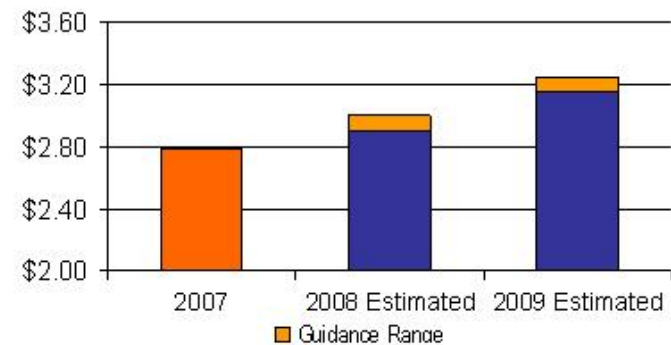
**PCG offers competitive growth in a constructive regulatory environment with an attractive valuation:**

- \$13 billion planned CapEx 2008-2011
- 85% of CapEx approved
- 11.45% weighted ROE on 52% equity
- High-performing, low-carbon generation
- Decoupled revenues
- Sustainable dividend, growing in-line with EPS

**Targeted 8% CAGR in EPS  
(2007-2011)**

## EPS from Operations Guidance\*:

- 2008 guidance of \$2.90-\$3.00 per share
- 2009 guidance of \$3.15-\$3.25 per share
- 8% targeted CAGR 2007-2011



\* Reg G reconciliation to GAAP for 2007 EPS from Operations, and 2008 and 2009 EPS Guidance available in Appendix and at [www.pgecorp.com](http://www.pgecorp.com)



# Cautionary Language Regarding Forward-Looking Statements

This presentation contains forward-looking statements regarding management's guidance for PG&E Corporation's 2008 and 2009 earnings per share from operations, targeted compound average growth rate for earnings per share from operations over the 2007-2011 outlook period, as well as management's projections regarding Pacific Gas and Electric Company's (Utility) capital expenditures, rate base and rate base growth. These statements are based on current expectations which management believes are reasonable including that the Utility's rate base averages \$18.3 billion in 2008 and \$20.4 billion in 2009, that the Utility earns at least its authorized rate of return on equity, that the Utility's ratemaking capital structure is maintained at 52 percent equity, and that the Utility is successful in implementing its initiatives to become more efficient and reduce costs. Actual results may differ materially. Factors that could cause actual results to differ materially include:

- the Utility's ability to manage capital expenditures and operating expenses within authorized levels and recover costs through rates in a timely manner;
- the outcome of regulatory proceedings, including pending and future ratemaking proceedings at the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission;
- 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;
- the effect of weather, storms, earthquakes, fires, floods, disease, other natural disasters, explosions, accidents, mechanical breakdowns, acts of terrorism, and other events or hazards on the Utility's facilities and operations, its customers, and 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 energy sources, or other reasons;
- operating performance of the Utility's Diablo Canyon nuclear generating facilities (Diablo Canyon), the occurrence of unplanned outages at Diablo Canyon, or the temporary or permanent cessation of 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 incurs substantial unanticipated expense to improve the safety and reliability of its electric and natural gas distribution systems;
- whether the Utility achieves the CPUC's energy efficiency targets and recognizes any incentives the Utility may earn in a timely manner;
- the impact of changes in federal or state laws, or their interpretation, on energy policy and the regulation of utilities and their holding companies;
- the impact of changing wholesale electric or gas market rules, including the California Independent System Operator's new rules to restructure the California wholesale electricity market;
- 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 third parties, or through insurance recoveries;
- the ability of PG&E Corporation and/or the Utility to access capital markets and other sources of credit in a timely manner on favorable 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 impact of changes in federal or state tax laws, policies or regulations; and
- other risks and factors disclosed in PG&E Corporation's and the Utility's 2007 Annual Report on Form 10-K and other reports filed with the SEC.





# Appendix

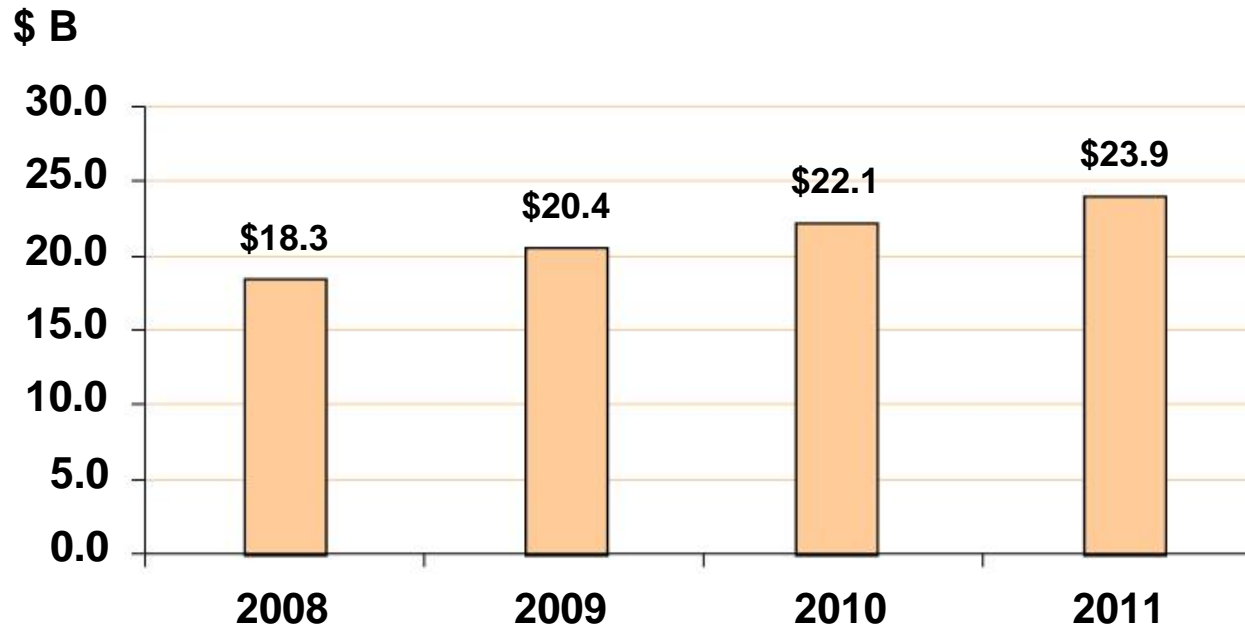
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# Rate Base Growth

Weighted Average Annual Rate Base\*



\* Projected 2008-2011 rate base is not adjusted for the impact of the carrying cost credit that primarily 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.



# SmartMeter™ Program Upgrade

- **Funding request of \$572 MM**
  - \$463 MM additional capital
  
- **CPUC decision expected in December 2008**
  
- **New capabilities**
  - Integrated connect/disconnect switches
  - Solid state meter technology
  - Home area network gateway device



# Cornerstone Improvement Program

**PG&E seeking CPUC approval for a six-year program to improve reliability of our electric distribution system.**

- Enhances overall reliability of energy delivery
- Increases grid flexibility to mitigate outages
- Sets higher performance expectations as measured by a proposed set of metrics

## **Proposed \$2.3B / 6-year system upgrade**

- \$800 MM capital from 2009-2011
- \$1.5 B capital beyond 2011

**Currently awaiting CPUC action**



# Tesla Generating Station

- **Total Estimated Project Cost of \$850MM**
  - 560 MW capacity
  - Located in PG&E's service territory
  
- **Currently awaiting CPUC approvals**
  - Interim order pending
  - Final construction authorization requested 1<sup>st</sup> Quarter 2009



# Transmission Opportunities

## BC Transmission Line

- Recovery of development costs approved by FERC
- Working on multi-utility partnership for development of the project
- \$5 B forecasted in total capital costs, with PG&E's potential share at 51% or greater

## Pacific Connector LNG Pipeline

- \$50 MM capital forecasted through 2011
- \$1B forecasted in total capital cost, with PG&E's potential share at 33%
- FERC certificate expected mid-2009





# Financial Assumptions 2008-2011

- **Capital expenditure base forecast reflects projects that are highly likely or already approved**
- **CPUC authorized ROE is 11.35% and Utility earns at least 12% at FERC on projected rate base**
- **Ratemaking capital structure maintained at 52% equity**
- **Additional capital expenditures, CEE incentives, and operational efficiencies consistent with earnings targets**
- **Resolution of FERC generator claims in 2009-2011 results in financing needs**



## 2007 EPS - Reg G Reconciliation

	<u>2007</u>
<b>EPS on an Earnings from Operations Basis</b>	<b>\$2.78</b>
<b>Items Impacting Comparability</b>	<u><b>0.00</b></u>
<b>EPS on a GAAP Basis</b>	<b>\$2.78</b>

\* 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.



# EPS Guidance -Reg G Reconciliation

<b><u>2008</u></b>	<b><u>Guidance Range</u></b>	
	<b><u>Low</u></b>	<b><u>High</u></b>
<b>EPS Guidance on an Earnings from Operations Basis*</b>	\$2.90	\$3.00
<b>Estimated Items Impacting Comparability</b>	<u>0.00</u>	<u>0.00</u>
<b>EPS Guidance on a GAAP Basis</b>	\$2.90	\$3.00
<b><u>2009</u></b>	<b><u>Guidance Range</u></b>	
	<b><u>Low</u></b>	<b><u>High</u></b>
<b>EPS Guidance on an Earnings from Operations Basis*</b>	\$3.15	\$3.25
<b>Estimated Items Impacting Comparability</b>	<u>0.00</u>	<u>0.00</u>
<b>EPS Guidance on a GAAP Basis</b>	\$3.15	\$3.25

\* 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.