Electric Utilities

CA Investor Tour: CA Regulatory Uncertainty Remains; Resuming Coverage of SRE with a Neutral Rating and a $58 PT

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Andrew Smith[AC]
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Stefka Gerova, CFA
(1-212) 622-0549
stefka.g.gerova@jpmorgan.com

J.P. Morgan Securities LLC

We hoped to return from our West Coast investor tour with increased visibility into the outlook for California regulation and, accordingly, get more constructive on the California utility stocks given that the shares are among the poorest performers in the sector YTD. However, we believe the residual regulatory risk in California will continue to overhang the shares. We are maintaining our Neutral ratings on PG&E and Edison International. We are resuming coverage of Sempra and lowering our rating to Neutral from Overweight (when we were restricted in February 2010).

- **PG&E trades at a material discount, but appears most at risk of the California utilities.** PG&E has been one of the poorest performing stocks in the sector YTD, falling almost 10%, versus a gain of 5.8% for the UTY. It trades at a 25% discount to its regulated peers on 2011E P/E. We believe this steep discount could make the shares attractive; however, we expect the discount on the shares to persist, because following our trip to the West Coast, we believe PG&E will continue to face regulatory pressure as it continues to addresses the fallout from its San Bruno pipeline explosion.

- **The long-term unregulated fundamentals for Edison International appear to be improving, but the California rate case should be the near-term EPS driver.** Edison Mission Energy, EIX's unregulated arm, and the pressure it is facing as a result of weak power markets and environmental compliance requirements was the focus of investors for much of last year. Our meeting with management led us to believe that trends for the business are improving. However, investors' focus in 2011 has increasingly been on the pending rate case at EIX's electric utility. We estimate a favorable or unfavorable outcome to the rate case could swing 2012E EPS by +/- $0.20-0.25 per share versus our current estimate. We do not expect resolution of the rate case until likely early 2012, so we expect this uncertainty to overhang the stock.

- **Sempra businesses performing well, but California regulatory uncertainty likely keeps the stock from working in the near term.** Sempra has restructured itself over the past ~12 months, as it divested its commodity trading JV, launched a share buyback and materially boosted its dividend. Its remaining businesses should provide a more stable EPS profile and drive attractive EPS growth; however, like EIX, it also has rate cases pending at the California Public Utility Commission (CPUC). We expect uncertainty about the outcome of its pending rate cases to weigh on the stock in the near term; accordingly, we are resuming coverage of the company with a Neutral rating.

Equity Ratings and Price Targets

Company	Symbol	Mkt Cap ($ mn)	Price($)	Rating Cur	Rating Prev	Price Target Cur	Price Target Prev
Edison International	EIX	12,742.47	39.11	N	n/c	37.00	38.00
PG&E Corp.	PCG	16,849.23	43.12	N	n/c	50.00	54.00
Sempra Energy	SRE	14,257.23	54.21	N	OW	58.00	63.00

Source: Compan y data, Bloomber g, J.P.Morgan estimates. n/c = no change. All prices as of 01 Jun 11.

See page 15 for analyst certification and important disclosures.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

- **Resuming coverage of Sempra Energy.** We were restricted on Sempra Energy (SRE) due to J.P. Morgan's involvement in the transaction announced on 16 February 2010. Now that the transaction is complete, we are resuming coverage of Sempra Energy with a Neutral rating (previously Overweight) and a December 2011 price target of $58 (previously a December 2010 price target of $63).

Neutral

Company Data	
Price ($)	39.11
Date Of Price	01 Jun 11
52-week Range ($)	40.15 - 31.06
Mkt Cap ($ mn)	12,742.47
Fiscal Year End	Dec
Shares O/S (mn)	326
Price Target ($)	37.00
Price Target End Date	31 Dec 11

Edison International (EIX;EIX US)

	2010A	2011E *(New)*	2011E *(Old)*	2012E *(New)*	2012E *(Old)*
EPS Reported ($)					
Q1 (Mar)	0.82	0.62A	0.65A		
Q2 (Jun)	0.62				
Q3 (Sep)	1.46				
Q4 (Dec)	0.58				
FY	3.48	2.75	3.00	2.75	3.20
Bloomberg EPS FY ($)	3.48	2.81		2.69	
P/E FY	11.2	14.2	13.0	14.2	12.2

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomber g' above denotes Bloomber g consensus estimates.

Neutral

Company Data	
Price ($)	43.12
Date Of Price	01 Jun 11
52-week Range ($)	48.63 - 39.87
Mkt Cap ($ mn)	16,849.23
Fiscal Year End	Dec
Shares O/S (mn)	391
Price Target ($)	50.00
Price Target End Date	31 Dec 11

PG&E Corp. (PCG;PCG US)

	2010A	2011E *(New)*	2011E *(Old)*	2012E *(New)*	2012E *(Old)*
EPS Reported ($)					
Q1 (Mar)	0.79	0.70A	0.80A		
Q2 (Jun)	0.91				
Q3 (Sep)	1.00				
Q4 (Dec)	0.70				
FY	3.42	3.45	3.80	3.70	4.00
Bloomberg EPS FY ($)	3.43	3.57		3.75	
P/E FY	12.6	12.5	11.3	11.7	10.8

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomber g' above denotes Bloomber g consensus estimates.

Neutral

Company Data	
Price ($)	54.21
Date Of Price	01 Jun 11
52-week Range ($)	55.97 - 44.40
Mkt Cap ($ bn)	14.26
Fiscal Year End	Dec
Shares O/S (mn)	263
Price Target ($)	58.00
Price Target End Date	31 Dec 11

Sempra Energy (SRE;SRE US)

	2010A	2011E	2012E
EPS ($)			
Q1 (Mar)	0.80	1.07A	
Q2 (Jun)	0.89		
Q3 (Sep)	1.06		
Q4 (Dec)	1.18		
FY	3.61	4.15	4.45
P/E FY	15.0	13.1	12.2

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Official estimates rounded to the nearest $0.05 per share. 'Bloomberg' above denotes Bloomberg consensus estimates.

Conclusions

PG&E

PG&E's steep discount likely to persist

We embarked on our West Coast investor tour hoping to come away with a more constructive view on California regulation, especially for PCG, given that it trades at about a 25% discount to its regulated peers on 2011E P/E (and EPS estimates that already reflect fallout from costs associated with addressing increased compliance and inspection efforts at its pipeline transmission business following the explosion at one of its pipelines in San Bruno). Our meeting at the CPUC leads us to believe that the CPUC overall may be more constructive than we initially thought following

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Governor Brown's appointment of three new CPUC Commissioners earlier this year. However, we believe PG&E faces increased scrutiny as a result of the ongoing focus on its pipeline operations following the San Bruno explosion.

GRC resolved favorably

One factor that makes PG&E more attractive versus its California peers, in our opinion, is that its rate case settlement was recently approved by the CPUC, so outside of the San Bruno issues, the company does not have to seek rate relief from regulators in the near term. We believe the settlement of its rate case was constructive, but note that the settlement was brokered before the three new commissioners were appointed to the CPUC.

San Bruno problems remain

We believe the company will continue to face cost pressures from its San Bruno explosion as it gathers and documents records on pipeline pressure testing, types of pipelines in the ground, as well as maintenance efforts on its pipeline system, etc. The company already lowered its 2011 outlook by 5% ($0.20 per share) to reflect costs related to the San Bruno explosion as well as higher costs elsewhere in the business. The company is seeking a ruling from the CPUC that will allow it to start memorandum accounting (and set the stage for potential recovery) for its San Bruno-related costs, but it is unclear to us if/when the CPUC might adopt such a measure. We believe there is a significant chance that the company will have to absorb ongoing costs from its San Bruno explosion in 2012.

Pipeline inspection process just beginning – could be expensive

It appears as though the CPUC may only accept hydrostatic testing or pipeline replacement as acceptable types of remediation for pipelines that do not have sufficient documentation to ensure their safe operation. PG&E has identified 152 miles of pipelines that it initially intends to hydrostatic test, but notes that the absolute length of pipelines involved in the initial round of testing is closer to 200 miles because of the configuration of the system (effectively it has to look at 200 miles of pipelines to capture the 152 miles). The company has indicated that it expects to incur $350-550 million of pipeline inspection/replacement costs. We believe PG&E will be able to recover the capital outlay for this program, although we believe its ability to earn a return on its efforts is likely limited. It is also unclear when/how the CPUC may authorize recovery. Accordingly, we believe the company is facing some risk (although likely unavoidable) as it is spending money on its pipeline system with no clear path to recovering its investment.

New CEO likely a short-term catalyst for the stock

PG&E reiterated that it plans to announce a new CEO in a matter of week*s* (company emphasis). The prior CEO of PG&E departed in the wake of the San Bruno explosion. We believe appointment of a new CEO will likely be a short-term catalyst for the stock, as a new CEO offers the opportunity to begin to repair regulatory, political, and customer relationships as well as target a strategy toward addressing perceived and/or real operational problems at PG&E's gas pipeline business. However, we believe these steps take time, so following appointment of a new CEO, we expect the ongoing resolution of the residual pipeline explosion issues to temper the stock reaction.

NTSB review not due until the fall

For example, the NTSB's review of the San Bruno explosion is not due until the fall, and PG&E indicated to us that the CPUC might launch an additional investigation depending on the findings of the NTSB. We believe the CPUC may be inclined to launch an investigation, because in our meeting at the Commission, it was highlighted that the CPUC is facing significant public scrutiny in the wake of the San Bruno explosion as it is entrusted with overseeing pipeline safety. Accordingly, we believe it is difficult to fault the CPUC in the court of public opinion if it launches an additional investigation, but easy to raise questions about CPUC oversight if it chooses to not advance an additional investigation. We believe this could result in resolution of the San Bruno issues taking longer than expected.

New CEO might rebase EPS expectations

One other factor that we believe could weigh on the shares following the announcement of a new CEO is that the new CEO may take the opportunity to rebase near-term EPS expectations as well as growth aspirations for the company. We have no way of knowing if a new CEO might take this step, but we believe such a move could serve two purposes : 1) gain some political and customer goodwill on a tempered outlook and 2) set a more readily achievable goals for new leadership.

2012 dividend hike likely modest, if at all

The company recently told investors that it will not raise its dividend in 2011. We believe this step was not only to preserve cash in the face of uncertainty, but also to send a signal to the public, regulators, and lawmakers that the company is focused on preserving its resources to address its pipeline business and any shortcomings. Given the scrutiny on the company, it is unclear if the company will be in a position to raise the dividend in 2012. We believe a dividend hike in 2012, if any, will be very modest given the current political/regulatory/customer climate in California.

Cutting our 2011E, 2012E EPS and December 2011 price target

We are cutting our 2011E EPS to $3.45 from $3.80 and our 2012E EPS to $3.70 from $4.00 to reflect the ongoing costs of the San Bruno explosion. We are also cutting our December 2011 price target to $50 from $54 to reflect our reduced EPS outlook. We discuss our price target derivation later in this report.

Edison International

We expect EIX's outstanding rate case to result in the shares performing in line with peers. Much of the company's potential EPS variability stems from its unregulated business, Edison Mission Energy (EME), for which fundamentals appear to be improving; however, the company has a rate case pending at its electric utility that could have a material impact on 2012 earnings, and we expect the uncertainty to be an overhang on the shares.

Long-term unregulated fundamentals improving

Management discussed at length its thought process around the value proposition for its unregulated business, highlighting that ~18 months ago, when the shares were likely reflecting zero, or negative, equity value for EME, management outlined several factors that it focused on as value drivers for the business and its belief that those drivers were likely to improve.

Power demand
One factor the company highlighted was power demand, especially driven by economic recovery. Management noted that the supply/demand outlook has improved since it initially outlined its strategic analysis framework.

Capacity prices
Capacity prices are a key driver of value for many power plants, and EIX management expressed over the past several quarters that it expected capacity prices to improve. The most recent PJM capacity auction results were released a few weeks ago, and RTO capacity prices, which impact a significant portion of EME's capacity, increased almost fivefold.

Environmental regulations
One factor that we consistently heard troubled investors was EME's ability to invest in required environmental controls on its power plants and earn an appropriate return on investment. EME entered into an agreement with Illinois to control emissions at its fleet before the current proposed EPA rules were announced. Accordingly, it was not clear if EME was investing in environmental retrofits that might simply increase its costs (capital and operating) versus competing power plants, which would have put EME at a significant disadvantage. Subsequently, the EPA issued proposed emissions limits that, according to EIX management, "could not have been written better" from the standpoint of putting power plants on equal competitive footing in terms of environmental emissions limits. Management also noted that it expects the work it is doing to retrofit its plants will meet or exceed EPA requirements.

Environmental compliance costs/capability
Not only does EME appear to be able to meet EPA emissions requirements, it also appears that it may be able to meet the rules with lower costs and greater flexibility. When EME's environmental retrofit program was initially envisioned following its agreement with Illinois, we believe wet scrubbing was generally viewed as the only viable technology to meet emissions limits. However, the company has worked diligently to test and evaluate dry sorbent injection (DSI) technology at its plants. It appears that DSI technology can meet much of its environmental needs. We note that DSI is less capital intensive than wet scrubbing, albeit at a somewhat higher variable cost. We believe this has improved the economics of its environmental compliance program.

Natural gas prices
One factor that remains essentially unchanged over the past 18 months since Edison started talking to investors about its strategic framework for evaluating EME is natural gas prices, although we note that prices have not weakened further.

Rail/Coal remains mixed
The other factor that remains undetermined at EME is how rail and coal costs may impact the company. EME faces expiration of its existing rail contract with Union Pacific and it is unclear where this contract will price going forward, although we assume EME's rail costs increase in our forecast. It is unclear how coal costs may impact EME.

Studying how best to address emissions requirements at Homer City
Edison management indicated that it continues to evaluate how best to address environmental compliance requirements at Homer City, its Pennsylvania coal plant,

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

but noted that its lease agreement with GE includes a mechanism whereby the capital for installing environmental controls is financed by GE through terms of the lease.

EIX may refinance EME

EIX management indicated to us that one initiative it is undertaking is consideration of refinancing its maturities at EME given current high yield debt market conditions. We believe refinancing EME could be a positive catalyst for the stock, because pushing out maturities gives EME even more time to benefit from market recovery and implement its environmental strategies, etc. We expect refinancing efforts to take several months.

Rate case a key 2012 earnings driver, but not likely resolved until early 2012

EIX has a pending rate case at its Southern California Electric regulated electric utility subsidiary. The company has received a response from the Division of Ratepayer Advocates (DRA), which, as par for the course, recommended substantially less rate relief than the utility requested. EIX management indicated to us that nothing in the DRA filing surprised them and that much of the DRA disallowances were as expected and typical for a DRA filing. Intervenor filings were due yesterday, and we expect these filings to also recommend far less rate relief than the utility is seeking, as is typical.

Ultimately, the CPUC is not likely to rule on the case until early next year (with rates retroactive to January 1st). It is unclear how the CPUC may rule in the case, especially given that three of the five commissioners were appointed earlier this year. We assume that EIX is granted 45% of its rate request, consistent with the outcome in its last rate case, but note that a better or worse outcome in the rate case could swing 2012E EPS +/- $0.20-0.25. Accordingly, we expect the uncertain outcome of the rate case to be an overhang on the shares.

Cutting estimates and price target

We are cutting our 2011E and 2012E EPS to $2.75 for both years from $3.00 and $3.20, respectively, primarily to reflect lower expected results at the company's unregulated businesses which are under pressure in the near term despite long-term fundamentals appearing to start to improve. We are also cutting our December 2011 price target to $37 from $38, which reflects lower EPS, offset partly by expansion of the group multiple. We discuss our price target derivation later in this report.

Sempra Energy

We were restricted on Sempra Energy (SRE) due to J.P. Morgan's involvement in the transaction announced on 16 February 2010. Now that the transaction is complete, we are resuming coverage of Sempra Energy with a Neutral rating (previously Overweight) and a $58 December 2011 price target (previously a December 2010 price target of $63).

Sale of commodity business streamlines the business

Sempra exited its commodity trading JV with RBS last year. The business contributed significant EPS, but also potential EPS volatility; accordingly, we believe it weighed on Sempra's valuation. Following the sale of the business, the company redeployed proceeds from the sale to launch a $500 million share buyback in September 2010 as well as boosted its dividend by 23% in February of this year.

We believe these steps by management reflect the increased stability for the remaining Sempra businesses.

Regulated utilities remain strong

Sempra operates two California regulated utilities: San Diego Gas & Electric and Southern California Gas. Both businesses appear to be operating well and have a number of investment opportunities. For example, the company expects to invest heavily to meet California's 33% renewable energy standard that was recently enacted into law.

Pipelines appear to be in better shape than PG&E's pipelines

Sempra was prompted to review its pipeline records (records are required to validate pressure testing or pipeline conditions to ensure safe operation of the pipeline) in the wake of the San Bruno explosion, and it appears to have fared better than PG&E. The company only incurred a cost of about $1.5 million versus the $50 million cost incurred by PG&E to review its records, which to us implies that Sempra's record keeping likely is in better condition. It is unclear to us what impact the PG&E San Bruno explosion may have on requirements for Sempra to test/upgrade its pipeline system, but given that its initial results appear to compare favorably versus PG&E, we believe Sempra faces less risk from pipeline remediation requirements.

Rate case outcomes should be a key driver for the utilities

Sempra has pending rate cases for gas and electric rates at San Diego Gas & Electric as well as a pending gas rate case at Southern California Gas. Like EIX, we expect the cases to likely get resolved in early 2012, with rates retroactive to the first of the year. It is unclear how the cases will be resolved, as it is early in the process, but our base case EPS estimates assume a similar level of rate relief at each of the utilities as they were granted in the last round of rate cases, which implies the company will get 66% of its requested $237 million rate increase at the electric utility, 21% of its requested $39 million rate increase at San Diego Gas & Electric's gas utility and 42% of its $308 million rate increase request at Southern California Gas. We expect the outcome of the rate cases to have a significant impact on 2012E EPS.

Sempra Generation has ample renewable energy investment opportunities

We toured the Copper Mountain solar facility as part of our West Coast tour. The plant sells its output, along with the output of the neighboring El Dorado solar farm, to PG&E under a 20-year contract. We expect the company to develop a number of additional solar projects to meet increasing renewable energy requirements. For example, the company plans to develop 250 MWs of new solar generation, which is already sold under long-term contract, between now and 2013. In addition to solar, the company also owns 50% of a 200 MW wind farm in operation with BP and is developing an additional 125 MW in a 50/50 partnership with BP that sells its output under long-term contract. We expect the company to pursue additional renewable investments, although we do not include incremental unannounced projects in our analysis.

Attractive international acquisition recently completed

Sempra recently completed an attractive acquisition at its pipeline and storage business, in our view, whereby it is increasing its stake in Latin American utilities it already owned. We believe the transaction illustrates Sempra's strategic focus, as a significant portion of the transaction was funded by cash trapped in-country and the transaction is expected to be about $0.22 accretive to 2012E EPS, or ~5%.

Furthermore, Sempra is simply expanding ownership of businesses where it already has a foothold, so we believe it was a relatively low risk undertaking.

LNG

Sempra's LNG business likely has the weakest outlook of its subsidiaries, as LNG imports in the US have fallen in the face of lower US gas prices, followed by an increased international appetite for LNG following the Japanese earthquake which curtailed the country's nuclear power production. It does not appear that the LNG business will improve any time soon. However, we note that Sempra's contracts at its LNG terminals largely insulate it from vagaries of the LNG market as its contracts result in Sempra being paid whether LNG cargoes are delivered through its terminals or not.

Neutral rating a function of California uncertainty

We downgraded the two other California utilities, PG&E and Edison International, to Neutral from Overweight earlier this year following the initial appointments to the CPUC by Governor Brown. Our concern was, and is, that the CPUC may treat the California utilities less favorably than they have been treated in the past. Accordingly, we are resuming coverage of Sempra with a Neutral rating (previously Overweight). We continue to expect strong performance from the balance of the company, and the California regulation may remain constructive; however, the uncertainty around California still prompts us to move to the sidelines.

Investment Thesis

PG&E

Our Neutral rating is prompted by the expected overhang from ongoing pressure at PG&E following the explosion at its San Bruno pipeline last year. The company recently resolved a rate case at its utility, so it should not be back in front of regulators with a rate increase request for some time. The shares trade at a significant discount to the peer group based on 2011E P/E; however, the company is incurring significant costs to respond to inquiries following the pipeline explosion. It is unclear when the pipeline-related costs will ease and/or if/when the company will be allowed to recover costs related to its pipeline remediation efforts. Accordingly, we remain on the sidelines.

Edison International

Our Neutral rating is the result of uncertainty about California regulation, especially as Edison has a significant rate case pending before the CPUC. Three new commissioners were appointed to the CPUC earlier this year, and it remains unclear how constructively they may treat the utilities. Following our trip to the West Coast, we believe the CPUC may be balanced in its treatment of the utilities, but this remains uncertain. We continue to believe that Edison's unregulated business, Edison Mission Energy, can contribute material equity value, as long-term fundamentals for this business appear to be improving, but in the short term we expect the regulatory environment in California to be the primary driver for the stock.

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Sempra Energy

Our Neutral rating is the result of uncertainty about California regulation, especially as Sempra has three rate cases pending before the CPUC. The company eliminated its largest source of potential EPS variability with the sale of its commodity trading JV, and it redeployed the proceeds into a share buyback and dividend hike, which we believe illustrates management's view of the more stable nature of the remaining businesses. However, we expect the outstanding rate cases to remain an overhang on the shares, thus our Neutral rating.

Valuation

We present our valuation and rating analysis in Table 1.

Table 1: Valuation and Rating Analysis

Tkr	JPM Rtg	2011E EPS	Group P/E	Prem/ (Disc)	Justified '11E P/E	Price Target	Prior PT	Price Target Rationale
EIX	N	2.75	**14.0x**	-5%	13.3x	$37	$38	Our modest valuation discount reflects Edison's business mix and concerns over California's regulatory regime. While EIX derives ~70% of its EPS from its utility, which benefits from attractive investment opportunities that drive above-average rate base and EPS growth, we believe this is partly offset by regulatory headwinds in California. Also partly offsetting the utility's growth trajectory is discounted valuation on the balance of Edison's merchant operations to account for their inherent volatility.
PCG	N	3.45	**15.3x**	-5%	14.5x	$50	$54	Our discounted peer group multiple reflects regulatory uncertainty resulting from recent changes at the PUC, which we expect to weigh on the stock, even though California has traditionally offered some of the most constructive regulation in the US. We expect the company to also face ongoing pressure from continued remediation efforts at its natural gas business following the explosion at its San Bruno pipeline.
SRE	N	4.15	**14.0x**	0%	14.0x	$58	$63	We assign an in-line valuation to derive our price target for Sempra. We believe Sempra's California utilities are above average versus those of its regulated peers; however, we believe investors value some of the company's unregulated businesses, such as its LNG and generation operations at a discount. Furthermore, we believe near-term uncertainty around regulatory trends in California given the appointment of threer new Commissioners earlier this year continues to weigh on the utility's valuation.

Source: J.P. Morgan. * We use the Regulated Utilities group P/E for PCG and the Hybrid group multiple for EIX and SRE.

Risks to Ratings and Price Targets

Risks to our ratings and price targets are shown in Table 2.

Table 2: Risks to Ratings and Price Targets

Tkr	Risks to Our Rating
EIX	Our Neutral rating could be wrong if EIX receives a more or a less favorable rate case outcome than we expect, its pipeline of investment at the utility falters or accelerates, electricity demand falls/improves sharply or new power plant capacity is added to the system, it is unable to meet its IL environmental limits with its current plan, or commodity prices rise or fall sharply.
PCG	There could be upside to our Neutral rating if regulatory uncertainty in California dissipates following the recent changes in the makeup of the CPUC. There could be upside or downside to our rating if PCG's cost for remedial efforts at its pipelines following the San Bruno explosion is higher or lower than expected and/or its regulatory recovery is better or worse than anticipated, its pipeline of investment opportunities is better or weaker than we expect, or PCG is not able to maintain its cost structure.
SRE	Our Neutral rating could be wrong if California regulation is more or less constructive than we expect. Our Neutral rating could also be wrong if the recently appointed Commissioners in California somehow signal to investors that the Commission will continue to treat the utilities favorably. Our rating could also be wrong if Sempra's unregulated businesses are more or less successful in redeploying capital than we expect.

Source: J.P. Morgan.

Edison International: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	12,409	12,768	13,047	-
COGS	4,102	4,313	4,323	-
D&A	1,522	1,700	1,790	-
Operations and maintenance	4,612	4,843	5,033	-
Other expenses	-	-	-	-
Total operating expenses	10,283	10,855	11,146	-
Other income / (expense)	204	178	178	-
EBIT	**2,330**	**2,091**	**2,079**	**-**
EBITDA	**3,852**	**3,791**	**3,869**	**-**
Interest expense	724	788	812	-
Income tax provision	354	395	367	-
Tax rate	22.0%	30.3%	29.0%	-
Discontinued operations and other	4	0	0	-
Preferred dividends	-	-	-	-
Net income	**1,256**	**908**	**900**	**-**
Total non-recurring items	112	0	0	-
Net income (Recurring)	**1,144**	**908**	**900**	**-**
Diluted shares outstanding	**329**	**329**	**329**	**-**
Diluted EPS	**3.48**	**2.75**	**2.75**	**-**
DPS ($)	1.26	1.33	1.39	-
Payout ratio	36.0%	47.7%	50.5%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	1,456	67	67	-
Current assets	2,966	2,966	2,966	-
PP&E	30,184	33,009	34,700	-
Non-current assets	10,924	11,024	11,124	-
Total assets	**45,530**	**47,066**	**48,857**	**-**
Current liabilities	12,371	12,619	12,119	-
Long-term Debt	907	907	907	-
Preferred stock	17,713	17,713	17,713	-
Other non-current liabilities	4	4	4	-
Common equity	10,583	11,058	11,503	-
Total liabilities & equity	45,530	47,066	48,857	-
Net income	1,256	908	900	-
D&A	1,522	1,700	1,790	-
Change in working capital	(852)	0	0	-
Change in other assets	3,022	1,818	1,908	-
Net operating cash flow	**3,477**	**2,725**	**2,808**	**-**
Cash flow from investing activities	**(4,814)**	**(4,743)**	**(3,699)**	**-**
Net common equity issued/(repurchased)	(16)	0	0	-
Net debt issued/(repurchased)	1,570	1,061	1,346	-
Common dividends paid	411	433	454	-
Other financing activity	(90)	0	0	-
Cash flow from financing activities	**1,053**	**629**	**891**	**-**
Increase/(decrease) in cash	(284)	(1,389)	0	-
Cash at beginning of the period	1,673	1,389	0	-
Cash at end of the period	1,389	0	0	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	0.4%	2.9%	2.2%	-
EBITDA growth	31.6%	(1.6%)	2.1%	-
EBIT growth	54.4%	(10.3%)	(0.6%)	-
Net income (recurring) growth	7.5%	(20.7%)	(0.8%)	-
COGS growth	(3.9%)	5.1%	0.2%	-
Total operating expenses growth	(6.2%)	5.6%	2.7%	-
Diluted EPS growth	6.9%	(20.9%)	0.0%	-
Gross margin	66.9%	66.2%	66.9%	-
Operating margin	18.8%	16.4%	15.9%	-
Debt / Capital (book)	-	-	-	-
Times interest earned	3.2	2.7	2.6	-
FFO / Interest	7.0	4.5	4.5	-
FFO / Debt	40.3%	25.8%	24.2%	-
ROE	10.8%	8.2%	7.8%	-
Return on invested capital (ROIC)	3.6%	2.7%	2.7%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

PG&E Corp.: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	13,841	14,859	15,385	-
COGS	5,188	5,281	5,375	-
D&A	1,905	1,979	2,051	-
Operations and maintenance	4,439	4,581	4,716	-
Other expenses	-	-	-	-
Total operating expenses	11,532	11,842	12,142	-
Other income / (expense)	27	13	13	-
EBIT	**2,337**	**3,031**	**3,256**	**-**
EBITDA	**4,241**	**5,010**	**5,307**	**-**
Interest expense	691	677	687	-
Income tax provision	547	885	966	-
Tax rate	33.2%	37.6%	37.6%	-
Discontinued operations and other	235	0	0	-
Preferred dividends	-	-	-	-
Net income	**1,334**	**1,469**	**1,603**	**-**
Total non-recurring items	0	0	0	-
Net income (Recurring)	**1,334**	**1,469**	**1,603**	**-**
Diluted shares outstanding	**392**	**410**	**419**	**-**
Diluted EPS	**3.42**	**3.45**	**3.70**	**-**
DPS ($)	1.78	1.82	1.82	-
Payout ratio	52.9%	51.2%	47.9%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	854	563	1,233	-
Current assets	4,688	4,688	4,688	-
PP&E	31,449	33,245	33,593	-
Non-current assets	9,034	9,034	9,034	-
Total assets	**46,025**	**47,530**	**48,548**	**-**
Current liabilities	6,376	6,511	5,119	-
Long-term Debt	11,715	12,415	13,615	-
Preferred stock	252	252	252	-
Other non-current liabilities	16,400	15,977	15,977	-
Common equity	11,282	12,374	13,585	-
Total liabilities & equity	46,025	47,530	48,548	-
Net income	1,334	1,469	1,603	-
D&A	1,905	1,979	2,051	-
Change in working capital	(117)	0	0	-
Change in other assets	169	0	0	-
Net operating cash flow	**3,206**	**3,435**	**3,640**	**-**
Cash flow from investing activities	**(3,857)**	**(3,775)**	**(2,400)**	**-**
Net common equity issued/(repurchased)	303	400	400	-
Net debt issued/(repurchased)	1,248	816	231	-
Common dividends paid	(662)	(763)	(778)	-
Other financing activity	(474)	(404)	(423)	-
Cash flow from financing activities	**415**	**49**	**(571)**	**-**
Increase/(decrease) in cash	(236)	(291)	670	-
Cash at beginning of the period	527	0	0	-
Cash at end of the period	291	(291)	670	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	3.3%	7.4%	3.5%	-
EBITDA growth	3.0%	18.1%	5.9%	-
EBIT growth	(1.2%)	29.7%	7.4%	-
Net income (recurring) growth	8.1%	10.1%	9.1%	-
COGS growth	3.7%	1.8%	1.8%	-
Total operating expenses growth	3.9%	2.7%	2.5%	-
Diluted EPS growth	10.9%	0.9%	7.2%	-
Gross margin	62.5%	64.5%	65.1%	-
Operating margin	16.9%	20.4%	21.2%	-
Debt / Capital (book)	52.1%	51.5%	49.6%	-
Times interest earned	3.4	4.5	4.7	-
FFO / Interest	5.8	6.1	6.3	-
FFO / Debt	31.9%	30.7%	31.8%	-
ROE	11.8%	11.9%	11.8%	-
Return on invested capital (ROIC)	4.1%	4.4%	4.8%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

Sempra Energy: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Sales	9,003	9,162	9,611	-
COGS	3,783	3,487	3,601	-
D&A	867	977	1,082	-
Operations and maintenance	2,979	2,883	2,924	-
Other expenses	-	-	-	-
Total operating expenses	7,629	7,348	7,607	-
Other income / (expense)	189	124	130	-
EBIT	**1,563**	**1,938**	**2,134**	**-**
EBITDA	**2,430**	**2,916**	**3,217**	**-**
Interest expense	430	435	514	-
Income tax provision	102	496	535	-
Tax rate	9.0%	33.0%	33.0%	-
Discontinued operations and other	449	0	0	-
Preferred dividends	-	-	-	-
Net income	**896**	**1,007**	**1,086**	**-**
Total non-recurring items	0	0	0	-
Net income (Recurring)	**896**	**1,007**	**1,086**	**-**
Diluted shares outstanding	**248**	**243**	**244**	**-**
Diluted EPS	**3.61**	**4.15**	**4.45**	**-**
DPS ($)	1.56	1.16	1.16	1.16
Payout ratio	42.7%	45.7%	46.9%	-

Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Sales	-	-	-	-
COGS	-	-	-	-
D&A	-	-	-	-
Operations and maintenance	-	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**-**	**-**	**-**	**-**
EBITDA	**-**	**-**	**-**	**-**
Interest expense	-	-	-	-
Income tax provision	-	-	-	-
Tax rate	-	-	-	-
Discontinued operations and other	-	-	-	-
Preferred dividends	-	-	-	-
Net income	**-**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**-**	**-**	**-**	**-**
Diluted shares outstanding	**-**	**-**	**-**	**-**
Diluted EPS	**-**	**-**	**-**	**-**
DPS ($)	-	-	-	-
Payout ratio	-	-	-	-

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	912	0	0	-
Current assets	2,441	2,441	2,441	-
PP&E	19,876	22,714	25,086	-
Non-current assets	7,054	6,054	6,054	-
Total assets	**30,283**	**31,209**	**33,581**	**-**
Current liabilities	3,786	4,190	5,905	-
Long-term Debt	9,329	9,329	9,329	-
Preferred stock	-	-	-	-
Other non-current liabilities	8,141	8,240	8,070	-
Common equity	9,027	9,449	10,277	-
Total liabilities & equity	30,283	31,209	33,581	-
Net income	896	1,007	1,086	-
D&A	867	977	1,082	-
Change in working capital	107	0	0	-
Change in other assets	156	1,000	0	-
Net operating cash flow	**2,310**	**3,984**	**2,168**	**-**
Cash flow from investing activities	**(1,283)**	**(3,815)**	**(3,455)**	**-**
Net common equity issued/(repurchased)	(462)	(125)	250	-
Net debt issued/(repurchased)	220	503	1,545	-
Common dividends paid	(364)	(460)	(508)	-
Other financing activity	(31)	0	0	-
Cash flow from financing activities	**(637)**	**(81)**	**1,287**	**-**
Increase/(decrease) in cash	390	88	0	-
Cash at beginning of the period	110	912	0	-
Cash at end of the period	500	1,000	0	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	11.1%	1.8%	4.9%	-
EBITDA growth	6.1%	20.0%	10.3%	-
EBIT growth	3.1%	24.0%	10.1%	-
Net income (recurring) growth	(19.8%)	12.4%	7.8%	-
COGS growth	16.1%	(7.8%)	3.3%	-
Total operating expenses growth	12.1%	(3.7%)	3.5%	-
Diluted EPS growth	(20.0%)	14.8%	7.2%	-
Gross margin	58.0%	61.9%	62.5%	-
Operating margin	17.4%	21.2%	22.2%	-
Debt / Capital (book)	50.5%	50.6%	52.2%	-
Times interest earned	3.6	4.5	4.2	-
FFO / Interest	5.8	7.9	5.2	-
FFO / Debt	26.1%	34.2%	23.2%	-
ROE	9.9%	10.7%	10.6%	-
Return on invested capital (ROIC)	4.5%	4.7%	4.9%	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Dec

Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com

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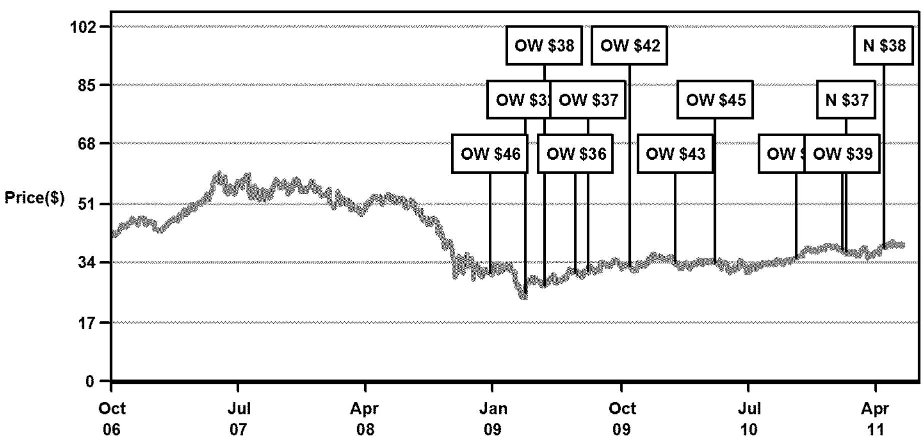
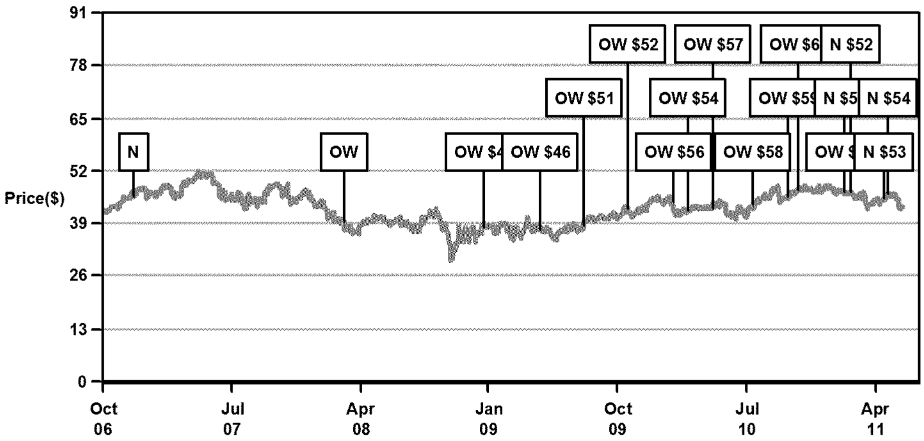
Edison International (EIX) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
23-Dec-08	OW	30.91	46.00
12-Mar-09	OW	25.21	32.00
20-Apr-09	OW	27.81	38.00
26-Jun-09	OW	31.29	36.00
22-Jul-09	OW	31.48	37.00
22-Oct-09	OW	33.19	42.00
26-Jan-10	OW	34.20	43.00
20-Apr-10	OW	33.85	45.00
12-Oct-10	OW	35.35	38.00
20-Jan-11	OW	37.70	39.00
27-Jan-11	N	37.16	37.00
20-Apr-11	N	38.18	38.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

PG&E Corp. (PCG) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 11, 2004 - Sep 07, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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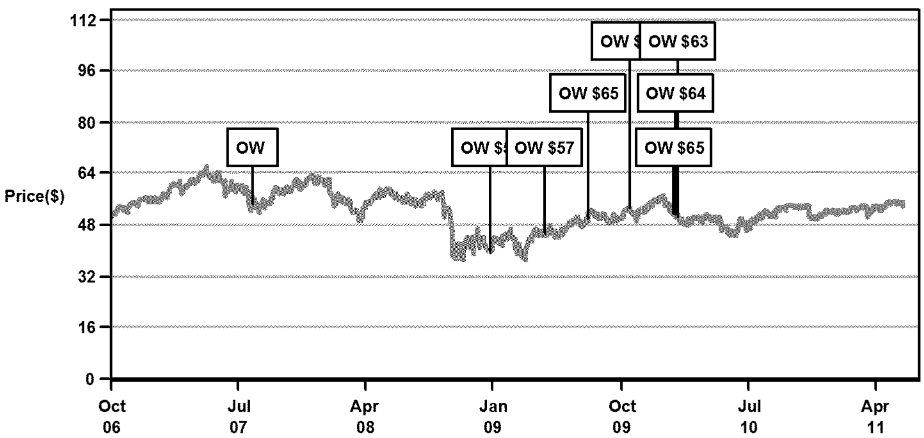
Date	Rating	Share Price ($)	Price Target ($)
08-Dec-06	N	45.88	-
26-Feb-08	OW	39.81	-
23-Dec-08	OW	38.05	45.00
20-Apr-09	OW	37.66	46.00
22-Jul-09	OW	38.50	51.00
22-Oct-09	OW	42.44	52.00
26-Jan-10	OW	44.07	56.00
26-Feb-10	OW	41.92	54.00
20-Apr-10	OW	42.75	57.00
16-Jul-10	OW	43.52	58.00
29-Sep-10	OW	45.55	59.00
19-Oct-10	OW	47.21	60.00
24-Jan-11	OW	47.46	62.00
27-Jan-11	N	46.98	51.00
09-Feb-11	N	46.72	52.00
21-Apr-11	N	45.18	53.00
28-Apr-11	N	46.20	54.00

Sempra Energy (SRE) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Oct 12, 2005 - Jun 30, 2006. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

Date	Rating	Share Price ($)	Price Target ($)
01-Aug-07	OW	54.85	--
23-Dec-08	OW	39.68	54.00
20-Apr-09	OW	45.31	57.00
22-Jul-09	OW	49.86	65.00
22-Oct-09	OW	53.45	72.00
22-Jan-10	OW	51.55	65.00
26-Jan-10	OW	51.45	64.00
01-Feb-10	OW	50.75	63.00

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IB clients*	50%	45%	33%
JPMS Equity Research Coverage	43%	49%	8%
IB clients*	70%	62%	56%

*Percentage of investment banking clients in each rating category.
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Andrew Smith
(1-713) 216-7681
andrew.l.smith@jpmorgan.com