

Earnings Resilient Near Term; the Financing Model Is Unresolved

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Year Ago	vs. Year Ago
Net Income	\$749M	\$823M	-9.0%
Core EPS	\$0.41	\$0.50	-18.0%

2 | GUIDANCE AND OUTLOOK

2026 core EPS guidance was reaffirmed at \$1.64 to \$1.66, and 2027 at \$1.78 to \$1.82, held despite the 2027 capital plan's cut to \$11.4 billion from \$13.4 billion. The commitment to at least 9% annual core EPS growth for 2027 to 2030 is no longer active beyond 2027. Management expects no new common equity through 2030 and targets mid-teens FFO to debt. The expected 2027 dividend increase stays on the trajectory toward a 20% payout ratio by 2028; strategic-review direction is due no later than summer 2027.

3 | EARNINGS ANALYSIS

THE QUARTER DECLINED; THE YEAR GREW. Third-quarter core EPS fell 18.0% to \$0.41 from \$0.50, lapping a prior-year quarter that included a tax-method catch-up for the first half of 2025; lower authorized returns and financing costs also weighed, and the call gave no complete quarterly bridge. Nine-month core EPS rose 8.8% to \$1.24, as customer capital investment contributed \$0.12 and O&M savings \$0.04, partly offset by redeployment and timing. The model remains rate-base-driven rather than an operating-margin transformation.

GAAP RESULTS WERE MIXED. Revenue declined 1.0% to \$6.188 billion while operating income rose 3.3% to \$1.249 billion. Net income fell to \$749 million from \$823 million because the tax benefit dropped to \$95 million from \$220 million, and GAAP EPS was \$0.34 against \$0.37. Core earnings exclude \$156 million of non-core items, including \$102 million of Wildfire Fund amortization. The authorized ROE steps down to 9.98% for 2026 to 2028 from 10.28% in 2025, so rate-base growth must first offset the lower return.

GUIDANCE HELD; VISIBILITY SHORTENED. Management reaffirmed 2026 core EPS of \$1.64 to \$1.66 and 2027 core EPS of \$1.78 to \$1.82 even after cutting the 2027 capital plan to \$11.4 billion from \$13.4 billion, because the deferred projects were not expected to enter rate base until after 2027; projected 2027 weighted-average rate base of approximately \$81 billion is unchanged. But the commitment to at least 9% annual core EPS growth for 2027 to 2030 is no longer active beyond 2027, and outcomes now depend more on legislation, regulatory approvals, and the strategic review.

THE CASE RESTS ON FINANCING. The stance is Hold rather than an upgrade. Management expects no new common equity through 2030, targets mid-teens FFO to debt, and makes investment-grade creditworthiness the foundational objective of the strategic review, whose direction is due no later than summer 2027. Safety has improved materially, with weather-normalized ignitions down 74% since 2017 and a fourth year without a major equipment-associated wildfire. But exposure to severe claims, finite wildfire-fund capacity, and regulatory disallowances remains, so value turns on converting lower physical risk into durable legal protection and affordable financing.

4 | KEY READ-THROUGHS

UNRESOLVED LIABILITY POLICY REMAINS A SECTOR FINANCING PROBLEM
Edison International (EIX), Sempra (SRE) | Negative | Potentially high for Edison's equity risk premium; more moderate at Sempra
CFO Burke said policy risk remains the primary constraint on further ratings improvement, despite metrics management considers consistent with investment-grade performance. PG&E cut 2027 capital spending to \$11.4 billion from \$13.4 billion even as weather-normalized ignitions fell 74% since 2017, because safety gains do not eliminate claim severity or recovery uncertainty. Edison, concentrated in Southern California Edison, carries the fuller exposure; Sempra's is diluted through SDG&E.

UTILITY SUBROGATION REFORM CREATES A DIRECT COUNTERPARTY RISK FOR INSURERS
Mercury General (MCY), Edison International (EIX) | Mixed | Potentially material for Mercury; potentially positive for Edison
CEO Poppe said negotiations must address what will make sure claims are limited and that customers are not the infinite backstop for insured properties; an October 29 hearing takes up subrogation. Mercury's 2025 annual report disclosed approximately \$538 million of estimated Eaton subrogation recoveries against SCE, about 55% of its estimated ultimate Eaton losses. If reforms reduce recoverable claims, recoveries already recognized could reverse into adverse reserve development.

ENERGIZED CAPACITY AND CUSTOMER-FUNDED CONNECTIONS GAIN RELATIVE VALUE
Equinix (EQIX) | Positive | Meaningful at individual assets; modest to potentially moderate for the regional portfolio
PG&E has connected approximately 174 MW of data-center projects since 2024 and reaffirmed that 1.8 GW expected online by 2030 remains in its plan despite the capital reduction. Equinix's San Jose SV12 facility obtained 40 MW and funded the Santa Teresa Substation expansion and associated taxes. As commitment requirements tighten, energized capacity and operators able to fund interconnection upfront gain relative value over queued projects.

UTILITY-SIDE INTERCONNECTION WORK IS AN ADDITIONAL PROJECT-EXECUTION BOTTLENECK
NextEra Energy (NEE) | Negative | Potentially high for an affected project; low or unquantified for the parent
PG&E said its investment reductions will affect the connection of new clean energy resources, and that it had begun notifying customers whose projects might be delayed. NextEra's Corby battery-storage project, 300 MW and 1,200 MWh, requires PG&E to install a new 230-kV substation bay and construct part of the interconnection facilities. Developers cannot control utility-owned completion work, so operation dates and contracted revenues can slip.