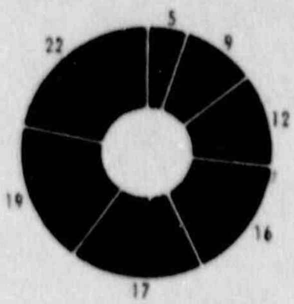
[illegible] 1988
[illegible] and
[illegible]

Water Revenue Dollar in Cents

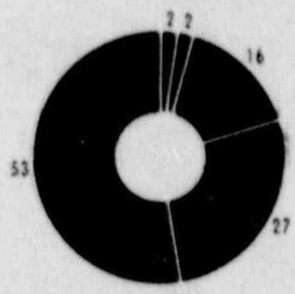
1 Other
2 Fire hydrant rentals
5 Governmental
37 Residental
55 Commercial and industrial

Water Expenditure Dollar in Cents



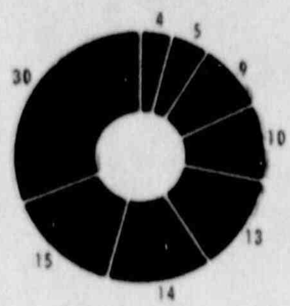
5 Payments to the City
9 Retirement Plan costs related to operations
12 Capital improvements
16 Debt service costs
17 Purchased water and energy
19 Other operating expenses
22 Operating salaries and wages

Power Revenue Dollar in Cents



2 Street lighting
2 Other
16 Industrial
27 Residential
53 Commercial

Power Expenditure Dollar in Cents



4 Payments to the City
5 Retirement Plan costs related to operations
9 Capital improvements
10 Debt service costs
13 Operating salaries and wages
14 Other operating expenses
15 Fuel
30 Purchased energy

Year ended June 30	Water 1988	Water 1987	Water % Increase (Decrease)	Power 1988	Power 1987	Power % Increase (Decrease)
Service	Gallons in billions			Kilowatt hours in billions		
Sales	203.6	210.1	(3.1%)	21.1	20.5	2.9%
Customers — average number (thousands)	637.8	632.3	0.9%	1,304.6	1,275.9	2.3%
Financial	In millions			In millions		
Revenue *	$ 259.7	$ 252.9	2.7%	$1,588.1	$1,423.2	11.6%
Operating costs * *	172.4	151.9	13.5%	1,191.7	1,031.6	15.5%
Net income	34.4	44.6	(22.9%)	175.6	186.8	(6.0%)
Payments to City of Los Angeles	12.4	11.3	9.7%	70.2	67.9	3.4%
Capital expenditures	104.8	99.1	5.8%	334.5	321.2	4.1%
Net utility plant	1,114.7	1,046.1	6.6%	3,324.9	3,133.5	6.1%
Capitalization — equity and long-term debt	1,172.5	1,054.1	11.2%	3,444.7	3,180.6	8.3%

** Includes other income — net*

** * Excluding depreciation expense*

The Department
[illegible]

Approximately 3.4 million residents in the nation's second largest city receive water and electricity from the Los Angeles Department of Water and Power. As the largest municipally-owned utility in the nation, DWP has more than 11,000 employees serving the needs of residents, businesses and industry in a 465-square mile area. The City of Los Angeles began municipal distribution of water in 1902 and electricity in 1916.

The DWP, as a proprietary agency of the Los Angeles City government, receives no tax support. Its operations are financed entirely by the sale of water and electricity. Revenue bonds are the main source of external financing.

The DWP is administered by the Board of Water and Power Commissioners, whose five members are appointed by the Mayor and confirmed by the City Council for terms of five years. The Board establishes water and electric rates, subject to approval by the City Council.

Board of Water and Power Commissioners

General Manager and Chief Engineer

Assistant General Manager-Water

Divisions of the Water System:

Aqueduct

Water Operating

Water Engineering Design

Water Quality

General Services

Assistant General Manager-Power

Divisions of the Power System:

Power Operating and Maintenance

Power Design and Construction

System Development

Power System Services

Power Distribution

Real Estate

Assistant General Manager-External and Organizational Services

Divisions of External and Organizational Services:

Commercial

Customer Services

Government Affairs

Human Resources

Management Services

Public Affairs

Chief Financial Officer

Divisions of Finance and Accounting:

Accounting

Internal Audit

Financial Planning

Chief Assistant City Attorney for Water and Power

It is with great pleasure that we present the 87th annual report which reviews the accomplishments of the Department of Water and Power during the 1987–88 fiscal year.

We are continuing to meet the challenge of providing water and electric service to a dynamic metropolis while planning for expansion as the city grows into the next century. This is being accomplished in conjunction with our programs for water conservation and energy efficiency.

As the second largest city in the nation with 3.4 million people, Los Angeles is dependent on water and electricity for its vitality and growth. It is the Department's responsibility to ensure that these vital resources are available to residents, business and industry. We live up to this responsibility every day and are committed to doing so in the future.

Our success as a utility could not have been achieved without the help of the Mayor and the City Council. We also appreciate the efforts of other elected city officials and city departments.

It would be impossible to attain our goals without our greatest resource — management and personnel whose continued dedication and service have made this utility efficient and responsive to its customers.

Rick J. Caruso

President

Board of Water and Power Commissioners

Rick J. Caruso
President

Jack W. Leeney
Vice President

Angel M. Echevarria

Carol Wheeler

Walter A. Zelman

Since formation of the City's first public utility nearly 90 years ago, the Department of Water and Power's primary responsibility has been to serve the public's interest. This is carried out through service to our customers, maintaining the financial strength of the Department, protecting current supplies of water and power and securing future supplies to meet the needs of our City.

The Board of Water and Power Commissioners holds lead responsibility for seeing that this mandate is carried out. With my fellow commissioners, we represent the interests of over 3,400,000 residents of the City through their elected representatives, the City Council and Mayor.

Our judgment must always be guided by the fact that DWP provides not a luxury, but vital necessities: electricity that serves our homes and drives our economy and water that sustains life.

As the nation's largest publicly owned utility, DWP accepts responsibility for leading the way in shaping the future of this industry — which means finding innovative yet practical ways to deal with changing economic, social and regulatory conditions. This requires us to be more businesslike, more adaptable, more sensitive to external concerns and more proactive in meeting challenges.

For this we look to our partners in public service, the men and women who run the water and power systems. Their dedication will continue to meet the challenges facing us.

On this 75th anniversary of the Los Angeles Aqueduct, the Board thanks everyone associated with the DWP. Our special thanks to General Manager Paul H. Lane, who is retiring after 40 years of dedicated service to the Department.

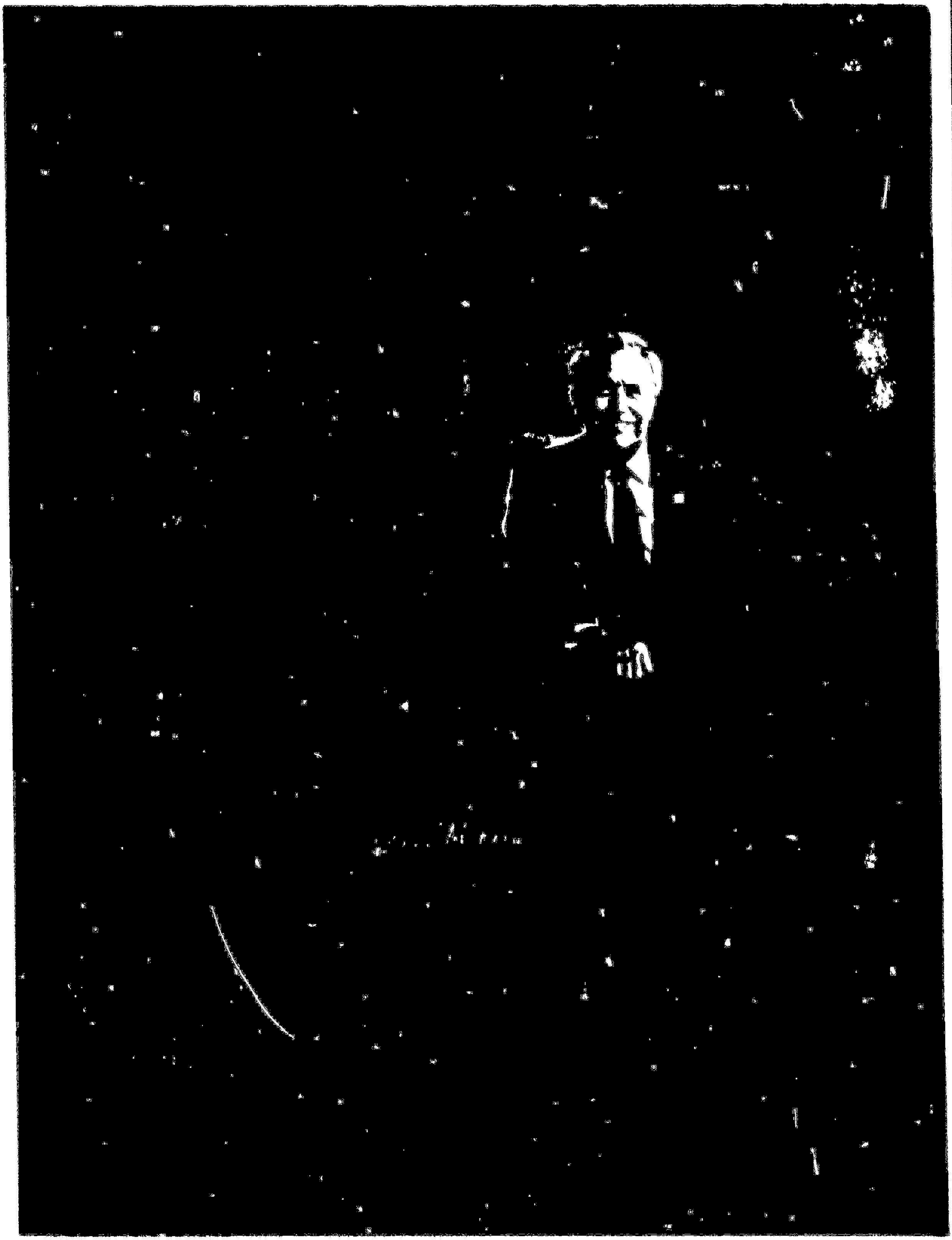
The growth of Los Angeles from a tiny pueblo to the premier city of the Pacific Rim makes a great story. Development of the water and power systems to supply this growth is even more fascinating.

It all started quite simply during the early years, with the challenges being technical, engineering, physical and financial. When you needed more water or electricity you designed and constructed the most reliable and lowest-cost systems.

Today's public utilities are faced with new challenges requiring new skills in addition to the traditional ones of engineering design and construction. This new environment involves increased interaction with public officials, legislative and regulative bodies and the media; negotiating labor contracts; and responding more effectively to consumer concerns.

Colleges are becoming more aware of the need for people with human relations skills, and have responded by developing new courses. At the Department, we have a constant need for these skills and are preparing our employees to deal with the complex people issues that confront us today. This process includes internal training classes, university graduate programs, an employee speakers bureau, and more effective interaction with consumer and environmental groups, the media and elected officials.

The importance of the products we serve to our customers puts us directly and irrevocably into the people business in addition to the utility business. We will continue to solve the complex technical and engineering problems involved in maintaining adequate supplies of water and electricity to our City while meeting the increasing number of new demands in the arena of human relations.



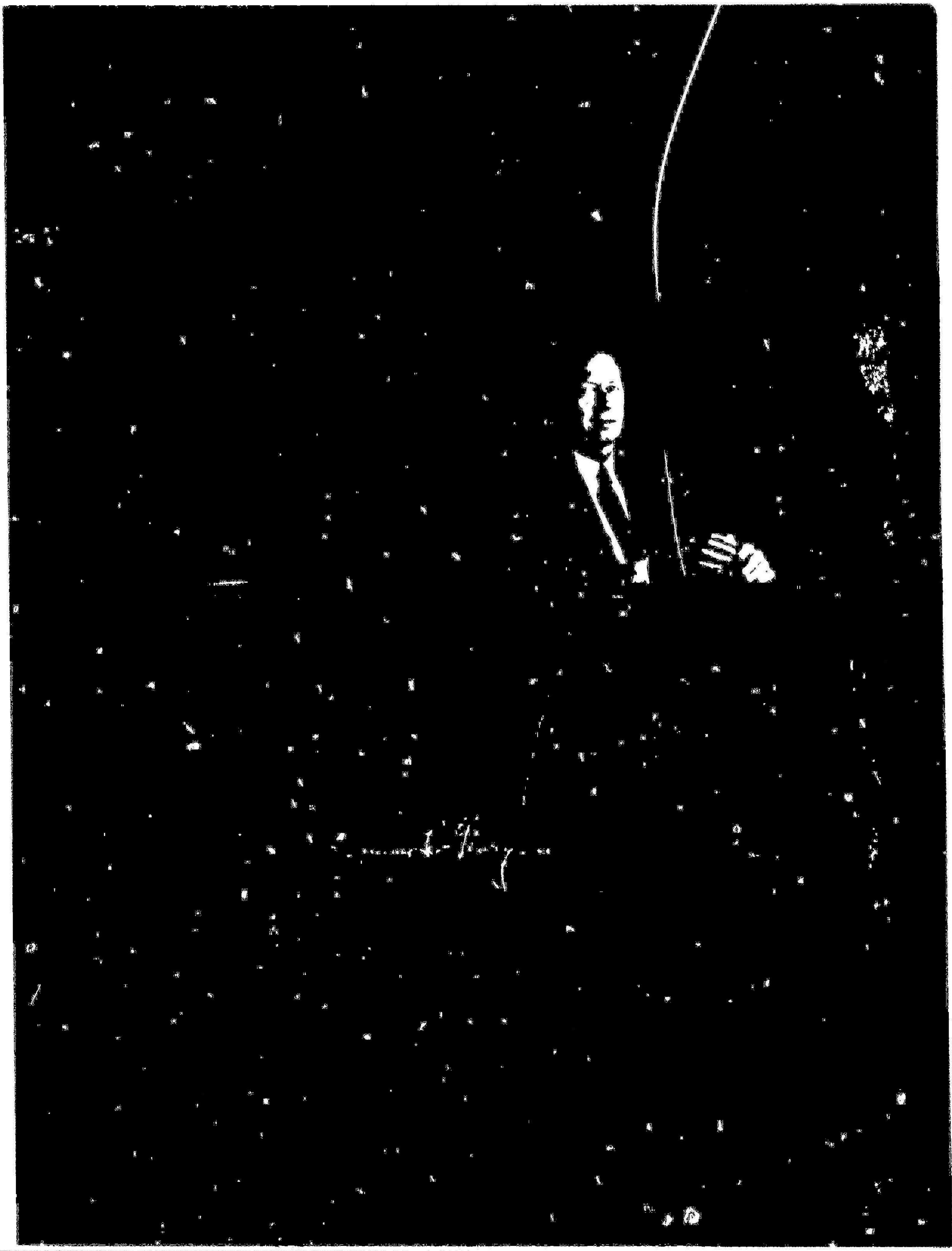
Delivering high-quality drinking water to a thirsty city has been a commitment of the Department of Water and Power over all 86 years of our history. Today, even as water quality standards become more stringent, your DWP remains on top of the situation, consistently providing a product that meets or exceeds all requirements.

Yet public concerns remain, fueled by reports of proliferating contaminants in our environment. A significant percentage of our customers — reacting to such reports — have turned to alternate drinking water supplies, paying a high price for a margin of safety that is largely illusory. How can we, as stewards of the public trust, respond constructively to such concerns?

First of all, we must recognize that maintaining high quality drinking water in a megalopolis like Los Angeles *is* a tough job. The system — from underground water mains to above-ground reservoirs — requires constant attention. We must continue to pursue new technologies, such as those at our new Aqueduct Filtration Plant, to give us an edge in the battle against water degradation. The public, our customers, deserve to know these facts.

They also need to know that we are winning. By measures both objective and personal, today's Los Angeles tap water is purer, better tasting than ever. And thanks to ongoing efforts of the Department's employees, it continues to improve.

Making these facts clear to a discerning public is also one of our most important jobs. It is our responsibility not only to safeguard but to accurately inform the public we serve.



Coping with the second consecutive dry year in the Eastern Sierra Nevada was a major priority of the Water System during 1987-88. This region, 300 miles north of Los Angeles, is normally the source of 75 percent of the city's water supply, but last year its share fell to only 60 percent.

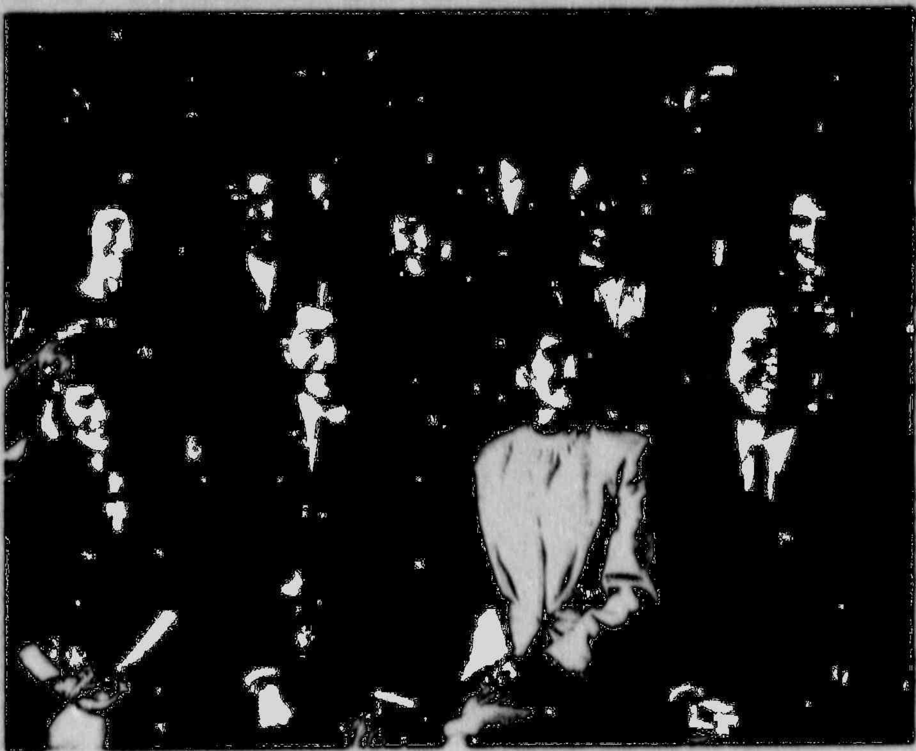
As a result, conservation efforts were intensified, including activation of Phase I of the city's Water Conservation ordinance, calling for voluntary 10 percent cuts in water use by consumers. In addition, the DWP extended its conservation advertising and promotional campaign, which featured 12 Los Angeles TV weathercasters. Offers of free low-flow shower heads and water saving kits were also mailed to customers along with their bills as part of a mandatory retrofit ordinance approved by the City Council.

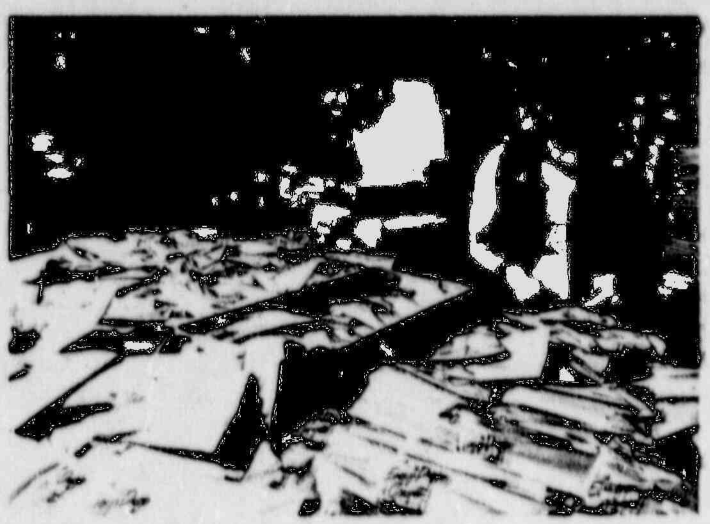
The drought has also forced the Department to sharply increase water purchases from the Metropolitan Water District, at a significant cost premium over DWP sources. In normal periods, MWD supplies around 10 percent of the city's water needs, but this year purchases will be around 30 percent.

Improvement of water quality remains a major activity of the Water System. Work continued on a $2.5 million aeration tower in North Hollywood for treatment of a portion of San Fernando Valley groundwater. Completion is scheduled in late 1988.

As a leader in water quality, the DWP is involved in innovative

Twelve Los Angeles television weathercasters helped the DWP carry its conservation message to the public last year. Front row, from left: Judy Jurnudd, KCOP; Maclovio Perez, KCBS; Cristina Arenas, KMEX; Johnny Mountain, KABC; middle row: Kirstie Wilde, KTTV; Andrea Amador, KHJ; Mario Lara, KVEA; Dr. George Fischbeck, KABC; Jane Carl, KTLA; top row: Steve Rambo, KCBS; Dallas Raines, KABC; Kevin O'Connell, KCBS.





Research and planning were completed in 1988 on a 2,000-gallon-per-minute groundwater treatment demonstration plant involving new ozone/hydrogen peroxide technology developed jointly by UCLA and the DWP. The $1 million facility, which will remove volatile organic chemicals (VOC's), will be built in North Hollywood under contract with a private engineering firm. Completion is scheduled in late 1989.

In order to help customers comply with Los Angeles' Emergency Water Conservation Ordinance, the DWP distributed to requesting residential customers free water conservation kits. The kits include a low-flow showerhead as well as other devices to help save water in the home.

research on an advanced oxidation process in partnership with UCLA. One groundwater treatment effort that looks promising utilizes ozone and hydrogen peroxide.

The Los Angeles Aqueduct Filtration Plant completed its first full year of operations with a high degree of reliability, producing exceptionally high water quality.

Efforts were pressed to upgrade the water distribution system through replacement and cement lining of older mains and covering of small reservoirs.

Mono Basin litigation continued, with the Department defending challenges to its long-held water rights in that area. A 16-month extension of the Los Angeles-Inyo Agreement was approved, allowing for completion of a cooperative environmental impact report and groundwater management plan for the Owens Valley groundwater basin.

Water System Facts in Brief

Year ended June 30	1988	1987
Use of Water		
Average Los Angeles population served	3,388,000	3,333,000
Average daily use per capita (gallons)	180.8	188.6
Water sales for fiscal year, (billion gallons)	203.6	210.1
Maximum daily demand, (million gallons)	841.0	873.0
Water Supply (in cu. ft. per second — c.f.s.)		
Local supply	166.9	137.0
DWP Aqueduct	573.6	661.4
Metropolitan Water District (California Aqueduct and Colorado River Aqueduct)	207.7	177.1
Gross supply	948.2	975.5
Diversion from (to) local storage	(0.3)	(1.7)
Net supply to distribution systems	947.9	973.8

[illegible]

Like other segments of American industry, the electric utility business is experiencing drastic changes. The prospect of deregulation, increased competition, changes in the tax laws and constantly evolving world economic conditions provide us with many new challenges.

Unlike the monopolistic environment of the past, competition in the electric utility industry today is very real. Other energy forms now compete with electricity. Some customers generate their own power, selling off what they don't need. Entrepreneurs are willing to build power plants and sell the output to electric utilities or to groups of former utility customers.

Legal and regulatory uncertainty and the prospect of changes in tax policies make planning for the future difficult. To assist us, the Power System has developed a Strategic Plan that addresses 11 important areas of our electric business, ranging from financial responsibility to employee relations.

To keep our competitive edge, we have chosen two areas for special emphasis: price and service to our customers. We plan to maintain rates at 1985 levels, adjusted only for inflation. This means future electric rate increases must not exceed this region's Consumer Price Index — an ambitious goal, but one we must meet to stay competitive. Increased emphasis on customer service will also help us compete in the new environment.

We build upon a record of success and innovation, a tradition we must carry on as we move into the future. The Strategic Plan points the way into the 21st Century.

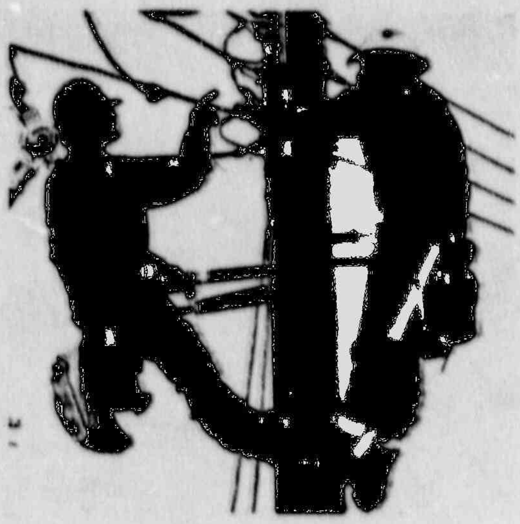
The Power System took a major stride forward in 1988 with completion of its first Strategic Plan, designed to guide management through the uncertain environment facing electric utilities over the rest of the century. The plan, reflecting the ideas and energies of hundreds of DWP employees and several outside experts, will be a valuable tool in helping the system remain financially and operationally strong and responsive to its approximately 1,300,000 customers.

The third and final unit of the Palo Verde Nuclear Generating Station in Arizona, in which the DWP holds a 9.7 percent interest, went on line early in 1988, raising the station's output to its design capacity of 3,810 megawatts. Los Angeles' share of this output (around 368 megawatts) represents approximately 7 percent of the city's current electrical needs.

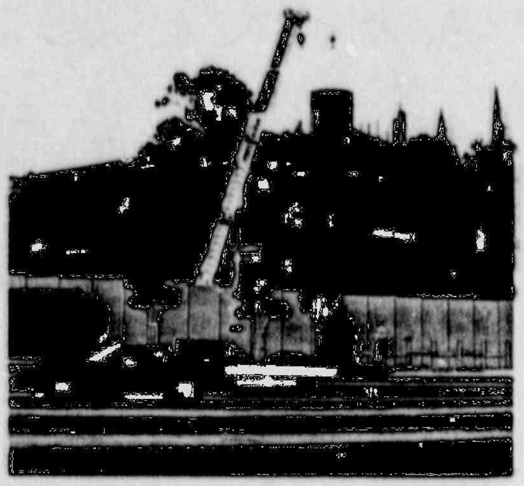
Drought conditions across the west have reduced water volumes in the Colorado, Columbia and Owens Rivers by as much as 40 percent this year, curtailing production at all hydroelectric stations supplying the DWP. As a result, the Power System has made greater use of power from the Intermountain Power Project in Utah and the Palo Verde station in Arizona, as well as generating more electricity in its Los Angeles Basin steam generating stations during 1987-88.

To help its customers use electricity more wisely, the DWP has expanded its energy efficiency program, which includes offering free energy audits, incentives for retrofitting more efficient equipment, including rebates to

The DWP will be prepared to accept 50 percent more power from the Pacific Northwest starting next year, when work is completed on this $171 million expansion of its Pacific Intertie converter station in Sylmar. Shown is the valve hall of the new facility, where power is converted from DC (direct current), used for long-distance transmission, to AC (alternating current), the form in which the power reaches customers of the DWP.



Safety remains a high priority for the DWP, which has reduced total on-the-job injuries by 32 percent among all employees in the last three years, and by 40 percent since 1980 among employees in hazardous jobs. Here, a Power System instructor gives safety pointers to a trainee.



Aesthetics and function will blend in this DWP electrical distributing station, one of about 120 such facilities in the City of Los Angeles. In designing new stations and reconditioning old ones, the Power System has emphasized compatibility with the surrounding environment.

customers who install low-energy lighting systems.

Meanwhile, the Power System continues to improve plant efficiencies through its ongoing reliability/availability improvement program. In 1988 the DWP spent more than $9 million in retubing boilers and reconditioning generators and turbines at its steam plants in the Los Angeles basin. These facilities, which are used with the objective of minimizing air quality impacts, continue to provide an important increment of power for Los Angeles.

With gasoline engines accounting for most of the basin's air pollution, the DWP has stepped up efforts to encourage development and use of electric vehicles in the area. One DWP test vehicle began operating in the last 12 months, and contracts have been let for six more electric vans in the next two years.

Power System Facts in Brief

Year ended June 30	1988	1987
Power Use		
Domestic customers	1,116,806	1,092,912
Commercial customers	165,229	160,239
Industrial customers	19,740	20,006
All others	2,828	2,763
Total customers — all classes	1,304,603	1,275,920
Sales to ultimate consumers — kilowatt-hours	20,936,158,000	20,162,537,000
Sales to other utilities — kilowatt-hours	169,800,000	377,876,000
Average annual kilowatt-hours per domestic customer	5,029	5,004
Status of System		
Utility plant (less accumulated provision for depreciation)	$3,324,924,000	$3,133,454,000
Generating Stations		
Net dependable capability, kilowatts	7,280,000**	7,584,000**

***Included purchased capacity; does not deduct short-term sales of excess capacity*

Service is the new challenge for the American marketplace, and nowhere are the demands more evident than in the public utility field, which has undergone significant change in recent years. Delivery of a product — in our case high quality water and reliable, affordable electric power — is only the starting point in our service responsibilities toward our customers.

Both large industrial users and individual homeowners, as well as all the customer classes in between, now look to us for such support — from conservation tips to large-scale analysis of cost and reliability factors. To meet these new demands, thousands of our employees are being made more aware that the customer owns the company, and becoming more sensitized to customer needs. Involving employees in this way is critical to our success in a newly competitive environment, so management must cultivate a spirit of participation and commitment throughout the ranks that makes service second nature.

But while the breadth of service expands, accessibility must become more focused. It is no longer acceptable for customers to make several phone calls, or abide endless delays while the right service person is sought.

Single contact problem solving must be a characteristic of utility service. Today's customers want and deserve more access to the Department and more control over their consumption of water and electricity. Our job, now and in the future, is to respond successfully.

External and Organizational Services (EOS) is responsible for DWP's human resources, public affairs, management systems, customer and commercial services and government relations.

Major improvement was achieved in customer service, with a new phone system that has sharply reduced response times on incoming calls. The People Difference and Investment in Excellence Programs for service employees has helped them in dealing with customer problems, and new uniforms and vehicle markings have increased DWP's image in the community. Greater emphasis on risk and account management has resulted in major reductions in write-offs and service disconnects.

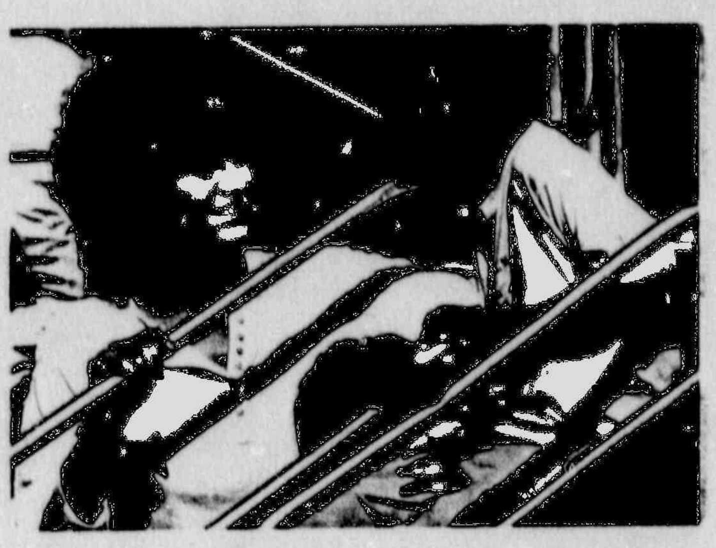
The DWP passed an affirmative action milestone when minorities exceeded 50 percent of the employee population. DWP's professional work force is also 50 percent minorities and women. Hispanics in the service maintenance area achieved population parity.

A strategic study of information systems was launched last year, aimed at focusing computer technology on the important business needs of the Department, particularly productivity and efficiency, resource management and customer service.

Public Affairs played an important role in broadening awareness on a number of DWP issues and concerns last year, including the Power System's strategic plan. A second year of drought spurred new efforts to drive home the conservation message for water customers, and several innovative media and community outreach efforts signaled a more proactive posture for the Department.

Responding to increasing numbers of working parents in its ranks, the DWP has led the way among Los Angeles city agencies providing care for employees' children. The Department also established a Parent's Resource Center and sponsors classes on various aspects of rearing children.

The DWP in 1988 introduced bright new uniforms for its service employees and more eye-catching vehicle identifications designed to heighten its visibility in the community. In the photo, a meter reader uses a new hand-held computer that makes customer billing more accurate and timely.

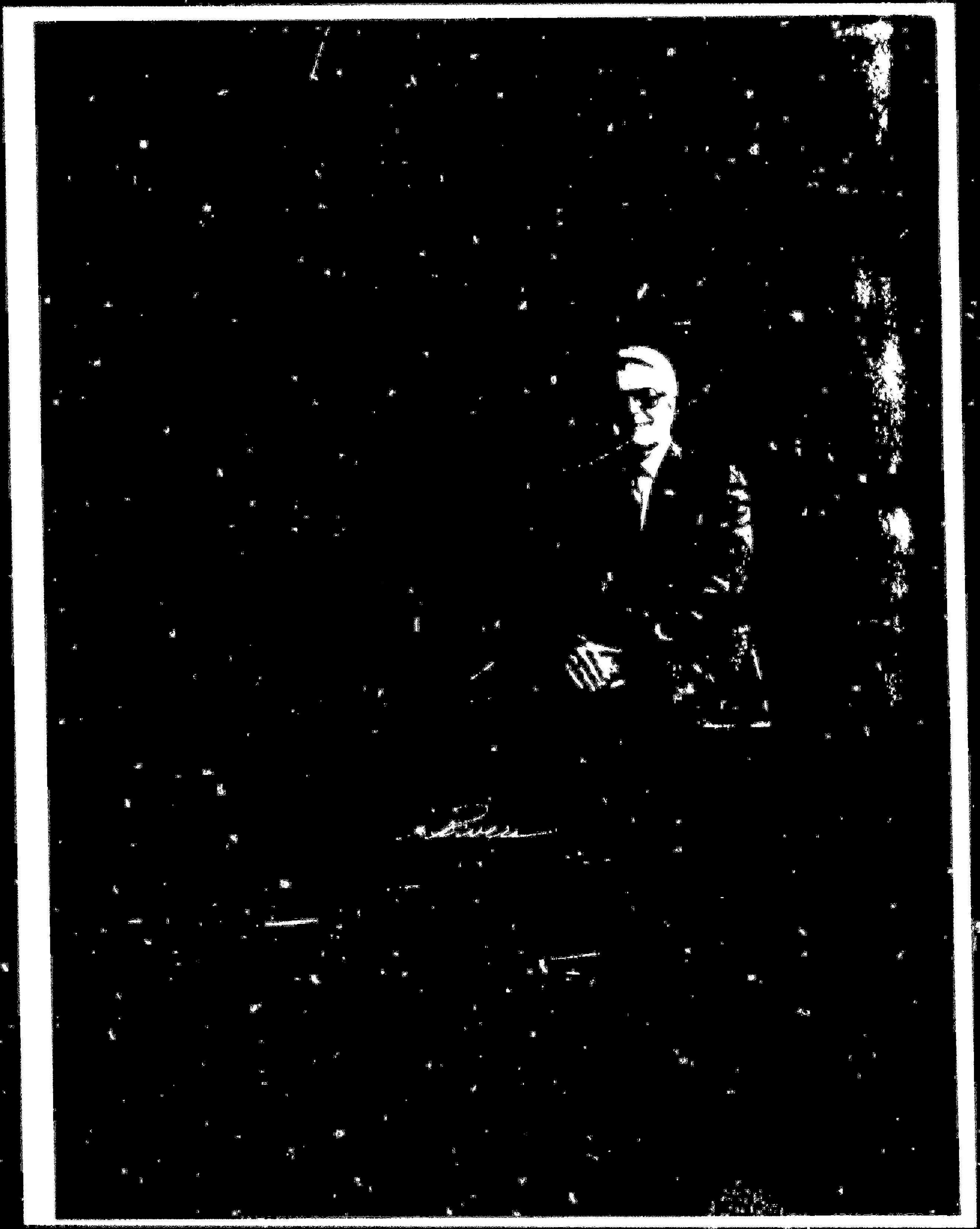


To do its job most effectively, the Department of Water and Power must maintain a sound footing that provides the financial resources for current operations and future expansion. To help assure this, the Department must plan carefully, remain efficient and structure its rates and borrowing to support its financial objectives.

Borrowing through the issuance of tax-exempt revenue bonds is one way the DWP provides for future growth. To date, the Department has borrowed more than $2 billion. Investors are willing to purchase these bonds because (1) the DWP has a strong credit rating, (2) the bonds pay an attractive rate of interest and (3) there is currently no federal income tax on the interest they earn.

But there is great uncertainty today over the future status of tax-exempt bonds. Certain federal legislators have called for an end to the exemption, as well as for other changes that raise significant issues for the DWP. Without the exemption, for example, rates on future bonds would have to be increased to make them competitive on a taxable basis, and that would mean higher costs to the DWP and its customers. This could have far-reaching effects on the future financial health of all publicly owned utilities.

There are a number of other uncertainties rippling through the public utility industry today — from the long-term effects of deregulation to the impacts of more stringent environmental regulation — but nothing is more critical to our future than maintaining a solid financial position. This is a top priority for all of us at the DWP.



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Financial
Statements

The [illegible] System

The Power System

Operations for fiscal year 1987–88 resulted in an increase of 2.9 percent in sales of electric energy and a 3.1 percent decrease in water sales.

Operating revenues of the Department's Water and Power Systems totaled more than $1.83 billion, a gain of $175 million over the previous fiscal year. The Power System accounted for $166 million of the increase, primarily due to higher energy costs billed to customers and the increase in sales mentioned above. The Water System added $9 million to the total, mostly from higher energy and purchased water costs billed to customers and the effect of the November 1987 revenue increase of 5.3 percent.

Higher Water System operating revenues, offset by increases in operating and debt expenses, resulted in net income of $34 million, down 23 percent from 1986–87's total of $44.6 million.

A total of $105 million was spent by the Water System on capital construction, most of which went towards the improvement of the water distribution and supply system, as well as water quality programs.

The operating revenue of the Power System increased by 11.9 percent from 1986–87, to a total of $1.57 billion. Net income amounted to $176 million, or 6 percent below the $186.8 million in the previous fiscal year, due to higher operating expenses.

The Power System invested $335 million in capital construction for the year. Major expenditures were additions and modifications to the electrical distribution and transmission facilities.

Total assets of the Department at June 30, 1988, were approximately $5.21 billion. Of this amount, $3.90 billion was recorded in the Power System and the remainder in the Water System.

Financing Activities

During the year, the Power System sold $200 million in revenue bonds consisting of two issues of $100 million each, at interest rates averaging 7.67 percent. The Water System sold $85 million in revenue bonds, consisting of two issues for $35 million and $50 million, at the same average interest rate.

Outstanding bonds, notes and revenue certificates at June 30, 1988, totaled $1.70 billion for the Power System and $373 million for the Water System. Both systems met their maturing payments on bonds and notes.

Costs and Transfers

In accordance with its basic fiscal policy, the Department pays all costs of operation, debt service and part of the cost of capital improvements from current revenues. The remainder of the cost of capital improvements is met through sales of revenue bonds or notes and from contributions in aid of construction.

Besides meeting all costs of operation from current revenues, the Department paid more than $82 million into the Reserve Fund of the city in support of general city government.

Approximately 85 percent of that amount came from the Power Revenue Fund. Operations of the Water and Power Systems are entirely self-supporting and no financial obligation or tax burden is placed on the citizens of Los Angeles.

Water System
Statement of Income

(In Thousands) Year ended June 30	1988	1987	1986
Operating Revenues			
Residential	$ 94,525	$ 92,436	$ 84,147
Commercial and industrial	142,456	135,163	122,917
Other	20,051	20,775	18,955
Total operating revenues	257,032	248,374	226,019
Operating Expenses			
Purchased water	31,072	26,765	17,192
Purchased energy	11,613	8,806	8,050
Purchased water and energy costs	42,685	35,571	25,242
Other operation	92,709	84,843	78,715
Maintenance	34,243	28,691	27,145
Depreciation	30,584	26,586	22,983
Taxes on property outside the City	2,734	2,791	2,572
Total operating expenses	202,955	178,482	156,657
Operating Income	54,077	69,892	69,362
Other income — net	2,685	4,524	8,176
Loss on Abandonment of Chatsworth Reservoir	—	(10,675)	—
Income before debt expenses	56,762	63,741	77,538
Debt Expenses			
Interest on debt	23,749	22,039	23,239
Allowance for borrowed funds used during construction	(1,380)	(2,939)	(7,545)
Total debt expenses	22,369	[illegible]	15,694
Net Income	$ 34,393	$ 44,641	$ 61,844

Statement of Retained Income Reinvested in the Business

(In Thousands) Year ended June 30	1988	1987	1986
Balance at beginning of year	$442,526	$409,186	$357,757
Net income for the year	34,393	44,641	61,844
	476,919	453,827	419,601
Less — Payments to the reserve fund of the City	12,419	11,301	10,415
Balance at end of year	$464,500	$442,526	$409,186

The accompanying notes are an integral part of these financial statements.

(In Thousands) June 30	1988	1987
Assets		
Utility Plant, at original cost		
Source of water supply	$ 236,592	$ 230,343
Pumping	48,969	48,203
Purification	132,699	129,874
Distribution	1,022,138	964,205
General	110,029	94,309
	1,550,427	1,466,934
Less — Accumulated depreciation	510,225	480,483
	1,040,202	986,451
Construction work in progress	74,526	59,697
Net utility plant	1,114,728	1,046,148
Current Assets		
Deposits with City Treasurer	84,329	37,136
Customer and other accounts receivable, less $400 and $600 allowance for losses	54,772	45,520
Accrued unbilled revenue	21,671	25,654
Materials and supplies, at average cost	15,489	14,490
Prepayments and other current assets	14,906	14,841
Total current assets	191,167	137,641
Total assets	$1,305,895	$1,183,789
Capitalization and Liabilities		
Capitalization		
Equity		
Retained income reinvested in the business	$ 464,500	$ 442,526
Contributions in aid of construction	357,829	325,951
	822,329	768,477
Long-term debt	350,188	285,599
Total capitalization	1,172,517	1,054,076
Current Liabilities		
Long-term debt due within one year	20,270	19,560
Accrued interest	7,752	6,465
Accounts payable and accrued expenses	69,544	69,447
Customer deposits	35,812	34,241
Total current liabilities	133,378	129,713
Commitments and Contingencies		
Total capitalization and liabilities	$1,305,895	$1,183,789

The accompanying notes are an integral part of these financial statements.

(In Thousands) Year ended June 30	1988	1987	1986
Cash Flows from Operating Activities:			
Net income	$ 34,393	$ 44,641	$ 61,844
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	36,188	31,112	26,291
Loss on Abandonment of Chatsworth Reservoir	—	10,675	—
Allowance for borrowed funds used during construction	(1,380)	(2,939)	(7,545)
Changes in current assets and liabilities:			
Customer and other accounts receivable	(9,252)	(10,511)	(2,778)
Accrued unbilled revenue	3,983	(7,764)	(2,073)
Materials and supplies	(999)	(1,067)	(119)
Prepayments and other current assets	(65)	1,026	(10,910)
Accrued interest	1,287	(281)	520
Accounts payable and accrued expenses	97	2,574	5,592
Customer deposits	1,571	6,414	3,111
Net cash provided by operating activities	65,823	73,880	73,933
Cash Flows from Financing Activities:			
Sale of revenue bonds	84,626	—	—
Sale of advance refunding bonds	—	—	65,928
Amount received from escrow account	—	—	13,025
Contributions in aid of construction	31,878	23,005	18,062
Reduction of long-term debt	(19,327)	(19,248)	(19,636)
Amount deposited in escrow account and offset against advance refunding bonds	—	—	(65,928)
Long-term debt redeemed, including call premium	—	—	(13,025)
Payments to the reserve fund of the City	(12,419)	(11,301)	(10,415)
Net cash provided by (used in) financing activities	84,758	(7,544)	(11,989)
Cash Flows from Investing Activities:			
Expenditures for plant and equipment	(103,388)	(96,199)	(105,296)
Deposits with City Treasurer:			
Net increase (decrease)	47,193	(29,863)	(43,352)
Beginning of year	37,136	66,999	110,351
End of year	$ 84,329	$ 37,136	$ 66,999
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 28,870	$ 28,233	$ 26,011

The accompanying notes are an integral part of these financial statements.

Note A — Summary of Significant Accounting Policies

The Department — The Department of Water and Power of the City of Los Angeles exists under and by virtue of the City Charter enacted in 1925 as a separate proprietary agency of the City. The Water System is responsible for the quality and distribution of water for sale in the City.

Financial statement presentation — The financial statements of the Water System are presented in conformity with generally accepted accounting principles, and substantially in conformity with accounting principles prescribed by the California Public Utilities Commission except for the method of accounting for contributions in aid of construction described below. The Department is not subject to regulations of such commission.

Utility plant — The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, and certain administrative and general expenses. Repairs and minor replacements are charged to maintenance expense. The original cost of property retired, plus removal cost, less salvage, is charged to accumulated depreciation.

Allowance for funds used during construction (AFUDC) — AFUDC represents the cost of borrowed funds used for the construction of new facilities. AFUDC is capitalized as part of the cost of utility plant and is credited to income as a reduction of debt expenses, but does not represent cash earnings. The average AFUDC rates were 8.4%, 9.4% and 9.4% for fiscal years 1988, 1987 and 1986, respectively.

Depreciation — Depreciation expense is computed by the straight-line method based on estimated service lives. Depreciation provision as a percentage of average depreciable plant was 2.4%, 2.4% and 2.3% for fiscal years 1988, 1987 and 1986, respectively.

Deposits with City Treasurer — Deposits with the City Treasurer included $83 million and $31 million at June 30, 1988 and 1987 which were invested in short-term securities under the City Treasurer's pooled investment program, whereby available funds of the City and its independent operating departments are invested on a combined basis. These investments are valued at cost, which approximates market.

Contributions in aid of construction — Under the provisions of the City Charter, amounts received from customers and others for constructing utility plant are combined with retained income reinvested in the business to represent equity for purposes of computing the Water System's borrowing limits. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant. Depreciation for the related utility plant is expensed.

Revenues — Revenues consist of billings to customers for water consumption and include amounts resulting from a purchased water and energy cost adjustment formula designed to permit the full recovery of purchased water and energy costs. The Department projects these costs to establish the cost recovery component of customer billings and any difference between billed and actual costs, resulting in over- or under-recovery of purchased water and energy costs, is adjusted in subsequent billings.

The Water System recognizes purchased water and energy costs in the period incurred and accrues for estimated unbilled revenues for water sold but not billed at the end of a fiscal year.

The Water System's rates are established by rate ordinance approved by the City Council. The Water System sells water to other Departments of the City at regular rates provided in the ordinance.

Shared operating expenses — The Water System shares certain administrative functions with the Department's Power System. Generally, the costs of these functions are allocated on the basis of benefits provided to the Systems.

Debt expenses — Debt premium, discount and issue expenses are deferred and amortized to income over the lives of the related issues.

Statement of Cash Flows — During the year ended June 30, 1988, the Department implemented Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." Accordingly, fiscal years 1987 and 1986 amounts have been restated to conform with the fiscal year 1988 presentation.

Note B — Loss on Abandonment of Chatsworth Reservoir

From 1969 to 1972, the Water System incurred costs totaling $10.7 million to enlarge and improve the Chatsworth Reservoir. Following the 1971 earthquake in the Los Angeles area, the State of California enacted more stringent safety standards for earth filled dams which would have required the replacement of the Chatsworth Reservoir Dams at significant additional costs prior to refilling. During 1987, the Water System completed various studies and concluded that the additional costs of upgrading the dams and complying with increased water quality standards precluded refilling the reservoir. Therefore, the project was formally abandoned, resulting in a utility plant write off of $10.7 million as of June 30, 1987.

Note C — Long-term Debt

Long-term debt outstanding at June 30, 1988, consisted of revenue bonds and notes due serially in varying annual amounts through 2028. Interest rates, which vary among individual maturities, averaged approximately 7.4% and 7.2% at June 30, 1988 and 1987. The revenue bonds generally are callable ten years after issuance. Scheduled annual principal maturities during the five years succeeding June 30, 1988 are $20 million, $20 million, $12 million, $12 million and $12 million, respectively.

In fiscal years 1986 and 1985, the Water System sold advance refunding bonds totaling $85 million. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in escrow accounts with Citibank, N.A., New York. At June 30, 1988, $85 million of these escrow accounts have been offset against the advance refunding bonds in the accompanying balance sheet (during fiscal year 1988 there were no refunded bonds redeemed). After the monies in the escrow accounts are applied to redeem the bonds to be called, principally through 1994, interest on the advance refunding bonds will be payable from Water System revenues.

Note D — Shared Operating Expenses

Operating expenses shared with the Power System were $256 million, $235 million and $216 million for fiscal years 1988, 1987 and 1986, of which $89 million, $82 million and $74 million were allocated to the Water System.

Note E — Employee Benefits

The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Plan benefits are generally based on years of service, age at retirement and the employees' highest 12 consecutive months of salary before retirement. The Department funds retirement plan costs on a level premium actuarial method as determined by the plan's independent actuary. For funding purposes, prior service costs relating to the plan are amortized generally over a 30-year period ending June 30, 2003.

The Water System was allocated approximately 24% of the plan's total costs for fiscal year 1987, and 26% for fiscal year 1986 amounting to $33 million and $32 million, respectively. As of June 30, 1987, the actuarially computed present value of accumulated retirement plan benefits attributable to the Water System aggregated $494 million, discounted at 8%, of which substantially all were vested.

In fiscal year 1988, the Department adopted the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The adoption of this statement did not materially affect the Department's results of operations. As required by the new standard, retirement cost is determined using the projected unit credit actuarial cost method. Total benefit plan costs for fiscal year 1988 for the Water System include the following (amounts in millions):

Service cost	$ 11
Interest cost on projected benefit obligation	38
Actual return on plan assets	(10)
Net amortization and deferral	(11)
Net retirement plan cost	28
Disability and death benefit plan costs and administrative expenses	4
Total Benefit Plan Costs	$ 32

The plan's funded status at June 30, 1988 allocated to the Water System is as follows (amounts in millions):

Actuarial present value of benefit obligations:	
Vested benefits	$ 411
Non-vested benefits	2
Accumulated benefit obligation	413
Projected future compensation levels	72
Projected benefit obligation	485
Plan assets at fair value	367
Projected benefit obligation in excess of plan assets	118
Unrecognized net gain and effects of changes in assumptions	8
Unamortized net obligation at adoption of FAS 87	(101)
Accrued pension liability	$ 25

The projected benefit obligation at June 30, 1988 was determined using a discount rate of 8.25% and an assumed rate of increase in future compensation of 6%. The 1988 pension cost was determined using a long-term rate of return on plan assets of 8%. Plan assets consist primarily of corporate and government bonds, common stocks, mortgage-backed securities and short-term investments.

In addition to the retirement plan, the Department provides certain health care benefits to active and retired employees. Health care costs are expensed as paid under a self-insured plan. The cost of providing such benefits to retired employees, net of employee contributions, amounted to $3 million, $2 million and $2 million for fiscal years 1988, 1987 and 1986, respectively.

Note F – Commitments and Contingencies

Payments to the reserve fund of the City – Under the provisions of the City Charter, the Water System transfers funds at its discretion to the reserve fund of the City. Such payments are not in lieu of taxes and are recorded as distributions of retained income. The Department expects to make payments of $13 million in fiscal year 1989 from the Water System to the reserve fund of the City.

Litigation – A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, the uninsured liability under these actions would not materially affect the Water System's financial position as of June 30, 1988.

Report of Independent Accountants

August 31, 1988

To the Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles

In our opinion, the accompanying balance sheet and the related statements of income and retained income reinvested in the business and of cash flows present fairly, in all material respects, the financial position of the Water System of the Department of Water and Power of the City of Los Angeles at June 30, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Department's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse
Simpson & Simpson

Power System Statement of Income

(In thousands) Year ended June 30	1988	1987	1986
Operating Revenues			
Residential	$ 430,696	$ 388,730	$ 379,488
Commercial and industrial	1,085,557	963,151	932,187
Other	53,775	51,560	46,459
Total operating revenues	1,570,028	1,403,441	1,358,134
Operating Expenses			
Fuel for generation	228,499	219,944	348,069
Purchased power	470,957	355,975	203,116
Energy costs	699,456	575,919	551,185
Other operation	326,876	299,408	288,954
Maintenance	153,062	147,673	142,461
Depreciation	124,004	115,629	107,419
Taxes on property outside the City	12,343	8,552	8,660
Total operating expenses	1,315,741	1,147,181	1,098,679
Operating Income	254,287	256,260	259,455
Other income — net	18,037	19,754	27,984
Income before debt expenses	272,324	276,014	287,439
Debt Expenses			
Interest on debt	102,437	96,926	97,464
Allowance for borrowed funds used during construction	(5,674)	(7,759)	(3,610)
Total debt expenses	96,763	89,167	93,854
Net Income	$ 175,561	$ 186,847	$ 193,585

Statement of Retained Income Reinvested in the Business

(In thousands) Year ended June 30	1988	1987	1986
Balance at beginning of year	$1,680,322	$1,561,388	$1,432,156
Net income for the year	175,561	186,847	193,585
	1,855,883	1,748,235	1,625,741
Less — Payments to the reserve fund of the City	70,182	67,913	64,353
Balance at end of year	$1,785,701	$1,680,322	$1,561,388

The accompanying notes are an integral part of these financial statements.

(In thousands) June 30	1988	1987
Assets		
***Utility Plant**, at original cost*		
Production	$1,749,777	$1,539,610
Transmission	561,178	545,821
Distribution	1,845,703	1,704,800
General	284,625	256,124
	4,441,283	4,046,355
Less — Accumulated depreciation	1,356,344	1,252,336
	3,084,939	2,794,019
Construction work in progress	215,435	311,640
Nuclear fuel, at amortized cost	24,550	27,795
Net utility plant	3,324,924	3,133,454
Current Assets		
Deposits with City Treasurer	179,170	174,430
Customer and other accounts receivable, less $2,500 and $3,900 allowance for losses	143,310	140,287
Accrued unbilled revenue	88,782	84,535
Materials and supplies, at average cost	74,663	63,009
Fuel for generation	56,123	65,897
Deferred energy costs	—	8,928
Prepayments and other current assets	37,776	30,267
Total current assets	579,824	567,353
Total assets	$3,904,748	$3,700,807
Capitalization and Liabilities		
Capitalization		
Equity		
Retained income reinvested in the business	$1,785,701	$1,680,322
Contributions in aid of construction	104,825	91,352
	1,890,526	1,771,674
Long-term debt	1,554,170	1,408,914
Total capitalization	3,444,696	3,180,588
Current Liabilities		
Long-term debt due within one year	53,545	67,916
Revenue certificates payable	90,000	90,000
Accrued interest	30,648	26,457
Accounts payable and accrued expenses	212,380	242,973
Over-recovered energy costs	57,552	73,196
Extension and other deposits	15,927	19,677
Total current liabilities	460,052	520,219
Commitments and Contingencies		
Total capitalization and liabilities	$3,904,748	$3,700,807

The accompanying notes are an integral part of these financial statements.

(In Thousands) Year ended June 30	1988	1987	1986
Cash Flows from Operating Activities:			
Net income	$ 175,561	$ 186,847	$ 193,585
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	135,558	125,734	115,599
Amortization of nuclear fuel	7,516	5,936	925
Allowance for borrowed funds used during construction	(5,674)	(7,759)	(3,610)
Changes in current assets and liabilities:			
Customer and other accounts receivable	(3,023)	(244)	8,709
Accrued unbilled revenue	(4,247)	(806)	(26,246)
Materials and supplies	(11,654)	(1,189)	(4,671)
Fuel for generation	9,774	(4,078)	22,032
Deferred energy costs	8,928	17,856	13,753
Prepayments and other current assets	(7,509)	(18,659)	1,301
Accrued interest	4,191	(47)	2,758
Accounts payable and accrued expenses	(30,593)	(72,546)	105,585
Over-recovered energy costs	(15,644)	3,935	56,159
Extension and other deposits	(3,750)	2,228	10,485
Net cash provided by operating activities	259,434	237,208	496,364
Cash Flows from Financing Activities:			
Sale of revenue bonds	198,108	—	98,566
Sale of advance refunding bonds	—	47,312	—
Amount received from escrow account	—	—	72,920
Contributions in aid of construction	13,473	6,644	5,083
Reduction of long-term debt	(67,223)	(60,835)	(86,101)
Amount deposited in escrow account and offset against advance refunding bonds	—	(47,312)	—
Long-term debt redeemed, including call premium	—	—	(72,920)
Payments to the reserve fund of the City	(70,182)	(67,913)	(64,353)
Net cash provided by (used in) financing activities	74,176	(122,104)	(46,805)
Cash Flows from Investing Activities:			
Expenditures for plant and equipment	(328,870)	(313,465)	(400,758)
Deposits with City Treasurer:			
Net increase (decrease)	4,740	(198,361)	48,801
Beginning of year	174,430	372,791	323,990
End of year	$ 179,170	$ 174,430	$ 372,791
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$ 100,435	$ 98,358	$ 103,533

The accompanying notes are an integral part of these financial statements.

Note A — Summary of Significant Accounting Policies

The Department — The Department of Water and Power of the City of Los Angeles exists under and by virtue of the City Charter enacted in 1925 as a separate proprietary agency of the City. The Power System is responsible for the generation, transmission and distribution of electric power for sale in the City.

Financial statement presentation — The financial statements of the Power System are presented in conformity with generally accepted accounting principles, and substantially in conformity with accounting principles prescribed by the Federal Energy Regulatory Commission and the California Public Utilities Commission except for the method of accounting for contributions in aid of construction described below. The Department is not subject to regulations of such commissions.

Utility plant — The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials and allocated indirect charges such as engineering, supervision, transportation and construction equipment, retirement plan contributions, and certain administrative and general expenses. Repairs and minor replacements are charged to maintenance expense. The original cost of property retired, plus removal cost, less salvage, is charged to accumulated depreciation.

Allowance for funds used during construction (AFUDC) — AFUDC represents the cost of borrowed funds used for the construction of new facilities. AFUDC is capitalized as part of the cost of utility plant and is credited to income as a reduction of debt expenses, but does not represent cash earnings. The average AFUDC rates were 7.9%, 8.8% and 9.1% for fiscal years 1988, 1987 and 1986, respectively.

Depreciation — Depreciation expense is computed by the straight-line method for all major projects completed after July 1, 1973 and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to this date is provided by the 5% sinking fund method based on estimated service lives. Depreciation provision as a percentage of average depreciable plant was 3.2%, 3.2% and 3.3% for fiscal years 1988, 1987 and 1986, respectively.

Nuclear fuel — Nuclear fuel is amortized and charged to Fuel for Generation in the Statement of Income on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the Department is charged one mill per kilowatt-hour on its share of electricity produced by the Palo Verde Nuclear Generating Station. The Department records this charge as a current year expense.

Nuclear decommissioning — Decommissioning of the Palo Verde Nuclear Generating Station, in which the Power System has an ownership interest, is projected to start sometime after 2027. The Power System is providing for its share of the estimated future decommissioning costs over the life of the nuclear power plant through annual charges to expense.

A Nuclear Decommissioning Fund has been established. The semi-annual deposits to the fund plus the interest earnings on the fund balance are expected to be sufficient to pay the Department's share of decommissioning costs.

Deposits with City Treasurer — Deposits with the City Treasurer included $167 million and $150 million at June 30, 1988 and 1987 which were invested in short-term securities under the City Treasurer's pooled investment program, whereby available funds of the City and its independent operating departments are invested on a combined basis. These investments are valued at cost, which approximates market.

Fuel for generation — Coal inventories are stated at average cost. Fuel oil inventories are stated at cost, using the last-in, first-out method.

Contributions in aid of construction — Under the provisions of the City Charter, amounts received from customers and others for constructing utility plant are combined with retained income reinvested in the business to represent equity for purposes of computing the Power System's borrowing limits. Accordingly, contributions in aid of construction are shown in the accompanying balance sheet as an equity account and are not offset against utility plant. Depreciation for the related utility plant is expensed.

Revenues — Revenues consist of billings to customers for consumption of electric energy and include amounts resulting from an energy cost adjustment formula designed to permit the full recovery of energy costs. The Department projects these costs to establish the energy cost recovery component of customer billings and any difference between billed and actual energy costs, resulting in over- or under-recovery of energy costs, is adjusted in subsequent billings.

The Power System recognizes energy costs in the period incurred and accrues for estimated unbilled revenues for energy sold but not billed at the end of a fiscal year.

The Power System's rates are established by rate ordinance approved by the City Council. The Power System sells electric energy to other Departments of the City at regular rates provided in the ordinance.

Shared operating expenses — The Power System shares certain administrative functions with the Department's Water System. Generally, the costs of these functions are allocated on the basis of benefits provided to the Systems.

Debt expenses — Debt premium, discount and issue expenses are deferred and amortized to income over the lives of the related issues.

Statement of Cash Flows — During the year ended June 30, 1988, the Department implemented Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." Accordingly, fiscal years 1987 and 1986 amounts have been restated to conform with the fiscal year 1988 presentation.

Note B — Revenue Certificates

At June 30, 1988 and 1987, the average interest rate of revenue certificates payable was 4.9% and 4.6% with various maturities of up to 242 and 152 days, respectively. The Department has an unsecured standby line of credit of $90 million which may be used if the certificates cannot be refinanced as they mature.

Note C — Jointly-owned Utility Plant

The Power System has an undivided interest in several electrical generating stations and transmission systems which are jointly-owned with other utilities. Each project participant has provided its portion of the total construction financing. The Power System's proportionate share of construction and improvement costs is included in its balance sheet at June 30, 1988 as follows (dollar amounts in millions):

Projects	*Department Ownership Interest*	*Department Share of Capacity (megawatts)*	*Plant in Service Cost*	*Accumulated Depreciation*	*Construction Work in Progress*
Palo Verde Nuclear Generating Station (Note G)	5.7%	209	$490	$ 19	
Navajo Steam Generating Station	21.2%	477	179	66	$ 3
Mohave Coal Generating Station	20.0%	316	75	21	8
			744	106	11
Pacific Intertie DC Transmission System	40.0%	800	99	12	34
Other transmission systems	Various	—	69	14	1
			168	26	35
			$912	$132	$46

The Power System will incur certain minimum operating costs on the jointly-owned facilities, regardless of the amount of energy generated or the ability to take delivery of its share of energy generated. The proportionate share of these expenses is included in the appropriate categories of operating expenses.

Note D — Long-term Debt

Long-term debt outstanding at June 30, 1988, consisted of revenue bonds and notes due serially in varying annual amounts through 2028. Interest rates, which vary among individual maturities, averaged approximately 6.7% and 6.5% at June 30, 1988 and 1987. The revenue bonds generally are callable ten years after issuance. Scheduled annual principal maturities during the five years succeeding June 30, 1988 are $54 million, $52 million, $53 million, $55 million and $56 million, respectively.

In fiscal year 1987 the Power System sold advance refunding bonds totaling $48 million. Until the bonds to be refunded are called, interest on the advance refunding bonds is payable from interest earned on securities of the United States government purchased out of the proceeds of the sales and held in escrow accounts with Citibank, N.A., New York. At June 30, 1988, $48 million of these escrow accounts have been offset against the advance refunding bonds in the accompanying balance sheet (during fiscal year 1988 there were no refunded bonds redeemed). After the monies in the escrow accounts are applied to redeem the bonds to be called, principally through 1994, interest on the advance refunding bonds will be payable from Power System revenues.

Note E — Shared Operating Expenses

Operating expenses shared with the Water System were $256 million, $235 million and $216 million for fiscal years 1988, 1987 and 1986, of which $167 million, $153 million and $142 million were allocated to the Power System.

Note F — Employee Benefits

The Department has a funded contributory retirement, disability and death benefit insurance plan covering substantially all of its employees. Plan benefits are generally based on years of service, age at retirement and the employees' highest 12 consecutive months of salary before retirement. The Department funds retirement plan costs on a level premium actuarial method as determined by the plan's independent actuary. For funding purposes, prior service costs relating to the plan are amortized generally over a 30-year period ending June 30, 2003.

The Power System was allocated approximately 76% of the plan's total costs for fiscal year 1987, and 74% for fiscal year 1986 amounting to $102 million and $91 million, respectively. As of June 30, 1987, the actuarially computed present value of accumulated retirement plan benefits attributable to the Power System aggregated $1,233 million, discounted at 8%, of which substantially all were vested.

In fiscal year 1988, The Department adopted the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions." The adoption of this statement did not materially affect the Department's results of operations. As required by the new standard, retirement cost is determined using the projected unit credit actuarial cost method. Total benefit plan costs for fiscal year 1988 for the Power System include the following (amounts in millions):

Service cost	$ 35
Interest cost on projected benefit obligation	120
Actual return on plan assets	(31)
Net amortization and deferral	(87)
Net retirement plan cost	37
Disability and death benefit plan costs and administrative expenses	12
Total Benefit Plan Costs	$ 49

The plan's funded status at June 30, 1988 allocated to the Power System is as follows (amounts in millions):

Actuarial present value of benefit obligations:	
Vested benefits	$1,300
Non-vested benefits	5
Accumulated benefit obligation	1,305
Projected future compensation levels	227
Projected benefit obligation	1,532
Plan assets at fair value	1,163
Projected benefit obligation in excess of plan assets	369
Unrecognized net gain and effects of changes in assumptions	25
Unamortized net obligation at adoption of FAS 87	(322)
Accrued pension liability	$ 72

The projected benefit obligation at June 30, 1988 was determined using a discount rate of 8.25% and an assumed rate of increase in future compensation of 6%. The 1988 pension cost was determined using a long-term rate of return on plan assets of 8%. Plan assets consist primarily of corporate and government bonds, common stocks, mortgage-backed securities and short-term investments.

In addition to the retirement plan, the Department provides certain health care benefits to active and retired employees. Health care costs are expensed as paid under a self-insured plan. The cost of providing such benefits to retired employees, net of employee contributions, amounted to $9 million, $7 million and $6 million for fiscal years 1988, 1987 and 1986, respectively.

Note G — Commitments and Contingencies

Payments to the reserve fund of the City — Under the provisions of the City Charter, the Power System transfers funds at its discretion to the reserve fund of the City. Such payments are not in lieu of taxes and are recorded as distributions of retained income. The Department expects to make payments of $78 million in fiscal year 1989 from the Power System to the reserve fund of the City.

Long-term purchased power and transmission contracts — The Department has entered into a number of energy and transmission service contracts which involve substantial commitments. These include an agreement with the Intermountain Power Agency, a Utah State Agency, for purchase of energy from the Intermountain Power Project (IPP) for which the Power System has served as the project manager and operating agent. The Department's total interest in IPP includes a 44.6% "take or pay" obligation and an excess power contract for 18.2% for a total of 62.8%. The Department also has two agreements with the Southern California Public Power Authority (SCPPA), a California Joint Powers Agency, for 67% of SCPPA's 5.9% entitlement (representing a net 4% participation) to the energy generated at Palo Verde Nuclear Generating Station and for 59.5% in the capacity of the Southern Transmission System, which transmits energy from IPP in Utah to Southern California. Significant data related to these agreements, which are scheduled to expire from 2022 to 2027, at June 30, 1988 are as follows:

	Total Bonds Outstanding (millions)	Department Share of Capacity (megawatts)
Palo Verde Nuclear Generating Station (through SCPPA)	$1,042	145
Intermountain Power Project	4,926	1,004
Southern Transmission System (for IPP power through SCPPA)	1,000	1,142

All these agreements require the Power System to make certain minimum payments, which are based upon debt service requirements. While these payments are fixed charges (of approximately $330 million in each of the next five years), the Department is also required to pay additional amounts (of approximately $120 million in each of the next five years) for operating and maintenance costs related to actual deliveries of energy under these agreements. Total payments under these contracts were approximately $320 million, $260 million and $20 million in fiscal years 1988, 1987 and 1986, respectively. These aggregate purchased power costs are recovered through the energy cost recovery component of customer billings.

The Department also has a contract through 2017 with the U.S. Department of Energy for the purchase of available energy generated at the Hoover Power Plant. The Department's share of capacity at Hoover approximates 500 megawatts.

Nuclear insurance — As a participant in the Palo Verde Nuclear Generating Station, the Department could be subject to assessment of retrospective insurance premium adjustments in the event of a nuclear incident at Palo Verde or at any other licensed reactor in the United States.

Litigation — A number of claims and suits are pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, the uninsured liability under these actions would not materially affect the Power System's financial position as of June 30, 1988.

Note h — Subsequent Event

As of July 1, 1988, an amendment to an Intermountain Power Agency bond resolution provides for the use of surplus construction funds from the Intermountain Power Project. As a member participant of this project, the Department expects to receive $110 million during the next three to four years representing its share of such surplus funds. The funds will be used to reduce the Department's future purchased power expense.

Report of Independent Accountants

August 31, 1988

To the Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles

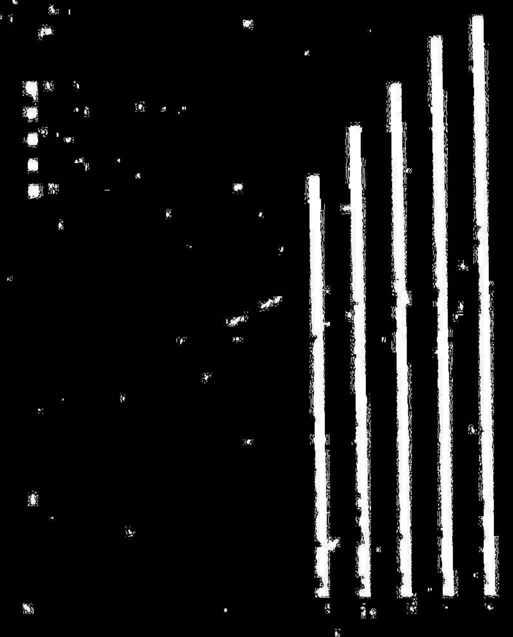
In our opinion, the accompanying balance sheet and the related statements of income and retained income reinvested in the business and of cash flows present fairly, in all material respects, the financial position of the Power System of the Department of Water and Power of the City of Los Angeles at June 30, 1988 and 1987, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1988, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Department's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse
Simpson & Simpson

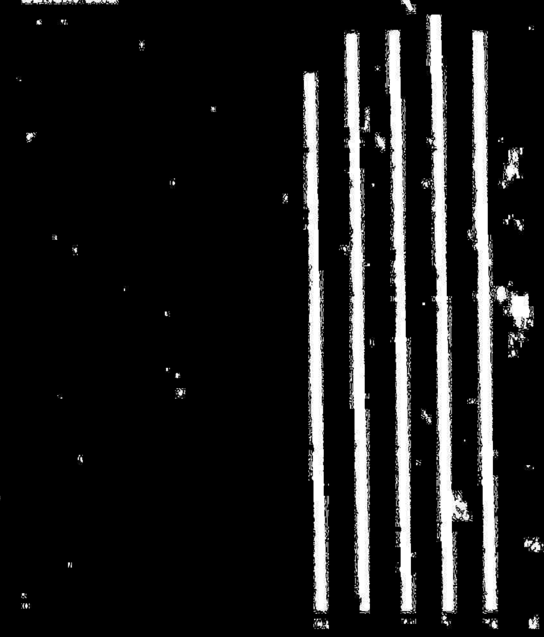
($ Millions)	1988	1987	1986	1985	1984
Statement of Income					
Operating revenues					
Residential	$ 94.5	$ 92.4	$ 84.2	$ 79.0	$ 72.8
Commerical and industrial	142.4	135.2	122.9	111.1	96.9
Governmental and other	14.3	14.8	13.4	13.0	11.1
Fire hydrants	4.1	4.1	4.0	4.0	3.9
Miscellaneous	1.7	1.9	1.5	1.2	1.0
Total revenues	$ 257.0	$ 248.4	$ 226.0	$ 208.3	$ 185.7
Operating income	54.1	69.9	69.4	67.8	54.6
As % of revenues	21.1%	28.1%	30.7%	32.6%	29.3%
Net income	$ 34.4	$ 44.6	$ 61.8	$ 63.3	$ 58.4
Balance Sheet					
Net utility plant	$1,114.7	$1,046.1	$ 988.8	$ 902.2	$ 826.6
Capital expenditures	104.8	99.1	112.8	101.5	90.8
Capitalization					
Equity	822.3	768.5	712.1	642.6	570.3
Long-term debt	350.2	285.6	305.0	324.6	309.1
	1,172.5	1,054.1	1,017.1	967.2	879.4
Debt as % of net utility plant*	30.2%	25.3%	28.0%	32.1%	37.4%
Interest on debt	23.7	22.0	23.2	23.3	18.3
Payments to City of L.A.	12.4	11.3	10.4	9.9	7.8
Operations					
Gallons sold (billions)	203.6	210.1	204.3	203.4	190.0
Customers — average number (thousands)	637.8	632.3	630.1	630.4	631.4
Average revenue per hundred cu. ft. sold (in cents)					
Residential	92.8	87.2	81.8	75.7	72.0
Commercial and industrial	93.6	87.5	81.7	75.8	72.4
Water supply (in cu. ft. per second — c.f.s.)					
Local supply	166.9	137.0	144.5	164.[illegible]	[illegible]
DWP Aqueduct	573.6	661.4	671.8	709.3	732.5
Metropolitan Water District	207.7	177.1	123.9	64.8	39.5
Gross supply	948.2	975.5	940.2	938.9	931.5
Diversion from (to) local storage	(0.3)	(1.7)	(6.6)	(6.4)	(33.0)
Net supply to distribution systems	947.9	973.8	933.6	932.5	898.5

*Excludes revenue notes and advance refunding revenue bonds

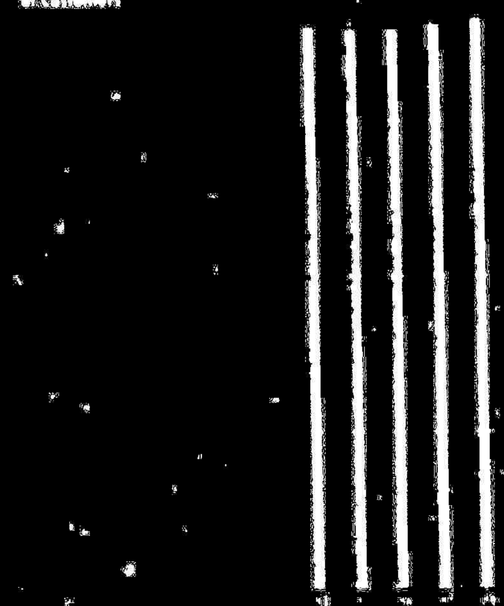
Operating Revenues



Gallons Sold



Average Number of Customers

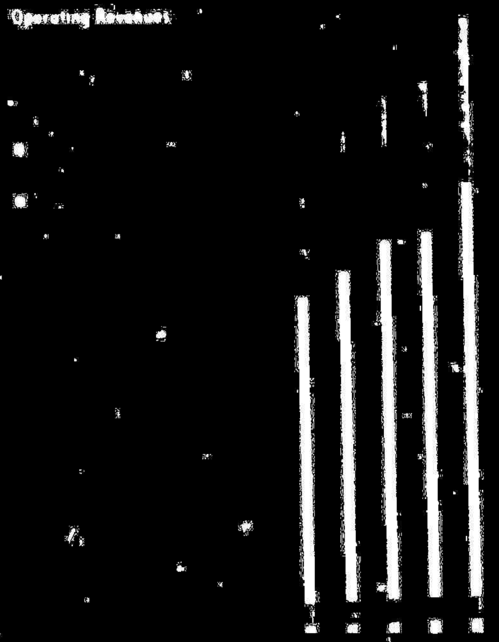


Water Supply

($ Millions)	1988	1987	1986	1985	1984
Statement of Income					
Operating revenues					
Residential	$ 430.7	$ 388.7	$ 379.5	$ 373.0	$ 331.7
Commercial and industrial	1,085.5	963.1	932.2	859.2	797.7
Street lighting and other	39.7	38.2	37.9	48.5	41.6
Miscellaneous	14.1	13.4	8.5	7.3	6.5
Total revenues	$1,570.0	$1,403.4	$1,358.1	$1,288.0	$1,177.5
Operating income	254.3	256.3	259.5	274.5	241.4
As % of revenues	16.2%	18.3%	19.1%	21.3%	20.5%
Net income	$ 175.6	$ 186.8	$ 193.6	$ 213.6	$ 165.5
Balance Sheet					
Net utility plant	$3,324.9	$3,133.5	$2,943.9	$2,656.1	$2,591.7
Capital expenditures	334.5	321.2	404.4	177.7	150.9
Capitalization					
Equity	1,890.5	1,771.7	1,646.1	1,511.8	1,341.5
Long-term debt	1,554.2	1,408.9	1,476.1	1,440.2	1,476.1
	3,444.7	3,180.6	3,122.2	2,952.0	2,817.6
Debt as % of net utility plant*	46.7%	44.5%	49.3%	52.0%	53.5%
Interest on debt	102.4	96.9	97.5	96.1	98.5
Payments to City of L.A.	70.2	67.9	64.4	58.7	55.3
Operations					
Kilowatt hours sold (billions)	21.1	20.5	20.3	19.8	20.2
Customers — average number (thousands)	1,304.6	1,275.9	1,262.0	1,251.2	1,243.[illegible]
Average revenue per kwh sold (in cents)					
Residential	7.7	7.1	6.9	6.7	6.0
Commercial and industrial	7.3	6.8	5.6	6.3	5.7
Energy production (billion kwh)					
Hydro	1.8	2.9	3.8	4.9	6.2
Thermal	20.1	15.9	13.3	12.3	10.3
Total generation	21.9	18.8	17.1	17.2	16.5
Purchases	2.6	4.3	5.8	6.5	7.1
Total production	24.5	23.1	22.9	23.7	23.6
Net system capability (thousand megawatts)					
Hydro	1.9	1.9	1.9	1.9	1.9
Oil and gas owned	3.1	3.3	3.3	3.2	3.2
	5.0	5.2	5.2	5.1	5.1
Jointly owned	1.1	1.1	1.0	1.1	1.1
Firm purchases	1.2	1.3	1.1	0.3	0.5
	7.3	7.6	7.3	6.5	6.7

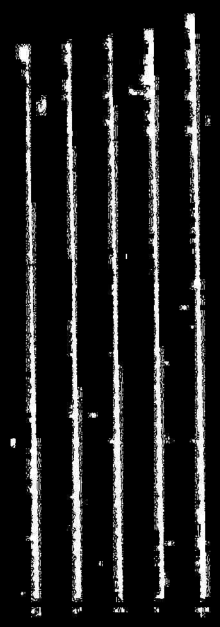
*Excludes revenue notes and advance refunding revenue bonds.

Operating Revenues

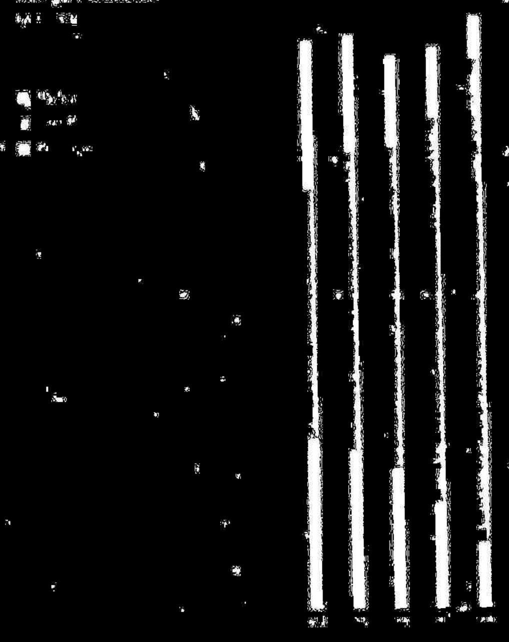


Kilowatt Hours Sold

Average Number of Customers



Energy Production



Water

There are 105 tanks and reservoirs in the DWP's Water System. They range from a capacity of 10,000 gallons to 60 billion gallons.

Crowley Lake, 300 miles north of Los Angeles, is the largest reservoir in the DWP system. It holds 60 billion gallons of water.

The Los Angeles Owens River Aqeduct is about 338 miles long and has been in service for 75 years.

The Second Los Angeles Aqueduct was completed in 1970 and is about 177 miles long.

Los Angeles has more than 7,000 miles of water pipeline.

The average per capita consumption of water in Los Angeles is 181 gallons per day.

The annual precipitation in the Los Angeles basin is 15.05 inches.

A drip from a water faucet can waste 1,500 gallons of water every month.

There are more than 53,000 fire hydrants in Los Angeles.

Power

The DWP receives firm power from generating stations located in California, Arizona, Nevada, and Utah.

DWP customers received about 30 percent of their electricity from the Intermountain Power Project in Utah during the fiscal year.

The DWP's Pacific Intertie is the longest DC transmission line in the world.

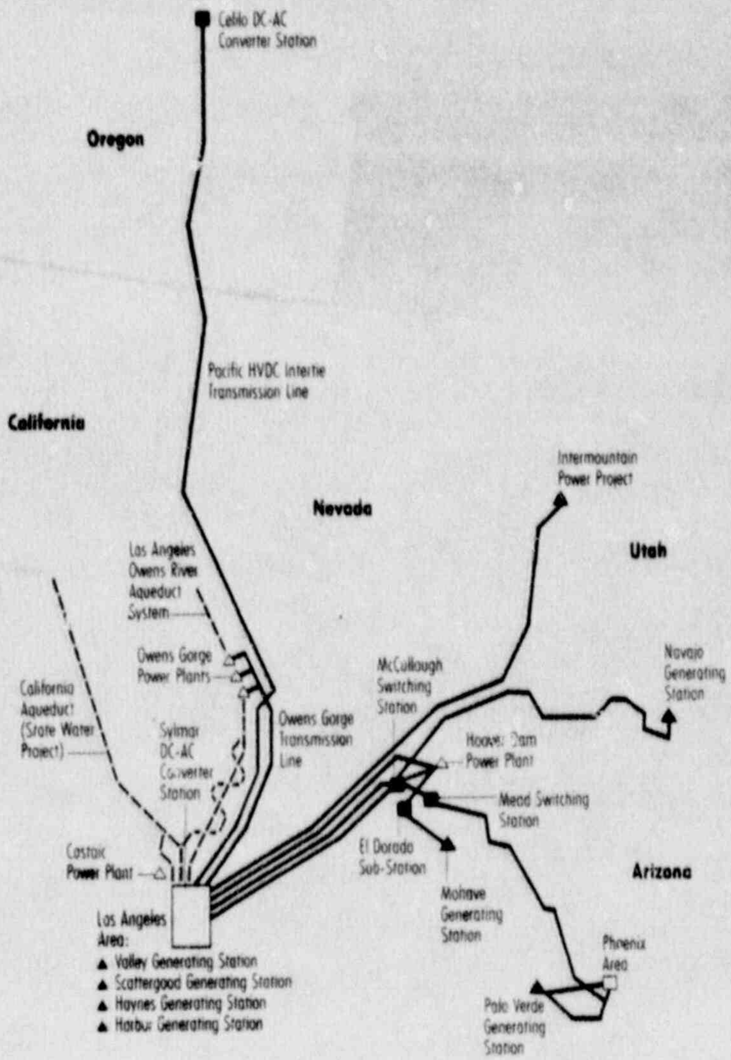
There are more than 289,000 wooden power poles either owned or jointly owned by the DWP.

Los Angeles has more than 2,200 miles of underground distribution cable.

Over the last 50 years the cost of living has gone up more than three times as much as the rates for electricity in Los Angeles

Generating facilities in other western states are playing larger roles in the city's power supply. Water, also imported from hundreds of miles away, is brought to L.A. by aqueduct to serve the needs of the 3.4 million population.

--- Water System
—— Power Supply



SOUTHERN CALIFORNIA EDISON COMPANY

1988 Annual Report

Southern California Edison

ANNUAL REPORT

This is the Annual Report to Preferred Shareholders of Southern California Edison Company (the Company) for the year ended December 31, 1988. This report is being provided to holders of the Company's Cumulative Preferred Stock and $100 Cumulative Preferred Stock in connection with the Annual Meeting of Shareholders to be held at 10:00 a.m. on Thursday, April 20, 1989, at the Industry Hills and Sheraton Resort, One Industry Hills Parkway, City of Industry, California. This report contains the Company's audited financial statements for the 1988 fiscal year and other information of interest to the Company's shareholders.

ABOUT THE COMPANY

The Company was incorporated in 1909 under California law and is a public utility primarily engaged in the business of supplying electric energy to a 50,000 square-mile area of central and southern California, excluding the City of Los Angeles and certain other cities. This area includes some 800 cities and communities and a population of more than ten million people. As of December 31, 1988 the Company had 16,560 employees.

On July 1, 1988, the Company became a subsidiary of a new holding company, SCEcorp. Each share of the Company's Common Stock and Original Preferred Stock was converted into Common Stock of SCEcorp. The Cumulative Preferred Stock and $100 Cumulative Preferred Stock were not affected and continue to be securities of the Company. Because all of the currently outstanding Common Stock of the Company is owned by SCEcorp, this Annual Report to Shareholders is being provided only to holders of the Company's preferred stocks.

SOUTHERN CALIFORNIA EDISON COMPANY

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1988	1987	1986
		(In thousands)	
Operating Revenue:			
Sales	$5,856,236	$5,448,663	$5,275,547
Other	76,670	53,636	43,110
Total operating revenue	5,932,906	5,502,299	5,318,657
Operating Expenses:			
Fuel	972,973	1,091,973	865,376
Purchased power	1,234,831	780,599	775,814
Provisions for regulatory adjustment clauses—net	240,681	225,108	225,539
Other operating expenses	670,965	850,447	828,672
Maintenance	375,082	361,201	352,696
Depreciation and decommissioning	644,036	549,810	507,330
Income taxes	413,105	555,433	687,520
Property and other taxes	188,465	161,618	143,321
Total operating expenses	4,920,108	4,576,189	4,385,198
Operating Income	1,012,798	926,110	933,459
Other Income and Deductions:			
Nuclear plant disallowance (Note 3)	—	(146,963)	(269,863)
Income taxes—nuclear plant disallowance	—	75,616	81,665
Provision for rate phase-in plan	170,893	137,832	88,672
Allowance for equity funds used during construction	18,125	73,406	105,744
Interest income	108,654	87,936	107,779
Taxes on nonoperating income	(39,647)	(76,308)	(35,554)
Other—net	(263)	18,688	24,309
Total other income—net	220,315	169,209	82,291
Income Before Interest Expense	1,233,113	1,095,319	1,015,780
Interest Expense:			
Interest on long-term debt and amortization	420,615	397,699	432,608
Other interest expense	107,412	80,953	82,592
Allowance for borrowed funds used during construction	(11,883)	(42,926)	(23,478)
Capitalized interest	(14,416)	(19,646)	(27,824)
Total interest expense—net	501,728	416,080	457,898
Income Before Cumulative Effect of a Change in Accounting Principle	731,385	679,239	557,882
Cumulative effect on prior years (to December 31, 1986) of accruing unbilled revenue—net of income tax of $58,752,000 (Note 2)	—	68,044	—
Net Income	731,385	747,283	557,882
Dividends on cumulative preferred and preference stock	46,696	50,095	54,684
Earnings Available for Common Stock	$ 684,689	$ 697,188	$ 503,198

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA EDISON COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1988	December 31, 1987
	(in thousands)	
Utility Plant:		
Utility plant, at original cost (Note 3)	**$15,687,850**	$14,465,691
Less—Accumulated provision for depreciation and decommissioning (Note 3)	**4,529,938**	3,993,468
	11,157,912	10,472,223
Construction work in progress	**676,175**	1,232,990
Nuclear fuel, at amortized cost	**475,764**	547,786
	12,309,851	12,252,999
Less—Property-related accumulated deferred income taxes	**914,532**	840,143
Total utility plant	**11,395,319**	11,412,856
Other Property and Investments:		
Nonutility property—less accumulated provision for depreciation of $13[illegible],744,000 and $121,835,000 at respective dates	**45,838**	47,482
Nuclear decommissioning trusts, at cost	**137,086**	—
Other investments	**28,978**	23,483
Total other property and investments	**231,902**	70,965
Current Assets:		
Cash and equivalents	**23,222**	32,452
Receivables, including unbilled revenue, less allowances of $13,140,000 and $14,829,000 for uncollectible accounts at respective dates	**690,547**	615,397
Fuel stock	**125,303**	118,540
Materials and supplies, at average cost	**96,767**	105,577
Regulatory balancing accounts—net	**395,026**	621,635
Prepayments and other current assets	**81,185**	78,242
Total current assets	**1,412,050**	1,571,843
Deferred Charges:		
Unamortized debt issuance and reacquisition expense	**296,094**	301,741
Rate phase-in plan	**435,941**	239,760
Other deferred charges	**138,593**	132,040
Total deferred charges	**870,628**	673,541
Total assets	**$13,909,899**	$13,729,205

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA EDISON COMPANY

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1988	December 31, 1987
	(In thousands)	
Capitalization (see accompanying statements):		
Common stock, at par value, 217,444,052 and 217,126,601 shares outstanding at respective dates	$ 906,017	$ 904,694
Additional paid-in capital	1,258,872	1,307,758
Retained earnings	2,391,703	2,329,174
Common shareholder's equity (Note 3)	4,556,592	4,541,626
Preferred and preference stock:		
Not subject to mandatory redemption	358,755	361,238
Subject to mandatory redemption	239,037	277,538
Long-term debt	5,212,657	4,915,328
Total capitalization	10,367,041	10,095,730
Other Long-Term Liabilities	136,810	113,348
Current Liabilities:		
Current portion of long-term debt and redeemable preferred and preference stock	144,917	101,555
Short-term debt	658,255	665,839
Accounts payable	436,318	481,628
Accrued taxes	435,030	471,008
Accrued interest	117,142	106,259
Dividends payable	139,157	133,281
Accumulated deferred income taxes—net	166,356	235,921
Deferred unbilled revenue and other	297,217	347,445
Total current liabilities	2,394,452	2,542,936
Deferred Credits:		
Accumulated deferred investment tax credits	507,666	525,750
Accumulated deferred income taxes—net	256,493	176,835
Customer advances and other deferred credits	247,437	274,606
Total deferred credits	1,011,596	977,191
Commitments and Contingencies (Notes 1, 3, 8, 9, and 10)		
Total capitalization and liabilities	$13,909,899	$13,729,205

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA EDISON COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1988	1987	1986
		(In thousands)	
Cash Flows From Operating Activities:			
Net income	**$ 731,385**	$ 747,283	$ 557,882
Adjustments for noncash items:			
Depreciation and decommissioning	**644,036**	549,810	506,230
Amortization	**147,875**	156,980	129,800
Nuclear plant disallowance—net	**—**	70,347	208,218
Allowance for funds used during construction	**(30,008)**	(116,332)	(135,222)
Rate phase-in plan	**(196,181)**	(149,110)	(90,650)
Regulatory deferrals—energy exploration projects	**—**	61,637	21,748
Deferred income taxes and investment tax credits	**104,574**	143,978	266,430
Other—net	**(5,834)**	22,439	8,391
Changes in working capital components:			
Receivables	**(75,150)**	(252,403)	(18,343)
Regulatory balancing accounts	**226,609**	(31,548)	17,120
Fuel stock, materials and supplies	**2,047**	133,510	3,214
Prepayments and other current assets	**(2,943)**	(3,723)	29,159
Accrued interest and taxes	**(63,242)**	9,384	222,263
Accounts payable and other current liabilities	**(95,538)**	284,631	48,733
	1,387,630	1,625,891	1,774,973
Cash Flows From Financing Activities:			
Issuances of long-term debt	**622,684**	132,548	1,428,675
Repayments of long-term debt	**(328,412)**	(275,026)	(1,595,936)
Redemption of preferred and preference stock	**(48,775)**	(17,712)	(200,525)
Nuclear fuel financing	**(18,569)**	(56,191)	(46,518)
Short-term debt financings—net	**58,416**	175,810	232,240
Capital transfers and dividend payments	**(716,450)**	(643,463)	(553,389)
	(431,106)	(684,034)	(735,453)
Cash Flows From Investing Activities:			
Construction expenditures	**(817,025)**	(1,021,177)	(1,156,387)
Contributions to decommissioning funds	**(157,086)**	—	—
Other—net	**8,357**	5,635	15,297
	(965,754)	(1,015,542)	(1,141,090)
Decrease in cash and equivalents	**(9,230)**	(73,685)	(101,570)
Cash and equivalents, beginning of year	**32,452**	106,137	207,707
Cash and equivalents, end of year	**$ 23,222**	$ 32,452	$ 106,137
Noncash Investing and Financing Activities:			
Conversion of 5.20% convertible preference stock	**$2,108**	$ 414	$ 845
Conversion of subordinated debentures	**2,973**	3,136	2,849

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA EDISON COMPANY

CONSOLIDATED STATEMENTS OF CAPITALIZATION

				December 31, 1988 (in thousands)	December 31, 1987 (in thousands)
COMMON SHAREHOLDER'S EQUITY (See accompanying statements)				**$ 4,556,592**	$ 4,541,626
PREFERRED AND PREFERENCE STOCK—					
Not subject to mandatory redemption(b)(c):	**Series**	**Shares Outstanding** (December 31, 1988)	**Redemption Price** (December 31, 1988)		
Cumulative preferred:					
$25 Par Value:	4.08%	1,000,000	$ 25.50	**25,000**	25,000
	4.24	1,200,000	25.80	**30,000**	30,000
	4.32	1,653,429	28.75	**41,336**	41,336
	4.78	1,296,769	25.80	**32,419**	32,419
	5.80	2,200,000	25.25	**55,000**	55,000
$100 Par Value:	7.58	750,000	101.00	**75,000**	75,000
	8.70	500,000	104.00	**50,000**	50,000
	8.96	500,000	104.20	**50,000**	50,000
Preference:					
$25 Par Value:	$.20 convertible	—	—	**—**	2,403
Total				**358,755**	361,238
Subject to mandatory redemption(b)(d):					
Cumulative preferred:					
$100 Par Value:	7.325%	547,381	$103.54	**54,738**	60,000
	7.80	483,495	104.62	**48,350**	51,000
	8.54	615,000	105.65	**61,500**	63,750
	8.70	433,1[illegible]	110.00	**43,312**	45,937
	12.31	[illegible]	105.83	**43,000**	50,000
Preference:					
$25 Par Value:	7.375	—	—	**—**	28,864
				250,900	299,551
Preferred and preference stock to be redeemed within one year				**(11,893)**	(22,013)
Total				**239,007**	277,538
LONG-TERM DEBT—					
First and refunding mortgage bonds(d)(e):		**Maturity**	**Interest Rates**		
		1989 through 1992	4⅜% to 8¾%	**475,000**	672,000
		1993 through 1997	6⅜% to 9%	**1,125,000**	1,000,000
		1998 through 2002	8¼% to 9%	**650,000**	500,000
		2003 through 2007	9⅜% to 9.95%	**278,750**	284,000
		2008 through 2020	8⅜% to 13%	**1,267,476**	1,084,413
				3,796,226	3,540,413
Pollution control bonds(d)(f):		1999 through 2015	6⅜% to 10⅜% and variable	**947,730**	897,730
Funds held by trustees				**(11,119)**	(10,472)
Debentures and notes(c)(d):		1992 through 1993	9.6% to 11%	**211,550**	202,973
Nuclear fuel indebtedness(d)(g)				**424,168**	379,029
Long-term debt due within one year(d)				**(133,054)**	(79,542)
Unamortized debt discount—net				**(22,844)**	(14,803)
Total				**5,212,657**	4,915,328
Total Capitalization				**$10,367,041**	$10,095,730

Notes to Consolidated Statements of Capitalization are on the following page.
The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA EDISON COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Corporate Restructuring and Proposed Merger

On July 1, 1988, SCEcorp acquired the outstanding common stock of Southern California Edison Company (the Company) under a merger agreement approved by shareholders on April 21, 1988. The Company's common shareholders became holders of SCEcorp's common stock on a share-for-share basis. Each share of the Company's outstanding original preferred stock was converted into 2.1 shares of SCEcorp's common stock. The Company's remaining preferred stock and debt securities were not exchanged or transferred to SCEcorp. The Company's equity investment in nonutility subsidiaries was transferred to SCEcorp at book value on July 1, 1988. The accompanying consolidated financial statements have been restated to reflect the financial position and results of operations of the Company as presently structured. The effect on net income of excluding the earnings of nonutility companies that were formerly the Company's subsidiaries is reflected in the table below.

	Year Ended December 31,	
	1987	1986
	(In thousands)	
Net income previously reported	$786,626	$768,617
Restatement—nuclear plant disallowance (Note 3)	—	(193,206)
Earnings from nonutility subsidiaries	(41,343)	(17,529)
Restated net income	$747,283	$557,882

On November 30, 1988, SCEcorp, the Company, and San Diego Gas & Electric Company (SDG&E) executed an agreement to merge SDG&E into the Company. Under the terms of the merger agreement, SCEcorp will exchange 1.3 shares of its newly issued common stock for each SDG&E common share. SDG&E preferred and preference stock will be exchanged for SCEcorp preferred and preference stock with similar provisions, except that dividends on each series will be increased between 2.5% and 20.0%. The merger is subject to approval by the shareholders of SCEcorp, the Company, and SDG&E, as well as regulatory agencies, including the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

NOTE 2—Summary of Significant Accounting Policies

Consolidation Policy—

The consolidated financial statements include the accounts of the Company, its wholly owned financing subsidiary, SCE Capital Company, and other utility related subsidiaries which are not considered significant for financial reporting purposes. All significant intercompany transactions have been eliminated, except intercompany profits from energy sales to the Company by unregulated, energy-producing affiliates, which are allowed in rates.

Accounting Principles—

The Company is regulated by the CPUC and the FERC. The accompanying consolidated financial statements reflect the ratemaking policies of these commissions, as applied to the Company, in conformity with generally accepted accounting principles applicable to rate-regulated enterprises.

Utility Plant—

The costs of plant additions, including replacements and betterments, are capitalized and included in utility plant. Capitalized costs include direct material and labor, construction overhead, and an allowance for debt and equity funds used to finance construction. The cost of property that is replaced or retired—and related removal costs, less salvage—is charged to the accumulated provision for depreciation. Accumulated deferred income taxes related to utility plant are presented as a deduction from utility plant to conform with ratemaking procedures used to determine rate base.

SOUTHERN CALIFORNIA EDISON COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2—Summary of Significant Accounting Policies—(continued)

Allowance for Funds Used During Construction (AFUDC)—

AFUDC represents the cost of debt and equity funds that finance construction of utility plant. Capitalized AFUDC is reported in the consolidated statements of income as a reduction of interest charges for the debt component and as other income for the equity component. AFUDC and plant construction costs are recovered when completed projects are placed into commercial operation, and the recovery of related depreciation is authorized through customer rates.

Before 1987, the cost of debt included in the AFUDC calculation was reduced by the tax benefit realized from deducting the related interest expense from taxable income. As a result of changes in the treatment of interest expense for income tax purposes, pretax interest expense was used to compute the debt component of AFUDC beginning in 1987. The AFUDC rate, which reflects semiannual compounding, was 10.76% for 1988 and 11.57% for 1987 under the pretax method. The rate was 10.53% for 1986 under the previous net-of-tax method.

Depreciation and Decommissioning—

Depreciation of utility plant, except nuclear fuel, is computed on a straight-line, remaining-life basis.

The estimated cost of decommissioning the Company's nuclear generating facilities is $713 million and is recovered in rates through annual allowances charged to depreciation expense. Retail rates for 1988, and certain prior years, included annual decommissioning revenue requirements, which have been deposited in trust funds until decommissioning begins. Trust fund contributions are invested in high-grade securities. Approximately 80% of the trust fund contributions qualify as tax deductions.

Nuclear Fuel—

The cost of nuclear fuel, including its disposal, is amortized on the basis of generation and is charged to fuel expense. In accordance with ratemaking procedures adopted by the CPUC, nuclear fuel financing costs are capitalized until the fuel is placed into production.

Research, Development, and Demonstration (RD&D)—

RD&D costs not related to a specific project are expensed in the year incurred. RD&D costs related to specific construction projects are capitalized until it is determined whether they will result in construction of plant. If construction does not result, the costs are charged to expense.

RD&D costs are reflected in the following table:

	Year Ended December 31,		
	1988	1987	1986
		(In thousands)	
RD&D costs charged to expense	$43,414	$42,893	$47,122
RD&D costs deferred/capitalized	17,455	14,855	3,888
Total RD&D costs	$60,869	$57,748	$51,010

Commencing in 1988, a balancing account has been established for RD&D costs charged to expense. Under this mechanism, the Company is required to refund to ratepayers any authorized but unspent RD&D funds at the end of the three-year rate-case cycle ending December 31, 1990.

Unamortized Debt Issuance and Reacquisition Expense—

Debt premium, discount, and issuance expenses are amortized over the lives of the related issuances. The expense of reacquiring bonds that are redeemed without refunding are amortized over the period the debt would have remained outstanding. The reacquisition expenses are amortized over the lives of the new debt issues when debt is reacquired with refunding.

NOTE 3—Regulatory Matters—(continued)

In addition, revenue accrued to recover prior years' ownership costs, which is associated with the construction costs disallowed by the CPUC, has been written off from the MAAC balancing account. The Company recorded after-tax charges against earnings of approximately $15 million for 1986 and $70 million for 1987.

Energy Cost Proceedings—

The CPUC's Division of Ratepayer Advocates (DRA) recommended that the CPUC disallow $124 million of energy costs incurred between late 1984 and late 1987. Approximately $120 million of the proposed disallowance represents alleged overpayments to nonutility power producers, including electricity purchased by the Company from a 300-MW cogeneration facility owned by Kern River Cogeneration Company (KRCC). Mission Energy Company, which is one of SCEcorp's nonutility subsidiaries, is a partner in the KRCC facility. The DRA's proposed disallowance in relation to power purchases from KRCC is approximately $37 million. In upcoming CPUC hearings, the Company will demonstrate that the power purchases from KRCC actually saved its customers more than $24 million during the three years under consideration, compared with the "standard offer" contract approved by the CPUC. The DRA also alleges overpayments by the Company under 17 other contracts negotiated with nonutility power producers that are not SCEcorp affiliates. The Company signed these contracts during the early stages of California's efforts to rapidly develop alternate and renewable energy resources. At that time the projected prices under these 17 contracts were at or below avoided cost standard contracts over their lives.

In addition to its recommended energy cost disallowance, the DRA has recommended that the CPUC modify its early 1988 decision that authorized formation of a holding company.

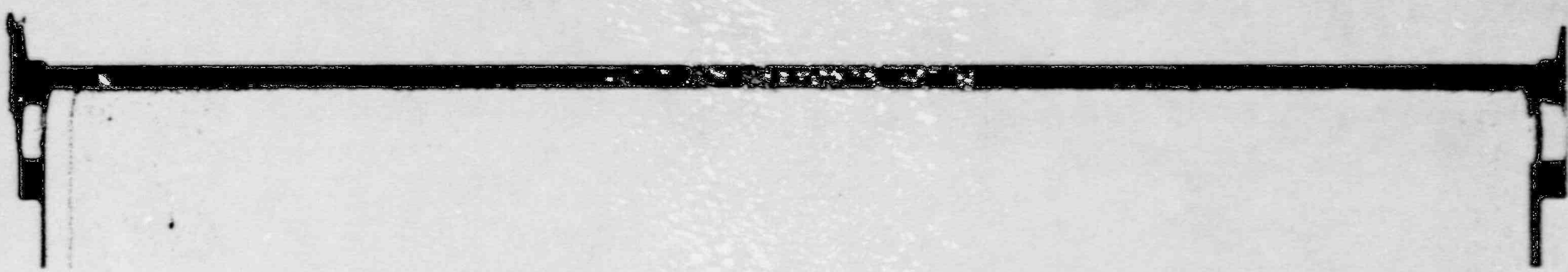
Although the probable effect that the outcome of this matter will have on net income cannot be determined at this time, the Company believes that adoption of the DRA's recommendation to modify the holding company decision is not necessary to protect the public interest and will work diligently to demonstrate that it has reasonably administered the contracts under review. CPUC proceedings are scheduled to take place later this year.

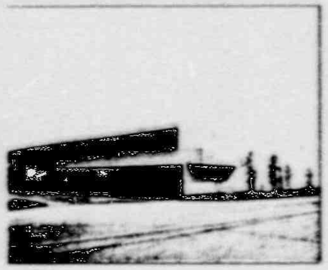
Resale Rates—

In accordance with FERC procedures, resale revenue is subject to refund with interest if subsequently disallowed. The Company believes that any refunds resulting from pending rate proceedings, should not have a material effect on net income.

NOTE 4—Short-Term Debt

The Company maintains unrestricted deposits of approximately $7 million at commercial banks and pays annual commitment fees of up to .1% to maintain lines of credit which may be utilized at negotiated or bank index rates and which totaled $1.9 billion on December 31, 1988. Approximately $1.3 billion of these lines of credit support commercial paper and other borrowings to finance general cash requirements; fuel inventories; and undercollections in regulatory balancing accounts. The remaining $600 million of these lines of credit are available for the long-term refinancing of certain variable-rate pollution-control indebtedness.



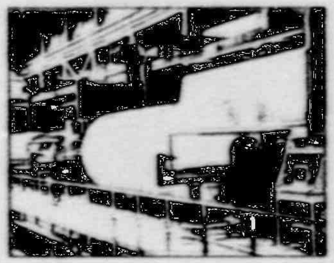


Mission Land was formed in 1986 with its predecessor companies dating back to the early 1900s. Its principal business is development of industrial warehouses and distribution buildings.

Mission Land owns and manages six industrial parks in separate regions in Southern California and Arizona, which contain more than two million square feet of leasable space. Additionally, Mission Land has entered into several joint-venture land developments in Illinois, Indiana, and California.

Formed in 1987, Mission First Financial engages in longer-term, financially-oriented investment opportunities such as high-quality securities, leverage leasing, project financing, and energy-related venture capital.

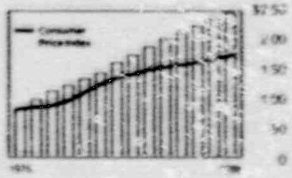
Mission First Financial participated in a sale and leaseback of a nuclear power plant in Pennsylvania and a paper mill/cogeneration plant in Minnesota. Mission First Financial is also managing a hedged utility-oriented dividend capture program.



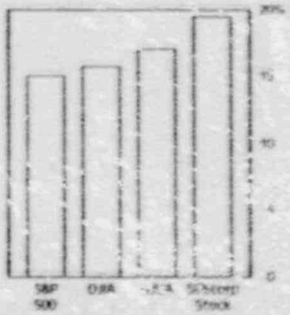
Formed in 1986, Mission Power Engineering performs consulting, engineering and construction including electric generating units, transmission lines, and substations.

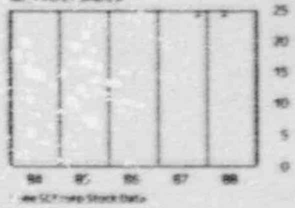
Mission Power has been awarded contracts with a total value of more than $400 million. This subsidiary has grown steadily and last year ranked 26th among the nation's top 500 engineering/design firms.

In June 1988, SCEcorp raised its common stock dividend 4.2% from $2.38 to $2.48 per share. This was the 13th dividend increase in the past 12 years. At year-end 1988, the annual dividend provided a 7.7% yield on a common stock market price of $32⅞ per share.



Common stock is traded under the symbol SCE on the New York, Pacific, London, and Tokyo exchanges. SCEcorp's newspaper listing symbol is SCEcp. Average daily volume in the U.S. for 1988 was 825,000 shares. Unusually large volume in December 1987 and June 1988 resulted from dividend trading strategies.





Howard P. Allen
Chairman of the Board, President and Chief Executive Officer

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Additional information available upon request.

SCEcorp

NYSE: SCE

SCEcorp

In 1988, SCEcorp was formed as the parent holding company of Southern California Edison Company, and The Mission Group of nonutility businesses. The formation of SCEcorp provides a better corporate separation between utility and nonutility businesses.

The Boards of Directors of SCEcorp and San Diego Gas & Electric Company (SDG&E) reached agreement to merge SDG&E into Edison. Shareholders approved the merger, and it is expected to be completed during 1990, subject to state and federal regulatory approvals.

SCEcorp is well positioned for the future with a financially and operationally strong electric utility in a growing service territory, and nonutility subsidiaries with good prospects for earnings growth.

May 1989

SCEcorp achieved another year of record earnings per share.

Nonutility earnings per share increased 84% from 1987, providing 10% of SCEcorp earnings, with earnings growth achieved in each nonutility business.

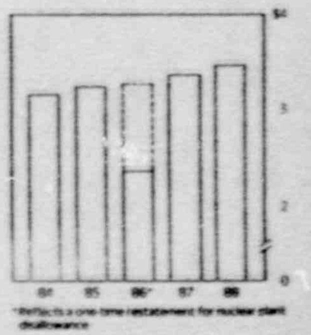
Nonutility earnings rank second among all electric utilities and electric utility holding companies.

Dividends have been paid without interruption since incorporation in 1909 and increased 13 times in the past 12 years.

Total return to shareholders (stock price appreciation plus dividends) averaged more than 19% for the past five-year and ten-year periods.

100% of Edison's capital needs were generated internally in 1988, the highest level in over 30 years.

Bond ratings have been maintained at double-A (very strong) from both Standard & Poor's and Moody's since initial ratings.



*Reflects a one-time restatement for nuclear plant disallowance.

	1988	1987	1986	1985	1984
Operating Revenues (millions)	$6,253	$5,602	$5,368	$5,217	$4,899
Net Income (millions)	$762	$759	$521*	$702	$659
Rate of Return on Common Equity	15.3%	15.5%*	11.1%*	15.8%	16.3%
Earnings Per Share	$3.49	$3.59	$2.59*	$3.26	$3.18
Dividends Paid Per Common Share	$2.43	$2.33	$2.22	$2.10	$1.97
Stock Price — Year End	$32[illegible]	$30[illegible]	$35[illegible]	$26[illegible]	$22[illegible]
Dividend Yield	7.7%	7.8%	6.7%	8.1%	9.0%

*Reflects a one time restatement for nuclear plant disallowance

SCEcorp's
Utility Subsidiary

Southern California Edison

Edison, the second largest U.S. electric operating utility, serves more than 3.8 million customers in a 50,000-square-mile service territory that covers much of Central and Southern California. With headquarters in Rosemead, California, Edison is a regulated, investor-owned utility providing electric service to one of the nation's most robust and properous regional economies.

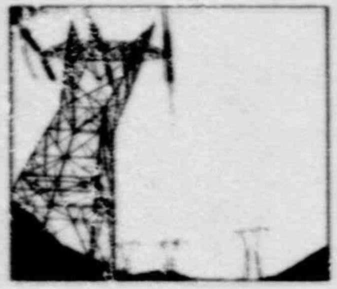
In 1988, Edison added over 114,000 new customers, the third highest customer growth in its 102-year history.

The growth and vitality of Edison's service territory contributes to its strong financial position. Edison's service territory contains four of the five fastest growing counties in California and, if a separate nation, would have the 15th largest economy of any country in the world.

A key element of the company's approach to customers is a strong commitment to excellent service. Last year alone, companywide quality service programs found literally hundreds of ways to give better and more responsive service to customers. Quality service results in customer satisfaction and ultimately benefits shareholders.

The company maintains a significant degree of flexibility by utilizing nine different energy resources to produce electricity — gas, oil, coal, nuclear, wind, geothermal, solar, hydro, and biomass — more resources than any other utility in the world.

Edison's transmission system includes five major transmission lines, three lines to the Pacific Northwest and two lines to the Southwest. These lines are capable of transmitting 4,000 MW to Edison or enough power to serve two million people. A recent upgrade to one line and planned construction of two additional lines will increase the company's transmission capacity 25%. These transmission facilities enhance system reliability and provide greater access to low cost, out-of-state surplus energy and capacity.



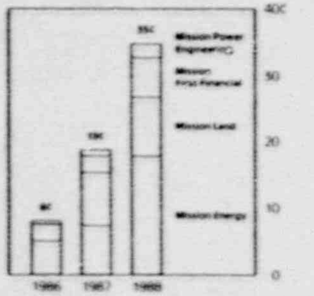
Edison continues to be a leader in research and development. Current projects include participation in the development of a revolutionary new two-way electronic metering and communications network and promotion of pollution-free electric vehicle development.

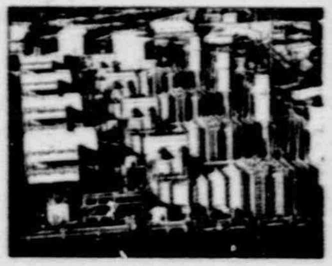
SCEcorp's
Nonutility Subsidiaries

The Mission Group

MISSION ENERGY	MISSION FIRST FINANCIAL	MISSION LAND	MISSION POWER ENGINEERING

In 1987, the Mission Group was established to consolidate and manage SCEcorp's nonutility businesses. Its objective is to broaden SCEcorp's earnings base by investing in areas which can provide long-term earnings growth. The Mission Group's four nonutility subsidiaries are in businesses closely related to the electric industry including: development and ownership of cogeneration and independent power production facilities, financial investments, real estate development, and engineering and construction of electric power generating facilities and transmission systems.





Formed in 1986, Mission Energy has already established itself as a national leader in the ownership, development, and operation of alternative energy resources. Mission Energy provides a cost-effective solution to the generating needs of the 1990s and beyond.

Mission Energy's projects consist largely of cogeneration installations over 100 MW in size and emphasize joint venture projects with low technological risk, sound economics, and strong contractual relationships with well-established partners. Mission Energy is presently a partner in projects totalling almost 2,000 megawatts, or enough energy to serve the needs of more than one million people.

NOTE 4—Short-Term Debt—(continued)

The Company's short-term debt is comprised of:

	December 31, 1988	December 31, 1987
	(In millions)	
General purpose	$ 67.1	$ 35.8
Balancing accounts	400.0	400.0
Fuel	535.3	518.3
Total borrowings supported by lines of credit	1,002.4	954.1
Less: Amount reclassified as long-term	338.8	288.3
Unamortized discount	5.3	—
Net short-term debt	$ 658.3	$665.8

NOTE 5—Income Taxes

The Company and its subsidiaries are included in SCEcorp's consolidated federal income tax and combined state franchise tax returns. Under income tax allocation agreements, each affiliate calculates its tax liability separately.

Current and Deferred Taxes—

Income tax expense includes the current tax liability from operations, and deferred income taxes provided on certain items of income and expense which are reported in different periods for tax and financial reporting purposes.

The current and deferred components of income tax expense are:

	Year Ended December 31, 1988	1987	198[illegible]
	(In thousands)		
Current:			
Federal	$278,5[illegible]	$39[illegible],064	$349,034
State	10[illegible],58[illegible]	121,075	117,177
	384,17[illegible]	515,139	466,211
Deferred—federal and state:			
Investment and energy tax credits—net	([illegible]8,025)	(15,6[illegible]4)	[illegible],737
Depreciation	149,249	172,710	170,594
Regulatory balancing accounts	(79,460)	(33,463)	(21,400)
Debt reacquisition expenses	(2,507)	(1,390)	81,968
Fuel contract settlements	(1,980)	16,002	9,528
Nuclear plant disallowance	—	(78,616)	(61,665)
Cumulative effect of accounting change	—	58,752	—
Capitalized exploration and development expenses	—	—	(31,338)
Unbilled revenue	(24,420)	(27,467)	—
Rate phase-in plan	78,743	68,797	46,398
Fixed charges	7,994	(14,178)	(45,538)
Contributions in aid of construction	(28,836)	(14,000)	—
Other	23,876	(33,587)	(14,986)
	104,574	97,736	195,298
Total income tax expense	$488,752	$613,875	$661,509
Classification of income taxes:			
Included in operating expenses	$412,105	$555,433	$687,520
Included in other income	76,647	78,306	35,654
Nuclear plant disallowance	—	(78,616)	(61,665)
Related to cumulative effect of accounting change	—	58,752	—
Total income tax expense	$488,752	$613,875	$661,509

NOTE 5—Income Taxes—(continued)

Accumulated deferred investment tax credits are amortized over the lives of the related properties.

Cash payments for income taxes were $500.8 million in 1988, $497.1 million in 1987, and $311.8 million in 1986.

The following table reconciles the differences between recorded state and federal income taxes and amounts determined on income before taxes by applying the federal statutory tax rate. The federal and composite federal and state statutory income-tax rates are 34% and 40.138%, respectively, for 1988; 40% and 46.138%, respectively, for 1987; and 46% and 51.184%, respectively, for 1986.

	Year Ended December 31,		
	1988	1987	1986
		(In thousands)	
Expected federal income tax expense at statutory rate	$ 414,847	$ 544,463	$ 560,920
Increase (decrease) in income tax expense resulting from:			
Allowance for equity and borrowed funds used during construction	(6,163)	(29,362)	(62,202)
Federal deduction for state taxes on income	(35,886)	(47,046)	(53,208)
Depreciation timing difference not deferred	70,224	96,042	102,536
State tax provision	105,547	117,614	115,669
Prior years' decommissioning	(15,714)	—	—
Nuclear plant disallowance	—	(4,730)	55,042
All other differences	(44,103)	(63,106)	(57,248)
Total income tax expense	$ 488,752	$ 613,875	$ 661,509
Pretax income	$1,220,137	$1,361,158	$1,219,391
Effective tax rate (total income tax expense ÷ pretax income)	40.1%	45.1%	54.2%

Deferred income taxes for tax depreciation prior to 1981 and certain construction overheads have not been provided because the tax effects of such timing differences are not allowed for retail ratemaking purposes until the taxes become payable. The cumulative net amount of these timing differences was $1.[illegible] billion on December 31, 1988, and 1987.

Ratemaking Investigation—

In 1986, the CPUC began an investigation to evaluate the effects of the Tax Reform Act of 1986 on ratemaking procedures. Revenue for recovery of income tax expense for 1987 and subsequent periods was collected subject to refund pending a CPUC decision.

In October 1988, the Company refunded approximately $51 million through the ERAM balancing account, in compliance with an August 1988 CPUC interim resolution. Final CPUC approval of the amounts refunded is pending. Because the Company had previously provided a reserve for this item, refunds to customers have not and are not expected to have any significant effect on net income.

New Accounting Standard—

Under accounting rules currently in effect, deferred income tax balances are not adjusted to reflect changes in tax law or rates. However, a new accounting standard will require such adjustments beginning in 1990.

The new standard requires significant balance sheet adjustments. The Company will record additional deferred income taxes related to the equity component of AFUDC, which is currently recorded on an after-tax basis; the debt component of AFUDC, which was recorded on a net-of-tax

NOTE 5—Income Taxes—(continued)

basis prior to 1987; and other temporary differences for which deferred income taxes have not been provided.

Additional balance sheet adjustments will be recorded for the net reduction in deferred income tax liabilities resulting from income tax rate changes; the recognition of deferred income tax assets attributable to the reduction of the book basis of property by unamortized investment tax credits; and to classify property-related accumulated deferred taxes as a liability instead of a reduction of utility plant.

The majority of additional deferred-tax assets and liabilities will be offset by recording regulatory assets and liabilities representing the anticipated effects of these adjustments on customer rates. Such regulatory assets and liabilities will be adjusted as they are recovered or refunded through the ratemaking process and for changes in tax rates or laws.

NOTE 6—Employee Benefit Plans

Pension Plan—

The Company has a trusteed noncontributory defined-benefit pension plan, covering substantially all full-time employees who fulfill minimum service requirements. Benefits are based on years of accredited service and average compensation. The Company's policy is to fund the plan on a level premium actuarial method, provided that annual contributions meet the minimum funding requirements of the Employee Retirement Income Security Act and do not exceed the maximum deductible amount under income tax regulations. Prior service costs from pension plan amendments are funded over 30-year periods.

In 1987, a new accounting standard for defined-benefit plans was implemented that changed the basis for determining pension expense. Before 1987, pension cost was based on the actuarial method used to determine annual contributions to the plan. For 1986, pension expense amounted to $48.6 million.

Pension expense under the new standard includes the following components:

	Year Ended December 31, 1988	1987
	(in thousands)	
Net pension expense:		
Service cost for benefits earned	$ 43,340	$ 46,629
Interest cost on projected benefit obligation	102,249	91,025
Actual return on plan assets	(133,687)	(130,723)
Net amortization and deferral	40,610	46,699
Pension liability pursuant to accounting standards	52,512	53,630
Regulatory adjustment	(6,416)	(3,481)
Net pension cost recognized	$ 46,096	$ 50,149

In conformity with the accounting principles for rate-regulated enterprises, regulatory adjustments have been recorded to reflect, in net income, the pension costs calculated under the actuarial method used for ratemaking purposes. The difference between pension costs calculated for accounting and ratemaking purposes has been recorded as a deferred charge on the consolidated balance sheets.

NOTE 6—Employee Benefit Plans—(continued)

The plan's funded status is presented below:

	December 31, 1988	December 31, 1987
	(in thousands)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 905,190	$ 800,952
Nonvested benefits	68,531	57,306
Accumulated benefit obligation	973,721	858,258
Value of projected future compensation levels	435,363	372,095
Projected benefit obligation	$1,409,084	$1,230,353
Plan assets at fair value	$1,326,635	$1,201,550
Benefit obligation in excess of plan assets	$ (82,449)	$ (29,303)
Unrecognized net gain	(49,021)	(101,562)
Unrecognized net obligation being amortized over 17 years	89,640	95,163
Accrued pension liability	$ (41,830)	$ (35,202)
Assumptions for defined benefit pension plan:		
Discount rate	8.0%	8.5%
Rate of increase in future compensation	6.0%	6.0%
Expected long-term rate of return on assets	8.5%	8.5%

Assets of the plan consist primarily of common stocks, corporate and government bonds, short-term investments, and guaranteed investment contracts.

Employee Stock Plans—

The Company maintains an Employee Stock Ownership Plan (ESOP) and a Stock Savings Plus Plan (SSPP), designed to supplement employees' retirement income. Contributions to the ESOP were funded primarily by federal income tax benefits and contributions by employees. Company contributions to the SSPP were $16.9 million in 1988, $16.6 million in 1987, and $15.4 million in 1986.

Other Post-Employment Benefits—

Health care and life insurance are provided for retired employees and their dependents. Group life insurance is provided through an insurance company. Health care is provided by a combination of Company facilities and insurance programs. The costs of these benefits for retirees were $22.8 million in 1988, $18.0 million in 1987, and $15.4 million in 1986.

NOTE 7—Jointly Owned Utility Projects

The Company owns undivided interests in several generating stations and transmission systems, for which each participant provides its own financing. The proportionate share of expenses pertaining to such projects is included in the appropriate operating expense category in the

NOTE 7—Jointly Owned Utility Projects—(continued)

consolidated statements of income. The table below presents the investments in each project as included in the consolidated balance sheet as of December 31, 1988:

	(In thousands)			
	Plant in Service	Accumulated Depreciation	Under Construction	Ownership Interest
El Dorado Transmission System	$ 21,649	$ 8,590	$ 108	60.00%(a)
Four Corners Coal Generating Station—Units 4 and 5	401,142	122,613	11,395	48.00
Mohave Coal Generating Station	233,708	95,919	877	56.00
Pacific Intertie DC Transmission System	115,047	34,075	69,550	50.00
Palo Verde Nuclear Generating Station	1,463,307	80,810	8,348	15.80
San Onofre Nuclear Generating Station:				
Unit 1	537,022	153,999	23,261	80.00
Units 2 and 3	2,759,741	477,523	18,084	75.05
Common facilities—Units 2 and 3	819,030	114,846	1,863	75.05
Common facilities—Units 1, 2, and 3	176,130	28,854	3,599	75.87
Yuma Axis Generating Station	12,369	10,516	69	33.30
Total	$6,539,145	$1,127,745	$137,134	

(a) Represents a composite rate.

NOTE 8—Leases

The Company leases automotive, computer, office, and miscellaneous equipment through operating rental agreements with varying terms, provisions, and expiration dates. At December 31, 1988, estimated remaining rental commitments for noncancelable operating leases were as follows:

Year Ended December 31,	(In thousands)
1989	$ 28,284
1990	25,227
1991	22,354
1992	18,926
1993	14,637
For periods thereafter	16,2[illegible]6
Total future rental commitments	$125,694

On June 10, 1987, a wholly owned subsidiary purchased the leasing company from which the Company leased its nuclear fuel, by assuming the leasing company's commercial paper obligations. On March 1, 1988, the Company assumed the commercial paper obligations of the affiliated nuclear fuel lessor and terminated the nuclear fuel lease agreement. Lease liabilities supported by commercial paper borrowings, which had been classified as long-term obligations, have been reclassified as long-term debt to conform with the financial statement presentation of nuclear fuel financing on December 31, 1988. The long-term debt amount represents the estimated repayment of commercial paper based upon expected nuclear fuel consumption subsequent to one year after the balance sheet date and is supported by refinancing agreements with commercial banks.

NOTE 9—Commitments

Construction Program and Fuel Supply—

As of December 31, 1988, the Company's construction expenditures are estimated to be $802 million for 1989, $704 million for 1990, and $713 million for 1991. In addition, minimum long-term commitments of approximately $1,607 million existed as of December 31, 1988, under fuel supply contracts.

NOTE 9—Commitments—(continued)

Long-Term Purchased Power and Transmission Contracts—

The Company has contracted to purchase portions of the generating output of certain facilities and to purchase firm transmission service when appropriate. Although there is no investment in such facilities, these contracts provide for minimum payments based, in part, on the debt service requirements of the provider, whether or not the facility or transmission line is operable. None of these power contracts provide, or are expected to provide, more than 5% of current or estimated future operating capacity.

The cost of power and firm transmission service obtained under these contracts, including payments made when a facility or transmission line is not operating, is included in purchased power and other operating expenses, respectively, in the consolidated statements of income. Purchased power costs are generally recoverable through the ECAC balancing account procedure. Selected information pertaining to these contracts on December 31, 1988, is summarized as follows:

	Purchased Power	Transmission Service
Years contracts expire	1990-2017	1990-2016
Share of effective operating capacity—megawatts	473.5-627.5	
Share of energy output	5.54%-100.0%	
	(In thousands)	
Required minimum annual payments		
1989	$ 46,468	$ 9,033
1990	13,854	6,030
1991	2,500	4,529
1992	2,500	4,422
1993	2,500	4,267
Thereafter	59,375	86,118
Total	$127,197	$114,399

Purchased power costs were $121.5 million in 1988, $118.0 million in 1987, and $115.3 million in 1986. Transmission costs were $11.4 million in 1988, $11.2 million in 1987, and $12.0 million in 1986.

NOTE 10—Contingencies

Nuclear Insurance—

On August 22, 1988, Congress amended the Price-Anderson Act, extending it until August 1, 2002. It increased—to $7.6 billion from $720 million—the limit on public liability claims that could arise from a nuclear incident. Participants in San Onofre and Palo Verde have purchased the maximum private primary insurance available, which currently is $200 million. The balance is to be covered by the industry's retrospective rating plan, using deferred premium charges. This secondary level of financial protection is required by the Nuclear Regulatory Commission (NRC). The maximum amount of the deferred premium that may be charged for each nuclear incident is $63 million per reactor, but not more than $10 million per reactor may be charged in any one year for each incident. The Company could be required to pay a maximum of $183.6 million per nuclear incident, on the basis of its ownership interests in San Onofre and Palo Verde, but it would have to pay no more than $29.1 million per incident in any one year. Such amounts include a 5% surcharge that would be applicable in the event that additional funds are needed to satisfy public liability claims, and are subject to adjustment for inflation.

Property damage insurance covers losses up to $500 million at San Onofre and Palo Verde. Decontamination liability and property damage coverage in excess of the primary $500 million layer has also been purchased, exceeding NRC requirements. Insurance covering part of the additional expense of replacement power, which could result from an accident related nuclear unit outage, is also provided. After the first 21 weeks of such an outage, a maximum weekly indemnity of $2.7 million for a single unit for 52 weeks begins. An additional $1.4 million per week is provided for the

NOTE 10—Contingencies—(continued)

next 52 weeks. These policies are issued primarily by mutual insurance companies owned by utilities with nuclear facilities. If losses at any nuclear facility covered by the arrangement were to exceed the accumulated funds available for these insurance programs, the Company could be assessed retrospective premium adjustments of up to $54.0 million per year. Insurance premiums are charged to operating expenses.

Antitrust Litigation—

In 1978, five resale customers filed a suit in federal district court, alleging violation of antitrust laws. The complaint seeks monetary damages, a trebling of such damages, and certain injunctive relief. The complaint alleges that the Company engaged in anticompetitive behavior by charging more for electricity it sold to resale customers than it charged certain classes of retail customers. The complaint also alleges that the Company acted alone and in concert with other utilities to prevent or limit such resale customers from obtaining bulk power supplies from other sources to reduce or replace the resale customers' purchases from the Company. The plaintiffs estimate that their actual damages, before trebling, were approximately $99.5 million from February 1, 1978, through December 31, 1985. The trial began on July 8, 1986, and concluded on September 26, 1986. The Company filed findings of fact and conclusions of law with the court on November 21, 1986. A decision is pending.

In 1983, another resale customer also filed a suit in federal district court, alleging violation of certain antitrust laws. The customer alleges that it has been denied access to lower-cost power and was overcharged for power purchases as well as other operational and financial damages. On July 17, 1988, the Company received the customer's antitrust damage study alleging total damages of approximately $135 million before trebling. A trial date of November 14, 1989, has been set.

The foregoing proceedings involve complex issues of law and fact. Although the Company is unable to predict the final outcome, it has categorically denied the resale customers' allegations.

SOUTHERN CALIFORNIA EDISON COMPANY

Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Earnings Summary

Earnings available for common stock in 1988 decreased $12.5 million or 1.8% compared to the prior year. The decrease is primarily attributable to the reduction in the California Public Utilities Commission's (CPUC) authorized rate of return on common equity from 13.9% in 1987 to 12.75% in 1988. Several items offset the negative impact of the CPUC's reduction in authorized return on common equity, including the CPUC's approval of non-fuel expense levels that more accurately reflect current operating costs, management's continued emphasis on cost containment and a CPUC award for favorable coal-plant operating performance.

Operating Revenue and Sales

Approximately 98% of operating revenue represents retail sales that are subject to rate regulation by the CPUC. The remaining revenue is from sales to wholesale customers, which are regulated by the Federal Energy Regulatory Commission (FERC).

Operating revenue increased by $430.6 million, or 7.8%, over last year, reflecting a 3.6% increase in kilowatt-hour sales. The increase in revenue is attributable to a 3.9% increase in retail sales volume that resulted from the addition of more than 114,000 new customers and the effect of rate changes. Resale sales volume declined 5.4% due to the availability of alternative energy sources to resale customers. Increases in operating revenue of 3.4% in 1987 and 2.6% in 1986 reflect, in addition to rate changes, a 5.1% retail sales volume increase in 1987 and a 1.2% sales volume decline in 1986.

The table below presents the changes in major components of operating revenue which contributed to the overall variation from prior years.

	Increase (Decrease) From Prior Years December 31, 1988	1987	1986
	(In Millions)		
Operating Revenue— Sales			
Base rate changes	$664.8	$ (6.5)	$ 61.8
Balancing account rate changes	(456.9)	30.2	97.9
Sales volume changes—Retail	206.2	255.6	91.3
Sales volume changes—Resale	(6.5)	(106.3)	(117.2)
Other	23.0	10.6	3.0
Total	$430.6	$183.6	$136.8

Rate changes that became effective January 1, 1989, are projected to increase revenue by $77.7 million, or 1.3%. The CPUC approved an attrition increase of $116.4 million to recognize increases in nonfuel expenses and to increase the Company's authorized rate of return on common equity to 13.0% from 12.75%. In separate proceedings, the CPUC authorized a $77.1-million rate decrease after the Company completed full recovery of uranium contract settlement payments and granted a $38.4 million rate increase for additional plant investment in the San Onofre Nuclear Generating Station.

Operating Expenses

Operating expenses for 1988 increased by $343.9 million, or 7.5%, over 1987, compared with increases of $191.0 million, or 4.4% in 1987, and $173.8 million, or 4.1% in 1986. Fuel expense declined $119.0 million, or 10.9% in 1988, compared with an increase of $226.6 million in 1987, and a decrease of $812.4 million in 1986. The reduction in fuel expense for 1988 is the result of increased nuclear generation which displaced higher cost natural gas generation. The Company operated higher cost non-nuclear fuel-burning power plants less because of an increase in mandatory purchases of power from nonutility producers at CPUC-mandated rates that exceeded rates for economy purchases. Purchased power expense increased by $454.2 million, or 58.2%, over 1987. The effect on earnings of fuel and purchased power cost fluctuations is minimized by regulatory adjustment mechanisms established by the CPUC and the FERC.

Provisions for regulatory adjustment clauses for 1988 reflect net overcollections of $240.7 million. The overcollections are attributable to growth in kilowatt-hour sales; CPUC-authorized recovery of previously deferred energy costs through the Energy Cost Adjustment Clause; and amortization of deferred costs under an adjustment clause that was established to recover costs of major system additions.

System growth, including the addition of the Balsam Meadow Hydro Project, which commenced commercial operation in December 1987, and Palo Verde Nuclear Generating Station (Palo Verde) Unit 3, which was placed into commercial operation in January 1988, contributed significantly to the increase of $20.5 million in other operating expenses.

Depreciation and decommissioning expense increased during 1988 by $94.2 million of which $84.8 million is attributed to higher levels of decommissioning expense authorized by the CPUC. The remainder of the increase results from increased depreciation due to system growth, as described above.

Taxes on operating income for 1988 decreased $143.3 million, compared to 1987 resulting primarily from lower corporate tax rates instituted by the Tax Reform Act of 1986. However, the lower tax rates were offset by reduced electricity rates for customers and, therefore, had little or no effect on net income.

Other Income and Income Deductions

Utilities capitalize an allowance for funds used during construction (AFUDC) which represents the cost of debt and equity capital used to finance construction of plant additions. Completion of the Balsam Meadow Hydro Project and Palo Verde Unit 3 contributed significantly to a $86.3 million decline in AFUDC compared to 1987. AFUDC has declined steadily over the past three years, as the construction of major projects has been completed and the facilities placed into service.

The $20.7 million increase in 1988 interest income over 1987, resulted from higher interest rates on invested cash and increases in the average amounts of cash investments and regulatory-asset balances.

Significant Accounting Changes

In accordance with changes in accounting standards for rate-regulated enterprises, in the first quarter of 1988 the Company recorded a noncash write-off against income of approximately $193 million, net of related income tax effects, for disallowed costs on its investment in nuclear facilities. As permitted by the new accounting standard, the Company adopted these changes by restating the financial results for 1986, the period in which the write-offs would have been recorded had the present accounting rules been in effect.

As discussed further in Note 5 of the Notes to Consolidated Financial Statements, major balance sheet adjustments will be recorded in accordance with new income tax accounting requirements that become effective in 1990. These changes are not expected to significantly affect future earnings.

FINANCIAL CONDITION

Liquidity and Capital Resources

The Company's liquidity is affected primarily by construction expenditures and by capital requirements relating to debt and capital stock maturities. The capital resources available to meet these requirements include internal cash generation and external financings.

The majority of the Company's capital requirements continue to be met by cash generated through operations. For 1988, nearly 75% of cash requirements were internally generated, compared with approximately 89% in 1987 and 97% in 1986. The decline in 1988 is attributed to a 24.1% reduction in cash from operations net of a 9.4% decrease in cash requirements. Cash flow and liquidity for 1988 were unfavorably affected by revenue deferred to future years under the Palo Verde Rate Phase-in Plan, which will increase through 1990, and decline in subsequent years. Additional items impacting cash flow unfavorably are increased income tax payments resulting from the Tax Reform Act of 1986, and contributions of more than $157 million to nuclear decommissioning trusts related to 1988 and certain prior years. A decline in construction expenditures and the recovery of balancing account undercollections partially offset these adverse factors.

The Company raised $622.7 million through long-term debt issuances during 1988, primarily to finance the redemption of more costly debt, repay bond maturities, and to meet sinking fund requirements. Market conditions and other factors, including limitations imposed by the Company's Articles of Incorporation and Trust Indenture, influence external financings. As of December 31, 1988, the Company could issue approximately $3.8 billion of additional first and refunding mortgage bonds or approximately $1.7 billion of preferred stock at current interest and dividend rates under its Trust Indenture and Articles of Incorporation.

In conformity with CPUC-ratemaking procedures, short-term borrowings are utilized primarily to finance fuel-oil inventory, regulatory balancing account undercollections, and nuclear fuel. The principal and interest related to these special purpose short-term borrowings are recovered through regulatory balancing-account mechanisms. Note 4 of "Notes to Consolidated Financial Statements" discusses available lines of credit and related short-term borrowings.

Capital Requirements

The Company's primary capital requirements consist of expenditures under its construction program and debt and capital stock maturities. It is anticipated that the majority of these capital requirements will be financed through internally generated cash with supplemental financing through the issuance of long-term debt.

The following table presents the Company's projected capital requirements for calendar years 1989 through 1993:

	1989	1990	1991	1992	1993
			(in Millions)		
Construction expenditures	$802.5	$703.5	$712.9	$760.1	$694.2
Maturities of long-term debt	133.0	182.9	174.7	192.1	212.5
Redemptions of preferred stock	11.9	11.7	11.7	11.7	12.3
Capital requirements	$947.4	$898.1	$899.3	$963.9	$919.0

Capital Structure

The Company's capital structure as of December 31, 1988 is reflected in the table below:

Common equity	43.9%
Preferred stock	5.8
Long-term debt	50.3
Total	100.0%

Proposed Merger

As discussed in Note 1 of Notes to Consolidated Financial Statements, on November 30, 1988, SCEcorp, the Company, and San Diego Gas & Electric Company (SDG&E) executed an agreement to merge SDG&E into the Company. Under the terms of the merger agreement, SCEcorp will exchange 1.3 shares of its newly issued common stock for each SDG&E common share. SDG&E preferred and preference stock will be exchanged for SCEcorp preferred and preference stock with similar provisions, except that dividends on each series will be increased between 2.5% and 20.0%.

The merger is subject to the approval of shareholders and various regulatory agencies, including the CPUC and the FERC. The Company is working to complete the approval process in early 1990.

SOUTHERN CALIFORNIA EDISON COMPANY

Quarterly Financial Data
(In millions)

	1988*				
	First	Second	Third	Fourth	Total
Operating Revenue	$1,305	$1,315	$1,876	$1,437	$5,933
Operating Income	186	210	433	184	1,013
Net Income	120	141	363	107	731
Earnings Available for Common Stock	108	130	351	96	685
Common Dividends Declared	130	136	135	221	622

	1987				
	First	Second	Third	Fourth	Total
Operating Revenue	$1,286	$1,333	$1,491	$1,392	$5,502
Operating Income	209	245	248	224	926
Net Income	165**	194	215	173	747
Earnings Available for Common Stock	153	181	202	161	697
Common Dividends Declared	124	129	130	130	513

* Quarterly fluctuations compared to 1987 are primarily the result of a December 1987 CPUC rate decision which ordered the Company to change the way it bills large customers, concentrating a larger percentage of these customers' annual charges into the summer months.

** Includes $68 million resulting from an accounting change. (See Note 2 of Notes to Consolidated Financial Statements.)

RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Southern California Edison Company (the Company) is responsible for preparing the accompanying consolidated financial statements. The statements were prepared in accordance with generally accepted accounting principles and include amounts based on management's estimates and judgments. Management also is responsible for the accuracy of all other information in the annual report, including its consistency with the financial statements.

The Company's consolidated financial statements have been audited in accordance with generally accepted auditing standards by Arthur Andersen & Co., a firm of independent public accountants, which has expressed its opinion regarding the fairness of these consolidated financial statements in the accompanying report.

The management of the Company maintains systems of internal control that provide reasonable assurance that assets are safeguarded, transactions are properly executed in accordance with management's authorization, and accounting records may be relied upon for the preparation of financial statements and other financial information. The design of internal control systems involves management's judgment concerning the relative cost and expected benefits of specific control measures. These systems are augmented by internal audit programs through which the adequacy and effectiveness of internal controls, policies and procedures are evaluated and reported to management. In addition, Arthur Andersen & Co., as part of its audit of the Company's consolidated financial statements, evaluate the internal control structure to determine the nature, timing and extent of its audit tests. Management believes the Company's systems of internal control are adequate to accomplish the objectives discussed herein.

The Audit Committee of the Board of Directors, composed entirely of nonemployee directors, meets periodically with the independent public accountants, internal auditors and management. This committee, which recommends to the Board of Directors the annual appointment of the independent public accountants, also considers the audit scope and nature of other services provided, discusses the adequacy of internal controls, reviews financial reporting issues and is advised of management's actions regarding these matters. Both the independent public accountants and internal auditors have unrestricted access to the Audit Committee.

Management also is responsible for fostering a climate in which the Company's affairs are conducted in accordance with the highest standards of personal and corporate conduct. This high ethical standard is reflected in the Company's Standards of Conduct, which are distributed periodically to all employees of the Company. The Standards of Conduct address, among other things, complying with all laws and regulations applicable to the Company's business, avoiding potential conflicts of interests, and maintaining the confidentiality of proprietary information. The management of the Company maintains programs to assess compliance with these standards.

John E. Bryson

JOHN E. BRYSON
Executive Vice President and
Chief Financial Officer

Howard P. Allen

HOWARD P. ALLEN
Chairman of the Board,
President and
Chief Executive Officer

February 6, 1989

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors,
Southern California Edison Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Southern California Edison Company (a California corporation hereinafter referred to as the "Company") and its subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, common shareholder's equity and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 2 to the accompanying financial statements, the Company has given retroactive effect to the July 1, 1988 corporate restructuring which established it as a subsidiary of SCEcorp and to its change in the method of accounting for its majority-owned subsidiaries. Also, as discussed in Notes 2 and 3 to the financial statements, the Company changed its method of accounting for unbilled revenues as of January 1, 1987 and, effective January 1, 1988, has retroactively changed its method of accounting for disallowances of plant costs.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Los Angeles, California
February 6, 1989

SOUTHERN CALIFORNIA EDISON COMPANY

SELECTED FINANCIAL AND OPERATIONAL DATA 1984-1988

	Year Ended December 31,				
	1988	1987	1986*	1985	1984**
			(In thousands)		
Summary of Operations					
Total operating revenue	$ 5,932,906	$ 5,502,299	$ 5,318,657	$ 5,181,830	$ 4,899,152
Total operating expenses	4,920,109	4,576,189	4,385,168	4,211,369	3,932,527
Fuel and purchased power expenses	2,207,804	1,872,572	1,641,190	2,383,497	2,084,941
Income taxes	412,106	555,433	687,520	714,726	639,875
Allowance for equity and borrowed funds used during construction	30,009	116,332	135,222	157,694	194,787
Total interest expense — net	513,611	459,006	487,376	498,097	530,322
Net income	731,386	747,283	557,882	765,811	732,428
Earnings available for common stock	684,689	697,188	503,198	694,113	659,385
Financial rate of return on common equity*	14.86%	15.32%	11.07%	15.93%	16.50%
Ratemaking rate of return on common equity — earned	12.20%	11.97%	12.42%	13.22%	14.24%
Ratemaking rate of return on common equity — authorized	12.75%	13.90%	14.60%	16.00%	16.00%
Ratio of earnings to fixed charges	3.21	3.38	3.30	3.76	3.38
Balance Sheet Data					
Total assets*	$13,909,899	$13,729,205	$13,439,611	$13,092,936	$11,906,508
Gross utility plant*	16,839,789	16,246,467	15,370,139	14,541,307	13,382,809
Accumulated provision for depreciation and decommissioning*	4,529,939	3,993,468	3,555,071	3,152,141	2,763,651
Percent of gross utility plant	26.9%	24.6%	23.1%	21.7%	20.7%
Common shareholder's equity*	$ 4,556,592	$ 4,541,626	$ 4,438,688	$ 4,445,090	$ 4,246,788
Preferred and preference stock:					
—not subject to mandatory redemption	358,755	361,238	361,654	402,600	483,253
—subject to mandatory redemption	239,037	277,538	290,049	395,074	422,286
Long-term debt	5,212,657	4,915,328	5,078,378	5,175,617	4,722,079
Capital structure:					
Common shareholder's equity*	43.9%	45.0%	43.6%	42.4%	43.1%
Preferred and preference stock					
—not subject to mandatory redemption	3.5	3.6	3.6	4.4	4.7
—subject to mandatory redemption	2.3	2.7	2.9	3.3	4.3
Long-term debt*	50.3%	48.7%	49.9%	49.4%	47.9%
Operating and Sales Data					
Area peak demand (MW)	15,987	14,775	14,599	14,587	15,189
Area generating capacity at peak (MW)	18,893	18,206	18,320	17,776	17,354
Total energy requirement (KWH)(000)	75,823,860	74,142,513	73,208,697	73,755,963	72,431,625
Percent energy requirement:					
Thermal	61.9%	70.8%	55.6%	58.7%	54.1%
Renewable/alternative (including hydro)	4.0	4.7	7.9	6.0	7.5
Purchased power and other sources	34.1%	24.5%	36.5%	35.3%	38.4%
Kilowatt-hour sales (000)	67,886,761	65,539,481	64,197,405	64,984,566	63,310,047
Average annual KWH sales per residential customer	6,264	6,1[illegible]7	5,999	6,099	6,147
Customers	3,831,656	3,717,262	3,589,414	3,490,325	3,400,182
Employees	16,660	17,086	17,553	17,182	16,844

* Restated for nuclear plant construction cost disallowances described in Notes to Consolidated Financial Statements.

** Amounts for 1984 represent the unconsolidated financial data of the Company prior to restructuring.

COMPANY DIRECTORS

Howard P. Allen	*Chairman of the Board, President and Chief Executive Officer, SCEcorp and the Company*
Roy A. Anderson	*Chairman Emeritus, Lockheed Corporation, Burbank, California*
Norman Barker, Jr.	*Chairman of the Board, Pacific American Income Shares, Inc., Los Angeles, California*
Warren Christopher	*Chairman, O'Melveny & Myers, Los Angeles, California*
Camilla C. Frost	*Chairman of the Executive Committee, Los Angeles County Museum of Art, Los Angeles, California*
Walter B. Gerken	*Chairman of the Executive Committee, Pacific Mutual Life Insurance Company, Newport Beach, California*
William R. Gould	*Chairman Emeritus and Consultant to the Company (Retired Chairman of the Board and Chief Executive Officer of the Company), Long Beach, California*
Joan C. Hanley	*General Partner and Manager, Miramonte Vineyards, Temecula, California*
Jack K. Horton*	*Chairman of the Executive Committee, SCEcorp and the Company, and Consultant to the Company (Retired Chairman of the Board and Chief Executive Officer of the Company), Los Angeles, California*
Carl F. Huntsinger	*General Partner, O/E Limited Partnership, Ltd. (Agricultural Management), Ojai, California*
Charles D. Miller	*Chairman of the Board and Chief Executive Officer, Avery International Corporation (Manufacturer of Self-Adhesive Products), Pasadena, California*
J. J. Pinola	*Chairman of the Board and Chief Executive Officer, First Interstate Bancorp, Los Angeles, California*
James M. Rosser	*President, California State University, Los Angeles, Los Angeles, California*
Henry T. Segerstrom	*Managing Partner, C. J. Segerstrom & Sons (Real Estate Development), Costa Mesa, California*
E. L. Shannon, Jr.	*President, Chief Executive Officer and Director, Santa Fe International Corporation (Oil Service, Engineering, Petroleum Exploration and Production), Alhambra, California*
Robert H. Smith	*President and Chief Executive Officer, Security Pacific National Bank, and Vice Chairman of the Board, Security Pacific Corporation, Los Angeles, California*
Edward Zapanta	*Physician and Neurosurgeon, Monterey Park and East Los Angeles, California*

* Will not stand for re-election in 1989

COMPANY EXECUTIVE OFFICERS

Howard P. Allen	*Chairman of the Board, President and Chief Executive Officer*
David J. Fogarty	*Executive Vice President*
John E. Bryson	*Executive Vice President and Chief Financial Officer*
Michael R. Peevey	*Executive Vice President*
P. L. Martin	*Senior Vice President*
L. T. Papay	*Senior Vice President*
Kenneth P. Baskin	*Vice President, Nuclear Engineering, Safety and Licensing*
Glenn J. Bjorklund	*Vice President, Power Supply*
R. H. Bridenbecker	*Vice President, Customer Service*
John R. Bury*	*Vice President and General Counsel*
Richard K. Bushey	*Vice President and Controller*
Robert Dietch	*Vice President, Engineering, Planning and Research*
John R. Fielder	*Vice President, Information Services*
Charles B. McCarthy, Jr.	*Vice President and Site Manager, San Onofre Nuclear Generating Station*
Michael L. Noel	*Vice President and Treasurer*
Harold B. Ray	*Vice President, Fuel and Material Management*
Jennifer Moran	*Secretary of the Corporation*

* Effective March 1, 1989, Mr. Bury has elected to retire and David N. Barry III will become Vice President and General Counsel.

SHAREHOLDER INFORMATION

Stock Listing:

The Cumulative Preferred Stock, 4.08% Series, 4.24% Series, 4.32% Series, 4.78% Series and 5.80% Series, and the $100 Cumulative Preferred Stock, 7.58% Series, 8.54% Series, 8.70% Series and 8.96% Series are listed for trading on the American and Pacific Stock Exchanges. The issued and outstanding common stock of the Company is wholly-owned by SCEcorp and as a result is not listed for trading on any stock exchange.

Stock Transfer Agent:

Southern California Edison Company
Secretary's Department
2244 Walnut Grove Avenue
P. O. Box 400
Rosemead, California 91770
(800) 347-8625

Registrar of Stock:

Through December 31, 1988—

Security Pacific National Bank
Los Angeles, California

Effective January 1, 1989—

Southern California Edison Company
Secretary's Department
2244 Walnut Grove Avenue
P. O. Box 400
Rosemead, California 91770
(800) 347-8625

SCEcorp

1988 Annual Report

8904

COVER: Colorful beams of light illuminate an urban landscape in the San Gabriel Valley, near the corporate headquarters of SCEcorp and its electric utility subsidiary, Southern California Edison Company.

A New Corporate Structure

A historic change for the corporation took place in 1988 with the formation of SCEcorp, the parent holding company of Southern California Edison Company. This new corporate structure, which went into effect on July 1 following shareholder approval, more clearly separates the regulated utility operations of Edison from the operations of SCEcorp's nonutility subsidiaries. With its headquarters in Rosemead, California, SCEcorp is primarily an energy-services company whose subsidiaries have combined assets of $14.9 billion.

SCEcorp's principal subsidiary is Edison, a 102-year-old electric utility that serves 3.8 million customers in Central and Southern California. More than 10 million people live within its 50,000-square-mile service territory—one of the nation's most dynamic and prosperous regional economies.

The nonutility subsidiaries of SCEcorp that operate as The Mission Group are engaged primarily in businesses related to the corporation's expertise in the energy industry. The Mission Group subsidiaries have projects in eight states, including electric power generation, engineering and construction of electric facilities, real estate development, and financial investments.

Under the new corporate structure, SCEcorp will continue a long tradition of providing good service to customers and a competitive return to shareholders.

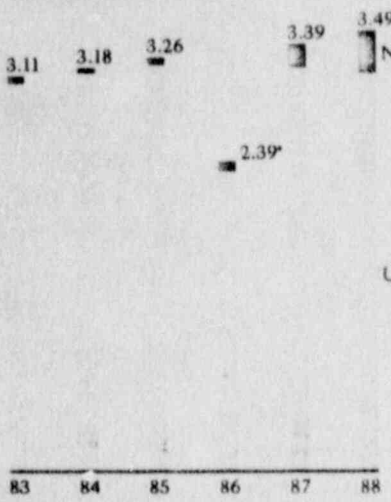
SCEcorp Highlights

	1988	1987	Increase (decrease)	Five-year compound annual growth rate
For the year (000):				
Revenue	**$6,252,719**	$5,601,926	11.6%	7.0%
Net income	**$761,831**	$738,531	3.2	4.3
Common stock dividends paid	**$530,409**	$507,808	4.5	8.4
Weighted-average shares of common stock	**218,332**	218,014	0.1	1.9
At year-end:				
Assets (000)	**$14,866,276**	$14,350,664*	3.6	5.2
Liabilities (000)	**$8,010,685**	$7,798,136	2.7	5.1
Common shareholders' equity (000)	**$5,064,848**	$4,833,734*	4.8	6.0
Common shareholders	**148,427**	156,154	(4.9)	(1.3)
Employees	**16,995**	17,255	(1.5)	0.8
Per share:				
Earnings	**$3.49**	$3.39	2.9	2.3
Dividends	**$2.48**	$2.38	4.2	5.5
Book value	**$23.18**	$22.16*	4.6	4.3
Market price	**$32⅜**	$30½	6.1	10.3
Financial ratios:				
Rate of return on common equity	**15.3%**	15.5%*		
Dividend payout	**69.6%**	68.7%		
Dividend yield	**7.7%**	7.8%		
Price-earnings	**9.3**	9.0		
Total shareholder return (price appreciation and dividends)	**14.1%**	(3.1)%		

** Reflects restatement for nuclear plant disallowance.*

Earnings Per Share (SCEcorp)

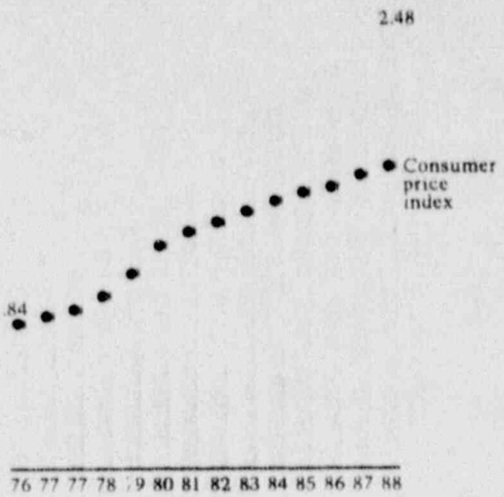
In dollars



** Reflects restatement for nuclear plant disallowance*

Annual Dividend Rate Per Share (SCEcorp)

In dollars



The Year at a Glance

- SCEcorp's earnings per share of common stock increased 2.9% to a record high of $3.49 in 1988.

- The boards of directors of SCEcorp and San Diego Gas & Electric Company (SDG&E) approved an agreement to merge SDG&E into Edison. The company is working to complete the approval process for the proposed merger in early 1990, subject to the approval of shareholders of the companies, the California Public Utilities Commission (CPUC), the Federal Energy Regulatory Commission and other regulatory agencies.

- The board of directors of SCEcorp raised the common-stock annual dividend 4.2% in June to $2.48, the 13th increase in the past 12 years.

- The return to SCEcorp's common shareholders from stock price appreciation and dividends was 14.1% in 1988. The annual return to shareholders has averaged more than 19% for the past 5-year and 10-year periods, exceeding the Dow Jones industrial and utility averages, as well as the S&P 500 index.

- SCEcorp's net income rose to a record $761.8 million and revenue to a record $6.3 billion.

- The Mission Group of nonutility subsidiaries earned net income of $77.8 million, or 35 cents per share, from revenue of $333.1 million; nonutility earnings were 10.0% of SCEcorp's total earnings.

- Southern California Edison, the utility subsidiary, internally generated 100% of the funds needed to meet capital requirements, up from 77% in 1987, and the highest level in more than 30 years.

- The utility's sales to retail customers increased 3.9% to 66 billion kilowatt-hours (kwh); total electric sales, which include sales to municipal and utility customers, rose 3.6% to 68 billion kwh.

- The utility recorded a net gain of 114,394 new customers, the third-largest annual increase in Edison's history.

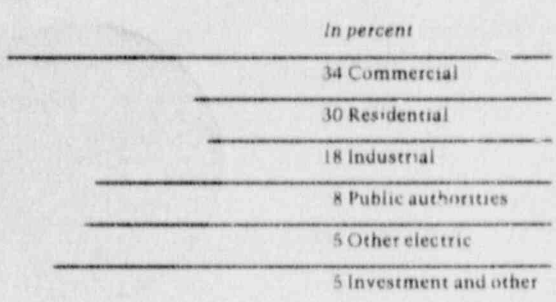
- Edison customers set a record peak demand for electricity of 15,987 megawatts (MW) on September 6, 1988, breaking the previous mark of 15,189 MW set in 1984.

- The CPUC authorized the recovery of $465 million in fuel and purchased-power expenses, $116 million for inflation and capital costs in an attrition allowance and an increase in Edison's authorized return on common equity from 12.75% to 13.0% for 1989. The CPUC also found that $295 million of Edison's added investment in San Onofre Nuclear Generating Station Units 2 and 3, since they began operating commercially, was reasonable.

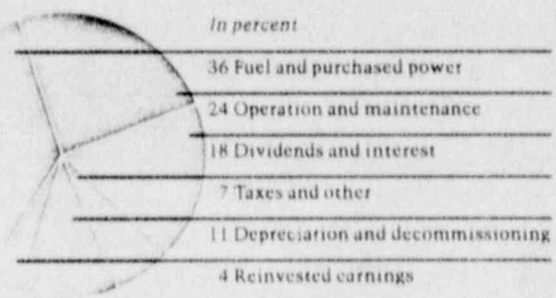
- Edison achieved its cost-containment goals of reducing capital expenditures and limiting growth in operation and maintenance expenses to below the annual rate of inflation.

Sources and Distribution of Revenue (SCEcorp)

Sources



Distribution



Letter to Shareholders

Another Outstanding Year

Few years in the 102-year history of our company have matched 1988 for major changes, major challenges, and major achievements. It was a year of notable successes.

1988 saw us achieve record earnings, $3.49 per common share compared with $3.39 in 1987, and our 13th dividend increase in the last 12 years. The return to our common shareholders in 1988 from dividends and stock-price appreciation was 14.1%, and has averaged more than 19% annually for the last 10 years. We added 114,000 new customers to our electric system, the third-largest increase ever in our service territory.

Merger Agreement with SDG&E

In late November, our board of directors and that of San Diego Gas & Electric Company (SDG&E) approved a definitive agreement to merge SDG&E into our electric utility subsidiary, Southern California Edison Company. Under terms of the agreement, each SDG&E common share will be exchanged for 1.3 newly issued SCEcorp common shares. Existing SDG&E preferred issues will be exchanged for newly issued SCEcorp preferred shares. The merger requires approval of shareholders of both companies, as well as regulatory approvals by the California Public Utilities Commission (CPUC), Federal Energy Regulatory Commission (FERC), and other regulatory agencies. We are working to complete the approval process in early 1990.

Our merger proposal has received opposition in the San Diego area, largely based on the issue of loss of a hometown headquarters company. Our position is that lower electric rates, better service, and increased community support are more important to consumers than having a locally headquartered utility with higher electric rates. We plan to demonstrate the substantial customer and community benefits for San Diegans in our regulatory proceedings, and are confident that when the facts are known, our merger will be accepted.

Holding Company

As described on Page 1, SCEcorp came into existence on July 1 as the parent holding company of Southern California Edison, our electric utility subsidiary, and The Mission Group of nonutility businesses.

Cost Containment

Although the San Diego merger was a major focus in 1988, we also made internal changes necessary to ensure that this enterprise will continue to be financially strong, service-oriented and competitive in its operations. We restructured the organization to increase productivity and eliminate duplication and unnecessary expense. We reduced the number of officers, managers, and administrative and field personnel throughout the company, streamlining every department. This reflects much attention, care, and effective hard work by Edison people and keeps us on track to meet our five-year corporate goal to reduce Edison's 1992 revenue requirements by $900 million from a business-as-usual level. Growth of Edison's operating and maintenance expenses for 1988 were under the rate of inflation. Edison reduced employment by 426 positions, or 2.5%, through attrition and retirements, with few layoffs.

Health-care costs have been increasing nationally for major corporations and for our company at about 20% a year. To have a benefits program that would be more responsive to employee needs, and yet help control escalating health-care costs, we implemented a comprehensive new program that enables our employees to match benefits with personal and family needs.

Quality Service

Our Edison companywide quality service programs found literally hundreds of ways to give better and more responsive service to our customers. For example, we expanded surveys to determine customer needs, reduced response times on telephone calls from customers, created a more understandable customer bill, changed electric-circuit switching procedures to reduce outages during maintenance work, and trained employees in better service, work techniques and practices.

Nuclear Operations

By every measure, our San Onofre Nuclear Generating Station had an excellent year. The station achieved record energy output, tight cost control, recognition from federal regulators for safe and professional nuclear operations, and a record 3.8-million work hours without a lost-time injury accident.

Generating Resources, Purchased Power and Fuel

Our nine different energy production resources help protect our customers from unforeseen changes in world energy markets. Our coal, nuclear and oil- and gas-fired plants remain our primary generating resources. Our coal and nuclear plants achieved another year of record production. Increases in the cost of natural gas and reduction in the reliability of its supply are causing us to change our gas supply practices. We are engaged in efforts to obtain more gas from different sources. Our hydro production was down because of the second year of drought conditions. Purchased power in balanced amounts remains an important and cost-effective resource. Alternative and renewable generation resources also remain important, but in many cases are not cost-competitive today.

Customer Self-Generation

Through CPUC actions and our own efforts, we are reducing the threat of large commercial and industrial customers bypassing the Edison system. This has been a major company effort, because if these large customers leave the system, the remaining customers will be required to pay higher rates to cover fixed costs.

Mission Group

Earnings of The Mission Group, our nonutility businesses, contributed 35 cents per share, or 10% of SCEcorp's total earnings, up from 5.6% in 1987, and an increase of 84%. The Mission Group subsidiaries—Mission Energy, Mission Land, Mission Power Engineering, and Mission First Financial—are an important part of our financial strength. They have exceeded our expectations and are expected to grow in the future.

Management

We have fewer officers than any other major electric utility enterprise. Your company's top management team consists of Executive Vice Presidents David J. Fogarty, John E. Bryson, Michael R. Peevey and myself, with ages ranging from 45 to 63, and disciplines of engineering, law and economics. Cross-training is an important part of our management strategy. Edison Senior Vice President Larry T. Papay moved from Power Supply to a new position overseeing Nuclear Operations. Edison Vice President Glenn J. Bjorklund moved from System Planning and Research to Power Supply, and Edison Vice President Robert Dietch took on Mr. Bjorklund's former responsibilities in addition to his position as vice president of Engineering and Construction.

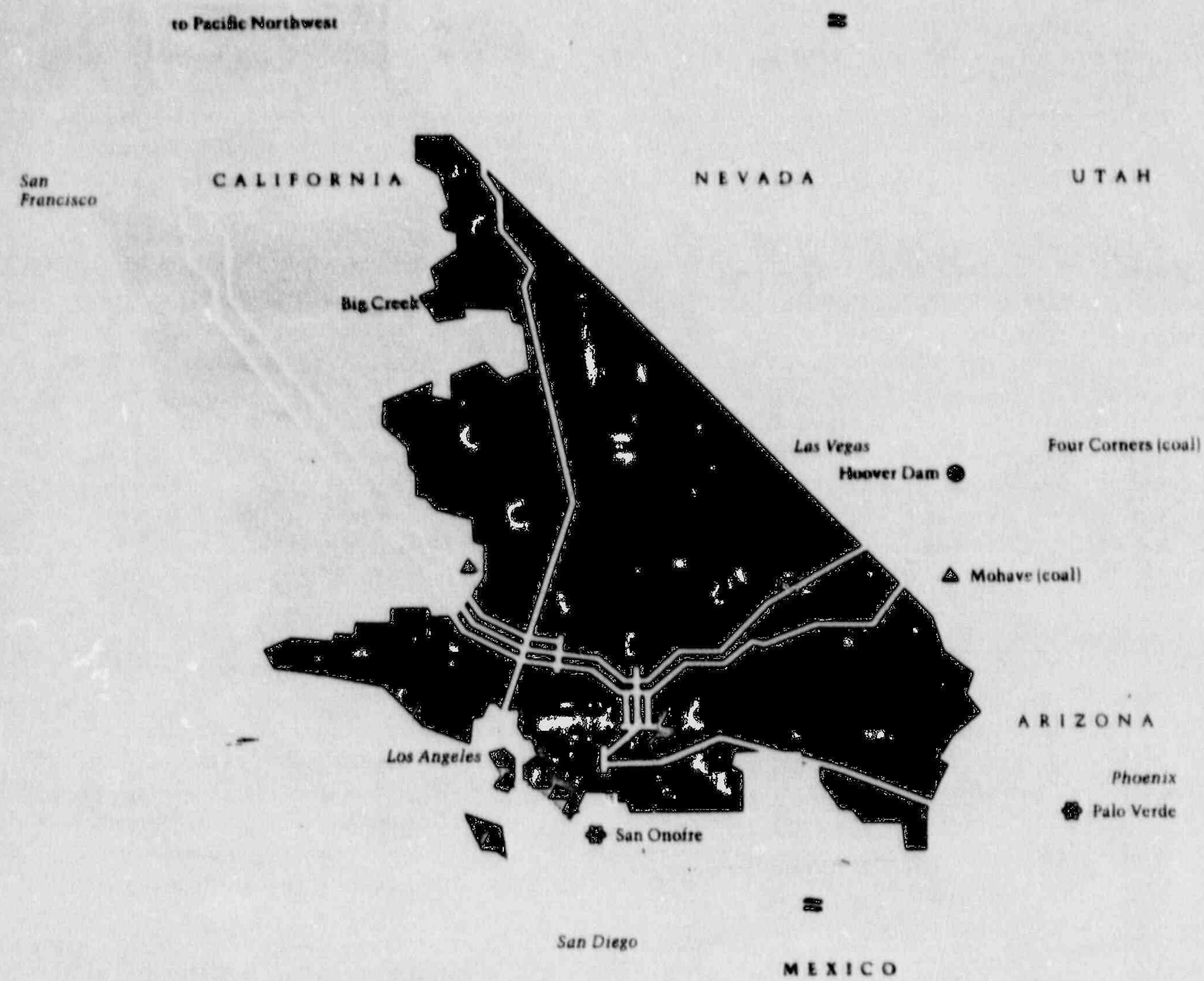
In December, the board of directors elected two new officers. Effective January 1, 1989, John R. Fielder became Vice President–Information Services of Southern California Edison. Effective March 1, 1989, David N. Barry III becomes Vice President and General Counsel of SCEcorp and Southern California Edison, succeeding John R. Bury, who retires after 35 years of dedicated service.

At our annual meeting in April we will mark the retirement from our board of directors of Jack K. Horton, who provided our company with wise leadership and counsel as President beginning in 1959, as Chairman beginning in 1968, and as Chairman of the Executive Committee since 1980. He has been a friend and an inspiration to all of us, and we will miss him.

1988 was a good year for our company. Much still has to be done. With the wise counsel and policy direction of our board of directors, the leadership of an extraordinarily able team of officers and managers, and the outstanding efforts of all our employees, we will meet 1989's challenges. On behalf of shareholders, I thank our people for their dedication and hard work in 1988. I look forward to leading them again this year.

Howard P. Allen
Chairman, President and Chief Executive Officer

February 21, 1989



- Southern California Edison Company service territory
- Extra-high-voltage transmission lines
- Hydroelectric
- Fossil
- Nuclear
- Geothermal
- Wind
- Solar
- Biomass

Operations Review: Southern California Edison Company

Southern California Edison Company, the utility subsidiary of SCEcorp, provided more electricity to more customers during 1988 than ever before in its 102-year history. The company also strengthened its commitment to quality service while rigorously controlling costs. Its success in serving customers and providing shareholders with a competitive return reflected the effective hard work and dedication of its 16,660 employees.

Growth in Service Territory

Edison serves more than 3.8 million customers in a 50,000-square-mile service territory that covers much of Central and Southern California. With headquarters in Rosemead, California, Edison is a regulated, investor-owned utility providing electric service to one of the nation's most robust and prosperous regional economies.

The company had a net gain of 114,394 new customers in 1988, the third-highest increase in its history. Residential customers represented about 87% of the total growth. In the next five years, Edison projects growth of approximately 450,000 customers.

The increase in customers was the primary reason for a 3.9% rise in retail electric sales—to 66.0 billion kilowatt-hours (kwh) from 63.5 billion kwh in 1987. Edison's total electric sales in 1988, including sales to other utilities and municipalities, rose 3.6%—to 67.9 billion kwh from 65.5 billion kwh in 1987.

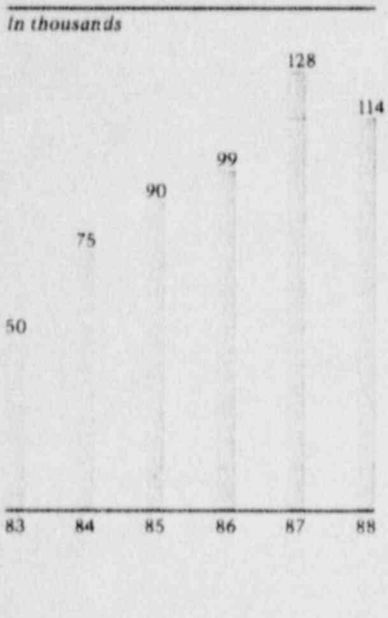
During an extended heat wave, customers' demand for electricity rose to a record peak of 15,987 megawatts (MW) on September 6, breaking the previous mark of 15,189 MW set in 1984. The primary reason for this record was the heavy use of air conditioning, as residential customers sought relief from the fourth consecutive day of 100-degree-plus temperatures.

Focus on Large Customers

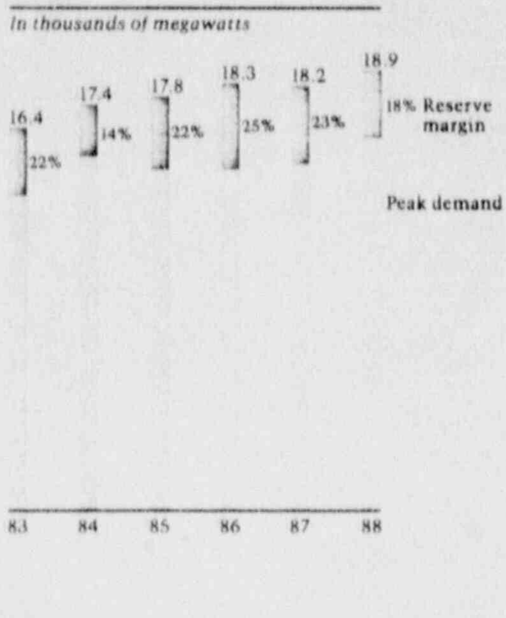
For several years, the company has faced the possibility that some large commercial and industrial customers would leave its system and generate their own electricity. This problem essentially results from earlier state and federal regulatory and legislative decisions that had distorted electricity pricing since the late 1970s. But with support from the California Public Utilities Commission (CPUC), Edison has made substantial strides in 1988 toward stemming the potential loss of these large customers.

The electricity price structure, which the current CPUC is reforming, has subsidized residential customers at the expense of many commercial and industrial customers. Consequently, many large customers have paid significantly more than what it costs Edison to serve them, and in some cases more than it would cost them to generate their own electricity. If these large customers leave the Edison system, the result would be fixed costs spread over a smaller customer base,

New Customers (Utility)



Peak Demand and Reserve Margin (Utility)



Focus:

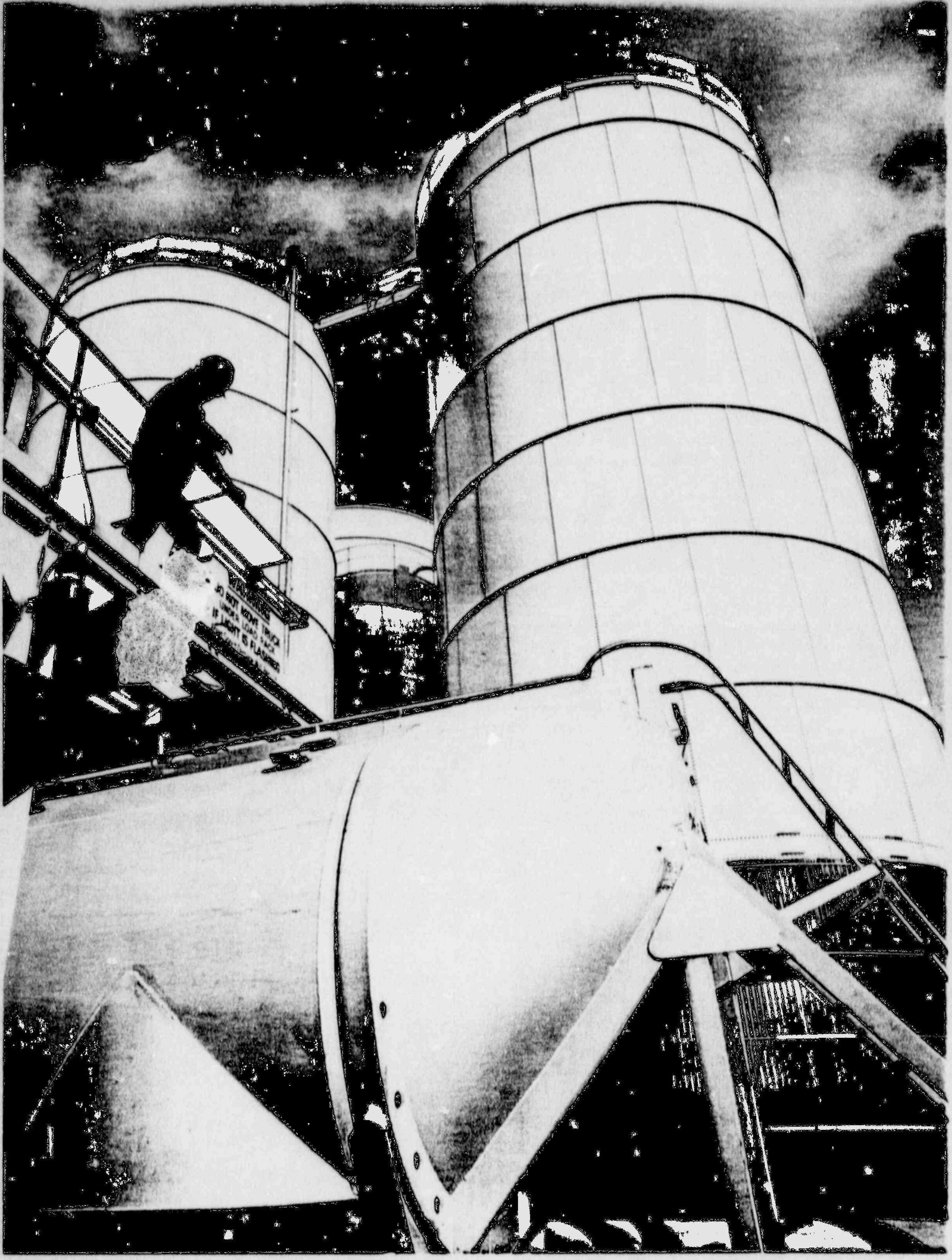
Specialized Service for Large Customers

This major industrial customer deferred installation of a 3.1-megawatt generating unit at its plastics manufacturing facility in Torrance, California. The customer qualified for a lower electric rate, negotiated by Edison and approved by the California Public Utilities Commission (CPUC). As a result, the utility will continue serving this large industrial customer that otherwise would have left the utility's electric system.

In addition, Edison has sought lower electric bills for industrial and commercial customers by changing an overall rate structure that has subsidized residential customers since the 1970s. A new rate structure for all customers, approved by the CPUC, went into effect on January 1, 1988, following Edison's request to bring rates more in line with its actual costs of service to different classes of customers.

Furthermore, the company provides a variety of energy-related services to its 200 largest customers. Highly trained account representatives serve as a single point of contact in promptly meeting all of their energy needs and advising them on ways to cut costs. ■

A major industrial customer *(right)* took advantage of Edison's lower rates and specialized services at its plastics operations in Torrance. Two Edison employees *(above)* advise a representative of the company.



WARNING
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increasing electricity prices to remaining customers—particularly residential customers.

A number of actions taken by Edison and the CPUC have helped correct this problem. In response to Edison's request in its 1988 general rate case, the CPUC has begun to establish cost-based rates that more closely reflect the actual costs of serving each customer class. On January 1, 1988, the commission increased residential rates an average of 4.9% and decreased rates for large commercial and industrial customers an average of 4.7%. The CPUC also has given Edison more flexibility in negotiating special rates and services for large customers who are planning to generate their own electricity.

Edison's 200 largest customers represent 20% of its revenues. Because of their importance, the company has established a highly trained group of professionals who serve as single points of contact for each of these large customers.

As a result of these efforts, large commercial and industrial customers in 1988 deferred or cancelled more than 200 proposed generating projects, representing 325 MW. If these self-generation projects had been built, Edison's sales would have fallen about 2.4 billion kwh, the equivalent of approximately $185 million in annual revenue, and rates for the remaining customers would have increased.

This is an example of how past public policy decisions, which were made with good intentions, can be harmful to the public interest if not reviewed and revised on a timely basis.

Emphasis on Cost Control and Productivity

In 1988, the company continued its major effort to reduce costs and increase productivity without sacrificing high-quality service to customers. These strong cost-containment efforts are necessary to ensure that Edison remains financially strong and competitive in today's business environment.

Under its five-year cost-containment plan begun in 1987, the company is committed to reduce by $900 million its projected revenue requirements from customers by 1992. Edison achieved its cost-containment goals in 1988 by reducing planned-construction expenses, lowering inventory requirements, and tightly controlling increases in operations and maintenance expenditures below the annual rate of inflation.

A good example of Edison's efforts to reduce and control costs was the complete revision of its health care program. These costs, like those of other major corporations nationwide, have been rising at more than 20% annually since 1980. In response, Edison developed an innovative and comprehensive flexible-benefits program, called SCEflex, which gives employees the ability to choose the benefits that best suit their personal and family needs. At the same time, it allows Edison and employees to better control benefits and health-care costs. In general, the savings result from more favorable rates negotiated with doctors and hospitals, a new system of managed care that reduces the number of unnecessary medical procedures and a totally new benefits and health-care plan. In all, SCEflex will continue to provide Edison employees with one of the best benefit and health-care programs in the nation, while also achieving substantial savings and cost control in this high-cost area.

In another major effort to streamline operations and control costs during the year, Edison began consolidating its telephone and customer-accounting centers from four locations to two. This was possible because of the interconnection of the telephone centers, which handle more than 6 million calls annually. As a result, all Edison representatives can now answer calls from customers residing anywhere in the 50,000-square-mile service territory. The consolidation will result in more efficient use of personnel, as well as save about $7 million in capital expenditures and $1.3 million annually in operating costs. To achieve this consolidation, Edison made a special effort to minimize hardship on employees by offering them similar positions at the two remaining centers and by providing other job opportunities.

In 1988, the company continued to restructure and streamline a number of departments, and to increase the efficiency of its work force. Total employment for Edison at year-end dropped 426 to 16,660. According to the most recently available data on the ratio of customers to employees, Edison ranks first among the nation's 15 largest electric utilities in productivity.

Commitment to Quality Service

Quality service has been the foundation of Edison's management philosophy throughout its history—but never more so than today. Since its early days, the company's motto has been, "Good Service, Square Dealing, Courteous Treatment." During 1988, Edison employees again demonstrated this commitment—both at field locations and in offices throughout the service territory.

When severe wind and rainstorms struck in January, February, and December, Edison emergency crews and other personnel mobilized quickly and worked around the clock to restore service to more than 1¾ million effected customers. During the extended heat wave in early September, when temperatures soared to 110 degrees and demand for electricity reached new records, more than 1,300 employees worked an additional 52,000 hours to replace damaged transformers and make other repairs, and restore electric service.

Employees in departments throughout Edison also developed innovative programs to improve customer service. As an example, quality-service teams in many departments helped coordinate procedures to ensure more rapid and efficient responses to customers. To measure the level of customer satisfaction, and respond better to their needs, Edison actively sought more feedback from customers through surveys and interviews. The company also expanded programs that recognize and reward managers and employees whose suggestions increase productivity, lower costs, or provide better service.

Among other important steps taken to enhance quality service in 1988 were:

• Introduction of a new customer bill that presents more information in a simpler, clearer way;

• Installation of a new telecommunications circuit-switching system between voice and data networks, which has increased employee productivity, reduced costs and improved customer service;

• Support for the sixth consecutive year in paying the winter electric bills of 8,800 low-income, elderly and disabled customers through Edison's Winter Energy Assistance Fund and generous voluntary contributions from customers;

• Notifying customers of a 24-hour telephone service to respond to their requests, such as starting or stopping service, answering questions on billing and reporting electric outages;

• Assistance to nearly 46,000 low-income and needy customers by providing various energy-management services, including bilingual help and free installation of energy-efficient equipment;

• Implementation of a good-neighbor program under which customer-contact personnel refer elderly customers who need assistance—such as medical care, meals and transportation—to various community agencies;

• Introduction of a toll-free telephone number for shareholders, which has provided faster and more convenient service; and

• Expansion of service to a rapidly growing number of non English-speaking customers through community programs, as well as toll-free telephone service by Edison representatives who are fluent in Spanish, Chinese, Vietnamese and Cambodian.

Diversity in Generating Resources

The company historically has sought diverse generating resources to provide customers with reliable electric service at reasonable cost. Using nine different resources, more than any other utility in the world, Edison has great flexibility in adjusting to unforeseen changes in world energy markets.

Nuclear Plants Edison's nuclear power plants in Southern California and Arizona had another excellent year, generating more than 21% of customers' electricity needs, up from 20% in 1987. The output reflects the strong operating performance of the San Onofre Nuclear Generating Station and the first full year of operation for all three units at the Palo Verde Nuclear Generating Station in Arizona.

Edison's three nuclear units at the San Onofre plant generated more than 16% of the electricity needed to serve Edison customers in 1988. Their output saved customers the cost of about 21 million barrels of oil or the equivalent in natural gas, resulting in fuel savings of about $275 million. Edison manages and operates the three San Onofre units, owning 80% of the 450-MW Unit 1 and 75% of Units 2 and 3, which have a combined capacity of 2,200 MW.

On average, the three units at San Onofre produced 74% of their capacity for the year, exceeding the national average for nuclear plants. Unit 1, which commenced commercial operation in 1968, was out of service for more than six months in 1988 for refueling and completion of electrical modifications required by the federal Nuclear Regulatory Commission (NRC). Unit 2 operated at 95% of its capacity for the year, and was the third-highest producer of electricity among the nation's 109 nuclear units. Unit 3 operated at 66% of capacity, and completed its third refueling during 1988.

In 1988, the lifetime generation of San Onofre plant exceeded 100 billion kwh of electric generation, saving customers the cost of more than 160 million barrels of oil or the equivalent in natural gas.

Edison has been given high marks for the safe and professional operation of the San Onofre units by the NRC and the Institute of Nuclear Power Operations.

Focus:

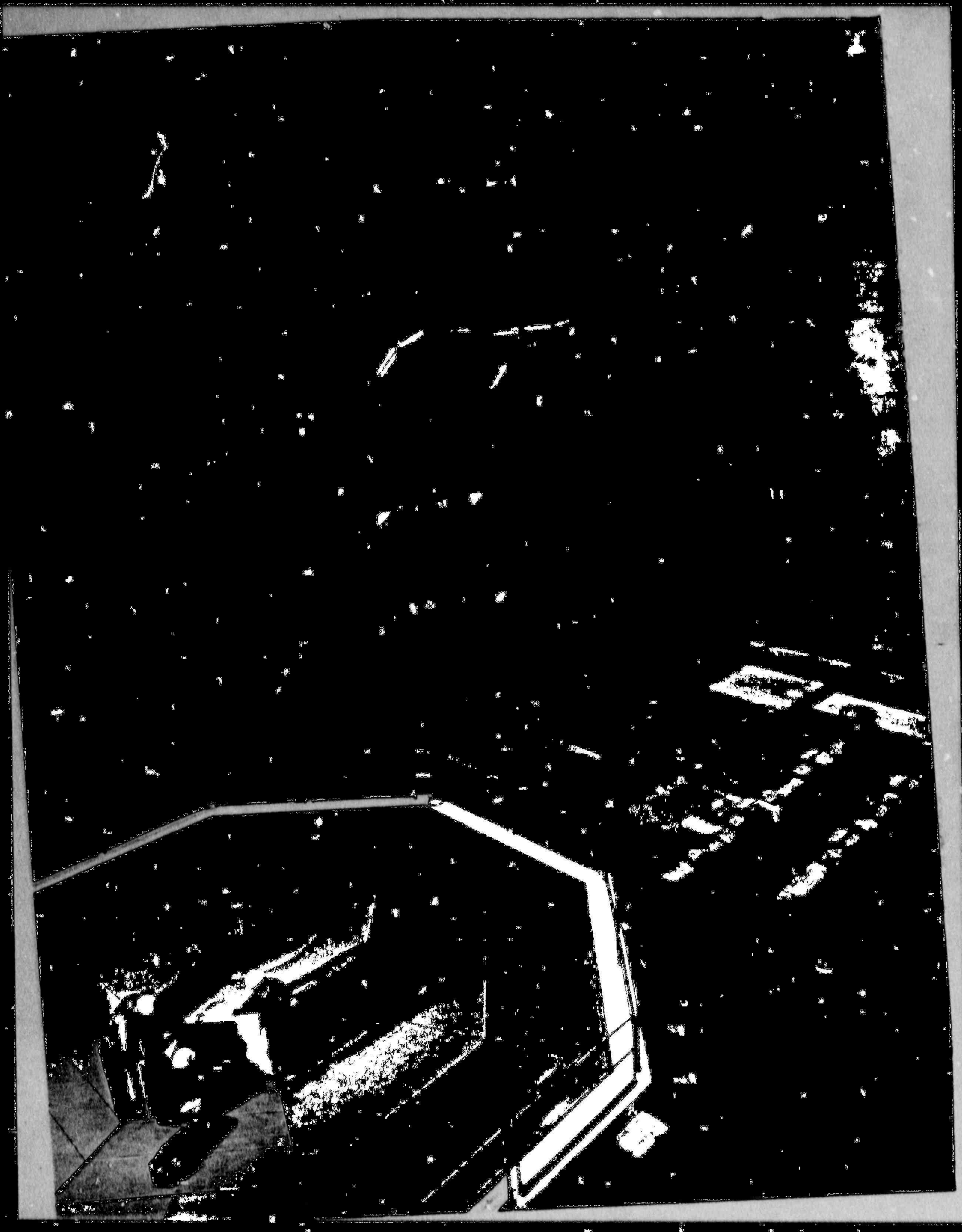
Expansion of Hydroelectric Resources

Edison dedicated the Balsam Meadow hydroelectric facility in June, making it the newest and largest addition to the Big Creek system in the Sierra Nevada. The company designed and managed the $277 million project, which was built by blasting four miles of tunnels through solid granite to connect Huntington and Shaver Lakes. The 207-megawatt power station is 1,000 feet below ground in a huge excavated cavern and was named in honor of John S. Eastwood, the visionary engineer who originally conceived the Big Creek hydroelectric system in the late 1800s.

Edison commemorated Big Creek's 75 years of continuous operation in October. This immense hydroelectric complex now consists of six major lakes, 16 tunnels extending a total of 48 miles, and nine powerhouses with 24 generating units. Big Creek is an important source of reliable, low-cost power for Edison, representing 1,000 megawatts of capacity, or enough power to serve 500,000 people.

By using computers and fiber optics communications, Edison was able to reduce costs and increase efficiency in operating all of Big Creek's generating units from a single control center. ■

Maintenance workers *(right)* inspect generator at the John S. Eastwood powerhouse of the Balsam Meadow hydro facility, built 1,000 feet underground in the Sierra Nevada. Two employees *(above)* measure the depth of the forebay above the hydro facility.



The company also owns a 15.8% interest in the Palo Verde Nuclear Generating Station near Phoenix, Arizona, whose three 1,221-MW units comprise the largest nuclear plant in the country. These units, managed by Arizona Public Service Company, went into commercial operation on February 1, 1986, September 19, 1986, and January 20, 1988, respectively.

Total generation from the three Palo Verde units was the highest among all nuclear plants in the United States. In addition, Unit 3 had the highest production nationwide for an individual nuclear unit. Palo Verde Units 1, 2 and 3 operated at capacity factors of 62%, 63% and 95%, respectively. Both Units 1 and 2 completed their first refueling outages in 1988; Unit 3 will have its first refueling in 1989.

Fossil-Fuel Power Plants The company's 54 oil and natural gas units, with 10,000 MW of capacity, provided 26% of customers' electric needs in 1988. The two coal-fired plants located outside California produced an additional 15%. Edison operates and owns 56% of the Mohave Generating Station in Nevada and owns 48% of the Four Corners Generating Station's Units 4 and 5 in New Mexico. The Mohave plant operated at 73% of its maximum capacity and Four Corners at 80%—new production records for both plants. Edison was awarded $7.9 million in 1988 under the CPUC's coal-plant incentive program. Though the CPUC suspended this program in July, it requested Edison to develop and recommend an alternative incentive plan in 1989.

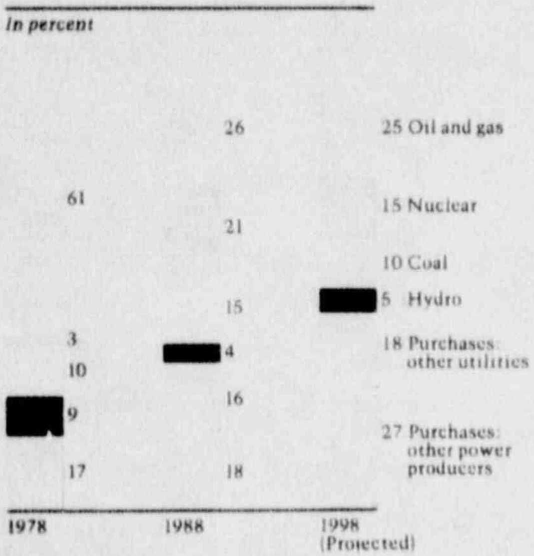
Hydroelectric Plants Low precipitation in 1987 and 1988 limited the company's hydroelectric generation to 4% of customers' electricity needs in 1988. The Big Creek hydro system in California's Sierra Nevada is the primary source of this low-cost power, representing 1,000 MW of capacity. Begun in 1911, this extensive hydro system now consists of six lakes, 12 major dams, nine major tunnels and nine powerhouses. In June, the company dedicated the 207-MW Balsam Meadow hydro project, the largest and most recent addition to the Big Creek system.

In addition, Edison has an allotment of 277 MW of hydroelectric capacity from the Hoover Dam on the Colorado River.

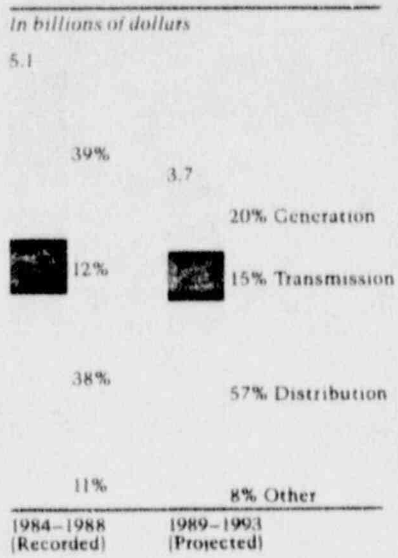
Purchased Power The purchase of power from a diversity of outside sources gives Edison added flexibility in meeting its customers' electric needs. Edison's total electricity purchases met 34% of customers' needs during the year, compared with 24% in 1987. This growth resulted primarily from a large increase in purchases from nonutility power producers in California.

Economy-Energy Purchases: The company made short-term "spot-market" purchases of low-cost electricity from the Pacific Northwest and Southwest, which saved customers nearly $100 million in 1988, compared with the cost of generation using natural gas. Economy-energy purchases supplied about 9% of

Generation Mix (Utility)



Construction Expenditures (Utility)



customers' total electric needs in 1988 and had an average cost of 1.8 cents per kwh, compared with 1.6 cents in 1987.

During 1988, Edison purchased and exchanged power as an active member of the Western Systems Power Pool (WSPP), the largest power pool in the nation. The company played a major role in establishing WSPP in 1987 as a two-year experiment by 24 public- and investor-owned utilities in 10 Western states. Pool members use a centralized computer to efficiently buy and sell low-cost surplus power, and make better use of existing generation and transmission facilities. Market forces, rather than regulatory agencies, determine power prices under this program. To date, results of the experiment have been favorable, and efforts are under way to have the Federal Energy Regulatory Commission (FERC) extend it another two years.

Firm-Energy Purchases: Purchases under long-term contracts with other utilities supplied 7% of customers' electricity needs at an average cost of 4.1 cents per kwh.

In June, after several years of negotiating, Edison reached agreement on a 20-year sales-and-exchange contract with the Bonneville Power Administration (BPA). The contract provides the company with 250 MW of capacity and 1.2 billion kwh annually beginning July 1, 1989. The agreement also will provide Edison with an additional 250 MW during times of unexpectedly high electric demand. The contract, approved by the FERC and CPUC, will save Edison customers an estimated $30 million or more annually, compared with the least-cost alternative of refurbishing some of Edison's existing oil and gas generating units now on standby status.

Purchases from Nonutility Power Producers: Alternative and renewable energy projects, developed by nonutility power producers, supplied about 18% of customers' needs during 1988—nearly a 90% increase over 1987.

In 1978, the federal Public Utility Regulatory Policies Act (PURPA) was enacted to encourage the development of alternative and renewable energy sources by requiring electric utilities to purchase power from qualifying nonutility producers. Each state was required to establish its own implementation rules. In California, CPUC policy at that time required Edison and other utilities to buy power from qualifying facilities under long-term contracts. Generally, this power was not needed to meet customer demand, and was much more costly than power Edison can now produce or purchase from other utilities.

In 1988, electricity purchased from qualifying facilities cost an average of 6.3 cents per kwh, higher than Edison's average costs for both economy- and firm-power purchases from other utilities. The higher costs for power supplied by qualifying facilities cost Edison's customers an estimated $200 million in 1988 and will cost an estimated $260 million in 1989. This is another example of well-meaning public policy that turned out to be wrong because it was not reviewed and modified on a timely basis.

At the end of 1988, there were 344 nonutility power projects, with a combined generating capacity of 2,446 MW, providing power to Edison under these contracts. Edison also has signed contracts, under CPUC orders, for an additional 133 projects representing another potential 1,884 MW of capacity. Edison estimates that less than half of the electric capacity of these remaining projects will go into service, primarily because of changes in federal tax laws, air-quality considerations, and siting and permit requirements.

Major Power Sale: In August, Edison also reached agreement on a 10-year contract to sell between 300 MW and 700 MW of its excess generating capacity to the Sacramento Municipal Utility District, beginning in January 1990. The company estimates that the proceeds from this sale will earn Edison customers between $35 million and $70 million annually, depending on the amount of electricity needed by the Sacramento utility.

Higher Fuel and Purchased-Power Costs

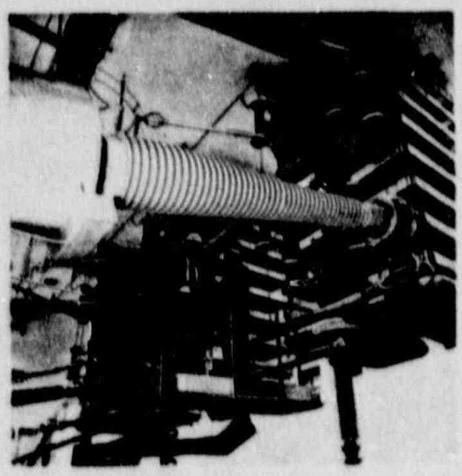
Fuel and purchased-power costs represent Edison's largest expense in supplying electricity to customers. Under California regulation, Edison is allowed to recover these costs from ratepayers on a dollar-for-dollar basis so long as they are reasonably incurred. The costs are subject to periodic reasonableness reviews by the CPUC.

These combined costs rose from $1.87 billion in 1987 to $2.21 billion in 1988. The increase resulted primarily from substantial increases in purchases from nonutility power producers.

Natural gas was the primary fuel used in Edison's gas and oil generating units, except for periods of partial natural gas curtailment in January and August, and later in the year when Edison switched to oil because oil prices declined below gas prices. For the first time

Focus:

Transmission Capacity Increases to Northwest



Edison will obtain greater access to low-cost power from the Pacific Northwest after completion of a joint project in March 1989 to expand the 850-mile direct-current (DC) line of the Pacific Intertie transmission system. The installation of new equipment converting DC into alternating current (AC) will result in 1,100 megawatts of additional capacity to serve Southern California consumers. The DC line is jointly owned by Edison, the Los Angeles Department of Water and Power, and the municipal utilities of Glendale, Pasadena and Burbank. Completion of the $171-million expansion project will boost Edison's transmission capacity over this line from 421 MW to 643 MW.

The Pacific Intertie is the major link for exchanging power between California and the Pacific Northwest. Built in the 1960s, it includes two AC lines and one DC line, all capable of transmitting large amounts of electricity in either direction at extra-high voltages. A proposal to build a third AC line, known as the California-Oregon Transmission Project, would add 1,600 MW of transmission capacity by 1992, including Edison's 281-MW share. If this third AC line is approved, Edison's total share of transmission capacity from these lines to the Pacific Northwest will rise to 1,900 MW. ■

More efficient equipment *(above)* installed at a facility in Sylmar, California, converts DC power used in transmission to AC that customers use. The DC line *(right)* of the Pacific Intertie transmission system supplies customers with low-cost power from the Pacific Northwest.

since the gas shortages of the 1970s, the company's traditional supplier of natural gas restricted its normal gas supplies during the summer, forcing Edison to use more expensive fuels.

In 1988, coal and nuclear fuel prices remained steady, while Edison paid slightly more for oil. However, the average cost of natural gas increased significantly—from an average price of \$2.55 per million Btu in 1987 to \$3.25 in 1988—primarily because fixed charges from the company's primary supplier remained unchanged despite a lower volume of purchases. To protect its customers, Edison is seeking to develop alternate sources of natural gas from other than its traditional supplier to increase reliability of its gas supply and reduce costs.

Better Service Through Resource Planning and Research

The company's resource-planning strategy gives it maximum flexibility to respond to rapid changes in supply and demand. In the next decade, Edison will add new transmission capacity to gain access to low-cost power, and serve customer needs without construction of major new power plants. To minimize costs, the emphasis will be on greater purchases of electricity, better energy management, and refurbishing and bringing back into service oil and gas plants now on standby status.

In addition, Edison's research programs focus on giving customers more choice, lower cost and better service. For example, Edison is testing a two-way electronic metering and communications network that links the utility with residential customers. This network provides customers with informational services and new options for reducing electricity costs by allowing them to shift their usage to low-cost times. These all-electronic devices also are expected to reduce costs by allowing remote meter-reading—as well as connecting and disconnecting electric service from Edison offices—rather than sending an employee to the customer's location.

In cooperation with other utilities and governmental agencies, Edison also is promoting the development of pollution-free electric vehicles and new advances in battery technology. Increased use of electric vehicles in Southern California would reduce air pollution, traffic noise and gasoline consumption. In addition, nighttime battery charging would increase off-peak electric load, resulting in more efficient use of Edison's generating capacity.

In July, the company began a two-year test program of energy-storage technology at a 10-MW project in Chino, California. The \$13.5-million facility is the world's largest battery-energy storage system and charges batteries at night when electricity demand is low and power is less expensive. The facility then supplies electricity during the day when costs and electricity use are much higher. After the completion of this research and development program, Edison will determine the commercial feasibility of this technology.

After successfully completing a six-year test program, Edison in September discontinued operations at Solar One, the world's largest central-receiver power plant using 1,818 sun-tracking mirrors on 130 acres near Daggett, California. A pioneering project in the nation's alternate and renewable energy efforts, the 10-MW Solar One demonstrated the technical capabilities of electrical power production from reflected sunlight. However, the plant is not cost-competitive because lower-cost alternative generation is available.

The 100-MW Cool Water Coal Gasification Plant is on a standby status after completion of its five-year demonstration program. Located near Daggett, California, the plant converts coal into a clean synthetic gas used in turbines to generate electricity. Cool Water is the world's cleanest coal plant and has received numerous awards for its environmental and technological successes. It operated at 70% of capacity in 1988, but is not commercially competitive because more cost-effective alternatives are available.

Although many of these renewable and alternative resources are not cost-competitive today, they will remain important components of Edison's diverse energy-resource mix, especially if oil and gas become scarce or costly in the future.

Emphasis on Employee Development

New and revised employee training programs continued to help employees improve their performance, while enhancing existing skills and the dedication to customer service Edison employees have always exhibited. This increase in professional work skills helped make 1988 a successful year. In 1988, about 4,400 employees participated in various training programs.

Providing a safe and healthful work environment continues to be a high priority at Edison. During 1988, industrial accidents declined 7% from 1987 while lost workdays decreased 15%. The Edison Electric Institute presented 13 safety achievement awards to Edison organizations whose employees worked 1 million or more hours without a lost-time accident.

Affirmative Action The minority representation in the work force rose from 27.4% in 1983 to 31.7% in 1988, while the proportion of female employees increased from 22.9% to 25.2%. Even with this progress, the company seeks to improve its record of insuring greater upward mobility for these employees in management positions.

In 1979, the company established a Women and Minority Business Development Program. From then until the end of 1988, the number of women- and minority-owned enterprises qualified to do business with Edison grew from 207 to 1,548. Annual payments to these firms rose from $18.7 million in 1983 to $92 million in 1988. The company and CPUC have agreed to a new goal of awarding 20% of Edison's annual purchases under competitive conditions to women- and minority-owned businesses within five years.

In addition, Edison reached agreement with four minority-owned businesses in 1988 to manage $35 million of the employee pension fund. With earlier agreements, this increased Edison's total pension investments managed by women- and minority-owned firms to $135 million, or 10% of the fund.

A Commitment to Community Service

Both the company and its employees have a long tradition of participating in community and civic organizations in areas served by Edison in Central and Southern California. For years, employees have voluntarily participated in such activities as the Special Olympics, the Junior Chamber of Commerce, Junior Achievement, YMCA, YWCA and scouting.

Employees showed their spirit of generosity during the 1988 United Way campaign by giving nearly $2.3 million to help people in need. On a per-capita basis, Edison employees were among the leading contributors to the more than 900 charitable organizations supported by United Way.

The Edison Electric Institute honored Edison with its Common Goals Award in 1988, citing excellent contributions made by the company's educational advisory council. This council oversees the company's informational and educational programs to schools.

During 1988, Edison developed educational materials through various school programs in cooperation with teachers, administrators and community leaders. Students learn about energy conservation, electric safety, disaster preparedness, environmental issues and other energy-related topics.

Edison also provides scholarships and grants to students throughout its service territory. For example, the company provides four $12,000 scholarships, 20 career-development awards of $3,000, and 50 educational grants of $500, in addition to two $12,000 scholarship awards for children of employees. Another important educational program, known as the Science Connection, uses a 40-foot mobile classroom to stimulate greater interest in science and technology among elementary school children. Throughout Edison's service territory, this program provided scientific demonstrations to more than 10,000 youngsters during the year. In recognition of this valuable program, the California Department of Education gave the company a special award for its support of science education.

Percentage of male, female, and minority employees at year-end 1983 and 1988	Male % Year-end		Female % Year-end		Black % Year-end		Asian American % Year-end		American Indian % Year-end		Hispanic % Year-end		Total Minorities % Year-end	
	1983	1988	1983	1988	1983	1988	1983	1988	1983	1988	1983	1988	1983	1988
Management[1]	83.5	79.3	16.5	20.7	3.7	4.2	5.9	7.6	0.5	0.4	7.5	9.8	17.6	22.0
Administrative & operative[2]	73.7	72.2	26.3	27.8	9.5	9.6	3.3	4.3	1.1	1.4	18.7	21.9	32.6	37.2
Total Edison[3]	77.1	74.8	22.9	25.2	7.5	7.6	4.2	5.5	0.9	1.0	14.8	17.6	27.4	31.7

(1) Includes the "officials" and "professionals" affirmative-action categories.

(2) Includes the "technicians," "office and clerical," "craftsmen," "operators," "laborers" and "service workers" categories.

(3) Includes all classes of employees.

Regulatory Review

1989 Attrition Allowance The CPUC authorized a $116.4-million annual attrition increase in Edison's base-rate revenues effective January 1, 1989. Attrition allowances cover annual changes in costs caused by inflation, capital additions and financings between general rate case proceedings, which are held at three-year intervals. As part of the attrition allowance, the CPUC authorized an increased rate of return on common equity from 12.75% in 1988 to 13.0% in 1989.

San Onofre Units 2 and 3 Costs since Commercial Operation The CPUC authorized an annual revenue increase of $39 million, effective January 1, 1989, as part of its decision allowing Edison to begin recovering $295 million, or 97% of its investment costs incurred at San Onofre Units 2 and 3 after the units began commercial operation. The decision affirmed an agreement between Edison and the CPUC's Division of Ratepayer Advocates (DRA), which was negotiated to avoid a lengthy, expensive review of these costs.

Allegations of Purchased-Power Overpayments The DRA has recommended that the CPUC disallow $124 million of energy costs incurred between late 1984 and late 1987. Approximately $120 million of the proposed disallowance represents alleged overpayments to nonutility power producers, including electricity purchased by Edison from a 300-MW cogeneration facility owned by Kern River Cogeneration Company (KRCC). Mission Energy Company, which is one of SCEcorp's nonutility subsidiaries, is a partner in the KRCC facility. The DRA's proposed disallowance in relation to power purchases from KRCC is approximately $37 million.

In upcoming CPUC hearings, Edison will demonstrate that the power purchases from KRCC actually saved its customers more than $24 million during the three years under consideration, compared with the "standard offer" contract approved by the CPUC.

The DRA also alleges overpayments by Edison under 17 other contracts Edison negotiated with nonutility power producers that are not SCEcorp affiliates. Edison signed these contracts during the early stages of California's efforts to rapidly develop alternate and renewable energy resources. The prices Edison projected to pay under these 17 contracts were at or below avoided cost over the life of the contracts. Hearings on the 17 contracts have not been scheduled as of this date but will be heard in later proceedings.

In addition to its recommended energy cost disallowance, the DRA has recommended that the CPUC modify its early 1988 decision that authorized Edison to form a holding company. Edison believes that adoption of the DRA's recommendations to modify the holding company decision is not necessary to protect the public interest and will work diligently to demonstrate that it has reasonably administered the contracts under review. CPUC proceedings are scheduled to take place later in 1989.

Balsam Meadow Hydroelectric Project In October 1988, the CPUC's Division of Ratepayer Advocates completed a review of the costs for the 207-MW Balsam Meadow hydroelectric project. The DRA found that Edison had prudently constructed the project and recommended that the entire amount of its investment be covered in customer rates. A decision by the CPUC is expected in May 1989.

Fuel and Purchased Power Rate Adjustments The CPUC periodically reviews the reasonableness of fuel and purchased-power costs and adjusts rates to reflect changes in Edison's costs. Based on the utility's forecast of higher energy costs from June 1988 through May 1989, the CPUC adjusted rates twice in 1988, granting a $200-million revenue increase effective June 1, and an additional $265-million increase effective October 1.

Suspension of Incentive For Fuel and Purchased-Power Expenses On June 1, 1988, the CPUC suspended the annual energy rate (AER) that was established in 1981 to provide utilities a regulatory incentive to minimize fuel and purchased-power expenses. Under the AER, utilities are rewarded for keeping fuel and purchased-power expenses below the levels authorized by the CPUC, and are at risk for such costs that exceed those levels. This temporary suspension was ordered because uncertain natural-gas supplies and prices beyond Edison's control resulted in wide cost fluctuations. The AER is expected to be reinstated on January 1, 1990.

Devers-Valley-Serrano Transmission Line In November 1988, the CPUC's Division of Ratepayer Advocates completed a review of the costs of the 500-KV Devers-Valley-Serrano Project, which became operational in mid-1987. The DRA found that Edison had prudently constructed the project, and that the full amount should be collected in customer rates. A decision by the commission is expected in May 1989.

Devers-Palo Verde No. 2 Transmission Line The CPUC has conditionally approved Edison's request to build the Devers-Palo Verde No. 2 transmission line. Scheduled for operation in June 1993, this transmission line would increase access to Southwest power markets for Edison and 11 other California utilities. The project must be re-evaluated in the context of the proposed Edison-San Diego Gas and Electric (SDG&E) merger before construction can begin.

Federal Energy Regulatory Commission Proposal In mid-1987, the chairman of the Federal Energy Regulatory Commission (FERC) announced that the commission would consider changes to its rules implementing the Federal Power Act and the Public Utility Regulatory Policies Act. These changes would essentially deregulate new sources of nonutility electrical generation by creating a new special class of generation called "independent power producers."

Edison opposes many of these proposed changes that are inconsistent with the Federal Power Act, because they discriminate against utility customers. In addition, they would reduce the long-term reliability of the nation's electricity supply. The issue is still pending before the FERC and at year-end, the U.S. House of Representatives and U.S. Senate were reviewing the matter.

Seasonal Rate Effects Edison petitioned the CPUC to modify an earlier decision relating to a new seasonal rate structure. The rate structure was intended to encourage conservation and load management by creating higher rates during summer and lower rates the rest of the year for many commercial, industrial and agricultural customers.

However, the new seasonal rate structure had the effect of distorting the company's quarterly earnings patterns, although it did not affect Edison's overall 1988 earnings. SCEcorp's 1988 third-quarter summertime earnings, for example, were 85% higher than earnings in the third quarter of 1987, while earnings in the first, second and fourth quarters were significantly lower. Without the seasonal charge, third-quarter earnings would have increased only 3%. The CPUC will review Edison's request to modify the rate structure in 1989.

Clean-Air Plan The South Coast Air Quality Management District, which includes the counties of Los Angeles, Orange, Riverside and San Bernardino, has presented a plan to bring the Los Angeles Basin into compliance with federal air-quality standards by the year 2007. The plan would impose unreasonably high costs on Edison customers by requiring that Edison install uneconomic and unproven new technology on its oil- and gas-fired generating plants. Edison has joined with other businesses in the Los Angeles Basin in presenting an alternative plan that would achieve the compliance goals in 10 years instead of 20, and at one-third the cost to consumers and the economy compared with the district's plan. Edison will continue to participate in the district's public-review process in the hope of saving Edison customers unnecessary costs, preventing an adverse economic impact on the area and working to comply with federal air-quality standards.

Merger Filing In mid-December, Edison and SDG&E filed joint applications with the CPUC and the FERC, seeking approval of the merger of SDG&E into Edison. Hearings are expected to begin in mid-1989. Edison and SDG&E will be seeking regulatory approval for the merger from other agencies in 1989. As is typically the case in these matters, there have been a number of intervenors in both the state and federal proceedings.

Legislative Review

Price-Anderson Nuclear Liability Act In August, the President signed a bill extending the Price-Anderson Act for 15 years. Although the act increases insurance costs for nuclear utilities, it provides a tenfold increase in financial protection to the public in the unlikely event of a major accident at a nuclear power plant in the United States. At the same time, the act's $7.6-billion level of potential compensation that is available to the public serves to limit financial liability for operators of nuclear power plants.

Under the extension, owners of the 109 operating nuclear reactors in the United States must continue to carry the maximum available private insurance coverage for an accident at one of their own reactors. This maximum coverage was increased to $200 million per reactor at the end of 1988. If damages were to exceed the private insurance coverage, Price-Anderson would provide additional funds by levying assessments of up to $63 million per reactor against all nuclear plant owners. Under the new law, the per-reactor assessments would be limited to $10 million annually until the $63-million limit is met.

A Review of Nonutility Subsidiaries: The Mission Group

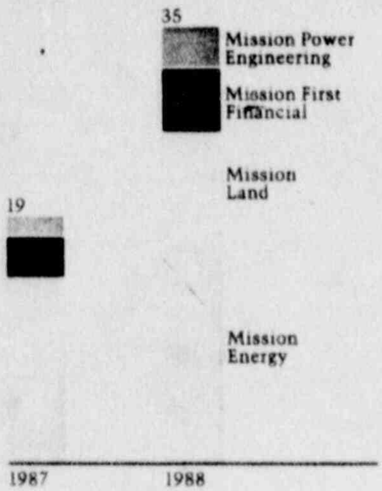
The Mission Group was formed in 1987 to manage the corporation's four principal nonutility subsidiaries, which are primarily engaged in energy-related businesses. Since then, these subsidiaries have continued to pursue business opportunities and now operate in eight states.

At year-end, SCEcorp's equity investment in The Mission Group totaled $505.4 million. Revenues for 1988 were $333.1 million, producing a net income of $77.8 million, or 35 cents per share. This compares with 1987 revenues of $107.6 million, which produced a net income of $41.3 million, or 19 cents per share.

Mission Group earnings represent 10.0% of SCEcorp's 1988 earnings, compared with 5.6% the previous year.

Nonutility Earnings Per Share

Cents per share



Mission Energy Company

Mission Energy is a national leader in the ownership, development and operation of major cogeneration projects. It provides management of engineering and construction, operation and maintenance, and assistance in obtaining permitting and financing for power facilities. Mission Energy concentrates on joint-venture projects with low technological risk, sound economics, and well-established partners.

At the end of 1988, Mission Energy jointly owned and operated nine projects with 1,300 megawatts (MW) of capacity in three states. Five of those projects, with a total of 830 MW of capacity, began operation during 1988. The three largest are the 385-MW Watson cogeneration plant in Carson, California, the 300-MW Sycamore cogeneration plant and the 300-MW Kern River cogeneration plant, both near Bakersfield, California. Another four projects with 330 MW of capacity are under construction.

Mission Energy is the largest of The Mission Group subsidiaries. Revenues for 1988 were $88.2 million, producing a net income of $38.6 million, or 18 cents per share. This compares with 1987 revenues of $38.2 million, producing a net income of $16.4 million, or 7.5 cents per share. At year-end, equity investment in the company totaled $265.7 million.

Mission First Financial Company

Mission First Financial provides energy-related venture capital and invests in leveraged-leasing transactions, project financing, and high-quality securities. This subsidiary holds financial interests in Beaver Valley Nuclear Unit 2 near Pittsburgh, Pennsylvania, and a paper mill and cogeneration facility developed through a joint venture with Minnesota Power Company and Pentair, Inc., a Midwestern paper company.

This subsidiary also has developed a customized cash-management program to provide attractive yields on funds held pending longer-term investments. In addition, the company has an equity investment in Metricom, a California-based electronics firm that is developing and marketing a solid-state electric meter and customer communications system.

No new business was consummated in 1988 because of low-lease volume and aggressive pricing by competitors, but the company is well positioned to take advantage of investment opportunities in 1989.

In 1988, Mission First Financial produced substantially higher financial contributions than 1987, because it was the first full-year of operation. Revenues for 1988 were $21.7 million, producing a net income of $13.7 million, or 6 cents per share. This compares with 1987 revenues of $10.8 million, producing a net income of $6.8 million, or 3 cents per share. At year-end, equity investment in the company totaled $90.5 million.

Mission Land Company

Mission Land develops industrial parks with medium-sized warehouses and distribution buildings. The firm owns and manages six industrial parks in Southern California and Arizona, which contain more than 2 million square feet of leasable space. In addition, Mission Land has entered into joint ventures in California, Illinois and Indiana.

During 1988, Mission Land completed several major transactions involving the sale of industrial and residential properties. It became a partner with the Lusk Company in the California Commerce Center, the second largest master-planned industrial park in Southern California. Mission Land maintained an average vacancy rate of only 3% in its industrial parks throughout the year, a major accomplishment in a highly competitive market.

Revenues for 1988 were $48.7 million, producing a net income of $20.2 million, or 9 cents per share. This compares with 1987 revenues of $33.2 million, producing a net income of $17.4 million, or 8 cents per share. At year-end, the equity investment in this company totaled $131.5 million.

Mission Power Engineering Company

Mission Power Engineering performs consulting, engineering and construction in the energy field, including electric generating units, transmission lines, and substations. Since its formation in 1984, the company has been awarded contracts with a total value of about $400 million. In 1988, Mission Power Engineering continued to grow as it performed work on 11 new power plants. For its achievements in 1987, the company was ranked 36th out of the top 400 national design and construction firms, according to a 1988 trade publication.

Revenues for 1988 were $174.4 million, producing a net income of $7.6 million, or 3 cents per share. This compares with 1987 revenues of $25.8 million that produced a net income of $1.7 million, or about 1 cent per share. At year-end, equity investment in this subsidiary totaled $14.1 million.

Financial Review

The corporation reported a record financial performance in 1988 and provided shareholders with a competitive return on their investment.

SCEcorp

Record Net Income and Revenues SCEcorp's earnings rose 3.2% to a record $761.8 million in 1988, compared with $738.5 million in 1987, and revenue grew to another record of $6.3 billion, compared with $5.6 billion in 1987.

SCEcorp's earnings per share for 1988 increased 10 cents to a record $3.49 from $3.39 in 1987. This increase is particularly noteworthy because it was achieved despite a reduction by the California Public Utilities Commission (CPUC) in Edison's authorized rate of return on common equity from 13.9% to 12.75%. The reduction, by itself, would have lowered earnings 33 cents per share, but the company overcame this through tight controls on operating expenses, approval by the CPUC of expense levels that more accurately reflect Edison's costs, a CPUC award for favorable coal-plant operating performance, and higher earnings from The Mission Group of nonutility subsidiaries. In December, the CPUC increased the authorized regulatory return on common equity for 1989 to 13.0% from 12.75% because of higher interest rates facing the utility.

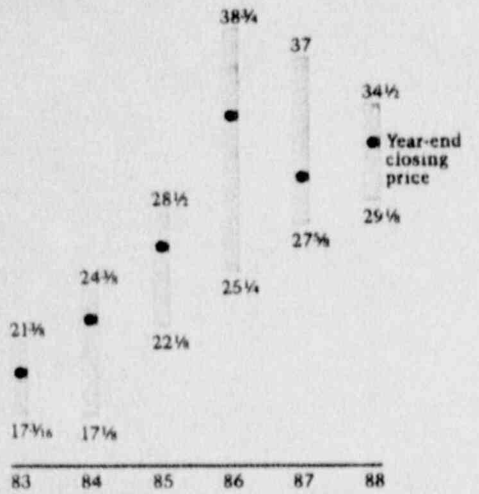
The Mission Group earnings per share for 1988 were 35 cents, or 10.0% of SCEcorp's total earnings, compared with 19 cents per share, or 5.6%, for 1987. Nonutility earnings increased 84% above those in 1987, with earnings growing in each nonutility business. Higher earnings resulted from Mission Energy bringing 830 megawatts of new cogeneration and geothermal projects into operation, the sale of industrial and residential property by Mission Land, increased construction activity by Mission Power Engineering, and a full year of operation for Mission First Financial.

Dividend Increase The board of directors in June increased the common stock dividend for the 13th time in 12 years. The new annual dividend rate of $2.48 per share is 4.2% higher than the previous year's $2.38. The current dividend provided a 7.7% yield, based on a year-end market price of $32¼ per share.

Total Shareholder Return The return to SCEcorp common shareholders from stock price appreciation and dividends was 14.1% in 1988. The annual return has averaged more than 19% for the past 5-year and 10-year periods, exceeding the Dow Jones industrial and utility averages, as well as the S&P 500 index.

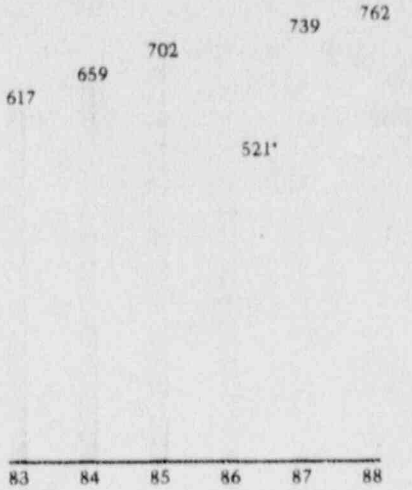
Stock Price Range (SCEcorp)

In dollars



Net Income (SCEcorp)

In millions of dollars



**Reflects restatement for nuclear plant disallowance*

Southern California Edison Company

Financial and Regulatory Returns The CPUC authorizes Edison to earn a return on its regulatory rate base, which is the value of assets used to serve customers. This authorized regulatory return is designed to allow the utility to recover its cost of capital, which is composed of long-term debt, preferred stock and the authorized regulatory return on common equity.

In 1988, Edison's authorized regulatory return on rate base was 10.75%, and its authorized regulatory return on common equity was 12.75%. The company's recorded regulatory return on rate base was 10.6%, and its recorded regulatory return on common equity was 12.2%.

However, SCEcorp's recorded financial return on common equity, as shown in financial reports, is based on the holding company's total operations. Several items can cause it to differ from Edison's authorized regulatory return on common equity. In 1988, these factors included earnings from nonutility subsidiaries; federal investment tax credits; and CPUC-established awards for high output from the utility's two coal-fired power plants. In 1988, the corporation's recorded financial return on common equity was 15.3%, compared with 15.5% in 1987.

Corporate Financing In 1988, Edison internally generated 100% of the funds it needed to meet capital requirements, its highest percentage in more than 30 years. The utility raised $663 million in U.S. capital markets during the year, primarily to finance the redemption of more costly debt, repay maturing bonds and meet sinking-fund requirements.

Credit-Line Restructuring Edison lowered the cost of its credit lines in July by arranging for a $300-million line of credit through a syndicate of foreign banks. This was the lowest-cost European credit line negotiated by any U.S. utility in 1988. Edison also renegotiated the cost and structure of its existing $1.6 billion in credit lines.

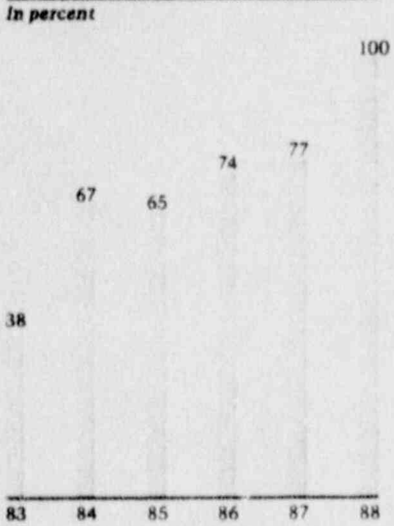
By negotiating these credit arrangements, Edison will save its customers $600,000 annually while maintaining $1.9 billion in credit lines with 40 domestic and foreign banks to meet a variety of financial obligations.

Credit Watch Edison's early warning credit-watch system, the first of its kind in the utility industry, continued to reduce the number of bad-debt write-offs by early identification of high-risk commercial and industrial customers in danger of business failure. The system saves money for customers by ensuring that Edison's revenues are protected through deposits of cash, posting of surety bonds or more frequent payments by these customers.

In 1988, the early warning system reduced potential bad debt by $860,000. It has avoided potential losses of $8 million since it began seven years ago.

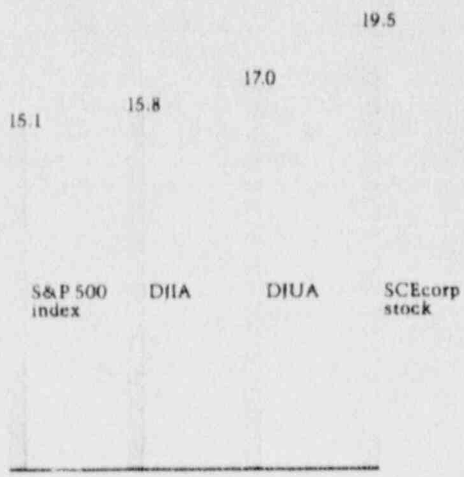
Internal Generation of Funds (Utility)

In percent



5-Year Annual-Return Comparison
(Stock price appreciation and dividends)

In percent



Responsibility for Financial Reporting

The management of SCEcorp (the "corporation") is responsible for preparing the accompanying consolidated financial statements. The statements were prepared in accordance with generally accepted accounting principles and include amounts based on management's estimates and judgments. Management also is responsible for the accuracy of all other information in the annual report, including its consistency with the financial statements.

The corporation's consolidated financial statements have been audited in accordance with generally accepted auditing standards by Arthur Andersen & Co., a firm of independent public accountants, which has expressed its opinion regarding the fairness of these consolidated financial statements in the accompanying report.

The management of the corporation and its subsidiaries maintains systems of internal control that provide reasonable assurance that assets are safeguarded, transactions are properly executed in accordance with management's authorization, and accounting records may be relied upon for the preparation of financial statements and other financial information. The design of internal control systems involves management's judgment concerning the relative cost and expected benefits of specific control measures. These systems are augmented by internal audit programs through which the adequacy and effectiveness of internal controls, policies and procedures are evaluated and reported to management. In addition, Arthur Andersen & Co., as part of its audit of the corporation's consolidated financial statements, evaluates the internal control structure to determine the nature, timing and extent of its audit tests. Management believes the corporation's and its subsidiaries' systems of internal control are adequate to accomplish the objectives discussed herein.

The Audit Committee of the Board of Directors, composed entirely of nonemployee directors, meets periodically with the independent public accountants, internal auditors and management. This committee, which recommends to the Board of Directors the annual appointment of the independent public accountants, also considers the audit scope and nature of other services provided, discusses the adequacy of internal controls, reviews financial reporting issues and is advised of management's actions regarding these matters. Both the independent public accountants and internal auditors have unrestricted access to the Audit Committee.

Management also is responsible for fostering a climate in which the corporation's and its subsidiaries' affairs are conducted in accordance with the highest standards of personal and corporate conduct. This high ethical standard is reflected in the corporation's Standards of Conduct, which are distributed periodically to all employees of the corporation and its subsidiaries. The Standards of Conduct address, among other things, complying with all laws and regulations applicable to the corporation's and its subsidiaries' business, avoiding potential conflicts of interests, and maintaining the confidentiality of proprietary information. The management of the corporation and its subsidiaries maintains programs to assess compliance with these standards.

John E. Bryson
Executive Vice President
and Chief Financial Officer

Howard P. Allen
Chairman of the Board,
President and
Chief Executive Officer

February 6, 1989

Report of Independent Public Accountants

To the Shareholders and the Board of Directors, SCEcorp:

We have audited the accompanying consolidated balance sheets and statements of capitalization of SCEcorp (a California corporation hereinafter referred to as the "corporation") and its subsidiaries as of December 31, 1988, and 1987, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the corporation and its subsidiaries as of December 31, 1988, and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 2 to the accompanying financial statements, the corporation has given retroactive effect to its restructurin[illegible], took place on July 1, 1988, and to the change in the method of accounting for its majority-owned subsidiaries. Also, as discussed in Notes 2 and 3 to the financial statements, the corporation changed its method of accounting for unbilled revenues as of January 1, 1987, and, effective January 1, 1988, retroactively changed its method of accounting for disallowances of plant costs.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Los Angeles, California
February 6, 1989

Consolidated Statements of Income

SCEcorp and Subsidiaries

In thousands, except per share amounts Year ended December 31,	1988	1987	1986
Electric revenue	$5,931,682	$5,501,057	$5,316,325
Investment and other	321,037	100,869	51,762
Total operating revenue	6,252,719	5,601,926	5,368,087
Fuel	972,973	1,091,973	865,376
Purchased power	1,235,110	780,599	775,814
Provisions for regulatory adjustment clauses—net	240,681	225,108	225,539
Other operating expenses	1,068,886	885,849	846,652
Maintenance	375,434	361,484	353,170
Depreciation and decommissioning	646,569	551,348	507,503
Income taxes	446,395	578,228	702,442
Property and other taxes	170,293	162,546	144,435
Total operating expenses	5,156,351	4,637,135	4,420,931
Operating income	1,096,368	964,791	947,156
Nuclear plant disallowance *(Note 3)*	—	(148,963)	(269,883)
Income taxes—nuclear plant disallowance	—	78,616	61,665
Provision for phase-in plan	170,856	137,832	88,672
Allowance for equity funds used during construction	18,125	73,406	105,744
Interest income	121,708	93,213	110,971
Taxes on nonoperating income	(79,547)	(80,490)	(35,654)
Other—net	(162)	20,144	25,320
Total other income—net	230,980	173,758	86,835
Income before interest and other expenses	1,327,348	1,138,549	1,033,991
Interest on long-term debt and amortization	439,842	404,767	433,103
Other interest expense	108,498	82,059	83,274
Allowance for borrowed funds used during construction	(11,883)	(42,926)	(29,478)
Capitalized interest	(17,636)	(25,933)	(28,319)
Preferred and preference stock dividend requirements of subsidiary	46,696	50,095	54,684
Total interest and other expenses—net	565,517	468,062	513,264
Income before cumulative effect of a change in accounting principle	761,831	670,487	520,727
Cumulative effect on prior years (to December 31, 1986) of accruing unbilled revenue—net of income taxes of $58,752,000 *(Note 2)*	—	68,044	—
Net income	$ 761,831	$ 738,531	$ 520,727
Weighted-average shares of common stock outstanding (000)	218,332	218,014	217,780
Earnings per share *(Note 2)*:			
Before cumulative effect of a change in accounting principle	$3.49	$3.08	$2.39
Cumulative effect of a change in accounting principle	—	.31	—
Total earnings per share	$3.49	$3.39	$2.39

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

SCEcorp and Subsidiaries

In thousands December 31,	1988	1987
ASSETS		
Utility plant, at original cost *(Note 3)*	**$15,687,850**	$14,465,691
Less—Accumulated provision for depreciation and decommissioning *(Note 3)*	**4,529,938**	3,993,468
	11,157,912	10,472,223
Construction work in progress	**676,175**	1,232,990
Nuclear fuel, at amortized cost	**475,764**	547,786
	12,309,851	12,252,999
Less—Property-related accumulated deferred income taxes	**914,532**	840,143
Total utility plant	**11,395,319**	11,412,856
Nonutility property—less accumulated provision for depreciation of $22,570,000 and $130,681,000 at respective dates	**107,851**	105,850
Nuclear decommissioning trusts, at cost	**157,086**	—
Investments in partnerships	**480,458**	286,006
Investments in leveraged leases	**148,027**	128,858
Other investments	**31,978**	26,483
Total other property and investments	**925,400**	547,197
Cash and equivalents	**228,367**	163,426
Receivables, including unbilled revenue, less allowances of $13,187,000 and $15,355,000 for uncollectible accounts at respective dates	**700,343**	625,789
Fuel stock	**125,303**	118,540
Materials and supplies, at average cost	**96,767**	105,577
Regulatory balancing accounts—net	**395,026**	621,635
Prepayments and other current assets	**113,556**	80,474
Total current assets	**1,659,362**	1,715,441
Unamortized debt issuance and reacquisition expense	**296,094**	301,741
Rate phase-in plan	**435,941**	239,760
Other deferred charges	**154,160**	133,669
Total deferred charges	**886,195**	675,170
Total assets	**$14,866,276**	$14,350,664

The accompanying notes are an integral part of these financial statements.

In thousands December 31,	1988	1987
CAPITALIZATION AND LIABILITIES		
Common shareholders' equity *(Note 3)*	**$ 5,064,848**	$ 4,833,734
Preferred and preference stock of subsidiary:		
Not subject to mandatory redemption	**358,755**	361,238
Subject to mandatory redemption	**239,037**	277,538
Long-term debt of subsidiaries	**5,421,747**	5,150,883
Total capitalization *(see accompanying statements)*	**11,084,387**	10,623,393
Other long-term liabilities	**136,810**	113,348
Current portion of subsidiaries' long-term debt and redeemable subsidiary preferred and preference stock	**165,975**	101,555
Short-term debt	**658,418**	672,501
Accounts payable	**464,817**	458,048
Accrued taxes	**435,030**	471,008
Accrued interest	**117,477**	106,666
Dividends payable	**139,187**	133,281
Accumulated deferred income taxes—net	**166,754**	236,662
Deferred unbilled revenue and other	**304,470**	354,184
Total current liabilities	**2,452,128**	2,533,905
Accumulated deferred investment tax credits	**545,728**	555,676
Accumulated deferred income taxes—net	**398,827**	248,690
Customer advances and other deferred credits	**248,396**	275,652
Total deferred credits	**1,192,951**	1,080,018
Commitments and contingencies *(Notes 1, 3, 8, 9, and 10)*		
Total capitalization and liabilities	**$14,866,276**	$14,350,664

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

SCEcorp and Subsidiaries

In thousands Year ended December 31,	1988	1987	1986
Cash flows from operating activities:			
Net income	**$ 761,831**	$ 738,531	$ 520,727
Adjustments for noncash items:			
Depreciation and decommissioning	**646,569**	551,348	507,503
Amortization	**156,732**	157,304	129,800
Nuclear plant disallowance—net	**—**	70,347	208,218
Allowance for funds used during construction	**(30,008)**	(116,332)	(135,222)
Rate phase-in plan	**(196,181)**	(149,110)	(90,650)
Regulatory deferrals—energy exploration projects	**—**	61,637	21,748
Deferred income taxes and investment tax credits	**176,614**	198,417	281,863
Equity in income from partnerships	**(87,070)**	(51,739)	(21,319)
Income from leveraged leases	**(17,056)**	(10,289)	—
Other—net	**(20,420)**	22,443	8,390
Changes in working capital components:			
Receivables	**(74,554)**	(241,227)	(41,445)
Regulatory balancing accounts	**226,609**	(31,548)	17,120
Fuel stock, materials and supplies	**2,047**	133,518	5,584
Prepayments and other current assets	**(12,689)**	(3,713)	31,860
Accrued interest and taxes	**(63,314)**	8,607	222,418
Accounts payable and other current liabilities	**(43,292)**	267,883	38,784
Net cash provided by operating activities	**1,425,818**	1,606,077	1,705,379
Cash flows from financing activities:			
Issuances of long-term debt	**631,343**	374,787	1,472,532
Repayment of long-term debt	**(350,383)**	(325,967)	(1,595,936)
Redemption of subsidiary preferred and preference stock	**(48,775)**	(17,712)	(200,525)
Nuclear fuel financing	**(18,569)**	(56,191)	(46,518)
Short-term debt financings—net	**51,917**	182,461	231,750
Dividends paid	**(530,409)**	(507,808)	(484,320)
Net cash used by financing activities	**(264,876)**	(350,430)	(623,017)
Cash flows from investing activities:			
Construction expenditures	**(834,630)**	(1,034,348)	(1,158,243)
Contributions to decommissioning funds	**(157,086)**	—	—
Investments in leveraged leases—net	**(200)**	(102,865)	—
Investments in partnerships	**(168,332)**	(164,037)	(19,884)
Distributions from partnerships	**55,998**	37,838	—
Proceeds from sale of assets	**27,637**	23,900	—
Other—net	**(19,388)**	(18,217)	11,289
Net cash used by investing activities	**(1,096,001)**	(1,257,729)	(1,166,838)
Increase (decrease) in cash and equivalents	**64,941**	(2,082)	(84,476)
Cash and equivalents, beginning of year	**163,426**	165,508	249,984
Cash and equivalents, end of year	**$ 228,367**	$ 163,426	$ 165,508
Noncash investing and financing activities:			
Conversion of subsidiary 5.20% convertible preference stock	**$2,108**	$ 414	$ 845
Conversion of subordinated debentures	**2,973**	3,136	2,849
Conversion of partnership notes to equity	**—**	18,670	—

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Capitalization

SCEcorp and Subsidiaries

Notes to consolidated statements of capitalization are on Page 32.

In thousands				December 31,	1988	1987
Common shareholders' equity:						
Common stock—no par value—400,000,000 shares authorized, 218,461,932 and 218,134,481 outstanding at respective dates (b)					**$ 2,463,762**	$ 2,457,819
Retained earnings *(See accompanying statements)*					**2,601,086**	2,375,915
Total					**5,064,848**	4,833,734
Preferred and preference stock of subsidiary:						
		December 31, 1988				
Not subject to mandatory redemption (c) (d):	Series	Shares Outstanding	Redemption Price			
Cumulative preferred:						
$25 par value:	4.08%	1,000,000	$ 25.50		**25,000**	25,000
	4.24	1,200,000	25.80		**30,000**	30,000
	4.32	1,653,429	28.75		**41,336**	41,336
	4.78	1,296,769	25.80		**32,419**	32,419
	5.80	2,200,000	25.25		**55,000**	55,000
$100 par value:	7.58	750,000	101.00		**75,000**	75,000
	8.70	500,000	104.00		**50,000**	50,000
	8.96	500,000	104.00		**50,000**	50,000
Preference:						
$25 par value:	5.20 convertible	—	—		**—**	2,483
Total					**358,755**	361,238
Subject to mandatory redemption (c) (e):						
Cumulative preferred:						
$100 par value:	7.325%	547,381	$ 103.54		**54,738**	60,000
	7.80	483,495	104.62		**48,350**	51,000
	8.54	615,000	105.65		**61,500**	63,750
	8.70A	433,124	110.00		**43,312**	45,937
	12.31	430,000	105.83		**43,000**	50,000
Preference:						
$25 par value:	7.375	—	—		**—**	28,864
Preferred and preference stock to be redeemed within one year					**(11,863)**	(22,013)
Total					**239,037**	277,538
Long-term debt of subsidiaries:						
	Maturity	Interest rates				
First and refunding mortgage bonds (e)(f):						
	1989 through 1992	4⅝% to 8¼%			**475,000**	672,000
	1993 through 1997	6⅛% to 9%			**1,125,000**	1,000,000
	1998 through 2002	8¼% to 9%			**650,000**	500,000
	2003 through 2007	9⅝% to 9.95%			**278,750**	284,000
	2008 through 2020	8⅝% to 13%			**1,267,476**	1,084,413
Pollution control bonds (e) (g):	1999 through 2015	6¼% to 10⅝% and variable			**947,730**	897,730
Funds held by trustees					**(11,119)**	(10,472)
Debentures and notes (d)(e)(h):	1990 through 1999	8.25% to 11% and variable			**441,698**	438,528
Nuclear fuel indebtedness (e) (i)					**424,168**	379,029
Long-term debt due within one year (e)					**(154,112)**	(79,542)
Unamortized debt discount—net					**(22,844)**	(14,803)
Total					**5,421,747**	5,150,883
Total capitalization					**$11,084,387**	$10,623,393

The accompanying notes are an integral part of these financial statements.

(a) Effective July 1, 1988, SCEcorp became the parent holding company of Southern California Edison Company (Edison) and The Mission Group. Holders of Edison common stock became holders of SCEcorp common stock on a share-for-share basis. The California Public Utilities Commission's (CPUC) decision authorizing the establishment of a holding company requires Edison to maintain a capital structure consistent with the CPUC's most recently authorized capital structure.

(b) At December 31, 1988, 1,490,000 shares of common stock were reserved for issuance under the 1987 Long-Term Incentive Compensation Plan.

(c) In connection with the formation of SCEcorp, each outstanding share of Edison's original preferred stock was converted into 2.1 shares of SCEcorp's common stock. Edison's authorized shares of $25 cumulative preferred, $100 cumulative preferred, $25 preference and $100 preference stock are 24,000,000, 12,000,000, 10,000,000, and 2,000,000 shares, respectively. All series of cumulative preferred and preference stock are redeemable. The 430,000 shares of $100 cumulative preferred stock, 12.31% Series, are not subject to redemption until May 1, 1992. The various series of $100 cumulative preferred stock are subject to certain restrictions on redemption for refunding purposes.

(d) On May 31, 1988, Edison either redeemed or converted its outstanding shares of 5.20% convertible preference stock at $25 per share and converted all of the outstanding 12½% convertible debentures at the conversion price of $16.1875.

(e) The table below presents the mandatory redemption requirements for preferred stock, long-term debt maturities and sinking fund requirements for the five years subsequent to December 31, 1988:

	Year ended December 31,				
In thousands	1989	1990	1991	1992	1993
Preferred stock redemption requirements	$ 11,863	$ 11,738	$ 11,738	$ 11,738	$ 12,338
Long-term debt maturities and sinking fund requirements	154,112	212,905	204,737	222,157	242,535
Total	$165,975	$224,643	$216,475	$233,895	$254,873

(f) Substantially all utility properties are subject to the liens of trust indentures, except for nuclear fuel and fuel oil inventories, which are financed with short-term debt in conformity with CPUC ratemaking procedures.

(g) Edison has issued first and refunding mortgage bonds and other indebtedness to governmental agencies in exchange for proceeds from pollution control bonds. These proceeds have been deposited with trustees and are used to finance construction of pollution control facilities. Certain pollution control bonds may be redeemed at the discretion of the bondholders. Edison has made arrangements with security dealers for the remarketing or purchase of the pollution control bonds in such cases. Edison arranged lines of credit for $600 million at December 31, 1988, to refinance these bonds, should remarketing be unsuccessful.

(h) One of SCEcorp's unregulated subsidiaries has debt outstanding in the amount of $99.0 million at December 31, 1988, and $107.0 million at December 31, 1987, supported by lines of credit aggregating $280.0 million at December 31, 1988, and $235.0 million at December 31, 1987.

(i) Nuclear fuel financing is comprised of:

	December 31,	
In thousands	1988	1987
Foreign-currency denominated notes[1]	$ 62,950	$ 66,000
Commercial paper[2]	338,777	288,296
Spent nuclear fuel obligation[3]	22,441	24,733
	424,168	379,029
Less: Current maturities	65,494	2,292
Total	$358,674	$376,737

(1) Edison issued foreign-currency-denominated notes totaling $60.4 million in September 1987 to finance nuclear fuel. The notes mature 24 months from the date of issuance. Under a currency-exchange agreement, a securities firm assumes all foreign-currency translation gains and losses. Weighted-average interest rates on the notes are based on the average daily commercial paper rate and were 7.46% for 1988 and 7.09% for 1987. Foreign-currency translation gains or losses have been deferred and are included in the translated value of the liability.

(2) A portion of the commercial paper used to finance nuclear fuel has been classified as long-term debt under refinancing agreements with commercial banks. The long-term portion finances nuclear fuel not scheduled for consumption within 12 months of the balance sheet dates.

(3) Pursuant to the Nuclear Waste Policy Act of 1982, Edison has signed a contract with the U.S. Department of Energy for disposal of spent nuclear fuel from the San Onofre Nuclear Generating Station. The interest rate is fixed at 10.57%.

Consolidated Statements of Retained Earnings

SCEcorp and Subsidiaries

In thousands, except per share amounts Year ended December 31,	1988	1987	1986
Balance at beginning of year	**$2,375,915**	$2,150,751	$2,128,646
Net income	**761,831**	738,531	520,727(a)
Dividends declared on common stock	**(536,660)**	(513,367)	(489,909)
Loss on reacquired capital stock and other	**—**	—	(8,713)
Balance at end of year	**$2,601,086**(b)	$2,375,915	$2,150,751
Dividends declared per common share	**$2.45½**	$2.35½	$2.25

(a) Restated from $713,933,000 to $520,727,000 to reflect the after-tax write-off of nuclear plant disallowances totaling $193,206,000. (See Note 3 of "Notes to Consolidated Financial Statements").

(b) Includes appropriated retained earnings related to certain federally licensed hydroelectric projects of $4,468,000 at December 31, 1988.

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

SCEcorp and Subsidiaries

Note 1. Corporate Restructuring and Proposed Merger

On July 1, 1988, SCEcorp acquired the outstanding common stock of Southern California Edison Company (Edison) under a merger agreement approved by shareholders on April 21, 1988. Edison shareholders became holders of SCEcorp's common stock on a share-for-share basis. Each share of Edison's outstanding original preferred stock was converted into 2.1 shares of SCEcorp's common stock. Edison's remaining preferred stock and debt securities were not exchanged or transferred to SCEcorp. Edison's equity investment in non-utility subsidiaries was transferred to SCEcorp at book value on July 1, 1988.

On November 30, 1988, SCEcorp, Edison, and San Diego Gas & Electric Company (SDG&E) executed an agreement to merge SDG&E into Edison. Under the terms of the merger agreement, SCEcorp will exchange 1.3 shares of its newly issued common stock for each SDG&E common share. SDG&E preferred and preference stock will be exchanged for SCEcorp preferred and preference stock with similar provisions, except that dividends on each series will be increased between 2.5% and 20%. The merger is subject to approval by the shareholders of SCEcorp, Edison, and SDG&E, as well as regulatory agencies, including the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC).

Note 2. Summary of Significant Accounting Policies

Consolidation Policy The consolidated financial statements include the accounts of SCEcorp and its subsidiaries. The principal subsidiaries are Edison and The Mission Group, which is the parent company for all subsidiaries not subject to rate regulation. SCEcorp uses the equity method of accounting to report investments of 50% or less in partnerships primarily engaged in cogeneration, geothermal and other energy-related facilities which are exempt from utility regulation. All significant intercompany transactions have been eliminated, except intercompany profits from energy sales to Edison by unregulated, energy-producing affiliates, which are allowed in rates.

Accounting Principles Edison is regulated by the CPUC and the FERC. The accompanying consolidated financial statements reflect the ratemaking policies of these commissions, as applied to Edison, in conformity with generally accepted accounting principles applicable to rate-regulated enterprises.

Utility Plant The costs of plant additions, including replacements and betterments, are capitalized and included in utility plant. Capitalized costs include direct material and labor, construction overhead, and an allowance for debt and equity funds used to finance construction. The cost of property that is replaced or retired—and related removal costs, less salvage—is charged to the accumulated provision for depreciation. Accumulated deferred income taxes related to utility plant are presented as a deduction from utility plant to conform with ratemaking procedures used to determine rate base.

Construction Financing Costs Allowance for funds used during construction (AFUDC) represents the cost of debt and equity funds that finance construction of utility plant. Capitalized AFUDC is reported in the consolidated statements of income as a reduction of interest charges for the debt component and as other income for the equity component. AFUDC and plant construction costs are recovered when completed projects are placed into commercial operation, and the recovery of related depreciation is authorized through customer rates.

Before 1987, the cost of debt included in the AFUDC calculation was reduced by the tax benefit realized from deducting the related interest expense from taxable income. As a result of changes in the treatment of interest expense for income tax purposes, pretax interest expense was used to compute the debt component of AFUDC beginning in 1987. The AFUDC rate, which reflects semiannual compounding, was 10.76% for 1988 and 11.57% for 1987 under the pretax method. The rate was 10.53% for 1986 under the previous net-of-tax method.

Interest on loans that finance partnership construction projects is capitalized until the projects are operational. Such capitalized interest is included in investments in partnerships in the consolidated balance sheets.

Depreciation and Decommissioning Depreciation of utility plant, except nuclear fuel, is computed on a straight-line, remaining-life basis. Depreciation of nonutility properties is computed on a straight-line basis over their estimated useful lives.

The estimated cost of decommissioning Edison's nuclear generating facilities is $713 million and is recovered in rates through annual allowances charged to depreciation expense. Retail rates for 1988, and certain prior years, included annual decommissioning revenue requirements, which have been deposited in trust funds until decommissioning begins. Trust fund contributions are invested in high-grade securities. Approximately 80% of the trust fund contributions qualify as tax deductions.

Nuclear Fuel The cost of nuclear fuel, including its disposal, is amortized on the basis of generation and is charged to fuel expense. In accordance with ratemaking procedures adopted by the CPUC, nuclear fuel financing costs are capitalized until the fuel is placed into production.

Research, Development, and Demonstration (RD&D) RD&D costs not related to a specific project are expensed in the year incurred. RD&D costs related to specific construction projects are capitalized until it is determined whether they will result in construction of plant. If construction does not result, the costs are charged to expense.

RD&D costs are reflected in the following table:

	Year ended December 31,		
In thousands	1988	1987	1986
RD&D costs charged to expense	$43,414	$42,893	$47,122
RD&D costs deferred/capitalized	17,455	14,855	3,888
Total RD&D costs	$60,869	$57,748	$51,010

Commencing in 1988, a balancing account has been established for RD&D costs charged to expense. Under this mechanism, Edison is required to refund to ratepayers any authorized but unspent RD&D funds at the end of the three-year rate-case cycle ending December 31, 1990.

Unamortized Debt Issuance and Reacquisition Expense Debt premium, discount, and issuance expenses are amortized over the lives of the related issuances. The expense of reacquiring bonds that are redeemed without refunding are amortized over the period the debt would have remained outstanding. The reacquisition expenses are amortized over the lives of the new debt issues when debt is reacquired with refunding.

Change in Accounting Principle Prior to 1987, electric operating revenue was recorded based on customer billings. On January 1, 1987, Edison began accruing estimated revenue for electricity that had been delivered to customers through the end of each month but had not yet been billed. This accounting change conforms to the Tax Reform Act of 1986, which requires utilities to include unbilled revenue in taxable income commencing in 1987 and results in a better matching of revenue and expense.

Had the new accounting method been in effect for 1986, net income would have been $2.7 million less than the amount reported, resulting in a one-cent decline in earnings per share.

Regulatory Balancing Accounts

Operating Revenue: The CPUC has authorized an electric revenue adjustment mechanism (ERAM) balancing account to minimize the effect on earnings of retail sales fluctuations. Differences between authorized and recorded base rate revenue are accumulated in the account until they are refunded to or recovered from utility customers through CPUC-authorized rate adjustments.

Energy Costs: An energy cost adjustment clause (ECAC) balancing account adjusts results of operations for variations between the recorded cost of fuel and purchased power and revenue designated for recovery of such costs. Undercollected energy costs are accumulated in the balancing account until they are recovered from utility customers through CPUC-authorized rate adjustments. Previously, 90% of fuel and purchased power costs were recovered through ECAC, and the remaining 10% of such costs were recovered through the annual energy rate (AER). On June 1, 1988, the CPUC suspended the AER rate component. As a result, all fuel and purchased power costs are currently recovered through ECAC.

In 1987, the CPUC authorized a one-time write-down of the cost of fuel oil inventory to market prices. It also authorized the last-in, first-out inventory method for measuring the cost of fuel oil consumption. The $108.7-million write-down, including interest, has been recorded in the ECAC balancing account. On December 31, 1988, the balance remaining to be recovered was $59.0 million, including interest.

The CPUC has established performance incentives based on target generation levels for Edison's nuclear generating stations. Fuel savings or costs attributable to levels above or below the targeted ranges are divided equally between SCEcorp and Edison's customers through adjustments to the ECAC balancing account.

Major Plant Additions: Before 1988, Edison used major additions adjustment clause (MAAC) balancing accounts to accumulate the differences between revenue required to provide recovery of ownership costs of San Onofre Nuclear Generating Station (San Onofre) Units 2 and 3 and Palo Verde Nuclear Generating Station (Palo Verde) Units 1 and 2 and related authorized revenue.

Commencing in 1988, ownership costs of San Onofre Units 2 and 3 are recovered in base rates. The ownership costs of Palo Verde Units 1, 2, and 3 are also recovered in base rates to the extent they are not deferred in accordance with the Palo Verde rate phase-in plan. Recovery of remaining undercollections in the MAAC balancing accounts as of December 31, 1988, has been authorized over a three-year period, beginning in 1989.

Interest and Taxes: Interest on regulatory balancing accounts is accrued at the three-month prime commercial paper rate. The weighted-average interest rates were 7.60% for 1988 and 6.57% for 1987. Income tax effects on the changes in the regulatory balancing accounts are deferred.

Palo Verde Rate Phase-In Plan: Palo Verde Units 1, 2, and 3 have been in commercial operation, for ratemaking purposes, since February 1, 1986, September 19, 1986, and January 20, 1988, respectively. The CPUC has adopted a 10-year rate phase-in plan, which defers $200 million of required revenue during the first four years of operation for each unit. Deferrals for each unit, for years one through four, are $80 million, $60 million, $40 million, and $20 million, respectively. The deferrals and related interest will be recovered on a level basis during the final six years of each unit's phase-in plan.

Statements of Cash Flows Beginning in 1988, SCEcorp presented statements of cash flows in conformity with a new accounting standard. Prior periods have been restated to be consistent with the current presentation. For purposes of the consolidated statements of cash flows, SCEcorp considers short-term temporary cash investments to be cash equivalents. Cash payments for interest were $485.5 million in 1988, $455.1 million in 1987, and $466.3 million in 1986.

Restatements and Reclassifications All prior period financial statements and related notes have been restated to reflect consolidation of all majority-owned subsidiaries and the corporate restructuring. The consolidated financial statements also have been restated to reflect the write-off of utility plant and related adjustments to the accumulated provision for depreciation, accumulated deferred income taxes, and retained earnings resulting from the CPUC's disallowance of nuclear plant construction costs. See Note 3 for a further discussion of the disallowance.

Certain other items in prior periods have also been reclassified to conform them to the financial statement presentations for December 31, 1988.

Note 3. Regulatory Matters

CPUC Disallowances In October 1986, the CPUC disallowed $258.6 million of Edison's $3.4-billion investment in San Onofre Units 2 and 3. Edison filed for rehearing on $213.4 million of the disallowed costs in December 1986. In March 1987, the CPUC granted a rehearing on indirect construction cost issues and, in July 1987, issued a decision that reduced the October 1986 disallowance to $198.9 million.

Recovery of Edison's $1.5-billion investment in Palo Verde was reduced by 19.33% of the amount disallowed for San Onofre Units 2 and 3, under a ratemaking agreement adopted by the CPUC. The CPUC's investment disallowances for San Onofre and Palo Verde total $237 million.

In December 1986, the Financial Accounting Standards Board began requiring regulated enterprises to write off construction costs not allowed in rate base. The new standard provides for the restatement of prior-period financial statements for disallowances occurring before the standard's effective date of January 1, 1988. Accordingly, the 1986 consolidated statement of income includes a one-time, after-tax charge against earnings of approximately $193 million, reflecting the CPUC's final construction-cost disallowances arising from its October 1986 decision.

In addition, revenue accrued to recover prior years' ownership costs, which is associated with the construction costs disallowed by the CPUC, has been written off from the MAAC balancing account. Edison recorded after-tax charges against earnings of approximately $15 million for 1986 and $70 million for 1987.

Energy Cost Proceedings The CPUC's Division of Ratepayer Advocates (DRA) recommended that the CPUC disallow $124 million of energy costs incurred between late 1984 and late 1987. Approximately $120 million of the proposed disallowance represents alleged overpayments to nonutility power producers, including electricity purchased by Edison from a 300-MW cogeneration facility owned by Kern River Cogeneration Company (KRCC). Mission Energy Company, which is one of SCEcorp's nonutility subsidiaries, is a partner in the KRCC facility. The DRA's proposed disallowance in relation to power purchases from KRCC is approximately $37 million. In upcoming CPUC hearings, Edison will demonstrate that the power purchases from KRCC actually saved its customers more than $24 million during the three years under consideration, compared with the "standard offer" contract approved by the CPUC. The DRA also alleges overpayments by Edison under 17 other contracts Edison negotiated with nonutility power producers that are not SCEcorp affiliates. Edison signed these contracts during the early stages of California's efforts to rapidly develop alternate and renewable energy resources. The prices Edison projected to pay under these 17 contracts were at or below avoided cost standard contracts over their lives.

In addition to its recommended energy cost disallowance, the DRA has recommended that the CPUC modify its early 1988 decision that authorized Edison to form a holding company.

Although the probable effect that the outcome of this matter will have on net income cannot be determined at this time, Edison believes that adoption of the DRA's recommendation to modify the holding company decision is not necessary to protect the public interest and Edison will work diligently to demonstrate that it has reasonably administered the contracts under review. CPUC proceedings are scheduled to take place later this year.

Resale Rates In accordance with FERC procedures, resale rates are subject to refund with interest if subsequently disallowed. Edison believes that any refunds resulting from pending rate proceedings, should not have a material effect on net income.

Note 4. Short-Term Debt

SCEcorp maintains unrestricted deposits of approximately $7 million at commercial banks and pays annual commitment fees of up to .1% to maintain lines of credit which may be utilized at negotiated or bank index rates and which totaled $2.2 billion on December 31, 1988. Approximately $1.6 billion of these lines of credit support commercial paper and other borrowings to finance general cash requirements; leveraged leases; fuel inventories; and undercollections in regulatory balancing accounts. The remaining $600 million of these lines of credit are available for the long-term refinancing of certain variable-rate pollution-control indebtedness issued by Edison.

Short-term debt of subsidiaries is comprised of:

	December 31,	
In millions	1988	1987
General purpose	$ 67.1	$ 35.8
Leveraged leases	99.0	107.0
Balancing accounts	400.0	400.0
Fuel	535.3	518.3
Total borrowings supported by lines of credit	1,101.4	1,061.1
Amount reclassified as long-term	(437.8)	(395.3)
Unamortized discount	(5.3)	—
Other short-term borrowings	.1	6.7
Net short-term debt	$ 658.4	$ 672.5

Note 5. Income Taxes

SCEcorp's subsidiaries are included in its consolidated federal income tax and combined state franchise tax returns. Under income tax allocation agreements, each subsidiary calculates its tax liability separately.

Current and Deferred Taxes Income tax expense includes the current tax liability from operations, and deferred income taxes provided on certain items of income and expense which are reported in different periods for tax and financial reporting purposes.

The current and deferred components of income tax expense are:

In thousands	Year ended December 31, 1988	1987	1986
Current:			
Federal	$241,917	$319,429	$342,253
State	107,411	124,055	119,972
	349,328	443,484	462,225
Deferred—federal and state:			
Investment and energy tax credits—net	(11,210)	40,351	69,931
Depreciation	173,380	188,186	176,280
Regulatory balancing accounts	(79,460)	(33,463)	(21,400)
Debt reacquisition expenses	(2,507)	(1,390)	81,968
Leveraged leases	38,950	23,784	—
Fuel contract settlements	(1,980)	16,002	9,528
Nuclear plant disallowance	—	(78,616)	(61,665)
Cumulative effect of accounting change	—	58,752	—
Capitalized exploration and development expenses	—	—	(31,338)
Unbilled revenue	(24,420)	(27,467)	—
Phase-in plan	78,743	68,797	46,398
Fixed charges	7,994	(14,178)	(45,538)
Contributions in aid of construction	(28,836)	(14,000)	—
Other	25,960	(31,388)	(9,958)
	176,614	195,370	214,206
Total income tax expense	$525,942	$638,854	$676,431
Classification of income taxes:			
Included in operating expenses	$446,395	$578,228	$702,442
Included in other income	79,547	80,490	35,654
Nuclear plant disallowance	—	(78,616)	(61,665)
Related to cumulative effect of accounting change	—	58,752	—
Total income tax expense	$525,942	$638,854	$676,431

Accumulated deferred investment tax credits (ITC) are amortized over the lives of the related properties.

Cash payments for income taxes were $421.9 million in 1988, $466.7 million in 1987, and $316.3 million in 1986.

The following table reconciles the differences between recorded state and federal income taxes and amounts determined on income before taxes by applying the federal statutory tax rate. The federal and composite federal and state statutory income-tax rates are 34% and 40.138%, respectively, for 1988; 40% and 46.138%, respectively, for 1987; and 46% and 51.184%, respectively, for 1986.

In thousands	Year ended December 31, 1988	1987	1986
Expected federal income tax expense at statutory rate	$ 437,843	$ 550,954	$ 550,693
Increase (decrease) in income tax expense resulting from:			
Allowance for equity and borrowed funds used during construction	(6,163)	(29,362)	(62,202)
Federal deduction for state taxes on income	(40,005)	(49,480)	(54,493)
Depreciation timing difference not deferred	70,224	96,042	102,536
State tax provision	117,662	123,700	118,464
Prior years' decommissioning	(15,714)	—	—
Nuclear plant disallowance	—	(4,730)	55,042
Subsidiary preferred and preference dividends	15,876	20,038	25,155
All other differences	(53,781)	(68,308)	(58,764)
Total income tax expense	$ 525,942	$ 638,854	$ 676,431
Pretax income	$1,287,773	$1,377,385	$1,197,158
Effective tax rate (total income tax expense ÷ pretax income)	40.8%	46.4%	56.5%

Deferred income taxes for tax depreciation prior to 1981 and certain construction overheads have not been provided because the tax effects of such timing differences are not allowed for retail ratemaking purposes until the taxes become payable. The cumulative net amount of these timing differences was $1.8 billion on December 31, 1988, and 1987.

Ratemaking Investigation In 1986, the CPUC began an investigation to evaluate the effects of the Tax Reform Act of 1986 on ratemaking procedures. Revenue for recovery of income tax expense for 1987 and subsequent periods was collected subject to refund pending a CPUC decision.

In October 1988, Edison refunded approximately $51 million through the ERAM balancing account, in compliance with an August 1988 CPUC interim resolution. Final CPUC approval of the amounts refunded is pending. Because Edison had previously provided a reserve for this item, refunds to customers have not and are not expected to have any significant effect on net income.

New Accounting Standard Under accounting rules currently in effect, deferred income tax balances are not adjusted to reflect changes in tax law or rates. However, a new accounting standard will require such adjustments beginning in 1990.

The new standard requires significant balance sheet adjustments. The corporation will record additional deferred income taxes related to the equity component of AFUDC, which is currently recorded on an after-tax basis; the debt component of AFUDC, which was recorded on a net-of-tax basis prior to 1987; and other temporary differences for which deferred income taxes have not been provided.

Additional balance sheet adjustments will be recorded for the net reduction in deferred income tax liabilities resulting from income tax rate changes; the recognition of deferred income tax assets attributable to the reduction of the book basis of property by unamortized investment tax credits; and to classify property-related accumulated deferred taxes as a liability instead of a reduction of utility plant.

The majority of additional deferred-tax assets and liabilities will be offset by recording regulatory assets and liabilities representing the anticipated effect of these adjustments on customer rates. Such regulatory assets and liabilities will be adjusted as they are recovered or refunded through the ratemaking process and for changes in tax rates or laws.

Note 6. Employee Benefit Plans

Pension Plan SCEcorp has a trusteed noncontributory defined-benefit pension plan, covering substantially all full-time employees who fulfill minimum service requirements. Benefits are based on years of accredited service and average compensation. SCEcorp's policy is to fund the plan on a level premium actuarial method, provided that annual contributions meet the minimum funding requirements of the Employee Retirement Income Security Act and do not exceed the maximum deductible amount under income tax regulations. Prior service costs from pension plan amendments are funded over 30-year periods.

In 1987, a new accounting standard for defined-benefit plans was implemented that changed the basis used for determining pension expense. Before 1987, pension cost was based on the actuarial method used to determine annual contributions to the plan. For 1986, pension expense amounted to $48.6 million.

Pension expense under the new standard includes the following components:

	Year ended December 31,	
In thousands	1988	1987
Net pension expense:		
Service cost for benefits earned	$ 43,340	$ 46,629
Interest cost on projected benefit obligation	102,249	91,025
Actual return on plan assets	(133,687)	(130,723)
Net amortization and deferral	40,610	46,699
Pension liability pursuant to accounting standards	52,512	53,630
Regulatory adjustment	(6,416)	(3,481)
Net pension cost recognized	$ 46,096	$ 50,149

In conformity with the accounting principles for rate-regulated enterprises, regulatory adjustments have been recorded to reflect, in net income, the pension costs calculated under the actuarial method used for ratemaking purposes. The difference between pension costs calculated for accounting and ratemaking purposes has been recorded as a deferred charge on the consolidated balance sheets.

The plan's funded status is presented below:

	December 31,	
In thousands	1988	1987
Actuarial present value of benefit obligations:		
Vested benefits	$ 905,190	$ 800,952
Nonvested benefits	68,531	57,306
Accumulated benefit obligation	973,721	858,258
Value of projected future compensation levels	435,363	372,095
Projected benefit obligation	$1,409,084	$1,230,353
Plan assets at fair value	$1,326,635	$1,201,550
Benefit obligation in excess of plan assets	$ (82,449)	$ (28,803)
Unrecognized net gain	(49,021)	(101,562)
Unrecognized net obligation being amortized over 17 years	89,640	95,163
Accrued pension liability	$ (41,830)	$ (35,202)
Assumptions for defined benefit pension plan:		
Discount rate	8.0%	8.5%
Rate of increase in future compensation	6.0%	6.0%
Expected long-term rate of return on assets	8.5%	8.5%

Assets of the plan consist primarily of common stocks, corporate and government bonds, short-term investments, and guaranteed investment contracts.

Employee Stock Plans SCEcorp maintains an Employee Stock Ownership Plan (ESOP) and a Stock Savings Plus Plan (SSPP), which are designed to supplement employees' retirement income. Contributions to the ESOP were funded primarily by federal income tax benefits and contributions by employees. SCEcorp contributions to the SSPP were $16.9 million in 1988, $16.6 million in 1987, and $15.4 million in 1986.

Other Post-Employment Benefits Health care benefits and life insurance are provided for retired employees and their dependents. Group life insurance is provided through an insurance company. Health care is provided by a combination of SCEcorp facilities and insurance programs. The costs of these benefits for retirees were $22.8 million in 1988, $18.0 million in 1987, and $15.4 million in 1986.

Note 7. Jointly Owned Utility Projects

Edison owns undivided interests in several generating stations and transmission systems, for which each participant provides its own financing. The proportionate share of expenses pertaining to such projects is included in the appropriate operating expense category in the consolidated statements of income. The table below presents the investments in each project as included in the consolidated balance sheet as of December 31, 1988:

In thousands	Plant in Service	Accumulated Depreciation	Under Construction	Ownership Interest
El Dorado Transmission System	$ 21,649	$ 8,590	$ 108	60.00% (a)
Four Corners Coal Generating Station—Units 4 and 5	401,142	122,613	11,395	48.00
Mohave Coal Generating Station	233,708	95,919	877	56.00
Pacific Intertie DC Transmission System	115,047	34,075	69,550	50.00
Palo Verde Nuclear Generating Station	1,463,307	80,810	8,348	15.80
San Onofre Nuclear				
Generating Station:				
Unit 1	537,022	153,999	23,261	80.00
Units 2 and 3	2,759,741	477,523	18,084	75.05
Common facilities—Units 2 and 3	819,030	114,846	1,863	75.05
Common facilities—Units 1, 2 and 3	176,130	28,854	3,599	75.87
Yuma Axis Generating Station	12,369	10,516	69	33.30
Total	$6,539,145	$1,127,745	$137,154	

(a) Represents a composite rate.

Note 8. Leases

Investments in Leveraged Leases During 1987, a wholly owned, nonutility subsidiary became the lessor in several leveraged-lease agreements, under which its undivided interests in a nuclear power plant and a paper mill facility, having economic lives of 40 and 34 years, respectively, were leased for terms of 29 and 25 years, respectively. All operating, maintenance, and decommissioning costs are the responsibility of the lessees. The facilities' total cost was $609 million at December 31, 1988, and 1987.

The equity investment in these facilities represented 24% of the purchase price. The remaining 76% was nonrecourse debt, which is secured by first liens on the leased property. The lenders accept their security interests as their only remedy in the event of default by the lessee. The components of the net investment in leveraged leases are provided in the following table:

	December 31,	
In thousands	1988	1987
Rentals receivable (net of principal and interest on nonrecourse debt)	$243,999	$243,960
Less: Unearned income	95,972	115,102
Investment in leveraged leases	148,027	128,858
Current portion of rentals receivable	—	4,642
Less: Deferred income taxes	74,453	40,768
Net investment in leveraged leases	$ 73,574	$ 92,732

Operating Lease Commitments SCEcorp leases automotive, computer, office, and miscellaneous equipment through operating rental agreements with varying terms, provisions, and expiration dates. At December 31, 1988, estimated remaining rental commitments for noncancelable operating leases were as follows:

Year ended December 31,	*In thousands*
1989	$ 29,997
1990	26,088
1991	22,981
1992	19,112
1993	14,637
For periods therafter	16,266
Total future rental commitments	$129,081

On June 10, 1987, one of Edison's wholly owned subsidiaries purchased the leasing company from which Edison leased its nuclear fuel by assuming the company's commercial paper obligations. On March 1, 1988, Edison assumed the commercial paper obligations of the affiliated nuclear fuel lessor and terminated the nuclear fuel lease agreement. Lease liabilities supported by commercial paper borrowings, which had been classified as long-term obligations, have been reclassified as long-term debt to conform with the financial statement presentation of nuclear fuel financing on December 31, 1988. The long-term debt amount represents the estimated repayment of commercial paper based upon expected nuclear fuel consumption subsequent to one year after the balance sheet date and is supported by refinancing agreements with commercial banks.

Note 9. Commitments

Construction Program and Fuel Supply As of December 31, 1988, SCEcorp's construction expenditures are estimated to be $905 million for 1989, $712 million for 1990, and $713 million for 1991. In addition, minimum long-term commitments of approximately $1,607 million existed as of December 31, 1988, under fuel supply contracts.

Long-Term Purchased Power and Transmission Contracts Edison has contracted to purchase portions of the generating output of certain facilities and to purchase firm transmission service when appropriate. Although there is no investment in such facilities, these contracts provide for minimum payments based, in part, on the debt service requirements of the provider, whether or not the facility or transmission line is operable. None of these power contracts provide, or are expected to provide, more than 5% of current or estimated future operating capacity.

The cost of power and firm transmission service obtained under these contracts, including payments made when a facility or transmission line is not operating, is included in purchased power and other operating expenses, respectively, in the consolidated statements of income. Purchased power costs are generally recoverable through the ECAC balancing account procedure. Selected information pertaining to these contracts on December 31, 1988, is summarized as follows:

	Purchased Power	Transmission Service
Years contracts expire	1990–2017	1990–2016
Share of effective operating capacity—megawatts	473.5–627.5	
Share of energy output	5.54%–100%	
Required minimum annual payments	*In thousands*	
1989	$ 46,468	$ 9,033
1990	13,854	6,030
1991	2,500	4,529
1992	2,500	4,422
1993	2,500	4,267
Thereafter	59,375	86,118
Total	$127,197	$114,399

Purchased power costs were $121.5 million in 1988, $118.0 million in 1987, and $115.3 million in 1986. Transmission costs were $11.4 million in 1988, $11.2 million in 1987, and $12.0 million in 1986.

Note 10. Contingencies

Nuclear Insurance On August 22, 1988, Congress amended the Price-Anderson Act, extending it until August 1, 2002. It increased—to $7.6 billion from $720 million—the limit on public liability claims that could arise from a nuclear incident. Participants in San Onofre and Palo Verde have purchased the maximum private primary insurance available, which currently is $200 million. The balance is to be covered by the industry's retrospective rating plan, using deferred premium charges. This secondary level of financial protection is required by the Nuclear Regulatory Commission (NRC). The maximum amount of the deferred premium that may be charged for each nuclear incident is $63 million per reactor, but not more than $10 million per reactor may be charged in any one year for each incident. Edison could be required to pay a maximum of $183.6 million per nuclear incident, on the basis of its ownership interests in San Onofre and Palo Verde, but it would have to pay no more than $29.1 million per incident in any one year. Such amounts include a 5% surcharge that would be applicable in the event that additional funds are needed to satisfy public liability claims, and are subject to adjustment for inflation.

Edison's property damage insurance covers losses up to $500 million at San Onofre and Palo Verde. Decontamination liability and property damage coverage in excess of the primary $500 million layer has also been purchased, exceeding NRC requirements. Insurance covering part of the additional expense of replacement power, which could result from an accident related nuclear unit outage, is also provided. After the first 21 weeks of such an outage, a maximum weekly indemnity of $2.7 million for a single unit for 52 weeks begins. An additional $1.4 million per week is provided for the next 52 weeks. These policies are issued primarily by mutual insurance companies owned by utilities with nuclear facilities. If losses at any nuclear facility covered by the arrangement were to exceed the accumulated funds available for these insurance programs, Edison could be assessed retrospective premium adjustments of up to $54.0 million per year. Insurance premiums are charged to operating expenses.

Antitrust Litigation In 1978, five resale customers filed a suit against Edison, in federal district court, alleging violation of antitrust laws. The complaint seeks monetary damages, a trebling of such damages, and certain injunctive relief. The complaint alleges that Edison engaged in anticompetitive behavior by charging more for electricity it sold to resale customers than it charged certain classes of retail customers. The complaint also alleges that Edison acted alone and in concert with other utilities to prevent or limit such resale customers from obtaining bulk power supplies from other sources to reduce or replace the resale customers' purchases from Edison. The plaintiffs estimate that their actual damages, before trebling, were approximately $99.5 million from February 1, 1978, through December 31, 1985. The trial began on July 8, 1986, and concluded on September 26, 1986. Edison filed findings of fact and conclusions of law with the court on November 21, 1986. A decision is pending.

In 1983, another resale customer also filed suit, in federal district court, alleging violation of certain antitrust laws. The customer alleges that it has been denied access to lower-cost power and was overcharged for power purchases as well as other operational and financial damages. On July 17, 1988, Edison received the customer's antitrust damage study alleging total damages of approximately $135 million before trebling. A trial date of November 14, 1989, has been set.

The foregoing proceedings involve complex issues of law and fact. Although Edison is unable to predict the final outcome, it has categorically denied the resale customers' allegations.

Quarterly Financial Data

SCEcorp and Subsidiaries

Unaudited

In millions, except per share data	1988** Total	Fourth	Third	Second	First	1987 Total	Fourth	Third	Second	First
Operating revenue	$6,253	$1,539	$2,029	$1,353	$1,332	$5,602	$1,414	$1,518	$1,354	$1,316
Operating income	1,096	196	476	228	196	965	233	258	249	225
Net income	762	107	392	146	117	739	171	212	187	169*
Per share:										
Earnings	3.49	.49	1.79	.67	.54	3.39	.78	.97	.86	.78*
Dividends declared	2.45½	.62	.62	.62	.59½	2.35½	.59½	.59½	.59½	.57
Common stock prices										
High	$34½	$34½	$33⅝	$34½	$34	$37	$33¾	$33⅛	$32⅝	$37
Low	$29⅛	$31¼	$30¼	$30	$29⅛	$27⅝	$27⅝	$29⅝	$28⅛	$31¼

Includes $68 million, or 31 cents per share, resulting from an accounting change. (See Note 2 of "Notes to Consolidated Financial Statements.")

***Quarterly fluctuations compared to 1987 are primarily the result of a December 1987 CPUC rate decision which ordered Edison to change the way it bills large customers, concentrating a larger percentage of these customers' annual charges into the summer months.*

Selected Financial Data 1984–1988

In thousands, except percent, per share and ratio data	**1988**	1987	1986 (a)	1985	1984 (b)
SCEcorp					
Consolidated operating revenue	**$6,252,719**	$5,601,926	$5,368,087	$5,217,167	$4,899,152
Consolidated operating expenses	**5,156,351**	4,637,135	4,420,931	4,240,175	3,932,527
Consolidated net income	**761,831**	738,531	520,727	702,409	659,385
Weighted-average shares of common stock outstanding (000)	**218,332**	218,014	217,780	215,696	207,576
Per share data:					
Earnings	**$3.49**	$3.39	$2.39	$3.26	$3.18
Dividends declared	**2.45½**	2.35½	2.25	2.13	2.01
Book value (a)	**23.18**	22.16	21.13	21.04	19.89
Market value at year-end	**32¾**	30½	33⅞	26⅜	22⅛
Dividend payout ratio (paid basis)	**69.6%**	68.7%	92.9%	64.4%	61.9%
Rate of return on common equity (a)	**15.33%**	15.51%	11.09%	15.75%	16.28%
Price/earnings ratio	**9.3**	9.0	14.2	8.2	7.2
Ratio of earnings to fixed charges	**2.86**	2.91	2.71	2.97	2.70
Total assets (a)	**$14,866,276**	$14,350,664	$13,683,053	$13,256,054	$11,906,508
Common stock—paid-in capital	**2,463,762**	2,457,819	2,454,318	2,450,754	2,355,984
Retained earnings	**2,601,086**	2,375,915	2,150,751	2,128,646	1,886,804
Common shareholders' equity (a)	**5,064,848**	4,833,734	4,605,069	4,579,400	4,246,788
Preferred and preference stock of subsidiary					
—not subject to mandatory redemption	**358,755**	361,238	361,654	462,500	463,258
—subject to mandatory redemption	**239,037**	277,538	299,049	395,074	422,286
Long-term debt of subsidiaries	**5,421,747**	5,150,883	5,122,243	5,175,624	4,722,079
Southern California Edison Company					
Financial data:					
Earnings available for common stock	**$684,689**	$697,188	$503,198	$694,113	$655,917
Earnings per share (c)	**3.14**	3.20	2.31	3.22	3.16
Financial rate of return on common equity (a)	**14.88%**	15.32%	11.07%	15.93%	16.50%
Ratemaking rate of return on common equity—earned	**12.20%**	11.97%	12.42%	13.22%	14.24%
Ratemaking rate of return on common equity—authorized	**12.75%**	13.90%	14.60%	16.00%	16.00%
Internal generation of funds	**100%**	77%	74%	65%	67%
Operating and sales data:					
Area peak demand (MW)	**15,987**	14,775	14,599	14,587	15,189
Area generating capacity at peak (MW)	**18,893**	18,206	18,320	17,776	17,354
Kilowatt-hour sales (000)	**67,885,761**	65,539,481	64,197,405	64,984,566	63,310,047
Customers	**3,831,656**	3,717,262	3,589,414	3,490,325	3,400,182
Employees	**16,660**	17,086	17,553	17,182	16,544
The Mission Group					
Common shareholder's equity	**$505,371**	$292,108	$166,381	$134,310	$83,861
Net income	**77,763**	41,343	17,529	8,296	3,468
Earnings per share (c)	**35¢**	19¢	8¢	4¢	2¢
Percent of SCEcorp's earnings per share	**10.0%**	5.6%	3.3%	1.2%	0.6%

(a) Restated for nuclear plant construction-cost disallowances described in "Notes to Consolidated Financial Statements" on pages 35–36.
(b) Represents Edison's unconsolidated financial data, which would be substantially similar to SCEcorp's consolidated financial data.
(c) Based on weighted-average shares of SCEcorp common stock outstanding.

Management's Discussion and Analysis of Results of Operations and Financial Condition

SCEcorp became the parent holding company of Southern California Edison Company (Edison) through a corporate reorganization approved by Edison shareholders during 1988. Unless stated otherwise, this discussion addresses the consolidated results of operations and financial condition of SCEcorp. SCEcorp is comprised of Edison and The Mission Group, the parent company for all subsidiaries not subject to rate regulation.

Results of Operations

Earnings Summary Earnings per share for 1988 increased 10 cents to $3.49 from $3.39 in 1987 despite a reduction by the California Public Utilities Commission (CPUC) in Edison's authorized rate of return on common equity from 13.9% to 12.75%. Net income rose 3.2% to a record $761.8 million and revenue to another record of $6.3 billion, compared to $5.6 billion in 1987. Factors contributing to the increased earnings include CPUC approval of 1988 expense levels that more accurately reflect Edison's costs, continued emphasis on cost containment, a CPUC award for favorable coal-plant operating performance, and higher earnings from The Mission Group.

The Mission Group's contribution to earnings per share for 1988 was 35 cents, or 10.0%, of total SCEcorp earnings, compared with 19 cents per share, or 5.6%, for 1987. The Mission Group's net income rose to $77.8 million from $41.3 million in 1987. Nonutility earnings per share increased by approximately 84% above those in 1987, with earnings growth in each nonutility business. Higher earnings resulted from the addition of 830 MW of new cogeneration and geothermal projects by Mission Energy Company, the sale of industrial property by Mission Land Company, increased construction contracting activity by Mission Power Engineering Company, and the first full year of operation for Mission First Financial.

Electric Operating Revenue and Sales Approximately 98% of electric operating revenue represents retail sales that are subject to rate regulation by the CPUC. The remaining revenue is from sales to wholesale customers, which are regulated by the Federal Energy Regulatory Commission (FERC).

Electric operating revenue increased by $430.6 million, or 7.8%, over last year, reflecting a 3.6% increase in kilowatt-hour sales. The increase in revenue is attributable to a 3.9% increase in retail sales volume that resulted from the addition of more than 114,000 new customers and the effect of rate changes. Resale sales volume declined 5.4% due to the availability of alternative energy sources to resale customers. Increases in electric operating revenue of 3.5% in 1987 and 2.6% in 1986 reflect, in addition to rate changes, a 5.1% retail sales volume increase in 1987 and a 1.2% sales volume decline in 1986.

Rate changes that became effective January 1, 1989, are projected to increase revenue by $77.7 million, or 1.3%. The CPUC approved an attrition increase of $116.4 million to recognize increases in nonfuel expenses and to increase Edison's authorized rate of return on common equity to 13.0% from 12.75%. In separate proceedings, the CPUC authorized a $77.1-million rate decrease after Edison completed full recovery of uranium contract settlement payments and granted a $38.4 million rate increase for additional plant investment in the San Onofre Nuclear Generating Station.

Investment and other operating revenue increased by $220.2 million, or 218.3%, reflecting growth in nonutility businesses. Continued increases in revenue from nonutility businesses are expected during 1989.

Operating Expenses Operating expenses for 1988 increased by $519.2 million, or 11.2%, over 1987, compared with increases of $216.2 million, or 4.9%, in 1987, and $180.8 million, or 4.3%, in 1986.

The net increase in operating expenses resulted primarily from utility operations. Fuel expense declined $119.0 million, or 10.9%, in 1988, compared with an increase of $226.6 million in 1987, and a decrease of $812.4 million in 1986. The reduction in fuel expense for 1988 is the result of increased nuclear generation which displaced higher cost natural gas generation. Additionally, the utility operated higher cost non-nuclear fuel-burning power plants less because of an increase in mandatory purchases of power from nonutility producers at CPUC-mandated rates that exceeded rates for economy purchases. Purchased power expense increased by $454.5 million, or 58.2%, over 1987. The effect on earnings of fuel and purchased power cost fluctuations is minimized by regulatory adjustment mechanisms established by the CPUC and the FERC.

Provisions for regulatory adjustment clauses for 1988 reflect net overcollections of $240.7 million. The overcollections are attributable to growth in kilowatt-hour sales; CPUC-authorized recovery of previously deferred energy costs through the Energy Cost Adjustment Clause; and amortization of deferred costs under an adjustment clause that was established to recover costs of major system additions.

Depreciation and decommissioning expense increased during 1988 by $95.2 million, of which $84.8 million is attributed to higher levels of decommissioning expense authorized by the CPUC. The remainder of the increase results from increased depreciation due to system growth.

Taxes on operating income for 1988 decreased $131.8 million, compared to 1987 resulting primarily from lower corporate tax rates instituted by the Tax Reform Act of 1986. However, the lower tax rates were offset by reduced electricity rates for customers and, therefore, had little or no effect on net income.

An increase in contracted nonutility engineering and construction services contributed approximately $138 million to the $183.0 million increase in other operating expenses for 1988. The remainder of the increase is principally due to Edison's system growth.

Other Income and Income Deductions Utilities capitalize an allowance for funds used during construction (AFUDC) which represents the cost of debt and equity capital used to finance construction of plant additions. Completion of the Balsam Meadow Hydro Project and Palo Verde Nuclear Generating Station (Palo Verde) Unit 3 contributed significantly to an $86.3 million decline in AFUDC compared to 1987. AFUDC has declined steadily over the past three years, as the construction of major projects has been completed and the facilities placed into service.

The $28.5 million increase in 1988 interest income over 1987, resulted from higher interest rates on invested cash, and increases in the average amounts of cash investments and regulatory-asset balances.

Significant Accounting Changes In accordance with changes in accounting standards for rate-regulated enterprises, in the first quarter of 1988 Edison recorded a noncash write-off against income of approximately $193 million, net of related income tax effects, for disallowed costs on its investment in nuclear facilities. As permitted by the new accounting standard, Edison adopted these changes by restating the financial results for 1986, the period in which the write-offs would have been recorded had the present accounting rules been in effect.

As discussed further in Note 5 of the "Notes to Consolidated Financial Statements," major balance sheet adjustments will be recorded in accordance with new income tax accounting requirements that become effective in 1990. These changes are not expected to significantly affect future earnings.

Financial Condition

Liquidity and Capital Resources SCEcorp's liquidity is affected primarily by construction expenditures and by capital requirements relating to debt and capital stock maturities. The capital resources available to meet these requirements include internal cash generation and external financings.

The majority of SCEcorp's capital requirements continue to be met by cash generated through operations. For 1988, nearly 80% of cash requirements were internally generated, compared with approximately 87% in 1987 and 96% in 1986. The decline in 1988 is attributed to an 18.4% reduction in cash from operations net of a 10.9% decrease in cash requirements. Cash flow and liquidity for 1988 were unfavorably affected by revenue deferred to future years under the Palo Verde Phase-in Plan, which will increase through 1990, and decline in subsequent years. Additional items impacting cash flow unfavorably are increased income tax payments resulting from the Tax Reform Act of 1986, and contributions of more than $157 million to nuclear decommissioning trusts related to 1988 and certain prior years. A decline in construction expenditures and the recovery of balancing account undercollections partially offset these adverse factors.

Through the issuance of long-term debt during 1988, SCEcorp raised $631.3 million of which Edison raised $622.7 million, primarily to finance the redemption of more costly debt, repay bond maturities, and to meet sinking fund requirements. Market conditions and other factors, including limitations imposed by Edison's Articles of Incorporation and Trust Indenture, influence external financings. As of December 31, 1988, Edison could issue approximately $3.8 billion of additional first and refunding mortgage bonds or approximately $1.7 billion of preferred stock at current interest and dividend rates under its Trust Indenture and Articles of Incorporation.

In conformity with CPUC-ratemaking procedures, short-term borrowings are utilized primarily to finance fuel-oil inventory, regulatory balancing account undercollections, and nuclear fuel. The principal and interest related to these special purpose short-term borrowings are recovered through regulatory balancing-account mechanisms. Note 4 of "Notes to Consolidated Financial Statements" discusses available lines of credit and related short-term borrowings.

Capital Requirements SCEcorp, on an unconsolidated basis, requires capital for common stock dividend payments, investment in nonutility subsidiaries and general and administrative expenses. These requirements are provided by dividend payments from Edison.

SCEcorp's primary capital requirements consist of expenditures under its subsidiaries' construction programs and debt and capital stock maturities. Such commitments are projected to total $4.9 billion from 1989 to 1993. It is anticipated that the majority of these capital requirements will be financed through internally generated cash with supplemental financing through the issuance of long-term debt.

Capital Structure The capital structure of SCEcorp as of December 31, 1988, is reflected in the table below:

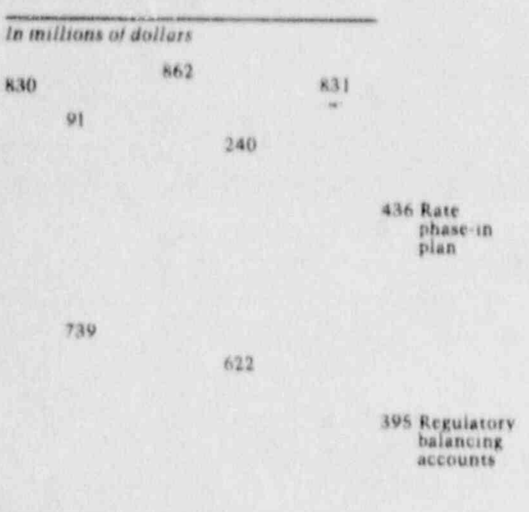
Common equity	45.7%
Preferred stock	5.4
Long-term debt	48.9
Total	100.0%

Proposed Merger

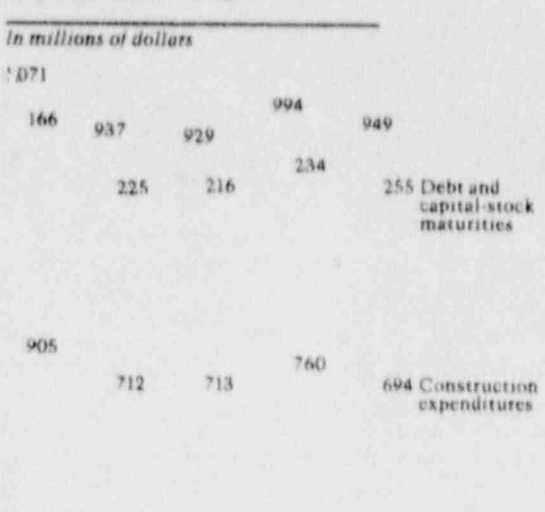
As discussed in Note 1 of "Notes to Consolidatd Financial Statements," on November 30, 1988, SCEcorp, Edison, and San Diego Gas & Electric Company (SDG&E) executed an agreement to merge SDG&E into Edison. Under the terms of the merger agreement, SCEcorp will exchange 1.3 shares of its newly issued common stock for each SDG&E common share. SDG&E preferred and preference stock will be exchanged for SCEcorp preferred and preference stock with similar provisions, except that dividends on each series will be increased between 2.5% and 20.0%.

The merger is subject to the approval of shareholders and various regulatory agencies, including the CPUC and the FERC. SCEcorp is working to complete the approval process in early 1990.

Balancing Accounts and Rate Phase-in Plan (Utility)



Projected Capital Requirements (SCEcorp)



First row (from left): Joan C. Hanley, Jack K. Horton, Howard P. Allen, William R. Gould, Camilla C. Frost.

Second row: Carl F. Huntsinger, Henry T. Segerstrom, Warren Christopher, Walter B. Gerken, Norman Barker, Jr., Edward Zapanta.

Third row: Charles D. Miller, Roy A. Anderson, Robert H. Smith, James M. Rosser, E. L. Shannon, Jr., J. J. Pinola.

Board of Directors

Howard P. Allen
Chairman of the Board
President and Chief Executive Officer

Roy A. Anderson
Chairman Emeritus
Lockheed Corporation
Burbank, California

Norman Barker, Jr.
Chairman of the Board
Pacific American Income Shares, Inc.
(A Closed-End Bond Fund)
Los Angeles, California

Warren Christopher
Chairman
O'Melveny & Myers
Los Angeles, California

Camilla C. Frost
Chairman of the Executive Committee
Los Angeles County Museum of Art
Los Angeles, California

Walter B. Gerken
Chairman of the Executive Committee
Pacific Mutual Life Insurance Company
Newport Beach, California

William R. Gould
Chairman Emeritus and Consultant
(Retired Chairman of the Board and Chief Executive Officer
Southern California Edison Company)
Long Beach, California

Joan C. Hanley
General Partner and Manager
Miramonte Vineyards
Temecula, California

Jack K. Horton*
Chairman of the Executive Committee and Consultant
(Retired Chairman of the Board and Chief Executive Officer
Southern California Edison Company)
Los Angeles, California

Carl F. Huntsinger
General Partner
DAE Limited Partnership, Ltd.
(Agricultural Management)
Ojai, California

Charles D. Miller
Chairman of the Board and Chief Executive Officer
Avery International Corporation
(Manufacturer of Self-Adhesive Products)
Pasadena, California

J. J. Pinola
Chairman of the Board and Chief Executive Officer
First Interstate Bancorp
Los Angeles, California

James M. Rosser
President
California State University, Los Angeles
Los Angeles, California

Henry T. Segerstrom
Managing Partner
C. J. Segerstrom & Sons (Real Estate Development)
Costa Mesa, California

E. L. Shannon, Jr.
President, Chief Executive Officer and Director
Santa Fe International Corporation
(Oil Service, Engineering, Petroleum Exploration
and Production)
Alhambra, California

Robert H. Smith
President and Chief Executive Officer
Security Pacific National Bank
and Vice Chairman of the Board
Security Pacific Corporation
Los Angeles, California

Edward Zapanta
Physician and Neurosurgeon
Monterey Park and East Los Angeles, California

* *Will not stand for re-election in 1989.*

Executive Officers

SCEcorp

Howard P. Allen
Chairman of the Board
President and Chief Executive Officer

David J. Fogarty
Executive Vice President

John E. Bryson
Executive Vice President
and Chief Financial Officer

Michael R. Peevey
Executive Vice President

Richard K. Bushey
Vice President and Controller

John R. Bury[1]
Vice President and General Counsel

David N. Barry III[2]
Vice President and General Counsel

Michael L. Noel
Vice President and Treasurer

Jennifer Moran
Secretary of the Corporation

(1) Mr. Bury retired effective March 1, 1989.
(2) Mr. Barry was elected Vice President and General Counsel effective March 1, 1989.

Southern California Edison Company

Howard P. Allen
Chairman of the Board
President and Chief Executive Officer

David J. Fogarty
Executive Vice President

John E. Bryson
Executive Vice President
and Chief Financial Officer

Michael R. Peevey
Executive Vice President

P. L. Martin
Senior Vice President

L. T. Papay
Senior Vice President

Kenneth P. Baskin
Vice President
(Nuclear Engineering, Safety
and Licensing)

Glenn J. Bjorklund[1]
Vice President (Power Supply)

Robert H. Bridenbecker
Vice President (Customer Service)

John R. Bury[2]
Vice President and General Counsel

David N. Barry III[3]
Vice President and General Counsel

Richard K. Bushey
Vice President and Controller

Robert Dietch[4]
Vice President
(Engineering, Planning
and Research)

John R. Fielder[5]
Vice President (Information Services)

Charles B. McCarthy, Jr.
Vice President and Site Manager,
San Onofre Nuclear
Generating Station

Michael L. Noel
Vice President and Treasurer

Harold B. Ray
Vice President (Fuel and
Material Management)

Jennifer Moran
Secretary of the Corporation

(1) Effective January 1, 1989.
(2) Mr. Bury retired effective March 1, 1989.
(3) Mr. Barry was elected Vice President and General Counsel effective March 1, 1989.
(4) Mr. Dietch assumed additional responsibility for System Planning and Research effective January 1, 1989.
(5) Mr. Fielder was elected Vice President–Information Services effective January 1, 1989.

Nonutility Subsidiaries

H. Frederick Christie
President and Chief Executive Officer,
The Mission Group

J. Jack Adrian
President, Mission Power
Engineering Company

Thomas R. McDaniel
President, Mission First Financial

Edward A. Myers, Jr.[1]
President, Mission Energy Company

James S. Pignatelli[2]
President, Mission Energy Company

Robert E. Umbaugh
President, Mission Land Company

(1) Mr. Myers retired effective April 1, 1988.
(2) Effective April 1, 1988.