Prepared Remarks of Edison International CEO and CFO
Fourth Quarter and Full-Year 2014 Financial Teleconference
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Ted Craver, Chairman and Chief Executive Officer, Edison International

We closed a good 2014 on a strong note. We delivered excellent financial performance. We resolved two major uncertainties—Edison Mission Energy and San Onofre. We meaningfully increased the dividend. We continued to fulfill the long-term growth opportunity at Southern California Edison through our wires-focused investment strategy that supports California's environmental and growth objectives. And we continue to selectively pursue growth opportunities that allow us to serve additional customers outside of SCE's service territory.

Most gratifying to me is that we delivered on what we told investors we would do. I'm proud of this leadership team and the outstanding work of our employees.

That said, we fully recognize that 2014 is over and we are in a new year. We need to *build* on the performance of 2014, and continue to build value.

With a strong fourth-quarter, full-year 2014 core earnings were $4.59 per share, an increase of 21 percent over the previous year. This result was well above our updated guidance from last fall. Jim Scilacci will cover more details in his comments.

The settlements reached on the EME bankruptcy and the SONGS Order Instituting Investigation position us to move forward decisively in a time of tremendous change in our industry.

The unanimous approval by the California Public Utilities Commission of the SONGS settlement agreement last November demonstrated that it is possible to resolve complex and important regulatory matters through settlement. The settlement was the product of tough negotiations among the initial settling parties—The Utility Reform Network, The Office of Ratepayer Advocate and the two utilities – and later other intervenors signed onto the settlement. The settlement has been widely supported as fair and balanced. SCE is now proceeding with implementation of the approved agreement. We are also deeply engaged in the planning and early stages of decommissioning the plant.

SCE will continue to work aggressively to maximize potential financial recoveries from insurers and from Mitsubishi Heavy Industries. I'm hopeful SCE will be able to resolve the insurance claims this year. Under the provisions of the settlement agreement, virtually all insurance proceeds, if any, will go to customers. The arbitration process with Mitsubishi Heavy Industries must follow International Chamber of Commerce rules, which means it will be a slower process. I don't expect any decision until 2016. The MHI arbitration proceeding is confidential so we won't be able to say much. However, we continue to assert the claims we first presented to the International Chamber of Commerce in 2013.

Our nearly 18% dividend increase in early December underscores our optimism about the future and our commitment to bring our dividend payout closer to that of the industry. We expect to extend our record of eleven years of annual dividend increases while stepping up the pace of dividend growth to exceed that of earnings. This will allow us to return to our target payout ratio of 45 to 55 percent of SCE earnings, in steps, over time.

Let me now provide some longer-term thoughts.

On January 5th in his State of the State speech, Governor Brown outlined his broad goals for the next stage in addressing climate change. By 2030, he wants to derive 50 percent of the State's electricity from renewable sources, reduce petroleum use in cars and trucks by 50 percent, and double the efficiency of existing buildings. In his speech he said, "All of this is a very tall order. It means that we continue to transform our grid, our transportation system and even our communities." He continued, saying "I envision a wide range of initiatives: more distributed power, expanded rooftop solar, micro-grids, an energy imbalance market, battery storage, the full integration of information technology and electrical distribution, and millions of electric and low-carbon vehicles." The State's ambition and overall direction is clear. In broad strokes, we at Edison have been painting a similar picture of the future of the power system. Importantly, our growth strategy is aligned accordingly.

Of course, the devil is in the details. Some of the regulatory framework to implement this vision will require legislative action and that process has already started in Sacramento. We will be actively engaged on the legislative front. One of our larger priorities will be achieving policy goals at the lowest cost to customers. We see the need to expand California's renewable portfolio standard beyond the current regime of only recognizing large-scale wholesale contracted projects, to recognize the benefits of distributed generation, energy efficiency and electric vehicle charging.

The three-year general rate case cycle provides a broad framework to incorporate other initiatives, such as the Distribution Resource Plan required to be filed this summer. The CPUC recently issued its final guidance on the distribution plan elements. We anticipate that our plan will create something of a roadmap for the distribution system investments at Southern California Edison needed to realize the Governor's vision. Some elements of the plan are already in process, including initiatives on energy storage, residential rate design, and electric vehicle charging.

California's commitment to creating a low-carbon economy does not necessarily conflict with SCE's core mission of delivering safe, reliable and affordable electricity. SCE's current General Rate Case will establish the revenue requirement and scope of work to achieve both. The record for the rate case was completed in late January. The GRC is now in the hands of the administrative law judges to develop a proposed decision. We expect a decision sometime in 2015.

Jim Scilacci, Executive Vice President and Chief Financial Officer, Edison International

My comments will cover fourth quarter and full-year 2014 earnings; our updated capital spending and rate base forecasts; and cost of capital. As we have previously stated, we will not provide 2015 earnings guidance until SCE receives its 2015 General Rate Case decision. In this presentation, I will however discuss assumptions relevant to our 2015 earnings.

Please turn to page 2 of the presentation.

In the fourth quarter of 2014, SCE earned $1.09 per share, or 30 cents ahead of last year. This increase was driven by many of the same factors we have seen during 2014, including higher revenue of 28 cents partially offset by depreciation of 8 cents, net tax benefits and other items of 4 cents, and O&M savings of 5 cents.

There also are two items of note that are included in the 28 cents of higher revenue and both of them were not included in our updated earnings guidance that we provided last October.

- First, we recorded 5 cents of additional revenues from resolution of an open item from our 2012 GRC decision. During 2014, SCE obtained an IRS private letter ruling regarding appropriate treatment of net operating loss carryforwards. The net effect of the ruling was to increase CPUC rate base and revenues. In November, we obtained CPUC approval authorizing the additional revenues.

- Second, you may recall that during our third quarter call, we thought that the energy efficiency award might be delayed until 2015. As things turned out, we received our award in December, and it amounted to 4 cents per share.

In the fourth quarter, the net SONGS impact on core earnings was a positive 2 cents per share compared to last year. Our fourth quarter results include recognition of revenue for the rate of return on the SONGS regulatory asset. We also had a 5 cents benefit from lower O&M costs, the largest item was lower severance expense.

Taxes and other items were a net benefit of 4 cents per share, led by 7 cents in higher income tax benefits. Most of this relates to the repair deduction benefits we have talked about previously.

At the Edison International parent company, results were a loss of 1 cent per share compared to income of 2 cents last year which was mainly due to income from Edison Capital and tax benefits. The loss of 1 cent this quarter includes higher income from Edison Capital and lower tax benefits. As we have indicated, Edison Capital's remaining low income housing portfolio continues to wind down as units are sold.

Turning to non-core items, SCE recorded a net 8 cents per share benefit during the fourth quarter from a revised estimate of the impact of the SONGS settlement. There are a number of items that make up the 8 cents, including the return on the SONGS regulatory asset from April 1 through September 30, and the accrual of contributions to the University of California for greenhouse gas research.

At the parent, we also recorded a 12 cent per share benefit in discontinued operations related to resolution of uncertain tax positions from settlement of our 2003-2006 federal income years and other tax impacts related to EME. As a reminder, EIX has net operating losses and tax credit carryforwards from EME that will be monetized in future years as part of our settlement with EME creditors. These tax benefits were approximately $1.1 billion at year-end.

We also recorded 1 cent per share net benefit at the holding company related to the allocation of income tax attributes to tax equity investors in projects developed by SoCore Energy under what is called the hypothetical liquidation at book value, or HLBV, accounting method. Because HLBV accounting produces income not related to project portfolio performance, we classified this income as non-core.

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For the full year, core earnings were $4.59 per share vs. $3.80 in 2013. For SCE, this improvement is mainly due to rate base growth. Year-end 2014 rate base was $23.3 billion, a $2.2 billion increase over the prior year. In addition, SCE recorded higher net tax benefits totaling 16 cents per share, principally from repair deductions and resolution of uncertain tax positions. A number of other smaller items complete the picture.

At the holding company, core losses were comparable to last year at 9 cents per share. This remains lower than expected primarily due to the higher income from Edison Capital.

I know many of you are interested in tracking our earnings relative to our guidance so I'll cover that next.

Please turn to page 4.

This slide shows a reconciliation of core earnings to guidance over the full-year period. I will focus on the final 3 months of the year that took us from $4.30 mid-point guidance in October to actual core earnings of $4.59. As you can see, the increase is 29 cents.

First is 10 cents per share of income tax benefits from additional repair and cost of removal deductions recorded in the fourth quarter.

Next, are the two items I mentioned earlier, the 5 cents per share benefit from the revised determination of rate base and 4 cents of energy efficiency awards.

The balance relates primarily to cost savings and a number of smaller items at 5 cents per share.

Holding company core results were 4 cents per share better than expected due primarily to Edison Capital's affordable housing project revenues.

Please turn to page 5.

SCE's capital spending forecast changed slightly from our prior forecast, due to timing of transmission capital expenditures. Actual 2014 capital spending totaled $4 billion, $100 million below our forecast. Our outlook for 2015 spending is down $100 million and up $200 million in 2016. Please note we continue to use 12% variability between the range and request capital expenditure forecasts.

Please turn to page 6.

Our rate base forecast remains consistent with the 7 to 9 percent compound annual growth rates. Based on a number of changes, we've revised downward our rate base forecast by a net $300 million by 2017. As the slide shows, this reflects an average reduction of $400 million from bonus depreciation, and average reduction of $100 million for timing of transmission spending, and a positive $200 million adjustment to update deferred taxes related to our SmartConnect project.

Please note that the capital spending and rate base forecasts do not include the electric vehicle charging, energy storage or distribution resource plan expenditures. The lion's share of this future spending will likely occur beyond the current forecast period.

Please turn to page 7.

This page updates the interest rate trends for the CPUC cost of capital trigger mechanism. Recently, the CPUC approved a one-year extension of our cost of capital mechanism. We must now file our 2017 cost of capital application in April 2016. The trigger mechanism still remains in effect for 2016. However, based on the movement of the Moody's Baa bond index thus far, it seems unlikely that the current return on common equity of 10.45 percent would change for 2016.

Our FERC filed rate settlement remains in place through the end of 2017. Under the settlement, the return on common equity can be reopened after June 30 of this year.

Next I'd like to touch on some financial considerations related to 2015 earnings given the absence of guidance.

Please turn to page 8.

On this page, we have included some important factors to consider in refining your earnings estimates until we can provide formal guidance. The capital spending and rate base forecasts are taken from pages 5 and 6 from this presentation. Both CPUC and FERC return on equity remain unchanged at 10.45 percent.

Because we have some carryover items on energy efficiency awards from prior years, the potential earnings opportunity for 2015 is up to 5 cents rather than the more typical 3 cents for a single year. Please keep in mind that some of the carryover items will likely be contested by other parties and there is no assurance that any energy efficiency earnings will be approved.

Another positive item is the completion in January of the SONGS regulatory asset financing. The approved settlement lets SCE finance this asset with 100 percent debt. The settlement also requires that we share with our customers the cost savings of the financing if the rate is below the 2.62 percent return on the regulatory asset. SCE completed this financing with a weighted average cost of debt of 2.2 percent. This blended average rate increases over time due to debt amortization. After the cost sharing with customers, there is a very modest earnings benefit. However, the financing has the added benefit of ultimately freeing up approximately $400 million of common equity. As we recover the regulatory asset, this amount will decline over time. At year-end 2014, SCE's 13-month average common equity ratio for regulatory purposes was 48.4 percent. The SONGS regulatory asset totaled $1.288 billion at year-end 2014. Of this amount, $919 million earns the 2.62 percent return, $345 million earns a commercial paper rate, and the balance earns no return.

For 2015 and beyond, we believe that the return on the SONGS regulatory asset will roughly match the financing cost.

I will also remind you that our quarterly earnings results will not reflect the revenues requested in the 2015 GRC and accordingly won't have the typical profile during the year. Until we receive a final GRC decision, we plan to record revenues based on the 2014 authorized revenue requirement.

Please turn to page 9.

The next slide highlights the details of our dividend policy that Ted has already touched on. I'd like to reinforce our view that EIX has one of the better opportunities among large-cap utilities for rate base, earnings, and dividend growth.

Please turn to page 10.

This last slide captures our key strategic framework. Ted has touched on many of the major points already. To summarize, we are very focused on delivering our organic growth opportunity. We have good growth visibility from wires spending and the prospect for continued growth from a number of new initiatives. Moreover, as we have previously said, we will continue to work to optimize our cost structure and improve our operational efficiency.