Edison International
Time for a Tune Up Over SONGS

Equities

Americas
Electric Utilities

12-month rating	**Buy**
	Prior: Neutral
12m price target	**US$70.00**
Price	**US$61.66**
RIC: EIX.N **BBG:** EIX US	

Trading data and key metrics

52-wk range	US$69.05-53.73
Market cap.	US$20.1bn
Shares o/s	326m (COM)
Free float	100%
Avg. daily volume ('000)	633
Avg. daily value (m)	US$40.3
Common s/h equity (12/15E)	US$10.9bn
P/BV (12/15E)	1.8x
Net debt / EBITDA (12/15E)	3.3x

EPS (UBS, diluted) (US$)

	12/15E			
	From	To	% ch	Cons.
Q1E	0.93	0.93	-0.94	0.79
Q2E	0.82	0.82	-1.07	0.75
Q3E	1.14	1.14	-0.77	1.23
Q4E	0.73	0.72	-1.21	0.81
12/15E	3.63	3.60	-0.97	3.58
12/16E	4.01	3.98	-0.57	3.93
12/17E	4.31	4.31	0.05	4.25

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Upgrading to Buy after 5% drop on overdone concerns over SONGS

We are upgrading to Buy (unchanged $70 PT) after shares have dropped nearly 5% in recent weeks on unwarranted concerns over a requested penalty for an ex-parte discussion held in connection with the global settlement reached last year for the early retirement of the San Onofre Nuclear Generating Station (SONGS). On 4/17, the Office of Ratepayer Advocates (ORA) recommended a $648M penalty for EIX for an ex-parte conversation that occurred in 2013 between then-Chair Peevey and a company representative regarding the settlement process that ORA claims unfairly biased the final outcome. Current Chair Picker also initially expressed concerns over the conversation in a 3/16 legislative hearing. However, in a more recent 4/1 strongly worded letter to California legislators, Picker unambiguously reaffirmed support for his earlier decision approving the SONGS settlement ("a good outcome"). In our view, Picker would be condemning his own ability to be fair and informed if he approved a penalty of this size after such a strongly worded affirmation. This event risk appears small, especially at the $648M penalty size (we assume 10%). Our recent talks with The Utility Reform Network (TURN) confirmed support for the settlement as well.

Still awaiting a GRC outcome; Distribution plan filing coming in July

While the last General ratecase (GRC) took 9 months to render a Proposed Decision (PD) with the same ALJ, our rough estimate could be as early as this summer. The coming distribution resources plan should shed light on incremental investment opportunities 2018+ to support the 7%-9% EPS long-term growth rate projection.

Coolwater-Lugo loss was already embedded in our conservative assumptions

Our '17 ratebase assumption was $500M below the midpt of previous mgmt guidance (in-line with new guidance), largely accounting for the loss of this $700M project.

Valuation: PT unchanged at $70; Upgrade to Buy – shares are a bargain now

Our PT is based on a SOTP. EIX is now trading at a 8% discount to the avg peer utility 2017E P/E vs the 5% premium we think it deserves. We assume a 10% SONGS contingency (1x $65M writeoff); immaterial to PT (even if full $648M, it's only a $1/sh).

Highlights (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	11,862	12,581	13,413	13,457	14,009	14,570	15,041	15,498
EBIT (UBS)	2,372	1,765	2,696	2,570	2,826	3,054	3,221	3,386
Net earnings (UBS)	1,278	1,237	1,497	1,183	1,311	1,417	1,493	1,581
EPS (UBS, diluted) (US$)	3.87	3.76	4.55	3.60	3.98	4.31	4.54	4.81
DPS (US$)	1.31	1.37	1.47	1.71	2.01	2.31	2.45	2.59
Net (debt) / cash	(10,995)	(12,242)	(13,114)	(14,464)	(16,375)	(17,775)	(18,629)	(19,212)

Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	20.0	14.0	20.1	19.1	20.2	21.0	21.4	21.8
ROIC (EBIT) %	13.3	10.5	14.8	13.0	13.0	12.8	12.6	12.6
EV/EBITDA (core) x	6.1	7.1	6.3	7.1	6.8	6.7	6.3	6.0
P/E (UBS, diluted) x	11.4	12.8	12.4	17.1	15.5	14.3	13.6	12.8
Equity FCF (UBS) yield %	0.6	(4.4)	(3.4)	(5.9)	(8.5)	(4.6)	(1.1)	0.8
Net dividend yield %	3.0	2.8	2.6	2.8	3.3	3.7	4.0	4.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$61.66 on 28 Apr 2015 18:42 EDT

Investment Thesis

Edison International

12-month rating **Buy**

12m price target **US$70.00**

Investment case

EIX has strong fundamentals and operates in CA, a state with one of the country's most aggressive renewable energy policies. With the SONGS settlement and EME in the rearview mirror, the focus shifts to the 2015 General Rate Case as management continues to simplify the story. The largest positive for EIX is the projected 7-9% CAGR in rate base from 2014-2017 as the company shifts its focus towards transmission and distribution. Our price target is based on 2017E P/E with a premium to the peer multiple.

Upside scenario

We currently apply a 1x-turn P/E multiple premium due to the above-average rate base growth (7-9% from 2015-2017) and improving regulatory environment. We see upside to $73 premised on a 1x-turn increase in the P/E multiple should the maximum capex and ratebase levels be approved in the 2015 general rate case to the requested level, representing ~$2Bn of additional 2017E ratebase.

Downside scenario

Our downside case is $65 should even the minimum capex and ratebase levels fail to be approved in the 2015 GRC. We also see an in-line P/E multiple warranted in a scenario where management fails to execute the capital program, control costs, and earn its allowed ROE.

Upcoming catalysts

Spring 2015	Rate Design OIR Fixed Charge and Tiers Proposed Decision
July 1 2015	Distribution Resources Plan filing
2Q or 3Q 2015	GRC PD/Decision
3Q 2015	Rate Design OIR NEM Proposed Decision

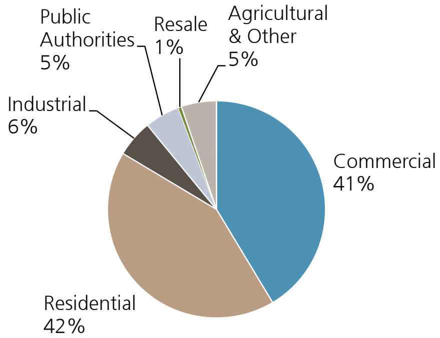
Business description

Edison International primarily operates as a regulated utility in Southern California through its subsidiary Southern California Edison (SCE). The company serves approximately 14 million people in its 50,000 sqm service territory. The utility owns over 100,000 miles of electric transmission and distribution. Revenues by customer class are split ~40% residential, ~40% commercial, and industrial and other representing the balance.

Industry outlook

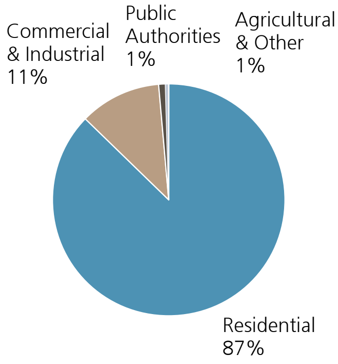
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements. At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth capex slows mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates.

Revenues by Customer Class (%)



Source: Company filings, UBS estimates

Customers by Class (%)



Source: Company filings, UBS estimates

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The Power Line on EIX:

After 8% relative underperformance since 4/8, EIX is trading at an unwarranted 8% discount to the group and we upgrade to Buy with no change to our ests or $70 PT. Concerns over a possible penalty for ex-parte discussions in the SONGS settlement process are overdone, in our view, with little risk of a substantial penalty and no proceeding as yet to even consider one. Furthermore, with yet another sizeable quarterly upside surprise, we continue to view Edison Internationally favorably given its above average ratebase growth prospects and spending opportunities in the state. We especially note the coming filing of a Distribution Resources Plan on July 1 that will lay out a roadmap for potentially groundbreaking improvements to the system to ultimately allow fuller integration of distributed generation and storage resources with 2-way flow dynamic load management and digitalized controls/feedback, ultimately fueling the company's consolidated $4 Bn capex profile through the foreseeable future.

We continue to see modest political and regulatory risk for EIX given the continuing acrimony over ex-parte discussions that continues to impact its northern neighbor PCG and broader scrutiny of the CPUC's procedures and ethics in the state by the AG's office. Without this risk, we would be inclined to value EIX's utilities at a 10% premium to the average 2017E utility peer P/E rather than the 5% that we apply today. We suspect 2015 will be a transformative year for all the California utilities, hopefully leading to a less tumultuous year in '16 focused on div growth for all of the states' companies.

What's left in 2015? It's still about cost savings.

We see remaining upside as tied to continued effectiveness in cost savings, as we suspect current efforts to-date as part of a multi-year process to remain 'competitive' against distributed solar offers. The question appears not *if*, but to what extent management will prove able to over-earn as it continues to execute on cost saving initiatives despite the latest rate case. We see broader upside to Street estimates, with towards a ~nickel of upside.

For additional context, please refer links to relevant recent reports below:

4/17/15 1Q Playbook: Polar without the Vortex
2/26/15 Cutting into the 2015 Reset
1/14/15 Charging up the Utility EV Infra Opportunity
10/30/14 High Growth Story Now Fully Valued
10/15/14 3Q14 Earnings Playbook: Trading Tips for Turbulent Times
10/24/14 How Low Could Transmission ROEs Go?
8/1/14 Up, Up, and Away (in 2014)
3/30/14 Focused on the Core Strategy
3/24/14 Hitting the High Notes With SONGS

What's new with EIX:

- Final update hearings in the GRC took place the week of Jan 12, with the record closed and awaiting a draft decision. While the last GRC took 9 months to render a Proposed Decision (PD) with the same ALJ, it's difficult to predict the wait this time around, with the case paused for 2-3 months last year after Presiding Commissioner Peevey was replaced by Commissioner Peterman after becoming embroiled in ex-parte violations (and yearend retirement).

Considering the original yearend 2014 target and that ALJ Darling has ALJ Dudley also working on the case, our rough estimate for a PD could be as early as 3Q15. We do not expect any decision before the SONGS OII is wrapped up in May (also by ALJ Darling). Furthermore, a commissioner's involvement in the proceedings is typically back-end loaded, so we would not anticipate a significant incremental delay to get Commissioner Peterman up to speed.

- The company is currently developing a Distribution Resources Plan for submission on July 1 under OIR R.14-08-013 as part of compliance with AB 327, the law that also implements re-design of residential rates, tier collapse, fixed charges, and net metering. We expect the plan to give the first real glimpse of future significant distribution capex, although firm spending plans won't materialize until the next GRC filing that should come toward the end of 2016 (for 2018 rates).

- The $740M Coolwater-Lugo transmission project was denied a certificate of public convenience and necessity (CPCN) from the CPUC in a 4/20 ALJ proposed decision, citing the Dec 2014 retirement of NRG's 636-MW Coolwater CCGT/CT station. We note that SCE requested that the application be suspended rather than dismissed in case the upcoming CAISO deliverability reassessment study determines a continued need for the project to alleviate congestion in the Kramer Junction and Lucerne Valley, as originally contemplated. The company reduced its 2015-16 capex forecast by $325M and its 2017 ratebase forecast by about $0.6B primarily to reflect the elimination of the Coolwater line (net of other adjustments). Management notes that the 7%-9% growth forecast through 2017 is unaffected by the change and that the extra free cash flow from avoidance of the project helps maintain dividend growth and will reduce pressure on customer rates.

- Chairman Picker affirmed the essential prudency of the SONGS settlement in a formal response to a March 19th letter from California Assembly member Anthony Rendon (Chair of the Utilities and Commerce Committee). See below for details.

- Expect the winner of the Delaney Colorado River Transmission Line contract under CAISO's competitive solicitation to be announced on June 12 (in-service in 2020).

- As they had in 2014, tax benefits from bonus depreciation and other effects could continue to add to earnings in various quarterly reporting periods going forward. With utility subsidiary SCE becoming a cash taxpayer in 2H15, we expect the company to take more bonus depreciation in both 2015 and 2016.

- ERRA deferrals? With gas prices low, the company is has been overcollecting for energy lately, which may enable them to defer amortized recovery of remaining balances of the Energy Resource Recovery Account (ERRA) a bit. Expect to see a decision on ERRA in the first week of May. The total recovered could well exceed a $1 Bn and paydown a substantial portion of short-term borrowings. With gas prices down of late, the ERRA could well be netted against recent over-collection bringing this total down.

- After a meaningful 17.6% dividend increase in December, management plans to continue to grow the dividend in steps and in-line with earnings growth in order to eventually return to the targeted payout ratio of 45%-55% (vs ~31% currently). We project a 16% CAGR through the 3-year period.

- As we expected, 1Q15 results delivered a sizeable but largely *meaningless* comparative beat year-over-year, at $0.91 vs consensus $0.79 and UBSe $0.93. With the revenue requirement still up in the air pending the GRC outcome, we don't expect management to discuss the components of quarterly results except when they feel a component is likely to fall outside of ongoing revenue requirements, such as the $0.07 of incremental repair deduction tax benefits reported in 1Q15. Otherwise, all things equal, we believe the company is likely to continue reporting quarterly earnings that closely match last year's results until a GRC decision is reached, after which a trueup would be recorded in the quarter of the decision to reflect where YTD results should be based on the decision.

Estimates largely unchanged after capex and ratebase update

We've tweaked down our 2015-2016 estimates a few pennies to account for timing of capex while our 2017-18 estimates remain unchanged. Our prior $27.7B estimate for ratebase was a conservative figure ($500M below the $28.2B previous guidance midpoint) that now falls on top of the new midpoint after the effect of removing the $740M Coolwater-Lugo transmission project net of other adjustments. Management continues to put off any formal 2015 guidance until resolution on the GRC. Our 2015E $3.63 (basic shares) reflects the latest -$400M reduction in ratebase from bonus depreciation offset by a net +$100M for the timing of transmission capex and a deferred tax adjustment for Smart Connect.

Management continues to put off any formal 2015 guidance until resolution on the GRC.

Figure 1: Summary Mini-Model for EIX, 2014E-2018E

EIX Mini Model	2014	2015	2016	2017	2018
Ratebase (midpoint) - including all adjustments below	22.4	23.4	25.5	27.7	29.1
Ratebase growth		4.2%	9.2%	8.4%	5.3%
% FERC	22.0%	22.7%	22.9%	23.0%	23.5%
CPUC ROE	10.45%	10.45%	10.45%	10.45%	10.45%
FERC ROE buildup					
FERC Base Rate	9.30%	**	9.77%	9.77%	9.77%
CAISO (RTO Participation Adder)	0.50%	**	0.50%	0.50%	0.50%
Avg. Project Incentive Adder	0.65%	**	0.65%	0.65%	0.65%
FERC ROE	10.45%	10.69%	10.92%	10.92%	10.92%
Equity%	48.0%	48.0%	48.0%	48.0%	48.0%
Shares (basic)	326	326	326	326	326
Shares (diluted)	329	329	329	329	329
Ratebase EPS					
Ratebase EPS before adjustments below	3.45	3.63	3.99	4.34	4.57
Bonus Depn reduction to ratebase (-$400M)		(0.02)	(0.04)	(0.06)	(0.06)
Timing of Transmission capex (-$100M)		(0.01)	(0.01)	(0.02)	(0.02)
Smart Connect def tax adj (+$200M)		0.01	0.02	0.03	0.03
SONGS shutdown	(0.06)				
Income tax benefit	0.51	??	??	??	??
Cost savings	0.74	0.10	0.15	0.15	0.15
Energy efficiency	0.04	0.05	0.03	0.03	0.03
Parent & other	(0.09)	(0.13)	(0.13)	(0.13)	(0.13)
Total EPS (basic)	4.59	3.63	4.01	4.35	4.58
Total EPS (diluted)	4.55	3.60	3.98	4.31	4.54
Previous UBSe	*$ 4.55*	*$ 3.63*	*$ 4.01*	*$ 4.31*	*$ 4.54*
Consensus	*$ -*	*$ 3.59*	*$ 3.93*	*$ 4.25*	*$ 4.54*

Source: UBS Estimates, Company filings, FactSet

Our 2017+ core EPS reflects increased spending for distributed generation and electric vehicle supporting infrastructure. We expect a significant increase in spending opportunities once the coming Distribution Resources Plan is finalized and expanded upon through the ratecase process. However, management indicated that post-2017E, capex is still expected to remain around the historical ~$4B level, supporting a growing dividend as ratebase and cash flow grow over time into the next decade. No secondary equity issuances are contemplated through for the foreseeable future.

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Figure 2: SCE Requested Capex and Ratebase, 2014E-2017E (new forecast vs priors)

CAPEX ($M)		Nov-13		Feb-14		Nov-14		Feb-15		Apr-15
2014E	$	4.0	$	4.1	$	4.1				
2015E	$	4.2	$	4.5	$	4.2	$	4.1	$	4.1
2016E	$	4.4	$	4.4	$	4.6	$	4.8	$	4.6
2017E	$	4.2	$	4.2	$	4.5	$	4.5	$	4.4
Ratebase ($M)		**Nov-13**		**Feb-14**		**Nov-14**		**Feb-15**		**Apr-15**
2014E	$	22.4	$	22.4	$	22.4				
2015E	$	24.7	$	24.4	$	24.0	$	23.8	$	23.6
2016E	$	27.1	$	27.0	$	26.7	$	26.2	$	26.0
2017E	$	29.3	$	29.2	$	29.3	$	29.0	$	28.4

Source: Company Filings and UBS Estimates

Chairman Picker affirms SONGS settlement is prudent

On April 1, Chairman Michael Picker of the California Public Utilities Commission (CPUC) issued a formal response to a March 19th letter from California Assembly member Anthony Rendon (Chair of the Utilities and Commerce Committee) that requested a review of the 2014 settlement regarding the shutdown of the San Onofre Nuclear Generating Station (SONGS) and the release of all Southern California Edison (SCE) emails related to the settlement. On the settlement:

Formal public hearings may be coming to review the settlement anyway.

> "I have concluded that the Commission's decision was based on a settlement process that was appropriate under the Commission's rules and was in the ratepayers' interests, and was supported by the record developed in the proceeding. The Settlement avoided years of additional uncertainty, offered ratepayers relief from ongoing costs much more immediately than an extended and uncertain litigation, was based on evidence offered in the record that I reviewed, and, when taken as a whole, was a good outcome."

However, Picker also notes that the docket (D.14-11-040) for SONGS remains open despite the CPUC approval granted in Nov 2014 as a result of an open Application for Rehearing (brought by the two parties to the proceedings that opposed the settlement) as well as a formal motion for sanctions against SCE for improper communications with decision-makers (brought by the Alliance for Nuclear Responsibility). The Application for Rehearing is being reviewed by the CPUC legal division, while the sanctions motion is being handled under the docket, which is now the responsibility of newly presiding Commissioner Sandoval. No decisions have yet been rendered on either issue, with Sandoval and the ALJs currently conducting "a thorough analysis" of the motion for sanctions. Nevertheless, Picker does suggest that the CPUC "may also choose to conduct some type of public, on-the-record hearing, and review and comment by the parties to the settlement. Such a process could help to affirm or disaffirm that: 1) the settlement was based on evidence in the record; and 2) the evidence was developed through a reason able and fair process."

Even if a hearing is held, we see the bias towards retaining the existing settlement

On the release of related emails, Picker merely notes that there are legal restrictions on the public release of any document provided to the commission by the utilities and that there may be other statutory confidentiality restrictions and privileges that apply as well. Nevertheless, the CPUC will work with the legislature to develop a "coordinated strategy" for a possible future release. However, Picker also points out that any such strategy must ensure no interference with the three investigations currently open by two prosecuting agencies (the California Attorney General and the US AG).

Any email release likely delayed indefinitely pending AG investigations

For a review of the settlement and its terms, see our 3/28 note "Hitting the High Notes with SONGS".

Proposed Decision supports EIX proposal on rate design, fixed charge and rate tiers

On April 21, two ALJs issues a PD for the company's filing regarding proposed fixed charges and rate tier reform. The PD recommends support for the company's proposed two-tier system (down from the current four) that would reduce the cost shifting that occurs when higher-usage, higher-rate tiers effectively subsidize lower-usage customers on a lower rate tier. As expected, the new rate design would be phased in through 2018 but fixed charges are postponed until 2018 (and would include Time of Use TOU rates as well). As a reminder, EIX had proposed a fixed charge as the best way to ultimately reduce the subsidization of rooftop solar for system costs that happens when rates are charged volumetrically. The company's proposal had started at $5/mo in 2015 (vs. $0.95/mo today), climbing to $7.50/$10 per month by 2016/2017, respectively. As for variable rates, the company negotiated a settlement to see its lowest tiers (1 & 2) increase this year to 14.85c and 19.28c, respectively for the current year following a settlement penned in March.

EIX continues to make the point that although distributed solar is growing rapidly, it is still a very small part of California generation and is still needed to meet RPS goals

The original four-tiered rate system was originally put in place to encourage conservation after the California power crisis of 2000-2001 with higher rates for higher levels of usage. However, the system has been criticized by the state's utilities in recent years as a subsidy for wealthier customers able to afford rooftop solar panels that reduce metered usage, making them eligible for the lower rates. Naturally, solar companies have advocated for keeping at least three tiers to encourage the adoption of solar, but some ratepayer advocates supported the proposal for two tiers, noting that many customers, such as apartment dwellers and low-income, either cannot afford physically install solar panels.

Minimum Bill – rejected as a concept by California utilities?

<u>While awaiting the 2018 implementation of a fixed charge, the PD recommends a minimum bill be implemented as advocated by the solar companies, starting at $10/month this summer ($5 for low income customers)</u>. As we understand it, the problem with the minimum bill proposal is that it includes a low usage threshold, which disqualifies most customers except for the lowest income/lowest usage. As such, these proposals are estimated to collect only ~1% of authorized revenue, whereas the utilities' fixed charge proposals (up to $10/mo paid by everyone) would recover about ~8%, resulting in less volatility for both customer bills as well as utility revenues.

Solar advocates in California appear to be squaring off between fixed tariffs and minimum bills

In our opinion, the best way to avoid the forced subsidization of net metering customers by traditional customers (especially in the higher usage/higher rate tiers) is to fully bifurcate bills into: (1) fixed cost recovery supplemented with; (2) variable

energy charges. A fixed charge paid by all would more effectively (and fairly) constrain net metering payments to the energy portion of bills so as to ensure the recovery of fixed system costs from all customers (albeit at only $10/mo, this recovers merely a portion).

Impressive programmatic cost controls expected to continue

EIX realized an impressive $0.79 of cost reduction in 2014 as the company awaits the outcome of its general ratecase. Management considers cost control as critical to maintaining regulatory and customer support for a robust investment program that is projected to generate one of the strongest ratebase growth profiles in the industry at 7%-9%.

EIX was targeted in a Senate Judiciary Committee hearing regarding its outsourcing practices.

We also note that EIX has attracted an unfavorable spotlight in recent months over its ongoing outsourcing of ~500 IT employees. The utility was portrayed as a poster child for using H-1B visas to displace local labor at a US Senate Judiciary Committee hearing. While ultimately this could be a non-factor, if the local union outcry gets loud enough we could see pressure on EIX's cost cutting plans.

Transmission and Distribution strategy now at center stage

Much of the growth comes from a combination of jurisdictional transmission work as well as needed distribution system improvements. Large Transmission projects currently in plan include the $2.4B Tehachapi line (2016-17 in service) and the $1.0B West of Devers project (2019-2020 in service). Upside can still come from energy storage projects, the Orange County preferred resource pilot, and other post-2018 CAISO transmission projects.

The company is also currently developing a Distribution Resources Plan for submission on July 1 under OIR R.14-08-013 as part of compliance with AB 327.

On the distribution side, the GRC filing is focused on infrastructure replacement and reliability (rather than load growth), which are priorities of the state and are helped by the slower pace of load growth in recent years. The 2015 GRC request represents a 120% increase in infrastructure replacement vs the 2012 GRC, with $9.3B of requested capex from 2015-2017.

The company is also currently developing a Distribution Resources Plan for submission on July 1 under OIR R.14-08-013 as part of compliance with AB 327, the law that also implements re-design of residential rates, tier collapse, fixed charges, and net metering. This filing will include proposed elements for energy storage, residential rate design, and electric vehicle charging as well as system improvements to digitalize and allow efficient control of two-way flows for load, generation, and ancillary services. In the past, management has described this opportunity as "by far the largest additional future investment in the grid".

It's presently unclear how ideas presented will translate into incremental capital, although the company intends to submit a second filing after the initial plan helps develop general policy to add cost, scope, and timing to more specific projects.

Transporting California: Arizona competitive solicitation the focus

EIX intends to participate in CAISO's competitive transmission process under FERC Order 1000 that could add projects and growth above and beyond the stated $15.1B-$17.2B utility capital plan from 2014-2017. This already includes the Tehachapi line and the ~$360M Chino Hills undergrounding. Beyond this, EIX could pursue additional territorial and extra-territorial projects from CAISO 2018+

Excluded from its capex and ratebase forecasts are possible competitive transmission projects.

through either its utility or a new competitive transmission subsidiary. In particular, the Delaney-Colorado line is a potential opportunity which has been proposed for economic reasons (rather than engineering). While it's all very tentative for now, the project was last speculated to cost ~$400M (years ago). EIX already owns the required rights-of-way. Management thinks that CAISO's 2020 tentative in-service date is probably too aggressive considering required lead times for this type of project. For its part, the company has no public cost estimate available for this potential project yet, nor will it comment on financing plans or potential partners.

But what about competitive solicitations for transmission?

This too is coming, likely with more material impacts beyond the current forecast period through 2017. The company's investment outlook does not include any capital expenditures that were exposed to competitive solicitations, clearly embedding a degree of conservatism to the extent it is successful in sourcing incremental projects. While only modestly sized projects appear to be pending before the CAISO in the current year's batch of projects, we look for EIX to increasingly participate in such efforts either through SCE or a separate competitive Transco arm. We see California as leading peer ISOs on this front, having already conducted three such processes, albeit all of them small in size.

Storing California

On California's energy storage solicitations, AB 2514 directed the CPUC to establish procurement targets, with OIR 10-12-007 setting about 580 MW in EIX territory (half, or 290 MW eligible for ratebase). The first 250 MW procurement cycle began in December 2014, with SCE targeting a net 16.3-MW storage capacity, excluding 74 MW existing and LCR storage. All contracts are pending CPUC approval, with shortlist notification on May 15 and final selection Sept 14. Recovery would come through normal ratecases (unless the project was sufficiently large enough to warrant a carve-out). Storage costs are probably in the range of $3,000-$5,000/kW today, although this will almost certainly come down over time. This is another driver of ratebase and EPS growth *above* management's current disclosed range.

LTPP winners include AES, NRG, SUNE

Winners for SCE's Long-Term Procurement Plan (LTPP) Track 1 included AES with the lion's share at 1,384 MW out of a total 2,221 MW selected, as well as NRG with another 178 MW of EE/DR and SUNE with 44 MW of behind-the-meter solar, among others. The winners include 262 MW of energy storage too. As a reminder, the LTTP Track 1 includes preferred resources (demand response and renewables), gas-fired generation, and energy storage to replace once-through-cooling units. Track 4 also authorizes 500-700MW for COD 2022 to replace SONGS.

Nonreg Solar focus on C&I; regulated focus on enabling technologies

EIX views the residential solar market as competitive and in any case, its SoCore Energy subsidiary remains focused on C&I business only (and mostly national/regional accounts) consistent with its strategy prior to acquisition. Furthermore, considering California's preference for a competitive renewable market, EIX tends to focus on utility initiatives as an enabler of renewable and distributed technologies rather than a direct (regulated) participant.

Electric vehicle program intended to be a free-market jump starter

In December 2014, the California Public Utility Commission reached a decision (CPUC 14-12-079) to allow investor-owned utilities to develop EV charging station infrastructure and include it in ratebase. This was the result of frustration with attempts to allow a competitive market to develop the charging station infrastructure on its own, a "chicken and egg" situation that has stalled development to date. SCE filed its Charge Ready Program application (CPUC A.14-10-014) in October 2014. The program is intended to support the Governor's 2012 zero-emission vehicle Executive Order targeting 1.5M EVs by 2025, with the utilities serving about 1/3 of demand and the rest through non-regulated development.

EIX proposed a two-phase program over five years to install up to 30K EV charging stations at a cost of about $355M. Phase 1 from 2015-2016 will be a $22M pilot for 1,500 chargers followed by a $333M Phase 2 for an additional 28,500 chargers from 2016-2020. Approval of Phase 1 was requested by April 2015. EIX is projecting that this will address about 1/3 of ~$1B market in 2020 for non-single family home charging demand within Southern California Edison territory alone.

Figure 35: Projected Electric Vehicles in Utility Service Territories, 2015-2019

Electric Vehicles Projected	PG&E	SCE	SDG&E
2015	66,000	63,828	12,103
2016	84,000	103,270	16,036
2017	102,000	151,796	20,024
2018	120,000	211,534	24,289
2019	138,000	278,244	29,708
2020	156,000	356,324	37,311
2021	190,000	443,456	46,940
2022	228,000	540,308	61,618

Source: CPUC Joint IOU Electric Vehicle Load Research Report, Dec 2014

Under both companies' proposals, each station would include a minimum of 10 chargers, with participants owning, operating, and maintaining the equipment. The estimated capital cost per station is $11,400, with the investment credited to ratebase with a rebate to participants. Chargers would either be 110V or 240V with Demand Response capability.

End goal: two-way flow and an actively managed distribution system

We anticipate that the creation of an EV infrastructure on the grid is really just a stepping stone toward a more capable actively managed and dispatched distribution grid that fully supports two-way flow from all types of distributed generation and electric storage. Eventually, all devices on the system would support each other while the system regulates voltage and power with the help of the next generation of transformers and capacitors.

We see EV penetration as the antidote to the solar DG trend

EV appears to be the single largest long-term source of demand for the sector

While still quite nascent, we see the trends towards EVs as potentially the counter-point in recent negative demand trends resulting from distributed solar generation. We suspect limits on solar irradiation on rooftops will limit the attractiveness of truly going 'off grid' with cars (despite their embedded storage elements). Rather, we see the additional electricity needs for the car as only tightening the relationship with the utility.

Valuation: Maintain PT $70

Our valuation is based on a 2017E average utility P/E with a 1x-turn premium to regulated peers for the California jurisdiction assets and a 1.5x premium for FERC regulated transmission. We also subtract out our -$0.15 estimate for 2017 cost savings as these will be absorbed back into customer rates in the 2018 GRC. As discussed above, our base case assumes a SONGS ex-parte penalty of 10% the ORA request of $648M (essentially immaterial). Our low case assumes the full $648M (~$1/sh after tax).

Figure 3: Updated EIX Earnings Estimates

Sum of the Parts Analysis - UBSe										
		2017E EPS		P/E Multiple				Value Per Share		
Base Case Scenario:										
			Low	Group	Discount/ Premium	Base	High	Low	Base	High
SCE Estimate		$4.46								
CPUC	77.0%	3.43	15.6x	15.6x	1.0x	16.6x	17.6x	$53.62	$57.06	$60.49
FERC	23.0%	1.03	16.6x	17.1x		17.1x	17.6x	17.04	17.56	18.07
Parent Drag		(0.15)	15.6x			16.6x	17.6x	(2.35)	(2.50)	(2.65)
Cost savings clawback in 2018		(0.15)	15.6x			16.6x	17.6x	(2.34)	(2.49)	(2.64)
SONGS penalty contingency ($M)			$ (648)	Probability	10%	$ (65)		(1.18)	(0.12)	-
Implied Valuation		$4.31						$65.00	$70.00	$73.00

Source: Company Filings, FactSet, and UBS Estimates

Edison International (EIX.N)

Income statement (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Revenues	**11,862**	**12,581**	**13,413**	**13,457**	*0.3*	**14,009**	*4.1*	**14,570**	**15,041**	**15,498**
Gross profit	7,723	7,690	7,820	7,752	*-0.9*	8,190	*5.6*	8,635	8,987	9,323
EBITDA (UBS)	**3,934**	**3,387**	**4,416**	**4,324**	*-2.1*	**4,705**	*8.8*	**5,090**	**5,388**	**5,651**
Depreciation & amortisation	(1,562)	(1,622)	(1,720)	(1,754)	*2.0*	(1,879)	*7.1*	(2,035)	(2,167)	(2,265)
EBIT (UBS)	**2,372**	**1,765**	**2,696**	**2,570**	*-4.7*	**2,826**	*9.9*	**3,054**	**3,221**	**3,386**
Associates & investment income	10	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(521)	(544)	(560)	(578)	*-3.2*	(636)	*-10.1*	(701)	(751)	(781)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**1,861**	**1,221**	**2,136**	**1,992**	*-6.7*	**2,189**	*9.9*	**2,353**	**2,470**	**2,605**
Tax	(267)	(242)	(530)	(697)	*-31.6*	(766)	*-9.9*	(824)	(864)	(912)
Profit after tax	**1,594**	**979**	**1,606**	**1,295**	*-19.4*	**1,423**	*9.9*	**1,529**	**1,605**	**1,693**
Preference dividends	(91)	(100)	(112)	(112)	-	(112)	-	(112)	(112)	(112)
Minorities	0	0	3	0	-	0	-	0	0	0
Extraordinary items	(225)	358	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**1,278**	**1,237**	**1,497**	**1,183**	*-21.0*	**1,311**	*10.8*	**1,417**	**1,493**	**1,581**
Net earnings (UBS)	**1,278**	**1,237**	**1,497**	**1,183**	*-21.0*	**1,311**	*10.8*	**1,417**	**1,493**	**1,581**
Tax rate (%)	14.3	0.0	24.8	35.0	*41.1*	35.0	*0.0*	35.0	35.0	35.0

Per share (US$)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
EPS (UBS, diluted)	3.87	3.76	4.55	3.60	*-21.0*	3.98	*10.8*	4.31	4.54	4.81
EPS (local GAAP, diluted)	3.87	3.76	4.55	3.60	*-21.0*	3.98	*10.8*	4.31	4.54	4.81
EPS (UBS, basic)	3.92	3.80	4.59	3.63	*-21.0*	4.02	*10.8*	4.35	4.58	4.85
Net DPS (US$)	1.31	1.37	1.47	1.71	*15.8*	2.01	*18.0*	2.31	2.45	2.59
Cash EPS (UBS, diluted)[1]	8.61	8.69	9.78	8.93	*-8.7*	9.70	*8.6*	10.49	11.13	11.69
Book value per share	28.95	30.21	32.54	33.38	*2.6*	34.28	*2.7*	36.01	37.84	39.80
Average shares (diluted)	330.00	329.00	329.00	329.00	*0.0*	329.00	*0.0*	329.00	329.00	329.00

Balance sheet (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Cash and equivalents	170	146	144	155	*7.1*	170	*10.3*	193	209	220
Other current assets	2,502	3,166	3,067	3,089	*0.7*	3,205	*3.7*	3,324	3,425	3,522
Total current assets	**2,672**	**3,312**	**3,211**	**3,244**	*1.0*	**3,375**	*4.1*	**3,517**	**3,634**	**3,741**
Net tangible fixed assets	30,273	30,455	32,835	35,181	*7.1*	38,102	*8.3*	40,566	42,399	43,934
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	11,449	12,879	12,879	12,879	*0.0*	12,879	*0.0*	12,879	12,879	12,879
Total assets	**44,394**	**46,646**	**48,925**	**51,304**	*4.9*	**54,356**	*5.9*	**56,962**	**58,912**	**60,555**
Trade payables & other ST liabilities	3,569	4,071	4,330	4,408	*1.8*	4,520	*2.5*	4,644	4,761	4,867
Short term debt	175	810	1,326	1,170	*-11.79*	993	*-15.12*	1,078	1,130	1,166
Total current liabilities	**3,744**	**4,881**	**5,656**	**5,577**	*-1.4*	**5,512**	*-1.2*	**5,722**	**5,891**	**6,033**
Long term debt	9,231	9,825	10,179	11,697	*14.9*	13,800	*18.0*	15,137	15,955	16,512
Other long term liabilities	20,228	20,249	20,736	21,394	*3.2*	22,116	*3.4*	22,609	22,976	23,283
Preferred shares	1,759	1,753	1,753	1,753	*0.00*	1,753	*0.00*	1,753	1,753	1,753
Total liabilities (incl pref shares)	**34,962**	**36,708**	**38,325**	**40,420**	*5.5*	**43,181**	*6.8*	**45,221**	**46,575**	**47,581**
Common s/h equity	9,432	9,938	10,600	10,883	*2.7*	11,175	*2.7*	11,741	12,337	12,974
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**44,394**	**46,646**	**48,925**	**51,304**	*4.9*	**54,356**	*5.9*	**56,962**	**58,912**	**60,555**

Cash flow (US$m)	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Net income (before pref divs)	1,369	1,337	1,609	1,295	*-19.5*	1,423	*9.9*	1,529	1,605	1,693
Depreciation & amortisation	1,562	1,622	1,720	1,754	*2.0*	1,879	*7.1*	2,035	2,167	2,265
Net change in working capital	238	(143)	358	55	*-84.6*	(4)	-	6	16	9
Other operating	1,066	88	(225)	(199)	*11.6*	(210)	*-5.5*	0	0	0
Operating cash flow	**4,235**	**2,904**	**3,462**	**2,905**	*-16.1*	**3,089**	*6.3*	**3,570**	**3,788**	**3,967**
Tangible capital expenditure	(4,149)	(3,599)	(4,100)	(4,100)	*0.0*	(4,800)	*-17.1*	(4,500)	(4,000)	(3,800)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	114	181	0	0	-	0	-	0	0	0
Other investing	(1,248)	(390)	0	0	-	0	-	0	0	0
Investing cash flow	**(5,283)**	**(3,808)**	**(4,100)**	**(4,100)**	*0.0*	**(4,800)**	*-17.1*	**(4,500)**	**(4,000)**	**(3,800)**
Equity dividends paid	(424)	(440)	(509)	(600)	*-18.0*	(708)	*-18.0*	(751)	(796)	(844)
Share issues / (buybacks)	(68)	(48)	0	0	-	0	-	0	0	0
Other financing	292	(101)	(101)	(101)	*0.00*	(101)	*0.00*	(101)	(101)	(101)
Change in debt & pref shares	850	1,170	870	1,361	*56.35*	1,926	*41.56*	1,423	870	593
Financing cash flow	**650**	**581**	**261**	**660**	*153.0*	**1,117**	*69.4*	**571**	**(26)**	**(352)**
Cash flow inc/(dec) in cash	**(398)**	**(323)**	**(377)**	**(535)**	*-42.0*	**(595)**	*-11.1*	**(358)**	**(238)**	**(185)**
FX / non cash items	(901)	299	375	545	*45.3*	610	*11.9*	381	255	195
Balance sheet inc/(dec) in cash	**(1,299)**	**(24)**	**(2)**	**10**	-	**16**	*54.9*	**23**	**17**	**10**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Edison International (EIX.N)

Valuation (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
P/E (local GAAP, diluted)	11.4	12.8	12.4	17.1	15.5	14.3	13.6	12.8
P/E (UBS, diluted)	11.4	12.8	12.4	17.1	15.5	14.3	13.6	12.8
P/CEPS	5.1	5.5	5.7	6.8	6.3	5.8	5.5	5.2
Equity FCF (UBS) yield %	0.6	(4.4)	(3.4)	(5.9)	(8.5)	(4.6)	(1.1)	0.8
Net dividend yield (%)	3.0	2.8	2.6	2.8	3.3	3.7	4.0	4.2
P/BV x	1.5	1.6	1.7	1.8	1.8	1.7	1.6	1.5
EV/revenues (core)	2.0	1.9	2.1	2.3	2.3	2.3	2.3	2.2
EV/EBITDA (core)	6.1	7.1	6.3	7.1	6.8	6.7	6.3	6.0
EV/EBIT (core)	10.1	13.6	10.3	11.9	11.4	11.1	10.5	10.0
EV/OpFCF (core)	25.6	NM	19.7	23.1	18.9	16.2	14.2	12.8
EV/op. invested capital	1.3	1.4	1.5	1.5	1.5	1.4	1.3	1.3

Enterprise value (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	14,382	15,640	18,485	20,090	20,090	20,090	20,090	20,090
Net debt (cash)	12,365	11,619	12,678	13,789	15,420	17,075	17,075	17,075
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	1,406	1,406	1,406	1,406	1,406	1,406	1,406	1,406
Total enterprise value	**28,153**	**28,664**	**32,569**	**35,285**	**36,915**	**38,571**	**38,571**	**38,571**
Non core assets	(4,234)	(4,701)	(4,701)	(4,701)	(4,701)	(4,701)	(4,701)	(4,701)
Core enterprise value	**23,919**	**23,963**	**27,868**	**30,584**	**32,214**	**33,870**	**33,870**	**33,870**

Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	-7.0	6.1	6.6	0.3	4.1	4.0	3.2	3.0
EBITDA (UBS)	75.3	-13.9	30.4	-2.1	8.8	8.2	5.9	4.9
EBIT (UBS)	NM	-25.6	52.7	-4.7	9.9	8.1	5.4	5.1
EPS (UBS, diluted)	21.6	-2.9	21.0	-21.0	10.8	8.1	5.3	5.9
Net DPS	2.1	4.2	7.7	15.8	18.0	14.6	6.0	6.0

Margins & Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Gross profit margin	65.1	61.1	58.3	57.6	58.5	59.3	59.8	60.2
EBITDA margin	33.2	26.9	32.9	32.1	33.6	34.9	35.8	36.5
EBIT margin	20.0	14.0	20.1	19.1	20.2	21.0	21.4	21.8
Net earnings (UBS) margin	10.8	9.8	11.2	8.8	9.4	9.7	9.9	10.2
ROIC (EBIT)	13.3	10.5	14.8	13.0	13.0	12.8	12.6	12.6
ROIC post tax	9.8	10.5	11.1	8.4	8.4	8.3	8.2	8.2
ROE (UBS)	13.1	12.8	14.6	11.0	11.9	12.4	12.4	12.5

Capital structure & Coverage (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net debt / EBITDA	2.8	3.6	3.0	3.3	3.5	3.5	3.5	3.4
Net debt / total equity %	116.6	123.2	123.7	132.9	146.5	151.4	151.0	148.1
Net debt / (net debt + total equity) %	53.8	55.2	55.3	57.1	59.4	60.2	60.2	59.7
Net debt/EV %	46.0	51.1	47.1	47.3	50.8	52.5	55.0	56.7
Capex / depreciation %	NM	NM	NM	NM	NM	NM	184.6	167.8
Capex / revenue %	NM	28.6	NM	NM	NM	NM	26.6	24.5
EBIT / net interest	4.6	3.2	4.8	4.4	4.4	4.4	4.3	4.3
Dividend cover (UBS)	3.0	2.8	3.1	2.1	2.0	1.9	1.9	1.9
Div. payout ratio (UBS) %	33.5	36.0	32.1	47.0	50.1	53.1	53.4	53.5

Revenues by division (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	11,862	12,581	13,413	13,457	14,009	14,570	15,041	15,498
Total	**11,862**	**12,581**	**13,413**	**13,457**	**14,009**	**14,570**	**15,041**	**15,498**

EBIT (UBS) by division (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Others	2,372	1,765	2,696	2,570	2,826	3,054	3,221	3,386
Total	**2,372**	**1,765**	**2,696**	**2,570**	**2,826**	**3,054**	**3,221**	**3,386**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+13.5%
Forecast dividend yield	2.9%
Forecast stock return	+16.4%
Market return assumption	5.6%
Forecast excess return	+10.8%

Statement of Risk

Edison International's primary subsidiary is Southern California Edison (SCE). Primary risk factors impairing SCE from achieving our earnings, cash flow and price target objectives include: adverse regulatory decisions by the California Public Utilities Commission (CPUC), including rate case decisions and cost of capital proceedings (CoC), or restrictions placed on the utility by the CPUC regarding the movement of funds between the utility and parent to meet its debt service and other financial obligations and to pay dividends on its common stock, as well as from the federal regulators, FERC. Additional risks include interest rate and capital markets risk; slowdown in the regional economy; ongoing uncertainty in decommissioning of SONGS nuclear unit; more stringent environment regulation; adverse market performance requiring unplanned contributions to the pension plans and other postretirement benefit plans are other significant risks, among others. There remains limited uncertainty as to liabilities owed by Edison International to its now defunct, unregulated Edison Mission subsidiary.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	45%	37%
Neutral	FSR is between -6% and 6% of the MRA.	43%	33%
Sell	FSR is > 6% below the MRA.	12%	20%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2015.
1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Edison International[2, 4, 6, 16]	EIX.N	Neutral	N/A	US$61.66	28 Apr 2015

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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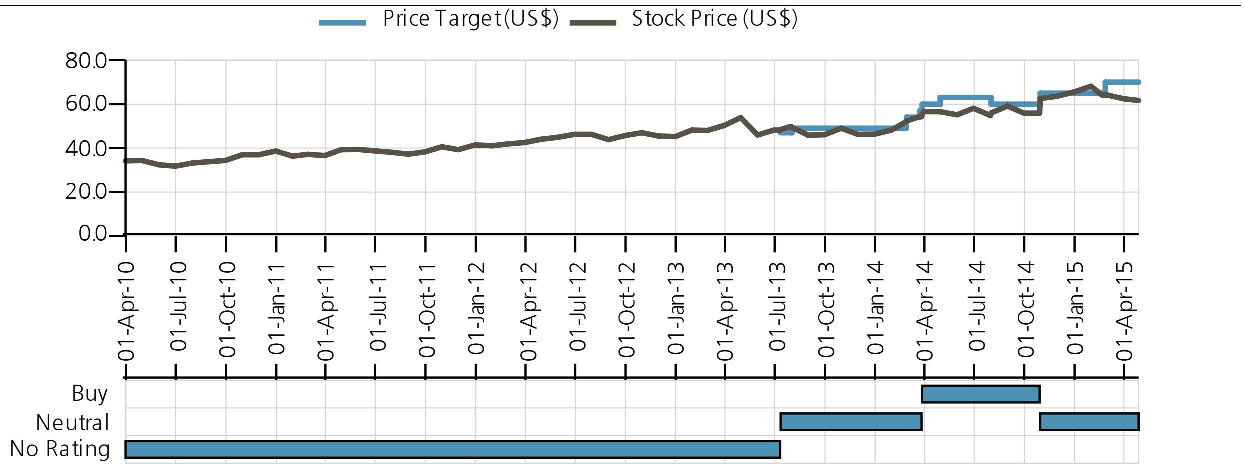
Edison International (US$)



Source: UBS; as of 28 Apr 2015

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