Edison International CFO: Transmission permitting, regulatory review remains challenging

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Transmission permitting and regulatory review remains challenging in California and for utilities in other parts of the country, Maria Rigatti, **Edison International**'s (NYSE:EIX) executive vice president and CFO, said on Nov. 1 during the company's 3Q16 earnings call.
"The $1.1bn West of Devers project was approved by the [**California Public Utilities Commission**, or] CPUC in August, but that decision was appealed in September on environmental grounds," she said. "The approval decision stands pending appeal. Also, alternative designs have been proposed in the CPUC review of the $600m Mesa substation project that would require significant reengineering. [**Southern California Edison**, or] SEC and the **California ISO** continue to recommend the project."
Those permitting and approval challenges are increasingly typical of transmission planning and part of the process, although the need for these projects is not affected by the regulatory delays that impact initial timing, she said.

"Despite these challenges, we continue to see at least $4bn in annual SEC capital spending, and roughly $2bn of annual rate base growth in 2017 and for the foreseeable future," she said. "With almost all of that investment in the wire side of the business, we believe it has lower investment opportunity risk as compared to utilities with a high percentage of growth tied to generation investment."
She also noted that SEC continually assesses how best to optimize between new capital spending opportunities that may be identified and any changes in the schedule for existing projects or in overall capital spending.
SEC continues to seek approval of the memorandum account to cover roughly $200m of early stage grid modernization capital spending forecast in 2016 and 2017, she said, adding, "If approval is not granted by late this year or early next year, it could push out the timeline for ramping up grid modernization spending under the 2018 [general rate case, or] GRC."
Edison International President and CEO Pedro Pizarro, noted during the call that SCE's 2018 GRC filed on Sept. 1 demonstrates the company's commitment to three key strategy elements:

- To maintain a safe and reliable wires network
- Be a key enabler of California' commitment to addressing climate change through significant greenhouse gas reduction, led by the company's proposed grid

modernization efforts to support widespread adoption of solar, storage, electric vehicle charging, and other technologies

- Continue the company's operational excellence journey to achieve top quartile performance in safety, reliability, customer satisfaction and cost

In its Sept. 1 filing, SEC asked the CPUC to authorize a base revenue requirement (ABRR) of about $5.9bn to become effective Jan. 1, 2018, and to reflect the ABRR in distribution, generation and new system generation (peakers) rates. Including sales reductions and $48m in other one-time balancing and memorandum account recoveries, the company said that its request represents a $313m, or 5.5%, increase over currently authorized base rates.

Recently, CPUC President Michael Picker and two administrative law judges (ALJs) were assigned to the case, Pizarro said, adding that Picker is also leading a broader proceeding that is looking at distribution resource plans, as well as addressing many of the policy and technical details of solar and other distributed energy resources.

Pizarro also said that SEC recently held the first of several GRC workshops, which was well-attended, including by both of the assigned ALJs.

The grid modernization efforts included in the GRC request will support California's implementation of Senate Bill 32, which was signed by California Gov. Edmund Brown Jr., in September, Pizarro said.

That legislation requires the state to cut greenhouse gas emissions 40% below 1990 levels by 2030 in order to help address global climate change, he said, adding, "California has led the way over the past decades with progressive policies across renewables, energy efficiency, vehicle fuel standards, and cap and trade."

Noting that grid modernization is a significant part of the solution needed to reduce greenhouse gas emissions, Pizarro said, "We believe that California will have to move much more aggressively and sooner rather than later to meet these new legislative mandates within a short 14 years."

Many of California's policies to date have focused on electric power, but generation, both in-state and from imports, represents only an estimated 20% of current statewide greenhouse gas emissions, he said. The largest source of greenhouse gas emissions is the transportation sector, with an estimated 36% of current emissions, and industrial sources represent another 21%, he said.

"We believe that significant new efforts across all sectors of the economy will be needed, and many of these efforts will require significant electrification of sectors that today rely on fossil fuels," Pizarro said. "We see ourselves as a key partner with California in this effort. Edison International is committed to being one of the most constructive agents of change in helping California meet its greenhouse gas objectives."

Earnings report

Edison International on Nov. 1 reported 3Q16 net income of $419m, or $1.29 per share, compared to $421m, or $1.29 per share, in 3Q15. There were no non-core items in the 3Q16 results, the company said, adding that as adjusted, 3Q15 core earnings were $377m, or $1.16 per share.

SCE's 3Q16 net income increased by $46m, or 15 cents per share, from 3Q15 primarily due to the timing of the implementation of the 2015 GRC proposed decision and incremental return on pole loading rate base, partially offset by higher income tax expense, the company said.

SCE's 2015 earnings were impacted by the timing of the 2015 GRC decision, Edison International said, adding that during 2015, SCE recorded revenue refunds to customers, which totaled $451m to reflect the final decision in the 2015 GRC. In 3Q15, SCE recorded a refund of $233m as a result of receiving the proposed GRC decision, of which a total of $70m ($41m after-tax), or 13 cents per share, was attributable to the first six months of 2015, the company said. Among other things, the company said that 3Q16 earnings included an increase in revenue of about $46m ($27m after-tax), or 8 cents per share, from the revenue escalation mechanism in the 2015 GRC decision.

By

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