Power, Utilities & Renewables, LNG

Contemplating California Fires

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Refer to important disclosures on page 15-22. Price Objective Basis/Risk on page 13.Analyst Certification on page 14.

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Main Points to Consider on the California Wildfire 'Process'

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- Wildfire fund is *not* a panacea: still has a 20% deductible for 3-years cumulative period: creates clear risks on initial exposure. Recall PG&E can only access it if it exits process by June '20.

- We continue to see renewable contracts as intact: positive to the sector despite earlier fears

- Securitization is still the main open policy question

- Non-monetary operational fixes to utilities still very much active and underway for PG&E to address future efforts.

- How will utilities operate in future for capacity procurement: will they really be counterparties given their embedded fire-risk as a counterparty?

- How will de-energizations shift attitudes toward distributed generation? We see this as a clear potential positive factor to the sector still

PG&E Corp: Framing the Latest Steps

- Creditors propose Alternative Plan of reorganization with victims on board
  - The Ad Hoc Creditors (bondholders) and torts (victims) reached a deal
  - Deal would be settled at $24Bn inclusive of all wildfire claims, subrogation, through a combination of shares and common stock
  - Allocation between beneficiaries was undisclosed
  - Plan calls for $28.4bn of new money in exchange for 58.8% common stock of the reorganized PG&E. *Would substantially reduce equity holders when taken in conjunction of bondholders and torts.*

- We expect PCG to match or offer a modest discount to the implied tort offer
  - PCG formalized a deal to resolve all insurance subrogation claims for $11Bn
  - Previously settled with Munis for $1Bn

- We see this update as constructive. The terms at which torts are willing to settle (with claims north of $40Bn initially) de-risks the ranges of outcome.

- Absolute Priority Rule? - latest arguments raised by the torts is the 'Absolute Priority' rule of their claims

  "precludes an insurer from recovering any third-party funds unless and until the insured has been made whole for the loss".

- Key dates to watch include 9/24 bankruptcy hearings and CPUC data points later this week.

Source: BofA Merrill Lynch Global Research estimates, company filings, Bloomberg "$ in Mn, except per share data

PG&E Corp: Critical Caveats to understand

- **PG&E Financings:**
  - $7Bn of Holdco Debt as new indebtedness, 1/3rd of total $21Bn need
  - $14Bn of Backstop/Rights Offering/Permitted Equity Offering

- **Net Income:**
  - Mgmt's assumption of $2.2Bn (vs. $2.5-2.6Bn in our last '21 outlook) reflects both additional Holdco interest of ~$0.2 Bn and unrecoverable wildfire costs. We caution investors from over-emphasizing this illustrative view of Net Income as a starting point for any multiple. *Bottom line, core business should continue to accrue similar Net Income adjusted for ~$100 Mn in non-recoverables expenses for wildfires.*
  - *Transmission ROEs* for EIX just got established at ~11.2% with 50bp RTO adder: but we still think cost of capital is largely unchanged. Higher than we had thought previously.

- **Securitization: Finding Savings for a non-legislative securitization effort?**
  - This appears the latest effort and could very well involve another element of opex & interest. We see this as critical to watch how this evolves given potential upside.
  - Can securitization legislation be raised again next year as an explicit revenue deferral, potentially enabling tax-free financing solution too.
  - *None of these contemplated solutions would have an impact on ratepayers but rather find a less immediate way to raise capital.*

Source: BofA Merrill Lynch Global Research estimates, company filings, Bloomberg “$ in Mn, except per share data

PG&E: Equity Capital Raise is critical question now….

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- The illustrative deck from mgmt. proposes upwards of 60% provided from existing shareholders, rather than closer to 100% contemplated by many. Reductions in the form of asset sales was not discussed nor was any more complicated tax monetization efforts to effectively lever against future NOLs.

- Strong incentive to allow the existing shareholders to pay-in to keep their overall % ownership intact: this is critical to the recovery scenario among investors.

- Dilution could be driven by payments to liabilities directly: *instead* of raising capital dollar-for-dollar.

- How much can be securitized against future NOLs? This remains a further angle to limit total equity raise.

PG&E Debt Considerations

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Historically BBB+ companies require ~mid-teens FFO/debt for IG metrics according to rating agencies

There is also a total indebtedness at HoldCo: typically ~30% or so. The $7 Bn would place this at ~20% Holdco/Total Debt

We also flag ~$5 Bn of other liabilities (leases/pension) from the parent to consider when calculating FFO/Debt metrics

Building momentum in the CPUC process?

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- Critical Items to watch for upcoming open meeting at the CPUC later this week
  - Locate and mark
  - OII on '17 wildfires (and potentially '18)
  - Cost of Capital
  - Securitization through AB1054
  - Capital structure waiver
    - Focus is on achieving wider settlements on key cases to reduce underlying risk.
- Sources of capital: Equity commitments and Others
  - $27.4Bn of OpCo debt (48% of ratebase); $7bn of Holdco debt; and $14bn of equity.
  - The backstop commitments are for $14.05/sh and PG&E is seeking a 60/40 split between a Rights Offering for existing shareholders and a new equity offering.
  - $4Bn of NOLs with potentially up to $7Bn through resolving claims that the company can monetize or raise OpCo debt against where it would not count against the capital structure.
- Absent a settlement, the Tubbs trial is slated for January 7th with ~ a six week trial. pointing to a mid-February solution.

Date	Event	Details/Potential Outcome
24-Sep	Hearing on plan reorganization	Constructive given Subro settlement
26-Sep	End of Exclusivity	Potential for extension
26-Sep	CPUC Open Meeting	Momentum on settlements; OII on BK emergence
7-Oct	Estimation Status Conference	Proposal on how to estimate claims
16-Oct	Bankruptcy Court Approval of Subrogation	
21-Oct	Bar Date	Last date parties can file claims
26-Oct	Due Date of Debtors IC brief	Brief on inverse condemnation

Source: BofA Merrill Lynch Global Research estimates, company filings, Bloomberg "$ in Mn, except per share data

What to Watch on Process?

- **TCC & the Torts:** This remains the most substantial outstanding question: however, with creditors having reached a collective $24Bn deal, the question is just how much is for the torts? Docs state that this is $15 Bn. Relative to the assumed $12Bn already committed to insurance companies & municipalities: this would imply a total closer to $27Bn.
- **Exclusivity:** *Who* is driving the plan of reorganization. Right now, it's the existing equity holders, but this question could ultimately be answered on October 8th rather than September 24th. The effort is for equity to maintain an exclusive hold on equity.
- **Value is there..** Question is how it gets shared among constituents.
- **Will** *anyone* take PG&E stock in place of cash: this would be the incentive for some to negotiate it would seem?
- **No one has incentive to reject renewables:** We *recently* upgraded CWEN to Buy predicated on this growing comfort in contract integrity.

California Diversification: Contrasting SRE from its peers PCG/EIX

SRE: Has embarked on diversification strategy

Meanwhile both PG&E and EIX have abundant credit latitude, but have not diversified. The question is just when & how will this be deployed. Leverage capacity could very well be deployed to address wildfire funds, but we haven't been too hopeful given potential look-thru at capital structure back to Opco (particularly given ongoing CoC case).

No CPUC waivers have been provided on capital structure *beyond that allowed explicitly for wildfire fund contributions.*

PG&E proposal has a placeholder for $7bn of holding company debt: this would largely utilize existing leverage capacity..

A question is just how Holding company latitude can be employed and/or what instruments would be palatable?

Edison International (EIX - Neutral $80 PO): SOTP Valuation

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EIX SOTP

SCE Components	% SCE	Authorized ROE Reflected	2021 Earnings	2021 EPS	Peer Multiple	Premium/Discount	Value per Share
Group Peer Multiple - Electric					19.9x		
Group EPS '18-'22 CAGR - Electric					5.00%		
CPUC - Core	81%	10.30%	1,483	$4.09	20.9x	-2.0x	$77.34
CPUC/FERC - Further Capital	-2%		-45	($0.12)	20.9x	-2.0x	($2.36)
FERC	21%	10.50%	387	$1.07	20.9x	-2.0x	$20.17
Edison Energy			7	0.02	10.0x	0.0x	$0.20
Parent/Other			-119	-0.33	20.9x	-2.0x	($6.18)
Total EPS				$4.73			
Ongoing contribution to Wildfire Fund				$Mn	EPS	Multiple	
NPV of Ongoing Wildfire Contribution ($945mn over 10yrs)				($664)			($1.83)
Total Liabilities				$Mn			
Wildfire Liabilities Assumptions							
Current Charge: 2017 Thomas, Mudslides, Woolsey Fires: Low End of Range				-4,700			
Gross Up Factor			10%	-5,170			
Insurance Receivable				2,000			
Wildfire Liability Incl Insurance Offset				-3,170			
FERC Allocation ~5%			5%	159			
Net Exposure				-3,012			
Post Tax Net Exposure			28%	-2,168			

Funding of '17/18 wildfire liabilities

Liabilities:	Equity Issued	Shares Issued	Shares O/S (pre-dilution)	New Share O/S	Equity Dilution	Equity Value - Prior dilution	Value Per Share
Wildfire Liabilities - Post-tax	2168						
Total	2168	30	362	392	8%	$87	
Equity Value							$80
Price Appreciation							9.0%
2019 Yield							3.3%
Total Return							12.33%
Shares- Post Dilution	392						

Source: BofA Merrill Lynch Global Research estimates, company filings, "$ in Mn, except per share data

Edison International (EIX - Neutral $80 PO): EPS Estimates

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EIX Mini-Model	2018A	2019E	2020E	2021E	2022E	2023E
Authorized Capital Structure						
Authorized Equity Capital %	48%	48%	50%	50%	50%	50%
Authorized CPUC ROE	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%
FERC ROE Build						
FERC Base Rate	9.30%					
CAISO (RTO Participation Adder)	0.50%					
Avg Project Incentive Adder	0.70%					
Authorized FERC ROE Build	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**	**10.5%**
Ratebase Growth						
Ratebase - Including Adjustments Below (Avg)	28,601	30,913	33,694	36,165	38,139	39,979
We include mitigation spending in ratebase and then net out EPS impact below						
Guidance Midpt ($Bn) (Ex. ~$1.6Bn of fire risk mitigation from AB 1054)	**28.5**	**30.7**	**33.4**	**35.7**	**37.6**	**39.9**
Breakdown:						
CPUC Ratebase (Avg)	22,107	24,033	26,325	28,798	31,295	33,775
FERC Ratebase (Avg)	6,144	6,880	7,369	7,367	6,845	6,204
Ratebase Growth	9.4%	8.1%	9.0%	7.3%	5.5%	4.8%
% FERC	23%	22%	22%	19%	17%	14%
Shares (Basic)	326	359	360	361	361	362
Shares (Diluted)	326	345	362	362	363	364
Ratebase-Only EPS	**4.30**	**4.45**	**4.82**	**5.16**	**5.43**	**5.68**
Additions/Subtractions to Spend						
Storage Upside (Inlcuded in base CaEx			0.00	0.00	0.00	0.00
Transmission project - pending potential rejection (~$100 Mn capex)			-0.01	-0.01	-0.01	-0.01
Wildfire mitigation spend (~$1.6bn excluded from earning ROE)			-0.10	-0.09		
Charge Ready II ($561Mn of Capital)			0.02	0.04	0.06	0.08
Changes to Capital Structure and ROE Adjustments						
Cost Savings (ex-Debt Cost Savings)	**0.00**	**0.00**	**0.10**	**0.00**	**0.05**	**0.10**
Debt Cost Savings	0.00	0.00	0.00	0.00	0.00	0.00
Interest expense from Wildfire Contribution Debt (~$1.2bn)		-0.04	-0.11	-0.11	-0.11	-0.11
Energy Efficiency	0.03	0.05	0.05	0.05	0.05	0.05
AFUDC Benefits		0.32	0.11			
Tax benefits and Other (insurance?)	-0.08					
FERC Recovery	0.02					
Z Factor Upside (1Q19)		0.04				
Post Tax Adj	**0.00**					
Parent Drag & Edison Energy			*Breakeven run-rate heading into 2020*			
Edison Energy Group (EEG)--> Can it improve?	**-0.04**	**-0.02**	0.00	0.02	0.02	0.02
SoCore Impairment						
Parent and Other	-0.23	-0.29	-0.31	-0.33	-0.33	-0.33
Toal Parent & Other Drag (Incl EEG) - ($0.30) to ($0.35) Guidance 4Q18 Call	-0.27	-0.31	-0.31	-0.31	-0.31	-0.31
Total EPS (Basic)	4.14	4.33	4.58	4.75	5.18	5.49
Total EPS (Diluted)	**4.14**	**4.51**	**4.56**	**4.73**	**5.15**	**5.47**
Previous estimate		4.54	4.63	4.80	5.20	5.64
Consensus	4.17	4.67	4.56	4.75	5.63	

Source: BofA Merrill Lynch Global Research estimates, company filings, Bloomberg "$ in Mn, except per share data

Price Objective Basis and Risk

Edison International (EIX; USD74.16; B-2-8)

Our $80 PO is based on SOTP, applying a 2x disc to the FERC and CPUC jurisdictional subsidiaries, and the parent/other segment (vs peer P/E of 19.9x on 2021E, grossed up to 2019 by 5% to reflect capital appreciation across the sector).The disc reflects CA inverse condemnation liab risk. We apply 10x 2021E P/E to the Edison Energy segment to reflect uncertainty in the nascent biz. We net out ongoing contribution to the fund on an NPV basis. Lastly, we assume equity financing to fund '17/18 wildfire claims.

Downside risks: 1) Regulatory outcomes less favorable than expected. 2) Natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk. 3) Interest rate risk. 4) Non-reg businesses are inherently more risky and subject to both execution risk and commodity variation. 5) CA has specific risks given the differentiated regulatory regime. 6) CA wildfires. Upside risks: rate case outcome above what's embedded in companies' guidance and BofAMLe, lower interest rates, more constructive regulatory / legislative outcomes to address wildfire risk

PG&E Corporation (PCG; USD11.54; -6-)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Analyst Certification

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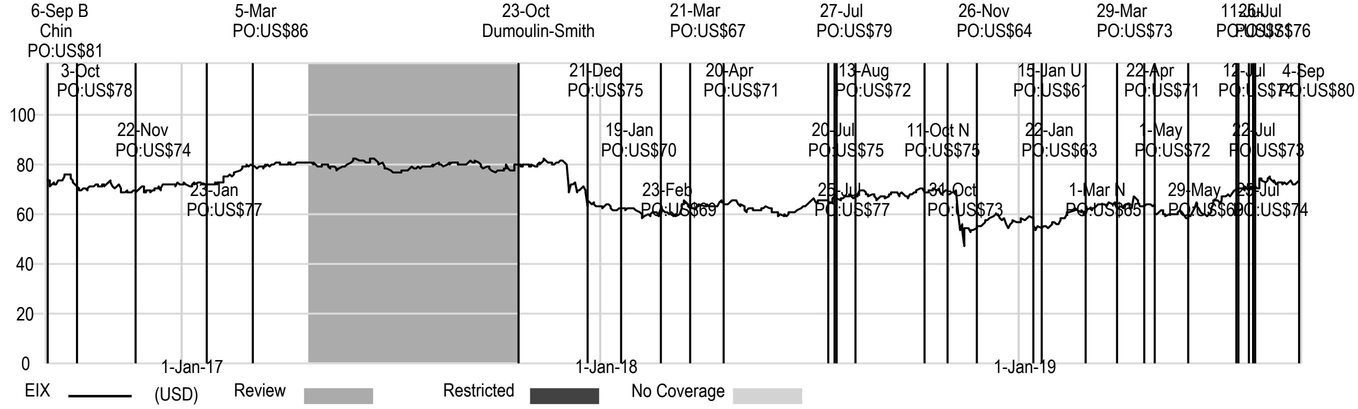
EIX Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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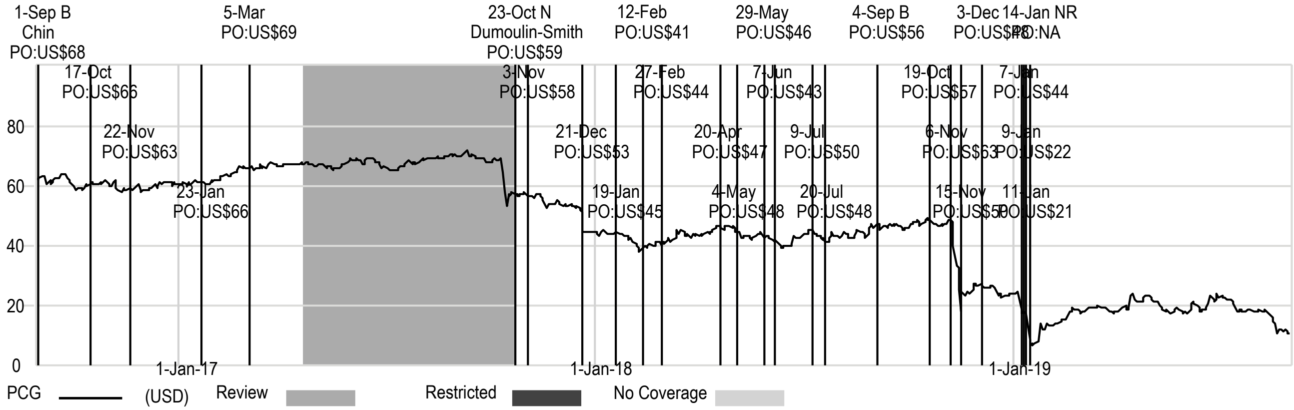
PCG Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	5	62.50%	Buy	4	80.00%
Hold	2	25.00%	Hold	2	100.00%
Sell	1	12.50%	Sell	1	100.00%

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	44.20%	Buy	47	77.05%
Hold	42	30.43%	Hold	30	71.43%
Sell	35	25.36%	Sell	27	77.14%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1516	51.23%	Buy	942	62.14%
Hold	687	23.22%	Hold	431	62.74%
Sell	756	25.55%	Sell	380	50.26%

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