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Edison International (EIX) CEO Pedro Pizarro on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release *Slides*

EPS of $1.5 misses by $-0.09 | Revenue of $3.74B (-12.37% Y/Y) misses by $-407.1M

Earning Call Audio

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Edison International (NYSE:EIX) Q3 2019 Earnings Conference Call October 29, 2019 4:30 PM ET

Company Participants

Sam Ramraj - Vice President, Investor Relations

Pedro Pizarro - President and Chief Executive Officer

Maria Rigatti - Executive Vice President and Chief Financial Officer

Adam Umanoff - Executive Vice President and General Counsel

Conference Call Participants

Gregory Gordon - Evercore ISI

Steven Fleishman - Wolfe Research

Praful Mehta - Citigroup

Julien Dumoulin-Smith - Bank of America Merrill Lynch

Ali Agha - SunTrust Robinson Humphrey

Operator

Good afternoon, and welcome to the Edison International Third Quarter 2019 Financial Teleconference. My name is Ted and I will be your operator today. [Operator Instructions]. Today's call is being recorded.

I would now like to turn the call over to Mr. Sam Ramraj, Vice President of Investor Relations. Mr. Ramraj, you may begin your conference.

Sam Ramraj

Thank you, Ted. And welcome, everyone. Our speakers today are President and Chief Executive Officer, Pedro Pizarro, and Executive Vice President and Chief Financial Officer, Maria Rigatti. Also here are other members of the management team.

Materials supporting today's call are available at www.edisoninvestor.com. These include our Form 10-Q, prepared remarks from Pedro and Maria and the teleconference presentation. Tomorrow, we will distribute our regular business update presentation.

During this call, we will make forward-looking statements about the outlook for Edison International and its subsidiaries. Actual results could differ materially from current expectations. Important factors that could cause different results are set forth in our SEC filings. Please read these carefully.

The presentation includes certain outlook assumptions as well as reconciliation of non-GAAP measures to the nearest GAAP measure.

During the question-and-answer session, please limit yourself to one question and one follow-up.

I will now turn the call over to Pedro.

Pedro Pizarro

Thank you, Sam, and good afternoon, everyone. Let me start with a sentiment that we are sadly feeling all too often here in California. Our hearts go out to our customers and community members, and our fellow Californians across the rest of our state, who have lost loved ones, homes, and property, have been evacuated, and have otherwise been impacted by devastating wildfires.

I will once again dedicate a significant part of my comments to how we are managing wildfire risks after I touch on our financial performance.

Today, Edison International reported third quarter core earnings of $1.50 per share, which was $0.06 below the same period last year. The decrease in core earnings was primarily due to higher O&M expense and share count dilution. These were partially offset by higher revenue from FERC as a result of the pending settlement of the 2018 formula rate case.

As I have mentioned before, year-over-year comparisons are not particularly meaningful due to the timing of the adoption of the 2018 general rate case final decision. Maria will discuss our financial performance in more detail during her remarks.

Since we last spoke to you on our second quarter earnings call, SCE filed its 2021 GRC application in late August, the 2019 California legislative session ended in September, and California's peak wildfire season has begun.

Much of the State has experienced "red flag" conditions – high heat, very low humidity, and strong winds – requiring proactive de-energization using public safety power shutoffs, or PSPS.

On state legislative matters, a number of wildfire-related bills were enacted into law in addition to AB 1054, that improve California's prevention, mitigation, and response efforts. These bills span a wide range of issues including vegetation management, community resiliency, and CPUC safety regulation, reflecting California's comprehensive approach to wildfire risk prevention and management.

At the same time, Edison has been implementing elements of AB 1054. On our last earnings call, we noted that SCE received its initial safety certification from the CPUC.

Since then, SCE made our initial wildfire fund contribution of $2.4 billion on September 9th. SCE will contribute approximately $95 million to the fund on January 1 of each year for 10 years.

Last week, the CPUC approved continuation of a Department of Water Resources non-bypassable charge, which will be used to fund customer contributions to the wildfire fund. These actions have satisfied several important legislative conditions to establish the statewide wildfire fund created by AB 1054.

We are in the peak fire season, and the backdrop for SCE's operational efforts continues to be severe weather conditions. This follows a wet winter that led to a build-up of fuels. Such conditions elevate the wildfire threat in the state's high fire risk areas. Our number one priority continues to be the safety of the public, our customers, employees, and first responders.

Since July and increasingly in the last several weeks, we have exercised our PSPS protocols to reduce the possibility that our system will be the cause of an ignition.

We recognize that PSPS is a disruptive hardship, and we strive to minimize the impact on our customers and communities. We do not take this action lightly, but it is necessary to protect Californians from catastrophic wildfires.

In fact, patrols conducted after PSPS events have found several instances of equipment damage and tree branches contacting power lines which could have ignited a fire.

We will continue to harden our system to minimize the need for these safety power shutoffs, but expect to utilize PSPS as we continue to enhance our system against wildfire threats.

We have invested over the past several years in sectionalizing many of our distribution circuits in HFRAs using switches and reclosers to increase the number of isolation points. SCE has an average of 4 remotely operated sectionalizing switches for each HFRA circuit.

This, along with our work on weather stations, weather modeling, and more granular risk models at a circuit and sub-circuit level, have all enabled us to be more targeted in the application of PSPS.

We monitor each threatened circuit so that we can make the ultimate decision to deenergize individual sections – or not – based on a combination of real-time conditions and short-term forecasts. We will continue to invest in more isolation points, further situational awareness, and more advanced computing power to provide even more granular analysis of our HFRAs, which will have the twin benefits of continuing to reduce the number of customers impacted during PSPS events and sharpening our risk-informed deployment of grid-hardening investments.

We follow the CPUC's PSPS protocol, which requires investor-owned utilities to notify customers in advance of a potential de-energization. Our PSPS process follows this protocol with 72-hour notifications to California's Office of Emergency Services, or Cal OES, the CPUC, affected county governments, and essential service providers.

We then provide 48-hour, 24-hour, and imminent de-energization notifications to customers and communities whenever possible.

Unfortunately, there are certain occasions when rapidly changing and volatile weather conditions pose an immediate threat to public safety and do not allow us to provide sufficient advance notification.

I want to acknowledge the comments made by Governor Newsom and his concerns that customer impacts, particularly impacts to the state's vulnerable populations, be considered when PSPS events are necessary.

We are engaged with the governor's Office, Cal OES and the CPUC on further improvements to the PSPS process, with the goal of limiting impacts to customers and providing effective, timely notifications.

SCE remains focused on implementing the mitigation activities outlined in its Wildfire Mitigation Plan and the Grid Safety and Resiliency Program. We continue to improve our situational awareness through the deployment of approximately 470 weather stations to monitor temperature, wind speeds, and humidity levels, and more than 130 high-definition cameras to more quickly detect fire ignitions.

Our sophisticated weather modeling and fire potential forecasting capabilities are also advancing to better assess fire threat. These, along with our prior work to sectionalize distribution circuits, have enabled us to limit the scope of de-energizations to minimize the number of customers affected.

Our work also includes having installed approximately 300 circuit miles of covered conductor, and fast acting fuses at more than 10,000 new locations. We understand the importance of hardening our grid today and in the future as electrification of the economy continues and customers rely even more on the grid.

A number of recent wildfires in Southern California have garnered attention and, while evaluations are continuing, I would like to briefly comment on a few of these fires.

First, we filed an Electric Safety Incident Report, or ESIR, related to the Saddle Ridge fire. We filed this in an abundance of caution because SCE had an event on its system close in time to the start of the fire. We will file a more detailed report – a 315 report – next week that will also be posted to our investor website.

We did not file an ESIR related to the Tick fire. Fire authorities have identified an incident location, but not yet a point of origin. An SCE distribution line near the incident location had been de-energized several hours prior to the reported start of the fire.

SCE's PSPS protocols did not trigger de-energization of an SCE transmission line about a quarter mile from the incident location, and this line did not register any events prior to the reported start of the fire.

Finally, yesterday, a fire began in the vicinity of the Getty Museum in Los Angeles. Local media has reported that fire authorities have identified a point of origin. This is not an official determination by the Los Angeles Fire Department, but this is in the Los Angeles Department of Water and Power's service territory and the closest SCE facilities are over 3 miles away.

I would like to give an update on the Woolsey Fire. Parties to the Woolsey litigation, including SCE, received a non-final redacted draft of an investigation report from the Ventura County Fire Department stating that electrical equipment owned and operated by

SCE was the cause of the Woolsey Fire.

The report is subject to the court's protective order and, other than what we are disclosing to you today, we are not authorized to release the report, or its contents, to the public at this time.

Absent additional evidence, SCE believes it is likely that its equipment was associated with the ignition of the Woolsey Fire. Final determination of legal causation and liability would only be made during lengthy and complex litigation.

You will recall that in the fourth quarter of 2018, we accrued an after-tax charge to earnings of $1.8 billion in connection with the 2017 and 2018 wildfire and mudslide events. This corresponds to the lower end of the reasonably estimated range of expected potential losses. We have determined that no change to the reserve is needed at this time, although it is subject to change as additional information becomes available.

EIX and SCE are also aware of separate ongoing investigations of the Thomas Fire and the Woolsey Fire by the California Attorney General's Office for the purpose of determining whether any criminal violations have occurred. SCE is not aware of any basis for felony liability with regard to these fires.

Moving now to SCE's next GRC, the application we filed on August 30th for the three-year period 2021 to 2023 requests a test-year revenue requirement of $7.6 billion, an increase of approximately 13% above presently authorized rates.

We do not take the size of this request lightly, following a three-decade period over which SCE kept its average rate growth below local inflation. This funding request strikes a balance across SCE's core work of improving the reliability and security of electric service, helping California meet its clean energy goals, and reducing the risk of catastrophic wildfires.

Regarding the 2020 Cost of Capital Application, SCE currently expects a proposed decision in late November. Maria will discuss more on SCE's GRC and cost of capital filings later in her remarks.

Turning briefly to Edison Energy and our outlook for this business, two years ago, we set targets for a breakeven earnings run rate by the end of this year, as well as customer capture goals. The business has succeeded in capturing sales while managing costs and will be close to its year-end breakeven target.

Edison Energy has a number of high-quality clients, including 12 of the Fortune 50, several of whom have used its broader managed portfolio solutions to reduce the client's overall energy risk, although not as many clients as we originally targeted.

However, we continue to see strong and growing client interest, and we are gaining insights from our work for these customers that we see as increasingly relevant to our clean energy, electrification and sustainability efforts, and that will help inform our core strategies.

While we do not anticipate making significant investments in Edison Energy, we will be providing limited support for this business to fund growth in key areas such as technology, renewables, and fleet and building electrification.

We expect the ongoing financial impact of this business to be immaterial for the foreseeable future. The business has a strong leadership team within it, requiring very limited focus from the EIX holding company team.

Turning back to California, it is clear that our state is experiencing more extreme weather days, accompanied by a significant risk of PSPS events and wildfires, and that is due to a large degree to climate change.

While SCE is primarily focused on its near-term actions to keep our customers and communities safe, we must also engage with state policymakers on needed longer-term solutions.

Adaptation to climate change must begin in earnest, which SCE is doing in part with our grid hardening, situational awareness and operational changes, but we must act on longer-term solutions as well.

California has an urgent need for immediate actions to mitigate further climate change damage. The state has established clear greenhouse gas reduction targets, but much detail and hard work remain needed to ensure successful implementation.

To support California's efforts, SCE released our Clean Power and Electrification Pathway white paper two years ago, which focused on the clean energy transition to 2030.

We have continued this important work with a longer-term view to 2045, and SCE will release soon a new white paper, which we call Pathway 2045, outlining our blueprint for how California can meet its ambitious goals for reducing greenhouse gas emissions by 2045.

Pathway 2045 analyzes the implications of California's long-term goal of achieving carbon neutrality through three pillars. These include deep decarbonization of the electric sector; significant electrification of transportation and buildings, along with a continued focus on energy efficiency; and use of low carbon fuels for sectors that are hard to electrify.

We believe that the changes required across California's economy will be profound. Three quarters of light-duty vehicles, two-thirds of medium-duty vehicles and one-third of heavy-duty vehicles will need to be electric by 2045. In addition, nearly 70% of building, space and water heating will need to be electric by 2045.

This greater reliance on electricity will result in a 60% increase in grid-served electricity load and will require approximately 110 gigawatts of additional clean generation and storage by 2045.

Significant grid investment will be required to integrate this new renewable generation and storage capacity, and serve the substantial load growth associated with transportation and building electrification.

While electricity bills will increase over time, the overall cost across all types of energy for an average household should decrease by one-third by 2045, due to the inherently greater efficiency of electric technologies over fossil fuel combustion machines.

The increased dependence on electricity underscores the need for the state to ensure the grid is resilient and its utilities are financially healthy. While the state's goals and, therefore, our approach look 25 years in the future, we intend for our paper to support near-term actions in policy areas including clean power supply, reliable and resilient systems, customer technology adoption, technology development, and affordability.

In closing, I would like to reiterate that we continue to make progress on our long-term strategy, while at the same time addressing the immediate wildfire challenge.

We will move forward with our vision for a sustainable and clean energy future, transportation electrification and digital transformation, while continuing to focus on operational excellence and maintaining the recent, hard-earned gains we have achieved in reliability and customer satisfaction.

With that, let me turn it over to Maria for her financial report.

Maria Rigatti

Thank you, Pedro. And good afternoon, everyone. My comments today will cover third quarter results for 2019 compared to the same period a year ago, plus comments on our 2021 general rate case and other financial updates for SCE and EIX.

As we have said, year-over-year comparisons are less meaningful given the timing of the 2018 GRC decision.

Please turn to page 3. For the third quarter 2019, Edison International reported core earnings of $1.50 per share, which was $0.06 lower than the same period last year.

From the table on the right-hand side, you will see that SCE had a core EPS variance of negative $0.03 year-over-year. This was primarily due to a negative impact of $0.10 from dilution from the equity offering in July 2019. This was partially offset by $0.07 of higher EPS from SCE core activities.

There are a few items that accounted for the majority of this impact. Higher revenues had a positive variance of $0.12. This was primarily driven by $0.10 of higher FERC revenues related to the settlement of SCE's 2018 formula rate proceeding. The settlement, which is pending approval, results in an all-in ROE of 11.2%.

Other FERC revenues were $0.04 higher due to higher operating expenses under the FERC formula rate mechanism. CPUC revenues had a negative impact of $0.02 which was largely due to an increase in flow-through tax benefits, which were partially offset by higher GRC revenue.

Higher O&M expenses impacted year-over-year EPS by negative $0.21 and were largely driven by higher wildfire mitigation expenses. O&M costs related to wildfire mitigation in high fire risk areas are being tracked in memo accounts and deferred, pending completion of various regulatory proceedings.

We are also experiencing higher costs due to contractor scarcity and an increased inspection and preventative maintenance program in areas adjacent to designated high fire risk areas.

We will continue to track the cost impacts to support recovery requests in the future, although we have not established a regulatory asset for certain of these costs.

Lower income taxes of $0.19 primarily reflect benefits that are passed back to customers and are offset in revenues, as I mentioned. Higher net financing costs due to increased borrowings had a negative EPS impact of $0.04.

For the quarter, EIX Parent and Other had a negative $.03 core earnings variance. This was mainly due to the impact of $0.05 from higher interest expense related to increased borrowings, partially offset by better operating performance at Edison Energy.

Following our election to join the Wildfire Fund, we analyzed the appropriate accounting treatment for our initial and subsequent annual contributions. As we've discussed in the past, there are multiple aspects of AB 1054 that provide support and value.

These include the changes to the application of the prudency and cost recovery standards, as well as access to the fund for amounts above commercial insurance and the liability cap.

Although there is no specific authoritative guidance on how to account for this, our conclusion is that contributions will be treated in a manner similar to pre-paid insurance. This means that we have recorded an asset to reflect the initial and ongoing contributions to the fund and we will expense it ratably over the course of an estimated fund life.

Based on a number of assumptions, including recent wildfire activity, we estimate the life to be 10 years. We will periodically assess that 10-year life based on future utilization of the fund, as well as the impact of the extensive wildfire mitigation activity that is currently underway.

Since our wildfire fund contributions relate to a change in law and are not tied to our ongoing operational decisions, we are classifying this expense as a non-core item. As a result, during the quarter, SCE's non-core earnings were impacted by $48 million after tax, or $0.16 per share, for amortization of SCE's contributions to the wildfire fund.

Please turn to page 4. For the first nine months of the year, Edison International core earnings per share increased $0.52 to $3.73 per share. This includes an increase of $0.54 in core earnings at SCE, offset by a decrease of $0.02 at EIX Parent and Other.

SCE's year-to-date earnings analysis is largely consistent with third quarter results, except for two items which had an impact in the second quarter.

You will recall that when the 2018 GRC final decision was received, SCE recorded the retroactive 2018 impact of $0. 20. Further, higher 2019 revenues had a positive impact of $0.55, which includes $0.32 resulting from the GRC decision and $0.13 at FERC from higher operating expenses and rate base.

Before we turn to a discussion of our 2021 general rate case, capital spending and rate base, I'd like to note two pending applications seeking cost recovery of wildfire-related expenses.

The Catastrophic Event Memo Account application seeks cost recovery of $139 million for system restoration following declared emergencies related to the 2017 wildfires and 2017 and 2018 drought impacts.

The Wildfire Expense Memo Account application seeks recovery of approximately $505 million for incremental wildfire insurance costs covering the period April 2018 to July 2020.

We also are waiting for CPUC approval of the Grid Safety and Resiliency Program settlement that was filed on July 31st to establish a capital and cost recovery framework for the 2018 to 2020 wildfire risk improvements.

Please turn to page 5. On August 30th, SCE filed its 2021 general rate case application for the three-year period 2021 through 2023. The critical drivers of SCE's 2021 GRC request include the infrastructure and programs necessary to implement California's ambitious public policy goals, including wildfire mitigation, de-carbonization of the economy through electrification and integration of distributed energy resources across a rapidly modernizing grid. We will do this while continuing to provide safe, reliable, and affordable service to our customers.

We acknowledge that the revenue requirement increase in the 2021 GRC application is larger than it has been in the past. This is due in large part to the pressing need for SCE to undertake extraordinary measures to reduce wildfire risk.

The proposed increase is also driven by spending previously authorized in SCE's 2018 GRC and placed into service in 2019 and 2020, and SCE's 2021 GRC depreciation study proposal.

SCE is requesting the CPUC authorize the test year 2021 revenue requirement of $7.601 billion. This is an increase of $1.155 billion over the 2020 revenue requirement authorized in the 2018 GRC, as that isn't updated for anticipated post-test-year ratemaking changes. This represents a 12.7% increase over presently authorized 2020 total rates. SCE's 2021 GRC request also includes proposed revenue requirement increases of $400 million in 2022 and $531 million in 2023.

SCE is requesting that the CPUC issue a final decision by the end of 2020. A pre-hearing conference for the GRC proceeding is scheduled for tomorrow. A scoping memo, including a schedule for the proceeding, will be issued after that.

On page 6, SCE is forecasting a $23.8 billion to $25.6 billion total capital program from 2019 through 2023. This includes CPUC jurisdictional GRC capital expenditures, certain non-GRC CPUC capital spending and FERC capital spending.

Please turn to page 7 for SCE's rate base forecast. At the capital expenditure levels requested in the 2021 GRC, total weighted-average CPUC and FERC jurisdictional rate base will increase to $40.8 billion by 2023. This represents a six-year compound annual growth rate of 7.7%.

The low end of the range of 6.9% reflects a 10% reduction in the 2021 through 2023 total capital forecast, based on management judgement incorporating historical experience of previously authorized amounts, potential for permitting delays and other operational considerations.

For 2020, the low end of the range reflects a 10% reduction applied to FERC capital spending and non-GRC programs. The rate base forecast excludes approximately $1.6 billion of wildfire risk mitigation capital spend that will not earn an equity return as detailed in AB 1054.

Page 8 highlights total wildfire related capital spend between 2019 and 2023.

On page 9, you will see our key financial assumptions and EIX core EPS guidance for 2019. Our revised EPS guidance range for 2019 is $4.70 to $4.90 per share with a midpoint of $4.80. This is $0.09 higher than our previous midpoint guidance of $4.71. The change in guidance is largely driven by the 2018 FERC settlement, offset by increased share dilution.

You may recall that, in our second quarter guidance, we made some simplifying assumptions regarding the timing of the various elements of the 2019 financing plan and we have now adjusted those assumptions to incorporate the actual debt and equity issuances during the third quarter.

There are a few highlights on this page to point out. The pending settlement of SCE's 2018 FERC formula rate proceeding has a positive EPS impact of $0.15 in 2019. There are two components to this. The prior year true-up is $0.09 of the $0.15 and is called out in the center of the chart. The balance, or $0.06 cents, that relates to 2019, is included in the bar that captures rate base earnings for the current year.

For EIX Parent and Other, we expect an earnings drag of $0.30 to $0.35 per share. This includes approximately $0.01 per share per month related to EIX operating expenses.

Our guidance includes Edison Energy achieving close to its year-end breakeven earnings run rate target as Pedro noted.

Additionally, we expect a total of $0.24 of EPS dilution from the 2019 financing plan which I mentioned previously.

Let me provide an update on our 2019 FERC formula rate case which we filed in April of this year. In September, SCE modified its request with the FERC for its 2019 transmission rate case to reflect a reduction in the base ROE from 17.12% to 11.97%.

This reflects a reduction in our estimate of wildfire risk following the passage of AB 1054, from 600 basis points to 85 basis points. This reduction is consistent with a similar decrease filed in our CPUC Cost of Capital proceeding. The settlement effectively modifies our base ROE request, but no other aspect of the proceeding is impacted. We are still in settlement discussions.

I would now like to give you an update on our 2019 financing plan. On our last earnings call, we outlined EIX's 2019 equity and debt needs. Overall, the plan included $1 billion of holding company debt and $1.5 billion of common equity to fund SCE's requirement related to the requested increase in the CPUC-authorized equity layer and additional growth investment at the utility.

We identified an additional $1.2 billion equity need which would be contributed to SCE to finance 50% of its initial contribution to the wildfire fund established by AB 1054. SCE planned on issuing operating company debt to finance the remaining 50% of the initial contribution.

Through the end of the third quarter, we completed a substantial portion of this plan. We raised $2.2 billion in EIX equity through the issuance of 32.2 million shares in July, relative to a total identified need of $2.7 billion. We will opportunistically use our ATM program to supplement our internal equity programs over the rest of the year.

Under the holding company debt financing plan, we issued $600 million of the planned $1 billion debt need. We plan to issue the remaining $400 million in the fourth quarter and will continue to assess opportunities given the low interest rate environment.

As we look into funding needs beyond 2019 to support SCE's operations, we remain focused on a balanced financing approach that maintains a healthy balance sheet and promotes investment grade ratings at both SCE and EIX. Our balanced approach provides us the flexibility to use a combination of debt and equity.

We believe this is the most effective way to support operations and capital investments in the near future as we resolve the business risks driven by the wildfire challenges we face.

That concludes our remarks.

Sam Ramraj

Ted, please open the call for questions. As a reminder, we request you to limit yourself to one question and one follow-up, so that everyone in line has the opportunity to ask questions.

Question-and-Answer Session

Operator

[Operator Instructions]. The first question in the queue is from Greg Gordon with Evercore ISI. Your line is now open.

Pedro Pizarro

Hello, Greg.

Gregory Gordon

Thanks. Good afternoon and best of luck to you and the communities you serve in getting through the fire season without any further hardship.

Pedro Pizarro

Thank you, Greg.

Maria Rigatti

Thanks, Greg.

Gregory Gordon

Can you remind us where we stand in terms of your position on the cause or causes or ignition points and disputes around ignition points as it relates to the Thomas Fire, please?

Maria Rigatti

Sure. Greg. If you recall, it's actually [indiscernible] CAL FIRE have issued a report on that fire. At one point, there's two ignition points they've identified as have we. The Koenigstein Road point is the ignition point that we had said in the third quarter. Our equipment was involved in that, and the report that came out from the fire authorities is consistent with that position.

In the second report, which was a second ignition point, they've also identified or have alleged that our equipment was involved in that second ignition point. We do not agree with that. There is publicly available radar evidence that shows smoke at least 10 minutes or 12 minutes before there were any anomalies on our system, and so that's an ongoing point of – or discrepancy between our position and theirs.

Pedro Pizarro

And, Greg, and I might just add, and I think we pointed this out in the Q, no metal fragments were found in the investigation report. So, some of the evidence you would typically look for just seems to be absent. There is no appeals process or anything like that for CAL FIRE reports, and so really ultimate liability will be sorted out through the litigation process.

Gregory Gordon

Right. And then, now that we're – I know you gave us the information that you're able to on the Woolsey Fire. Can you just update us on the process for going through settlement or – litigation and/or potential settlement, so that we can get a sense of whether the charge that you have taken will wind up being a reasonable estimate of potential liability. What's the sort of critical path to resolution of this?

Pedro Pizarro

So, let me give you a really broad-brush answer and our General Counsel could always fill in more details on process as needed, although there might be more detail than you want. But I think the headline on this, it's a very complex process. Many plaintiffs, many individual lawsuits, different classes of plaintiffs across subrogation, individual parties, governmental entities, et cetera.

The cases have been consolidated under a judge, and there is a process for the formal court steps around discovery and the initial handling of what are called bellwether cases that start to lay out the facts of the case.

In parallel, there is always the possibility for discussions among parties across all these different classes of plaintiffs for potentially settlement sort of approaches. We're not in a position today to comment on those, but that is certainly a pathway that you've seen happen in a number of other cases.

As we proceed with the case, we'll continue to do checkpoints on what information are we getting, is there additional discovery, is there other information that changes our view on the low end of the estimable range and that could lead to adjustments to the reserve we've taken already.

As I noted, with the redacted reports that we received that have been sealed on Woolsey in particular, after viewing what we could view – obviously, we couldn't view the redacted parts – but there was nothing that we saw there that led us to determine that we needed to make a change to the reserve at this point.

Greg, is that enough or do you need more detail on process steps, that kind of thing?

Gregory Gordon

Yeah. I think investors, if you could, would just like to know – like, remind us what the timing is if we go down the litigation path to getting a resolution in lieu of a settlement.

Pedro Pizarro

So, Adam, can give you some – Adam Umanoff, our General Counsel, can give you some dates in terms of dates set by the court for the litigation process. I don't think that we can give you anything concrete in terms of the possibility of what timing will be for settlement, but, Adam, let me turn it to you.

Adam Umanoff

Thanks, Pedro. In Woolsey, the court has set a July 2020 date for what's known as a bellwether trial. And these are sample jury trials that are conducted to see how the jurors will respond to evidence and the arguments in the case. So, that obviously is months from now. Between now and then, we continue to be engaged in discovery, both us and the plaintiffs.

As far as settlement is concerned, as Pedro noted, we really can't comment on prospects. But in complex litigation like this, it's not uncommon, of course, for parties to enter into settlement negotiations.

Gregory Gordon

Got you. Thank you. A lot more questions, but other people I'm sure behind me. So, thank you. I'll hop off. Bye.

Pedro Pizarro

Okay. Thanks a lot, Greg.

Operator

Next question is from Steve Fleishman with Wolfe Research. Your line is now open.

Pedro Pizarro

Hello, Steve.

Steven Fleishman

Hi. Just one other question on Woolsey. Were there any violations found in the report at least that's un-redacted?

Pedro Pizarro

We can't comment on what's in the report beyond what we said already because of the court seal on it. So, sorry, we just can't give any more insight. However, we continue to state, as I did in my script remarks, that we see no basis for felony liability.

Steven Fleishman

Okay. And, I guess to the degree you found something in there, you just can't comment, in theory, you could have changed your reserve based on it?

Pedro Pizarro

Yeah. That's correct, Steve. Let me put it maybe more affirmatively. If we had seen something that we thought was a significant, compelling information that we didn't have before and that we thought changed the low end of the estimable range, we would have done that.

Steven Fleishman

Okay. And then, just on managing your system through these difficult periods, you mentioned some of the things you've done to be able to more surgically deal with power shutoffs. The one question I have is that it appears, possibly in Saddleridge and also in Kincade up north, that the issue came from a transmission line, not a distribution line. So, could you maybe talk a little bit about just the difficulty of managing this process with transmission lines?

Pedro Pizarro

Sure. Let me start by saying that we managed this for both transmission and distribution lines. I think the history we've seen of ignitions in the past is that the vast majority of ignitions, connected to utility equipment, have been on the distribution system.

In terms of the process we follow, the overall process, I think, is similar. We have a mapping of our high fire risk areas. We have risk models around the potential for impacts in those areas. We have a mapping of our distribution and transmission circuits and then we have criteria around things like wind speed and humidity and fuel content, right? How much vegetation is around the ground that could turn into fuel, for example. So, those all form baseline criteria.

As we then apply those to distribution versus transmission equipment, the difference is that typically transmission towers and that equipment is just a lot more robust, typically has broader clearances around it, and so you will typically see, for example, higher wind speed thresholds applied to transmission lines than you will see to distribution line just because there is a lot more mass to move up there and it's just a lot more robust in that sense.

Beyond that, obviously, if you take out a transmission section through PSPS, there is a likelihood that that will have a greater impact in terms of number of customers that are de-energized. Fortunately, I think with our system and with our topology, the area that we serve, we have seen much more PSPS activity on the distribution system than transmission, although we've seen some on transmission. And then, with the distribution system, as I mentioned in my earlier remarks, one of the benefits there is that because we had been investing for a few years now in dividing up circuits, adding switches and reclosers to sectionalize them – I think I mentioned an average of four isolation points per circuit in our HFRA, or high fire risk areas – that allows us to more finely tune what portions could be energized as we get closer to the event.

So, rather than just do a broad-brush of the distribution circuit level, we can actually – if we determine that it's safe to leave part A of a circuit up, but we need to take parts B through D off, then we'll do that.

The final thing I'll mention that – maybe a little more detail than I said in my remarks, when we set our forecast, so I mentioned the 72-hour notification to agencies, followed by the 48-hour notification to customers, et cetera, that's all based on forecast. We do not de-energize based on that 48-hour forecast, right, because if we did that, I think there will be a much broader set of customers likely who will be de-energized. We continue to monitor conditions through our telemetry, our instruments as well as observations on the ground, all the way down to the moment when we de-energize and that allows us to be a little more tailored in our ability to manage the risks here. If we see a need to de-energize, you can be fully confident that we will de-energize. But if we see that there isn't a need, then it's good when we can relieve those customers of that impact.

Steven Fleishman

Okay. Thank you very much. I'll let other people ask questions. Appreciate it.

Operator

Next question is from Praful Mehta. Your line is now open. From Citigroup.

Pedro Pizarro

Hi, Praful.

Praful Mehta

Hi, Pedro. Again, hope everybody is coming through this relatively well, given it's a tough season. But just wanted to touch first on the charge itself, the $1.8 billion charge. So, that is a combination to confirm both of the Woolsey and the Thomas, correct?

Pedro Pizarro

I think the words I used were 2017 and 2018 fires, which is Woolsey and Thomas as well as the mud slides.

Praful Mehta

I got you. Okay. So, now just stepping back to more big picture question, given what's happening right now in California and the fact that PSPS itself isn't working as well as people had hoped, at least some had hoped, do you think AB 1054 right now works? Is it sufficient? Is the wildfire fund sufficient? Or do you think more needs to be done on the legislative side or the operational side to kind of deal with all of this that's happening right now in California?

Pedro Pizarro

Yeah. That's a great question. I think my snap answer with a little more detail to come, as usual for me, is that the AB 1054 framework is a solid framework, right? I mentioned in a prior call, it probably doesn't have everything we would have desired, but it was a compromise and, on balance, we think it was a good workable compromise.

So, our focus now is primarily on the implementation of AB 1054, a lot of pieces that have to fall into place. As I mentioned in my remarks, we've seen a number of those already take place that have activated the wildfire fund. But there's more work ahead, including fully staffing out the wildfire safety division and wildfire advisory board and some of the other bodies that were specified in AB 1054.

In terms of the size of the fund, I think investors and analysts and we have all identified all along that one of the features of the fund or the legislation was it did not set up a replenishment mechanism. And I know that's been a big focus for everyone. Assuming the PG&E is able to successfully emerge from bankruptcy by June 30th of next year, the size of the fund will be $21 billion, which the analysis from some of the state entities involved with the legislation suggested that that had something like a 94% confidence of surviving for a 10-year period. And in kind of rough numbers, it would cover something like $45 billion worth of gross damages.

So, that means that there is durability for some period which – but if you go by that analysis, then probabilistically speaking, the high confidence that would last for at least 10 years, and then that would provide time for all of us to continue to harden our systems.

Clearly, if there were catastrophic fires that depleted the fund, then I think the state would need to do more work legislatively to figure out how to replenish the fund. Beyond that, I think we've acknowledged there might be additional modifications needed to AB 1054. We don't have any to point out at this point. Just going to leave that open as a possibility as we get deeper into implementation steps and how well the mechanics work.

Praful Mehta

That's super helpful. Thanks for that, Pedro. And then, just a quick follow-up on the answer, which is PG&E's exit in time and its participation in the fund, obviously, now is a little bit at risk given everything that's happening from a wildfire and the bankruptcy process perspective.

Pedro Pizarro

Right.

Praful Mehta

So, from your view, if PG&E wasn't able to exit in time and not able to participate in the fund, does that worry you in terms of the size of the fund or do you think it is still a sustainable solution?

Pedro Pizarro

I think the broad-brush answer is that if PG&E were not to participate, then, clearly, the fund would not have that portion of the contributions, but it also would not have the risk of a 70,000 square mile utility with a lot of high fire risk territory.

So, I'm not sure I have enough of a crystal ball to tell you whether the math ends up being a little positive or a little negative on that, but I think it's important to acknowledge that with the lack of participation also comes decrease amount of risk being covered by the fund.

Praful Mehta

All right. Well, thank you so much. I'll go back in queue.

Pedro Pizarro

You bet, Praful.

Operator

Next question is from Julien Dumoulin-Smith with Bank of America. Your line is now open.

Pedro Pizarro

Hi, Julien.

Julien Dumoulin-Smith

Hey. Good afternoon. Hope everyone is hanging in there. Just wanted to follow-up a little bit on some of the questions or rather some of the commentary from the Governor's office around wildfire mitigation efforts. Obviously, you guys are doing a lot already. Sounds as if the state is really willing to kick it up in terms of efforts and commitment. How do you think about further acceleration in both OpEx and CapEx and infrastructure and especially some of the technology in undergrounding, specifically, that the Governor has mentioned off late?

Pedro Pizarro

Yeah. There's a lot there. But I'll start by saying that, as you heard from both Maria and my remarks, we're doing a lot. We're doing a lot right now in terms of our hardening. We've also proposed a lot, and that in part is driving the size of the general rate case request that SCE submitted.

We also continue to learn all along here, right? And so, I would expect that, a year from now, two years from now, three years from now, there will be new ideas that arise that might allow us to either accelerate what tools we're using or, more importantly, accelerate the pace of risk reduction as we do both capital investment and operational measures.

Picking one part of your question maybe a little more finely, on PSPS and the governor's comments, this is a tough thing for everybody, right? And you have particularly Northern California, such large swaths of customers being de-energized given the conditions up there and the ability of the system in PG&E's territory, that it's tough for customers to work through that. And I think government officials are sorting through the risk balance that would benefit versus – benefit versus costs and impacts of PSPS.

For our part, one of the things we've really stressed is making sure that we have continued to work on our protocols and invest in training our incident management teams. So, we have a very consistent application of the process, point one.

And as you heard in my detailed remarks, our ability to be more granular at how we assess the potential scope of PSPS, all the way through to, in real-time, who really needs to be de-energized and who doesn't, that's allowed us to be a bit more targeted with that.

Again, make no mistake, if we think that we need to de-energize the circuit for public safety, we will. So, this is not about avoiding public backlash, but it's about only impacting customers who really need to be impacted.

I do expect that, through our discussions with the Governor's office, with Cal OES, with the CPUC, with the new proceeding that the CPUC announced a day or two ago, we will continue to see continuous improvement in learning on how we apply PSPS and some of the other measures.

Did I get everything in your question or did I miss some important part, Julien?

Julien Dumoulin-Smith

No, no, no. That's good enough. Thank you. And then separately, if I could quickly ask, and I just want to kind of broadly affirm this concept, right, now that we have a 20% criteria over three years in terms of eligibility to participate in this fund, I just want to be extra clear about dividend confidence here, right? Because we've had a few seasons already where there has been an open question when you affirm your dividend, there has been some pause in the investment community. I just want to be extra clear-cut with respect to knowing what the downside is today, if you will, in terms of what the deductible is into this fund that, at least as best you see it, to the extent which you were to trigger that threshold, certainly not thus far, but to the extent prospectively, just confidence in being able to continue to pay out the dividend at that point. And maybe that's too much of a statement, but I'm curious how you would take a stab at answering that?

Pedro Pizarro

Sure. Thanks, Julien. Let me answer this way. Maria may have more to add here. First, just to make sure everybody's level set. AB 1054 was very clear about limiting our liability over a three-year period to 20% of their T&D equity rate base. So, for us, it's around $2.6

billion or so. And so, we have high confidence that that – the law reads very clearly and they will be implemented by the state, so that's that.

And by the way, just remind you that that is attaching above insurance levels. The wildfire fund attaches above our commercial insurance levels, and so we continue to use commercial insurance as the first layer in the event of having unfortunate wildfires.

Beyond that, we continue to work hard to have a strong balance sheet. Frankly, the success of our equity raise earlier this year and our financing activities that Maria covered are all meant to continue to re-strengthen our balance sheet over time.

I can't comment sitting here about future dividends. We always say we never get ahead of our ski tips, but I think we've communicated to investors our overall commitment over the long run to – we understand the role that dividends play for utility equity investors/shareholders, and I think maintaining a strengthened balance sheet is a way to give us the flexibility to weather any other issues that we may have with wildfires or other capital needs.

Maria, would you add to that or…?

Maria Rigatti

Julien, I'd just say, you know the dividends here in California, in addition to the retained earnings test, it's an ability – or likely to meet obligations as they come due after paying the dividend. And I think Pedro is exactly right. Our work…

Pedro Pizarro

She doesn't often say that, by the way. I love this one.

Maria Rigatti

Our ability to maintain a strong balance sheet has helped us in the past to maintain our dividend. We don't get ahead of the board on this, but certainly that strength is something that allows us to continue to say that our dividend payout policy and 45% to 55% payout ratio is one that we know is important to investors and we're keeping that front and center.

Julien Dumoulin-Smith

Excellent. Thank you, guys.

Pedro Pizarro

Thanks, Julien.

Operator

Next question is from Ali Agha with SunTrust. Your line is now open.

Pedro Pizarro

Hello, Ali.

Ali Agha

Hey. Good afternoon. First question, Pedro, Maria, just again, bigger picture, just on the fire stuff, to be very clear, so far as we know, both for the Thomas, Woolsey fires, there's been no allegation of any violation by Edison. And as a result, is it fair to say that that does put you in a position for cost recovery whenever we reach that stage? Is that clear?

Pedro Pizarro

Yeah. Let me parse it very precisely because this stuff is important. As I recall, these fire investigation reports, the ones you've seen in public typically will have a list of potential section of code that could involve violations, that kind of thing, right? But I think it's fairly standard that they said less in the reports.

We've also acknowledged that – our understanding that the Attorney General's Office [indiscernible] for the investigations in both of those fires, Thomas and Woolsey. But as we look at the facts, we continue to see no basis for criminal felony liability. And so, that's not a statement we take lightly and we just don't see a basis for that.

The fine parsing I make is that there is a difference between – certainly, there is the space of criminal violations, the space of determining legal liability and the space of PUC's determination of prudency. They're related, but they're not the same.

We continue to do our investigations on both of the fires. I don't think we've commented on prudency yet. We have commented on the fact that, prior to AB 1054, there is some question about the – or uncertainty about CPUC determination of prudency as we saw in the San Diego Gas & Electric case. And so, that's why when we took the $1.8 billion net charge, we did assume recovery from FERC for the FERC jurisdictional portion, but we did not assume recoveries from the CPUC.

That's not to say that we have a basis to say we were imprudent or we were not, we haven't commented on that, we're still doing the homework on that, but it was more about the fact pattern that we saw in the San Diego case up until the point where AB 1054, importantly, reformed the cost recovery standard.

And frankly, I know there's been a lot of focus on the wildfire fund and the liability cap, but, in our view, that redefinition of what prudency is and how the PUC needs to look at that in the context of cost recovery is a very important part of AB 1054.

Ali Agha

Yeah. And in that context, given the kind of reaction your stock took when the recent fire season has started, again, are you confident given the prudency definition and other terms in AB 1054 that knowing what you know about the fire season so far that, on a going forward basis, certainly for the 19 fires, you're not seeing really any big financial implications for your company?

Pedro Pizarro

Again, let me answer it this way, be very thoughtful here. We have not put up on our own any estimates of what the damages might be for the 19 events. I think, as you look through at the overall scale of that and you compare it to our $1 billion net of commercial insurance, $1.2 billion minus around a couple of hundred million of deductibles and co-insurance, certainly, it seems that the scale of the insurance programs we have appears to be larger than the scale of the events we have seen in our area. And so, that's what we see at this point.

Ali Agha

Got you. And one unrelated point, just to be clear. Maria, you talked about the need potentially for both equity and debt funding as you're looking at your 2021 through 2023 cycle of CapEx. Given that there should be some equity presumably there, the old notion that you would lay for us that, 'hey, rate base CAGR is a good proxy for EPS CAGR,' is that no longer to the case? We should assume some dilution between rate base CAGR and EPS CAGR going forward?

Maria Rigatti

Maybe I'll focus on the first part of your question, first. We do see, in the near term, a need to make sure that our balance sheet is as resilient as possible. In the near term, as we work through some of these wildfire issues because, as you know, I think the rating agencies have responded well to AB 1054, but I'm sure they are still looking at implementation questions and speed and et cetera. So, it's not always going to be just purely a metrics issue for us. And so, that's why we have the philosophy that we put forward for everyone that we're going to take a balanced approach, which means the combination of debt and equity.

I think we're always going to be trying to manage that, Ali, as we understand sort of the impacts of doing that. On the one hand, keeping the balance sheet strong; on the other hand, kind of maybe creating a little bit more of a disconnect for folks. But we're going to keep all that in mind as we make our decisions and we'll have more on the financing plan as we go into next year.

Ali Agha

Thank you.

Pedro Pizarro

Okay. Thanks a lot, Ali.

Operator

That was the last question. I will now turn the call back over to Mr. Sam Ramraj.

Sam Ramraj

Thank you, everyone, for joining us today and please call us if you have any follow-up questions. This concludes the conference call. You may now disconnect.