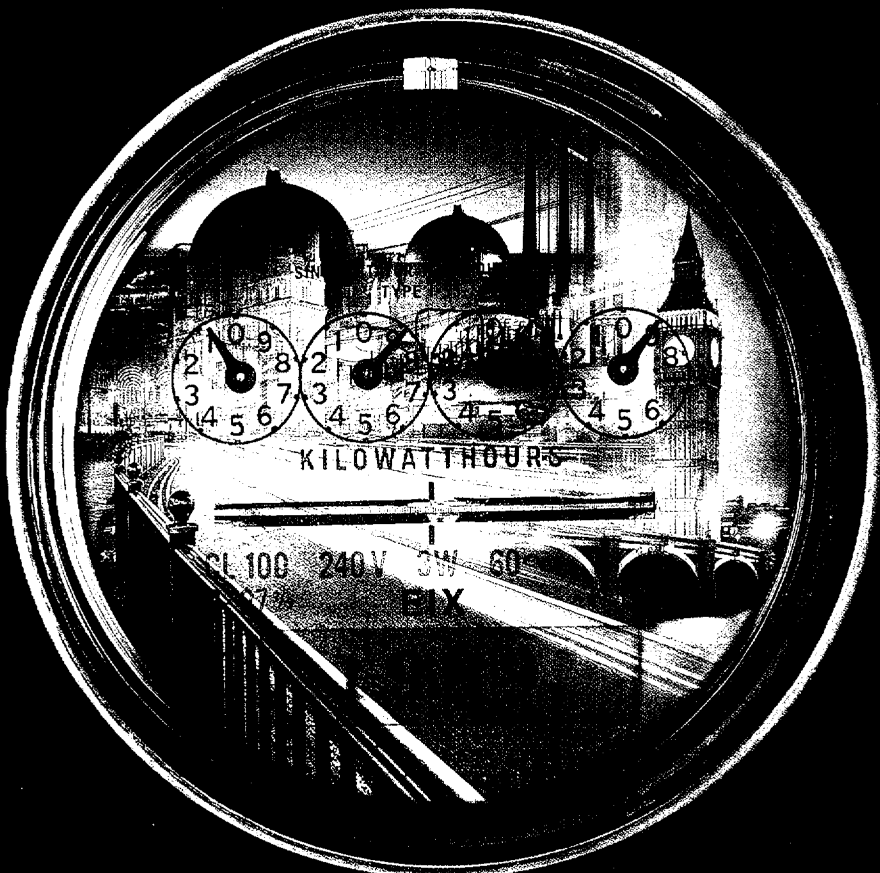
DID YOU KNOW?



EDISON INTERNATIONAL

annual report 1999

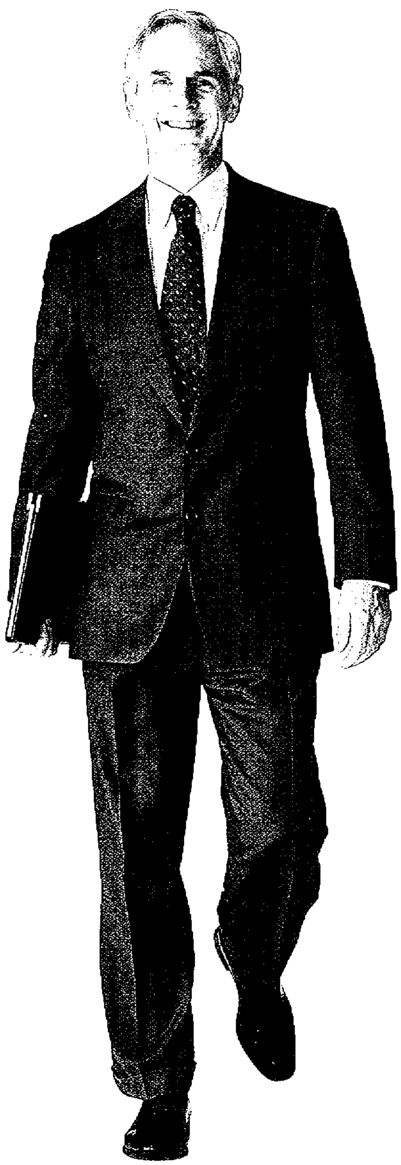
KEY FINANCIAL INFORMATION

Dollars in millions, except per share amounts	**1999**	*1998*	*Increase (decrease)*	*5-year compound annual growth rate*
FOR THE YEAR:				
Revenue	$ 9,670	$ 8,860	9.1%	3.0%
Net income	$ 623	$ 668	(6.7)	(1.8)
AT YEAR-END:				
Total assets	$36,229	$24,698	46.7	10.1
Utility assets	$17,657	$16,947	4.2	(0.5)
Nonutility power generation assets	$15,534	$ 5,158	201.2	40.4
PER SHARE:				
Basic earnings	$ 1.79	$ 1.86	(3.8)	3.3
Diluted earnings	$ 1.79	$ 1.84	(2.7)	3.3
Dividends paid	$ 1.07	$ 1.03	3.9	(2.4)
Annual dividend rate at year-end	$ 1.08	$ 1.04	3.8	1.6
Stock price at year-end	$ 26 3/16	$ 27 7/8	(6.1)	12.4
Book value at year-end	$ 15.01	$ 14.55	3.2	1.8
FINANCIAL RATIOS:				
Dividend payout ratio (paid)	59.8%	55.4%	–	–
Rate of return on common equity	12.2%	12.8%	–	–
Market to book value	174.5%	191.6%	–	–

TABLE OF CONTENTS

Edison International is a premier international electric power generator, distributor and structured finance provider. We are an industry leader in privatized, deregulated and incentive-regulated markets with assets of $36 billion and a power generation portfolio of 27,770 megawatts.

DEAR FELLOW SHAREHOLDERS



In 1999, Edison International achieved record operating earnings of $2.03 per share — a 9 percent increase over 1998. More importantly, we further positioned the company as a leader in the rapidly evolving electricity industry. We made record acquisitions, a total of nearly $10 billion. These investments are part of our Integrated Growth Strategy, which looks to expand in electricity markets that are privatizing, adopting performance-based regulation or deregulating.

FINANCIAL PERFORMANCE

All three of our major businesses, Southern California Edison, Edison Mission Energy and Edison Capital outperformed their earnings targets. Southern California Edison contributed $1.35 in operating earnings, $0.09 ahead of goal, and continued to recover potentially stranded costs on an accelerated basis. Edison Mission Energy achieved $0.57 per share in operating earnings, an increase of 54 percent over 1998. Edison Capital added a sixth straight record year, with operating earnings of $0.39 — a 34 percent increase over last year. Edison Enterprises, our start-up retail company, missed its targets, losing $55.5 million on an operating basis. Last fall, we changed company management, cut overhead and central staff, and eliminated initiatives that failed to show sufficient potential.

Of our three major businesses, Edison Mission Energy and Edison Capital provided 41 percent of operating earnings, as compared with a contribution of 32 percent in 1998. We expect that contribution to continue to increase.

JOHN E. BRYSON
Chairman of the Board, President and Chief Executive Officer

During 1999, electricity stocks in general lagged the market. The average total return to shareholders among the companies making up the Dow Jones Electric Index was a negative 16 percent. Our total return was a negative 2 percent. Over the last one, three and five years, our stock has outperformed the Index by 14, 27 and 63 percentage points, respectively.

INTEGRATED GROWTH STRATEGY

In our continuing effort to build shareholder value, we adopted in 1999 a new strategy called Integrated Growth. This strategy calls for growth in each of our businesses. It also commits us to integrate, consistent with applicable regulation, the experience and skills of all our employees for the benefit of the entire company. This is an evolution from our Defend and Grow Strategy of the last five years, which focused on rapidly recovering our utility generation investments while growing Edison Mission Energy and Edison Capital.

Commonwealth Edison Power Plants — In December, we acquired the entire non-nuclear generation portfolio of Commonwealth Edison of Chicago. In one transaction, we became one of the largest electricity generators in the Midwest. We now have a regional power generation business with all the assets and capabilities to create significant value from our $4.9 billion investment.

These Illinois plants allow us access to multiple markets where power generation capacity values are high and new generation is needed. Many of the sites have fuel and transmission access, allowing us to quickly and cost effectively add new natural gas-based capacity. Our mix of base load, mid-merit and peaking capabilities enables us to fully meet the needs of customers as Midwest markets continue to restructure. The plants also geographically complement our first domestic merchant plant, located in Homer City, Pa., which we have owned for nearly a year, and which is meeting our financial and operating targets.

Contact Energy — In the second quarter, we acquired a 40 percent stake in Contact Energy, New Zealand's first privatized electricity company. The other 60 percent was sold to the public. Contact Energy operates a portfolio of hydro, geothermal and natural gas plants. It sells electricity to 22 percent of New Zealand's retail market, and natural gas to about 100,000 customers. Led by a talented, energetic management team, the company is delivering superior results.

Fiddler's Ferry and Ferrybridge — The acquisition of 4,000 megawatts (MW) of capacity at Fiddler's Ferry and Ferrybridge gives us a balanced portfolio of generation plants in the England and Wales markets. In 1995, we acquired more than 2,000 MW of pumped hydro storage peaking capacity in Wales. Combining the First Hydro assets with Fiddler's Ferry and Ferrybridge base load and mid-merit capabilities means we can fulfill the needs of independent distribution companies as well as large end-user customers. That capability is particularly important as the market evolves toward direct sales from the current power pool-driven structure.

Storm Lake I — Edison Capital invested almost $100 million in the largest wind generation project in the United States, located in western Iowa. All output of the project will be sold under a 20-year, fixed-price contract.

Identifying and acquiring attractive assets is only the critical first step in our Integrated Growth plan. Now we must maximize the value of our portfolio through superior operations, fuel acquisition, bidding, trading, contracting and risk management.

Our 1999 acquisitions were all in power generation. We are also potentially interested in acquiring distribution companies where sound performance-based regulation affords the opportunity for premium returns. Last year, we were outbid in an effort to acquire a distribution and electricity supply business in South Australia. We will, however, continue to seek out markets that offer well-structured incentive rewards for first-class reliability, safety and customer service performance in distribution.

Back row, left to right:

STEPHEN E. FRANK
SCE Chairman, President & CEO

THEODORE F. CRAVER, JR.
Edison International Senior VP, CFO & Treasurer

BRYANT C. DANNER
Edison International Executive VP & General Counsel

Front row, left to right:

THOMAS R. MCDANIEL
Edison Capital President & CEO

JOHN E. BRYSON
Edison International Chairman, President & CEO

ALAN J. FOHRER
EME President & CEO

WORLD-CLASS PERFORMANCE

Edison employees performed at exceptional levels in many areas. Among them:

- The San Onofre nuclear plant, operating under an incentive regulatory structure, exceeded all operating and financial targets. Early in 1999, San Onofre employees completed — ahead of schedule and under budget — two refueling and upgrade outages that included replacing steam turbines.
- Southern California Edison attained an historic level of customer satisfaction — a record 75 percent of our customers ranked themselves in the highest category, "delighted" or "completely satisfied." All other satisfaction categories improved over previous levels.
- In 1999, Southern California Edison achieved the fewest minutes of customer interruption in five years, making us a national leader in reliability. We continue to invest in our transmission and distribution systems to provide continuing high reliability for our customers.
- In 1999, Edison Capital's return on equity was an outstanding 28.5 percent based on operating earnings, and it has averaged 23.6 percent over the past five years.
- In Australia, our 1,000-MW Loy Yang B plant achieved an availability factor of more than 97 percent, with a forced outage rate of only .078 percent. This is extraordinary among coal plants worldwide. Loy Yang B was the first coal-fired generating station in the world to qualify for ISO 14001 certification, a demanding international environmental standard.

– The *Energy Outlook 2000 Report* selected Edison International as its Investor-Owned Utility of the Year. It also singled us out as the national leader in customer service and in distribution.

These are a few examples of how Edison men and women across the company stretched themselves to meet and surpass demanding goals in 1999.

ENVIRONMENTAL PERFORMANCE

At Edison International, we seek to bring a special commitment to improving environmental performance while increasing shareholder value. Generating electricity by any means produces environmental impacts that are rightfully a concern of people around the world. We know of no way to avoid those impacts altogether; but by looking hard for cost-effective means of mitigating those impacts, we sometimes do what others before us did not. In connection with the large coal plant acquisitions we made in the last year, we are now in the process of adding more than a half billion dollars in new pollution control features. This commitment was not required either by the terms of the purchase or by existing law. We believe it makes good business sense.

MANAGEMENT CHANGES

In April 1999, Ed Shannon, Jr., and Admiral James D. Watkins retired from the board of directors. Both were outstanding contributors, providing us the benefit of their extraordinary leadership experiences.

At the end of the year, we made several important management changes. Reflecting the transformation of our company and the larger role of our newer businesses, I relinquished my Southern California Edison roles, and added the title of president to those of chief executive officer and chairman of Edison International. Steve Frank became chairman and chief executive officer of Southern California Edison, stepping up from his able leadership over the last four years as president and chief operating officer.

Al Fohrer was elected president and chief executive officer of Edison Mission Energy. Throughout his 27 years with the company, Al has made outstanding contributions in a series of major business and operating roles, including most recently, as chief financial officer of Edison International. Ted Craver, who has served with distinction as senior vice president and treasurer, has replaced Al as chief financial officer of Edison International. We are fortunate to have these accomplished leaders and many others in position to take up the large new challenges that lay ahead.

It is a pleasure and a privilege to work with the people of Edison. Thank you for the confidence you have placed in us.

John E. Bryson

JOHN E. BRYSON
Chairman of the Board, President and Chief Executive Officer

February 18, 2000

EDISON MISSION ENERGY

Edison Mission Energy (EME) achieved its fourth consecutive record-setting year with operating earnings of $197.8 million, or $0.57 per share, compared to 1998 operating earnings of $132.1 million, or $0.37 per share. This increase is primarily attributable to higher revenue at existing projects and revenue from projects acquired in 1999. On a reported basis, including a one-time adjustment associated with an executive incentive plan that is being discontinued, EME posted net income of $130.3 million, or $0.37 per share.

EME's ownership interest in generating capacity more than tripled in 1999.

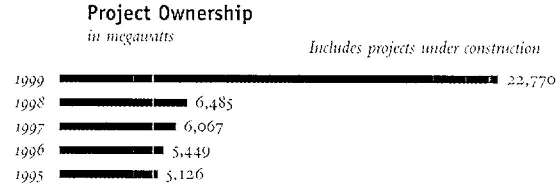
1999 ACHIEVEMENTS

Growth Through Acquisitions – EME's ownership interest in generating capacity more than tripled in 1999. The company's net interest in plants that are either operating or under construction increased from 6,485 megawatts (MW) at year-end 1998 to 22,770 MW at year-end 1999. This growth was achieved through acquisitions in each of the global regions where EME operates — Asia Pacific; Americas; and Europe, Central Asia, Middle East and Africa — and the company established a strong base of operations in key strategic markets for Edison International:

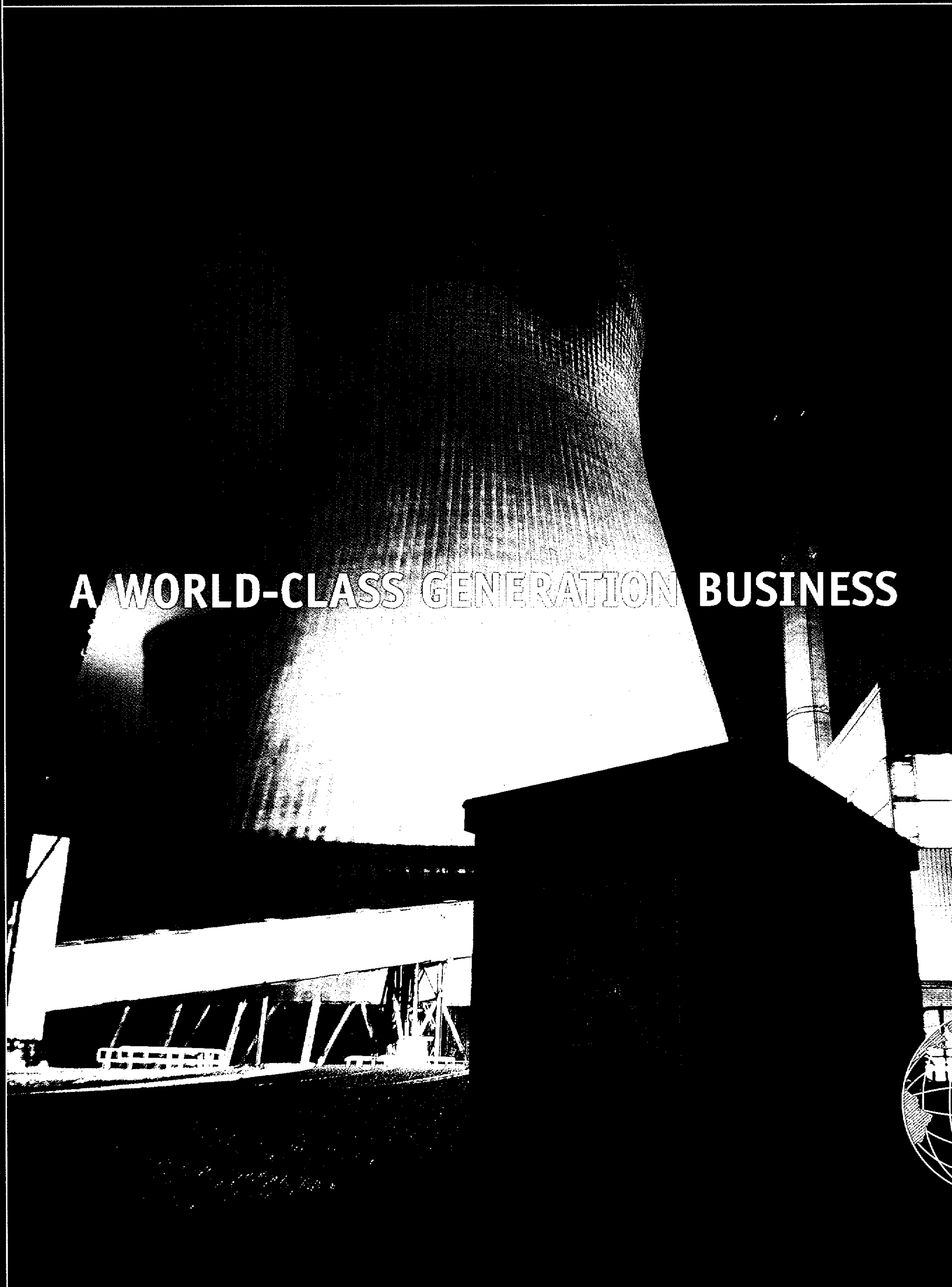
- In March, EME completed the acquisition of the 1,884-MW Homer City Generating Station for $1.8 billion.
- In May, EME acquired a 40 percent stake in New Zealand's Contact Energy Ltd. for $635 million. Contact Energy owns and operates hydroelectric, geothermal and natural gas-fired generating plants with a total generating capacity of 2,371 MW. Contact also supplies gas and electricity to customers in New Zealand and has a minority interest in one power project in Australia (Contact Energy sold its interest in a second Australian project, Southern Hydro, in October 1999).
- In July, EME completed the acquisition of the Ferrybridge and Fiddler's Ferry electric generating plants in northern England from the United Kingdom's PowerGen for about $2 billion. Each plant has a generating capacity of about 2,000 MW.
- In October, EME purchased for $16 million the remaining 20 percent interest in the 220-MW, gas-fired Roosecote Power Project in northern England that it did not already own. With these two acquisitions, EME is now the fifth-largest generator in the U.K.
- In December, EME completed its $4.9 billion acquisition of a package of coal-, gas- and oil-fired electricity generating facilities with a total capacity of 9,510 MW from Commonwealth Edison. Those facilities, as well as the Homer City Generating Station, will be managed by Midwest Generation, a company established in June 1999 for this purpose.

Financing – These transactions, the total cost of which was about $10 billion, were funded through roughly equal amounts of project finance and equity contributions by EME; the equity contributions were financed off EME's balance sheet and with a capital infusion from Edison International. The necessary funds for the acquisitions were raised without any detriment to the credit ratings of any of the Edison International companies — a testament to their combined financial strength.

Project Ownership
in megawatts



A WORLD-CLASS GENERATION BUSINESS



Ferrybridge Power Station
Leeds, England

Merchant Plants – The bulk of EME's investments in 1999 went toward acquiring merchant plant facilities, a relatively new emphasis for EME. In the past, facilities developed or acquired by EME typically included power purchase agreements that provided long-term certainty of electricity sales and cash flow. Merchant facilities do not have such contracts and instead sell power in the competitive markets where they are located. Merchant plants, combined with an increasing concentration of facilities in selected strategic geographic markets, required EME to develop new techniques for valuing such facilities. New approaches developed in conjunction with Edison International corporate staff provided valuable insights in this regard.

In late 1998, EME established a power marketing group to sell power generated from EME's U.S. facilities. Many of the employees came from Edison Source. The group in Irvine also manages fuel procurement and emissions allowance trading. EME's marketing/trading activities are not speculative, and forward sales are backed by its assets.

In the fuels area, EME has added to its ongoing role as an overseer and facilitator of the procurement process to become an active participant in the purchasing and trading of fuels. Fuel, which can at times account for up to 70 percent of a plant's operating expenses, plays a significant part in determining the price at which power can be sold into the market.

EME has assets totaling $15.5 billion and investments in more than 75 projects worldwide.

It was also necessary to develop the new skills required to operate the plants and market power once the acquisitions were completed. EME responded by expanding its marketing and trading capabilities, and establishing strong regional teams with commercial and operating skills in key areas such as fuel procurement, operations and maintenance, and risk management.

Regional power marketing/trading offices operate in Irvine, Calif.; London, England; Melbourne, Australia; and Wellington, New Zealand. EME began marketing and trading power in December 1995, when it acquired First Hydro, the 2,088-MW, pumped storage hydro facility in Wales.

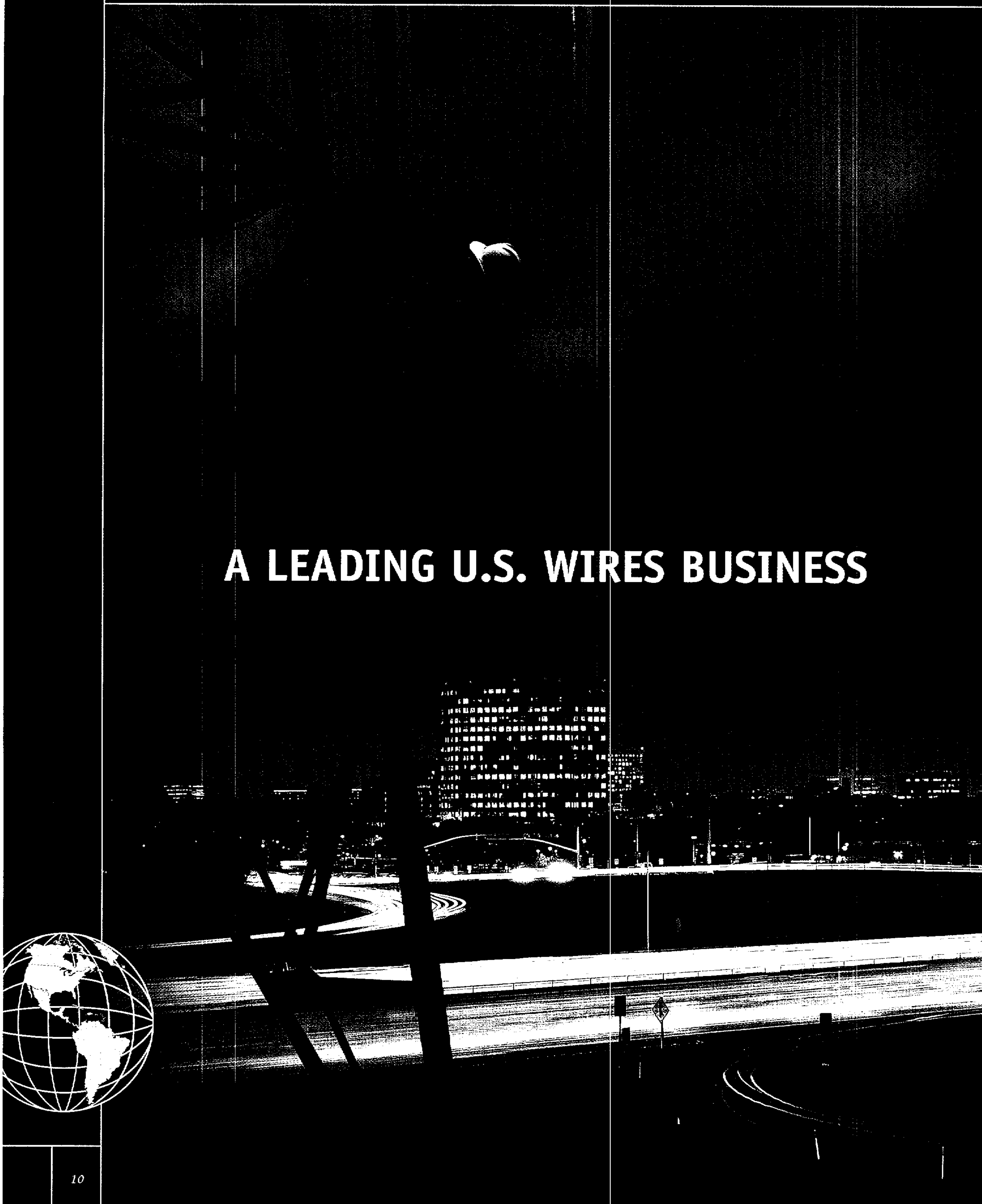
In 1997, shortly after acquiring the remaining 49 percent interest in Loy Yang B, EME established the trading team in Melbourne. Since the plant's output is almost fully contracted until the end of 2000, most of the activity has been ensuring the actual dispatch of energy into the power pool, establishing trading strategies and risk management frameworks, and developing a regime of reporting and measurement systems.

Plant Construction Continues – During 1999, projects under construction continued to advance, with the Doga Enerji cogeneration project in Turkey achieving commercial operation in May. Both units of the coal-fired Paiton I project in Indonesia achieved commercial operation in May and July, respectively. Because of the continuing economic downturn in Indonesia, negotiations are currently underway to restructure Paiton's power contract. The government is publicly committed to solving its power sector problems and the economy is improving. Several projects owned by Contact Energy recently were completed, and the ISAB Energy project in Sicily and EcoEléctrica in Puerto Rico also should reach commercial operation in the first quarter of 2000. Construction of the 700-MW, natural gas-fired Tri Energy project in Thailand is expected to be complete in May and, upon full commercial operation, the project will be one of the lowest-cost electricity generators in Thailand.

BUILDING STRONG, REGIONAL POWER BUSINESSES

Chicago Skyline from Navy Pier
Chicago, Illinois

A LEADING U.S. WIRES BUSINESS



Santiago 66kV Lines
Irvine, California

Consistent with Edison International's integrated growth strategy, Southern California Edison (SCE) reported strong financial performance in 1999, largely attributable to higher kilowatt-hour sales and utilitywide operating excellence overall. This achievement was magnified by SCE's ability to overcome the substantial earnings challenges presented by two scheduled refueling outages at San Onofre Nuclear Generating Station (SONGS) and the accelerated depreciation of its generating assets.

In 1999, SCE's return on shareholder equity was more than 15.2 percent on operating earnings of $1.35 per share, compared with $1.37 per share in 1998. On a reported basis — including a one-time adjustment — SCE contributed $483.5 million, or $1.39 per share, compared with $490.5 million, or $1.37 per share, in 1998. The one-time adjustment in 1999 was the result of an IRS ruling that allowed SCE to record a tax benefit.

SCE achieved an all-time high in customer satisfaction with 75% of its customers "delighted" or "completely satisfied."

REALIGNED AND POSITIONED FOR GROWTH

As SCE enters its third year of operation in California's restructured electric utility marketplace, it continues to rank among the nation's largest and best-managed utilities. With its identity and assets realigned, SCE is well positioned in the industry as a leading U.S. wires business. As such, the company is focused on two areas that provide a substantial opportunity to grow net income and contribute significantly to the bottom line.

A principal area of focus is continued recovery of past shareholder investments made in generation-related facilities as part of SCE's service obligations under a fully regulated market structure. These investments were put at risk under California's industry restructuring. The cost recovery process, which must be completed in 2002, is on schedule. These revenues are recoverable through the nonbypassable competition transition charge (CTC), which applies to all 4.3 million SCE customer accounts.

Equally important is SCE's focus on earnings growth through: (1) strong performance at SONGS; (2) investment in earning assets, such as utility transmission and distribution (T&D) infrastructure; (3) operations and maintenance (O&M) cost reductions; and (4) revenue growth.

OPERATIONAL EXCELLENCE

In 1999, SONGS achieved a site capacity factor of 88 percent while producing more than 12 million megawatt-hours of electricity. During the year, both SONGS Units 2 and 3 underwent scheduled refueling and maintenance outages that exceeded previous performance in eight areas, including safety and duration. (The outages were scheduled for 115 days in total and completed in just 100 days.) As a result of this accomplishment and outstanding performance overall, SONGS earned $97 million in net income after taxes, exceeding its target by 50 percent.

During the year, the California Public Utilities Commission (CPUC) approved an uncontested joint settlement that clears the way for SCE to dismantle SONGS Unit 1, which was retired in 1991. The settlement grants SCE access to 90 percent of its decommissioning funds, which have been accumulating over the years in a trust fund for this purpose.

INCENTIVE- & PERFORMANCE-BASED REGULATION
While SCE's core T&D business continues to operate within a regulated market structure, it also operates under incentive-driven mechanisms that reward exceptional performance, potentially resulting in significant earnings growth.

1999 marked the third year that SCE has operated under performance-based ratemaking (PBR) — a CPUC-approved mechanism that allows SCE to share savings from cost-efficient operations with its customers and achieve revenue rewards of up to $51 million annually for exceeding performance targets for service reliability, employee safety and customer satisfaction. Conversely, the company can also be penalized up to $51 million annually for failing to meet these targets.

Under PBR, the challenge is to continually improve operational performance by consistently delivering safe, reliable electric service to customers while effectively managing costs. Long-term success means continually improving both service and satisfaction levels, which requires simplifying processes, critically measuring performance and meeting increasingly higher standards.

Based on its 1999 performance, SCE expects to file for $17 million in PBR awards in 2000.

Reliability – In contrast to the severe "El Niño" storms that battered SCE's service territory in 1998 and resulted in storm damage costs of $84.6 million, 1999 brought "La Niña," a weather pattern that resulted in the driest weather conditions in more than a decade and considerably lower storm-associated costs of $40.8 million.

In 1999, as in 1998, SCE ranked in the top quartile among the 47 utilities queried in an industrywide study ranking utilities' reliability scores based on "average minutes of customer interruption" and "frequency of outages."

To maintain that high level of service reliability, SCE must begin replacing its aging T&D infrastructure, most of which was put in place shortly after World War II and during the 1960s and is reaching the end of its expected life.

Beginning a comprehensive replacement program sooner rather than later is vital to reliability, is less expensive than running equipment until it fails, and is essential because of the rapid economic and population growth within SCE's service area. An infrastructure replacement initiative also sustains shareholder value through kilowatt-hour growth, revenue growth and PBR rewards.

Customer Satisfaction – SCE achieved high levels of customer satisfaction through service reliability and operational excellence. In an annual survey conducted by an independent market research firm that measures overall customer satisfaction with SCE's service, the utility achieved an all-time high in customer satisfaction in 1999 with 75 percent of its customers "delighted" or "completely satisfied."

Safety – Employee safety remains a top priority and, as a result, the bar for safety goals continues to be raised. During the year, the T&D safety goal was exceeded by 7.5 percent. Over a six-year period, including 1999, SCE's safety has improved by more than 50 percent.

TELECOMMUNICATIONS
Seizing a potentially profitable opportunity, SCE created Edison Carrier Solutions in 1999 to take advantage of the utility's vast fiber optic network. Located in densely populated areas of central, coastal and Southern California, this network is one of the state's largest and is situated in an area of extraordinary demand for wholesale telecommunications services.

Using SCE's assets and capabilities — which include a complete network upgrade over the last five years, more than 1,750 miles of fiber optic cable, 100 percent fully redundant SONET ring architecture, 5,000 miles of digital microwave capacity, and field construction expertise — Edison Carrier Solutions set out to market its highly desirable wholesale telecommunications access and transport capacity to companies that provide telephone, cable television, Internet and other telecommunications services to end-user customers.

Edison Carrier Solutions' suite of product and service offerings includes private line services, dark fiber, network construction, collocation and wireless infrastructure.

To date, Edison Carrier Solutions has completed all of the necessary regulatory steps related to the wholesale transport business. In 1999, Edison Carrier Solutions signed master service agreements with six strategic customers, and is well positioned to build on that foundation in the future.

PRODUCTIVITY INITIATIVES
SCE's T&D Business Unit has initiated new programs to help reduce costs by standardizing and streamlining major work processes. One such program is T&D's work management system, which combines work simplification and an

online data management system that tracks, monitors and measures all aspects of work from initiation to completion. Another example is E-Map, a software program developed by SCE that helps field employees by displaying multilayered circuit maps and geographical information. E-Map allows employees to spend more time in the field responding to customers by reducing administrative time.

SCE's Customer Service Business Unit (CSBU) is testing and implementing new technologies such as van-based automated meter reading, wireless customer order dispatch, voice recognition, automated "bill exception" processes, and fully electronic Internet billing and payment plans.

By year-end 1999, SCE had successfully transitioned nearly 100 percent of its customer accounts to its state-of-the-art billing system. In 2000, SCE will enhance its Web site to allow customers to submit inquiries and service requests as well as pay their utility bills online. As a result of these and other enhancements, Andersen Consulting ranked SCE's Web site sixth in a study of 54 utility Web sites.

Additionally, SCE's metering communication system offers large customers the option of receiving their electric energy usage and bill impact in near real time via a secure Web site. Moreover, business customers now have more metering options that will help them better understand how to control energy costs.

In 1999, SCE's Information Technology (IT) department launched initiatives that will consolidate IT functions, obtain productivity improvements, reduce expenses, improve support service, improve communications and increase knowledge-sharing across the company. IT also will launch an electronic means for conducting business with suppliers. Combined, these and other initiatives are expected to yield more than $25 million in savings.

EDISON O&M SERVICES

Since the divestiture of SCE's gas-fired generating plants in 1998, Edison O&M Services has continued to provide the new plant owners with excellent operations, maintenance and support services under the provisions of California's industry restructuring legislation (AB1890).

Although the mandated two-year term of the AB1890 agreements will conclude during the second quarter of 2000, Edison O&M Services has successfully negotiated new, long-term operations and maintenance agreements with Reliant Energy.

Under these agreements, Edison O&M Services will continue providing quality operations, maintenance and support services to Reliant Energy at its Coolwater, Ellwood, Etiwanda, Mandalay and Ormond Beach generating plants well past the expiration of the current AB1890 contracts.

Incentive provisions in these agreements are designed to produce superior commercial operating results for Reliant while affording Edison O&M Services the opportunity to continue using the competencies and experience of SCE employees in ways that create value for Edison International shareholders. As such, establishing these new agreements with Reliant Energy marks another milestone in the evolution of the electric utility business resulting from industry restructuring.

In March, Edison O&M employees at the 1,580-MW, coal-fired Mohave Generating Station in Laughlin, Nev., received certification for their Environmental Management System — a plan to control the impact of the facility's activities on the environment. The plan, which includes setting environmental objectives and demonstrating that those objectives have been achieved, is based on the International Organization for Standardization (ISO) 14001 standard.

QUALIFYING FACILITIES (QF) CONTRACTS

In 1999, SCE continued to enhance shareholder value and achieve customer savings through buyouts and restructurings of long-term, must-take contracts to buy electricity from QFs, thus creating additional opportunities for competition in the marketplace and eliminating above-market contract payments, and ultimately further reducing SCE's transition costs.

FACILITATING THE COMPETITIVE MARKETPLACE

During 1999, electric service providers (ESPs) submitted direct access service requests (DASRs) to SCE at a rate of about 4,000 per month, primarily driven by the "green energy credit" available to new market entrants.

Of the 87 ESPs enrolled with SCE, only 24 are actively submitting DASRs and only six are generating significant volume. ESPs serve about 15 percent of SCE's load, which translates to about 81,000 customers, or 1.9 percent of SCE's customer base. Statewide, ESPs serve 13.7 percent of customer load, representing nearly 192,000 customers.

ACHIEVING SUPERIOR PERFORMANCE

San Onofre Nuclear Generating Station
San Diego County, California

As required by AB1890, the law that restructured California's electric utility industry, SCE began the process of auctioning its 56 percent interest in the Mohave Generating Station late in 1999. The auction is part of SCE's continuing effort, as required by AB1890, to value all of its non-nuclear power generation assets.

Meanwhile, it was with broad-based support from labor, ratepayer and environmental groups that SCE filed an application in 1999 with the CPUC to value its hydroelectric generating facilities at $993 million, or about twice their book value. The joint filing proposes that SCE retain those hydroelectric assets within the utility and continue to operate and maintain them under a PBR and revenue-sharing arrangement. Those assets consist of 36 powerhouses, 79 generating units and associated dams, reservoirs and waterways, with a total operating capacity of about 1,156 MW.

SCE recently filed a proposal with the CPUC to establish electricity rates that would go into effect when the current rate freeze ends on March 31, 2002, or earlier, depending on the pace of SCE's stranded cost recovery. In principle, the proposal seeks CPUC approval to reduce electric rates for all customer classes at the end of the rate freeze. In addition, SCE proposed to redesign T&D rates to reflect the actual cost of delivering electricity and serving customers. (Under the traditional approach, T&D costs have been priced according to the customer's kilowatt-hour use.)

San Onofre Nuclear Generating Station achieved a site capacity factor of 88% and earned $97 million due to operating excellence.

COMMITMENT TO SOUTHERN CALIFORNIA

During 1999, SCE and the city of Long Beach signed a "Partnership for the Future" proposal, which allows SCE to continue providing electric service to Long Beach customers well into the 21st century. The partnership also provides long-term economic and other benefits to the city. Long Beach officials had considered exercising a unique franchise provision allowing the city to acquire and operate SCE's electric distribution system.

In addition, SCE is working to expand its distribution system by pursuing acquisitions of the distribution facilities on military bases throughout the service territory, effectively strengthening SCE's relationship with one of its largest customers, the U.S. government, by helping them achieve their privatization goals.

In 1999, SCE's business and economic development efforts have resulted in more than 75 new businesses locating or expanding in SCE's service territory, bringing with them several thousand jobs and electricity load growth, which contributes to shareholder earnings through increased revenue and accelerated CTC collection.

YEAR 2000 AND BEYOND

Information Technology (IT) successfully implemented and managed the corporate Year 2000 Program, which included inventorying, remediating and testing all mission-critical systems and assets — including more than 370 software applications with nearly 210 million lines of computer code — across Edison International to mitigate possible effects of the so-called Y2K bug.

At peak, more than 500 full- and part-time people worked on the Y2K effort, which was completed on time and under budget, thanks to careful program and asset management, and the long-standing commitment of Edison employees to service reliability and customer satisfaction.

Edison Capital continued its outstanding financial performance, posting its sixth straight record year with operating earnings of $136.9 million, or $0.39 per share. Growth in earnings from infrastructure investments and the syndication of interests in affordable housing were primarily responsible for this 34 percent increase over 1998 operating earnings of $105.3 million, or $0.29 per share. Edison Capital has produced compounded annual earnings growth of more than 36 percent over the last five years, and about 28 percent since its inception. Moreover, return on equity based on operating earnings for 1999 was 28.5 percent, and has averaged nearly 23.6 percent over the past five years. On a reported basis, including a one-time adjustment associated with an executive incentive plan that is being discontinued, Edison Capital posted net income of $129.4 million, or $0.37 per share, a 28 percent increase over 1998 reported earnings of $0.29. During 1999, Edison Capital closed $402 million of investments, including $270 million in electricity/infrastructure and $132 million in affordable housing. The company has a pipeline of more than $700 million of transactions that will close in 2000 and 2001, strong cash flow from existing investments, and the equivalent credit ratings of "A-" from Standard & Poor's, Duff & Phelps and Moody's, all of which provide Edison Capital with a vibrant growth outlook.

INTEGRATION SUPPORTING GROWTH

The pace of worldwide electricity and infrastructure development and privatization is increasing rapidly and will require a significant amount of capital to support such projects. With a history of strong financial performance, a skilled and experienced team of financing experts, and an investment presence in each of the world's major markets, Edison Capital is well positioned to expand Edison International's penetration into this growing market opportunity.

Edison Capital's investment strategy is to build a diversified portfolio of investments based on: (1) Edison International's core strength in the power and infrastructure arena; (2) positioning the company to take advantage of market opportunities in targeted sectors, regions and capital products; and (3) establishing multiple market entry vehicles through direct investment, joint ventures and active participation in infrastructure funds.

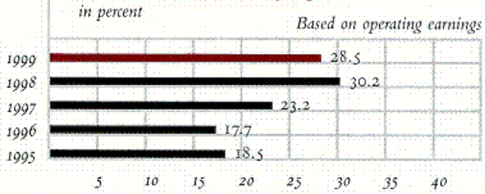
ESTABLISHING A GLOBAL PRESENCE

Through strategic direct investments and active participation in leading infrastructure funds worldwide, Edison Capital invested $270 million in energy and infrastructure projects in 1999, and started 2000 with more than $600 million of projects in the pipeline.

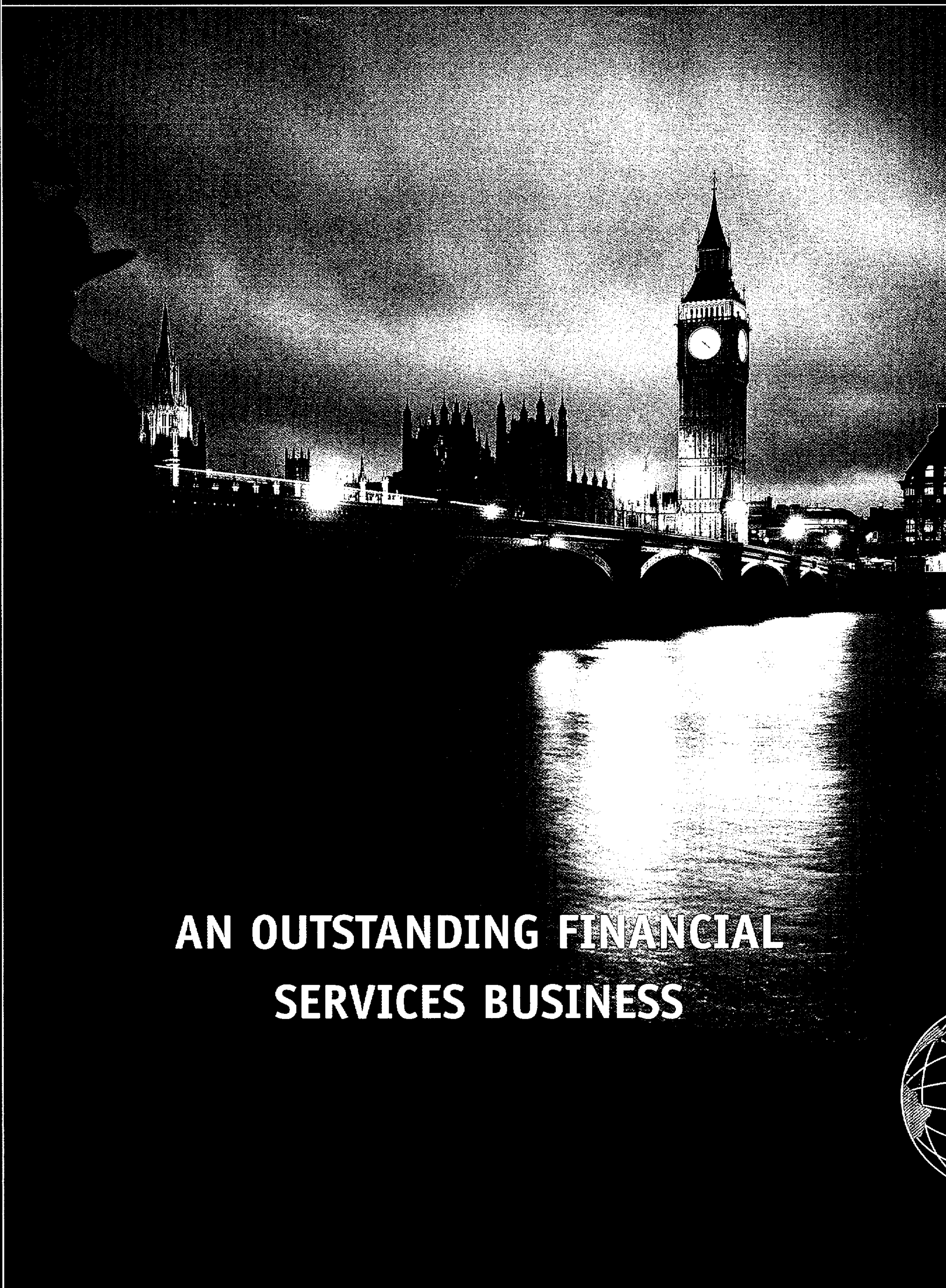
Europe – Continuing its participation in the infrastructure leasing market, Edison Capital invested $116 million in a telecommunications duct network with Swisscom, Switzerland's partially privatized, government majority-owned national telecommunications company. Located in northeast Switzerland, the duct network carries all voice and data traffic. In its first participation in an Edison Mission Energy project, Edison Capital provided $243 million of mezzanine financing for the acquisition of the Ferrybridge and Fiddler's Ferry generating stations in northern England. This financing closed in January 2000. Edison Capital's participation in the capitalization of this project enhances the value of Edison International's investment and provides a positive illustration of the type of linkages that can be produced within the integrated growth strategy. Edison Capital has committed $125 million to co-sponsor a new $525 million Emerging Europe Infrastructure Fund L.P., which will invest in electricity and infrastructure projects in Central and Eastern Europe. American International

Edison Capital's return on equity has averaged 20% since its inception 12 years ago.

Return on Common Equity
in percent



C01



AN OUTSTANDING FINANCIAL SERVICES BUSINESS

Parliament over the Thames
London, England

Group Inc. (AIG) and ABN-AMRO are the other co-sponsors of the fund. During 1999, Edison Capital closed its second United Kingdom Private Finance Initiative (PFI) transaction with an $8 million mezzanine investment in King's Hospital, and is currently working on 13 additional projects representing $55 million. These investments provide Edison Capital with an attractive return and long-term earnings profile. The PFI model is extending into Italy, Spain and Portugal, providing Edison Capital additional investment opportunities.

United States – Four wind-energy projects were placed into service in which Edison Capital has an aggregate investment of $108 million. All of the projects are located in the Midwest, including Edison Capital's most recent investment in Enron Wind Corp.'s Storm Lake I. The newly constructed 112.5-megawatt project, located along the Buffalo Ridge in Iowa, ranks as the largest wind project in the country. During the investment process, Edison Capital put the integrated growth strategy to work by drawing on Edison International's extensive experience in the wind-energy field. In conjunction with Trust Company of the West (TCW), Edison Capital committed $50 million to the creation of a new $1 billion infrastructure mezzanine fund, expected to close in 2000, that will focus on providing mezzanine capital into infrastructure projects in the United States and other key global infrastructure markets.

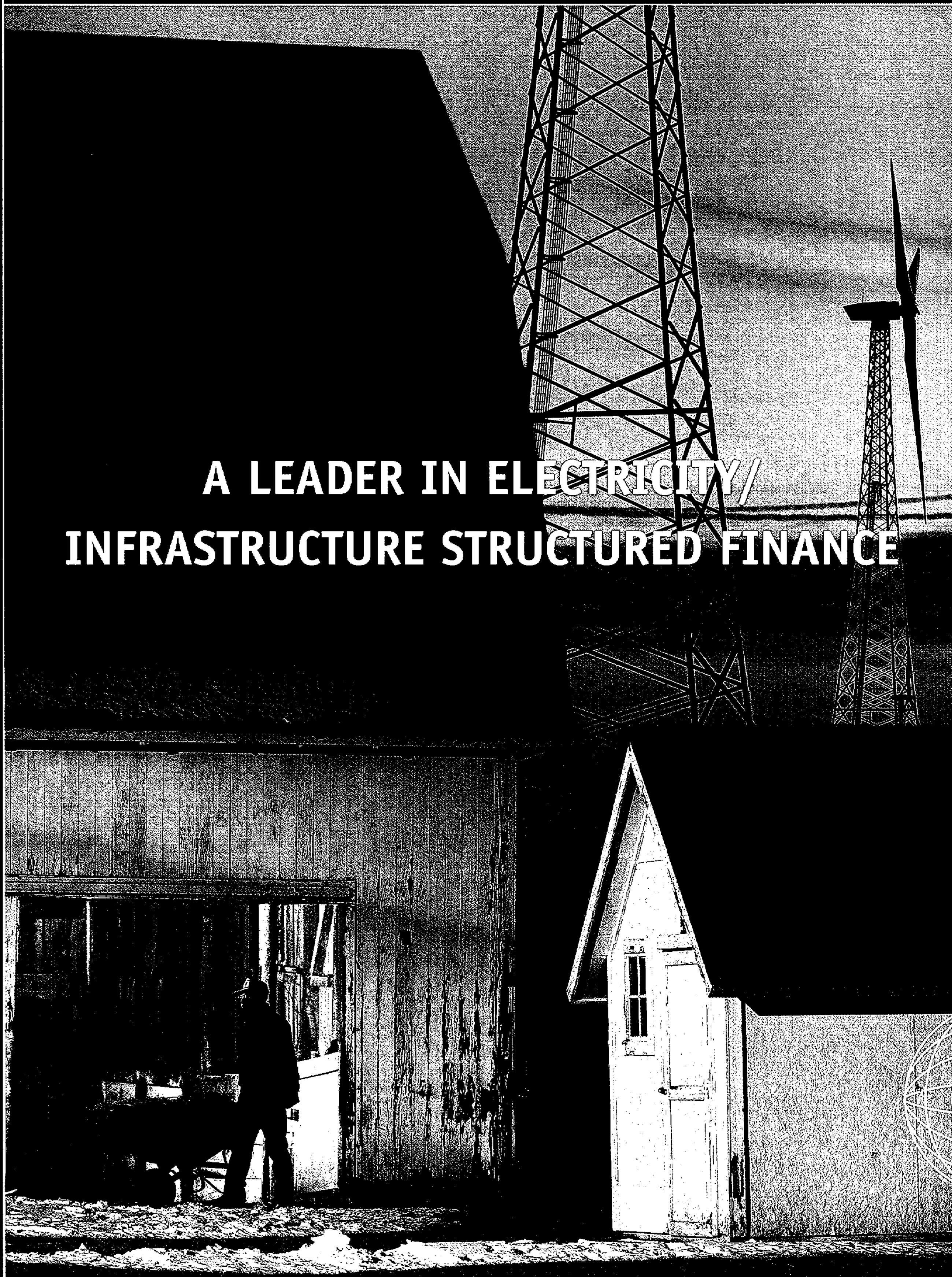
Latin America – Edison Capital continued to develop its Latin American presence through its active participation in the $1 billion AIG-GE Latin American Infrastructure Fund (LAIF). This fund is in the latter stages of its investment cycle, with approved investments totaling 60 percent of Edison Capital's original $80 million commitment. Through the fund in 1999, Edison Capital invested $13.6 million in seven projects. Together with LAIF and AIG, Edison Capital committed $20 million to Mandeville, a $100 million cable television joint venture in Mexico. Mandeville was formed to acquire existing cable television systems and fund the expansion of Mexico's communications infrastructure. During the year, Mandeville closed on the acquisition of two existing cable television systems in Cancún and Mérida.

Asia – Edison Capital entered the Asian market through its $100 million commitment in 1998 and active participation in the $1.7 billion AIG Asian Infrastructure Fund II. The fund had a strong year in 1999, with Edison Capital closing investments of $25 million in five projects.

Since its inception, Edison Capital has successfully engaged in transactions totaling $20 billion.

Affordable Housing – Over the past 12 years, Edison Capital has invested more than $1 billion in more than 330 affordable housing projects — a key growth platform for the company — representing 26,000 housing units in 35 states. During 1999, the company closed $132 million in investments, representing a 31 percent increase from the previous year, and committed $161 million, a 56 percent increase over 1998 commitments. Edison Capital completed five syndications of affordable housing properties during the year. These transactions bring the total number of syndications completed to 15, reflecting the quality, value and liquidity of the company's affordable housing portfolio. The John Stewart Company, the housing management subsidiary of Edison Capital, increased its units under management by 61 percent. The company also signed a lease with the Treasure Island Development Authority (city of San Francisco) for the rehabilitation, marketing and management of 766 housing units in conjunction with the closure of the Treasure Island Naval Station and conversion to public use.

A LEADER IN ELECTRICITY/ INFRASTRUCTURE STRUCTURED FINANCE



Storm Lake I Wind Power Project
Storm Lake, Iowa

Edison Enterprises provides products and services for commercial, retail and utility markets, including energy-management services for business customers, home security services to residential consumers, and utility services to new developments and existing utilities.

In 1999, Edison Enterprises recorded a loss on an operating basis of $0.16 per share, or $55.5 million. To help the company's emerging businesses achieve their goals within the framework of supporting Edison International's integrated growth strategy, Edison Enterprises significantly refocused to: (1) empower operating management with responsibility for superior customer service, growth and profitability; and (2) concentrate its companies on strategic opportunities by transferring or discontinuing its non-core businesses.

EDISON SELECT

During 1999, the company integrated its acquisitions of Westec Residential Security Inc. and Valley Burglar & Fire Alarm Co. Inc. into Edison Security; achieved accelerated security growth of 33 percent to more than 237,000 customers; and relocated the security monitoring center to its San Dimas, Calif., headquarters. In addition, Edison Enterprises furthered its customer service efforts by establishing a state-of-the-art customer service center in Las Vegas and by developing and implementing new information systems. Meanwhile, to focus on its security business, the company discontinued the Edison OnCall(SM) appliance, heating and air conditioning repair service, and asked the California Public Utilities Commission for authorization to transfer its electrical warranty service business to Southern California Edison.

EDISON SOURCE

Focusing on its Integrated Energy Outsourcing (IEO) and Industrial Fast Charge (IFC) products and services, the company recorded a number of significant achievements in 1999. Specifically, the company integrated its acquisitions of refrigeration contractors GHV, Scott Polar and Kimmel-Motz into Edison Source, and implemented numerous operating procedures to achieve profitable energy and equipment maintenance services for supermarket customers. As a result of its efforts, Edison Source received outstanding customer service ratings from its supermarket customers, thus helping to develop its reputation as a leading energy management company in the refrigeration industry. Primarily targeted to the supermarket industry, IEO provides operations and maintenance services for refrigeration, heating, ventilation, air conditioning, lighting and other electrical systems equipment.

Confirming the reliability and operating benefits of its IFC battery products, Edison Source has received long-term contracts from Ford Motor Co., Gap, Nestlé and Hunt-Wesson. Targeted to manufacturing and distribution facilities, IFC provides fast-charging equipment, installation and service solutions for electric forklift applications.

EDISON UTILITY SERVICES

Furthering Edison Utility Services' (EUS) reputation as a strategic provider of electric distribution services throughout the United States, EUS has executed 12 long-term contracts to provide services to business customers in California and Florida, whereby EUS will design, construct, operate and maintain utility infrastructures such as electric, gas, water and telecommunications. Contracted services also include the provisioning of an Outage Management System (OMS). During 1999, EUS successfully implemented a state-of-the-art OMS for the Orlando Utilities Commission.

SCE achieved an all-time high in customer satisfaction with 75 percent of its customers "delighted" or "completely satisfied."

SCE earned more than a 15.2 percent return on shareholders' equity – partly due to performance-based incentive awards.

In 1999

SCE launched Edison Carrier Solutions to leverage the utility's fiber optic network to deliver wholesale telecommunications products and services to retail carriers throughout Southern California.

SCE's Information Technology (IT) department successfully instituted and managed the corporatewide Year 2000 program on time and under budget.

Southern California Edison is a leading regulated U.S. electric utility, serving 11 million people within a 50,000-square-mile area in central, coastal and Southern California. SCE is a recognized industry leader with more than 110 years of experience, superior operational management, and asset leverage that is creating new business opportunities. The company has assets of more than $17 billion.

SOUTHERN CALIFORNIA EDISON

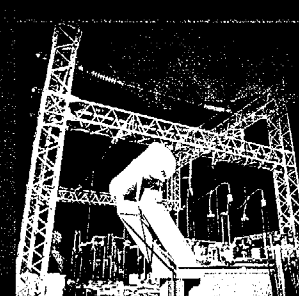
EDISON INTERNATIONAL EDISON INTERNATIONAL EDISON INTERNATIONAL EDISON INTERNATIONAL EDISON INTERNATIONAL

EDISON CAPITAL

Edison Capital posted its sixth straight record year with operating earnings of $136.9 million and built the foundation for a strong future with $402 million in new investments.

Edison Capital closed $132 million in affordable housing investments, representing a 31 percent increase from 1998, and committed $161 million, a 56 percent increase over 1998 commitments.

In 1999



Through its investment of $243 million, Edison Capital provided financing for EME's acquisition of the Ferrybridge and Fiddler's Ferry generating stations in northern England.

Edison Capital continued its participation in the infrastructure leasing market with a $116 million investment in a telecommunications duct network with Swisscom, a telecommunications company in Switzerland.

Edison Capital is a leading provider of capital and financial services for global energy and infrastructure projects, and is one of the nation's leading investors in affordable housing developments. With assets of about $2.7 billion, Edison Capital has projects in the United States, Latin America, Australia, Europe, Asia and Africa.

DID YOU KNOW?

NTERNATIONAL EDISON INTERNATIONAL EDISON INTERN

Edison Mission Energy is a world-class generation business specializing in the development, acquisition, construction management and operation of global power production facilities. It is one of the world's leading power producers with 22,770 megawatts of generating capacity, assets totaling nearly $15.5 billion and investments in more than 75 projects in Australia, Indonesia, Italy, New Zealand, Spain, Thailand, Turkey, the United Kingdom and the United States.

EME acquired from Commonwealth Edison a package of fossil-fuel generating assets for $4.9 billion and established Midwest Generation.

EME completed the acquisition of the Ferrybridge and Fiddler's Ferry generating stations in northern England from PowerGen for about $2 billion.

In 1999

EME acquired a 40 percent stake in New Zealand's Contact Energy Ltd. for $635 million.

EME completed the acquisition of the 1,884-MW Homer City Generating Station for $1.8 billion.

EDISON MISSION ENERGY

IONAL EDISON INTERNATIONAL EDISON INTERNATIONAL EDISON INTERNATIONAL EDISON INTERNATIONAL EDISON

EDISON ENTERPRISES

Edison Enterprises provides products and services for commercial, retail and utility markets, including energy-management services for business customers, home security services to residential consumers, and utility services to new developments and existing utilities.

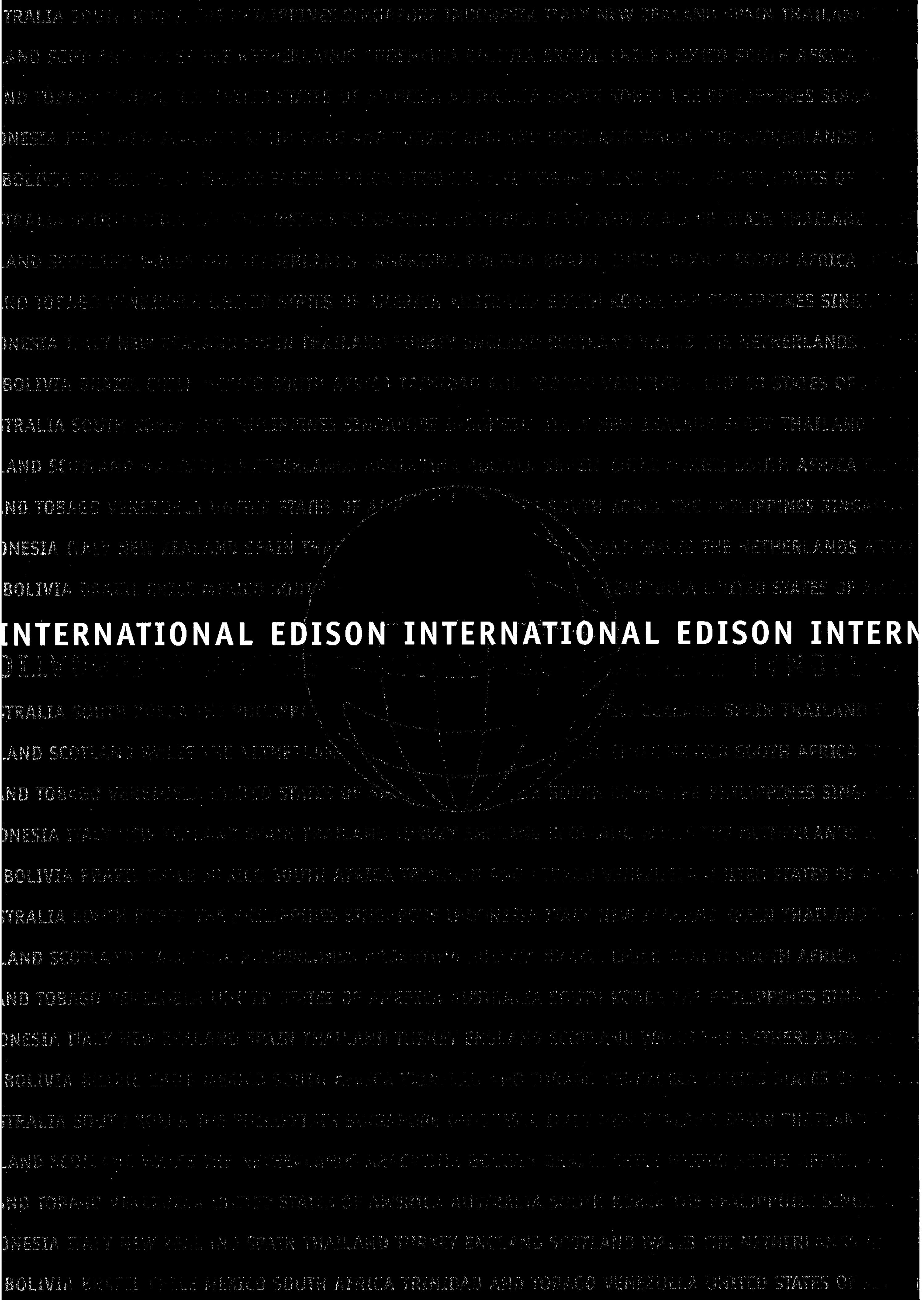
Edison Source has received long-term contracts to provide Industrial Fast Charge battery products and services to Ford Motor Co., Gap, Nestlé and Hunt-Wesson.

Edison Security achieved 33 percent growth to more than 237,000 customers, and relocated its security monitoring center to its San Dimas, Calif., headquarters.

In 1999

Edison Utility Services successfully implemented a state-of-the-art outage management system for the Orlando Utilities Commission.

Edison Enterprises established a state-of-the-art customer service center in Las Vegas.



FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Earnings

Edison International's 1999 basic earnings per share were $1.79, compared with $1.86 in 1998 and $1.75 in 1997. Southern California Edison (SCE) earned $1.39 in 1999, compared with $1.37 in 1998 and $1.44 in 1997. Edison Mission Energy (EME) earned 37¢ in 1999, unchanged from 1998 and up from 29¢ in 1997. Edison Capital earned 37¢ in 1999, compared with 29¢ in 1998 and 15¢ in 1997. Edison Enterprises and the parent company were responsible for a combined negative earnings impact of 34¢ in 1999, compared with negative 17¢ in 1998 and negative 13¢ in 1997. Edison International's 1999 earnings included special charges of 24¢ (a 22¢ charge at EME and Edison Capital, and a 6¢ charge at Edison Enterprises, partially offset by a 4¢ gain at SCE).

1999 vs. 1998

SCE's 1999 earnings of $1.39 included a 4¢ tax benefit due to a one-time adjustment that resulted from an Internal Revenue Service ruling. Excluding the gain, SCE's 1999 earnings were $1.35 per share, down 2¢ from 1998. The decrease was mainly due to the accelerated depreciation of SCE's generation assets, partially offset by higher kilowatt-hour sales in 1999.

EME and Edison Capital's combined earnings of 74¢ in 1999 included special charges of 20¢ at EME and 2¢ at Edison Capital to reflect anticipated changes in the phantom stock option programs for both companies. See discussion of phantom stock option programs in Note 8 to the Consolidated Financial Statements. Excluding the special charges, EME's 1999 earnings were 57¢, up 20¢ over 1998. The increase was primarily due to higher revenue from existing projects and revenue from projects acquired in 1999. Excluding the special charges, Edison Capital's 1999 earnings were 39¢, up 10¢ over 1998. The increase was mostly due to higher earnings from its infrastructure investments and the sale of interests in affordable housing projects.

Edison Enterprises and the parent company's 1999 negative effect on earnings of 34¢ per share included a one-time adjustment of 6¢ per share related to actions taken at Edison Enterprises to close five businesses. Excluding the one-time adjustment, Edison Enterprises and the parent company had a negative earnings impact of 28¢ in 1999, compared to a negative 17¢ in 1998. Increased interest expense at the parent company and continued investment in Edison Enterprises' ongoing businesses contributed to most of the 1999 decrease.

The reduced number of outstanding shares, which resulted from a share repurchase program initiated in 1995, benefited Edison International's earnings per share by 6¢ in 1999.

1998 vs. 1997

SCE's 1998 earnings of $1.37 per share were 7¢ lower than 1997. The decrease was mainly due to reduced authorized returns on generating assets and a lower earning asset base, partially offset by superior operating performance at the San Onofre Nuclear Generating Station. The lower earning asset base was mainly the result of the accelerated recovery of investments and divestiture of 12 generating plants.

EME and Edison Capital had combined earnings of 66¢ in 1998, up 22¢ over 1997. The increase was primarily due to increased investments in cross-border lease transactions, affordable housing, and infrastructure projects at Edison Capital, as well as improved performance of energy projects and lower net interest costs at EME.

Start-up and acquisition-related costs at Edison Enterprises continued to negatively impact earnings in 1998.

The reduced number of outstanding shares benefited Edison International's earnings per share by 19¢ in 1998.

Operating Revenue

As a result of industry restructuring, customers have an option to buy power from SCE or directly from the California Power Exchange (PX), thus becoming direct access customers. Most direct access customers are continuing to be billed by SCE, but are also given a credit for the generation portion of their bills. Electric utility revenue increased by less than 1% in 1999, as increased kilowatt-hour sales and revenue resulting from maintenance work SCE is providing the new owners of the divested plants was almost completely offset by the credit given to customers who chose direct access. Electric utility revenue decreased 6% in 1998 compared to 1997, reflecting lower average residential rates, partially offset by an increase in revenue resulting from the maintenance work noted above. In 1999, over 93% of electric utility revenue was from retail sales. Retail rates are regulated by the California Public Utilities Commission (CPUC) and wholesale rates are regulated by the Federal Energy Regulatory Commission (FERC).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Due to warmer weather during the summer months, electric operating revenue during the third quarter of each year is significantly higher than other quarters.

Legislation enacted in September 1996 provided for, among other things, a 10% rate reduction for residential and small commercial customers beginning in 1998 and other rates to remain frozen at June 1996 levels (system average of 10.1¢ per kilowatt-hour). See discussion of proposed post-rate freeze rates in SCE's Regulatory Environment.

The changes in electric utility revenue resulted from:

In millions	Year ended December 31, 1999	1998	1997
Electric utility revenue –			
Rate changes (including refunds)	$ (65)	$(498)	$173
Direct access credit	(213)	(29)	–
Sales volume changes	191	(44)	193
Other	110	117	4
Total	$ 23	$(454)	$370

Nonutility power generation revenue increased substantially in 1999, primarily due to revenue increases related to the Homer City, Ferrybridge and Fiddler's Ferry, and Midwest Generation LLC (acquired in December 1999) generating facilities. Nonutility power generation revenue decreased in 1998, mostly due to a series of new power-sales related contracts (where revenue is being deferred due to EME's revenue recognition policies) associated with EME's Loy Yang B project and lower Australian currency exchange rates, partially offset by higher energy revenue from First Hydro, as a result of higher energy prices.

Due to warmer weather during the summer months, nonutility power generation revenue from Homer City and Midwest Generation is usually higher during the third quarter of each year. In addition, EME's third quarter revenue from energy projects is materially higher than other quarters of the year due to a significant number of EME's domestic energy projects located on the western coast of the United States, which generally have power sales contracts that provide for higher payments during summer months. First Hydro, Ferrybridge and Fiddler's Ferry, and Iberian Hy-Power provide for higher nonutility power generation revenue during the winter months.

Financial services and other revenue increased in 1999, mostly due to the closing of five affordable housing syndications and additional lease transactions at Edison Capital. Financial services and other revenue increased in 1998, mainly due to increased revenue related to Edison Capital's cross-border lease transactions and increased revenue at an Edison Enterprises subsidiary.

Operating Expenses

Fuel expense increased in 1999, when compared to 1998. The increase was primarily due to an increase at EME for expenses at Homer City, the Ferrybridge and Fiddler's Ferry generating facilities, Midwest Generation and the Doga project in Turkey (which began commercial operation in 1999). This increase was partially offset by a decrease at SCE resulting from the sale of the generating plants in 1998. Fuel expense decreased in 1998, mostly due to SCE's generating plant divestiture. EME also had decreased fuel expense in 1998, mainly due to lower fuel costs at its Loy Yang B project.

Purchased-power expense – contracts decreased in both 1999 and 1998, primarily due to SCE entering into settlements to end its contractual obligations with certain nonutility generators (known as qualifying facilities, or QFs) and the terms in some of the QF contracts reverting to a lower price basis. Prior to April 1998, SCE was required under federal law and CPUC orders to enter into contracts to purchase power from QFs at CPUC-mandated prices even though energy and capacity prices under many of these contracts are generally higher than other sources. In 1999, SCE paid about $1.5 billion (including energy and capacity payments) more for these power purchases than the cost of power available from other sources. SCE is continuing to purchase power under existing contracts from certain QFs and from other utilities.

Since April 1, 1998, SCE has been required to sell all of its generated power through the PX and acquire all of its power from the PX to distribute to its retail customers. These transactions with the PX are reported net. In 1999, PX purchased-power expense increased 19%, mainly due to three additional months of PX transactions in 1999. However, when 1999 PX purchased-power expense is compared on the same nine-month basis as 1998, the increase is less than 1%, despite the fact that SCE experienced a significant decrease in the volume of kilowatt-hour sales through the PX. The lower volume of sales through the PX in 1999 was the result of less generation at SCE (San Onofre refueling outages in 1999, divestiture of SCE's 12 generating plants in 1998 and reduced hydroelectric generation) and fewer purchases from QFs. QF power purchases and other purchased power is also sold through the PX.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Provisions for regulatory adjustment clauses decreased in both 1999 and 1998. The 1999 decrease was mainly due to undercollections related to the difference between generation-related revenue and generation-related costs and the rate-making treatment of the rate reduction notes. These undercollections were partially offset by overcollections related to the administration of public purpose funds. The 1998 decrease was mainly due to the revenue deferrals related to the rate-making treatment of the rate reduction notes. This rate-making treatment has allowed for the deferral of the recovery of a portion of the transition-related costs, from a four-year period to a 10-year period. See the discussion in Revenue and Cost-Recovery Mechanisms.

Other operation and maintenance expenses increased in 1999, primarily due to: expenses incurred at EME and Edison Capital to reflect an anticipated exchange offer to the holders of outstanding phantom options at these companies; increased plant operating expenses at EME due to the Homer City, Ferrybridge and Fiddler's Ferry, and Midwest Generation acquisitions in 1999, as well as the Doga project; additional reserves for five affordable housing syndications at Edison Capital; increases at Edison Enterprises' security subsidiary; and the actions taken at Edison Enterprises to close five businesses and refocus the ongoing businesses. In addition, SCE had a net increase in other operation and maintenance expenses primarily related to its PX and ISO costs (including grid management costs), partially offset by a decrease related to lower expenses incurred at its distribution facilities. Lastly, a nonutility subsidiary incurred a decrease in operating expenses in 1999 related to the sale of real estate in 1998. Other operation and maintenance expenses increased in 1998, mostly due to an increase in mandated transmission service (known as must-run reliability services) expenses, direct access activities, and PX and Independent System Operator (ISO) costs incurred by SCE, as well as higher expenses at Edison Enterprises' security subsidiary. Also, storm damage expense resulting from the harsh winter in 1998 contributed to SCE's 1998 increase.

Depreciation, decommissioning and amortization expense increased in 1999, mainly due to EME's acquisitions of Homer City and the Ferrybridge and Fiddler's Ferry generating facilities. In 1998, depreciation, decommissioning and amortization expense increased, primarily due to the further acceleration of recovery of San Onofre Units 2 and 3 and the Palo Verde Nuclear Generating Station units, accelerated recovery of SCE's generating plants, and the amortization of the loss on plant sales. The amortization of the loss on SCE's plant sales, as well as the accelerated recoveries implemented in 1998 are part of the competition transition charge (CTC) mechanism.

Net gain on sale of utility plant resulted from the sale of SCE's generating plants in 1998. Gains were used to reduce stranded costs. Losses will be recovered from customers over the transition period through the CTC mechanism.

Other Income

Interest and dividend income decreased in 1999, primarily due to lower cash balances at EME. Interest and dividend income increased in 1998, reflecting higher investment balances due to the sale of SCE's generating plants, as well as increases in interest earned on higher balancing account undercollections.

Other nonoperating income increased in 1999, primarily due to the one-time adjustment in 1999, which resulted from an Internal Revenue Service ruling that allowed SCE to record a tax benefit, and the gain on sales of equity investments at SCE. In 1998, other nonoperating income increased due to additional accruals in 1997 at SCE for regulatory matters.

Fixed Charges and Taxes

Interest and amortization on long-term debt increased in 1999, reflecting additional long-term debt at EME to finance its Homer City, Ferrybridge and Fiddler's Ferry generating facilities, and Midwest Generation acquisitions. Increased long-term debt at Edison International (parent company) also contributed to the increased interest expense. These 1999 increases were partially offset by a decrease at SCE due to an adjustment of accrued interest in first quarter 1998 related to the rate reduction notes issued in December 1997. Interest and amortization on long-term debt increased in 1998, mainly due to an increase at SCE related to the issuance of the rate reduction notes. Interest on the rate reduction notes was $134 million in 1999 and $148 million in 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Other interest expense increased substantially in 1999, mostly due to additional debt for financing EME's acquisitions of generating facilities. Higher overall short-term debt balances at both SCE and Edison International, the parent company, also contributed to the increase in 1999. In 1998, other interest expense decreased significantly, mostly due to lower overall short-term debt balances, primarily at SCE and at Edison International, the parent company. SCE's 1998 divestiture of its generating plants caused a decrease in its need for short-term debt used to finance the plants' fuel inventories.

Dividends on preferred securities increased in 1999, reflecting the additional issuance of preferred securities at EME during 1999, and the issuance of quarterly income securities at Edison International, the parent company, in July and October 1999. Proceeds from the issuances were used primarily to finance EME's 1999 acquisitions of the Contact Energy Ltd., Fiddler's Ferry and Ferrybridge, and Midwest Generation generating facilities.

Income taxes decreased in 1999, primarily due to lower pre-tax income, and income tax benefits EME recorded in 1999. In 1999, EME recorded tax benefits associated with a partial sale of its interest in an oil and gas joint venture and the refund of advanced corporation tax payments from the United Kingdom. Income taxes decreased in 1998, primarily due to lower pre-tax income at SCE, as well as additional amortization at SCE related to the CTC mechanism, partially offset by higher pre-tax income at Edison Capital related to its increased investments in cross-border lease transactions, affordable housing, and infrastructure projects.

FINANCIAL CONDITION

Edison International's liquidity is primarily affected by debt maturities, dividend payments, capital expenditures, and investments in partnerships and unconsolidated subsidiaries. Capital resources include cash from operations and external financings.

Edison International's board of directors has authorized the repurchase of up to $2.8 billion of its outstanding shares of common stock. Edison International repurchased approximately 101 million shares ($2.4 billion) between January 1995 and February 1999, funded by dividends from its subsidiaries and the proceeds of the rate reduction notes. See the discussion in Cash Flows from Financing Activities.

Edison International's dividend payout ratio for 1999 was 59.8%.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled $2.1 billion in 1999, $1.5 billion in 1998 and $2.1 billion in 1997. Edison International's cash flow coverage of dividends for 1999 was 5.7 times compared to 3.9 times in 1998 and 5.2 times in 1997. The rate-making treatment of the gains on sales of SCE's generating plants caused an increase in 1999, as well as the decrease in 1998.

Cash Flows from Financing Activities

At December 31, 1999, Edison International and its subsidiaries had $572 million of borrowing capacity available under lines of credit totaling $3.8 billion. SCE had total lines of credit of $1.25 billion, with $39 million available for short-term debt and $515 million available for the long-term refinancing of its variable-rate pollution-control bonds. The parent company had total lines of credit of $590 million, with $108 million available. The nonutility subsidiaries had total lines of credit of $2.0 billion, with $425 million available to finance general cash requirements. These unsecured lines of credit are at negotiated or bank index rates with various expiration dates.

Both EME's short-term and long-term debt are used for general corporate purposes as well as acquisitions. SCE's short-term debt is used to finance fuel inventories and general cash requirements. SCE's long-term debt is used mainly to finance capital expenditures. SCE's external financings are influenced by market conditions and other factors, including limitations imposed by its articles of incorporation and trust indenture. As of December 31, 1999, SCE could issue approximately $11.1 billion of additional first and refunding mortgage bonds and $2.8 billion of preferred stock at current interest and dividend rates.

EME has firm commitments of $186 million to make equity and other contributions for the ISAB project in Italy, the EcoEléctrica project in Puerto Rico and the Tri Energy project in Thailand. EME also has contingent obligations to make additional contributions of $159 million, primarily for equity support guarantees related to the Paiton project in Indonesia.

EME may incur additional obligations to make equity and other contributions to projects in the future. EME believes it will have sufficient liquidity to meet these equity requirements from cash provided by operating activities, proceeds from the repayment of loans to energy projects and funds available from EME's revolving line of credit.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Edison Capital has firm commitments of $364 million to fund affordable housing, and energy and infrastructure investments.

California law prohibits SCE from incurring or guaranteeing debt for its nonutility affiliates. Additionally, the CPUC regulates SCE's capital structure, limiting the dividends it may pay Edison International. At December 31, 1999, SCE had the capacity to pay $433 million in additional dividends and continue to maintain its authorized capital structure. These restrictions are not expected to affect Edison International's ability to meet its cash obligations.

In December 1997, $2.5 billion of rate reduction notes were issued on behalf of SCE by SCE Funding LLC, a special purpose entity. These notes were issued to finance the 10% rate reduction mandated by state law. The proceeds of the rate reduction notes were used by SCE Funding LLC to purchase from SCE an enforceable right known as transition property. Transition property is a current property right created by the restructuring legislation and a financing order of the CPUC and consists generally of the right to be paid a specified amount from non-bypassable rates charged to residential and small commercial customers. The rate reduction notes are being repaid over 10 years through these non-bypassable residential and small commercial customer rates which constitute the transition property purchased by SCE Funding LLC. The remaining series of outstanding rate reduction notes have scheduled maturities beginning in 2000 and ending in 2007, with interest rates ranging from 6.14% to 6.42%. The notes are secured by the transition property and are not secured by, or payable from, assets of SCE or Edison International. SCE used the proceeds from the sale of the transition property to retire debt and equity securities.

Although, as required by generally accepted accounting principles, SCE Funding LLC is consolidated with SCE and the rate reduction notes are shown as long-term debt in the consolidated financial statements, SCE Funding LLC is legally separate from SCE. The assets of SCE Funding LLC are not available to creditors of SCE or Edison International and the transition property is legally not an asset of SCE or Edison International.

On January 24, 2000, SCE issued $250 million of 7⅝% notes, due 2010.

Cash Flows from Investing Activities

Cash flows from investing activities are affected by additions to property and plant, purchases and sales of assets, the nonutility companies' investments in partnerships and unconsolidated subsidiaries, and funding of nuclear decommissioning trusts. Decommissioning costs are accrued and recovered in rates over the term of each nuclear generating facility's operating license. SCE estimates that it will spend approximately $8.6 billion through 2060 to decommission its nuclear facilities. This estimate is based on SCE's current-dollar decommissioning costs ($2.0 billion), escalated at rates ranging from 0.3% to 10.0% (depending on the cost element) annually. These costs are expected to be funded from independent decommissioning trusts which receive SCE contributions of approximately $25 million per year.

Cash used for the nonutility subsidiaries' investing activities was $9.0 billion in 1999, $1.2 billion in 1998 and $383 million in 1997. The 1999 increase is primarily due to EME's acquisition of Homer City in March 1999, Contact Energy in May 1999, the Ferrybridge and Fiddler's Ferry generating facilities in July 1999, and the Midwest Generation plants in December 1999. The 1998 increase was primarily related to EME's ownership purchase in the EcoEléctrica project in Puerto Rico and Edison Capital's investment in leveraged leases in 1998.

Market Risk Exposures

Edison International's primary market risk exposures arise from fluctuations in energy prices, interest rates and foreign exchange rates. Edison International's risk management policy allows the use of derivative financial instruments to manage its financial exposures, but prohibits the use of these instruments for speculative or trading purposes.

A 10% increase in market interest rates would result in a $36 million increase in the fair value of Edison International's interest rate hedge agreements. A 10% decrease in market interest rates would result in a $36 million decline in the fair value of interest rate hedge agreements. A 10% increase in pool prices would result in a $130 million decrease in the fair market value of electricity rate swap agreements. A 10% decrease in pool prices would result in a $130 million increase in the fair market value of electricity rate swap agreements. A 10% increase in natural gas prices would result in a $20 million increase in the fair market value of gas call options. A 10% decrease in natural gas prices would result in an $11 million decline in the fair market value of gas call options. A 10% change in market rates is expected to have an immaterial effect on Edison International's other financial instruments.

SCE Issues

As a result of the rate freeze established in the restructuring legislation, SCE's transition costs are recovered as the residual component of rates once the costs for distribution, transmission, public purpose programs, nuclear decommissioning and the cost of supplying power to its customers through the PX and ISO have already been recovered. Accordingly, more revenue will be available to cover transition costs when market prices in the PX and ISO are low than when PX and ISO prices are high. The PX and ISO market prices to date have generally been consistent, although some irregular price spikes have occurred. The ISO has responded to price spikes in the market for reliability services (referred to as ancillary services) by imposing a price cap on the market for such services until certain actions have been completed to improve the functioning of those markets. Similarly, the ISO currently maintains a cap on its market for imbalance energy until adequate measures to improve the efficient operation of the market have been implemented. The caps in these markets mitigate the risk of costly price spikes that would reduce the revenue available to SCE to pay transition costs. The price cap instituted by the ISO in the summer of 1998 was $250/MWh. In October 1999, that cap was raised to $750/MWh and will remain at that level through the summer of 2000, unless certain identified market improvements do not occur. Under such circumstances, the price cap can be reduced to $500/MWh. SCE has entered into gas call options to mitigate high natural gas prices, since increases in natural gas prices tend to raise the price of electricity.

In July 1999, SCE began participating in forward purchases through a PX block forward market. In the PX block forward market, SCE can purchase monthly blocks of energy for six days a week (excluding Sundays and holidays) for 16 hours a day. These purchases can be made up to 12 months in advance of the delivery date. The CPUC has currently limited SCE's use of the PX block forward market to a maximum of approximately 2,000 MW in any month. The PX has requested authority from the FERC to sell other forward products including a peak product, six days a week, for eight hours a day. SCE has requested rate-making treatment from the CPUC for its use of these additional products, and has requested an expansion of the limits from all forward PX products up to 5,200 MW in summer months. SCE requested permission from the CPUC to begin a demand responsiveness program that would allow customers to be paid to curtail their load during times of very high prices. SCE expects a CPUC resolution on these issues by the end of March 2000.

EME Issues

Changes in interest rates, electricity pool pricing and fluctuations in foreign currency exchange rates can have a significant impact on EME's results of operations. EME has mitigated a portion of the risk of interest rate fluctuations by arranging for fixed rate or variable rate financing with interest rate swaps or other hedging mechanisms for the majority of its project financings. Interest expense includes $25 million in 1999, $23 million in 1998 and $21 million in 1997, as a result of interest rate swap and collar agreements. Several of EME's interest rate swap and collar agreements mature prior to their underlying debt. EME does not believe that interest rate fluctuations will have a material adverse effect on its results of operations or financial position.

Projects in the U.K. sell their electric energy and capacity through a centralized electricity pool, which establishes a half-hourly clearing price, or pool price, for electric energy. The pool price is extremely volatile, and can vary by a factor of 10 or more over the course of a few hours due to large differentials in demand according to the time of day. First Hydro and Ferrybridge and Fiddler's Ferry mitigate a portion of the market risk of the pool by entering into contracts for differences (electricity rate swap agreements), related to either the selling or purchasing price of power, where a contract specifies a price at which the electricity will be traded, and the parties to the agreements make payments, calculated on the difference between the price in the contract and the pool price for the element of power under contract. These contracts are sold in various structures. These contracts act as a means of stabilizing production revenue or purchasing costs by removing an element of their net exposure to pool price volatility. A proposal to replace the current structure of the forward-contracts market and the pool has been made by the Director General of Electricity Supply, at the request of the Minister for Science, Energy and Industry in the U.K. The Minister has recommended that the proposal be implemented by October 2000. Further definition of the proposal will be required before the effects of the changes can be evaluated. Legislation is being introduced to allow for the implementation of new trading arrangements.

Electric power generated at Homer City is sold under bilateral arrangements with domestic utilities and power marketers under short-term contracts (two years or less) or to the Pennsylvania-New Jersey-Maryland Power Pool (PJM) or the New York Independent System Operator (NYISO). The PJM pool has a market that establishes an hourly clearing price. Homer City is located in the PJM pool area and is physically connected to high-voltage transmission lines serving both the PJM and NYISO markets. Power can also be transmitted to the mid-western United States. EME has developed risk management policies and procedures which, among other matters, address credit risk. It is EME's policy to sell to investment grade counterparties or counterparties that have an investment grade guarantor. EME hedges a portion of the electric output of the plant in order to lock in desirable outcomes. EME also manages the margin between electric prices and fuel prices when deemed appropriate. EME uses forward contracts, swaps, futures or option contracts to achieve these objectives.

Midwest Generation and Commonwealth Edison (ComEd) entered into purchase power agreements in which ComEd will purchase capacity and have the right to purchase energy generated by the Midwest Generation units (see discussion under EME Acquisitions). The agreements, which began on December 15, 1999, and have a term of up to five years, provide for capacity and energy payments. ComEd will be obligated to make a capacity payment for the units under contract and an energy payment for the electricity produced by these units. The capacity payment will provide Midwest Generation revenue for fixed charges, and the energy payment will compensate Midwest Generation for variable costs of production. If ComEd does not fully dispatch the units under contract, Midwest Generation may sell, subject to certain conditions, the excess energy at market prices to neighboring utilities, municipalities, third party electric retailers, large consumers and power marketers on a spot basis.

Loy Yang B sells its electrical energy through a centralized electricity pool, which provides for a system of generator bidding, central dispatch and a settlements system based on a clearing market for each half-hour of every day. The Victorian Power Exchange, operator and administrator of the pool, determines a system marginal price each half-hour. To mitigate the exposure to price volatility of the electricity traded in the pool, Loy Yang B has entered into a number of financial hedges. From May 8, 1997, to December 31, 2000, 53% to 64% of the plant output sold is hedged under vesting contracts, with the remainder of the plant capacity hedged under the State Government of Victoria, Australia (State) hedge described below. Vesting contracts were put into place by the State, between each generator and each distributor, prior to the privatization of electric power distributors in order to provide more predictable pricing for those electricity customers that were unable to choose their electricity retailer. Vesting contracts set base strike prices at which the electricity will be traded, and the parties to the agreement make payments, calculated based on the difference between the price in the contract and the half-hourly pool clearing price for the element of power under contract. These contracts are sold in various structures. These contracts are accounted for as electricity rate swap agreements. The State hedge is a long-term contractual arrangement based upon a fixed price commencing May 8, 1997, and terminating October 31, 2016. The State guarantees the State Electricity Commission of Victoria's obligations under the State hedge.

EME's electric revenue increased by $61 million, $108 million and $96 million, respectively, for the years ended December 31, 1999, 1998 and 1997, as a result of electricity rate swap agreements and other hedging activities.

As EME continues to expand into foreign markets, fluctuations in foreign currency exchange rates can affect the amount of its equity contributions to, distributions from and results of operations of its foreign projects. At times, EME has hedged a portion of its exposure to fluctuations in foreign exchange rates where it deems appropriate through financial derivatives, offsetting obligations denominated in foreign currencies, and indexing underlying project agreements to U.S. dollars or other indices reasonably expected to correlate with foreign exchange movements. Statistical forecasting techniques are used to help assess foreign exchange risk and the probabilities of various outcomes. There can be no assurance, however, that fluctuations in exchange rates will be fully offset by hedges or that currency movements and the relationship between macroeconomic variables will behave in a manner that is consistent with historical or forecasted relationships.

Paiton Project

A wholly owned subsidiary of EME owns a 40% interest in the Paiton project, a 1,230-MW coal-fired power plant in Indonesia. The tariff is higher in the early years and steps down over time. The tariff for the Paiton project includes infrastructure to be used in common by other units at the Paiton complex. The plant's output is fully contracted with the state-owned electricity company for payment in Indonesian Rupiah, with the portion of such payments intended to cover non-Rupiah project costs (including returns to investors) indexed to the Indonesian Rupiah/U.S. dollar exchange rate established at the time of the power purchase agreement in February 1994. The state-owned electricity company's payment obligations are supported by the Indonesian government. The project received substantial finance and insurance support from the Export-Import Bank of the United States, The Export-Import Bank of Japan, the U.S. Overseas Private Investment Corporation and the Ministry of International Trade and Industry of Japan. The projected rate of growth of the Indonesian economy and the exchange rate of Indonesian Rupiah into U.S. dollars have deteriorated significantly since the Paiton project was contracted, approved and financed. The Paiton project's senior debt ratings have been reduced from investment grade to speculative grade based on the rating agencies' perceived increased risk that the state-owned electricity company might not be able to honor the electricity sales contract with Paiton. The Indonesian government has arranged to reschedule sovereign debt owed to foreign governments and has entered into discussions about rescheduling sovereign debt owed to private lenders. Certain events have occurred (including those discussed in the subsequent paragraph) which, with the passage of time or upon notice, may mature into defaults of the project's debt agreement. On October 15, 1999, the project entered into an interim agreement with its lenders, in which the lenders waived such defaults until July 31, 2000. However, such waiver may expire on an earlier date if additional defaults (other than those specifically waived) or certain other specified events occur.

One of the Paiton units began commercial operation in May 1999 and the other unit in July 1999. Because of the economic downturn, the state-owned electricity company is experiencing low electricity demand and has therefore ordered no power from the Paiton plant; however, under the terms of the power purchase agreement, the state-owned electricity company is required to continue to pay for capacity and fixed operating costs once each unit and the plant achieve commercial operation. An invoice for these charges for May 1999 has been submitted and a partial payment, based on an arbitrary exchange rate that does not comply with the terms of the power purchase agreement, was received. Additional invoices for capacity charges and fixed operating costs have been submitted; no payment has been received. In addition, the state-owned electricity company and the project have begun discussions to renegotiate the power supply contract. However, it is not yet known what form the renegotiation may take. Any material modifications of the contract could also require a renegotiation of the Paiton project's debt agreement. The impact of any such renegotiations with the state-owned electricity company, the Indonesian government or the project's creditors on EME's expected return on its investment in Paiton is uncertain at this time; however, EME believes that it will ultimately recover its investment in the project.

Projected Capital Requirements

Edison International's projected construction expenditures for the next five years are: 2000 – $1.4 billion; 2001 – $1.3 billion; 2002 – $1.1 billion; 2003 – $1.0 billion; and 2004 – $945 million.

Long-term debt maturities and sinking fund requirements for the next five years are: 2000 – $940 million; 2001 – $1.4 billion; 2002 – $1.6 billion; 2003 – $616 million; and 2004 – $2.3 billion.

Preferred stock redemption requirements for the next five years are: 2000 and 2001 – zero; 2002 – $105 million; 2003 – $9 million; and 2004 – $9 million.

EME ACQUISITIONS

In March 1999, EME completed the acquisition of the 1,884-MW Homer City Generating Station for approximately $1.8 billion. Homer City was jointly owned by subsidiaries of GPU, Inc. and New York State Electric & Gas Corporation. The coal-fired facility has the rights to direct, high-voltage interconnections to both the NYISO and the PJM. The plant is located near Pittsburgh, Pennsylvania. EME is operating the plant, which is one of the lowest-cost generation facilities in the region. EME financed the acquisition with a combination of debt secured by the project, EME corporate debt and cash.

In May 1999, EME completed its acquisition of a 40% interest in New Zealand's government-owned Contact Energy Ltd. for approximately $635 million. The New Zealand government sold the remaining 60% of Contact Energy to the public through an initial public offering. Contact Energy owns and operates hydroelectric, geothermal and natural gas-fired generating plants primarily in New Zealand with a total generating capacity of 2,626 MW. EME financed the acquisition with subsidiary debt, an equity contribution from Edison International and cash.

In July 1999, EME completed its acquisition of two electric generating plants, Ferrybridge and Fiddler's Ferry, located in the United Kingdom from PowerGen U. K. plc, for approximately $2 billion. Each of the plants has a generating capacity of about 2,000 MW. The acquisition was financed primarily through a combination of debt secured by the project and equity from Edison International.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

In October 1999, EME acquired the remaining 20% interest in the Roosecote project, a 220-MW gas-fired power station located in northern England, for approximately $16 million.

In December 1999, EME completed its acquisition of the fossil-fueled generating assets of ComEd. The $4.9 billion transaction included amounts paid by a third party lessor in connection with a lease transaction. The coal-, gas- and oil-fired generating facilities have a total capacity of 9,510 MW. In conjunction with the acquisition, EME, who will operate the facilities through a subsidiary, Midwest Generation, will invest additional capital in the plants to upgrade pollution controls, extend plant life, improve reliability and reduce generation costs.

SCE'S REGULATORY ENVIRONMENT

SCE currently operates in a highly regulated environment in which it has an obligation to deliver electric service to customers in return for an exclusive franchise within its service territory. This regulatory environment is changing as a result of a 1995 CPUC decision on restructuring and state legislation enacted in 1996. The Statute substantially adopted the CPUC's restructuring decision by addressing stranded-cost recovery for utilities and providing a certain cost-recovery time period for the transition costs associated with generation-related assets. The Statute also included provisions to finance a portion of the stranded costs that residential and small commercial customers would have paid between 1998 and 2001, which allowed SCE to reduce rates by at least 10% to these customers, effective January 1, 1998. The Statute mandated other rates to remain frozen at June 1996 levels (system average of 10.1¢ per kilowatt-hour), including those for large commercial and industrial customers, and included provisions for continued funding for energy conservation, low-income programs and renewable resources. Despite the rate freeze, SCE expects to be able to recover its revenue requirement during the 1998–2001 transition period. In addition, the Statute mandated the implementation of the CTC (see the detailed discussion in Revenue and Cost-Recovery Mechanisms) that provides utilities the opportunity to recover costs made uneconomic by electric utility restructuring.

Revenue and Cost-Recovery Mechanisms

Revenue is determined by various mechanisms depending on the utility operation. Revenue related to distribution operations is being determined through a performance-based rate-making (PBR) mechanism and the distribution assets have the opportunity to earn a CPUC-authorized 9.49% return. The distribution PBR will extend through December 2001. Key elements of the distribution PBR include: distribution rates indexed for inflation based on the Consumer Price Index less a productivity factor; adjustments for cost changes that are not within SCE's control; a cost-of-capital trigger mechanism based on changes in a bond index; standards for customer satisfaction; service reliability and safety; and a net revenue-sharing mechanism that determines how customers and shareholders will share gains and losses from distribution operations. Transmission revenue is being determined through FERC-authorized rates that are subject to refund.

SCE's transition costs are being recovered through a non-bypassable CTC. This charge applies to all customers who were using or began using utility services on or after the CPUC's December 1995 restructuring decision date. At the beginning of the transition period, SCE estimated its transition costs to be approximately $10.6 billion (1998 net present value) from 1998 through 2030. This estimate was based on incurred costs, forecasts of future costs and assumed market prices. However, changes in the assumed market prices could materially affect these estimates. Transition costs related to power-purchase contracts are being recovered through the terms of their contracts while most of the remaining transition costs will be recovered through 2001. The potential transition costs are comprised of $6.4 billion from SCE's QF contracts, which are the direct result of prior legislative and regulatory mandates, and $4.2 billion from costs pertaining to certain generating assets (including the 1998 sale of SCE's generating plants) and regulatory commitments consisting of costs incurred (whose recovery has been deferred by the CPUC) to provide service to customers. Such commitments include the recovery of income tax benefits previously flowed through to customers, postretirement benefit transition costs, accelerated recovery of San Onofre Units 2 and 3 and the Palo Verde units, and certain other costs. During 1998, SCE sold all of its gas- and oil-fueled generation plants for $1.2 billion, over $500 million more than the combined book value. Net proceeds of the sales were used to reduce stranded costs, which otherwise were expected to be collected through the CTC mechanism. If events occur during the restructuring process that result in all or a portion of the transition costs being improbable of recovery, SCE could have write-offs associated with these costs if they are not recovered through another regulatory mechanism.

Revenue from generation-related operations is being determined through the competitive market and the CTC mechanism, which now includes the nuclear rate-making agreements. The portion of revenue related to fossil and hydroelectric generation operations that is made uneconomic by electric industry restructuring is recovered through the CTC mechanism. The portion that is economic is recovered through the market. SCE's costs associated with its hydroelectric plants are being recovered through a performance-based mechanism. The mechanism sets the hydroelectric revenue requirement and establishes a formula for extending it through the duration of the electric industry restructuring transition period, or until market valuation of the hydroelectric facilities, whichever occurs first. The mechanism provides that power sales revenue from hydroelectric facilities in excess of the hydroelectric revenue requirement be credited against the costs to transition to a competitive market. In 1999, fossil and hydroelectric generation assets had the opportunity to earn a 7.22% return. SCE has filed an application with the CPUC regarding the market valuation of its hydroelectric facilities. See further discussion below.

SCE is recovering its investment in its nuclear facilities on an accelerated basis in exchange for a lower authorized rate of return. SCE's nuclear assets are earning an annual rate of return of 7.35%. In addition, the San Onofre plan authorizes a fixed rate of approximately 4¢ per kilowatt-hour generated for operating costs including incremental capital costs, and nuclear fuel and nuclear fuel financing costs. The San Onofre plan commenced in April 1996, and ends in December 2001 for the accelerated recovery portion and in December 2003 for the incentive-pricing portion. Palo Verde's operating costs, including incremental capital costs, and nuclear fuel and nuclear fuel financing costs, are subject to balancing account treatment. The Palo Verde plan commenced in January 1997 and ends in December 2001. Beginning January 1, 1998, both the San Onofre and Palo Verde rate-making plans became part of the CTC mechanism.

In March 1997, SCE filed its first FERC transmission rate case. In March 1999, a proposed FERC decision was issued which recommended a reduced rate of return on equity of 9.68% (compared to SCE's current CPUC rate for distribution of 11.6%) and a reduced return on transmission assets of 8.41% (compared to the current rate of 9.43% being earned on transmission assets). SCE filed comments opposing the proposed decision in May 1999. In response to a recent FERC ruling, on November 1, 1999, SCE filed additional evidence regarding return on equity. A final FERC decision is expected during first quarter 2000. SCE does not expect the final decision to have a material effect on its results of operations or financial position.

As a further requirement of the law that restructured California's electric utility industry, in October 1999, SCE filed an application with the CPUC to approve an auction process for its 56% interest in the Mohave Generating Station. A CPUC decision on the auction process is expected in early 2000.

In order to comply with the restructuring legislation, on December 15, 1999, SCE filed an application with the CPUC establishing a market value for its hydroelectric generation-related assets at approximately $1.0 billion (almost twice the assets' book value) and proposing to retain and operate the hydroelectric assets under a performance-based and revenue-sharing mechanism. The application had broad-based support from labor, ratepayer and environmental groups. If approved by the CPUC, SCE would be allowed to recover an authorized, inflation-index operations and maintenance allowance, as well as a reasonable return on capital investment. A revenue-sharing arrangement would be activated if revenue from the sale of hydroelectricity exceeds or falls short of the authorized revenue requirement. SCE would then refund 90% of the excess revenue to ratepayers or recover 90% of any shortfalls from ratepayers. A final CPUC decision is expected by the end of 2000.

On January 7, 2000, SCE filed an application with the CPUC proposing rates that would go into effect when the current rate freeze ends on March 31, 2002, or earlier, depending on the pace of CTC recovery. The proposal seeks CPUC approval of a rate redesign that will result in reduced rates for most customers when SCE completes the first phase of recovery of its transition costs. The proposed new rates are expected to reduce SCE's system average rates by about 17% from current frozen rate levels, based on certain assumptions about competitive energy prices. In addition, SCE's filing proposes to redesign and establish separate transmission and distribution rates to better reflect the actual costs to deliver electricity and serve customers. This pricing approach is consistent with CPUC policies requiring California's major utilities to move toward cost-based transmission and distribution rates.

Restructuring Implementation Costs

In May 1998, SCE filed an application with the CPUC to identify the categories of restructuring implementation costs (including costs related to the start-up and development of both the PX and ISO, and related to the implementation of direct access) and to establish the reasonableness of those costs incurred in 1997. In September 1999, the CPUC approved a settlement agreement between SCE, the CPUC's Office of Ratepayer Advocates and several other parties allowing SCE to recover substantially all (approximately $300 million) of its restructuring implementation costs (incurred and estimated) for the period 1997–2001. In addition, the settlement provides that up to $210 million of generation-related costs (transition costs) that are displaced by recovery of the restructuring implementation costs during the rate freeze may be recovered after December 31, 2001, the date SCE would cease to recover these transition costs under restructuring legislation.

Accounting for Utility Generation-Related Assets

If the CPUC's electric industry restructuring plan continues as described above, SCE will be allowed to recover its transition costs through non-bypassable charges to its distribution customers (although its investment in certain generation assets is subject to a lower authorized rate of return). In 1997, SCE discontinued application of accounting principles for rate-regulated enterprises for its generation assets based on new accounting guidance. The new guidance did not require SCE to write off any of its generation-related assets, including related regulatory assets. SCE has retained these assets on its balance sheet because the Statute and restructuring plan referred to above make probable their recovery through a non-bypassable charge to distribution customers. The regulatory assets relate primarily to the recovery of accelerated income tax benefits previously flowed through to customers, purchased power contract termination payments and unamortized losses on reacquired debt. The new accounting guidance also permits the recording of new generation-related regulatory assets during the transition period that are probable of recovery through the CTC mechanism.

During the second quarter of 1998, additional guidance was developed related to the application of asset impairment standards to these assets. Using this guidance, SCE reduced its remaining nuclear plant investment by $2.6 billion (as of June 30, 1998) and recorded a regulatory asset on its balance sheet for the same amount. For this impairment assessment, the fair value of the investment was calculated by discounting expected future net cash flows. This reclassification had no effect on SCE's results of operations.

If during the transition period events were to occur that made the recovery of these generation-related regulatory assets no longer probable, SCE would be required to write off the remaining balance of such assets (approximately $2.6 billion, after tax, at December 31, 1999) as a one-time, non-cash charge against earnings. At this time, SCE cannot predict what other revisions will ultimately be made during the restructuring process in subsequent proceedings or the effect, after the transition period, that competition will have on its results of operations or financial position.

ENVIRONMENTAL PROTECTION

Edison International is subject to numerous environmental laws and regulations, which require it to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment.

As further discussed in Note 11 to the Consolidated Financial Statements, Edison International records its environmental liabilities when site assessments and/or remedial actions are probable and a range of reasonably likely cleanup costs can be estimated. Edison International's recorded estimated minimum liability to remediate its 45 identified sites is $163 million. One of SCE's sites, a former pole-treating facility, is considered a federal Superfund site and represents 40% of its recorded liability. Edison International believes that, due to uncertainties inherent in the estimation process, it is reasonably possible that cleanup costs could exceed its recorded liability by up to $284 million. In 1998, SCE sold all of its gas- and oil-fueled power plants but has retained some liability associated with the divested properties.

The CPUC allows SCE to recover environmental-cleanup costs at 42 of its sites, representing $90 million of its recorded liability, through an incentive mechanism, which is discussed in Note 11. SCE has recorded a regulatory asset of $126 million for its estimated minimum environmental-cleanup costs expected to be recovered through customer rates.

Edison International's identified sites include several sites for which there is a lack of currently available information. As a result, no reasonable estimate of cleanup costs can be made for these sites. Edison International expects to clean up its identified sites over a period of up to 30 years. Remediation costs in each of the next several years are expected to range from $5 million to $15 million. Recorded costs for 1999 were $14 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Based on currently available information, Edison International believes it is unlikely that it will incur amounts in excess of the upper limit of the estimated range and, based upon the CPUC's regulatory treatment of environmental-cleanup costs, Edison International believes that costs ultimately recorded will not materially affect its results of operations or financial position. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to such estimates.

The 1990 Federal Clean Air Act requires power producers to have emissions allowances to emit sulfur dioxide. Power companies receive emissions allowances from the federal government and may bank or sell excess allowances. SCE expects to have excess allowances under Phase II of the Clean Air Act (2000 and later). A study was undertaken to determine the specific impact of air contaminant emissions from the Mohave Generating Station on visibility in Grand Canyon National Park. The final report on this study, which was issued in March 1999, found negligible correlation between measured Mohave station tracer concentrations and visibility impairment. The absence of any obvious relationship cannot rule out Mohave station contributions to haze in Grand Canyon National Park, but strongly suggests that other sources were primarily responsible for the haze. In June 1999, the Environmental Protection Agency issued an advanced notice of proposed rulemaking regarding assessment of visibility impairment at the Grand Canyon. SCE filed comments on the proposed rulemaking in November 1999. In 1998, several environmental groups filed suit against the co-owners of the Mohave station regarding alleged violations of emissions limits. In order to accelerate resolution of key environmental issues regarding the plant, the parties filed, in concurrence with SCE and the other station owners, a consent decree, which was approved by the court in December 1999. The Environmental Protection Agency has notified SCE that the visibility concerns can be resolved by revising the Mohave station's Federal Implementation Plan to include the relevant provisions in the consent decree.

Edison International's projected environmental capital expenditures are $1.5 billion for the 2000-2004 period, mainly for undergrounding certain transmission and distribution lines.

SAN ONOFRE STEAM GENERATOR TUBES

The San Onofre Units 2 and 3 steam generators have performed relatively well through the first 15 years of operation, with low rates of ongoing steam generator tube degradation. The steam generator design allows for the removal of up to 10% of the tubes before the rated capacity of the unit must be reduced. As a result of the increased degradation found during a 1997 inspection, a mid-cycle inspection outage was conducted in early 1998 for Unit 2. Continued degradation was found during this inspection. A favorable or decreasing trend in degradation was observed during inspection in the scheduled refueling outage in January 1999 and as a result, a mid-cycle inspection outage in early 2000 was unnecessary. With the results from the January 1999 outage, 7.5% of the tubes have now been removed from service.

During Unit 3's refueling outage, which was completed in May 1999, a complete inspection of the steam generator tubes was performed. Results obtained were within expectations. To date, 5.4% of Unit 3's tubes have been removed from service.

NEW ACCOUNTING RULES

An accounting rule which requires that costs related to start-up activities be expensed as incurred became effective January 1, 1999. Although this new accounting rule did not materially affect Edison International's results of operations or financial position, EME wrote off approximately $14 million in previously capitalized start-up costs in first quarter 1999.

In June 1998, a new accounting standard for derivative instruments and hedging activities was issued. The new standard, which as amended will be effective January 1, 2001, requires all derivatives to be recognized on the balance sheet at fair value. Gains or losses from changes in fair value would be recognized in earnings in the period of change unless the derivative is designated as a hedging instrument. Gains or losses from hedges of a forecasted transaction or foreign currency exposure would be reflected in other comprehensive income. Gains or losses from hedges of a recognized asset or liability or a firm commitment would be reflected in earnings for the ineffective portion of the hedge. SCE anticipates that most of its derivatives under the new standard would qualify for hedge accounting. SCE expects to recover in rates any market price changes from its derivatives that could potentially affect earnings. Edison International is studying the impact of the new standard on its nonutility subsidiaries, and is unable to predict at this time the impact on its financial statements.

YEAR 2000 ISSUE

Edison International implemented a comprehensive program to address potential Year 2000 computer system impacts, consisting of five phases: inventory, impact assessment, remediation, testing and implementation. Edison International met its goal to have 100% of its critical systems Year 2000-ready by July 1, 1999. A critical system was defined as those applications and systems, including embedded processor technology, which if not appropriately remediated, may have had a significant impact on customers, the health and safety of the public and/or personnel, the revenue stream, or regulatory compliance. A system, application or physical asset was deemed to be Year 2000-ready if it was determined by Edison International to be suitable for continued use through 2028 (or through the last year of the anticipated life of the asset, whichever occurred first), even if not fully Year 2000-compliant (able to accurately process date/time data, between the 20th and 21st centuries, 1999 and 2000, and leap-year calculations).

Included among SCE's critical applications were the financial, customer information and billing, material management, and human resource systems. Work was also completed on critical physical assets in the areas of information technology infrastructure, and embedded processor technology in generation, transmission, distribution and facilities assets.

The other essential component of the Year 2000 program was to identify and assess vendor products and business partners for Year 2000 readiness, as these external parties may have had the potential to impact Edison International's Year 2000 readiness. Edison International implemented a process to identify and contact vendors and business partners to determine their Year 2000 status. This process included appropriate follow-up and contingency activities.

Edison International's Year 2000 costs through December 31, 1999, were $68 million, of which 35% was for capital costs. SCE's current rate levels for providing electric service were sufficient to provide funding for utility-related modifications.

Edison International developed contingency plans, which included provisions for monitoring, validating and managing the continued performance of Edison International's Year 2000-sensitive systems and assets during critical transition periods, development of work-arounds and expedited fix-on-failure strategies.

SCE's Year 2000 contingency plans, whose initial development was completed in June 1999, were in place for year-end 1999. None of SCE's critical applications or assets have encountered significant problems on or since January 1, 2000, and they continue to operate as expected. SCE expects business as usual in 2000, as it relates to its Year 2000 computer system issues.

EME's Year 2000 contingency plans were completed and in place for the end of the year rollover event. In addition, an early warning and information database was in place that received input from all EME plants and corporate offices worldwide during the millennium event. There were no Year 2000-related problems or events of any material nature detected.

Edison Capital's Year 2000 contingency plan was completed and in place as of November 1999. None of Edison Capital's systems have encountered significant problems on or since January 1, 2000, and they continue to operate as expected.

Edison Enterprises' Year 2000 contingency plans were completed and in place by year-end 1999. Edison Enterprises' rollover period was uneventful. All operating conditions were normal and no significant events were reported.

Edison International will continue to maintain the readiness of its contingency plans throughout 2000. Ongoing efforts include monitoring of systems over the February 29 leap-day period. Edison International does not expect the Year 2000 issue to have a material adverse effect on its results of operation or financial position.

FORWARD-LOOKING INFORMATION

In the preceding Management's Discussion and Analysis of Results of Operations and Financial Condition and elsewhere in this annual report, the words estimates, expects, anticipates, believes, and other similar expressions are intended to identify forward-looking information that involves risks and uncertainties. Actual results or outcomes could differ materially as a result of such important factors as further actions by state and federal regulatory bodies setting rates and implementing the restructuring of the electric utility industry; the effects of new laws and regulations relating to restructuring and other matters; the effects of increased competition in the electric utility business and other energy-related businesses, including direct customer access to retail energy suppliers and the unbundling of revenue cycle services such as metering and billing; changes in prices of electricity and fuel costs; changes in market interest or currency exchange rates; risks of doing business in foreign countries, such as political changes and currency devaluations; power plant construction and operation risks; new or increased environmental liabilities; the ability to create and expand new businesses, such as telecommunications; and other unforeseen events.

RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Edison International is responsible for the integrity and objectivity of the accompanying financial statements. The statements have been prepared in accordance with generally accepted accounting principles and are based, in part, on management estimates and judgment.

Edison International and its subsidiaries maintain systems of internal control to provide reasonable, but not absolute, assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and the accounting records may be relied upon for the preparation of the financial statements. There are limits inherent in all systems of internal control, the design of which involves management's judgment and the recognition that the costs of such systems should not exceed the benefits to be derived. Edison International believes its systems of internal control achieve this appropriate balance. These systems are augmented by internal audit programs through which the adequacy and effectiveness of internal controls and policies and procedures are monitored, evaluated and reported to management. Actions are taken to correct deficiencies as they are identified.

Edison International's independent public accountants, Arthur Andersen LLP, are engaged to audit the financial statements in accordance with auditing standards generally accepted in the United States and to express an informed opinion on the fairness, in all material respects, of Edison International's reported results of operations, cash flows and financial position.

As a further measure to assure the ongoing objectivity of financial information, the audit committee of the board of directors, which is composed of outside directors, meets periodically, both jointly and separately, with management, the independent public accountants and internal auditors, who have unrestricted access to the committee. The committee recommends annually to the board of directors the appointment of a firm of independent public accountants to conduct audits of its financial statements; considers the independence of such firm and the overall adequacy of the audit scope and Edison International's systems of internal control; reviews financial reporting issues; and is advised of management's actions regarding financial reporting and internal control matters.

Edison International and its subsidiaries maintain high standards in selecting, training and developing personnel to assure that their operations are conducted in conformity with applicable laws and are committed to maintaining the highest standards of personal and corporate conduct. Management maintains programs to encourage and assess compliance with these standards.

Thomas M. Noonan
John E. Bryson

THOMAS M. NOONAN
Vice President and Controller

JOHN E. BRYSON
Chairman of the Board, President and Chief Executive Officer

February 2, 2000

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS, EDISON INTERNATIONAL:

We have audited the accompanying consolidated balance sheets of Edison International (a California corporation) and its subsidiaries as of December 31, 1999, and 1998, and the related consolidated statements of income, comprehensive income, cash flows and common shareholders' equity for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Edison International's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 Edison International and its subsidiaries as of December 31, 1999, and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Los Angeles, California
February 2, 2000

CONSOLIDATED STATEMENTS OF INCOME

In millions, except per share amounts — *Year ended December 31,*	**1999**	1998	1997
Electric utility	$7,522	$7,499	$7,953
Nonutility power generation	1,642	894	975
Financial services and other	506	467	307
Total operating revenue	9,670	8,860	9,235
Fuel	675	501	1,074
Purchased power – contracts	2,419	2,626	2,854
Purchased power – power exchange – net	760	636	–
Provisions for regulatory adjustment clauses – net	(764)	(473)	(411)
Other operation and maintenance	2,921	2,533	2,191
Depreciation, decommissioning and amortization	1,794	1,662	1,362
Property and other taxes	124	133	134
Net gain on sale of utility plant	(3)	(542)	(4)
Total operating expenses	7,926	7,076	7,200
Operating income	1,744	1,784	2,035
Interest and dividend income	96	108	85
Other nonoperating income (deductions) – net	33	(19)	(140)
Total other income (deductions) – net	129	89	(55)
Income before fixed charges and taxes	1,873	1,873	1,980
Interest and amortization on long-term debt	734	652	584
Other interest expense – net	149	50	115
Dividends on preferred securities	44	13	14
Dividends on utility preferred stock	26	25	29
Total fixed charges	953	740	742
Minority interest	3	3	39
Income before taxes	917	1,130	1,199
Income taxes	294	462	499
Net income	$ 623	$ 668	$ 700
Weighted-average shares of common stock outstanding	348	359	400
Basic earnings per share	$ 1.79	$ 1.86	$ 1.75
Weighted-average shares, including effect of dilutive securities	349	364	405
Diluted earnings per share	$ 1.79	$ 1.84	$ 1.73
Dividends declared per common share	$ 1.08	$ 1.04	$ 1.00

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In millions — *Year ended December 31,*	**1999**	1998	1997
Net income	$ 623	$ 668	$ 700
Cumulative translation adjustments – net	(19)	–	(34)
Unrealized gain on securities – net	23	12	27
Reclassification adjustment for gains included in net income	(46)	(18)	–
Comprehensive income	$ 581	$ 662	$ 693

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

CONSOLIDATED BALANCE SHEETS

In millions December 31,	1999	1998
ASSETS		
Cash and equivalents	$ 508	$ 584
Receivables, including unbilled revenue, less allowances of $34 and $24 for uncollectible accounts at respective dates	1,378	1,316
Fuel inventory	241	51
Materials and supplies, at average cost	199	116
Accumulated deferred income taxes – net	191	275
Regulatory balancing accounts – net	–	287
Prepayments and other current assets	153	138
Total current assets	2,670	2,767
Nonutility property – less accumulated provision for depreciation of $446 and $297 at respective dates	12,352	3,072
Nuclear decommissioning trusts	2,509	2,240
Investments in partnerships and unconsolidated subsidiaries	2,505	1,980
Investments in leveraged leases	1,885	1,621
Other investments	180	208
Total investments and other assets	19,431	9,121
Utility plant, at original cost:		
Transmission and distribution	12,439	11,772
Generation	1,718	1,690
Accumulated provision for depreciation and decommissioning	(7,520)	(6,897)
Construction work in progress	562	517
Nuclear fuel, at amortized cost	132	172
Total utility plant	7,331	7,254
Unamortized nuclear investment – net	1,366	2,162
Income tax-related deferred charges	1,273	1,463
Regulatory balancing accounts – net	1,715	362
Unamortized debt issuance and reacquisition expense	340	349
Other deferred charges	2,103	1,220
Total deferred charges	6,797	5,556
Total assets	$36,229	$24,698

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

CONSOLIDATED BALANCE SHEETS

In millions, except share amounts December 31,	**1999**	1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	$ 2,553	$ 565
Current portion of long-term debt	962	920
Accounts payable	625	490
Accrued taxes	407	630
Accrued interest	189	147
Dividends payable	101	92
Regulatory balancing accounts – net	76	–
Deferred unbilled revenue and other current liabilities	1,929	1,442
Total current liabilities	6,842	4,286
Long-term debt	13,391	8,008
Accumulated deferred income taxes – net	5,757	4,591
Accumulated deferred investment tax credits	225	271
Customer advances and other deferred credits	2,094	1,425
Power purchase contracts	563	130
Other long-term liabilities	478	337
Total deferred credits and other liabilities	9,117	6,754
Commitments and contingencies (Notes 10 and 11)		
Minority interest	9	16
Preferred stock of utility:		
Not subject to mandatory redemption	129	129
Subject to mandatory redemption	256	256
Company-obligated mandatorily redeemable securities of subsidiaries holding solely parent company debentures	948	150
Other preferred securities	326	–
Total preferred securities of subsidiaries	1,659	535
Common stock (347,207,106 and 350,553,197 shares outstanding at respective dates)	2,090	2,109
Accumulated other comprehensive income:		
Cumulative translation adjustments – net	11	30
Unrealized gain in equity securities – net	31	54
Retained earnings	3,079	2,906
Total common shareholders' equity	5,211	5,099
Total liabilities and shareholders' equity	$36,229	$24,698

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions Year ended December 31,	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 623	$ 668	$ 700
Adjustments for non-cash items:			
Depreciation, decommissioning and amortization	1,794	1,662	1,362
Other amortization	112	96	88
Deferred income taxes and investment tax credits	525	348	115
Equity in income from partnerships and unconsolidated subsidiaries	(244)	(190)	(190)
Income from leveraged leases	(214)	(213)	(86)
Other long-term liabilities	32	(13)	56
Regulatory balancing accounts – long-term	(1,354)	(361)	–
Regulatory asset related to the sale of utility generating plants	–	(220)	–
Net gain on sale of utility generating plants	(1)	(565)	–
Other – net	44	38	2
Changes in working capital:			
Receivables	(75)	(235)	(8)
Regulatory balancing accounts	363	(94)	(375)
Fuel inventory, materials and supplies	(5)	24	36
Prepayments and other current assets	(75)	(19)	10
Accrued interest and taxes	(151)	68	47
Accounts payable and other current liabilities	526	283	195
Distributions from partnerships and unconsolidated subsidiaries	213	185	182
Net cash provided by operating activities	2,113	1,462	2,134
CASH FLOWS FROM FINANCING ACTIVITIES			
Long-term debt issued	6,685	981	1,646
Long-term debt repaid	(1,071)	(1,544)	(2,219)
Common stock repurchased	(92)	(714)	(1,173)
Preferred securities issued	1,124	–	–
Preferred stocks redeemed	–	(74)	(100)
Rate reduction notes issued	–	–	2,449
Rate reduction notes repaid	(246)	(252)	–
Short-term debt issued – net	1,931	236	(68)
Dividends paid	(373)	(374)	(408)
Other – net	(37)	17	(14)
Net cash provided (used) by financing activities	7,921	(1,724)	113
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and plant	(1,231)	(963)	(783)
Purchase of nonutility generating plants	(7,958)	–	–
Proceeds from sale of assets	115	1,215	211
Funding of nuclear decommissioning trusts	(116)	(163)	(154)
Investments in partnerships and unconsolidated subsidiaries	(853)	(659)	(131)
Unrealized gain (loss) on securities – net	(23)	(6)	27
Investments in leveraged leases	(99)	(458)	(327)
Other – net	55	(27)	(80)
Net cash used by investing activities	(10,110)	(1,061)	(1,237)
Net increase (decrease) in cash and equivalents	(76)	(1,323)	1,010
Cash and equivalents, beginning of year	584	1,907	897
Cash and equivalents, end of year	$ 508	$ 584	$ 1,907

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

In millions, except share amounts	*Common Stock*	*Accumulated Other Comprehensive Income*	*Retained Earnings*	*Total Common Shareholders' Equity*
BALANCE, DECEMBER 31, 1996	$2,547	$ 97	$3,753	$6,397
Net income			700	700
Stock repurchase and retirement *(48,992,365 shares)*	(294)		(879)	(1,173)
Long-term incentive compensation plan *(232,616 shares)*	5			5
Dividends declared on common stock			(395)	(395)
Unrealized gain on securities		45		45
Tax effect		(18)		(18)
Cumulative translation adjustment		(38)		(38)
Tax effect		4		4
Capital stock expense	3			3
Stock option appreciation			(3)	(3)
BALANCE, DECEMBER 31, 1997	2,261	90	3,176	5,527
Net income			668	668
Stock repurchase and retirement *(25,211,232 shares)*	(152)		(562)	(714)
Dividends declared on common stock			(371)	(371)
Unrealized gain on securities		18		18
Tax effect		(6)		(6)
Reclassified adjustment for gain included in net income		(30)		(30)
Tax effect		12		12
Stock option appreciation			(5)	(5)
BALANCE, DECEMBER 31, 1998	2,109	84	2,906	5,099
Net income			623	623
Stock repurchase and retirement *(3,350,500 shares)*	(20)		(72)	(92)
Dividends declared on common stock			(375)	(375)
Unrealized gain on securities		39		39
Tax effect		(16)		(16)
Reclassified adjustment for gain included in net income		(77)		(77)
Tax effect		31		31
Cumulative translation adjustment		(21)		(21)
Tax effect		2		2
Capital stock expense	1			1
Stock option appreciation			(3)	(3)
BALANCE, DECEMBER 31, 1999	$2,090	$ 42	$3,079	$5,211

Authorized common stock is 800 million shares with no par value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
Edison International's wholly owned subsidiaries include: Southern California Edison Company (SCE), a rate regulated electric utility which supplies electric energy for its 4.3 million customers in central, coastal and Southern California; Edison Mission Energy (EME), a producer of electricity engaged in the development, ownership and operation of electric power generation facilities worldwide; Edison Capital, a provider of capital and financial services; and Edison Enterprises, the retail business arm of Edison International. EME and Edison Capital have domestic and foreign projects, primarily in Europe, Asia and Africa.

EME's plants are located in different geographic areas, which mitigates the effects of regional markets, economic downturns or unusual weather conditions. EME's domestic projects, other than Homer City and Midwest Generation, generally sell power to a limited number of electric utilities under long-term (15 years to 30 years) contracts. Projects in both the United Kingdom and Australia sell their energy and capacity through a centralized electricity pool. A project in New Zealand sells its power through a voluntary pool system. Other electric power generated overseas is sold primarily through long-term contracts to electric utilities in the country where the power is generated.

SCE also produces electricity. The regulatory environment in which SCE operates is changing as a result of a 1995 California Public Utilities Commission (CPUC) decision on electric utility industry restructuring and state legislation enacted in 1996.

Basis of Presentation
The consolidated financial statements include Edison International and its wholly owned subsidiaries. Edison International's subsidiaries use the equity method to account for significant investments in partnerships and subsidiaries in which they own 50% or less. Intercompany transactions have been eliminated, except EME's profits from energy sales to SCE, which are allowed in utility rates.

SCE's accounting policies conform with generally accepted accounting principles, including the accounting principles for rate-regulated enterprises which reflect the rate-making policies of the CPUC and the Federal Energy Regulatory Commission (FERC). As a result of industry restructuring state legislation and related changes in the rate-recovery of generation-related assets, SCE accounts for its investment in generation facilities in accordance with accounting principles applicable to enterprises in general. Application of such accounting principles to SCE's generation assets began in 1997 and did not result in any adjustment of their carrying value; however, in the second quarter of 1998, the carrying value of SCE's nuclear investments (excluding decommissioning) was reduced by $2.6 billion and a regulatory asset was established for the same amount.

Certain prior-year amounts were reclassified to conform to the December 31, 1999, financial statement presentation.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding. In determining net income, dividends on preferred securities and preferred stock have been deducted. For the diluted EPS calculation, dilutive securities (employee stock options) are added to the weighted average shares.

Estimates
Financial statements prepared in compliance with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure of contingencies. Actual results could differ from those estimates. Certain significant estimates related to regulatory matters, decommissioning and contingencies are further discussed in Notes 10 and 11 to the Consolidated Financial Statements.

Cash Equivalents
Cash equivalents include tax-exempt investments and time deposits and other investments with original maturities of three months or less.

Fuel Inventory
Fuel inventory is valued under the last-in, first-out method for fuel oil and natural gas, and under the first-in, first-out method for coal.

Revenue
Electric utility revenue includes amounts for services rendered but unbilled at the end of each year. Some nonutility power generation revenue from power sales contracts is deferred and amortized to income over the life of the contracts.

Investments
Net unrealized gains (losses) on equity securities are recorded as a separate component of shareholders' equity under the caption: Accumulated other comprehensive income. Unrealized gains and losses on decommissioning trust funds are recorded in the accumulated provision for decommissioning.

All investments are classified as available-for-sale.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Regulation of Utility Business

SCE, which is subject to rate-regulation by the CPUC and the FERC, operates in a highly regulated environment in which it has an obligation to deliver electric service to customers in return for an exclusive franchise within its service territory.

Effective January 1, 1998, SCE's rates were unbundled into separate charges for energy, transmission, distribution, the non-bypassable competition transition charge (CTC), public benefit programs and nuclear decommissioning. The transmission component is being collected through FERC-approved rates, subject to refund. SCE's costs associated with its hydroelectric plants are being recovered through a performance-based mechanism. This mechanism sets the hydroelectric revenue requirement and establishes a formula for extending it through the duration of the electric industry restructuring transition period (March 31, 2002), or until market valuation of the hydroelectric facilities, whichever occurs first (see Hydroelectric Market Value Filing discussion in Note 11). Revenue from hydroelectric facilities in excess of the hydroelectric revenue requirement is credited against the costs to transition to a competitive market. Decommissioning costs are being recovered through a CPUC-authorized non-bypassable charge.

The CTC provides SCE the opportunity to recover its costs to transition to a competitive market (approximately $10.6 billion 1998 net present value). Transition costs related to power-purchase contracts are being recovered through the terms of the contracts while most of the remaining transition costs will be recovered through 2001. A portion of the stranded costs that residential and small commercial customers would have paid between 1998 and 2001 has been financed by the issuance of rate reduction notes, allowing SCE to reduce rates by at least 10% to these customers, effective January 1, 1998. The notes allow for the rate reduction by lowering the carrying cost on a portion of the transition costs and by deferring recovery of a portion of these transition costs until after the transition period. Additionally, the state legislation contained provisions for the recovery (through 2006) of reasonable employee-related transition costs, incurred and projected, for retraining, severance, early retirement, outplacement and related expenses.

The CPUC regulates SCE's capital structure, limiting the dividends it may pay Edison International. At December 31, 1999, SCE had the capacity to pay $433 million in additional dividends and continue to maintain its authorized capital structure.

Since April 1, 1998, when the new market structure began, SCE has been selling all of its generation through the California Power Exchange (PX), as mandated by the CPUC's 1995 restructuring decision. Through the PX, SCE satisfies the electric energy needs of customers who did not choose an alternative energy provider. These transactions with the PX are reported as Purchased power – power exchange – net.

Transactions through the PX were:

	Year ended December 31,	
In millions	**1999**	1998
Purchases	$2,479	$1,984
Generation sales	1,719	1,348
Purchased power – PX – net	$ 760	$ 636

Regulatory Assets and Liabilities

In accordance with accounting principles for rate-regulated enterprises, SCE records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the rate-making process, and regulatory liabilities, which represent probable future reductions in revenue associated with amounts that are to be credited to customers through the rate-making process. SCE's discontinuance of accounting principles for rate-regulated enterprises to its generation assets did not result in a write-off of its generation-related regulatory assets since the CPUC has approved recovery of these assets through the CTC.

Regulatory assets and liabilities included in the consolidated balance sheets are:

	December 31,	
In millions	**1999**	1998
Generation-related:		
Unamortized nuclear investment – net	$1,366	$2,162
Flow-through taxes	306	614
Rate reduction notes – transition cost deferral	707	315
Unamortized loss on sale of plant	122	183
Purchased-power settlements	531	130
Environmental remediation	16	16
Regulatory balancing accounts and other	1,075	354
Subtotal	4,123	3,774
Other:		
Flow-through taxes	967	849
Unamortized loss on reacquired debt	295	308
Environmental remediation	111	125
Regulatory balancing accounts and other	(36)	110
Subtotal	1,337	1,392
Total	$5,460	$5,166

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Generation-related regulatory assets and liabilities are being recovered through the CTC through March 31, 2002, except for the rate reduction notes regulatory asset, which will be recovered over the terms of the rate reduction notes. The other regulatory assets and liabilities are being recovered through other components of the unbundled rates.

The unamortized nuclear investment regulatory asset was created during the second quarter of 1998. SCE reduced its remaining nuclear plant investment by $2.6 billion (as of June 30, 1998) and recorded a regulatory asset on its balance sheet for the same amount in accordance with asset impairment accounting standards. For this impairment assessment, the fair value of the investment was calculated by discounting expected future net cash flows. This reclassification had no effect on SCE's results of operations.

If during the transition period events were to occur that made the recovery of these generation-related regulatory assets no longer probable, SCE would be required to write off the remaining balance of such assets (approximately $2.6 billion, after tax, at December 31, 1999) as a one-time, non-cash charge against earnings.

Regulatory Balancing Accounts

Beginning January 1, 1998, the difference between generation-related revenue and generation-related costs is being accumulated in the transition cost balancing account, effectively eliminating all other balancing accounts except those used to assist in the administration of public purpose funds. Additionally, gains resulting from the sale of SCE's generating plants during 1998 were credited to the transition cost balancing account; the losses are being amortized over the remaining transition period and accumulated in the transition cost balancing account. These transition costs are being recovered from utility customers (with interest) through the CTC mechanism.

Prior to January 1, 1998, the differences between CPUC-authorized and actual base-rate revenue from kilowatt-hour sales and CPUC-authorized and actual energy costs were accumulated in balancing accounts until they were refunded to, or recovered from, utility customers through authorized rate adjustments (with interest). On January 1, 1998, the balances in these balancing accounts were transferred to the transition cost balancing account.

Income tax effects on all balancing account changes are deferred.

Nuclear

SCE is recovering its investment in San Onofre Nuclear Generating Station Units 2 and 3 and Palo Verde Nuclear Generating Station on an accelerated basis, as authorized by the CPUC. The accelerated recovery will continue through December 2001, earning a 7.35% fixed rate of return. San Onofre's operating costs, including nuclear fuel and nuclear fuel financing costs, and incremental capital expenditures, are recovered through an incentive pricing plan which allows SCE to receive about 4¢ per kilowatt-hour through 2003. Any differences between these costs and the incentive price will flow through to shareholders. Palo Verde's accelerated plant recovery, as well as operating costs, including nuclear fuel and nuclear fuel financing costs, and incremental capital expenditures, are subject to balancing account treatment through 2001.

Beginning January 1, 1998, San Onofre's incentive pricing plan and accelerated plant recovery and the Palo Verde balancing account became part of the transition cost balancing account. SCE will be required to share equally with ratepayers the net benefits received from operation of Palo Verde, beginning in 2002, and from the operation of the San Onofre units in 2004. Palo Verde's existing nuclear unit incentive procedure will continue only for purposes of calculating a reward for performance of any unit above an 80% capacity factor for a fuel cycle.

Property and Plant

Utility plant additions, including replacements and betterments, are capitalized. Such costs include direct material and labor, construction overhead and an allowance for funds used during construction (AFUDC). AFUDC represents the estimated cost of debt and equity funds that finance utility-plant construction. AFUDC is capitalized during plant construction and reported in current earnings. AFUDC is recovered in rates through depreciation expense over the useful life of the related asset. Depreciation of utility plant is computed on a straight-line, remaining-life basis.

Replaced or retired property and removal costs less salvage are charged to the accumulated provision for depreciation. Depreciation expense stated as a percent of average original cost of depreciable utility plant was 3.6% for 1999, 4.2% for 1998 and 5.2% for 1997.

SCE's net investment in generation-related utility plant was $1.0 billion at December 31, 1999, and $1.1 billion at December 31, 1998.

Nonutility property is capitalized at cost, including interest incurred on borrowed funds that finance construction. Depreciation of nonutility properties is primarily computed on a straight-line basis over their estimated useful lives. Depreciation expense stated as a percent of average original cost of depreciable nonutility property was, on a composite basis, 2.2% for 1999, 3.6% for 1998 and 3.2% for 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Cash Flows Information
Edison International's supplemental cash flows information was:

	Year ended December 31,		
In millions	**1999**	1998	1997
Cash payments for interest and taxes:			
Interest – net of amounts capitalized	$689	$474	$579
Taxes	27	87	298
Non-cash investing and financing activities:			
Obligation to fund investments in partnerships and unconsolidated subsidiaries	$278	$ 7	$159
Liabilities assumed (of companies acquired)	539	–	603

NOTE 2
ACQUISITIONS

In March 1999, EME completed its acquisition of Homer City Electric Generating Station for approximately $1.8 billion. The purchase was partially financed by $1.5 billion of new loans, combined with corporate revolver borrowings and existing cash.

In May 1999, EME completed a transaction with the New Zealand government to acquire 40% of the shares of Contact Energy Ltd. The remaining 60% of Contact Energy's shares were sold in a public offering resulting in widespread ownership among the citizens of New Zealand and offshore investors. Contact Energy owns and operates hydroelectric, geothermal and natural gas-fired generating plants primarily in New Zealand. EME paid a cash payment of approximately $635 million (1.2 billion New Zealand dollars), which was financed by a $120 million preferred stock issuance by an indirect, wholly owned affiliate of EME, a $214 million (400 million New Zealand dollars) EME credit facility, a $300 million equity contribution from Edison International and existing cash.

In July 1999, EME completed its acquisition of Ferrybridge and Fiddler's Ferry coal-fired electric generating plants located in the United Kingdom. Each plant has generating capacity of approximately 2,000 MW. EME paid approximately $2.0 billion (£1.3 billion) for the two plants. The acquisition was funded primarily with a combination of net proceeds from an EME bond issuance, cash and an equity contribution from Edison International. The bonds were issued to a special purpose entity, which sold the variable rate coupons portion of the bonds to a special purpose entity that borrowed $1.3 billion under a Term Loan Facility to finance the purchase.

In October 1999, EME completed the acquisition of the remaining 20% of the 220-MW natural gas-fired Roosecote project located in England. EME paid approximately $16 million (£9.6 million).

In December 1999, EME through its wholly owned subsidiary, Midwest Generation LLC, completed the acquisition of Commonwealth Edison's (ComEd) fossil-fueled generating plants in Chicago. The $4.9 billion transaction was funded primarily with a combination of debt secured by a pledge of the stock of certain subsidiaries, EME corporate debt, equity contributions from Edison International and amounts paid by a third party lessor in connection with a lease transaction.

These acquisitions were accounted for utilizing the purchase method. Edison International's 1999 consolidated income statements reflect the operations of Homer City, Contact Energy, Ferrybridge and Fiddler's Ferry, Roosecote and Midwest Generation as of the date of their respective acquisitions.

NOTE 3
FINANCIAL INSTRUMENTS

Derivative Financial Instruments
Edison International's risk management policy allows the use of derivative financial instruments to manage financial exposure on its investments and fluctuations in interest rates, but prohibits the use of these instruments for speculative or trading purposes.

Edison International uses the hedge accounting method to record its derivative financial instruments, except for gas call option, block forward purchases and power call options. Hedge accounting requires an assessment that the transaction reduces risk, the derivative be designated as a hedge at the inception of the derivative contract, and the changes in the market value of a hedge move in an inverse direction to the item being hedged. Under hedge accounting, the derivative itself is not recorded on Edison International's balance sheet. Mark-to-market accounting would be used if the hedge accounting criteria were not met. Interest rate differentials and amortization of premiums for interest rate caps are recorded as adjustments to interest expense. If the derivatives were terminated before the maturity of the corresponding debt issuance, the realized gain or loss on the transaction would be amortized over the remaining term of the debt.

SCE has gas call options that mitigate its exposure to increases in natural gas prices. Increases in natural gas prices tend to increase the price of electricity purchased from the PX. The options cover various periods from 1998 through 2001. Additionally, SCE participates in the PX block forward market. The PX block forward market allows SCE to purchase monthly blocks of energy for six days a week (excluding Sundays and holidays) for 16 hours a day. These purchases can be made up to 12 months in advance of the delivery date. The CPUC has currently limited SCE's use of the PX block forward market to a maximum of approximately 2,000 MW in any month.

SCE uses the mark-to-market accounting method for its gas call option and block forward purchases. Gains and losses from monthly changes in market prices are recorded as income or expense. However, costs of the options and the market price changes are included in the transition cost balancing account. As a result, the mark-to-market gains or losses have no effect on earnings.

EME enters into electricity rate swap agreements to manage its exposure to the United Kingdom and Australia market (pool) price volatilities. The related price differentials to be paid or received are currently recorded as adjustments to electric revenue or fuel expense. Projects in the United Kingdom sell their electrical energy and capacity through a centralized electricity pool, which establishes a half-hourly clearing price, or pool price, for electrical energy. The pool price is extremely volatile, and can vary by a factor of 10 or more over the course of a few hours due to large differentials in demand according to the time of day. First Hydro and Ferrybridge and Fiddler's Ferry mitigate a portion of the market risk of the pool by entering into electricity rate swap agreements, related to either the selling or purchasing price of power. These contracts are sold in various structures and act as a means of stabilizing production revenue or purchasing costs by removing an element of their net exposure to pool price volatility.

Electric power at Homer City is sold under bilateral arrangements with domestic utilities and power marketers under short-term contracts (two years or less) or to the Pennsylvania-New Jersey-Maryland Power Pool (PJM) or the New York Independent System Operator (NYISO). The PJM pool has a market which establishes an hourly clearing price. Homer City is located in the PJM pool area and is physically connected to high-voltage transmission lines serving both the PJM and the NYISO markets. Power can also be transmitted to the midwestern United States. EME has developed risk management policies and procedures which, among other matters, address credit risk. It is EME's policy to sell to investment grade counterparties or counterparties that have an investment grade guarantor. EME hedges a portion of the electric output of the plant in order to lock in desirable outcomes. EME also manages the margin between electric prices and fuel prices when deemed appropriate. EME uses forward contracts, swaps, futures or option contracts to achieve these objectives.

Midwest Generation and ComEd entered into purchase power agreements in which ComEd will purchase capacity and have the right to purchase energy generated by the Midwest Generation units. The agreements, which began on December 15, 1999, and have a term of up to five years, provide for capacity and energy payments. ComEd will be obligated to make a capacity payment for the units under contract and an energy payment for the electricity produced by these units. The capacity payment will provide Midwest Generation revenue for fixed charges, and the energy payment will compensate Midwest Generation for variable costs of production. If ComEd does not fully dispatch the units under contract, Midwest Generation may sell, subject to certain conditions, the excess energy at market prices to neighboring utilities, municipalities, third party electric retailers, large consumers and power marketers on a spot basis.

Loy Yang B sells its electrical energy through a centralized electricity pool, which provides for a system of generator bidding, central dispatch and a settlements system based on a clearing market for each half-hour of every day. To mitigate the exposure to price volatility of the electricity traded in the pool, Loy Yang B has entered into a number of financial hedges. Between May 1997 and December 2000, 53% to 64% of the plant output sold is hedged under a long-term contractual agreement based upon a fixed price commencing in May 1997 and terminating in October 2016. Vesting contracts set base strike prices at which the electricity will be traded, and the parties to the agreement make payments, calculated based on the difference between the price in the contract and the half-hourly pool clearing price for the element of power under the contract. These contracts are sold in various structures. These contracts are accounted for as electricity rate swap agreements.

Interest rate swaps are used to reduce the potential impact of interest rate fluctuations on floating-rate long-term debt. At the balance sheet dates of December 31, 1999, and December 31, 1998, SCE had an interest rate swap agreement which fixed

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the interest rate at 5.585% for $196 million of debt due 2008; it expires February 28, 2008. The interest rate swap agreement requires the parties to pledge collateral according to bond rating and market interest rate changes. At December 31, 1999, SCE had pledged $11 million as collateral due to a decline in market interest rates. SCE is exposed to credit loss in the event of nonperformance by the counterparty to the agreement, but does not expect the counterparty to fail to meet its obligation.

Edison Capital has foreign currency contracts in effect to reduce the potential impact of changes in foreign exchange rates and future foreign currency denominated cash flows. At December 31, 1999, Edison Capital also had interest rate swap agreements converting $70 million of floating rate debt to fixed rates of approximately 6.3%. The swaps expire in 2000.

Edison International had the following interest rate and foreign currency hedges:

Edison International is subject to concentrations of credit risk as the result of elements involved in EME's financial instruments and power-sales contracts. Credit risk relates to the risk of loss that EME would incur as a result of nonperformance by counterparties (major financial institutions and domestic foreign utilities) under their contractual obligations. EME attempts to mitigate this risk by contracting with counterparties that have a strong capacity to meet their contractual obligations and by monitoring their credit quality. In addition, EME seeks to secure long-term power-sales contracts for its projects that are expected to result in adequate cash flow under a wide range of economic and operating circumstances. To accomplish this, EME attempts to structure its long-term contracts so that fluctuations in fuel costs will produce similar fluctuations in electric and/or steam revenue by entering into long-term fuel supply and transportation agreements. Accordingly, EME does not anticipate a material effect on its results of operations or financial condition as a result of counterparty nonperformance.

In millions	*December 31,* 1999		1998	
	Notional Amount	*Contract Expires*	*Notional Amount*	*Contract Expires*
Swaps:				
Fixed to variable	$ 200	2000	$ 245	1999 – 2002
Variable to fixed	2,148	2000 – 2008	1,163	1999 – 2008
Collar	–	–	82	1999
Foreign Currency Contract	9	2001	9	2001

Fair Value of Financial Instruments

Fair values of financial instruments were:

In millions	*December 31,* 1999		1998	
	Cost Basis	*Fair Value*	*Cost Basis*	*Fair Value*
Financial assets:				
Decommissioning trusts	$ 1,650	$ 2,509	$1,534	$2,240
Electricity rate swaps	–	(37)	–	19
Equity investments	–	33	7	72
Gas call options	28	20	39	31
Power call options	4	–	–	–
PX block forward power contracts	118	120	–	–
Financial liabilities:				
DOE decommissioning and decontamination fees	$ 40	$ 35	$ 45	$ 40
Interest rate hedges	–	20	–	111
Long-term debt	13,391	13,281	8,008	8,187
Utility preferred stock subject to mandatory redemption	256	259	256	274
Other preferred securities subject to mandatory redemption	359	360	150	158

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial assets are carried at their fair value based on quoted market prices for decommissioning trusts, equity investments and power contracts and on financial models for gas call options, power call options and electricity rate swaps. Financial liabilities are recorded at cost. Financial liabilities' fair values are based on: termination costs for the interest rate hedges; brokers' quotes for long-term debt and preferred securities; and discounted future cash flows for U.S. Department of Energy (DOE) decommissioning and decontamination fees. Due to their short maturities, amounts reported for cash equivalents and short-term debt approximate fair value.

Gross unrealized holding gains on debt and equity investments were:

	December 31,	
In millions	**1999**	1998
Decommissioning trusts:		
Municipal bonds	$239	$196
Stocks	454	365
U.S. government issues	119	115
Short-term and other	47	30
	859	706
Equity investments	33	65
Total	$892	$771

There were no unrealized holding losses for the years presented.

In 1998, a new accounting standard for derivative instruments and hedging activities was issued. The new standard, which as amended will be effective January 1, 2001, requires all derivatives to be recognized on the balance sheet at fair value. Gains or losses from changes in fair value would be recognized in earnings in the period of change unless the derivative is designated as a hedging instrument. Gains or losses from hedges of a forecasted transaction or foreign currency exposure would be reflected in other comprehensive income. Gains or losses from hedges of a recognized asset or liability or a firm commitment would be reflected in earnings for the ineffective portion of the hedge. SCE anticipates that most of its derivatives under the new standard would qualify for hedge accounting. SCE expects to recover in rates any market price changes from its derivatives that could potentially affect earnings. Edison International is studying the impact of the new standard on its nonutility subsidiaries, and is unable to predict at this time the impact on its financial statements.

NOTE 4
LONG-TERM DEBT

California law prohibits SCE from incurring or guaranteeing debt for its nonutility affiliates.

Almost all SCE properties are subject to a trust indenture lien. SCE has pledged first and refunding mortgage bonds as security for borrowed funds obtained from pollution-control bonds issued by government agencies. SCE uses these proceeds to finance construction of pollution-control facilities. Bondholders have limited discretion in redeeming certain pollution-control bonds, and SCE has arranged with securities dealers to remarket or purchase them if necessary.

Debt premium, discount and issuance expenses are amortized over the life of each issue. Under CPUC rate-making procedures, utility debt reacquisition expenses are amortized over the remaining life of the reacquired debt or, if refinanced, the life of the new debt.

Commercial paper intended to be refinanced for a period exceeding one year and used to finance nuclear fuel scheduled to be used more than one year after the balance sheet date is classified as long-term debt.

Long-term debt maturities and sinking-fund requirements for the next five years are: 2000 – $940 million; 2001 – $1.4 billion; 2002 – $1.6 billion; 2003 – $616 million; and 2004 – $2.3 billion.

In December 1997, $2.5 billion of rate reduction notes were issued on behalf of SCE by SCE Funding LLC, a special purpose entity. These notes were issued to finance the 10% rate reduction mandated by state law. The proceeds of the rate reduction notes were used by SCE Funding LLC to purchase from SCE an enforceable right known as transition property. Transition property is a current property right created by the restructuring legislation and a financing order of the CPUC and consists generally of the right to be paid a specified amount from non-bypassable rates charged to residential and small commercial customers. The rate reduction notes are being repaid over 10 years through these non-bypassable residential and small commercial customer rates which constitute the transition property purchased by SCE Funding LLC. The notes are secured by the transition property and are not secured by, or payable from, assets of SCE or Edison International. SCE used the proceeds from the sale of the transition property to retire debt and equity securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Although, as required by generally accepted accounting principles, SCE Funding LLC is consolidated with SCE and the rate reduction notes are shown as long-term debt in the consolidated financial statements, SCE Funding LLC is legally separate from SCE. The assets of SCE Funding LLC are not available to creditors of SCE or Edison International and the transition property is legally not an asset of SCE or Edison International.

Long-term debt consisted of:

	December 31,	
In millions	***1999***	*1998*
First and refunding mortgage bonds: 2000 – 2026 (5.625% to 7.25%)	$ 1,400	$1,550
Rate reduction notes: 2000 – 2007 (6.14% to 6.42%)	1,970	2,217
Pollution-control bonds: 2008 – 2031 (5.125% to 7.2% and variable)	1,196	1,201
Funds held by trustees	(2)	(2)
Debentures and notes: 2000 – 2029 (5.875% to 9.408%)	9,633	3,732
Subordinated debentures: 2044 (8.375%)	100	100
Commercial paper for nuclear fuel	71	108
Capital lease obligation	23	48
Current portion of capital lease obligation	(22)	(22)
Long-term debt due within one year	(940)	(898)
Unamortized debt discount – net	(38)	(26)
Total	$13,391	$8,008

On January 24, 2000, SCE issued $250 million of 7⅝% notes, due 2010.

NOTE 5
SHORT-TERM DEBT

Short-term debt consisted of:

	December 31,	
In millions	***1999***	*1998*
Commercial paper	$2,413	$670
Other short-term debt	225	6
Amount reclassified as long-term	(71)	(108)
Unamortized discount	(14)	(3)
Total	$2,553	$565
Weighted-average interest rate	6.5%	5.3%

Commercial paper intended to finance nuclear fuel scheduled to be used more than one year after the balance sheet date is classified as long-term debt in connection with refinancing terms under five-year term lines of credit with commercial banks.

At December 31, 1999, Edison International and its subsidiaries had $572 million of borrowing capacity available under lines of credit totaling $3.8 billion. SCE has lines of credit totaling $1.25 billion (can be used at negotiated or bank index rates) with $39 million available for short-term debt and $515 million available for the long-term refinancing of certain variable-rate pollution-control debt. The nonutility subsidiaries had lines of credit of $425 million available to finance general cash requirements. The parent company had available lines of credit totaling $108 million. Edison International's unsecured revolving lines of credit are at negotiated or bank index rates with various expiration dates (the majority have five-year terms).

NOTE 6
PREFERRED SECURITIES

Preferred Stock of Utility

SCE's authorized shares of preferred and preference stock are: $25 cumulative preferred – 24 million; $100 cumulative preferred – 12 million; and preference – 50 million. All cumulative preferred stock is redeemable.

Mandatorily redeemable preferred stock is subject to sinking-fund provisions. When preferred shares are redeemed, the premiums paid are charged to common equity.

Preferred stock redemption requirements for the next five years are: 2000 and 2001 – zero; 2002 – $105 million; 2003 – $9 million; and 2004 – $9 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SCE's cumulative preferred stock consisted of:

Dollars in millions, except per share amounts	December 31, 1999 Shares Outstanding	December 31, 1999 Redemption Price	December 31, 1999	December 31, 1998
Not subject to mandatory redemption:				
$25 par value:				
4.08% Series	1,000,000	$ 25.50	$ 25	$ 25
4.24	1,200,000	25.80	30	30
4.32	1,653,429	28.75	41	41
4.78	1,296,769	25.80	33	33
Total			$129	$129
Subject to mandatory redemption:				
$100 par value:				
6.05% Series	750,000	$100.00	$ 75	$ 75
6.45	1,000,000	100.00	100	100
7.23	807,000	100.00	81	81
Total			$256	$256

In 1998, 193,000 shares of Series 7.23% and 2.2 million shares of Series 5.8% preferred stock were redeemed. There were no preferred stock issuances for the years presented.

Company-Obligated Mandatorily Redeemable Securities of Subsidiary
EME issued, through a limited partnership, 3.5 million shares of 9.875% cumulative monthly income preferred securities in 1994, at a price of $25 per security. These securities are redeemable at the option of the partnership in whole or in part, beginning November 1999 with mandatory redemption in 2024 at a redemption price of $25 per security plus accrued and unpaid distributions.

EME also issued, through the limited partnership, 2.5 million shares of 8.5% cumulative monthly income preferred securities, at a price of $25 per security during 1995. These securities are redeemable at the option of the partnership, in whole or in part, beginning August 2000 with mandatory redemption in 2025 at a redemption price of $25 per security plus accrued and unpaid distributions.

During 1999, Edison International issued, through an affiliate, $500 million of 7.875% cumulative quarterly income preferred securities, at a price of $25 per security. These securities have a stated maturity of July 2029, but are redeemable at the option of Edison International, in whole or in part, beginning July 2004.

During 1999, Edison International also issued, through an affiliate, $325 million of 8.6% cumulative quarterly income preferred securities, at a price of $25 per security. These securities, which are guaranteed by Edison International, have a stated maturity of October 2029, but are redeemable at the option of Edison International, in whole or in part, beginning October 2004.

Other Preferred Securities
During 1999, EME issued, through an indirect, wholly owned affiliate, $120 million of flexible money market cumulative preferred stock. The stock issuance consisted of 600 Series A shares and 600 Series B shares, with a dividend rate of 5.74% until May 2004. These securities are redeemable, in whole or in part, at the option of EME's affiliate, beginning May 2004, at $100,000 per share, plus accrued and unpaid dividends.

During 1999, EME issued through an indirect, wholly owned affiliate, $84 million of Class A redeemable preferred shares (16,000 shares priced at 10,000 New Zealand dollars per share with dividend rates between 6.19% and 6.86%). The shares are redeemable at their issuance price in June 2003.

During 1999, EME also issued, through an indirect, wholly owned affiliate, $125 million of retail redeemable preference shares (240 million shares priced at one New Zealand dollar per share with dividend rates between 5.0% and 6.37%). The shares are redeemable at their issuance price, according to the following schedule: June 2001 (64 million shares); June 2002 (43 million shares); and June 2003 (133 million shares).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7
INCOME TAXES

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

Income tax expense includes the current tax liability from operations and the change in deferred income taxes during the year. Investment tax credits are amortized over the lives of the related properties.

The components of the net accumulated deferred income tax liability were:

In millions	December 31, 1999	1998
Deferred tax assets:		
Property-related	$ 184	$ 197
Unrealized gains or losses	453	386
Investment tax credits	113	152
Regulatory balancing accounts	68	96
Decommissioning-related	127	126
Unbilled revenue	122	117
Deferred income	185	188
Operating reserves	214	136
Loss carryforwards	69	42
Accrued charges	247	188
Other	137	219
Total	$1,919	$1,847
Deferred tax liabilities:		
Property-related	$4,562	$3,982
Leveraged leases	1,280	964
Capitalized software costs	225	196
Regulatory balancing accounts	448	162
Decommissioning	23	17
Unrealized gains or losses	357	309
Investment tax credit	19	23
Other	571	526
Total	$7,485	$6,179
Accumulated deferred income taxes – net	$5,566	$4,332
Classification of accumulated deferred income taxes:		
Included in deferred credits	$5,757	$4,607
Included in current assets	191	275

The current and deferred components of income tax expense were:

In millions	Year ended December 31, 1999	1998	1997
Current:			
Federal	$(111)	$121	$244
State	3	18	55
Foreign	(34)	15	103
	(142)	154	402
Deferred – federal and state:			
Accrued charges	(147)	(43)	(33)
Depreciation and basis differences	(57)	(14)	(8)
Investment and energy tax credits – net	(46)	(80)	(22)
Leveraged leases	315	346	87
Loss carryforwards	–	(33)	121
Regulatory balancing accounts	371	177	141
State tax-privilege year	4	(1)	2
Other	(4)	(44)	(191)
	436	308	97
Total income tax expense	$ 294	$462	$499

The composite federal and state statutory income tax rate was 40.551% for all years presented.

The federal statutory income tax rate is reconciled to the effective tax rate below:

In millions	Year ended December 31, 1999	1998	1997
Federal statutory rate	35.0%	35.0%	35.0%
Foreign earnings reinvestment	(4.4)	–	–
Capital loss utilization	(4.7)	–	–
Capitalized software	(2.5)	(0.6)	(0.8)
Housing credits	(6.9)	(5.7)	(4.3)
Property-related and other	9.7	10.0	5.9
Investment and energy tax credits	(4.7)	(5.7)	(1.6)
State tax – net of federal deduction	10.4	7.5	6.3
Effective tax rate	31.9%	40.5%	40.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8
EMPLOYEE COMPENSATION AND BENEFIT PLANS

Employee Savings Plan
Edison International has a 401(k) defined contribution savings plan designed as a source of employees' retirement income. The plan received employer contributions of $31 million in 1999, $18 million in 1998 and $16 million in 1997.

Pension Plan and Postretirement Benefits Other Than Pensions
Edison International has a noncontributory, defined-benefit pension plan that covers most employees meeting minimum service requirements. Edison International's utility operations recognize pension expense as calculated by the actuarial method used for ratemaking. In April 1999, Edison International adopted a cash balance feature for its pension plan.

Most employees retiring at or after age 55 with at least 10 years of service are eligible for postretirement health and dental care, life insurance and other benefits.

In 1998, Edison International adopted a new accounting standard that revises the disclosure requirements for pension and postretirement benefit plans. Prior years have been restated.

In 1999, EME acquired the Homer City generating plant and the fossil-fueled generating plants formerly owned by ComEd (see Note 2). The obligations and expenses for employees at these plants are reflected below.

Information on plan assets and benefit obligations is shown below:

	Year ended December 31,			
	Pension Benefits		Other Postretirement Benefits	
In millions	**1999**	1998	**1999**	1998
Change in benefit obligation				
Benefit obligation at beginning of year	$ 2,281	$2,116	$1,563	$1,546
Service cost	70	63	49	43
Interest cost	149	143	111	100
Plan amendment	(26)	–	(5)	–
Acquisition	10	–	81	–
Actuarial loss (gain)	(221)	92	(198)	(72)
Benefits paid	(142)	(133)	(54)	(54)
Benefit obligation at end of year	$ 2,121	$2,281	$1,547	$1,563
Change in plan assets				
Fair value of plan assets at beginning of year	$ 2,576	$2,316	$1,029	$ 815
Actual return on plan assets	627	338	186	147
Employer contributions	51	55	122	121
Benefits paid	(142)	(133)	(54)	(54)
Fair value of plan assets at end of year	$ 3,112	$2,576	$1,283	$1,029
Funded status	$ 991	$ 295	$ (264)	$ (534)
Unrecognized net loss (gain)	(1,019)	(372)	(218)	87
Unrecognized transition obligation	29	34	350	378
Unrecognized prior service cost	128	169	(3)	–
Recorded asset (liability)	$ 129	$ 126	$ (135)	$ (69)
Discount rate	7.75%	6.75%	8.0%	6.75%
Rate of compensation increase	5.0%	5.0%	–	–
Expected return on plan assets	7.5%	7.5%	7.5%	7.5%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Expense components were:

	Year ended December 31,					
	Pension Benefits			Other Postretirement Benefits		
In millions	**1999**	1998	1997	**1999**	1998	1997
Service cost	$ 70	$ 63	$ 46	$ 49	$ 43	$ 31
Interest cost	149	143	140	111	100	100
Expected return on plan assets	(190)	(172)	(161)	(80)	(62)	(50)
Net amortization and deferral	12	14	13	27	28	32
Expense under accounting standards	41	48	38	107	109	113
Regulatory adjustment – deferred	14	11	17	–	–	–
Total expense recognized	$ 55	$ 59	$ 55	$107	$109	$113

The assumed rate of future increases in the per-capita cost of health care benefits is 11.75% for 2000, gradually decreasing to 5.0% for 2008 and beyond. Increasing the health care cost trend rate by one percentage point would increase the accumulated obligation as of December 31, 1999, by $248 million and annual aggregate service and interest costs by $29 million. Decreasing the health care cost trend rate by one percentage point would decrease the accumulated obligation as of December 31, 1999, by $199 million and annual aggregate service costs by $23 million.

Phantom Stock Options

Phantom stock option performance awards were developed for two affiliate companies, EME and Edison Capital, as part of the Edison International long-term incentive compensation program for senior management. Each phantom stock option may be exercised to realize any appreciation in the deemed value of one hypothetical share of EME or Edison Capital stock over exercise prices. Exercise prices for EME and Edison Capital phantom stock are escalated on an annually compounded basis over the grant price by 9% and 7.75%, respectively. The deemed values of the phantom stock are recalculated annually as determined by a formula linked to the value of its portfolio of investments, less general and administrative costs. The options have a 10-year term with one-third of the total award vesting in each of the first three years of the award term. For options awarded in 1998 and 1999, one-fourth of the total award vests in each of the first four years of the award term.

Compensation expense recorded with respect to the phantom stock options was $157 million in 1999, including the one-time charge discussed below, $53 million in 1998 and $79 million in 1997.

Edison International has elected to not issue additional phantom options after 1999. In January 2000, the board of directors preliminarily approved an exchange offer to the holders of outstanding phantom options. Edison International has taken a one-time charge of $75 million, after tax, in anticipation of this offer. The charge reflects the substantial values created by EME and Edison Capital over the last six years since the phantom option programs began.

Stock Option Plans

In 1998, Edison International shareholders approved the Edison International Equity Compensation Plan. The plan replaces the Long-Term Incentive Compensation Program, consisting of officer, director, and management plans, which was adopted by Edison International shareholders in 1992. No new awards will be made under the prior program; however, it will remain in effect as long as any awards remain outstanding under the prior program.

The prior program participated in the use of 8.2 million shares of common stock reserved for potential issuance under various stock compensation programs to directors, officers and senior managers of Edison International and its affiliates. Under these programs, options on 3.5 million shares of Edison International common stock are currently outstanding to officers and senior managers.

The new plan authorizes the annual issuance of shares equal to 1% of the issued and outstanding shares of Edison International common stock as of December 31 of the prior year. This authorization is cumulative so that to the extent shares are not needed to meet new plan requirements in any year, the excess authorized shares will carry over to subsequent years until plan termination. One percent of the issued and outstanding Edison International common stock on December 31, 1998, and 1997, was 3.5 million and 3.8 million shares, respectively. Under the new plan, options on 4.7 million shares of Edison International common stock are currently outstanding to officers and senior managers.

Each option may be exercised to purchase one share of Edison International common stock, and is exercisable at a price equivalent to the fair market value of the underlying stock at the date of grant. Edison International stock options include a dividend equivalent feature. Generally, for options issued before 1994, amounts equal to dividends accrue on the options at the same time and at the same rate as would be payable on the number of shares of Edison International common stock covered by the options. The amounts accumulate without interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For Edison International stock options issued after 1993, dividend equivalents are subject to reduction unless certain shareholder return performance criteria are met. Beginning with the 1999 Edison International stock option awards, only some stock options include a dividend equivalent feature. Future stock option awards under the plan are not expected to include the dividend equivalent feature. Additionally, awards of performance shares, comprising a combination of Edison International common stock and cash, are anticipated under the plan.

The new plan's stock options have a 10-year term with one-fourth of the total award vesting after each of the first four years of the award term. The prior program's stock options have a 10-year term with one-third of the total award vesting after each of the first three years of the award term. If an optionee retires, dies or is permanently and totally disabled during the vesting period, the unvested options will vest and be exercisable to the extent of 1/36 (prior program) or 1/48 (the new plan) of the grant for each full month of service during the vesting period.

Unvested options of any person who has served in the past on the Edison International or SCE Management Committee (which was dissolved in 1993) will vest and be exercisable upon the member's retirement, death or permanent and total disability. Upon retirement, death or permanent and total disability, the vested options may continue to be exercised within their original terms by the recipient or beneficiary. If an optionee is terminated other than by retirement, death or permanent and total disability, options which had vested as of the prior anniversary date of the grant are forfeited unless exercised within 180 days of the date of termination. All unvested options are forfeited on the date of termination.

Edison International measures compensation expense related to stock-based compensation by the intrinsic value method. Compensation expense recorded under the stock-compensation program was $5 million, $9 million and $6 million for 1999, 1998 and 1997, respectively.

Stock-based compensation expense under the fair-value method of accounting would have resulted in pro forma earnings of $621 million, $668 million and $696 million for 1999, 1998 and 1997, respectively, and in pro forma basic earnings per share of $1.79, $1.86 and $1.74 for 1999, 1998 and 1997, respectively.

The fair value for each option granted, reflecting the basis for the above pro forma disclosures, was determined on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used in determining fair value through the model:

	December 31,	
	1999	1998
Expected life	7 years	7 years
Risk-free interest rate	5.0%–5.5%	4.7%–5.6%
Expected volatility	18%	17%

The application of fair-value accounting to calculate the pro forma disclosures above is not an indication of future income statement effects. The pro forma disclosures do not reflect the effect of fair-value accounting on stock-based compensation awards granted prior to 1995.

A summary of the status of Edison International's stock options is as follows:

			Weighted-Average		
	Share Options	Exercise Price	Exercise Price	Fair Value at Grant	Remaining Life
Outstanding, December 31, 1996	3,554,756	$14.56 – $24.44	$18.68		7 years
Granted	1,350,809	$19.75 – $25.94	$20.19	$7.62	
Expired	–	–	–		
Forfeited	(33,599)	$14.56 – $19.75	$17.76		
Exercised	(460,300)	$14.56 – $23.28	$19.06		
Outstanding, December 31, 1997	4,411,666	$14.56 – $25.19	$18.76		7 years
Granted	1,639,300	$26.78 – $29.34	$27.25	$6.42	
Expired	–	–	–		
Forfeited	(46,171)	$17.63 – $29.88	$26.07		
Exercised	(573,527)	$14.56 – $29.88	$17.33		
Outstanding, December 31, 1998	5,431,268	$14.56 – $29.34	$21.52		7 years
Granted	3,045,949	$24.81 – $28.13	$28.10	$6.45	
Expired	–	–	–		
Forfeited	(6,805)	$28.13 – $28.80	$28.65		
Exercised	(368,264)	$14.56 – $25.75	$18.72		
Outstanding, December 31, 1999	8,102,148	$14.56 – $29.34	$24.04		7 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The number of options exercisable and their weighted-average exercise prices at December 31, 1999, 1998 and 1997 were 5,018,556 at $21.63, 3,805,755 at $19.72 and 3,218,189 at $18.48, respectively.

NOTE 9
JOINTLY OWNED UTILITY PROJECTS

SCE owns interests in several generating stations and transmission systems for which each participant provides its own financing. SCE's share of expenses for each project is included in the consolidated statements of income.

The investment in each project, as included in the consolidated balance sheet as of December 31, 1999, was:

In millions	*Original Cost of Facility*	*Accumulated Depreciation and Amortization*	*Under Construction*	*Ownership Interest*
Transmission systems:				
Eldorado	$ 39	$ 6	$ 3	60%
Pacific Intertie	241	78	6	50
Generating stations:				
Four Corners Units 4 and 5 (coal)	459	325	3	48
Mohave (coal)	323	217	2	56
Palo Verde (nuclear)[1]	1,609	1,153	19	16
San Onofre (nuclear)[1]	4,275	3,269	16	75
Total	$6,946	$5,048	$49	

(1) Reported as "Unamortized nuclear investment – net."

NOTE 10
COMMITMENTS

Leases
Leveraged Leases

Edison Capital is the lessor in several leveraged-lease agreements with terms of 13 years to 38 years. All operating, maintenance, insurance and decommissioning costs are the responsibility of the lessees. The total cost of these facilities was $5.5 billion and $4.8 billion at December 31, 1999, and 1998, respectively.

The equity investment in these facilities is 21.3% of the purchase price. The remainder is nonrecourse debt secured by first liens on the leased property. The lenders have accepted their security interests as their only remedy if the lessee defaults.

The net investment in leveraged leases consisted of:

	December 31,	
In millions	***1999***	*1998*
Rentals receivable (net of principal and interest on nonrecourse debt)	$ 2,990	$ 2,635
Unearned income	(1,145)	(1,062)
Investment in leveraged leases	1,845	1,573
Estimated residual value	58	58
Deferred income taxes	(1,280)	(964)
Net investment in leveraged leases	$ 623	$ 667

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Operating and Capital Leases
Edison International has operating leases, primarily for property and equipment (with varying terms, provisions and expiration dates) and a capital lease ($22 million) for a nonutility power-production facility.

Estimated remaining commitments for noncancelable leases at December 31, 1999, were:

In millions	Operating Leases	Capital Lease
Year ended December 31,		
2000	$ 87	$24
2001	81	–
2002	75	–
2003	71	–
2004	69	–
Thereafter	1,506	1
Total future commitments	$1,889	25
Amount representing interest (10.56%)		(2)
Net commitments		$23

Nuclear Decommissioning
Decommissioning is estimated to cost $2.0 billion in current-year dollars, based on site-specific studies performed in 1998 for San Onofre and Palo Verde. Changes in the estimated costs, timing of decommissioning, or the assumptions underlying these estimates could cause material revisions to the estimated total cost to decommission in the near term. SCE estimates that it will spend approximately $8.6 billion through 2060 to decommission its nuclear facilities. This estimate is based on SCE's current dollar decommissioning costs, escalated at rates ranging from 0.3% to 10.0% (depending on the cost element) annually. These costs are expected to be funded from independent decommissioning trusts, which effective June 1999, receive contributions of approximately $25 million per year. SCE estimates annual after-tax earnings on the decommissioning funds of 3.9% to 4.9%.

SCE plans to decommission its nuclear generating facilities by a prompt removal method authorized by the Nuclear Regulatory Commission. Decommissioning is expected to begin after the plants' operating licenses expire. The operating licenses expire in 2013 for San Onofre Units 2 and 3, and 2025–2027 for Palo Verde. Decommissioning costs, which are accrued and recovered through non-bypassable customer rates over the term of each nuclear facility's operating license, are recorded as a component of depreciation expense.

In June 1999, the CPUC authorized SCE to access its nuclear decommissioning trust funds to start decommissioning San Onofre Unit 1 (shut down in 1992 per a CPUC agreement) effective immediately.

Decommissioning expense was $124 million in 1999, $164 million in 1998 and $154 million in 1997. The accumulated provision for decommissioning, excluding San Onofre Unit 1, was $1.3 billion at December 31, 1999, and $1.2 billion at December 31, 1998. The estimated costs to decommission San Onofre Unit 1 (approximately $360 million) are recorded as a liability.

Decommissioning funds collected in rates are placed in independent trusts, which, together with accumulated earnings, will be utilized solely for decommissioning.

Trust investments (cost basis) include:

In millions	Maturity Dates	December 31, 1999	1998
Municipal bonds	2000 - 2033	$ 684	$ 547
Stocks	–	482	550
U.S. government issues	2000 - 2030	351	355
Short-term and other	2000 - 2040	133	82
Total		$1,650	$1,534

Trust fund earnings (based on specific identification) increase the trust fund balance and the accumulated provision for decommissioning. Net earnings were $58 million in 1999, $63 million in 1998 and $54 million in 1997. Proceeds from sales of securities (which are reinvested) were $2.6 billion in 1999, $1.2 billion in 1998 and $595 million in 1997. Approximately 90% of the trust fund contributions were tax-deductible.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Commitments

SCE and EME have fuel supply contracts which require payment only if the fuel is made available for purchase. SCE's gas and coal fuel contracts require payment of certain fixed charges whether or not gas or coal is delivered.

SCE has power-purchase contracts with certain qualifying facilities (cogenerators and small power producers) and other utilities. These contracts provide for capacity payments if a facility meets certain performance obligations and energy payments based on actual power supplied to SCE. There are no requirements to make debt-service payments. As a result of the utility industry restructuring, SCE has entered into settlements to end its contract obligations with certain qualifying facilities. The settlements are reported as long-term liabilities. Settlement payments are being recovered through the CTC.

SCE has unconditional purchase obligations for part of a power plant's generating output, as well as firm transmission service from another utility. Minimum payments are based, in part, on the debt-service requirements of the provider, whether or not the plant or transmission line is operable. SCE's minimum commitment under both contracts is approximately $166 million through 2017. The purchased-power contract (approximately $30 million) is expected to provide approximately 5.5% of current or estimated future operating capacity, and is reported as a long-term liability. The transmission service contract requires a minimum payment of approximately $6 million a year.

Certain commitments for the years 2000 through 2004 are estimated below:

In millions	*2000*	*2001*	*2002*	*2003*	*2004*
Projected construction expenditures	$1,365	$1,271	$1,115	$1,027	$945
Fuel supply contracts	918	697	520	384	296
Purchased-power capacity payments	793	783	683	668	678

EME has firm commitments to make equity and other contributions to its projects of $186 million for the ISAB project in Italy, the EcoEléctrica project in Puerto Rico and the Tri Energy project in Thailand. EME also has contingent obligations to make additional contributions of $159 million, primarily for equity support guarantees related to the Paiton project in Indonesia.

Edison Capital has commitments of $364 million to fund affordable housing and energy/infrastructure investments.

NOTE 11
CONTINGENCIES

In addition to the matters disclosed in these notes, Edison International is involved in other legal, tax and regulatory proceedings before various courts and governmental agencies regarding matters arising in the ordinary course of business. SCE believes the outcome of these other proceedings will not materially affect its results of operations or liquidity.

Environmental Protection

Edison International is subject to numerous environmental laws and regulations, which require it to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment.

Edison International records its environmental liabilities when site assessments and/or remedial actions are probable and a range of reasonably likely cleanup costs can be estimated. Edison International reviews its sites and measures the liability quarterly, by assessing a range of reasonably likely costs for each identified site using currently available information, including existing technology, presently enacted laws and regulations, experience gained at similar sites, and the probable level of involvement and financial condition of other potentially responsible parties. These estimates include costs for site investigations, remediation, operations and maintenance, monitoring and site closure. Unless there is a probable amount, Edison International records the lower end of this reasonably likely range of costs (classified as other long-term liabilities at undiscounted amounts).

Edison International's recorded estimated minimum liability to remediate its 45 identified sites is $163 million. The ultimate costs to clean up Edison International's identified sites may vary from its recorded liability due to numerous uncertainties inherent in the estimation process, such as: the extent and nature of contamination; the scarcity of reliable data for identified sites; the varying costs of alternative cleanup methods; developments resulting from investigatory studies; the possibility of identifying additional sites; and the time periods over which site remediation is expected to occur. Edison International believes that, due to these uncertainties, it is reasonably possible that cleanup costs could exceed its recorded liability by up to $284 million.

The upper limit of this range of costs was estimated using assumptions least favorable to Edison International among a range of reasonably possible outcomes. In 1998, SCE sold all of its gas- and oil-fueled generation plants and has retained some liability associated with the divested properties.

The CPUC allows SCE to recover environmental-cleanup costs at 42 of its sites, representing $90 million of its recorded liability, through an incentive mechanism (SCE may request to include additional sites). Under this mechanism, SCE will recover 90% of cleanup costs through customer rates; shareholders fund the remaining 10%, with the opportunity to recover these costs from insurance carriers and other third parties. SCE has successfully settled insurance claims with all responsible carriers. Costs incurred at SCE's remaining sites are expected to be recovered through customer rates. SCE has recorded a regulatory asset of $126 million for its estimated minimum environmental-cleanup costs expected to be recovered through customer rates.

Edison International's identified sites include several sites for which there is a lack of currently available information, including the nature and magnitude of contamination, and the extent, if any, that Edison International may be held responsible for contributing to any costs incurred for remediating these sites. Thus, no reasonable estimate of cleanup costs can now be made for these sites.

Edison International expects to clean up its identified sites over a period of up to 30 years. Remediation costs in each of the next several years are expected to range from $5 million to $15 million. Recorded costs for 1999 were $14 million.

Based on currently available information, Edison International believes it is unlikely that it will incur amounts in excess of the upper limit of the estimated range and, based upon the CPUC's regulatory treatment of environmental-cleanup costs, Edison International believes that costs ultimately recorded will not materially affect its results of operations or financial position. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to such estimates.

FERC Transmission Rate Case

SCE filed its first FERC transmission rate case in March 1997. The filing proposed a transmission revenue requirement of $211 million. In March 1999, a proposed FERC decision was issued recommending a return on equity of 9.68% (compared to SCE's current CPUC rate for distribution of 11.6%) and a lower revenue requirement. SCE filed comments opposing the proposed decision in May 1999. In response to a recent FERC ruling, on November 1, 1999, SCE filed additional evidence regarding return on equity. A final FERC decision is expected in the first quarter of 2000. SCE does not expect the final decision to have a material effect on its results of operations or financial position.

Hydroelectric Market Value Filing

In order to comply with the restructuring legislation passed in 1996, on December 15, 1999, SCE filed an application with the CPUC establishing a market value for its hydroelectric generation-related assets at approximately $1.0 billion (almost twice the assets' book value) and proposing to retain and operate the hydroelectric assets under a performance-based and revenue-sharing mechanism. The application had broad-based support from labor, ratepayer and environmental groups. If approved by the CPUC, SCE would be allowed to recover an authorized, inflation-index operations and maintenance allowance, as well as a reasonable return on capital investment. A revenue-sharing arrangement would be activated if revenue from the sale of hydroelectricity exceeds or falls short of the authorized revenue requirement. SCE would then refund 90% of the excess revenue to ratepayers or recover 90% of any shortfalls from ratepayers. A final CPUC decision is expected by the end of 2000.

Nuclear Insurance

Federal law limits public liability claims from a nuclear incident to $9.5 billion. SCE and other owners of San Onofre and Palo Verde have purchased the maximum private primary insurance available ($200 million). The balance is covered by the industry's retrospective rating plan that uses deferred premium charges to every reactor licensee if a nuclear incident at any licensed reactor in the U.S. results in claims and/or costs which exceed the primary insurance at that plant site. Federal regulations require this secondary level of financial protection. The Nuclear Regulatory Commission exempted San Onofre Unit 1 from this secondary level, effective June 1994. The maximum deferred premium for each nuclear incident is $88 million per reactor, but not more than $10 million per reactor may be charged in any one year for each incident. Based on its ownership interests, SCE could be required to pay a maximum of $175 million per nuclear incident. However, it would have to pay no more than $20 million per incident in any one year. Such amounts include a 5% surcharge if additional funds are needed to satisfy public liability claims and are subject to adjustment for inflation. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

Property damage insurance covers losses up to $500 million, including decontamination costs, at San Onofre and Palo Verde. Decontamination liability and property damage coverage exceeding the primary $500 million also has been purchased in amounts greater than federal requirements. Additional insurance covers part of replacement power expenses during an accident-related nuclear unit outage. These policies are issued by a mutual insurance company owned by utilities with nuclear facilities. If losses at any nuclear facility covered by the arrangement were to exceed the accumulated funds for these insurance programs, SCE could be assessed retrospective premium adjustments of up to $19 million per year. Insurance premiums are charged to operating expense.

Paiton Project

A wholly owned subsidiary of EME owns a 40% interest in the Paiton project, a 1,230-MW coal-fired power plant in Indonesia. The tariff is higher in the early years and steps down over time. The tariff for the Paiton project includes infrastructure to be used in common by other units at the Paiton complex. The plant's output is fully contracted with the state-owned electricity company for payment in Indonesian Rupiah, with the portion of such payments intended to cover non-Rupiah project costs (including returns to investors) indexed to the Indonesian Rupiah/U.S. dollar exchange rate established at the time of the power purchase agreement in February 1994. The state-owned electricity company's payment obligations are supported by the Indonesian government. The project received substantial finance and insurance support from the Export-Import Bank of the United States, The Export-Import Bank of Japan, the U.S. Overseas Private Investment Corporation and the Ministry of International Trade and Industry of Japan. The projected rate of growth of the Indonesian economy and the exchange rate of Indonesian Rupiah into U.S. dollars have deteriorated significantly since the Paiton project was contracted, approved and financed. The Paiton project's senior debt ratings have been reduced from investment grade to speculative grade based on the rating agencies' perceived increased risk that the state-owned electricity company might not be able to honor the electricity sales contract with Paiton. The Indonesian government has arranged to reschedule sovereign debt owed to foreign governments and has entered into discussions about rescheduling sovereign debt owed to private lenders. Certain events have occurred (including those discussed in the paragraph below) which, with the passage of time or upon notice, may mature into defaults of the project's debt agreement. On October 15, 1999, the project entered into an interim agreement with its lenders, in which the lenders waived such defaults until July 31, 2000. However, such waiver may expire on an earlier date if additional defaults (other than those specifically waived) or certain other specified events occur.

One of the Paiton units began commercial operation in May 1999 and the other unit in July 1999. Because of the economic downturn, the state-owned electricity company is experiencing low electricity demand and has therefore ordered no power from the Paiton plant; however, under the terms of the power purchase agreement, the state-owned electricity company is required to continue to pay for capacity and fixed operating costs once each unit and the plant achieve commercial operation. An invoice for these charges for May 1999 has been submitted and a partial payment, based on an arbitrary exchange rate that does not comply with the terms of the power purchase agreement, was received. Additional invoices for capacity charges and fixed operating costs have seen submitted; no payment has been received. In addition, the state-owned electricity company and the project have begun discussions to renegotiate the power supply contract. However, it is not yet known what form the renegotiation may take. Any material modifications of the contract could also require a renegotiation of the Paiton project's debt agreement. The impact of any such renegotiations with the state-owned electricity company, the Indonesian government or the project's creditors on EME's expected return on its investment in Paiton is uncertain at this time; however, EME believes that it will ultimately recover its investment in the project.

Spent Nuclear Fuel

Under federal law, the DOE is responsible for the selection and development of a facility for disposal of spent nuclear fuel and high-level radioactive waste. Such a facility was to be in operation by January 1998. However, the DOE did not meet its obligation. It is not certain when the DOE will begin accepting spent nuclear fuel from San Onofre or from other nuclear power plants.

SCE has primary responsibility for the interim storage of its spent nuclear fuel at San Onofre. Current capability to store spent fuel is estimated to be adequate through 2005. Meeting spent-fuel storage requirements beyond that period would require new and separate interim storage facilities, the costs for which have not been determined. Extended delays by the DOE could lead to consideration of costly alternatives involving siting and environmental issues. SCE has paid the DOE the required one-time fee applicable to nuclear generation at San Onofre through April 6, 1983, (approximately $24 million, plus interest). SCE is also paying the required quarterly fee equal to one mill per kilowatt-hour of nuclear-generated electricity sold after April 6, 1983.

Palo Verde on-site spent fuel storage capacity will accommodate needs until 2003 for Unit 2, and until 2004 for Units 1 and 3. Arizona Public Service Company, operating agent for Palo Verde, is constructing an interim fuel storage facility that is expected to be completed in 2002.

SCE and other owners of nuclear power plants may be able to recover interim storage costs arising from DOE delays in the acceptance of utility spent nuclear fuel by pursuing relief under the terms of the contracts, as directed by the courts, or through other court actions.

NOTE 12
INVESTMENTS IN PARTNERSHIPS AND UNCONSOLIDATED SUBSIDIARIES

Edison International's nonutility subsidiaries have equity interests in energy projects and real estate investment partnerships.

Summarized financial information of these investments was:

	Year ended December 31,		
In millions	***1999***	*1998*	*1997*
Revenue	$ 2,338	$1,848	$1,946
Expenses	1,872	1,525	1,578
Net income	$ 466	$ 323	$ 368

	December 31,	
In millions	***1999***	*1998*
Current assets	$ 854	$ 655
Other assets	9,487	6,811
Total assets	$10,341	$7,466
Current liabilities	$ 1,644	$1,190
Other liabilities	6,029	4,493
Equity	2,668	1,783
Total liabilities and equity	$10,341	$7,466

NOTE 13
BUSINESS SEGMENTS

Edison International's reportable business segments include its electric utility operation segment (SCE), a nonutility power generation segment (EME) and a capital and financial services provider segment (Edison Capital). Its segments are based on Edison International's internal organization. They are separate business units and are managed separately. Edison International evaluates the segments' performance based on net income.

SCE is a rate-regulated electric utility which produces and supplies electric energy in central, coastal and Southern California. SCE's regulatory environment is changing, as discussed in Note 1 to the Consoldiated Financial Statements. EME is a producer of electricity engaged in the development, ownership and operation of electric power generation facilities worldwide. Edison Capital is a provider of capital and financial services with investments worldwide.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Edison International's business segment information was:

In millions	*Electric Utility*	*Nonutility Power Generation*	*Capital & Financial Services*	*Corporate & Other*[1]	*Consolidated Edison International*
1999					
Operating revenue	$ 7,522	$ 1,642[2]	$ 282	$ 224	$ 9,670
Depreciation, decommissioning and amortization	1,546	190	22	36	1,794
Interest and dividend income	69	42	4	(19)	96
Interest expense – net	472	353	41	17	883
Income tax expense	438	(40)	(25)	(79)	294
Net income	509	130	129	(145)	623
Total assets	17,657	15,534	2,712	326	36,229
Additions to property and plant	984	8,310	–	(105)[3]	9,189
1998					
Operating revenue	$ 7,500	$ 894[2]	$ 235	$ 231	$ 8,860
Depreciation, decommissioning and amortization	1,546	87	20	9	1,662
Interest and dividend income	67	50	4	(13)	108
Interest expense-net	477	183	50	(8)	702
Income tax expense	442	70	(15)	(35)	462
Net income	515	132	105	(84)	668
Total assets	16,947	5,158	2,276	317	24,698
Additions to property and plant	861	73	–	29	963
1997					
Operating revenue	$ 7,953	$ 975[2]	$ 138	$ 169	$ 9,235
Depreciation, decommissioning and amortization	1,240	103	17	2	1,362
Interest and dividend income	45	27	10	3	85
Interest expense-net	435	210	29	25	699
Income tax expense	520	57	(44)	(34)	499
Net income	606	115	61	(82)	700
Total assets	18,059	4,985	1,783	274	25,101
Additions to property and plant	685	88	–	10	783

(1) Includes amounts from nonutility subsidiaries not significant as a reportable segment.
(2) Includes equity in income from investments of $244 million in 1999 and $189 million in both 1998 and 1997.
(3) Includes liabilities assumed and deferred credits of projects acquired in 1999.

Geographic Information

Electric power and steam generated domestically by EME is sold principally under long-term contracts to electric utilities, through a centralized power pool, or under a power-purchase agreement with a term of up to 5 years. Projects in the United Kingdom and a project in Australia sell their energy through a centralized power pool (in the respective countries). Other electric power generated overseas is sold primarily under long-term contracts to electric utilities located in the country where the power is generated. All electric power generated by SCE is sold through the PX.

Edison International's foreign and domestic revenue and assets information was:

In millions	*Year ended December 31,* **1999**	*1998*	*1997*
Revenue			
United States	$ 8,631	$ 8,154	$8,452
Foreign countries:			
United Kingdom	748	449	428
Australia	209	199	296
Other	82	58	59
	$ 9,670	$ 8,860	$9,235

In millions	*December 31,* **1999**	*1998*
Assets		
United States	$28,122	$20,739
Foreign countries:		
United Kingdom	4,163	1,787
Australia	1,398	1,326
Other	2,546	846
	$36,229	$24,698

QUARTERLY FINANCIAL DATA (UNAUDITED)

	1999				
In millions, except per share amounts	*Total*	*Fourth*	*Third*	*Second*	*First*
Operating revenue	$9,670	$2,509	$2,957	$2,116	$2,088
Operating income	1,744	324	642	378	399
Net income	623	96	255	128	143
Per share:					
Basic earnings	$ 1.79	$ .28	$ .74	$ .37	$ .41
Diluted earnings	1.79	.28	.73	.37	.41
Dividends declared	1.08	.27	.27	.27	.27
Common stock prices:					
High	$ 29¼	$ 29 1/16	$ 27⅜	$ 29¼	$ 28 15/16
Low	21⅝	23 13/16	22⅞	22⅜	21⅝
Close	26 3/16	26 3/16	24 5/16	26¾	22¼

	1998				
In millions, except per share amounts	*Total*	*Fourth*	*Third*	*Second*	*First*
Operating revenue	$8,860	$2,258	$2,754	$1,939	$1,910
Operating income	1,784	389	535	398	462
Net income	668	163	216	145	144
Per share:					
Basic earnings	$ 1.86	$ .46	$ .61	$ .40	$ .39
Diluted earnings	1.84	.46	.60	.40	.39
Dividends declared	1.04	.26	.26	.26	.26
Common stock prices:					
High	$ 31	$ 28 9/16	$ 29 11/16	$ 31	$ 30 11/16
Low	25⅛	25⅛	25⅜	27 15/16	25 3/16
Close	27⅞	27⅞	25 11/16	29 9/16	29⅜

BOARD OF DIRECTORS*

John E. Bryson[1**]
Chairman of the Board, President
and Chief Executive Officer,
Edison International
A director since 1990

Winston H. Chen[2,5,6]
Chairman of the Paramitas Foundation
and Chairman of Paramitas
Investment Corporation,
Santa Clara, California
A director since 1995

Warren Christopher[1,4]
Senior Partner,
O'Melveny & Myers,
Los Angeles, California
A director since 1971[†]

Stephen E. Frank[1***]
Chairman of the Board, President
and Chief Executive Officer,
Southern California Edison
A director since 1995

Joan C. Hanley[2,4]
The Former General Partner and Manager,
Miramonte Vineyards,
Rancho Palos Verdes, California
A director since 1980

Carl F. Huntsinger[1,5]
General Partner,
DAE Limited Partnership, Ltd.,
Ojai, California
A director since 1983

Charles D. Miller[3,5]
Chairman of the Board,
Avery Dennison Corporation,
Pasadena, California
A director since 1987

Luis G. Nogales[2,3]
President,
Nogales Partners,
Los Angeles, California
A director since 1993

Ronald L. Olson[2,4]
Senior Partner,
Munger, Tolles and Olson,
Los Angeles, California
A director since 1995

James M. Rosser[1,4]
President,
California State University, Los Angeles
Los Angeles, California
A director since 1985

Robert H. Smith[2,3,4]
Managing Director,
Smith and Crowley Incorporated,
Pasadena, California
A director since 1987

Thomas C. Sutton[3,5]
Chairman of the Board and
Chief Executive Officer,
Pacific Life Insurance Company,
Newport Beach, California
A director since 1995

Daniel M. Tellep[3,5]
Retired Chairman of the Board,
Lockheed Martin Corporation,
Bethesda, Maryland
A director since 1992

Edward Zapanta, M.D.[1,5]
Physician and Neurosurgeon,
Torrance, California
A director since 1984

* *Service includes combined Edison International and Southern California Edison Board memberships*
** *Edison International Board and Executive Committee only*
*** *Southern California Edison Executive Committee only*
† *8/19/71 to 1/20/77*
6/18/81 to 1/19/93
5/15/97 to present

1 *Executive Committee*
2 *Finance Committee*
3 *Compensation and Executive Personnel Committee*
4 *Nominating Committee*
5 *Audit Committee*
6 *Retiring on April 20, 2000*

MANAGEMENT TEAM

EDISON INTERNATIONAL

John E. Bryson
Chairman of the Board, President and Chief Executive Officer

Bryant C. Danner
Executive Vice President and General Counsel

Theodore F. Craver, Jr.
Senior Vice President, Chief Financial Officer and Treasurer

Robert G. Foster
Senior Vice President, Public Affairs

Lillian R. Gorman[1]
Senior Vice President, Human Resources

Mahvash Yazdi
Senior Vice President and Chief Information Officer

Thomas J. Higgins
Vice President, Corporate Relations

Stephen M. McMenamin
Vice President, eCommerce

Thomas M. Noonan
Vice President and Controller

Joseph P. Ruiz
Vice President and General Auditor

Anthony L. Smith
Vice President, Tax

Diane O. Wittenberg
Vice President, Corporate Communications

Beverly P. Ryder
Secretary

1 *Resigned February 29, 2000*

SOUTHERN CALIFORNIA EDISON

Stephen E. Frank
Chairman of the Board, President and Chief Executive Officer

Harold B. Ray
Executive Vice President, Generation Business Unit

Pamela A. Bass
Senior Vice President, Customer Service Business Unit

John R. Fielder
Senior Vice President, Regulatory Policy and Affairs

Robert G. Foster
Senior Vice President, Public Affairs

Lillian R. Gorman[1]
Senior Vice President, Human Resources

Richard M. Rosenblum
Senior Vice President, Transmission and Distribution Business Unit

Mahvash Yazdi
Senior Vice President and Chief Information Officer

Emiko Banfield
Vice President, Shared Services

Bruce C. Foster
Vice President, San Francisco Regulatory Operations

A. L. Grant
Vice President, Transmission

Lawrence D. Hamlin
Vice President, Power Production and Operations and Maintenance Services

Holly Kolinski
Vice President, Mass Customers

R. W. Krieger
Vice President, Nuclear Generation

J. Michael Mendez
Vice President, Labor Relations

Thomas M. Noonan
Vice President and Controller

Dwight E. Nunn
Vice President, Nuclear Engineering and Technical Services

Stephen E. Pickett
Vice President and General Counsel

Frank J. Quevedo
Vice President, Equal Opportunity

Joseph P. Ruiz
Vice President and General Auditor

W. James Scilacci
Vice President and Chief Financial Officer

Dale E. Shull, Jr.
Vice President, Distribution

Anthony L. Smith
Vice President, Tax

David Ned Smith
Vice President, Major Customers

Joseph J. Wambold
Vice President, Nuclear Business and Support Services

Robert C. Boada
Treasurer

Beverly P. Ryder
Secretary

MANAGEMENT TEAM

EDISON MISSION ENERGY

John E. Bryson
Chairman of the Board

Alan J. Fohrer
President and Chief Executive Officer

Robert M. Edgell
Executive Vice President

William J. Heller
Senior Vice President

James V. Iaco, Jr.
Senior Vice President

Ronald L. Litzinger
Senior Vice President

Georgia R. Nelson
Senior Vice President

Kevin M. Smith
Senior Vice President and Chief Financial Officer

Raymond W. Vickers
Senior Vice President and General Counsel

EDISON CAPITAL

John E. Bryson
Chairman of the Board

Thomas R. McDaniel
President and Chief Executive Officer

Ashraf T. Dajani
Senior Vice President

Richard E. Lucey
Senior Vice President and Chief Financial Officer

Larry C. Mount
Senior Vice President, General Counsel and Secretary

EDISON ENTERPRISES

Theodore F. Craver, Jr.
Chairman of the Board and Chief Executive Officer

Thomas J. Higgins
President

SELECTED FINANCIAL AND OPERATING DATA: 1995–1999

Dollars in millions, except per share amounts	1999	1998	1997	1996	1995
EDISON INTERNATIONAL AND SUBSIDIARIES					
Operating revenue	$ 9,670	$ 8,860	$ 9,235	$ 8,545	$ 8,405
Operating expenses	$ 7,926	$ 7,076	$ 7,200	$ 6,503	$ 6,500
Net income	$ 623	$ 668	$ 700	$ 717	$ 739
Weighted-average shares of common stock outstanding *(in millions)*	348	359	400	437	446
Per share data:					
Basic earnings	$ 1.79	$ 1.86	$ 1.75	$ 1.64	$ 1.66
Diluted earnings	$ 1.79	$ 1.84	$ 1.73	$ 1.63	$ 1.65
Dividends paid	$ 1.07	$ 1.03	$ 1.00	$ 1.00	$ 1.00
Dividends declared	$ 1.08	$ 1.04	$ 1.00	$ 1.00	$ 1.00
Book value at year-end	$ 15.01	$ 14.55	$ 14.71	$ 15.07	$ 14.41
Market value at year-end	$ 26 3/16	$ 27 1/8	$ 27 3/16	$ 19 7/8	$ 17 5/8
Dividend payout ratio *(paid)*	59.8%	55.4%	57.1%	61.0%	60.2%
Rate of return on common equity	12.2%	12.8%	11.7%	11.1%	11.8%
Price/earnings ratio	14.6	15.0	15.5	12.1	10.6
Ratio of earnings to fixed charges	1.85	2.33	2.41	2.42	2.58
Assets	$36,229	$24,698	$25,101	$24,559	$23,946
Long-term debt	$13,391	$ 8,008	$ 8,871	$ 7,475	$ 7,195
Common shareholders' equity	$ 5,211	$ 5,099	$ 5,527	$ 6,397	$ 6,393
Preferred stock subject to mandatory redemption	$ 256	$ 256	$ 275	$ 275	$ 275
Company-obligated mandatorily redeemable securities of subsidiaries holding solely parent company debentures	$ 948	$ 150	$ 150	$ 150	$ 150
Retained earnings	$ 3,079	$ 2,906	$ 3,176	$ 3,753	$ 3,700
SOUTHERN CALIFORNIA EDISON COMPANY					
Operating revenue	$ 7,522	$ 7,500	$ 7,953	$ 7,583	$ 7,873
Earnings	$ 484	$ 490	$ 576	$ 621	$ 643
Basic earnings per Edison International common share	$ 1.39	$ 1.37	$ 1.44	$ 1.42	$ 1.44
Rate of return on common equity	15.2%	13.3%	11.6%	12.1%	12.6%
Peak demand in megawatts (MW)	19,122	19,935	19,118	18,207	17,548
Generation capacity at peak (MW)	10,474	10,546	21,511	21,602	21,603
Kilowatt-hour sales *(in millions)*	78,602	76,595	77,234	75,572	74,296
Customers *(in millions)*	4.36	4.27	4.25	4.22	4.18
Full-time employees	13,040	13,177	12,642	12,057	14,886
EDISON MISSION ENERGY					
Revenue	$ 1,642	$ 894	$ 975	$ 844	$ 467
Net income	$ 130	$ 132	$ 115	$ 92	$ 64
Assets	$15,534	$ 5,158	$ 4,985	$ 5,153	$ 4,374
Rate of return on common equity	8.1%	14.8%	12.2%	8.8%	9.5%
Ownership in operating projects (MW)	22,037	5,153	5,180	4,706	4,212
Full-time employees	3,245	1,180	1,140	940	902
EDISON CAPITAL					
Revenue	$ 282	$ 235	$ 138	$ 49	$ 49
Net income	$ 129	$ 105	$ 61	$ 41	$ 39
Assets	$ 2,712	$ 2,276	$ 1,783	$ 1,423	$ 1,063
Rate of return on common equity	27.0%	30.2%	23.2%	17.7%	18.5%
Full-time employees	115	85	85	70	42

SHAREHOLDER INFORMATION

ANNUAL MEETING

The annual meeting of shareholders will be held on Thursday, April 20, 2000, at 9 a.m., at the Chicago Public Library, Harold Washington Library Center, 400 South State Street, Chicago, Illinois.

STOCK LISTING AND TRADING INFORMATION

Edison International Common Stock

The New York and Pacific stock exchanges use the ticker symbol EIX; daily newspapers list the stock as EdisonInt.

Preferred Stock

Edison International's preferred securities are listed on the New York Stock Exchange under the ticker symbols EIX prA for the 7.875% QUIPS Series A and EIX prB for the 8.60% Series B. Previous day's closing prices, when traded, are listed in the daily newspapers in the New York Stock Exchange composite table under the symbols EIX QUIPS A and EIX QUIPS B. Southern California Edison's preferred stocks are listed on the American and Pacific stock exchanges under the ticker symbol SCE. Previous day's closing prices, when traded, are listed in the daily newspapers in the American Stock Exchange composite table under the symbol SoCalEd. The 6.05%, 6.45% and 7.23% series are not listed. The preferred securities of Mission Capital, an affiliate of Edison Mission Energy, are listed on the New York Stock Exchange under the ticker symbol MEPrA for the 9.875% series and MEPrB for the 8.50% series.

TRANSFER AGENT AND REGISTRAR

Norwest Bank Minnesota, N.A., maintains shareholder records and is transfer agent and registrar for Edison International common stock and Southern California Edison preferred stocks. Shareholders may call Norwest Shareowner Services, 800.347.8625, between 7 a.m. and 7 p.m. (Central Time) every business day regarding:

- stock transfer and name-change requirements;
- address changes, including dividend addresses;
- electronic deposit of dividends;
- taxpayer identification number submission or changes;
- duplicate 1099 and W-9 forms;
- notices of, and replacement of, lost or destroyed stock certificates and dividend checks;
- direct debit of optional cash for dividend reinvestment;
- requests to eliminate multiple annual report mailings;
- Edison International's Dividend Reinvestment Plan, including enrollments, withdrawals, terminations, transfers, sales, duplicate statements; and
- requests for access to online account information, which can be obtained by calling Norwest Shareowner Services at 800.347.8625.

Inquiries should be directed to:

Mail
Norwest Bank Minnesota, N.A.
Shareowner Services Department
P.O. Box 64854
St. Paul, MN 55164-0854

Fax
651.450.4033

E-mail
stocktransfer@norwest.com

DIVIDEND REINVESTMENT AND ELECTRONIC FUNDS TRANSFER

Shareholders can purchase additional common shares by reinvesting their quarterly dividends. A prospectus on Edison International's Dividend Reinvestment Plan is available from Norwest Shareowner Services.

Dividend checks can be electronically deposited directly to your financial institution. Enrollment forms are available upon request.

Portions of this annual report were printed on recycled paper.

NOW

YOU

KNOW

EDISON
INTERNATIONAL℠

2244 Walnut Grove Avenue, Rosemead, California 91770

626.302.1212

www.edison.com

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

/X/ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 1999

Commission File Number 1-9936

EDISON INTERNATIONAL
(Exact name of registrant as specified in its charter)

California **(State or other jurisdiction of incorporation or organization)**		**95-4137452** **(I.R.S. Employer Identification No.)**
2244 Walnut Grove Avenue Rosemead, California **(Address of principal executive offices)**	**91770** **(Zip Code)**	**(626) 302-2222** **(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York and Pacific

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of registrant's voting stock held by non-affiliates was approximately $5,642,225,972.50 on or about March 27, 2000, based upon prices reported on the New York Stock Exchange. As of March 27, 2000, there were 347,312,906 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents listed below have been incorporated by reference into the parts of this report so indicated.

(1) Designated portions of the Annual Report to Shareholders for the year ended December 31, 1999 .... Parts I, II and IV
(2) Designated portions of the Joint Proxy Statement relating to registrant's 2000 Annual Meeting of Shareholders .... Part III

TABLE OF CONTENTS

PART I

Item 1. Business

Business of Edison International

Edison International was incorporated on April 20, 1987, under the laws of the State of California for the purpose of becoming the parent holding company of Southern California Edison Company (SCE), a California public utility corporation. As of December 31, 1999, Edison International owned all of the issued and outstanding common stock of SCE and of other subsidiaries engaged in nonutility businesses (Nonutility Companies). These Nonutility Companies are: Edison Mission Energy (EME), which is engaged in developing, acquiring, owning, and operating electric power generation facilities worldwide; Edison Capital, a provider of capital and financial services for energy and infrastructure projects; Mission Land Company (Mission Land), which is in the business of managing and selling real estate projects; and Edison Enterprises, which provides integrated energy services, utility outsourcing, and consumer products and services.

Edison International is engaged in the business of holding, for investment, the stock of its subsidiaries. At year-end 1999, Edison International had 25 full-time employees, SCE had 13,040 full-time employees, Edison Mission Energy had 3,245 full-time employees, Edison Capital had 115 full-time employees, and Edison Enterprises had 3,145 full-time employees.

The principal executive offices of Edison International are located at 2244 Walnut Grove Avenue, Rosemead, California 91770, and its telephone number is (626) 302-2222.

Forward-Looking Statements

This annual report contains forward-looking statements that reflect Edison International's current expectations and projections about future events based on Edison International's knowledge of present facts and circumstances and assumptions about future events. Other information distributed by Edison International that is incorporated herein or refers to or incorporates this annual report may also contain forward-looking statements. In this annual report and elsewhere, the words "expects," "believes," "anticipates," "estimates," "intends," "plans," and variations of such words and similar expressions are intended to identify forward-looking statements. Such statements necessarily involve risks and uncertainties that could cause actual results to differ materially from those anticipated. Some of the risks, uncertainties and other important factors that could cause results to differ are:

- Actions of regulatory bodies setting rates and implementing the restructuring of the electric utility industry, including, for example, regulatory actions in California that could affect SCE's ability to recover its past investments in utility plant and earn competitive returns, and regulatory actions in various jurisdictions, including other countries, that could affect the business prospects of EME and Edison Capital because of their investments in electric generating and transmission assets and contracts with electric utility companies.

- The effects of new laws and regulations relating to restructuring and other matters, such as pending legislation that would repeal or amend key United States statutes governing the electric industry, and new laws and rules governing electricity trading in the United Kingdom.

- The effects of increased competition in the electric utility business and other energy-related businesses, including among other things the ability of customers to purchase energy and metering and billing services from nonutility energy service providers.

- Changes in the supply, demand and price for electric capacity and energy in relevant markets and the cost and availability of fuel and fuel transportation.

- Unpredictable weather conditions that may affect seasonable patterns of revenue collection, cause changes in demand (and prices) for electricity for heating and cooling purposes, and result in higher costs for repair or maintenance of assets.

- The values and other terms under which SCE is able either to sell or retain electric generation assets, and the associated ratemaking treatment.

- Financial market conditions such as inflation and changes in interest rates and currency exchange rates, which could affect the availability and cost of external financing.

- Risks of doing business in foreign countries, particularly as to EME and Edison Capital, including such things as political instability, expropriation, currency devaluation, currency repatriation, and uncertainties as to legal rights and remedies.

- Power plant construction and operation risks, including cost overruns, strikes, equipment failures and other issues.

- The ability of EME to assimilate substantial generating assets acquired during 1999 and to successfully operate such assets as merchant plants.

- The effects of changes in tax laws or unfavorable interpretation and application of the laws by tax authorities.

- New or increased environmental liabilities associated with power plants and other facilities or operations, resulting from changes in laws, accidents or other events.

- The ability of Edison International and its subsidiaries to create and expand new businesses, such as telecommunications and other energy-related consumer products and services, and to operate such businesses profitably.

- Legal proceedings arising out of commercial disputes, property rights, personal injuries, and other circumstances.

Additional information about the risk factors listed above is contained throughout this annual report. Readers are urged to read this entire report and carefully consider the risks, uncertainties and other factors that affect Edison International's business. The information contained in this report is subject to change without notice. Readers should review future reports filed by Edison International with the Securities and Exchange Commission (SEC).

Competitive Environment

SCE currently operates in a highly regulated environment in which it has an obligation to deliver electric service to customers in return for an exclusive franchise within its service territory. This regulatory environment is changing. In the generation sector, SCE has experienced competition from nonutility power producers and regulators are restructuring California's electric utility industry to facilitate additional competition. (See "Business of SCE — Changing Regulatory Environment" below for a description of these changes.)

Edison International's Nonutility Companies face competitive conditions as well. EME competes with many other companies (including independent power producers that are affiliates of utilities) in selling electric power and steam as well as with electric utilities and others in installing new generating capacity. Edison Capital competes with other investors, including money center banks, major finance and lease companies, and affiliates of public utilities and other Fortune 500 companies, in the market for highly structured transactions. Edison Enterprises, through its various businesses, is engaged in a variety of competitive retail products and services (See "Business of the Nonutility Companies").

Regulation of Edison International

Edison International and its subsidiaries are exempt from all provisions, except Section 9(a)(2), of the Public Utility Holding Company Act of 1935 (Holding Company Act) on the basis that Edison International and SCE are incorporated in the same state and their business is predominately intrastate in character and carried on substantially in the state of incorporation. It is necessary for Edison International to file an annual exemption statement with the SEC, and the exemption may be revoked by the SEC upon a finding that the exemption may be detrimental to the public interest or the interest of investors or consumers. Edison International has no present intention of becoming a registered holding company under the Holding Company Act.

Edison International is not a public utility under the laws of the State of California and is not subject to regulation as such by the California Public Utilities Commission (CPUC). (See "Business of SCE — Regulation of SCE" below for a description of the regulation of SCE by the CPUC.) The CPUC decision authorizing SCE to reorganize into a holding company structure, however, contains certain conditions, which, among other things: (1) ensure the CPUC access to books and records of Edison International and its affiliates which relate to transactions with SCE; (2) require Edison International and its subsidiaries to employ accounting and other procedures and controls to ensure full review by the CPUC and to protect against subsidization of nonutility activities by SCE's customers; (3) require that all transfers of market, technological, or similar data from SCE to Edison International or its affiliates, be made at market value; (4) preclude SCE from guaranteeing any obligations of Edison International without prior written consent from the CPUC; (5) provide for royalty payments to be paid by Edison International or its subsidiaries in connection with the transfer of product rights, patents, copyrights, or similar legal rights from SCE; and (6) prevent Edison International and its subsidiaries from providing certain facilities and equipment to SCE except through competitive bidding. In addition, the decision provides that SCE shall maintain a balanced capital structure in accordance with prior CPUC decisions, that SCE's dividend policy shall continue to be established by SCE's board of directors as though SCE were a stand-alone utility company, and that the capital requirements of SCE, as determined to be necessary to meet SCE's service obligations, shall be given first priority by the boards of directors of Edison International and SCE.

On December 16, 1997, the CPUC adopted a decision which established new rules governing the relationship between California's natural gas local distribution companies, electric utilities, and certain of their affiliates. While SCE and its affiliates have been subject to affiliate transaction rules since the establishment of its holding company structure in 1988, these new rules are more detailed and restrictive. On December 31, 1997, SCE filed a preliminary compliance plan which set forth SCE's implementation of the new affiliate transaction rules. This preliminary compliance plan was supplemented by an additional filing made on January 30, 1998. In September 1998, the CPUC issued a resolution accepting certain portions of SCE's compliance plan and rejecting others. SCE filed a revised compliance plan in October 1998 as ordered. No party protested that revised plan.

The new affiliate transaction rules apply to all transactions by SCE with affiliates engaging in the production of products that use electricity or the providing of services that relate to the use of electricity. Edison International is not subject to these new affiliate transaction rules and continues to be subject to the prior rules. The new affiliate transaction rules are structured to address CPUC concerns regarding market power and cross-subsidization arising out of the new competitive electricity market in California. The new rules are categorized into nondiscrimination standards, disclosure and information standards, and separation standards. The new rules also set forth requirements and restrictions on the utility's offering of certain products and services.

The CPUC has modified certain of the rules in response to petitions from various parties. SCE is still awaiting CPUC decisions on its compliance plan (which includes SCE's interpretation of the rule governing affiliate use of the utility's name and logo). The CPUC decision concerning the name and logo rule may affect the disposition of a pending complaint against SCE filed by the CPUC's Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) with the CPUC, which complaint alleges a violation of that rule by Edison Source in a bulk mailing in 1998.

Additional information about the applicability of certain regulatory requirements to EME is provided below under "Business of the Nonutility Companies."

Environmental Matters

Legislative and regulatory activities by federal, state, and local authorities in the United States and regulatory authorities with jurisdiction over Edison International's projects located outside the United States continue to result in the imposition of numerous restrictions on Edison International's operation of existing facilities, on the timing, cost, location, design, construction, and operation by Edison International of new facilities, and on the cost of mitigating the effect of past operations on the environment. These laws and regulations, relating to air and water pollution, waste management, hazardous chemical use, noise abatement, land use, aesthetics, and nuclear control, substantially affect future planning and will continue to require modifications of Edison International's existing facilities and operating procedures. Edison International is unable to predict the extent to which additional regulations may affect its operations and capital expenditure requirements.

The Clean Air Act provides the statutory framework to implement a program for achieving national ambient air quality standards in areas exceeding such standards and provides for maintenance of air quality in areas already meeting such standards. Among other requirements, it also restricts the emission of toxic air contaminants and provides for the reduction of sulfur dioxide emissions to address acid deposition. EME spent $77 million in 1999 and expects to spend approximately $139 million for 2000 and $42 million in 2001 to install upgrades to the environmental controls at the Homer City plant in Pennsylvania to control sulfur dioxide and nitrogen oxide emissions. Similarly, EME plans to upgrade the environmental controls at its Illinois plants to control nitrogen oxide emissions and expects to spend approximately $54 million in 2000, $45 million in 2001 and $80 million in for 2002. Additionally, provisions related to nonattainment, air toxins, permitting of new and existing units, enforcement, and acid rain may affect EME's domestic plants; however, final details of all these programs have not been issued by the United States Environmental Protection Agency (EPA) and state agencies. In addition, at the Ferrybridge and Fiddler's Ferry plants in the United Kingdom, EME expects to incur environmental costs arising from plant modification, totaling approximately $222 million for the 2000 to 2004 period.

In California, pursuant to federal, state and regional Clean Air Act programs, SCE generating stations were required to reduce emissions of oxides of nitrogen and certain other pollutants. During 1998, SCE sold all of its oil- and gas-fueled generating stations within the Mohave Desert Air Quality Management District, Ventura County Air Pollution Control District, and in the Santa Barbara County Air Pollution Control District. SCE has sold all but one of its oil- and gas-fired generating stations within the South Coast Air Quality Management District. The remaining plant, the small diesel-fired Pebbly Beach Generating Station, supplies power to Santa Catalina Island. After the sale of its oil- and gas-fueled generating stations, SCE commenced operation of the facilities under operation and maintenance contracts with the individual owners except for two plants that ceased operation during 1998. SCE will continue to operate those divested facilities as active generating stations for the required two-year period specified by California's electric utility restructuring legislation. SCE's operation of the stations under these operation and maintenance contracts is at the direction and expense of the new owners. SCE is responsible for maintaining the environmental permits for the plants. Among other responsibilities, the new owners, not SCE, are responsible for the purchase and installation of emissions control equipment, and for obtaining trading credits required for the plants under the Regional Clean Air Incentives Market within the South Coast Air Quality Management District.

SCE also owns a 56% undivided interest in the Mohave Generating Station (Mohave Station) located in Laughlin, Nevada, which is subject to certain air quality programs. Several recent developments affect the emission reduction requirements for this facility. Probably the most significant development is the entry of a consent decree voluntarily entered into among certain environmental organizations and the owners of the Mohave facility. This decree resolved a litigation filed on February 19, 1998, by the Sierra Club and the Grand Canyon Trust in the U.S. District Court in Nevada against the facility owners alleging violations of the Nevada State Implementation Plan and applicable air quality permits related to opacity and sulfur dioxide emission limits. (See, "Mohave Generating Station Environmental Litigation," under Item 3 below for additional discussion.) The decree, which was approved by the Court in December 1999, was designed also to address concerns raised by two EPA programs regarding visibility and regional haze. The EPA issued its final rulemaking regarding regional haze regulations on July 1, 1999. The final rule is not expected to impose any additional emissions control requirements on the Mohave Station beyond meeting the provisions of the consent decree. The EPA and SCE also participated in a study to determine the specific impact of air contaminant emissions from the Mohave Station on visibility in Grand Canyon National Park. The final report on this study, which was issued in March 1999, found negligible correlation between measured Mohave Station tracer concentrations and visibility impairment. The absence of any obvious relationship cannot rule out Mohave Station contributions to haze in Grand Canyon National Park, but strongly suggests that other sources were primarily responsible for the haze. Finally, in June 1999, the EPA issued an advanced notice of proposed rulemaking regarding assessment of visibility impairment at the Grand Canyon. SCE filed comments on the proposed rulemaking in November 1999. In a letter to SCE, the EPA has expressed its belief that the controls provided in the consent decree will likely resolve the potential Clean Air Act visibility concerns. The Agency is considering incorporating the decree into the visibility provisions of its Federal Implementation Plan for Nevada.

The Clean Air Act also requires the EPA to carry out a three-year study of risk to public health from the emissions of toxic air contaminants from electric utility steam generating plants, and to regulate such emissions if the Administrator makes certain findings. The study's final report to Congress concluded that mercury from coal-fired utilities is the hazardous air pollutant of greatest potential concern and merits additional research and monitoring to better understand the risks of mercury exposure. Other pollutants that may potentially need further study are dioxins and arsenic from coal-fired plants, and nickel from oil-fired plants. The EPA concluded that the impacts from emissions from gas-fired utilities are negligible and that there is no need for further evaluation of the risks of hazardous air pollutants emitted from such plants.

Regulations under the Clean Water Act require permits for the discharge of certain pollutants into U.S. waters. Under this act, the EPA issues effluent limitation guidelines, pretreatment standards, and new source performance standards for the control of certain pollutants. Individual states may impose more stringent limitations. SCE incurs additional expenses and capital expenditures in order to comply with guidelines and standards applicable to steam electric power plants. SCE presently has discharge permits for all applicable facilities.

The Safe Drinking Water and Toxic Enforcement Act prohibits the exposure to individuals of chemicals known to the State of California to cause cancer or reproductive harm and the discharge of such listed chemicals into potential sources of drinking water. Additional chemicals are continuously being put on the state's list, requiring constant monitoring.

The Resource Conservation and Recovery Act provides the statutory authority for the EPA to implement a regulatory program for the safe treatment, recycling, storage, and disposal of solid and hazardous waste. An unresolved issue remains regarding the degree to which coal waste should be regulated under the act. Increased regulation may result in increased expenses relating to the operation of the Mohave Station.

The Toxic Substances Control Act and accompanying regulations govern the manufacturing, processing, distribution in commerce, use, and disposal of listed compounds, such as polychlorinated biphenyls, a toxic substance used in certain electrical equipment. Current costs for disposal of this substance are immaterial.

Edison International records its environmental liabilities when site assessments and/or remedial actions are probable and a range of reasonably likely cleanup costs can be estimated. Edison International reviews its sites and measures the liability quarterly, by assessing a range of reasonably likely costs for each identified site using currently available information, including existing technology, presently enacted laws and regulations, experience gained at similar sites, and the probable level of involvement and financial condition of other potentially responsible parties. These estimates include costs for site investigations, remediation, operations and maintenance, monitoring, and site closure. Unless there is a probable amount, Edison International records the lower end of this reasonably likely range of costs (classified as other long-term liabilities at discounted amounts).

Edison International's recorded estimated minimum liability to remediate its 45 identified sites is \$163 million. The ultimate costs to clean up Edison International's identified sites may vary from its recorded liability due to numerous uncertainties inherent in the estimation process, such as: (1) the extent and nature of contamination; (2) the scarcity of reliable data for identified sites; (3) the varying costs of alternative cleanup methods; (4) developments resulting from investigatory studies; (5) the possibility of identifying additional sites; and (6) the time periods over which site remediation is expected to occur. Edison International believes that, due to these uncertainties, it is reasonably possible that cleanup costs could exceed its recorded liability by up to \$284 million. The upper limit of this range of costs was estimated using assumptions least favorable to Edison International among a range of reasonably possible outcomes. SCE has sold all of its gas- and oil-fueled generation plants (except the Pebbly Beach Generating Station) and has retained some liability associated with the divested properties.

The CPUC allows SCE to recover environmental-cleanup costs at 42 of its sites, representing \$90 million of its recorded liability, through an incentive mechanism (SCE may seek to include additional sites). Under this mechanism, SCE will recover 90% of cleanup costs through customer rates; shareholders fund the remaining 10%, with the opportunity to recover these costs from insurance carriers and other third parties. SCE has successfully settled insurance claims with all responsible carriers. Costs incurred at SCE's remaining sites are expected to be recovered through customer rates. SCE has recorded a regulatory asset of \$126 million for its estimated minimum environmental-cleanup costs expected to be recovered through customer rates.

Edison International's identified sites include several sites for which there is a lack of currently available information, including the nature and magnitude of contamination, and the extent, if any, that Edison International may be held responsible for contributing to any costs incurred for remediating these sites. Thus, no reasonable estimate of cleanup costs can be made for these sites.

Edison International expects to clean up its identified sites over a period of up to 30 years. Remediation costs in each of the next several years are expected to range from \$5 million to \$15 million. Recorded costs for 1999 were \$14 million.

Based on currently available information, Edison International believes that it is unlikely that it will incur amounts in excess of the upper limit of the estimated range and, based upon the CPUC's regulatory treatment of environmental-cleanup costs, Edison International believes that costs ultimately recorded will not materially affect its results of operations or its financial position. There is no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to such estimates.

Edison International's projected environmental capital expenditures are \$1.5 billion for the 2000—2004 period, mainly for undergrounding certain transmission and distribution lines at SCE and for air pollution control measures at EME.

Year 2000 Issue

Edison International implemented a comprehensive program to address potential Year 2000 computer system impacts, consisting of five phases: inventory, impact assessment, remediation, testing and implementation. Edison International met its goal to have 100% of its critical systems Year 2000-ready by July 1, 1999. A critical system was defined as those applications and systems, including embedded processor technology, which if not appropriately remediated, may have had a significant impact on customers, the health and safety of the public and/or personnel, the revenue stream, or regulatory compliance. Edison International developed Year 2000-related contingency plans, which were in place at year-end 1999.

None of Edison International's critical applications or assets encountered significant problems on or since January 1, 2000, including on and over February 29, 2000, and they continue to operate as expected. Edison International expects business as usual in 2000 as it relates to its Year 2000 computer system issues.

Edison International's Year 2000 costs through December 31, 1999, were $68 million, of which 35% was for capital costs. SCE's current rate levels for providing electric service were sufficient to provide funding for utility-related modifications.

Business of SCE

SCE was incorporated in 1909 under the laws of the State of California. SCE 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 SCE service territory includes approximately 800 cities and communities and a population of more than 11 million people. Beginning in April 1998, pursuant to the restructuring of the California electric utility industry mandated by a 1996 state law, other entities have had the ability to sell electricity in SCE's service territory, utilizing SCE's transmission and distribution lines at tariffed rates. As a part of this utility industry restructuring, SCE sold some of its electric generating plants in 1998. SCE currently retains other electric generating plants, however, and it retains its transmission and distribution lines over which it transmits and distributes the electricity generated by SCE and other generators to the customers in SCE's service territory. As a further part of the industry restructuring, SCE is required for an interim transition period (ending no later than year-end 2001) to sell all SCE-generated electricity to the California Power Exchange (PX) at prices determined by periodic public auctions, and SCE is required to buy any electricity needed to serve SCE's retail customers from the PX at similarly determined prices. In 1999, SCE's total operating revenue was derived from: 37.1%, residential customers; 38.5%, commercial customers; 9.8%, industrial customers; 7.1%, public authorities; 1.5%, agricultural and other customers; and 6.0%, other electric revenue. SCE had 13,040 full-time employees at year-end 1999. SCE comprises the largest portion of the assets and revenue of its parent holding company, Edison International.

Regulation of SCE

SCE's retail operations are subject to regulation by the CPUC. The CPUC has the authority to regulate, among other things, retail rates, issuance of securities, and accounting practices. SCE's wholesale operations are subject to regulation by the Federal Energy Regulatory Commission (FERC). The FERC has the authority to regulate wholesale rates as well as other matters, including transmission service pricing, accounting practices, and licensing of hydroelectric projects.

SCE's transmission operations, including other generators' rights of access to SCE's transmission lines, also are subject to regulation by the California Independent System Operator (ISO), an entity that was created by the California restructuring legislation in 1996 and went into operation in 1998. The 1996 restructuring legislation also created the PX, a non-profit entity that conducts frequent electronic auctions of electricity. During an interim transitional period (ending no later than year-end 2001), SCE is required by CPUC order to sell all SCE-generated electricity to the PX and to purchase power needed for retail customers from the PX.

SCE is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC) with respect to its nuclear power plants. NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants and subject those power plants to continuing review and regulation.

The construction, planning, and siting of SCE's power plants within California are subject to the jurisdiction of the California Energy Commission and the CPUC. SCE is subject to the rules and regulations of the California Air Resources Board and local air pollution control districts with respect to the emission of pollutants into the atmosphere; the regulatory requirements of the California State Water Resources Control Board and regional boards with respect to the discharge of pollutants into waters of the state; and the requirements of the California Department of Toxic Substances Control with respect to handling and disposal of hazardous materials and wastes. SCE is also subject to regulation by the EPA, which administers certain federal statutes relating to environmental matters. Other federal, state, and local laws and regulations relating to environmental protection, land use, and water rights also affect SCE.

The California Coastal Commission has continuing jurisdiction over the coastal permit for San Onofre Nuclear Generating Station Units 2 and 3. Although the units are operating, the permit's mitigation requirements have not yet been completed. California Coastal Commission jurisdiction may continue for several years due to implementation and oversight of permit mitigation conditions, including restoration of wetlands and construction of an artificial reef for kelp.

The Department of Energy has regulatory authority over certain aspects of SCE's operations and business relating to energy conservation, power plant fuel use and disposal, electric sales for export, public utility regulatory policy, and natural gas pricing.

On December 16, 1997, the CPUC adopted a decision which established new rules governing the relationship between California's natural gas local distribution companies, electric utilities, and certain of their affiliates. While SCE and its affiliates have been subject to affiliate transaction rules since the establishment of its holding company structure in 1988, these new rules are more detailed and restrictive. On December 31, 1997, SCE filed a preliminary compliance plan which set forth SCE's implementation of the new affiliate transaction rules. This preliminary compliance plan was supplemented by an additional filing made on January 30, 1998. In September 1998, the CPUC issued a resolution accepting certain portions of SCE's compliance plan and rejecting others. SCE filed a revised compliance plan in October 1998 as ordered. No party protested that revised plan.

The new affiliate transaction rules apply to all utility transactions, including electric utilities, with affiliates engaging in the production of products that use electricity or the providing of services that relate to the use of electricity. Edison International is not subject to these new affiliate transaction rules and continues to be subject to the prior rules. The new affiliate transaction rules are structured to address CPUC concerns regarding market power and cross-subsidization arising out of the new competitive electricity market in California. The new rules are categorized into nondiscrimination standards, disclosure and information standards, and separation standards. The new rules also set forth requirements and restrictions on the utility's offering of certain products and services.

The CPUC has modified certain of the rules in response to petitions from various parties. SCE is still awaiting CPUC decisions on its compliance plan (which includes SCE's interpretation of the rule governing affiliate use of the utility's name and logo). The CPUC decision concerning the name and logo rule may affect the disposition of a pending complaint against SCE filed by the ORA and TURN with the CPUC, which alleges a violation of that rule by Edison Source in a bulk mailing in 1998.

SCE has not yet been materially affected by the new affiliate transaction rules, and it expects that the rules will not materially affect its results of operation or its financial position in the future.

Changing Regulatory Environment

SCE's regulatory environment is changing as a result of a 1995 CPUC decision on restructuring and state legislation enacted in 1996. The state legislation, California Assembly Bill 1890 as amended by California Senate Bill 477 (restructuring legislation) substantially adopted the CPUC's restructuring decision by addressing stranded-cost recovery for utilities and providing a certain cost-recovery time period for the transition costs associated with generation-related assets. The restructuring legislation also included provisions to finance a portion of the stranded costs that residential and small commercial customers would have paid between 1998 and 2001, which allowed SCE to reduce rates by at least 10% to these customers, effective January 1, 1998. The restructuring legislation mandated other rates to remain frozen at June 1996 levels (system average of 10.1¢ per kilowatt-hour), including those for large commercial and industrial customers, and included provisions for continued funding for energy conservation, low-income programs and renewable resources. Despite the rate freeze, SCE expects to be able to recover its revenue requirement during the 1998-2001 transition period. In addition, the restructuring legislation mandated the implementation of the competition transition charge (CTC) (see the detailed discussion in "Revenue and Cost-Recovery Mechanisms" below) that provides utilities the opportunity to recover costs made uneconomic by electric utility restructuring.

Rate Reduction Notes

In December 1997, after receiving approval from the CPUC and the California Infrastructure and Economic Development Bank, a limited liability company created by SCE issued approximately $2.5 billion of rate reduction notes. Residential and small commercial customers, whose 10% rate reduction began January 1, 1998, are repaying the notes over the expected ten-year term through non-bypassable charges based on electricity consumption. There were originally seven classes of notes. The first class, in the amount of $246.3 million, matured in December 1998. The remaining notes consist of six classes with scheduled maturities ranging from less than one year to eight years, with interest rates ranging from 6.14% to 6.42%.

Revenue and Cost-Recovery Mechanisms

Revenue is determined by various mechanisms depending on the utility operation. Revenue related to distribution operations is being determined through a performance-based rate-making mechanism (PBR) and the distribution assets have the opportunity to earn a CPUC-authorized 9.49% return. The distribution PBR will extend through December 2001. Key elements of the distribution PBR include: distribution rates indexed for inflation based on the Consumer Price Index less a productivity factor; adjustments for cost changes that are not within SCE's control; a cost-of-capital trigger mechanism based on changes in a bond index; standards for customer satisfaction; service reliability and safety; and a net revenue-sharing mechanism that determines how customers and shareholders will share gains and losses from distribution operations. Transmission revenue is being determined through FERC-authorized rates that are subject to refund.

SCE's transition costs are being recovered through a non-bypassable CTC. This charge applies to all customers who were using or began using utility services on or after the CPUC's December 1995 restructuring decision date. At the beginning of the transition period, SCE estimated its transition costs to be approximately $10.6 billion (1998 net present value) from 1998 through 2030. This estimate was based on incurred costs, forecasts of future costs and assumed market prices. However, changes in the assumed market prices could materially affect these estimates. Transition costs related to power-purchase contracts are being recovered through the terms of their contracts while most of the remaining transition costs will be recovered through 2001. The potential transition costs are comprised of $6.4 billion from SCE's Qualifying Facilities (QF) contracts, which are the direct result of prior legislative and regulatory mandates, and $4.2 billion from costs pertaining to certain generating assets (including the 1998 sale of SCE's generating plants) and regulatory commitments consisting of costs incurred (whose recovery has been deferred by the CPUC) to provide service to customers. Such commitments include the recovery of income tax benefits previously flowed through to customers, post-retirement benefit transition costs, accelerated recovery of San Onofre Units 2 and 3 and the Palo Verde Nuclear Generating Station units, and certain other costs. During 1998, SCE sold all of its gas- and oil-fueled generation plants (except the Pebbly Beach Generation Station) for $1.2 billion, over $500 million more than the combined book value. Net proceeds of the sales were used to reduce stranded costs, which otherwise were expected to be collected through the CTC mechanism. If events occur during the restructuring process that result in all or a portion of the transition costs being improbable of recovery, SCE could have write-offs associated with these costs if they are not recovered through another regulatory mechanism.

Effective with the commencement of the ISO and PX operations on March 31, 1998, generation costs are subject to recovery through the competitive market and the CTC mechanism, which now includes the nuclear rate-making agreements. Transition cost recovery for most utility generation assets will terminate on the earlier of December 31, 2001, or when these costs are fully collected. The portion of revenue related to fossil and hydroelectric generation operations that are economic is recovered through the market. SCE's operational costs associated with its fossil and hydroelectric plants are being recovered through market revenue. The power sales revenue from fossil and hydroelectric facilities in excess of fossil operational costs and the hydroelectric revenue requirement are credited against transition costs. In 1999, fossil and hydroelectric generation assets had the opportunity to earn a 7.22% return. SCE has filed an application with the CPUC regarding the market valuation of its hydroelectric facilities. (See further discussion below).

The portion of revenue related to fossil and hydroelectric generation operations that are made uneconomic by electric industry restructuring is recovered through the CTC mechanism. The revenue available to recover such uneconomic generation costs will be determined residually by subtracting the other rate components from the total rates. This residual revenue will first be allocated to recovery of FERC-authorized ISO charges for transmission support and for purchases from the PX, and then to recovery of transition costs. Transition costs associated with Qualifying Facilities (QF) and interutility contracts and the acceleration of sunk cost recovery will be subject to annual reasonableness review by the CPUC.

SCE is recovering its investment in its nuclear facilities on an accelerated basis in exchange for a lower authorized rate of return. SCE's nuclear assets are earning an annual rate of return of 7.35%. In addition, the San Onofre's plant's operating costs, including operations and maintenance costs, administrative and general costs, nuclear fuel and nuclear fuel financing costs, and incremental capital costs, are recovered through an incremental cost incentive pricing plan which allows SCE to receive about 4¢ per kilowatt hour through 2003. The San Onofre plan commenced in April 1996, and ends in December 2001 for the accelerated recovery portion, and in December 2003 for the incentive-pricing portion. The Palo Verde plant's operating costs, including incremental capital costs, and nuclear fuel and nuclear fuel financing costs, are subject to balancing account treatment. The Palo Verde plan for accelerated plant recovery, as well as operating cost recovery through balancing account treatment, commenced in January 1997 and ends in December 2001. Beginning January 1, 1998, both the San Onofre and Palo Verde rate-making plans became part of the CTC mechanism.

In March 1997, SCE filed a transmission owners tariff with the FERC, in conjunction with tariffs filed by the ISO and PX with the FERC in March 1997. Together, these tariffs set forth the rate design and terms and conditions for transmission service provided over SCE's facilities over which the ISO will have operational control. The transmission owners tariff also sets forth SCE's proposed transmission access charge. Additionally, in March 1997, SCE filed a wholesale distribution access tariff. The FERC accepted the tariffs for filing, subject to refund, effective April 1, 1998.

With the commencement of the ISO and PX, transmission cost recovery is now under FERC authority. An Administrative Law Judge (ALJ) decision was issued in March 1999 recommending a 9.68% return on equity (ROE) for transmission assets, compared to the current CPUC return on equity for distribution facilities of 11.6%. In addition, the ALJ proposed a $23 million reduction in the proposed transmission revenue requirement relating to overhead costs, despite the fact that before implementation of the ISO, SCE had been authorized full recovery of these overhead costs in rates at the CPUC. In total, the ALJ decision would result in about a $50 million reduction annually in transmission revenue from the level proposed by SCE of $211 million. Transmission rates have reflected SCE's proposed $211 million transmission revenue requirement since they were implemented in April 1998. As a result of the retail rate freeze contained in the restructuring legislation, instead of being ordered to refund excess payments back to retail customers, SCE expects to be able to credit the amount of these payments against remaining transition costs.

SCE has opposed the ALJ decision and expects that the final FERC decision, expected in early to mid-2000, will be more favorable. In the event that SCE does not prevail on the overhead cost issue at the FERC, SCE does have the opportunity to seek recovery in distribution rates at the CPUC of any overhead costs not allowed in rates by the FERC.

As a part of compliance with the restructuring legislation, in October 1999, SCE filed an application with the CPUC to approve an auction process for its 56% interest in the Mohave Station. A CPUC decision on the auction process is expected in early to mid-2000.

In order to comply with the restructuring legislation, on December 15, 1999, SCE filed an application with the CPUC establishing a market value for its hydroelectric generation-related assets at approximately $1.0 billion (almost twice the assets' book value) and proposing to retain and operate the hydroelectric assets under a performance-based and revenue-sharing mechanism. The application had broad-based support from labor, ratepayer and environmental groups. If approved by the CPUC, SCE would be allowed to recover an authorized, inflation-index operations and maintenance allowance, as well as a reasonable return on capital investment. A revenue-sharing arrangement would be activated if revenue from the sale of hydroelectricity exceeds or falls short of the authorized revenue requirement. SCE would then refund 90% of the excess revenue to ratepayers or recover 90% of any shortfalls from ratepayers. A final CPUC decision is expected by the end of 2000.

On January 7, 2000, SCE filed an application with the CPUC proposing rates that would go into effect when the current rate freeze ends on March 31, 2002, or earlier, depending on the pace of CTC recovery. The proposal seeks CPUC approval of a rate redesign that will result in reduced rates for most customers when SCE completes the first phase of recovery of its transition costs. The proposed new rates are expected to reduce SCE's system average rates by about 17% from current frozen rate levels, based on certain assumptions about competitive energy prices. In addition, SCE's filing proposes to redesign and establish separate transmission and distribution rates to better reflect the actual costs to deliver electricity and serve customers. This pricing approach is consistent with CPUC policies requiring California's major utilities to move toward cost-based transmission and distribution rates.

Restructuring Implementation Costs

In May 1998, SCE filed an application with the CPUC to identify the categories of restructuring implementation costs (including costs related to the start-up and development of both the PX and ISO, and related to the implementation of direct access) and to establish the reasonableness of those costs incurred in 1997. In September 1999, the CPUC approved a settlement agreement between SCE, the ORA and several other parties allowing SCE to recover substantially all (approximately $300 million) of its restructuring implementation costs (incurred and estimated) for the period 1997–2001. In addition, the settlement provides that up to $210 million of generation-related costs (transition costs) that are displaced by recovery of the restructuring implementation costs during the rate freeze may be recovered after December 31, 2001, the date SCE would cease to recover these transition costs under restructuring legislation.

Market Risk Exposures

In July 1999, the PX introduced a block forward energy product. Participants can purchase power up to 12 months in advance in monthly blocks for six days a week and 16 hours a day. Purchasing these blocks hedges against the risk of price spikes in the spot energy markets. SCE has been using the PX's block forward market since it received approval from the CPUC to do so in July 1999. The CPUC set purchasing limits on utility purchases of approximately 2,000 MW. In March 2000, the PX introduced additional forward block products covering different hours. The CPUC granted SCE authority to purchase these new products on March 16, 2000. Furthermore, the CPUC allowed SCE to purchase up to significantly increased limits, reaching 5,200 MW during summer when SCE's demand is at its peak. SCE thus has an increased ability to hedge against high price spikes in the energy markets. Purchases within these authorized limits will be deemed reasonable by the CPUC. The CPUC granted this authority for the duration of the rate freeze.

The PX recently requested authority from the FERC to offer additional products including block forward ancillary services. SCE has filed an Advice Letter to the CPUC requesting authority to participate in these new markets to hedge against price spikes in the ISO's ancillary service spot market. SCE expects a CPUC Decision in the first or second quarter of 2000.

Accounting for Generation-Related Assets

If the CPUC's electric industry restructuring plan continues as described above, SCE will be allowed to recover its transition costs through non-bypassable charges to its distribution customers (although its investment in certain generation assets is subject to a lower authorized rate of return). In 1997, SCE discontinued application of accounting principles for rate-regulated enterprises for its generation assets based on new accounting guidance. The new guidance did not require SCE to write off any of its generation-related assets, including related regulatory assets. SCE has retained these assets on its balance sheet because the restructuring legislation and restructuring plan referred to above make probable their recovery through a non-bypassable charge to distribution customers. The regulatory assets relate primarily to the recovery of accelerated income tax benefits previously flowed through to customers, purchased power contract termination payments and unamortized losses on reacquired debt. The new accounting guidance also permits the recording of new generation-related regulatory assets during the transition period that are probable of recovery through the CTC mechanism.

During the second quarter of 1998, additional guidance was developed related to the application of asset impairment standards to these assets. Using this guidance, SCE reduced its remaining nuclear plant investment by $2.6 billion (as of June 30, 1998) and recorded a regulatory asset on its balance sheet for the same amount. For this impairment assessment, the fair value of the investment was calculated by discounting future net cash flows. This reclassification had no effect on SCE's results of operations.

If during the transition period events were to occur that made the recovery of these generation-related regulatory assets no longer probable, SCE would be required to write off the remaining balance of such assets (approximately $2.6 billion, after tax, at December 31, 1999) as a one-time, non-cash charge against earnings. At this time, SCE cannot predict what other revisions will ultimately be made during the restructuring process in subsequent proceedings or the effect, after the transition period, that competition will have on its results of operations or financial position.

Other Rate Matters

CPUC Retail Ratemaking

The CPUC regulates the charges for services provided by SCE to its retail customers. As discussed above in the section on "Changing Regulatory Environment," the nature in which the CPUC regulates SCE is changing. The CPUC has issued final decisions regarding direct access, transition cost recovery, and rate unbundling in the restructuring of the electric industry. These decisions affected cost recovery and rate regulation, and authorized new ratemaking mechanisms which were implemented, replacing the Electric Revenue Adjustment Mechanism, Energy Cost Adjustment Clause (ECAC) and base rates mechanism (pre-restructuring ratemaking mechanisms).

Total rates for all customers are frozen at June 10, 1996, levels, although residential and small commercial customers have received a 10% reduction from the June 10, 1996, rate levels beginning on January 1, 1998. These rate levels will remain in effect for the remainder of the transition period. Under these frozen rates, individual rate components (distribution, transmission, nuclear decommissioning, and public purpose programs) are determined according to CPUC- or FERC- authorized mechanisms, with the generation rate determined residually by subtracting these other components from the total rate. Beginning for rates effective in 1999, the consolidation of the individual rate component changes and the calculation of the residual generation rate are set forth for CPUC approval as part of the Revenue Adjustment Proceeding (RAP). On June 1, 1998, SCE filed its first annual RAP Report in compliance with CPUC directives to: (1) consolidate authorized rates and revenue requirements associated with various proceedings and mechanisms; (2) verify the residual CTC revenue calculation in the Transition Revenue Account (TRA); (3) verify the regulatory account balances which were transferred to the Transition Cost Balancing Account (TCBA) on January 1, 1998 (See "Annual Transition Cost Proceedings" below for further discussion of the TCBA); (4) streamline certain balancing and memorandum accounts; and (5) review the PX charge/credit calculation. On June 6, 1999, the CPUC issued its final 1998 RAP decision. In compliance with that decision, SCE updated its non-generation rate components in October 1999. To maintain overall frozen rate levels, to the extent non-generation rate components are authorized to change, the generation rate component changes equal and opposite from the non-generation rate component changes. The decision also instructed SCE to include in the 1999 RAP Report a PX credit calculation that reflects the long run marginal costs of customer account managers, customer service representatives, self-provision of ancillary services, and financing costs for purchasing power from the PX.

In June 1999, the CPUC issued a decision regarding unbundling SCE's cost of capital based on major utility functions. The decision was in response to SCE's May 1998 application on this issue. The CPUC found no unbundling adjustment was required in setting 1999 cost of capital for the California electric utilities. Furthermore, the CPUC ruled that SCE's rate of return should continue to be governed by the cost of capital trigger mechanism authorized as part of SCE's performance based ratemaking mechanism. (See discussion under "Revenue and Cost-Recovery Mechanisms.") As a result, SCE's return on equity for 1999 was unchanged at 11.6%.

On August 9, 1999, SCE filed its 1999 RAP Report requesting CPUC approval of the following: (1) consolidation of the 2000 non-generation revenue requirements; (2) rate levels for 2000, including the residually determined generation rates; (3) 2000 kWh sales forecast; (4) entries to the TRA for the period June 1, 1998, through May 31, 1999; (5) proposed retention, elimination, and modification of balancing and memorandum accounts; (6) implementation and costs of electric vehicle programs during the record period; (7) administration of SCE's self-generation deferral rate contracts during the record period; and (8) the proposed additional 2 cents/MWh credit to direct access customers associated with SCE's procurement of PX energy for bundled service customers. SCE anticipates a final 1999 RAP decision in the third quarter of 2000.

Nuclear Decommissioning and Public Purpose Program Rates

Recovery of SCE's nuclear decommissioning costs and legislatively mandated public purpose program funding is made through rates set to recover 100% of these costs. Public purpose programs include cost effective energy efficiency, research, renewable technology development, and low income programs.

Annual Transition Cost Proceeding (ATCP)

In 1997, the CPUC established the ATCP as the proceeding to determine whether SCE's TCBA entries are recorded pursuant to applicable CPUC decisions and the restructuring legislation, and that certain expenses are justified. The purpose of the TCBA is to provide and account for the recovery by SCE of certain costs associated with the transition to a restructured electric industry in California.

1998 ATCP

On September 1, 1998, SCE filed its first ATCP Report with the CPUC and requested, among other things, that entries made to the TCBA and applicable generation-related memorandum accounts during the record period of January 1, 1998, through June 30, 1998, be found to be justified and in compliance with applicable CPUC decisions and the restructuring legislation. On March 31, 1999, the ORA submitted its Report and made the following recommendations adverse to SCE: (1) $2.37 million in QF shareholder incentive amounts should be disallowed; (2) $3.2 million in employee-related transition costs should be disallowed; and (3) $9.67 million in post-retirement benefits other than pensions (PBOPs) and $5.76 million in long-term disability regulatory assets should be rejected. On June 14, 1999, the ALJ granted SCE's motion to strike the ORA's testimony and recommendations on the third item. Prior to hearings, the ORA and SCE recommended that the CPUC adopt a stipulation and joint recommendation whereby SCE would not recover $895,000 in retention bonuses, and $1.19 million of the total QF shareholder incentive amounts. On October 8, 1999, the matter was submitted to the CPUC.

On January 6, 2000, an ALJ issued a proposed decision adopting the stipulation and joint recommendation as specified above. In addition, the proposed decision provided clarification on the following four accounting issues that impact the operation of the TCBA: (1) It directs SCE and the other utilities to review their estimates of market value for each divested generating plant and recalculate the interest accrued on undercollections of the TCBA during the record period. SCE believes it used the market value accounting directed by the proposed decision; (2) It clarifies the accounting methodology used to estimate the market value of retained generating assets. At this time, SCE believes there will be no materially negative impact on earnings associated with this issue. (3) It directs SCE to apply the TCBA overcollection of $350.7 million as of June 30, 1998, to further accelerate the depreciation of those transition cost assets with the highest rate of return, and in a manner which provides the greater tax benefits (i.e., to accelerate the recovery of nuclear sunk costs). It also directs SCE to net a $238 million undercollection in the ISO/PX implementation delay memorandum account against the TCBA overcollection in the calculation. SCE estimates a $10 million impact over the entire transition period ending December 31, 2001, if this accounting change is adopted by the CPUC. (4) It disallows the recovery through the TCBA for the Record Period, of certain telecommunications, training, mechanical service shop and warehouse equipment that related to SCE's divested generating plants but was not purchased by the new owners. The net book value of these retained assets is in the $8 million to $10 million range. Comments to the proposed decision were filed in January and a supplemental brief was filed on February 1, 2000.

On February 17, 2000, the ALJ prepared a revised proposed decision that addressed these four matters and left intact other provisions of the proposed decision. The revised proposed decision was approved by the CPUC on the same day. The decision found that SCE's calculation of the TCBA for the Record Period was correct and that SCE appropriately applied the overcollection as of June 30, 1998, to the subsequent undercollection. Therefore, the decision does not require SCE to accelerate recovery of its nuclear assets. The decision changes the accounting methodology used to estimate the market value of retained generating assets and requires that SCE credit the TCBA for the aggregate net book value of SCE's non-nuclear assets, including the land surrounding such assets. SCE's share of the Mohave Station and Four Corners Generating Station (Four Corners) are excluded from this requirement. Ongoing depreciation, taxes, and return will be recovered through market revenue. The decision disallows the recovery through the TCBA for the record period of the retained assets but does not preclude SCE from seeking recovery in future record periods. The disallowance for the 1998 record period was $55,000.

On February 29, 2000, SCE made a request to the CPUC's Executive Director for an extension of time to file the compliance advice letter so that the CPUC could review SCE's soon-to-be filed petition for a stay of the decision, application for rehearing and/or petition for modification of the decision. In a letter dated March 3, 2000, the Executive Director granted SCE an extension of time until May 31, 2000 to file its advice letter compliance filing. At this time, SCE believes there will be no materially negative impact on earnings.

1999 ATCP

On September 1, 1999, SCE filed its 1999 ATCP setting forth entries made to the TCBA and other generation-related accounts for the months of July 1998 through June 1999. The purpose of the ATCP is to ensure the recovery of generation-related transition costs through the TCBA that complies with the guidelines established by the CPUC. The TCBA tracks the recovery of transition costs, including the accelerated recovery of plant balances, QF and purchased power costs, and regulatory assets and obligations. On February 23, 2000, the ORA issued its report and made the following recommendations adverse to SCE: (1) approximately $5 million in post record period adjustments booked after the date of divestiture for capital additions made in 1996 to divested fossil generating plants; (2) $17.2 million related to the termination contract with the Sacramento Municipal Utility District; (3) $147,000 in employee-related transition costs; and (4) an $136,000 adjustment to the QF subaccount of the TCBA. SCE will serve rebuttal testimony on March 29, 2000, and supplemental testimony on April 3, 2000.

Annual Energy Cost Adjustment Clause Proceedings

Through 1998, SCE filed ECAC applications each year with the CPUC regarding its fuel and purchased power expenses, seeking the CPUC's determination that SCE's fuel and purchased power costs, including payments to QFs, were reasonable. These matters are respectively referred to herein as "non-QF matters" and "QF matters."

QF MATTERS

The ORA issued its report on the 1998 ECAC period on February 19, 1999. The ORA did not identify any reasonableness issues associated with SCE's QF activities during the 1998 period. On November 4, 1999, the CPUC issued its decision approving all of SCE's QF administrative matters in the 1998 ECAC. The 1998 ECAC is SCE's last ECAC application.

NON-QF MATTERS

1997 Annual ECAC Record Period

On May 30, 1997, SCE filed its annual reasonableness report requesting that the CPUC find reasonable its fuel and purchased-power costs recorded during the period of April 1, 1996, through March 31, 1997.

The ORA's review of the non-QF operations and costs was consolidated with its review of the non-QF operations and costs for the 1996 ECAC record period. The ORA filed its report on August 18, 1997. In its report, the ORA recommended, among other things: (1) a disallowance of $360,000 associated with an outage at the coal-fired Four Corners; (2) a $200,000 adjustment to the costs recorded in SCE's catastrophic events memorandum account, and (3) a determination that SCE's execution of its natural gas transportation contract with Southwest Gas Corporation be found unreasonable for purposes of CTC eligibility. The January 1998 hearings resulted in a CPUC decision issued on October 22, 1998, adopting the proposed disallowances. The decision found the execution of the Southwest Gas contract reasonable and therefore, any uneconomic costs associated with the contract are to be subject to CTC recovery. The remainder of SCE's non-QF costs and expenses were also found reasonable.

On December 21, 1998, SCE filed a petition for modification of the above decision alleging that it erroneously stated that SCE may seek recovery of its Nuclear Unit Incentive Procedure (NUIP) rewards in the RAP. The CPUC found that SCE's calculation of the NUIP reward was reasonable and it was an error for the CPUC to order another reasonableness review of these rewards which totaled $15.2 million plus interest. The February 18, 1999, CPUC decision granted SCE's petition to modify the 1998 decision and authorized the booking of the NUIP rewards into the TCBA.

1998 Annual ECAC Record Period

On February 19, 1999, the ORA issued its Reasonableness Report on the 1998 ECAC period and made the following recommendations. The ORA found that SCE's costs ($239.1 million) recorded in the ISO/PX Implementation Delay Memorandum Account (IPDMA) properly reflected the ISO/PX expenses that accrued during the three month delay in the commencement of ISO/PX operations. The ORA also required SCE to include a showing that it undertook all practicable steps to minimize the delay with its request for the recovery of IPDMA costs. The ORA found no evidence to show that SCE caused a delay in the ISO/PX implementation. The ORA recommended two coal generation related disallowances seeking replacement fuel costs based on December 1997 outages of the Mohave Station Units 1 and 2 in the amount of $2.4 million, and a $15.7 million disallowance related to an outage at Four Corners Unit 5. The ORA also recommended disallowances totaling $5.6 million plus interest, to correct for audit errors. Hearings were held in June 1999 and on September 20, 1999, a CPUC ALJ issued a proposed decision that rejected the ORA's recommended disallowances for the outages at Four Corners and the Mohave Station, but adopted the ORA's recommended balancing account adjustment. A CPUC decision issued on November 4, 1999, adopted the ALJ's proposed decision without change.

Palo Verde Nuclear Generating Station

In January 1997, the CPUC authorized a further acceleration of the recovery of SCE's remaining investment of $1.2 billion in Palo Verde Units 1, 2, and 3. The accelerated recovery will continue through December 2001, earning a 7.35% fixed rate of return. The future operating costs, including nuclear fuel and nuclear fuel financing costs, and incremental capital expenditures, are subject to balancing account treatment through 2001. Beginning January 1, 1998, the balancing account became part of the CTC mechanism. The existing NUIP will continue only for purposes of calculating a reward for performance of any unit above an 80% capacity factor for a fuel cycle. Beginning in 2002, SCE will be required to share the net benefits received from the operation of Palo Verde equally with ratepayers.

San Onofre Nuclear Generating Station Units 2 and 3

In April 1996, the CPUC authorized a further acceleration of the recovery of SCE's remaining investment of $2.6 billion in San Onofre Units 2 and 3. The accelerated recovery will continue through December 2001, earning a 7.35% fixed rate of return. San Onofre's operating costs, including nuclear fuel, nuclear fuel financing costs, and incremental capital expenditures, are recovered through an incentive pricing plan which allows SCE to receive about 4¢ per kWh through December 31, 2003. Beginning January 1, 1998, the accelerated plant recovery and incremental cost incentive pricing became part of the CTC mechanism. Beginning in 2004, SCE will be required to share the benefits received from operation of San Onofre Units 2 and 3 equally with ratepayers.

New Accounting Rules

An accounting rule which requires that costs related to start-up activities be expensed as incurred, became effective January 1, 1999. Although this new accounting rule did not materially affect Edison International's results of operations or its financial position, EME wrote off approximately $14 million in previously capitalized start-up costs in first quarter 1999.

In June 1998, a new accounting standard for derivative instruments and hedging activities was issued. The new standard, which as amended will be effective for Edison International beginning January 1, 2001, requires all derivatives to be recognized on the balance sheet at fair value. Gains or losses from changes in fair value will be recognized in earnings in the period of change unless the derivative is designated as a hedging instrument. Gains or losses from hedges of a forecasted transaction or foreign currency exposure will be reflected in other comprehensive income. Gains or losses from hedges of a recognized asset or liability, or a firm commitment will be reflected in earnings for the ineffective portion of the hedge. SCE anticipates that most of its derivatives under the new standard will qualify for hedge accounting. SCE expects to recover in rates any market price changes from its derivatives that could potentially affect earnings. Edison International is studying the impact of the new standard on its nonutility subsidiaries, and is unable to predict at this time the impact on its financial statements.

Fuel Supply and Purchased Power Costs

Since April 1, 1998, SCE has been required to purchase all power for distribution to retail customers from the PX. In 1999, fuel and purchased-power costs, including net PX purchases, were approximately $3.4 billion, which was a 5% decrease from the costs in 1998.

SCE's sources of energy during 1999 were as follows: 58.9% purchased power; 22.0% nuclear; 13.5% coal; and 5.6% hydro.

Average fuel costs, expressed in ¢ per kWh, for the year ended December 31, 1999, were: oil, 7.51¢; nuclear, 0.41¢; and coal, 1.23¢.

Natural Gas Supply

As a result of the sale of all of its gas-fired generating stations, SCE has terminated four long-term natural gas supply and three long-term gas transportation contracts which had been used to import gas from Canada. In addition, SCE has exercised an option under its 15-year gas transportation commitment with El Paso Natural Gas Company to reduce its capacity obligation from 200 million to 130 million cubic feet per day.

Nuclear Fuel Supply

SCE has contractual arrangements covering 100% of the projected nuclear fuel requirements for San Onofre through the years indicated below:

Uranium concentrates(*)	2003
Conversion	2003
Enrichment	2003
Fabrication	2005

(*) Assumes the San Onofre participants meet their supply obligations in a timely manner.

Assuming normal operation and full utilization of existing on-site storage capacity, San Onofre Units 2 and 3 will maintain full-core offload reserve through 2005. The Nuclear Waste Policy Act of 1982 requires that the United States Department of Energy provide for the disposal of utility spent nuclear fuel beginning January 31, 1998. The Department of Energy has defaulted on its obligation to begin acceptance of spent nuclear fuel from the commercial nuclear industry by that date. Additional spent fuel storage either on-site or at another location will be required to permit continued operations beyond 2005.

Participants at Palo Verde have contractual agreements for uranium concentrates to meet projected requirements through 2000. Independent of arrangements made by other participants, SCE will furnish its share of uranium concentrates requirement through at least 2000 from existing contracts. Contracts covering 100% requirements are in place for conversion through 2000, enrichment through 2002, and fabrication through 2016.

Assuming normal operation and regulatory approval for more condensed on-site spent fuel storage, Palo Verde will maintain full-core offload reserve until the fall of 2003 for Unit 2 and spring and fall of 2004 for Units 1 and 3, respectively. Arizona Public Service, operating agent for Palo Verde, has commenced construction of an interim fuel storage facility that it projects will be completed in 2002.

Business of the Nonutility Companies

The activities of the Nonutility Companies are described below. For Edison International's business segment information for each of the years ended December 31, 1999, 1998, and 1997, see Note 13 of Notes to Consolidated Financial Statements contained in Edison International's 1999 Annual Report to Shareholders incorporated by reference, in part, in this report.

Edison Mission Energy: EME, primarily through its subsidiary corporations, is engaged in the business of developing, acquiring, owning, and operating electric power generation facilities worldwide. As of December 31, 1999, EME subsidiaries held interests in more than 75 projects worldwide, either operating or under construction with an aggregate power production capability of 28,446 MW, of which 22,770 MW are attributable to EME's interests. These facilities are located in California, Florida, Illinois, Nevada, New Jersey, New York, Pennsylvania, Puerto Rico, Virginia, Washington, West Virginia, Australia, Indonesia, Italy, Spain, Thailand, Turkey, United Kingdom, and New Zealand. EME owns interests in oil and gas producing operations and related facilities in various U.S. locations.

EME's activity in the Asia Pacific region commenced in December 1992 with the acquisition of a 51% interest of the 1,000 MW Loy Yang B Power Station (Loy Yang B) from the State Government of Victoria (State), Australia's first electric privatization effort. In May 1997, a subsidiary of EME acquired the State's 49% interest in Loy Yang B. The first of two 500 MW units at Loy Yang B began commercial operations in October 1993. Unit 2 commenced commercial operations in October 1996. An EME affiliate provides operations and maintenance services for both units.

In April 1995, EME and its partners, Mitsui & Co. Ltd., General Electric Corporation and P.T. Batu Hitam Perkasa, an Indonesian limited liability company, commenced construction of the $2.5 billion Paiton project, a 1,230 MW coal-fired power plant in East Java, Indonesia. The project consists of two units, each of which has a capacity of 615 MW. In January 1996, EME purchased an additional 7.5% from General Electric Corporation, thereby increasing its ownership interest to 40% in P.T. Paiton Energy (Paiton Energy), the Indonesian limited liability company through which EME and its partners own the project.

In May 1999 and July 1999, Units 7 and 8, respectively, achieved commercial operation under the terms of the Power Purchase Agreement (PPA) between Paiton Energy and the state-owned electricity company, PT Perusahaan Listrik Negara (PLN). Under the PPA, the project's output is fully contracted with PLN. Payments are in Indonesian Rupiah, with the portion of such payments intended to cover non-Rupiah project costs (including returns to investors) indexed to the Indonesian Rupiah/U.S. dollar exchange rate established at the time the PPA was executed in February 1994. PLN's payment obligations are supported by the Government of Indonesia. The projected rate of growth of the Indonesian economy and the exchange rate of Indonesian Rupiah into U.S. dollars have deteriorated significantly since the Paiton project was contracted, approved and financed, thus significantly increasing the cost of power in Rupiah terms to PLN. The project received substantial finance and insurance support from the Export-Import Bank of the United States, the Export-Import Bank of Japan, the U.S. Overseas Private Investment Corporation and the Ministry of International Trade and Industry of Japan. The Paiton project's senior debt ratings have been reduced from investment grade to speculative grade based on the rating agencies' determination that there is increased risk that PLN might not be able to honor its PPA with Paiton Energy. On February 21, 2000, Paiton Energy and PLN executed an interim agreement pursuant to which the PPA will be administered pending a long-term restructure of the PPA. Among other things, the interim agreement provides for dispatch of the project, fixed monthly payments to Paiton Energy by PLN, the first of which was received on March 24, 2000, and the standstill of any further legal proceedings by either party during the term of the interim agreement which runs through December 31, 2000, and may be extended by mutual agreement. (See, "Edison Mission Energy - P.T. Perusahaan Listsrik Negara," under Item 3 below for additional discussion of the legal proceedings.) PLN has also asked that negotiations on a long-term restructuring of the tariff begin in April 2000. Any material modifications of the PPA could also require a renegotiation of the Paiton project's debt agreement. The impact of any such renegotiations with PLN, the Government of Indonesia or the project's creditors on EME's expected return on its investment in the Paiton project is uncertain at this time. However, management believes that EME will ultimately recover its investment in the project.

Kwinana is a 116 MW gas-fired cogeneration project located at the British Petroleum Kwinana refinery near Perth, Australia. The project, which is 100% owned by EME, began commercial operations in December 1996. The project supplies electricity to Western Power (formerly the State Electricity Commission of Western Australia) and both electricity and steam to the British Petroleum Kwinana refinery.

In July 1998, EME, through an indirect, wholly-owned subsidiary, purchased a 25% interest in Tri-Energy, a 700 MW gas-fired power plant under construction in the Ratchaburi Province, Thailand. The project will sell its capacity and energy to the Electricity Generating Authority of Thailand under a 20-year power purchase agreement. Commercial operation is expected in mid 2000.

In May 1999, EME, through its indirect, wholly owned affiliate, acquired 40% of Contact Energy from the government of New Zealand for $635 million. As of December 31, 1999, Contact Energy owns and operates hydroelectric, geothermal and natural gas-fired power generating plants in New Zealand, with a total aggregate capacity of 2,371 MW, of which EME's share is 948 MW. Contact Energy also supplies gas and electricity to customers in New Zealand and also has a minority interest in one power project in Australia.

In the early 1990's, EME acquired the Iberian Hy-Power projects, which consist of 18 small hydroelectric facilities located in Spain (minority interests are owned in three of the projects by third parties), an 80% interest in the 220 MW Roosecote project located in northwest England, and a 33% interest in the 214 MW Derwent project located in Derby, England.

In December 1995, EME purchased all of the outstanding shares of First Hydro Company (First Hydro) for approximately $1 billion (653 million pounds sterling). First Hydro's principal assets are two pumped-storage electric power stations located in North Wales at Dinorwig and Ffestiniog, which have a combined capacity of 2,088 MW. The Dinorwig station, which was commissioned in 1983, comprises six units totaling 1,728 MW. The Ffestiniog station was commissioned in 1963 and comprises four units totaling 360 MW. First Hydro is an independent generating company with three main sources of revenue: (1) selling power into the electricity trading market in England and Wales; (2) providing system support services to The National Grid Company Plc; and (3) selling its installed capacity on a forward basis by entering into contracts for differences, which are electricity rate swap agreements, with large electricity suppliers.

In June 1995, EME (49% ownership) and its partner, ISAB S.p.a. (51% ownership), signed a 20-year power purchase contract with ENEL S.p.a., Italy's state electricity corporation, pursuant to which ENEL S.p.a. will purchase 507 MW of output from the 512 MW ISAB power project, which is located near Siracusa in Sicily, Italy. The project will employ gasification technology to convert heavy oil residues from the ISAB refinery in Priolo Gargallo into clean-burning synthetic fuel gas that will be used to generate electricity in a combustion turbine. The approximately two trillion Italian lira (U.S. $1.3 billion) project financial closing was completed in April 1996, with construction commencing in July 1996. The project is near completion, with commercial operation expected to begin in the first quarter of 2000.

In February 1995, EME (80% ownership) signed a shareholders agreement to develop the $180 million Doga Enerji A.S. project in Esenyurt, near Istanbul, Turkey. In April 1997, EME completed financing and commenced construction of the Doga project. The 180 MW combined cycle, gas-fired cogeneration facility commenced commercial operations in May 1999.

In July 1999, EME acquired 100% of the Ferrybridge and Fiddler's Ferry coal-fired power plants in the United Kingdom with a total generating capacity of 3,886 MW from PowerGen UK plc for approximately

$2.0 billion. These plants, which are in the middle of the order in which plants are called upon to dispatch electric power, complement the pumped-storage hydroelectric power plants EME already owns in the United Kingdom and sell power into the electricity trading market there.

During October 1999, EME acquired the remaining 20% of the 220 MW natural gas-fired Roosecote project located in England.

In March 2000, EME entered into a purchase agreement with a third party to acquire a 50% interest in a series of power projects that are in operation or under development in Italy. All of the projects use wind to generate electricity from turbines which is sold under fixed-price long-term tariffs. The initial purchase price is $22 million with equity contribution obligations of up to $40 million, depending on the number of projects that are ultimately developed.

In December 1998, EME del Caribe, an indirect, wholly owned subsidiary of EME, acquired 50% of the 540 MW EcoEléctrica liquefied natural gas (LNG) cogeneration facility under construction in Peñuelas, Puerto Rico for approximately $243 million. The project also includes a desalination plant and LNG storage and vaporization facilities and is expected to commence commercial operation by the first quarter of 2000.

In March 1999, EME, through an indirect, wholly owned affiliate, acquired 100% of the 1,884 MW Homer City Generating Station for approximately $1.8 billion. This facility is a coal-fired plant in the mid-Atlantic region of the United States and has direct, high voltage interconnections to both the New York Independent System Operator, which controls the transmission grid and energy and capacity markets for the State of New York and is commonly known as the NYISO and the Pennsylvania-New Jersey-Maryland Power Pool, which is commonly known as the PJM. EME operates the plant, which it believes is one of the lowest-cost generation facilities in the region.

In December 1999, EME, through its wholly owned subsidiary, Midwest Generation LLC, acquired the fossil-fuel generating assets of Commonwealth Edison, which are commonly referred to as the Illinois plants, totaling 6,812 MW of generating capacity. EME operates these plants, which provide access to the Mid-America Interconnected Network and the East Central Area Reliability Council. In connection with this transaction, EME entered into power purchase agreements with Commonwealth Edison with a term of up to five years. Concurrently with this acquisition, EME assigned its right to purchase the Collins Station, a 2,698 MW gas and oil-fired generating station located in Illinois, to a third party. After this assignment, EME entered into a lease of the Collins Station with a term of 33.75 years. The aggregate MW purchased or leased as a result of these transactions is 9,510 MW. The $4.9 billion transaction included amounts paid by a third party lessor in connection with the lease transaction.

On December 31, 1999, EME had total consolidated assets of over $15 billion, consolidated operating revenue of $1.64 billion, and consolidated net income of $130 million.

Currently, a number of EME's domestic operating power production facilities have QF status under the Public Utility Regulatory Policies Act and the regulations promulgated thereunder. QF status exempts the projects from the application of the Holding Company Act, many provisions of the Federal Power Act, and state laws and regulations respecting rates, and financial or organizational regulation of electric utilities. EME, through wholly owned subsidiaries, also has ownership interests in operating power projects that have received exempt wholesale generator status or foreign utility company status as defined in the Holding Company Act and are therefore exempt from regulation under the Holding Company Act. Despite these exemptions, each EME project must still comply with other applicable federal, state, and local laws, including those regarding siting, construction, operation, licensing, and pollution abatement. Some EME subsidiaries have made fuel-related investments and a limited number of non-energy related investments.

EME competes with many other companies, including multinational development groups, equipment suppliers, and other independent power producers (including affiliates of utilities), in selling electric power and steam. EME also competes with electric utilities in obtaining the right to install new generating capacity. Over the past decade, obtaining a power sales contract with a utility has generally become a progressively more difficult, expensive, and competitive process. Many power sales contracts are now awarded by competitive bidding, which both increases the costs of obtaining such contracts and decreases the chances of obtaining such contracts. EME evaluates each potential project in an effort to determine when the probability of success is high enough to justify expenditures in developing a proposal or bid for the project.

Amendments to the Holding Company Act made by the Energy Policy Act have increased the number of competitors in the domestic independent power industry by reducing restrictions applicable to projects that are not QFs under the Public Utility Regulatory Policies Act. Retail wheeling of power, which is the offering by utilities of unbundled retail distribution service, could also lead to increased competition in the independent power market.

Recent developments in foreign regulatory matters affect EME's competitive environment in certain countries.

In July 1998, the United Kingdom (UK) Director General of Electricity Supply proposed to the Minister for Science, Energy and Industry that the current structure of contracts for differences and compulsory trading via the pool at half-hourly clearing prices bid a day ahead be abolished. The UK Government accepted the proposals in October 1998 subject to certain reservations. Following this, further proposals were published by the Regulator in July and October 1999. The proposals include, among other things, the establishment of voluntary long-term forwards and futures markets, organized by independent market operators and evolving in response to demand; voluntary short-term power exchanges operating from 24 to 4-hours before a trading period; a balancing mechanism to enable the system operator to balance generation and demand and resolve any transmission constraints; a mandatory settlement process for recovering imbalances between contracted and metered volumes with stronger incentives for being in balance; and a Balancing and Settlement Code Panel to oversee governance of the balancing mechanism. The Minister for Science, Energy and Industry has recommended that the proposal be implemented by the end of October 2000. It is difficult at this stage to evaluate the future impact of the proposals. However, a key feature of the new trading arrangements is to move to firm physical delivery which means that a generator must deliver, and a consumer take delivery, against their contracted positions or face the uncertain consequences of the system operator buying or selling in the balancing market, on their behalf, and passing the costs back to them. A consequence of this will be to increase greatly the motivation of parties to contract in advance. Recent experience has been that this has placed a significant downward pressure on forward contract prices. Legislation in the form of a Utilities Bill, published on January 20, 2000, is being introduced to allow for the implementation of new trading arrangements and the necessary amendments to generators' licenses. The introduction of the new electricity trading arrangements coupled with uncertainties surrounding the new Utilities Bill and a proposed 'good behavior' clause, discussed below, and an unseasonably warm winter have contributed to a drop in electricity market prices in the first quarter of 2000 and a drop of approximately 20% in the forward electricity price curve for the remainder of the year. As a result of these events, EME expects lower than anticipated revenue from its Ferrybridge and Fiddler's Ferry plants.

The Utilities Bill is scheduled to become law by July 2000. The core of the proposals is a fair deal for consumers through the provision of proper incentives to innovate and improve efficiency, growth of competition, protection for consumers and contribution of the utilities to a better environment. While the UK Government recognizes the need to strike a balance between consumer and shareholder interest, the proposals have far reaching implications for the utilities sector. In December 1999, the UK Director General of Electricity Supply gave notice of an intention to introduce a new condition into the licenses of a number of generators to curb the perceived exercise of market power in the determination of wholesale electricity prices. The majority of the major generators have accepted the new clauses, including Edison

Mission Energy, which has sought and received specific assurances from the Regulator on the definition of market abuse and the way the clauses will be interpreted in the future.

The New Zealand Government has been undergoing a steady process of electric industry deregulation since 1987. Reform in the distribution and retail supply sector began in 1992 with legislation that deregulated electricity distribution and provided for competition in the retail electric supply function. The New Zealand Energy Market, established in 1996, is a voluntary competitive wholesale market which allows for the trading of physical electricity on a half-hourly basis. The Electricity Industry Reform Act, which was passed in July 1998, was designed to increase competition at the wholesale generation level by splitting up Electricity Company of New Zealand Limited, the large state-owned generator, into three separate generation companies. The Electricity Industry Reform Act also prohibits the ownership of both generation and distribution assets by the same entity.

The New Zealand Government announced in February 2000, an Inquiry into the electricity industry. This Inquiry is aimed at assessing present regulatory policy of the government to ensure price competition to the retail customers. The Inquiry panel is expected to report its findings in mid-June 2000, and the Government will then determine whether new legislation is required. The main focus of the Inquiry has been on the monopoly segments of the industry --transmission and distribution.

Over the past two years, EME has shifted its primary focus to the acquisition and operation of competitive generation, both domestically and internationally. It has recently acquired a number of merchant plants, which sell capacity, energy and, in some cases, other services on a competitive basis under bilateral arrangements or through centralized power pools that provide an institutional framework for price setting, dispatch and settlement procedures.

Electric power generated at the Homer City plant is sold under bilateral arrangements with domestic utilities and power marketers under short-term contracts with terms of two years or less, or to the PJM or the NYISO. These pools have short-term markets, which establish an hourly clearing price. The Homer City plant is situated in the PJM control area and is physically connected to high-voltage transmission lines serving both the PJM and NYISO markets. The Homer City plant can also transmit power to the midwestern United States.

Electric power generated at the Illinois plants is sold under a power purchase agreement with Commonwealth Edison, in which Commonwealth Edison will purchase capacity and have the right to purchase energy generated by the Illinois plants. The agreements, which began on December 15, 1999, and have a term of up to five years, provide for capacity and energy payments. Commonwealth Edison will be obligated to make a capacity payment for the plants under contract and an energy payment for the electricity produced by these plants. The capacity payment will provide the Illinois plants revenue for fixed charges, and the energy payment will compensate the Illinois plants for variable costs of production. If Commonwealth Edison does not fully dispatch the plants under contract, the Illinois plants may sell, subject to specified conditions, the excess energy at market prices to neighboring utilities, municipalities, third party electric retailers, large consumers and power marketers on a spot basis. A bilateral trading infrastructure already exists with access to the Mid-America Interconnected Network and the East Central Area Reliability Council.

EME's projects in the United Kingdom sell their electrical energy and capacity through a centralized electricity pool, which establishes a half-hourly clearing price, also referred to as the pool price, for electrical energy. The pool price is extremely volatile and can vary by as much as a factor of ten or more over the course of a few hours, due to the large differentials in demand according to the time of day. First Hydro and Ferrybridge and Fiddler's Ferry mitigate a portion of the market risk of the pool by entering into contracts for differences, which are electricity rate swap agreements related to either the selling or purchasing price of power. These contracts specify a price at which the electricity will be traded, and the parties to the agreement make payments calculated based on the difference between the price in the contract and the pool price for the element of power under contract. These contracts are sold in various structures and act to stabilize revenues or purchasing costs by removing an element of their net exposure to pool price volatility.

The Loy Yang B plant sells its electrical energy through a centralized electricity pool, which provides for a system of generator bidding, central dispatch and a settlements system based on a clearing market for each half-hour of every day. The National Electricity Market Management Company, operator and administrator of the pool, determines a system marginal price each half-hour. To mitigate exposure to price volatility of the electricity traded into the pool, the Loy Yang B plant has entered into a number of financial hedges. From May 8, 1997, to December 31, 2000, approximately 53% to 64% of the plant output sold is hedged under vesting contracts with the remainder of the plant capacity hedged under the State Hedge described below. Vesting contracts were put into place by the State Government of Victoria, Australia, between each generator and each distributor, prior to the privatization of electric power distributors in order to provide more predictable pricing for those electricity customers that were unable to choose their electricity retailer. Vesting contracts set base strike prices at which the electricity will be traded. The parties to the vesting contracts make payments, which are calculated based on the difference between the price in the contract and the half-hourly pool clearing price for the element of power under contract. Vesting contracts are sold in various structures and are accounted for as electricity rate swap agreements. In addition, the Loy Yang B plant has entered into a State Hedge agreement with the State Electricity Commission of Victoria. The State Hedge is a long-term contractual arrangement based upon a fixed price commencing May 8, 1997, and terminating October 31, 2016. The State Government of Victoria, Australia guarantees the State Electricity Commission of Victoria's obligations under the State Hedge.

Edison Capital: Edison Capital is a provider of capital and financial services in energy and infrastructure projects, including power generation, electric transmission and distribution, transportation, telecommunications, and affordable housing. Since its formation in 1987, Edison Capital has participated in approximately $20 billion in transactions. On December 31, 1999, Edison Capital had total consolidated assets of $2.7 billion and, for the year then ended, consolidated revenue of $282 million and net income of $129.4 million. Edison Capital invested $270 million in energy and infrastructure projects and $132 million in affordable housing in 1999, and started 2000 with a number of projects in development.

Europe — Continuing its participation in the infrastructure leasing market, Edison Capital invested $116 million in a telecommunications duct network with Swisscom, Switzerland's partially privatized, government majority-owned national telecommunications company. Located in northeast Switzerland, the duct network carries all voice and data traffic. In its first participation in an EME project, Edison Capital provided $243 million of mezzanine financing for the acquisition of the Ferrybridge and Fiddler's Ferry generating stations in northern England. This financing was committed in 1999 and closed in January 2000. Edison Capital has committed $125 million to co-sponsor a new $525 million Emerging Europe Infrastructure Fund L.P., which will invest in electricity and infrastructure projects in Central and Eastern Europe. American International Group Inc. (AIG) and ABN-AMRO are the other co-sponsors of the fund. During 1999, Edison Capital closed its second United Kingdom Private Finance Initiative transaction with an $8 million mezzanine investment in King's Hospital.

United States — Four wind-energy projects were placed into service in which Edison Capital has an aggregate investment of $108 million. All of the projects are located in the Midwest, including Edison Capital's most recent investment in Enron Wind Corp.'s Storm Lake I. The newly constructed 112.5-MW project, located along the Buffalo Ridge in Iowa, ranks as the largest wind project in the country.

Latin America — Edison Capital continued to develop its Latin American presence through its active participation in the $1 billion AIG-GE Latin American Infrastructure Fund (LAIF). This fund is in the latter stages of its investment cycle, with approved investments totaling 60 percent of Edison Capital's original $80 million commitment. Through the fund in 1999, Edison Capital invested $13.6 million in seven projects. Together with LAIF and AIG, Edison Capital committed $20 million to Mandeville, a $100 million cable television joint venture in Mexico. Mandeville was formed to acquire existing cable television systems and fund the expansion of Mexico's communications infrastructure. During the year, Mandeville closed the acquisition of two existing cable television systems in Cancun and Merida.

Asia — Edison Capital entered the Asian market in 1998 through its $100 million commitment and active participation in the $1.7 billion AIG Asian Infrastructure Fund II. Through its participation in the fund in 1999, Edison Capital closed investments of $25 million in five projects.

Affordable Housing — Over the past 12 years, Edison Capital has invested more than $1 billion in more than 330 affordable housing projects representing 26,000 housing units in 35 states. During 1999, the company closed $132 million in investments, and committed $161 million. Edison Capital completed five syndications of affordable housing properties during the year. The John Stewart Company, the housing management subsidiary of Edison Capital, increased its units under management by 61 percent. The company also signed a lease with the Treasure Island Development Authority (City of San Francisco) for the rehabilitation, marketing and management of 766 housing units in conjunction with the closure of the Treasure Island Naval Station and conversion to public use.

Edison Capital has entered into investments that rely in part on specific federal and state tax benefits and incentives available under existing laws and regulations. There is no assurance against changes in those laws, or unfavorable interpretation and application of the laws by tax authorities, which could adversely affect Edison Capital's business prospects or, if applied retrospectively, its return on existing investments.

Edison Capital competes with other equity investors in the energy/infrastructure finance market. These firms include money center banks, major finance and lease companies, affiliates of various public utilities, and other Fortune 500 firms. In addition, competition exists for long-term equity and convertible debt investments in global energy/infrastructure projects. This competition comes from multinational investors in addition to those firms mentioned above.

Since low-income housing tax credits were permanently extended by Congress in 1993, competition for affordable housing projects with tax credits has increased significantly. Edison Capital maintains market share in the affordable housing market by providing property management and other value added services to sponsors, working closely with sponsors and lenders to facilitate the financing of projects providing development loans to sponsors, and developing projects on a limited basis.

Mission Land Company - Mission Land was formed to develop, own and manage industrial parks and other real property investments. Mission Land plans to exit the real estate business in an orderly manner and to recover a substantial amount of the outstanding investment. Real estate assets have been reduced substantially from peak levels in 1992. At December 31, 1999, Mission Land had total consolidated assets of $112 million and, for the year then ended, consolidated operating revenue of $10 million and net income of $0.3 million.

Edison Enterprises: Edison Enterprises was organized to own the stock and coordinate the activities of Edison International's retail products and services business. The current Edison Enterprises businesses include Edison Select, Edison Source, and Edison Utility Services.

Edison Select: Edison Select is engaged in the business of providing home services to consumers, and currently provides electrical repair services under the Edison OnCall name, as well as providing security services through Edison Security. In 1998, Edison Enterprises acquired Westec Residential Security, Inc. and Valley Burglar and Fire Alarm Company, Inc., which significantly expanded Edison Select's residential security business.

Edison Source: Edison Source is engaged in the business of integrated energy outsourcing. Integrated energy outsourcing services include the energy efficient retrofit, operation, and maintenance of refrigeration, heating, ventilating, air conditioning, lighting, and other electrical systems equipment.

Edison Utility Services: Edison Utility Services offers a diverse range of services to electric utilities in the U.S. and Canada, including billing, outage management, and transmission and distribution outsourcing.

Item 2. Properties of SCE

The principal properties of SCE are described below. Properties of EME and Edison Capital are discussed above under "Business of the Nonutility Companies."

Existing Utility Generating Facilities

SCE owns and operates one diesel-fueled generating plant located on Santa Catalina island, 37 hydroelectric plants, and an undivided 75.05% interest (1,614 MW net) in San Onofre Units 2 and 3. These plants are located in Central and Southern California.

SCE also owns a 15.8% (590 MW net) share of Palo Verde which is located near Phoenix, Arizona. SCE owns a 48% undivided interest (754 MW net) in Units 4 and 5 at Four Corners, which is a coal-fueled steam electric generating plant located in New Mexico. Palo Verde and Four Corners are operated by other utilities. SCE operates and owns a 56% undivided interest (885 MW) in the Mohave Station, which consists of two coal-fueled steam electric generating units in Clark County, Nevada. At year-end 1999, the existing SCE-owned generating capacity (summer effective rating) was divided approximately as follows: 44.2% nuclear, 32.4% coal, 23.2% hydroelectric, and 0.2% diesel. Pursuant to California's restructuring legislation, SCE filed an application with the CPUC on October 14, 1999, seeking authority to hold an auction to sell SCE's ownership interest in the Mohave Station. A CPUC decision on the auction process is expected in early to mid-2000.

San Onofre, Four Corners, certain of SCE's substations and portions of its transmission, distribution and communication systems are located on lands of the U.S. or others under (with minor exceptions) licenses, permits, easements or leases, or on public streets or highways pursuant to franchises. Certain of such documents obligate SCE, under specified circumstances and at its expense, to relocate transmission, distribution, and communication facilities located on lands owned or controlled by federal, state, or local governments.

The 37 hydroelectric plants (some with related reservoirs) have an effective operating capacity of 1,156 MW, and are, with five exceptions, located in whole or in part on lands of the U.S. pursuant to 30- to 50-year governmental licenses that expire at various times between 1999 and 2029. Such licenses impose numerous restrictions and obligations on SCE, including the right of the United States to acquire projects upon payment of specified compensation. When existing licenses expire, FERC has the authority to issue new licenses to third parties, but only if their license application is superior to SCE's and then only upon payment of specified compensation to SCE. Any new licenses issued to SCE are expected to be issued under terms and conditions less favorable than those of the expired licenses. SCE's applications for the relicensing of certain hydroelectric projects with an aggregate effective operating capacity of 113.32 MW are pending. Annual licenses have been issued to SCE hydroelectric projects that are undergoing relicensing and whose long-term licenses have expired. The annual licenses will be renewed until the long-term licenses are issued. SCE filed an application with the CPUC on December 15, 1999, seeking authorization to market value and retain the ownership and operation of the hydroelectric plants pursuant to the state's electric utility industry restructuring legislation.

The capacity factors in 1999 for SCE's principal generation resources were: 43.3% for SCE's hydroelectric plants (lower than average due to below-normal water conditions); 88.4% for San Onofre; 70.8% for the Mohave Station; 79.4% for Four Corners Units 4 and 5; and 93% for Palo Verde.

Substantially all of SCE's properties are subject to the lien of a trust indenture securing First and Refunding Mortgage Bonds (Trust Indenture), of which approximately $2.2 billion in principal amount was outstanding on December 31, 1999. Such lien and SCE's title to its properties are subject to the terms of franchises, licenses, easements, leases, permits, contracts, and other instruments under which properties are held or operated, certain statutes and governmental regulations, liens for taxes and assessments, and liens of the trustees under the Trust Indenture. In addition, such lien and SCE's title to its properties are subject to certain other liens, prior rights and other encumbrances, none of which, with minor or unsubstantial exceptions, affect SCE's right to use such properties in its business, unless the matters with respect to SCE's interest in Four Corners and the related easement and lease referred to below may be so considered.

SCE's rights in Four Corners, which is located on land of The Navajo Nation of Indians under an easement from the U.S. and a lease from The Navajo Nation, may be subject to possible defects. These defects include possible conflicting grants or encumbrances not ascertainable because of the absence of, or inadequacies in, the applicable recording law and the record systems of the Bureau of Indian Affairs and The Navajo Nation, the possible inability of SCE to resort to legal process to enforce its rights against The Navajo Nation without Congressional consent, possible impairment or termination under certain circumstances of the easement and lease by The Navajo Nation, Congress, or the Secretary of the Interior, and the possible invalidity of the Trust Indenture lien against SCE's interest in the easement, lease, and improvements on Four Corners.

SCE Construction Program and Capital Expenditures

Cash required by SCE for its capital expenditures totaled $984 million in 1999, $861 million in 1998 and $685 million in 1997. Construction expenditures for the 2000—2004 period are forecasted at $4.8 billion.

In addition to cash required for construction expenditures for the next five years as discussed above, $2.4 billion is needed to meet requirements for long-term debt maturities and sinking fund redemption requirements.

SCE's estimates of cash available for operations for the five years through 2004 assume, among other things, the receipt of adequate and timely rate relief and the realization of its assumptions regarding cost increases, including the cost of capital. SCE's estimates and underlying assumptions are subject to continuous review and periodic revision.

The timing, type, and amount of all additional long-term financing are also influenced by market conditions, rate relief, and other factors, including limitations imposed by SCE's Articles of Incorporation and Trust Indenture.

Nuclear Power Matters

SCE's nuclear facilities have been reliable sources of inexpensive, non-polluting power for SCE's customers for more than a decade. Throughout the operating life of these facilities, SCE's customers have supported the revenue requirements of SCE's capital investment in these facilities and for their incremental costs through traditional cost-of-service ratemaking.

In 1996, the CPUC adopted SCE's San Onofre Unit 2 and 3 proposal under which SCE would have recovered its remaining investment in the San Onofre Units at a reduced rate of return of 7.35%, but on an accelerated basis during the eight-year period from the effective date in 1996 through December 31, 2003. California's restructuring legislation, however, requires the recovery of the San Onofre investment to be completed by December 31, 2001. In addition, the traditional cost-of-service ratemaking for San Onofre Units 2 and 3 was superseded by an incentive pricing plan in which SCE's customers pay a preset price for each kWh of energy generated at San Onofre during the eight-year period. The restructuring legislation allows for the continuation of the incentive pricing plan through December 31, 2003. SCE was compensated for the incremental costs required for the continued operation of San Onofre Units 2 and 3 with revenue earned through the incentive pricing plan. SCE also retained the ability to request recovery of the cost of fuel consumed for generation of replacement energy for periods in which San Onofre will not generate power through ECAC filings and, beginning in 1998, as part of ATCP. The restructuring legislation also allows SCE to continue to collect funds for decommissioning expenses through traditional ratemaking treatment.

On July 16, 1997, the CPUC approved SCE's request to transfer the recorded net investment in San Onofre Units 2 and 3 step-up transformers to San Onofre Units 2 and 3 sunk costs for recovery by December 31, 2001, at a reduced rate of return of 7.35%.

On August 21, 1997, the CPUC approved San Diego Gas & Electric's (SDG&E) and SCE's Joint Petition to Modify, requesting continued recovery of certain corporate administrative and general costs allocable to San Onofre Units 2 and 3, at rates of 0.28¢ and 0.21¢ per kWh, respectively, for the period January 1, 1998, through December 31, 2003.

In 1996, SCE filed its Palo Verde Proposal Application requesting adoption of a new rate mechanism for Palo Verde consistent with that of San Onofre Units 2 and 3. On November 15, 1996, SCE, the ORA, and TURN entered into a settlement agreement, which was approved by the CPUC on December 20, 1996. The agreement allows SCE to recover its remaining investment in the Palo Verde units by December 31, 2001, at a reduced rate of return of 7.35% consistent with the restructuring legislation. The settling parties agreed that SCE would recover its share of Palo Verde incremental operating costs, except if those costs exceed 95% of the levels forecast by SCE in its application by more than 30% in any given year. In such cases, SCE must demonstrate that the aggregate amount of the costs exceeding the forecast in that year is reasonable. If the annual Palo Verde site gross capacity factor is less than 55% in a calendar year, SCE will bear the burden of proof to demonstrate that the site's operations causing the gross capacity factor to fall below 55% were reasonable in that year. If operations are determined to be unreasonable by the CPUC, SCE's replacement power purchases associated with that period of Palo Verde operations below 55% gross capacity factor may be disallowed.

Beginning in 2002, the net benefits of future operation of Palo Verde Units 1, 2, and 3 will be shared equally between shareholders and customers. Likewise, beginning in 2004, the benefits of future operation of San Onofre Units 2 and 3 will be shared equally between shareholders and customers.

San Onofre Nuclear Generating Station

In 1992, the CPUC approved a settlement agreement between SCE and the ORA to discontinue operation of Unit 1 at the end of its then-current fuel cycle. In November 1992, SCE discontinued operation of Unit 1. As part of the agreement, SCE recovered its remaining investment over a four-year period ending August 1996. On December 21, 1998, SCE filed an application with the CPUC requesting authorization to access its nuclear decommissioning trust funds for Unit 1 for the purpose of commencing decommissioning of Unit 1 in 2000. On March 8, 1999, SCE, SDG&E, the ORA and TURN entered into a settlement agreement that provided for SCE to access its nuclear decommissioning trust funds for Unit 1 decommissioning. On June 3, 1999, the CPUC adopted the settlement agreement. On December 6, 1999, SCE applied for a coastal permit to demolish and remove San Onofre Unit 1 buildings and other structures and to construct a temporary used fuel storage facility (also referred to as an independent spent fuel storage installation) as part of the San Onofre Unit 1 decommissioning project. On February 15, 2000, the California Coastal Commission approved SCE's application. Decommissioning of Unit 1 is now underway and it is anticipated that decommissioning will continue through 2008. At that time, San Onofre Unit 1 will be completely dismantled and only the spent nuclear fuel will remain on-site in an independent spent fuel storage installation. All of SCE's reasonable San Onofre Unit 1 decommissioning costs will be paid from its nuclear decommissioning trust funds.

The San Onofre Units 2 and 3 steam generators have performed relatively well through the first 15 years of operation, with low rates of ongoing steam generator tube degradation. The steam generator design allows for the removal of up to 10% of the tubes before the rated capacity of the unit must be reduced. As a result of the increased degradation found during a 1997 inspection, a mid-cycle inspection outage was conducted in early 1998 for Unit 2. Continued degradation was found during this inspection. A favorable or decreasing trend in degradation was observed during inspection in the scheduled refueling outage in January 1999 and as a result, a mid-cycle inspection outage in 2000 is expected to be unnecessary. With the results from the January 1999 outage, 7.5% of the tubes have now been removed from service.

During Unit 3's refueling outage, which was completed in May 1999, a complete inspection of the steam generator tubes was performed. Results obtained were within expectations. To date, 5.4% of Unit 3's tubes have been removed from service.

Palo Verde Nuclear Generating Station

Based on the latest available data, Arizona Public Service (APS), the operator of Palo Verde, estimates that the Unit 1 and Unit 3 steam generators should operate for the 40-year licensed operating life of those units, although APS continues to monitor the situation. Installation of new steam generators in Unit 2 has been approved by the participants and is planned in 2003. APS has indicated to the participants that it believes that replacement of the Unit 2 steam generators would cost between $100 million and $150 million. SCE estimates that this cost could be higher, such that its share of this cost would be between $16 million and $30 million plus replacement power costs.

Nuclear Facility Decommissioning

Decommissioning of San Onofre Unit 1 commenced in 1999 (See "San Onofre Nuclear Generating Station" above for additional discussion). On March 9, 2000, the NRC amended the operating licenses for San Onofre Units 2 and 3 to allow both units to operate through 2022. Prior to this amendment, the NRC operating licenses for San Onofre allowed both units to operate through 2013. SCE plans to decommission San Onofre Units 2 and 3 in 2013 and Palo Verde at the end of each unit's operating license by a removal method authorized by the NRC. The San Onofre Units 2 and 3 and Palo Verde operating licenses currently expire in 2022 and 2028, respectively. Decommissioning is estimated to cost $2.0 billion in current-year dollars based on site-specific studies performed in 1998 for San Onofre and Palo Verde. This estimate considers the total cost of decommissioning and dismantling the plant, including labor, material, burial, and other costs. The site-specific studies are updated approximately every three years. Changes in the estimated costs, timing of decommissioning, or the assumptions underlying these estimates could cause material revisions to the estimated total cost to decommission.

Decommissioning expense was $124 million in 1999 and $164 million in 1998. The accumulated provision for decommissioning was $1.3 billion at December 31, 1999, and $ 1.2 billion at December 31, 1998. The estimated costs to decommission San Onofre Unit 1 ($360 million in 1998 dollars) are recorded as a liability.

Decommissioning funds collected in rates are placed in independent trusts which, together with accumulated earnings, will be utilized solely for decommissioning.

Nuclear Insurance

Federal law limits public liability claims from a nuclear incident to $9.5 billion. SCE and other owners of San Onofre and Palo Verde have purchased the maximum private primary insurance available ($200 million). The balance is covered by the industry's retrospective rating plan that uses deferred premium charges to every reactor licensee if a nuclear incident at any licensed reactor in the U.S. results in claims and/or costs which exceed the primary insurance at that plant site. Federal regulations require this secondary level of financial protection. The NRC exempted San Onofre Unit 1 from this secondary level, effective June 1994. The maximum deferred premium for each nuclear incident is $88 million per reactor, but not more than $10 million per reactor may be charged in any one year for each incident. Based on its ownership interests, SCE could be required to pay a maximum of $175 million per nuclear incident. It would have to pay, however, no more than $20 million per incident in any one year. Such amounts include a 5% surcharge if additional funds are needed to satisfy public liability claims and are subject to adjustment for inflation. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

Property damage insurance covers losses up to $500 million, including decontamination costs, at San Onofre and Palo Verde. Decontamination liability and property damage coverage exceeding the primary $500 million has also been purchased in amounts greater than federal requirements. Additional insurance covers part of replacement power expenses during an accident-related nuclear unit outage. These policies are issued by a mutual insurance company owned by utilities with nuclear facilities. If losses at any nuclear facility covered by the arrangement were to exceed the accumulated funds for these insurance programs, SCE could be assessed retrospective premium adjustments of up to $19 million per year. Insurance premiums are charged to operating expense.

Item 3. Legal Proceedings

Edison International

Geothermal Generators' Litigation

Edison International and two of its nonutility subsidiaries, The Mission Group, and Mission Power Engineering Company, have been named as defendants in a lawsuit more fully described under "Southern California Edison Company - Geothermal Generators' Litigation."

Edison Mission Energy

PMNC Litigation

In February 1997, a civil action was commenced in the Superior Court of the State of California, Orange County, entitled The Parsons Corporation and PMNC v. Brooklyn Navy Yard Cogeneration Partners, L.P. (Brooklyn Navy Yard), Mission Energy New York, Inc. and B-41 Associates, L.P., in which plaintiffs assert general monetary claims under the construction turnkey agreement in the amount of $136.8 million. In addition to defending this action, Brooklyn Navy Yard has also filed an action in the Supreme Court of the State of New York, Kings County entitled Brooklyn Navy Yard Cogeneration Partners, L.P. v. PMNC, Parsons Main of New York, Inc., Nab Construction Corporation, L.K. Comstock & Co., Inc. and The Parsons Corporation, asserting general monetary claims in excess of $13 million under the construction turnkey agreement. On March 26, 1998, the Superior Court in the California action granted PMNC's motion for attachment against Brooklyn Navy Yard in the amount of $43 million and PMNC subsequently attached three checking accounts in the amount of $0.5 million. Brooklyn Navy Yard has appealed the attachment order. On the same day, the Court stayed all proceedings in the California action pending the New York action. That appeal was denied following a hearing on September 29, 1998. On March 9, 1999, Brooklyn Navy Yard filed a partial Motion for Summary Judgment in the New York action which was ultimately denied. In December 1999, Brooklyn Navy Yard appealed the orders denying partial Summary Judgment. The appeal and the commencement of discovery were suspended until June 2000, to allow for voluntary mediation between the parties. The mediation ended unsuccessfully on March 23, 2000. EME has agreed to indemnity Brooklyn Navy Yard and its partner in the venture from all claims and costs arising from or in connection with the contractor litigation.

P. T. Perusahaan Listrik Negara

As discussed in Item 1 above under "Business of the Nonutility Companies," EME owns a 40% interest in Paiton Energy, which constructed the Paiton project in East Java, Indonesia. The Paiton project has achieved commercial operation. Pursuant to the power purchase agreement with PLN, Indonesia's state-owned electricity company, PLN is obligated to purchase the capacity and energy of the Paiton project.

On October 7, 1999, PLN announced that it had filed a lawsuit in the Central Jakarta District Court against Paiton Energy seeking to annul the power purchase agreement, notwithstanding that Paiton Energy continued to seek a negotiated basis on which to operate the plant for an interim period during which the parties could discuss longer term remedies for the effect on the project of the current financial crisis affecting Indonesia. In its complaint, PLN generally alleged that the contract was the result of corruption, cronyism and nepotism, was one-sided and against the public interest. The terms of the power purchase agreement provide that any disputes with respect thereto must be submitted to arbitration in Stockholm, Sweden, and cannot be brought in the courts of any country. Accordingly, immediately following the filing of PLN's lawsuit, Paiton Energy commenced an arbitration in accordance with the terms of the power purchase agreement in order to confirm the validity of the agreement and to protect the interests of Paiton Energy's shareholders, lenders and other credit support providers.

On January 20, 2000, pursuant to an understanding between PLN and Paiton Energy committing to negotiate an agreement on an interim arrangement, PLN withdrew its lawsuit and Paiton Energy withdrew the arbitration proceedings against PLN and the Government of Indonesia.

On February 21, 2000, PLN and Paiton Energy executed an interim agreement pursuant to which the power purchase agreement will be administered pending a long term restructuring of the power purchase agreement. Among other things, the interim agreement provides for dispatch of the Paiton project, fixed monthly payments to Paiton Energy by PLN and the standstill of any further legal proceedings by either party during the term of the interim agreement, which continues through December 31, 2000 and may be extended by mutual agreement.

Southern California Edison Company

Geothermal Generators' Litigation

On June 9, 1997, SCE filed a complaint in Los Angeles County Superior Court against an independent power producer of geothermal generation and six of its affiliated entities (Coso parties). SCE alleges that in order to avoid power production plant shutdowns caused by excessive noncondensable gas in the geothermal field brine, the Coso parties routinely vented highly toxic hydrogen sulfide gas from unmonitored release points beginning in 1990 and continuing through at least 1994, in violation of applicable federal, state, and local environmental law. According to SCE, these violations constituted material breaches by the Coso parties of their obligations under their contracts with SCE and applicable law. SCE seeks damages for excess power purchase payments made to the Coso parties and other relief. The Coso parties' motion to transfer venue to Inyo County Superior court was granted on August 31, 1997.

The Coso parties filed a cross-complaint against SCE, The Mission Group, and Mission Power Engineering Company (Mission parties), which contains claims for breach of contract, unfair competition, interference with contract, defamation, breach of an earlier settlement agreement between the Mission parties and the Coso parties, and other claims. As against SCE, the cross-complaint seeks restitution, compensatory damages in excess of $115 million, punitive damages in an amount not less than $400 million, interest, attorney's fees, declaratory relief, and injunctive relief. As against the Mission parties, the cross-complaint seeks damages for breach of warranty of authority with respect to the settlement agreement, and for equitable indemnity. Edison International was named as a cross-defendant, allegedly as an alter ego of SCE and the Mission parties. The Coso parties voluntarily dismissed the claims against Edison International.

Three of the Coso Parties also filed a separate action in the Inyo County Superior Court against SCE and Edison International, alleging claims for unfair competition, false advertising and for violations of Public Utilities Code § 2106, and seeking injunctive relief, restitution, and punitive damages. The Court ordered this action consolidated with the SCE action.

Effective February 8, 2000, the parties entered into confidential agreements resolving all claims in the consolidated action and calling for dismissals with prejudice and releases. The settlement is subject to the approval of the CPUC. On February 10, 2000, the Court approved a stipulation staying all proceedings during the period required to obtain CPUC approval. SCE is in the process of preparing an application to obtain such approval. The settlement is not expected to have a material financial effect on SCE.

San Onofre Personal Injury Litigation

SCE is actively involved in three lawsuits claiming personal injuries allegedly resulting from exposure to radiation at San Onofre. On August 31, 1995, the wife and daughter of a former San Onofre security supervisor sued SCE and SDG&E in the U.S. District Court for the Southern District of California. Plaintiffs also named Combustion Engineering and the Institute of Nuclear Power Operations as defendants. All trial court proceedings were stayed pending ruling of the Ninth Circuit Court of Appeal, on an appeal of a lower court's judgment in favor of SCE in two earlier cases raising similar allegations. On May 28, 1998, the Court of Appeal affirmed these judgments. Pursuant to an agreement of the parties as described below, all proceedings in this matter have been stayed.

On November 17, 1995, an SCE employee and his wife sued SCE in the U.S. District Court for the Southern District of California. Plaintiffs also named Combustion Engineering. The trial in this case resulted in a jury verdict for both defendants. The plaintiffs' motion for a new trial was denied. Plaintiffs filed an appeal of the trial court's judgment to the Ninth Circuit Court of Appeal. Briefing on the appeal was completed in January 1999, oral argument took place on February 10, 2000, and the matter was taken under submission. A decision is not expected until spring or early summer of 2000.

On November 28, 1995, a former contract worker at San Onofre, her husband, and her son, sued SCE in the U.S. District Court for the Southern District of California. Plaintiffs also named Combustion Engineering. On August 12, 1996, the Court dismissed the claims of the former worker and her husband with prejudice, leaving only the son as plaintiff. Pursuant to an agreement of the parties as described below, all proceedings in the matter have been stayed.

In March of 1999, SCE reached an agreement with the plaintiffs in both of the cases at the U.S. District Court level to stay all proceedings including trial, pending the results of the case currently before the Ninth Circuit Court of Appeal. The parties agreed that if the plaintiffs do not receive a favorable determination on appeal then the two cases at the District Court level will be dismissed. If, however, those plaintiffs receive a favorable determination on their appeal, then the two District Court cases will be set for trial. On March 23, 1999, the District Court approved the parties' stay agreement in both cases.

SCE was previously involved, along with other defendants, in two earlier cases raising allegations similar to those described above. Although SCE is no longer actively involved in these actions, the impact on SCE, if any, from further proceedings in those cases against the remaining defendants cannot be determined at this time.

Mohave Generating Station Environmental Litigation

On February 19, 1997, the Sierra Club and the Grand Canyon Trust filed suit in the U.S. District Court of Nevada against SCE and the other three co-owners of the Mohave Station. The lawsuit alleged that the Mohave Station has been violating various provisions of the Clean Air Act, the Nevada State Implementation Plan, certain EPA orders, and applicable pollution permits relating to opacity and sulfur dioxide emission limits over the last five years. The plaintiffs sought declaratory and injunctive relief as well as civil penalties. The Clean Air Act calls for a maximum civil penalty of $25,000 per day per violation. SCE and the co-owners obtained an extension to respond to the complaint pending the court's ruling on a motion to dismiss filed by the defendants. The plaintiffs filed an opposition to the defendants' motion to dismiss as well as a separate motion for partial summary judgment on May 8, 1998.

On June 4, 1998, the plaintiffs served SCE and the other Mohave Station co-owners with a 60-day supplemental notice of intent to sue. This supplemental notice identified additional causes of action as well as an additional plaintiff (National Parks and Conservation Association) to be added to the proceedings. On November 12, 1998, the court bifurcated the liability and damage phases of the case and granted plaintiffs' motion to amend the complaint to add the National Parks and Conservation Association as a plaintiff.

On December 8, 1998, defendants filed a supplemental memorandum in support of defendants' opposition to plaintiffs' motion for partial summary judgment. On February 4, 1999, plaintiffs filed their first amended complaint to add the National Parks and Conservation Association as a plaintiff in the action. On March 10, 1999, defendants filed a motion for partial summary judgment. On March 11, 1999, plaintiffs filed a motion for partial summary judgment to establish emission limit violations as alleged in certain of the causes of action in their first amended complaint.

On March 8, 1999, the parties filed a stipulated request for a 60-day stay which was granted and ordered by the Court on March 9, 1999. A subsequent stay was granted, which was to expire on July 6, 1999, before being extended to July 20, 1999. On July 6, 1999, each party filed an opposition to the other parties' motion for summary judgment. On August 2, 1999, defendants filed a reply to plaintiff's opposition. On August 5, 1999, plaintiffs filed a reply to defendant's opposition.

On October 6, 1999, the parties filed a consent decree with the Federal District Court in Las Vegas, requesting the judge to approve the decree, and simultaneously dismiss the lawsuit. The decree provides that certain environmental control hardware (lime spray dryers, fabric filter baghouses and low NOx burners) should be installed on the facility by December 31, 2005, or else the Mohave Station will not be able to operate as a coal-fired facility after such date. The consent decree was signed by the court on December 15, 1999.

Navajo Nation Litigation

On June 18, 1999, SCE was served with a complaint filed by the Navajo Nation in the United States District Court for the District of Columbia against Peabody Holding Company and certain of its affiliates (Peabody), Salt River Project Agricultural Improvement and Power District, and SCE. The complaint asserts claims against the defendants for, among other things, violations of the federal RICO statute, interference with fiduciary duties and contractual relations, fraudulent misrepresentation by nondisclosure, and various contract-related claims. Peabody supplies coal from mines on Navajo Nation lands to the Mohave Station. The complaint claims that the defendants' actions prevented the Navajo Nation from obtaining the full value in royalty rates for the coal. The complaint seeks damages of not less than $600 million, trebling of that amount, and punitive damages of not less than $1 billion, as well as a declaration that Peabody's lease and contract rights to mine coal on Navajo Nation lands should be terminated. SCE joined Peabody's motion to strike the Navajo Nation's complaint. In addition, SCE and the other defendants have filed motions to dismiss.

The Navajo Nation had previously filed suit in the Court of Claims against the United States Department of Interior, alleging that the Government had breached its fiduciary duty concerning the above-referenced contract negotiations. On February 4, 2000, the Court of Claims issued a decision in the Government's favor, finding that while there had been a breach, there was no available redress from the Government. In its decision, the Court indicated that it was making no statements regarding, or findings in, the above federal civil court action. On February 28, 2000, the Hopi Tribe filed a motion to intervene in the pending litigation, alleging that the royalty payments set for their interest in the coal leases with Peabody had been impacted by the events at issue in the Navajo case. The defendants filed an opposition to the motion, which has not been calendared for hearing.

Claims Arising From Oil Spill Incidents

In mid 1999, the San Bernardino County Fire Department and the Santa Ana branch of the Regional Water Quality Control Board initiated an investigation into an incident occurring on December 9, 1998, involving an oil spill at SCE's Kimberly Pole Top Station caused by severe windstorms. During the course of this investigation, the agencies discovered that barrels of mislabeled waste had remained for several days on the site of a separate oil spill and clean-up caused by an oil release from a padmount transformer.

In February 2000, SCE entered into a settlement agreement with the agencies for claims arising out of both of these incidents. SCE paid $300,000 to San Bernardino County and $100,000 to the Regional Board in civil penalties. The County also recovered its costs of $5,400 and SCE agreed to provide all elementary and middle schools in the County with an environmental education program. The estimated cost of this program is $140,000.

Item 4. Submission of Matters to a Vote of Security Holders

Inapplicable

Pursuant to Form 10-K's General Instruction (General Instruction) G(3), the following information is included as an additional item in Part I:

Executive Officers [1] of the Registrant

Edison International		
Executive Officer	**Age at December 31, 1999**	**Company Position**
John E. Bryson	56	Chairman of the Board, President, Chief Executive Officer and Director
Bryant C. Danner	62	Executive Vice President and General Counsel
Theodore F. Craver, Jr.	48	Senior Vice President, Chief Financial Officer and Treasurer
Robert G. Foster	52	Senior Vice President
Thomas J. Higgins	54	Vice President, Corporate Relations
Thomas M. Noonan	48	Vice President and Controller
Anthony L. Smith	51	Vice President, Tax

---

(1) Executive Officers are defined by Rule 3b-7 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended. Pursuant to this rule, the Executive Officers of Edison International include certain elected officers of Edison International and its subsidiaries SCE, Edison Mission Energy, Edison Capital, and Edison Enterprises, all of whom may be deemed significant policy makers of Edison International. None of Edison International's elected executive officers are related to each other by blood or marriage.

As set forth in Article IV of Edison International's Bylaws, the elected officers of Edison International are chosen annually by and serve at the pleasure of Edison International's Board of Directors and hold their respective offices until their resignation, removal, other disqualification from service, or until their respective successors are elected. Each of the above officers of Edison International has been actively engaged in the business of Edison International for more than five years except Theodore F. Craver, Jr., and Thomas J. Higgins. Those officers who have not held their present position with Edison International and/or SCE for the past five years had the following business experience during that period:

Edison International		
Executive Officer	**Company Position**	**Effective Dates**
John E. Bryson	Chairman of the Board, President and Chief Executive Officer, Edison International Chairman of the Board and Chief Executive Officer, Edison International and SCE	January 2000 to present October 1990 to December 1999
Bryant C. Danner	Executive Vice President and General Counsel, Edison International Executive Vice President and General Counsel, SCE Senior Vice President and General Counsel, Edison International and SCE	June 1995 to present June 1995 to December 1999 June 1992 to May 1995
Theodore F. Craver, Jr.	Senior Vice President, Chief Financial Officer and Treasurer, Edison International Senior Vice President and Treasurer, Edison International Chairman of the Board and Chief Executive Officer, Edison Enterprises Senior Vice President and Treasurer, SCE Vice President and Treasurer, Edison International and SCE Executive Vice President and Corporate Treasurer, First Interstate Bancorp[1]	January 2000 to present February 1998 to January 2000 September 1999 to present February 1998 to September 1999 September 1996 to February 1998 September 1990 to April 1996
Robert G. Foster	Senior Vice President, Public Affairs, Edison International and SCE Vice President, Public Affairs, Edison International Vice President, Public Affairs, SCE	November 1996 to present January 1996 to October 1996 November 1993 to October 1996
Thomas J. Higgins	President, Edison Enterprises Vice President, Corporate Relations Vice President, Edison International Vice President, Corporate Communications, Edison International and SCE Vice President, Corporate Communications, SCE	September 1999 to present February 2000 to present September 1999 to February 2000 January 1996 to September 1999 April 1995 to January 1996
Thomas M. Noonan	Vice President and Controller, Edison International and SCE Assistant Controller, Edison International and SCE	March 1999 to present September 1993 to February 1999
Anthony L. Smith	Vice President, Tax, Edison International and SCE Assistant Controller, Edison International and SCE	March 1999 to present July 1988 to January 1999

[1] This entity is not a parent, subsidiary or other affiliate of SCE.

Southern California Edison Company		
Executive Officer	**Age at December 31, 1999**	**Company Position**
Stephen E. Frank	58	Chairman of the Board, President, Chief Executive Officer and Director
Harold B. Ray	59	Executive Vice President, Generation Business Unit
Pamela A. Bass	52	Senior Vice President, Customer Service Business Unit
John R. Fielder	54	Senior Vice President, Regulatory Policy and Affairs
Richard M. Rosenblum	49	Senior Vice President, Transmission & Distribution (T&D) Business Unit
Bruce C. Foster	47	Vice President, Regulatory Affairs

As set forth in Article IV of SCE's Bylaws, the elected officers of SCE are chosen annually by and serve at the pleasure of SCE's Board of Directors and hold their respective offices until their resignation, removal, other disqualification from service, or until their respective successors are elected. All of the above officers have been actively engaged in the business of SCE for more than five years except for Stephen E. Frank. Those officers who have not held their present position for the past five years had the following business experience:

Southern California Edison Company		
Executive Officer	**Company Position**	**Effective Dates**
Stephen E. Frank	Chairman of the Board, President, Chief Executive Officer and Director	January 2000 to present
	President, Chief Operating Officer and Director	June 1995 to December 1999
	President and Chief Operating Officer, Florida Power and Light Company[1]	August 1990 to January 1995
Harold B. Ray	Executive Vice President, Generation Business Unit	June 1995 to present
	Senior Vice President, Power Systems	June 1990 to May 1995
Pamela A. Bass	Senior Vice President, Customer Service Business Unit	March 1999 to present
	Vice President, Customer Solutions Business Unit	June 1996 to February 1999
	Vice President, Shared Services	January 1996 to May 1996
	Division Vice President, ENvest	August 1993 to December 1995
John R. Fielder	Senior Vice President, Regulatory Policy and Affairs	February 1998 to present
	Vice President, Regulatory Policy and Affairs	February 1992 to February 1998
Richard M. Rosenblum	Senior Vice President, T&D Business Unit	February 1998 to present
	Vice President, Distribution Business Unit	January 1996 to February 1998
	Vice President, Nuclear Engineering and Technical Services	June 1993 to December 1995

(1) This entity is not a parent, subsidiary or other affiliate of SCE.

The Nonutility Companies		
Executive Officer	**Age at December 31, 1999**	**Company Position**
Alan J. Fohrer	49	President and Chief Executive Officer, Edison Mission Energy
Robert M. Edgell	52	Executive Vice President, Edison Mission Energy
Thomas R. McDaniel	50	President and Chief Executive Officer, Edison Capital
Theodore F. Craver, Jr.(1)	48	Chief Executive Officer, Edison Enterprises
Thomas J. Higgins(1)	54	President, Edison Enterprises

(1) Messrs. Craver and Higgins are also deemed executive officers due to their positions at Edison International. Information concerning their ages, Company position, and business experience is set forth under Edison International. Edison International is the parent holding company of the Nonutility Companies.

As set forth in Article IV of their respective Bylaws, the elected officers of the Nonutility Companies are chosen annually by and serve at the pleasure of the respective Boards of Directors and hold their respective offices until their resignation, removal, other disqualification from service, or until their respective successors are elected. All of the above officers have been actively engaged in the business of the respective Nonutility Companies and/or Edison International or SCE for more than five years except for Alan J. Fohrer, Theodore F. Craver, Jr., and Thomas J. Higgins. Those officers who have not held their present position for the past five years had the following business experience:

The Nonutility Companies		
Executive Officer	**Company Position**	**Effective Dates**
Alan J. Fohrer	President and Chief Executive Officer, Edison Mission Energy	January 2000 to present
	Executive Vice President and Chief Financial Officer, Edison International	September 1996 to January 2000
	Chairman of the Board, Edison Enterprises	January 1998 to September 1999
	Executive Vice President and Chief Financial Officer, SCE	September 1996 to December 1999
	Executive Vice President, Chief Financial Officer and Treasurer, SCE	February 1996 to August 1996
	Executive Vice President and Chief Financial Officer, SCE	May 1995 to January 1996
	Executive Vice President, Chief Financial Officer and Treasurer, Edison International	May 1995 to August 1996
	Senior Vice President, Chief Financial Officer and Treasurer, Edison International	January 1993 to April 1995

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information responding to Item 5 is included in Edison International's Annual Report to Shareholders for the year ended December 31, 1999, (Annual Report) under "Quarterly Financial Data" on page 68 and under "Shareholder Information" on page 73, and is incorporated by reference pursuant to General Instruction G(2). The number of Common Stock shareholders of record was 89,910 on March 27, 2000. Additional information concerning the market for Edison International's Common Stock is set forth on the cover page hereof.

Item 6. Selected Financial Data

Information responding to Item 6 is included in the Annual Report under "Selected Financial and Operating Data: 1995—1999" on page 72, and is incorporated herein by reference pursuant to General Instruction G(2).

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

Information responding to Item 7 is included in the Annual Report under "Management's Discussion and Analysis" on pages 29 through 41 and is incorporated herein by reference pursuant to General Instruction G(2).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information responding to Item 7A is included in the Annual Report under "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 33 through 35 incorporated herein by reference to General Instruction G(2), and in Part I, Item 1 of this report on page 12 under "Market Risk Exposures".

Item 8. Financial Statements and Supplementary Data

Certain information responding to Item 8 is set forth after Item 14 in Part IV. Other information responding to Item 8 is included in the Annual Report on pages 43 through 67 and is incorporated herein by reference pursuant to General Instruction G(2).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning executive officers of Edison International is set forth in Part I in accordance with General Instruction G(3), pursuant to Instruction 3 to Item 401(b) of Regulation S-K. Other information responding to Item 10 is included in the Joint Proxy Statement (Proxy Statement) filed with the SEC in connection with Edison International's Annual Meeting to be held on April 20, 2000, under the heading, "Election of Directors" on pages 6 and 7 and "Section 16(a) Beneficial Ownership Reporting Compliance" on page 13, and is incorporated herein by reference pursuant to General Instruction G(3).

Item 11. Executive Compensation

Information responding to Item 11 is included in the Proxy Statement beginning with the section under the heading "Executive Compensation Summary Compensation Table" beginning on page 15 and continuing through page 25, excluding the "Compensation and Executive Personnel Committees' Report on Executive Compensation," and is incorporated herein by reference pursuant to General Instruction G(3).

The Edison International Board of Directors and its Compensation and Executive Personnel Committee have been considering an exchange offer for outstanding affiliate options issued by Edison Mission Energy and Edison Capital. Such an exchange offer was reviewed and approved by the Edison International Board of Directors at its meetings in January and February of 2000, subject to final approval by the Edison International Compensation and Executive Personnel Committee of the offer terms and documentation. In anticipation of the exchange offer and/or future exercises of the affiliate options, Edison International accrued an additional $122 million at the end of the fourth quarter of 1999, which, in combination with previously planned accruals, resulted in an accrued balance of $299 million as of December 31, 1999.

Although a final decision has not been made on whether such an offer should be made or on the terms of any such offer, management does not believe that an exchange offer will be made on the schedule and terms that were reviewed by the Board of Directors and the Compensation and Executive Personnel Committee in January - February 2000. There will be an opportunity for exercises of affiliate options in an exercise window at some time in 2000, if affiliate options then remain outstanding. The determination of the values that eligible optionees could obtain by exercising their options in 2000 has not been completed. There can be no assurance that these values would be the same as the values that have been considered for an exchange offer; but management believes that the amounts previously accrued for an exchange offer and/or future exercises of the affiliate options would be adequate to cover amounts that may be paid out in 2000 under an exchange offer (if one is made) and/or affiliate option exercises.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information responding to Item 12 is included in the Proxy Statement under the headings "Stock Ownership of Directors and Executive Officers of Edison International and SCE" on pages 12 and 13 and "Stock Ownership of Certain Shareholders" on page 14, and is incorporated herein by reference pursuant to General Instruction G(3).

Item 13. Certain Relationships and Related Transactions

Information responding to Item 13 is included in the Proxy Statement under the heading "Certain Relationships and Transactions of Nominees and Executive Officers" on page 30, and is incorporated herein by reference pursuant to General Instruction G(3).

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) Financial Statements

The following items contained in the Annual Report are found on pages 29 through 67, and are incorporated by reference in this report.

Management's Discussion and Analysis of Results of Operations and Financial Condition
Responsibility for Financial Reporting
Report of Independent Public Accountants
Consolidated Statements of Income -- Years Ended December 31, 1999, 1998, and 1997
Consolidated Statements of Comprehensive Income -- Years Ended December 31, 1999, 1998, and 1997
Consolidated Balance Sheets -- December 31, 1999, and 1998
Consolidated Statements of Cash Flows -- Years Ended December 31, 1999, 1998 and 1997
Consolidated Statements of Changes in Shareholders' Equity -- Years Ended December 31, 1999, 1998 and 1997
Notes to Consolidated Financial Statements

(2) Report of Independent Public Accountants and Schedules Supplementing Financial Statements

The following documents may be found in this report at the indicated page numbers.

Schedules I through V, inclusive, except those referred to above, are omitted as not required or not applicable.

(3) Exhibits

See Exhibit Index on page 48 of this report.

(b) Reports on Form 8-K

October 6, 1999 Item 5: Other Events	Mohave Generating Station Environmental Litigation
October 29, 1999 Item 5. Other Events	$325M Cumulative Quarterly Income Preferred Securities
December 15, 1999 Item 5. Other Events	Closing of Commonwealth Edison Acquisition

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SUPPLEMENTAL SCHEDULES

To Edison International:

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in the 1999 Annual Report to Shareholders of Edison International incorporated by reference in this Form 10-K, and have issued our report thereon dated February 2, 2000. Our audits of the consolidated financial statements were made for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The supplemental schedules listed in Part IV of this Form 10-K, which are the responsibility of Edison International's management, are presented for purposes of complying with the Securities and Exchange Commission's rules and regulations, and are not part of the basic consolidated financial statements. These supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Los Angeles, California
February 2, 2000

Edison International

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF PARENT

CONDENSED BALANCE SHEETS

	December 31,	
	1999	1998
	(In thousands)	
Assets:		
Cash and equivalents	$ 5,562	$ 7,101
Other current assets	109,139	248,317
Total current assets	114,701	255,418
Investments in subsidiaries	7,253,922	4,946,607
Other deferred debits	5,053	295
Total assets	$7,373,676	$5,202,320
Liabilities and Shareholders' Equity:		
Accounts payable	$ 1,849	$ 195
Other current liabilities	606,036	185,577
Total current liabilities	607,885	185,772
Long-term debt	744,556	—
Other long-term liabilities	850,516	—
Other deferred credits	1,616	837
Common shareholders' equity	5,169,103	5,015,711
Total liabilities and shareholders' equity	$7,373,676	$5,202,320

Edison International

CONDENSED STATEMENTS OF INCOME
For the Years Ended December 31, 1999, 1998, and 1997

	1999	1998	1997
	(In thousands, except per-share amounts)		
Operating revenue and other income.	$ 73,892	$ 52,784	$ 44,922
Operating expenses and interest expense	114,447	67,907	71,536
Loss before equity in earnings of subsidiaries	(40,555)	(15,123)	(26,614)
Equity in earnings of subsidiaries	663,585	683,286	726,470
Net income	$ 623,030	$668,163	$699,856
Weighted-average shares of common stock outstanding	347,551	359,205	400,396
Basic earnings per share	$1.79	$ 1.86	$ 1.75
Diluted earnings per share	$1.79	$ 1.84	$ 1.73

Edison International

SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF PARENT (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999, 1998, and 1997

	1999	1998	1997
		(In thousands)	
Cash Flows From Operating Activities	$ 137,336	$ (131,187)	$ (19,894)
Cash Flows From Financing Activities	(113,581)	(125,298)	258,920
Cash Flows From Investing Activities	(25,294)	(10,017)	(112)
Increase (Decrease) in cash and equivalents	(1,539)	(266,502)	238,914
Cash and equivalents at beginning of period	7,101	273,603	34,689
Cash and Equivalents at the End of Period	$ 5,562	$ 7,101	$ 273,603
Cash dividends received from Southern California Edison Company	$ 663,282	$1,103,574	$1,841,230

Edison International

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

For the Year Ended December 31, 1999

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of period
	(In thousands)				
Group A:					
Uncollectible accounts					
Customers	$ 21,638	$ 30,013	$ —	$ 20,568	$ 31,083
All other	2,634	1,288	—	913	3,009
Total	$ 24,272	$ 31,301	$ —	$ 21,481(a)	$ 34,092
Group B:					
DOE Decontamination and Decommissioning	$ 39,419	$ —	$ (134)(b)	$ 4,695(c)	$ 34,590
Purchased-power settlements	129,697	466,043	—	32,281(d)	563,459
Pension and benefits	239,668	48,894	21,674(e)	77,335(f)	232,901
Maintenance accrual	26,053	37,673	54	38,116	25,664
Insurance, casualty and other	80,493	37,674	—	42,043(g)	76,124
Total	$ 515,330	$590,284	$21,594	$194,470	$932,738

(a) Accounts written off, net.
(b) Represents revision to estimate based on actual billings.
(c) Represents amounts paid.
(d) Represents the amortization of the liability established for purchased-power contract settlement agreements.
(e) Primarily represents transfers from the accrued paid absence allowance account for required additions to the comprehensive disability plan accounts.
(f) Includes pension payments to retired employees, amounts paid to active employees during periods of illness and the funding of certain pension benefits.
(g) Amounts charged to operations that were not covered by insurance.

Edison International

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

For the Year Ended December 31, 1998

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of period
		(In thousands)			
Group A:					
Uncollectible accounts					
Customers	$ 24,525	$ 21,570	—	$ 24,457	$ 21,638
All other	48,098	2,273	—	47,737	2,634
Total	$ 72,623	$ 23,843	$ —	$ 72,194(a)	$ 24,272
Group B:					
DOE Decontamination and Decommissioning	$ 44,336	$ —	$ (89)(b)	$ 4,828(c)	$ 39,419
Purchased-power settlements	145,640	—	—	15,943(d)	129,697
Pension and benefits	211,200	170,743	18,988 (e)	161,263(f)	239,668
Maintenance accrual	21,209	10,663	263	6,082	26,053
Insurance, casualty and other	84,253	70,727	—	74,487(g)	80,493
Total	$506,638	$252,133	$19,162	$262,603	$515,330

(a) Accounts written off, net.
(b) Represents revision to estimate based on actual billings.
(c) Represents amounts paid.
(d) Represents the amortization of the liability established for purchased-power contract settlement agreements.
(e) Primarily represents transfers from the accrued paid absence allowance account for required additions to the comprehensive disability plan accounts.
(f) Includes pension payments to retired employees, amounts paid to active employees during periods of illness and the funding of certain pension benefits.
(g) Amounts charged to operations that were not covered by insurance.

Edison International

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

For the Year Ended December 31, 1997

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of period
			(In thousands)		
Group A:					
Uncollectible accounts					
Customers	$ 24,466	$ 20,826	—	$ 20,767	$ 24,525
All other	24,189	24,570	—	661	48,098
Total	$ 48,655	$ 45,396	$ —	$ 21,428(a)	$ 72,623
Group B:					
DOE Decontamination and Decommissioning	$ 48,789	$ —	$ 1,089(b)	$ 5,542(c)	$ 44,336
Purchased-power settlements	107,700	—	67,320(d)	29,380(e)	145,640
Pension and benefits	180,927	102,193	17,624(f)	89,544(g)	211,200
Maintenance accrual	17,178	11,149	—	7,118	21,209
Insurance, casualty and other	86,509	63,541	—	65,797(h)	84,253
Total	$441,103	$176,883	$86,033	$197,381	$506,638

(a) Accounts written off, net.
(b) Represents revision to estimate based on actual billings.
(c) Represents amounts paid.
(d) Represents payments to be made under agreement to terminate a purchased-power contract.
(e) Represents the amortization of the liability established for purchased-power contract settlement agreements.
(f) Primarily represents transfers from the accrued paid absence allowance account for required additions to the comprehensive disability plan accounts.
(g) Includes pension payments to retired employees, amounts paid to active employees during periods of illness and the funding of certain pension benefits.
(h) Amounts charged to operations that were not covered by insurance.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edison International

By: Kenneth S. Stewart

Kenneth S. Stewart
Assistant General Counsel

Date: March 29, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officer:		
John E. Bryson*	Chairman of the Board, President, Chief Executive Officer and Director	March 29, 2000
Principal Financial Officer:		
Theodore F. Craver, Jr.*	Senior Vice President, Treasurer and Chief Financial Officer	March 29, 2000
Controller or Principal Accounting Officer:		
Thomas M. Noonan*	Vice President and Controller	March 29, 2000
Board of Directors:		
Winston H. Chen*	Director	March 29, 2000
Warren Christopher*	Director	March 29, 2000
Stephen E. Frank*	Director	March 29, 2000
Joan C. Hanley*	Director	March 29, 2000
Carl F. Huntsinger*	Director	March 29, 2000
Charles D. Miller*	Director	March 29, 2000
Luis G. Nogales*	Director	March 29, 2000
Ronald L. Olson*	Director	March 29, 2000
James M. Rosser*	Director	March 29, 2000
Robert H. Smith*	Director	March 29, 2000
Thomas C. Sutton*	Director	March 29, 2000
Daniel M. Tellep*	Director	March 29, 2000
Edward Zapanta*	Director	March 29, 2000

*By: Kenneth S. Stewart

Kenneth S. Stewart
Assistant General Counsel

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Articles of Incorporation of Edison International dated May 7, 1996 (File No. 1-9936, filed as Exhibit 3.1 to Form 10-K for the year ended December 31, 1998)*
3.2	Certificate of Determination of Series A Junior Participating Cumulative Preferred Stock of Edison International dated November 21, 1998 (Form 8-A dated November 21, 1996)*
3.3	Amended Bylaws of Edison International as adopted by the Board of Directors on February 17, 2000
Edison International	
4.1	Subordinated Indenture dated as of July 26, 1999 (File No. 1-9936, filed as Exhibit 4.1 to Form 8-K dated July 26, 1999)*
4.2	Supplemental Indenture No. 1 dated as of July 26, 1999 (File No. 1-9936, filed as Exhibit 4.2 to Form 8-K dated July 26, 1999)*
4.3	Amended and Restated Trust Agreement dated as of July 26, 1999 (File No. 1-9936, filed as Exhibit 4.3 to Form 8-K dated July 26, 1999)*
4.4	Senior Indenture dated September 28, 1999 (File No. 1-9936, filed as Exhibit 4.1 to Form 10-Q for the quarter ended September 30, 1999)*
4.5	Supplemental Indenture No. 1 dated September 28, 1999 (File No. 1-9936, filed as Exhibit 4.2 to Form 10-Q for the quarter ended September 30, 1999)*
4.6	Supplemental Indenture No. 2 dated as of October 29, 1999 (File No. 1-9936, filed as Exhibit 4.1 to Form 8-K dated October 29, 1999)*
4.7	Amended and Restated Trust Agreement dated as of October 29, 1999 (File No. 1-9936, filed as Exhibit 4.2 to Form 8-K dated October 29, 1999)*
Southern California Edison Company	
4.8	SCE First Mortgage Bond Trust Indenture, dated as of October 1, 1923 (Registration No. 2-1369)*
4.9	Supplemental Indenture, dated as of March 1,1927 (Registration No. 2-1369)*
4.10	Third Supplemental Indenture, dated as of June 24, 1935 (Registration No. 2-1602)*
4.11	Fourth Supplemental Indenture, dated as of September 1, 1935 (Registration No. 2-4522)*
4.12	Fifth Supplemental Indenture, dated as of August 15, 1939 (Registration No. 2-4522)*
4.13	Sixth Supplemental Indenture, dated as of September 1, 1940 (Registration No. 2-4522)*
4.14	Eighth Supplemental Indenture, dated as of August 15, 1948 (Registration No. 2-7610)*
4.15	Twenty-Fourth Supplemental Indenture, dated as of February 15, 1964 (Registration No. 2-22056)*
4.16	Eighty-Eighth Supplemental Indenture, dated as of July 15, 1992 (File No. 1-2313 Form 8-K dated July 22, 1992)*
4.17	Indenture dated as of January 15, 1993 (File No. 1-2313, Form 8-K dated January 28, 1993)*
Edison Mission Energy (EME)	
4.18	Copy of Global Debenture representing EME's 9-7/8% Junior Subordinated Deferrable Interest Debentures, Series A, Due 2024 (File No. 1-13434, filed as Exhibit 4.1 to Form 10-K for the year ended December 31, 1994)*
4.19	Indenture dated as of November 30, 1994 (File No. 1-13434, Form 10-K for the year ended December 31, 1994)*
4.20	First Supplemental Indenture dated as of November 30, 1994 (File No. 1-13434, filed as Exhibit 4.2.1 to Form 10-K for the year ended December 31, 1994)*
4.21	Indenture dated as of June 28, 1999 (File No. 1-13434, filed as Exhibit 10.63 to Form 10-Q for the quarter ended June 30, 1999)*
4.22	First Supplemental Indenture dated as of June 28, 1999 (File No. 1-13434, filed as Exhibit 10.63 to Form 10-Q for the quarter ended June 30, 1999)*

EXHIBIT INDEX

Exhibit Number	Description
10.1	1981 Deferred Compensation Agreement (File No. 1-2313, filed as Exhibit 10.2 to Form 10-K for the year ended December 31, 1981)*
10.2	1985 Deferred Compensation Agreement for Executives (File No. 1-2313, filed as Exhibit 10.3 to Form 10-K for the year ended December 31, 1985)*
10.3	1985 Deferred Compensation Agreement for Directors (File No. 1-2313, filed as Exhibit 10.4 to Form 10-K for the year ended December 31, 1986)*
10.4	Director Deferred Compensation Plan (File No. 1-9936, filed as Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 1998)*
10.5	Director Grantor Trust Agreement (File No. 1-9936, filed as Exhibit 10.10 to Form 10-K for the year ended December 31, 1995)*
10.6	Executive Deferred Compensation Plan (File No. 1-9936, filed as Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 1998)*
10.7	Executive Grantor Trust Agreement (File No. 1-9936, filed as Exhibit 10.12 to Form 10-K for the year ended December 31, 1995)*
10.8	Executive Supplemental Benefit Program as amended effective January 20, 1990 (File No. 1-9936, filed as Exhibit 10.2 to Form 10-Q for the quarter ended September 20, 1999)*
10.9	Executive Retirement Plan as amended effective April 1, 1999 (File No. 1-9936, filed as Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 1999)*
10.10	Executive Incentive Compensation Plan (File No. 1-9936, filed as Exhibit 10.12 to Form 10-K for the year ended December 31, 1997)*
10.11	Executive Disability and Survivor Benefit Program (File No. 1-9936, filed as Exhibit 10.22 to Form 10-K for the year ended December 31, 1994)*
10.12	Retirement Plan for Directors as amended effective February 19, 1998 (File No. 1-9936, filed as Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 1998)*
10.13	Officer Long-Term Incentive Compensation Plan as amended effective January 1, 1998 (File No. 1-9936, filed as Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 1998)*
10.13.1	Form of Agreement for 1989-1995 Awards under the Officer Long-Term Incentive Compensation Plan (File No. 1-9936, filed as Exhibit 10.21.1 to Form 10-K for the year ended December 31, 1995)*
10.13.2	Form of Agreement for 1996 Awards under the Officer Long-Term Incentive Compensation Plan (File No. 1-9936, filed as Exhibit 10.16.2 to Form 10-K for the year ended December 31, 1996)*
10.13.3	Form of Agreement for 1997 Awards under the Officer and Management Long-Term Incentive Compensation Plans (File No. 1-9936, filed as Exhibit 10.16.3 to Form 10-K for the year ended December 31, 1997)*
10.14	Equity Compensation Plan (File No. 1-9936, filed as Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 1998)*
10.14.1	Form of Agreement for 1998 Employee Awards under the Equity Compensation Plan (File No. 1-9936, filed as Exhibit 10.4 to Form 10-Q for the quarter ended June 30, 1998)*
10.14.2	Form of Agreement for 1998 Director Awards under the Equity Compensation Plan (File No. 1-9936, filed as Exhibit 10.5 to Form 10-Q for the quarter ended June 30, 1998)*
10.14.3	Form of Agreement for 1999 Employee Awards (File No. 1-9936, filed as Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 1999)*
10.14.4	Form of Agreement for 1999 Director Awards under the Equity Compensation Plan (File No. 1-9936, filed as Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 1999)*

EXHIBIT INDEX

Exhibit Number	Description
10.15	Estate and Financial Planning Program as amended April 1, 1999 (File No. 1-9936, filed as Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 1999)*
10.16	Option Gain Deferral Plan (File No. 1-9936, filed as Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 1998)*
10.17	Employment Letter Agreement with Bryant C. Danner (File No. 1-9936, filed as Exhibit 10.27 to Form 10-K for the year ended December 31, 1992)*
10.18	Employment Letter Agreement with Stephen E. Frank (File No. 1-9936, filed as Exhibit 10.25 to Form 10-K for the year ended December 31, 1995)*
10.19	Employment Letter Agreement with Edward R. Muller (File No. 1-9936, filed as Exhibit 10.31 to Form 10-K for the year ended December 31, 1994)*
10.20	Election Terms for Warren Christopher (File No. 1-9936, filed as Exhibit 10.22 to Form 10-K for the year ended December 31, 1997)*
10.21	Dispute resolution amendment of 1981 Executive Deferred Compensation Plan, 1985 Executive and Director Deferred Compensation Plans and Executive Supplemental Benefit Program (File No. 1-9936, filed as Exhibit 10.21 to Form 10-K for the year ended December 31, 1998)*
11.	Computation of Primary and Fully Diluted Earnings Per Share
12.	Computation of Ratios of Earnings to Fixed Charges
13.	Selected portions of the Annual Report to Shareholders for year ended December 31, 1999
21.	Subsidiaries of the Registrant
23.	Consent of Independent Public Accountants - Arthur Andersen LLP
24.1	Power of Attorney
24.2	Certified copy of Resolution of Board of Directors Authorizing Signature
27.	Financial Data Schedule

---

* Incorporated by reference pursuant to Rule 12b-32.

(THIS PAGE INTENTIONALLY LEFT BLANK)

(THIS PAGE INTENTIONALLY LEFT BLANK)