1989 Annual Report

SCEcorp

Docket # 50-206
Accession # 9006200538
Date 6/15/90 of Ltr
Regulatory Docket File

A Corporate Profile

SCEcorp is the parent holding company of Southern California Edison Company, one of the nation's largest electric utilities, and four nonutility subsidiaries that together form The Mission Group. With its headquarters in Rosemead, California, SCEcorp is primarily an energy-services company whose subsidiaries have combined assets of $15.4 billion.

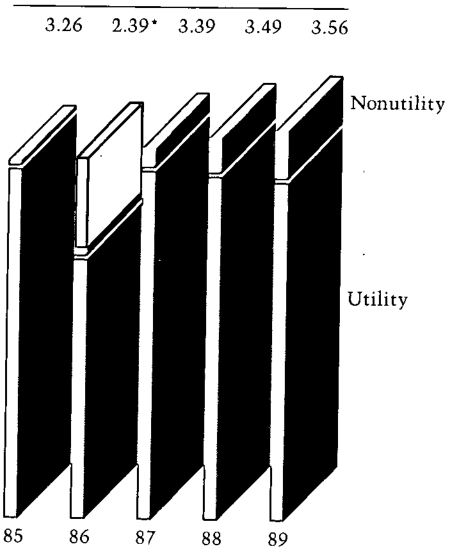
SCEcorp's largest subsidiary is Edison, a 103-year-old regulated utility that provides reliable electric service to 3.9 million customers in Central and Southern California. More than 10 million people live within its 50,000-square-mile service territory, which has one of the nation's most prosperous and diversified economies.

The Mission Group includes Mission Energy Company, Mission First Financial, Mission Land Company and Mission Power Engineering Company. They operate in 13 states and are generally engaged in businesses related to the corporation's expertise in the energy industry. These nonutility subsidiaries focus on such areas as electric power generation, engineering and construction of electric facilities, real estate development, and financial investments.

SCEcorp Highlights

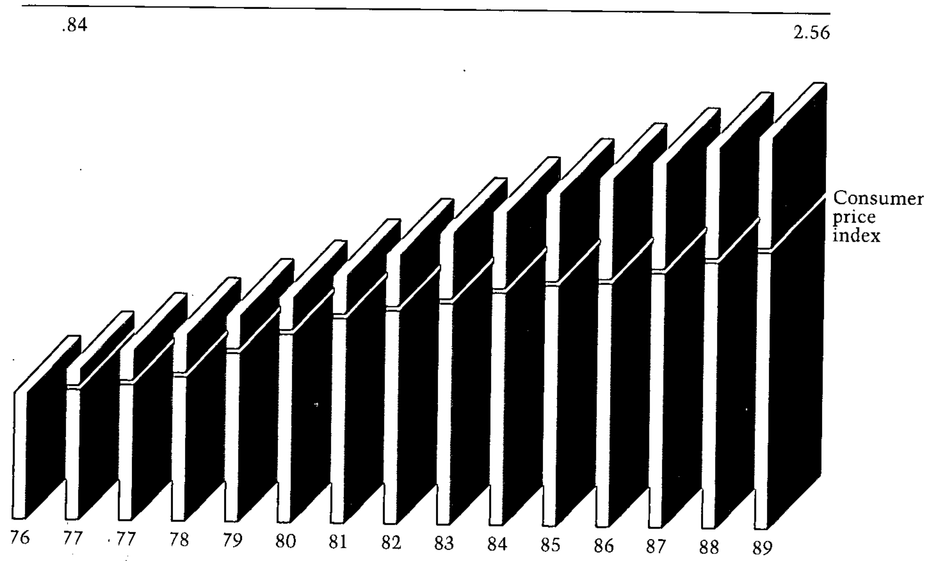
		1989	1988	Increase (decrease)	Five-year compound annual growth rate
For the year (000):	Revenue	**$6,904,386**	$6,252,719	10.4%	7.1%
	Net income	**$778,241**	$761,831	2.2	3.4
	Common stock dividends paid	**$550,524**	$530,409	3.8	6.3
	Weighted-average shares of common stock	**218,463**	218,332	0.1	1.0
At year end:	Assets (000)	**$15,443,051**	$14,866,276	3.9	5.3
	Liabilities (000)	**$8,198,907**	$8,010,685	2.3	6.2
	Common shareholders' equity (000)	**$5,288,687**	$5,064,848	4.4	4.5
	Common shareholders of record	**145,870**	148,427	(1.7)	(2.1)
	Employees	**17,010**	16,995	0.1	0.2
Per share:	Earnings	**$3.56**	$3.49	2.0	2.3
	Dividends (current rate)	**$2.56**	$2.48	3.2	4.6
	Book value	**$24.21**	$23.18	4.4	4.0
	Market price	**$39⅜**	$32⅜	21.6	11.6
Financial ratios:	Rate of return on common equity	**15.0%**	15.3%		
	Dividend payout (declared basis)	**71.3%**	70.3%		
	Dividend yield	**6.5%**	7.7%		
	Price-earnings ratio	**11.1**	9.3		
	Total shareholder return (price appreciation and dividends)	**30.1%**	14.4%		

Earnings Per Share (SCEcorp)
In dollars



Restated to reflect disallowance of nuclear-plant construction costs.

Annual Dividend Rate Per Share (SCEcorp)
In dollars



The Year at a Glance

SCEcorp's earnings per share of common stock increased to a record $3.56 in 1989. This was the ninth consecutive year of reported record earnings. However, new accounting rules effective in 1988 resulted in the restatement to a lower level of 1986 earnings.

The shareholders of SCEcorp, Edison and San Diego Gas & Electric Company (SDG&E) approved the merger of SDG&E into Edison, SCEcorp's utility subsidiary. SCEcorp expects a decision on the proposed merger from the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC) in late 1990.

SCEcorp declared its 14th increase in common stock dividends in 13 years; the annual dividend is now $2.56 per share.

SCEcorp's earnings rose to a record $778.2 million and revenue to a record $6.9 billion.

Edison's revenue increased 10% to $6.5 billion, although its earnings decreased 0.9% to $678.6 million, or $3.10 per share.

The Mission Group had 31% higher earnings in 1989, contributing $99.9 million, or 46 cents per share. The nonutility subsidiaries contributed 13% of SCEcorp's earnings.

SCEcorp common stock traded at an all-time high of $41 per share on December 27, 1989. SCEcorp's common shareholders had a total return of 30% from stock price appreciation and dividends in 1989.

The utility's sales to retail customers increased 2.6% to 67.6 billion kilowatt-hours (kwh); total electric sales, including those to municipal and utility customers, rose 1.8% to 69.1 billion kwh.

The utility recorded a net gain of 109,293 new customers, the third-largest annual increase in Edison's history.

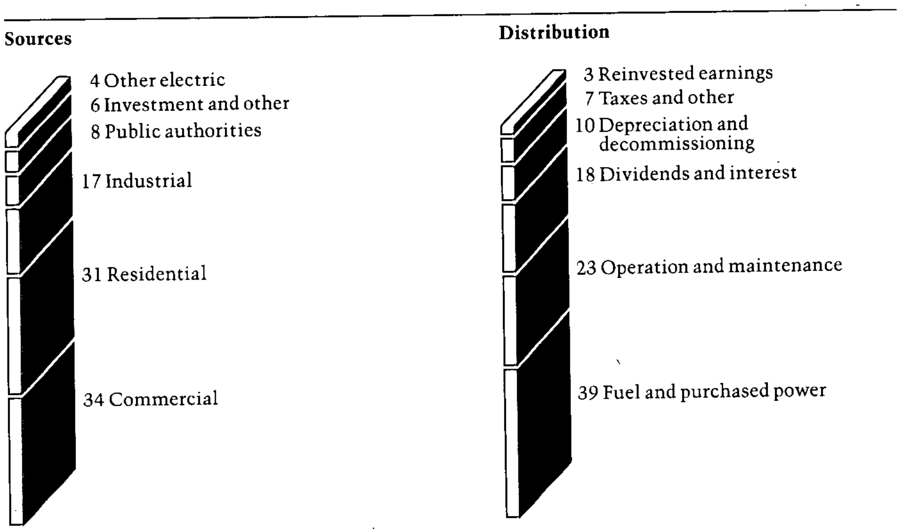
SCEcorp's recorded return on common equity was 15.0%.

Edison agreed to cut nitrogen-oxide emissions from its power plants in the Los Angeles Basin by 76% over the next 10 years at a projected cost of $630 million.

The CPUC authorized rate changes in 1989 that increased Edison's rates by an average of 5.0% and revenue by $299 million annually.

Edison established "good-faith" goals to increase the number of qualified minorities and women in top corporate positions, to award more business contracts to minority- and women-owned businesses and to sharply increase philanthropic contributions to low-income, minority and women's organizations.

Sources and Distribution of Revenue (SCEcorp)
In percent



Record Financial Results

In 1989, our company again achieved record earnings and increased dividends. SCEcorp stock reached an all-time high of $41, reflecting our position as one of the nation's most financially sound utility holding companies. SCEcorp shareholders realized a total return from stock appreciation and dividends of 30% in 1989. For the decade as a whole, total return averaged more than 20% annually. While achieving these record financial results, we continued to be an environmentally and socially responsible company.

Pending Merger

Southern California Edison Company (Edison), our electric utility subsidiary, made steady progress in its proposed merger with San Diego Gas & Electric Company (SDG&E). Shareholders of the companies approved the merger at their annual meetings in April. Under the merger agreement, each SDG&E common share will be exchanged for 1.3 newly issued SCEcorp common shares. Existing SDG&E preferred and preference shares will be exchanged for newly issued SCEcorp preferred and preference shares.

Edison and SDG&E have filed detailed testimony with the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC), both of which must approve the merger. Numerous parties, including California's attorney general, have intervened to oppose the merger. The consumer advocacy division of the CPUC also has opposed the merger in its current form. We expect that the lengthy hearings will be completed and final decisions issued by the CPUC and FERC before the end of 1990.

We have demonstrated in our regulatory filings that the merger will produce $1.7 billion in savings in the decade of the 1990s and reduce electric rates for customers of Edison and SDG&E. In addition, it will mean better air quality, improved service and increased community support for San Diego. However, the merger continues to face opposition in the San Diego area, largely because of the loss of a hometown headquarters. In response, we have made great efforts to explain how the merger will benefit the customers, shareholders, employees and communities served by both companies.

Cost Containment/ Operating Expenses

In 1987, Edison adopted a comprehensive five-year cost-containment program to help keep customer electric rates down. By 1992, the program's goal is to reduce Edison's annual costs by $900 million from what they otherwise would have been. In 1989, we again achieved our cost-containment goals and, except for one-time costs associated with the regulatory proceedings in the SDG&E merger, kept increases in operating and maintenance expenses to 1.5 percentage points below the rate of inflation.

Generating Resources

The San Onofre Nuclear Generating Station was an excellent performer again in 1989, producing 16.1 billion kilowatt-hours of electricity, the fifth-highest output of 69 nuclear generating sites in the nation. The plant also was recognized by the Institute of Nuclear Power Operations for excellence and quality of operations and safety. Also, the American Nuclear Society honored San Onofre for outstanding performance in nuclear operations. We still rely on nine different sources of energy to produce electricity – more than any other utility. Nuclear, gas- and coal-fired plants remain our primary generating resources. In 1989, we burned more oil than anticipated because of gas-supply curtailments. An increasing shortage of gas in Southern California has spurred our participation in projects to construct new pipelines to bring in gas from Wyoming and Canada.

Quality Service

Quality customer service and low costs are keys to success in our changing business environment. A top priority again in 1989 has been to persuade some large commercial and industrial customers to continue to purchase their electric requirements from Edison rather than bypass the Edison system. These customers in the past often have had an incentive to leave the Edison system because rates were higher than the company's actual cost of service to them. With the support of the CPUC, the company has made considerable progress in developing rates and programs to retain these large customers. The company's success can be measured by 117 proposed bypass generating projects representing $195 million in annual revenue that were deferred or canceled in 1989.

Environmental and Social Issues

Our new 23,000-square-foot Customer Technology Application Center opened in January 1990. The center demonstrates how energy-efficient electrotechnologies – such as ultraviolet curing, radio-frequency drying and state-of-the-art lighting – can help our customers find more efficient ways to run their operations, conserve energy, reduce costs and meet increasingly stringent air-quality standards in our service territory.

After lengthy negotiations with the South Coast Air Quality Management District (AQMD), Edison agreed to install additional emission controls on our oil and gas power plants in the Los Angeles Basin. This will reduce Edison's nitrogen-oxide emissions by 76% over the next 10 years.

Our plants contribute about 3% of these emissions in the Los Angeles Basin, compared with 72% from vehicles powered by combustion engines. In 1989, we led efforts to improve air quality through electric vehicle research and commercialization. Over the next five years we will help put 10,000 electric vehicles on the road, aiding the implementation of the AQMD plan to have millions of these vehicles in the Los Angeles area by the year 2010.

Edison also strengthened its commitment to equal job opportunity in 1989, pledging a good-faith effort to have 30% of its top 500 positions and 20% of its top 100 jobs held by minorities and women by the year 2000. We also have pledged an effort to award 30% of our outside business contracts to minority- and women-owned businesses by 1998.

The Mission Group

The Mission Group comprises our nonutility subsidiaries: Mission Energy, Mission First Financial, Mission Land and Mission Power Engineering. They conduct business primarily in energy-related fields, which is consistent with our policy of diversifying into areas where we have expertise. All of these subsidiaries were profitable in 1989; the largest, Mission Energy, was the strongest performer. Together, they contributed 13% of SCEcorp's total earnings, up from 10% in 1988. Their outlook is for continued growth and profitability.

Management Changes

In 1989, Edison elected four new officers: Ronald Daniels, vice president, Revenue Requirements; Lewis M. Phelps, vice president, Corporate Communications; Dr. Jacque J. Sokolov, vice president and medical director; and Diana L. Peterson-More, secretary of the corporation. Our commitment to strengthen overall managerial knowledge and experience by changing officer assignments was reflected in several new assignments. Senior Vice President Larry T. Papay moved from Nuclear Operations to oversee Information Services, Health Care and Corporate Administrative Services. He assumed the duties of P. L. Martin, who retired after 39 years of dedicated service to the company. Charles B. McCarthy Jr., and Robert H. Bridenbecker switched positions; Mr. McCarthy became vice president, Customer Service, while Mr. Bridenbecker became vice president and site manager, San Onofre Nuclear Generating Station. Harold B. Ray and Kenneth P. Baskin also exchanged positions, with Mr. Ray becoming vice president, Nuclear Engineering, Safety and Licensing, and Mr. Baskin becoming vice president, Fuel and Material Management.

Under our new Management Development Program, we have established formal training programs and cross-training assignments for talented middle managers with leadership potential to become senior company managers and officers.

H. Frederick Christie, president and chief executive officer of The Mission Group, retired on August 1 after 32 years of valuable service. David J. Fogarty, executive vice president of Edison and SCEcorp, assumed Mr. Christie's responsibilities.

We at SCEcorp look forward to the decade of the 1990s. With the good work of our able and dedicated employees, the wisdom and leadership of our officers and board of directors, and the continued support of you, our shareholders, our company will continue to be financially strong and creatively managed. As we face the challenges and opportunities of the 1990s, our foundation is solid and our future is bright.

Howard P. Allen
Chairman, President and
Chief Executive Officer

February 15, 1990

Southern California Edison Company

In 1989, Southern California Edison met its primary goals of serving customers well and providing shareholders with a competitive return. Edison also took steps to adapt to a changing business environment through its proposed merger with San Diego Gas & Electric Company (SDG&E) and by a continued commitment to quality service and cost control. The effective hard work and dedication of the company's 16,600 employees made all this possible.

Pending Merger with SDG&E

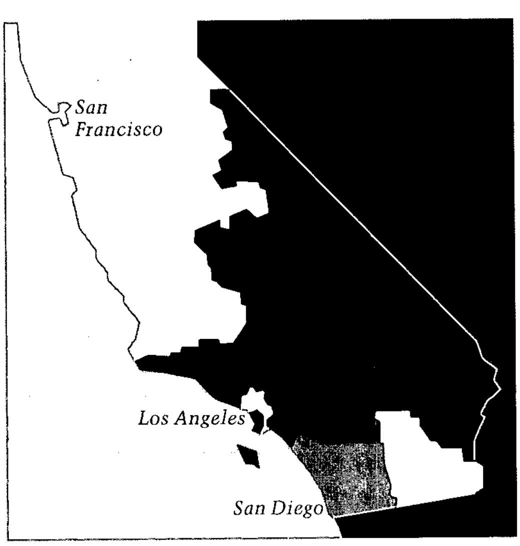
At their annual meetings in April 1989, the shareholders of SCEcorp, Edison and SDG&E approved the merger of Edison and SDG&E into a single utility to serve customers in Southern and Central California. The boards of directors of SCEcorp, Edison and SDG&E had agreed to the merger in late November 1988.

Merging Edison and its southern neighbor will result in a utility with an estimated $9 billion of annual revenue, 5 million customers, assets of $18 billion and a service territory of 54,100 square miles.

The merged company will be stronger financially and operationally than either utility standing alone and better able to compete in a changing business environment. The new company will produce more stable revenue and earnings, a more diverse customer base, better growth opportunities and overall savings of $1.7 billion in the 1990s.

These savings will result in lower electric rates for customers of both Edison and SDG&E. San Diego-area consumers also will benefit from improved service, better air quality and increased community support. Despite these benefits, various groups in the San Diego area have opposed the merger, in large part because they do not want to lose a hometown headquarters.

Edison's Service Territory



Edison serves more than 3.9 million customers in a 50,000-square-mile service area covering much of Central and Southern California. This service territory (shown in light blue) has one of the nation's most diversified and prosperous regional economies. To the south is the area served by San Diego Gas & Electric Company (shown in light gray).

In 1989, company representatives met repeatedly with San Diego leaders to respond to these concerns and discuss how the merger will benefit the community. This outreach program included frequent meetings with a wide variety of leaders from business, labor, government, charitable, minority and women's organizations.

The merger must be approved by the California Public Utilities Commission (CPUC), the Federal Energy Regulatory Commission (FERC) and other governmental regulatory agencies. To date, Edison has furnished more than 450,000 original documents responding to more than 7,000 questions from nearly 50 active parties involved in the regulatory proceedings. Intervenors will voice their concerns in state and federal regulatory hearings during 1990. This will include California's attorney general, the City of San Diego, various municipalities, out-of-state utilities and the CPUC's consumer advocacy division. Final decisions by the CPUC and FERC are expected before the end of the year.

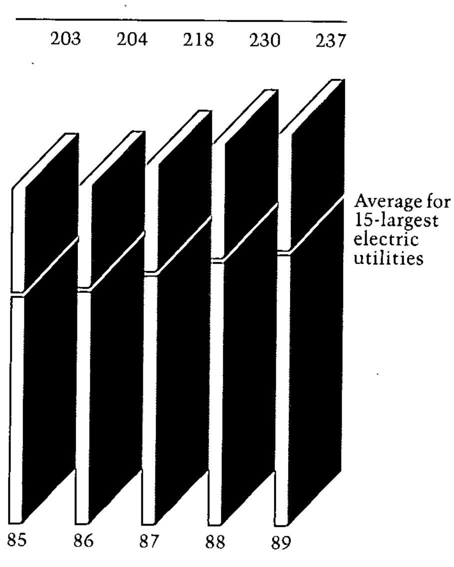
In anticipation of the merger, Edison held a series of transition planning meetings and orientation sessions for SDG&E employees. On several occasions, employees from many levels of SDG&E participated in extensive orientation programs at Edison's Rosemead headquarters and field locations. Employees from Edison completed a similar program at SDG&E headquarters. These efforts were designed to improve understanding of operations at both utilities and ensure a smooth and productive transition for all employees.

Growth in Electric Sales and Customers

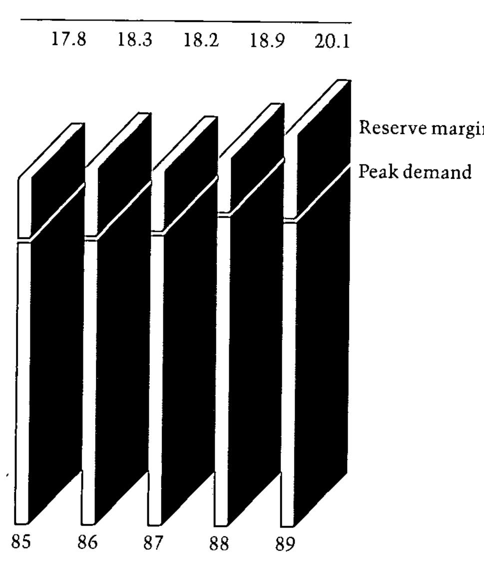
In 1989, Edison had a net gain of 109,293 new customers, the third-highest in its 103-year history. The company spent about $270 million for new facilities to serve these additional customers. Residential customers represented about 87% of this total growth. Over the next five years, Edison forecasts a net gain of approximately 450,000 customers.

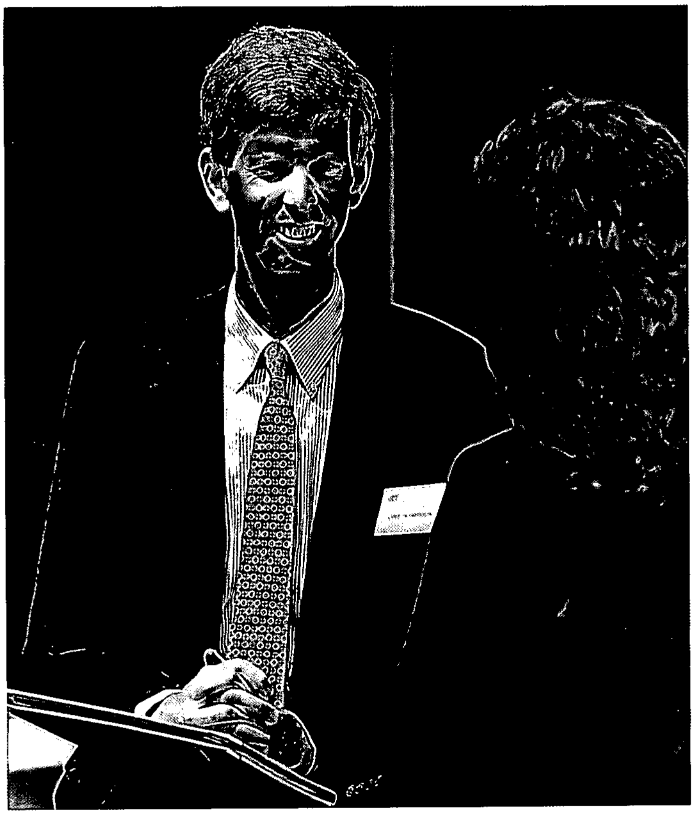
More customers helped boost Edison's revenue to a record $6.5 billion from $5.9 billion in 1988. Edison's retail electric sales increased 2.6% – to 67.6 billion kilowatt-hours (kwh) from 66.0 billion kwh in 1988. Total electric sales in 1989, including sales to other

Ratio of Customers to Employees (Utility)



Total Capacity, Peak Demand and Reserve Margin (Utility)
In thousands of megawatts





Orientation on the Pending Merger for San Diego Employees In preparation for the proposed merger with San Diego Gas & Electric Company (SDG&E), Edison held a series of planning meetings and orientation sessions for SDG&E employees. On several occasions, employees from many levels of SDG&E visited Edison's Rosemead headquarters and field locations. These efforts were designed to improve understanding of operations and corporate cultures at both utilities to insure a smooth and productive transition.

utilities and municipalities, rose 1.8% – to 69.1 billion kwh from 67.9 billion kwh in 1988. This increase was achieved despite a continuing decline in wholesale electric purchases by six municipal utility customers. Over the years, these customers have obtained an increasing proportion of their electric power from non-Edison sources.

In 1989, Edison's peak electricity demand was 15,632 megawatts (MW), set on July 20. This was the second-highest peak demand ever. The all-time mark of 15,987 MW was set on September 6, 1988.

Clean-Air Plan Adopted

In March, the South Coast Air Quality Management District (AQMD) approved a historic and far-reaching clean-air plan for the Los Angeles Basin. It is intended to bring the region of Los Angeles, Orange, Riverside and San Bernardino counties into compliance with federal clean-air standards by the year 2007. Under the plan, 120 different air-pollution requirements would impose extra costs on many businesses and consumers.

The AQMD also sought more stringent power-plant emission standards. After extensive negotiations with the AQMD staff, Edison agreed in August to cut nitrogen-oxide emissions 76% over the next 10 years by placing additional emission controls on its oil- and gas-fired generating units in the Los Angeles Basin. The company anticipates that these controls will require an investment of about $630 million over the next decade.

Better Service and A Cleaner Environment Through Research

As part of its planning for the future, Edison further developed research programs that focus on ways to use energy more efficiently and provide customers with better value and more choice for their energy dollar.

Electrotechnologies The steady growth of electricity usage in the economy reflects its value as a clean, efficient and versatile form of energy. In the 1990s, new technologies using electricity will benefit Edison's customers by cutting their costs, boosting productivity and helping them comply with new air-quality rules.

Edison opened its Customer Technology Application Center in January 1990. This 23,000-square-foot facility provides useful information on the most advanced energy technologies to industrial, commercial and residential customers. Industrial customers can learn the advantages of such processes as ultraviolet curing, microwave and radio-frequency heating and drying; commercial customers can learn about energy-efficient electric motors, heat pumps, lighting and new electric commercial-cooking technology; and residential customers and builders can see the electric "House of the Future," which includes the latest in energy-efficient electric appliances and home automation systems.

Edison also continues to support the use of electric vehicles in Southern California to reduce air pollution, traffic noise and gasoline consumption. At the same time, nighttime battery charging of these vehicles will increase off-peak electric load, resulting in more efficient use of Edison's generating capacity to the ultimate benefit of its customers.

In late 1989, Edison acquired 15 full-sized electric-powered vans. They will be loaned to Edison's major fleet customers in 1990 to demonstrate the performance and capabilities of electric vehicles. Edison also is sponsoring, with the Los Angeles Department of Water and Power, a project to have 10,000 electric vehicles operating in the Los Angeles Basin by 1995.

In 1989, the company's research program also continued to test a two-way electronic metering and communications network that links the utility with residential customers. These "smart" meters offer customers a variety of energy management and informational services. Eventually, this network could allow Edison to remotely connect and disconnect service, and offer time-of-use pricing and other services to its customers.

Focus on Cost Control and Productivity

Under a five-year cost-containment program established in 1987, the company seeks to reduce its annual costs by $900 million by 1992 from what they otherwise would have been. Edison again achieved its cost-containment goals in 1989 and, except for one-time costs to secure regulatory approvals of the SDG&E merger, kept increases in operating and maintenance expenses to 1.5 percentage points below the rate of inflation.

The company's success in controlling costs is exemplified by changes in its health-care program. Since 1980, Edison and other major U.S. companies have seen their medical costs rising at more than 20% annually. On January 1, 1989, Edison implemented an innovative and comprehensive flexible-benefits program, including a major change in health-care delivery, which gave employees the ability to choose the benefits best suited to their personal and family needs. The new health-care program reduced the growth in health-care costs from 23% in 1988 to zero percent in 1989.

These savings stemmed from more favorable rates negotiated with doctors and hospitals, a new system of managed care that reduces the number of unnecessary medical procedures, and a change in payment schedules for employees and their dependents. Overall, the new program continues to provide Edison employees with one of the best health-care programs in the nation.

During the year, the company continued to restructure and streamline various departments to increase work-force efficiency. Despite a significant increase in new customers, total employment at Edison in 1989 decreased by 33 employees. Edison ranks first among the nation's 15 largest electric utilities in the ratio of customers to employees.

A Strong Commitment to Quality Service

In 1989, Edison employees continued to demonstrate their commitment to quality service in field locations and offices throughout the service territory. Whenever severe winds and rainstorms struck, Edison emergency crews and other personnel mobilized quickly and worked around-the-clock to restore service. A new computerized system, implemented in 1989, has enhanced quality service by giving company personnel faster and more accurate information about customers affected by electric outages. As a result, the company can provide more timely assistance to its customers.

Edison's telephone centers handled more than 6.6 million calls from customers in 1989, a 24% increase over 1987. Furthermore, the number of customer calls outside regular business hours increased 22% in 1989, due to widespread publicity given Edison's 24-hour-a-day, 365-days-a-year telephone service. By interconnecting its telephone centers, Edison now can answer customer calls from anywhere in its 50,000-square-mile service territory with the first available representative. As a result, the average response time to calls is 30 seconds on a typical business day. The company also completed the consolidation of its telephone and customer accounting centers in 1989, reducing the locations from four to two. This consolidation has saved 55 positions and resulted in a more efficient use of personnel at the two remaining centers in Long Beach and San Bernardino. In addition, it saved customers about $1.8 million annually in operating costs.

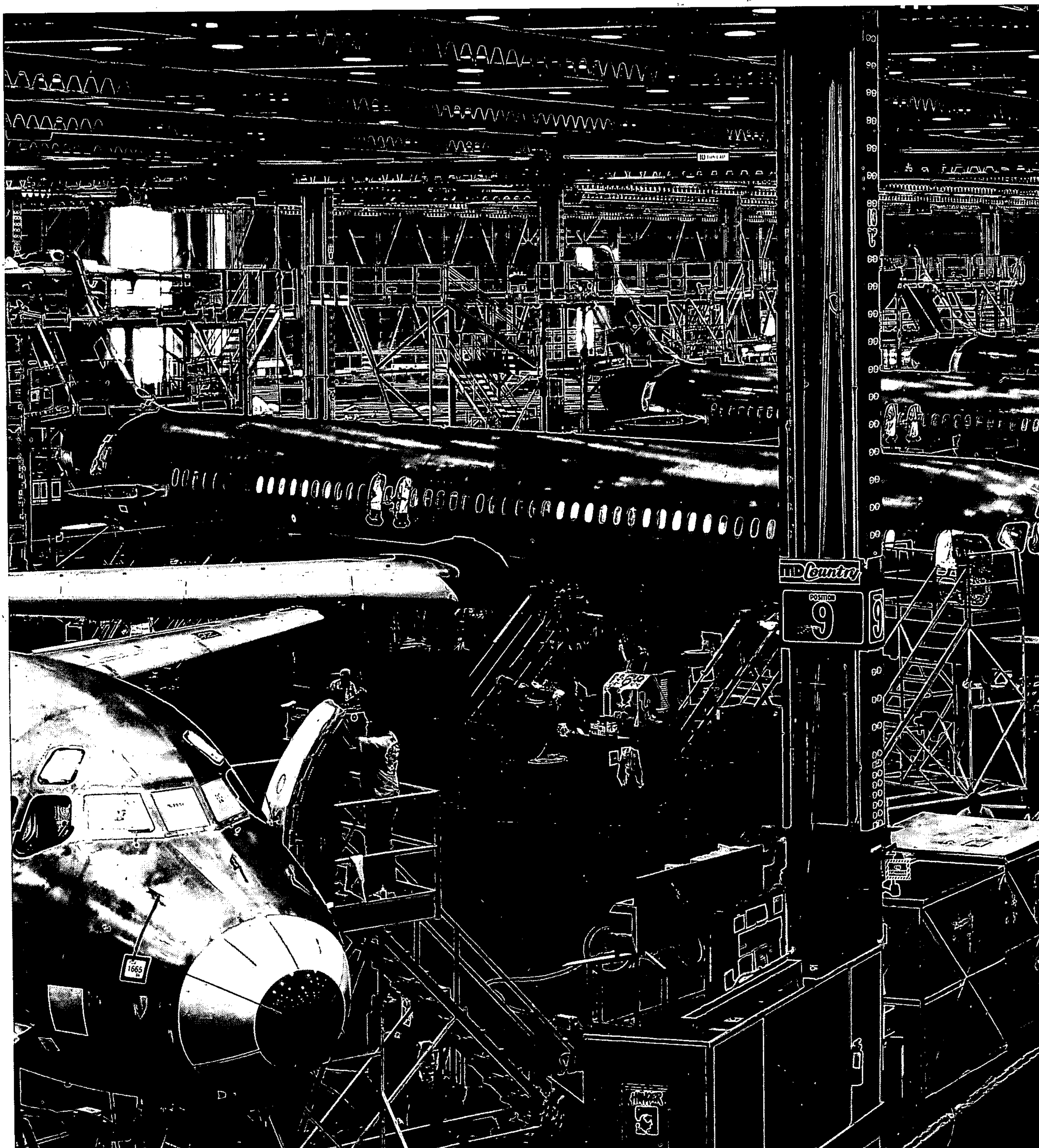
Reflecting the rapidly changing demographics of Southern California, the company has expanded service for its non-English-speaking customers by translating informational materials on billing, energy conservation and safety. Edison also has established toll-free telephone service with representatives fluent in Spanish, Chinese (Mandarin and Cantonese), Vietnamese, Cambodian and Korean.

Company representatives made numerous presentations to senior-citizen organizations and provided them with information about energy usage, emergency preparedness and safety. In addition, the company's customer-contact personnel referred more than 600 elderly customers who needed assistance – with medical care, meals and transportation – to various community organizations. Other major steps taken in 1989 to serve customers better included:

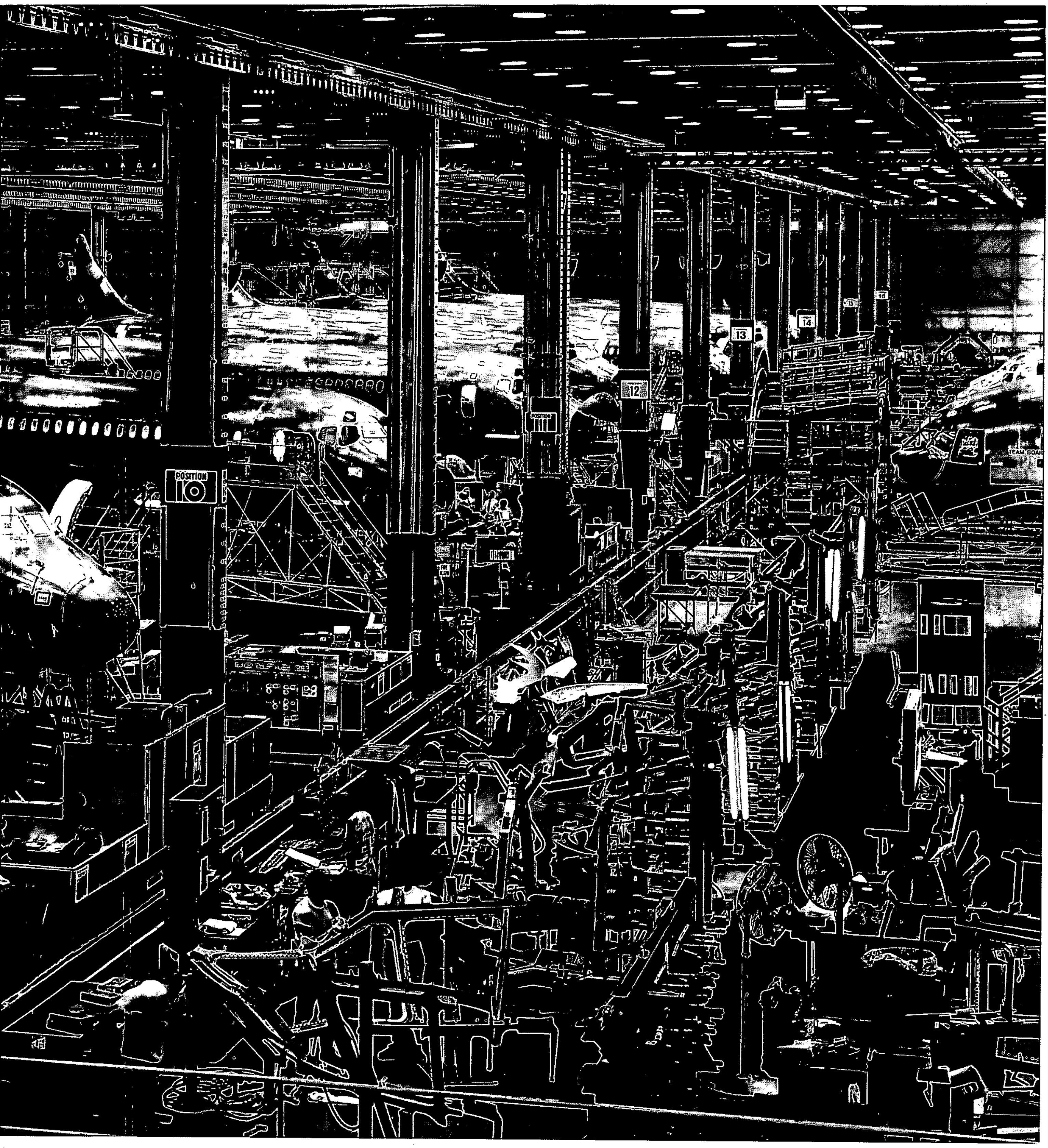
- assisting low-income and needy customers with various energy-management services, including bilingual help and free installation of energy-efficient equipment;
- promoting more efficient energy use by conducting 84,000 free energy surveys for residential customers and answering more than 100,000 customer calls received on Edison's toll-free conservation telephone number;
- helping to pay, for the seventh consecutive year, the winter electric bills of 12,000 low-income, elderly and disabled customers through Edison's Winter Energy Assistance Fund and generous voluntary contributions from customers;
- expanding programs that recognize and reward Edison's managers and employees whose suggestions increase productivity, lower costs or provide better service;
- offering a 24-hour, toll-free telephone number for speech- and hearing-impaired customers; and
- instituting a 15% discount on electric bills available to 740,000 residential customers eligible under a CPUC-authorized program for low-income households.

Specialized Service to Large Customers

Since the late 1970s, CPUC-regulated electric rates subsidized residential customers at the expense of many commercial and industrial customers. This gave many large customers an incentive to generate their own electricity – and leave the Edison system – because their electric bills were significantly higher than what their costs would have been with self-generation.



Service to a Large Customer The company is building a new substation and expanding another one to meet the growing electric needs of McDonnell Douglas Corporation's production facility for MD-80 commercial jets in Long Beach, California. Edison also helped the large aerospace customer cut its electricity bills more than $4 million annually by adapting its system to use higher voltage service.


POSITION
10
12
13
14
15
16
TEAM BOAR

With the support and cooperation of the CPUC, Edison has made substantial progress in achieving a more equitable pricing system. Over the past few years, the CPUC established rates that more closely reflect the costs of serving each customer class. In addition, the CPUC has given Edison the flexibility to negotiate special rates and services for large customers who otherwise would generate their own electricity. The loss of these commercial and industrial customers from the Edison system would increase electricity prices to the remaining customers – particularly residential ones – because the company's fixed costs would be spread over a smaller customer base.

Edison has met the service and energy-related needs of its large customers through various programs. For example, the company has developed a highly trained group of professionals to serve as individual contacts for its 230 largest customers. These customers represent about 20% of Edison's revenues. The company's service representatives advise customers on ways to cut costs, suggest economic alternatives to installing customer-owned generating facilities, and help provide means of meeting increasingly stringent air-quality standards in Southern California.

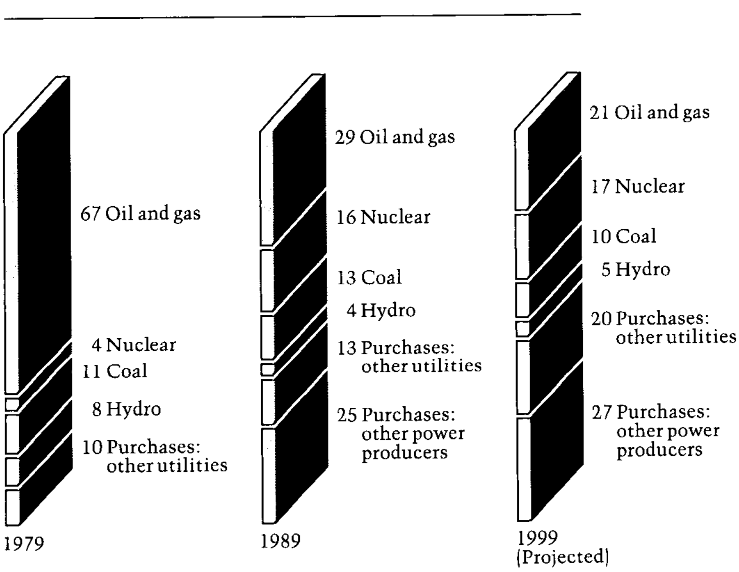
Because of these efforts, Edison's large commercial and industrial customers deferred or cancelled 117 proposed generating projects in 1989, representing about 2.5 billion kwh – or about $195 million – in annual sales for the company.

Planning for Flexibility and Diversity in Generating Resources

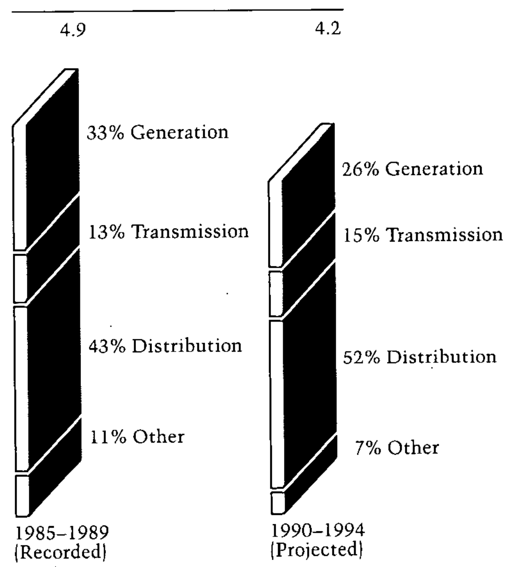
Edison provides reliable electric service to its customers by using nine different generating resources, more than any other electric utility in the world. This diversity gives the company considerable flexibility in adapting to volatile world energy markets.

In the coming decade, the company's resource planning strategy seeks to add new transmission capacity to gain access to low-cost power and avoid construction of costly new power plants. Overall, the emphasis will be on reducing costs through greater purchases of electricity, better energy management, efficiency improvements and repowering of existing oil- and gas-fueled power plants.

Generation Mix (Utility)
In percent



Construction Expenditures (Utility)
In billions of dollars



Nuclear Power Edison's nuclear plants in Southern California and Arizona generated 16% of customers' electricity needs. This nuclear energy saved customers the cost of more than 20 million barrels of oil or its equivalent in natural gas, resulting in fuel savings of about $280 million.

The three units at the San Onofre Nuclear Generating Station generated nearly 15% of the electricity used by Edison's customers. Edison owns 80% of the 450-MW Unit 1 and 75% of Units 2 and 3, which have a combined capacity of 2,200 MW. The company also manages and operates all three San Onofre units.

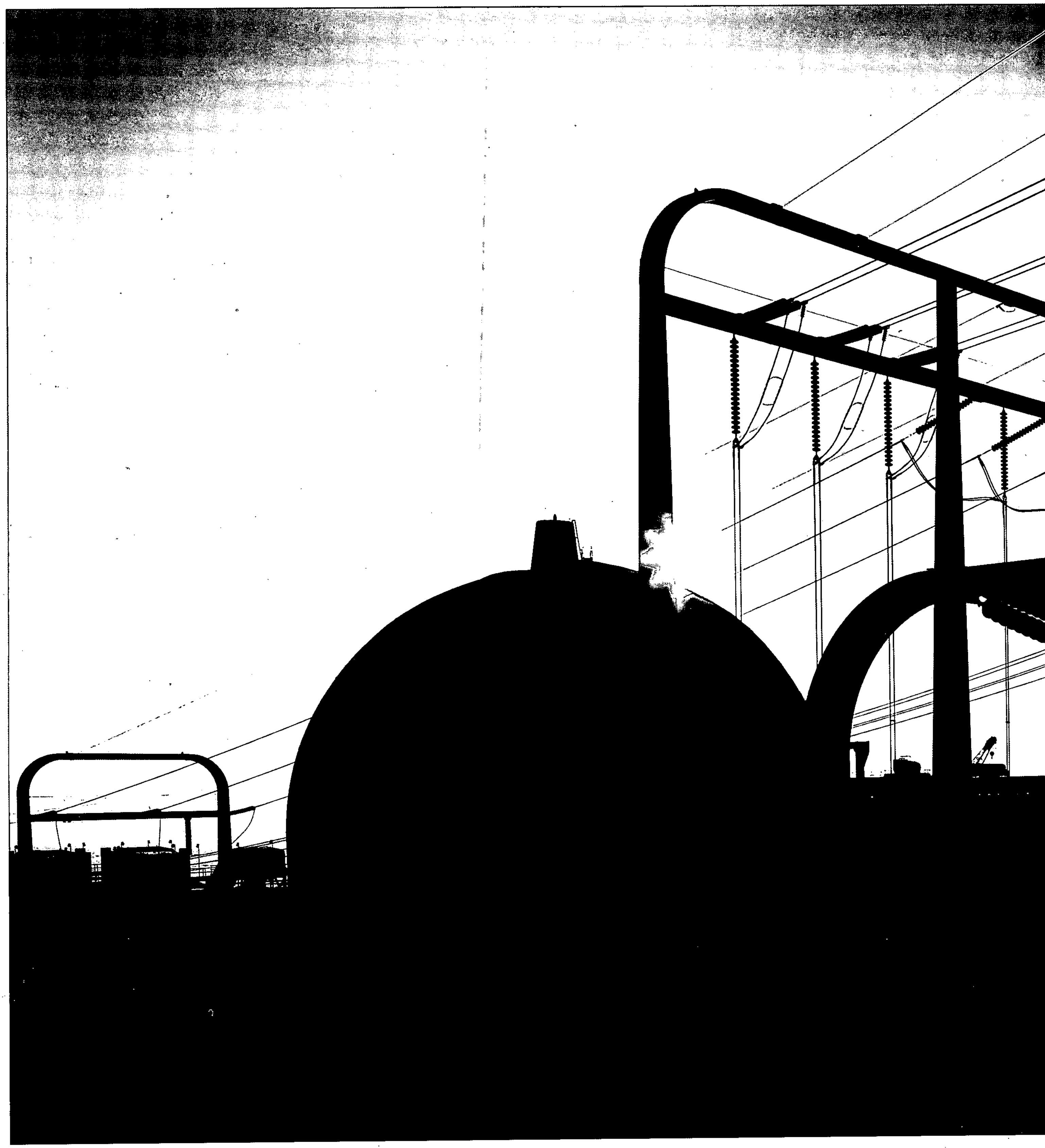
The three San Onofre units produced on average at 68% of their capacity for the year, exceeding the 1989 national average for nuclear plants. In 1989, Unit 1 was out of service for six months to complete its ninth refueling and to perform other maintenance and modifications, while Unit 2 completed its fourth refueling. Unit 3 operated at more than 94% of capacity in 1989, making it the fourth-highest producer of electricity among the nation's 110 nuclear units.

After completion of an extensive independent evaluation in April, the Institute of Nuclear Power Operations recognized Edison for achieving excellence in the operation of the San Onofre plant. In addition, the American Nuclear Society recognized San Onofre for reducing the number of reactor shutdowns with an award for outstanding performance in nuclear operations.

The company also owns a 15.8% interest in the Palo Verde Nuclear Generating Station near Phoenix, Arizona. The three 1,221-MW Palo Verde units are managed by Arizona Public Service Company (APS). After an excellent year of generating electricity in 1988, the three Palo Verde units had extended outages that significantly reduced production and increased costs in 1989. Units 1 and 3 experienced refueling and maintenance outages during most of the year. At the end of 1989 Unit 2 was in full operation, while Unit 3 completed its first refueling outage and returned to normal service in January 1990. Unit 1 is scheduled to complete its extended refueling and maintenance outage and return to service in Spring 1990. Because of these unexpected and extended outages, Edison's share of Palo Verde operating costs was approximately $8 million more in 1989 than expected. Edison is disappointed in the plant's extended outages and increased costs. As a result, Edison and other plant owners have been meeting with APS concerning improvement in the management and operation of the units.

Fossil-Fuel Power Plants Edison's 54 oil and natural gas units, with more than 10,000 MW of capacity, provided 29% of customers' electric needs in 1989. Most of these units are located within the Los Angeles Basin.

Two coal-fired power plants located outside of California produced an additional 13%. Edison operates and owns 56% of the Mohave Generating Station in Nevada and owns 48% of the Four Corners Generating Station's Units 4 and 5 in New Mexico operated by APS. In early 1990, the company anticipates an award of about $7 million under the CPUC's coal-plant incentive program for the past performance of the two plants.



High Ratings for Nuclear Power Plant In April, the Institute of Nuclear Power Operations recognized the company's San Onofre Nuclear Generating Station for excellence in its overall operations after an extensive independent evaluation. The three-unit San Onofre plant, located near San Clemente, California, also was honored in 1989 by the American Nuclear Society for outstanding performance in reducing the number of reactor shutdowns.

Hydroelectric Power Low precipitation in 1988 and 1989 limited Edison's hydroelectric generation to only 4% of customers' electric needs in 1989. The Big Creek hydro system in California's Sierra Nevada is the primary source of this low-cost power, representing 1,000 MW of capacity. Edison also has an allotment of 277 MW of hydroelectric capacity from Hoover Dam on the Colorado River.

Purchased Power To meet customers' electric energy requirements, the company purchases power from many outside sources. Total outside purchases rose to 38% of customers' needs in 1989, compared with 34% in 1988. This increase resulted from greater purchases of more costly power from nonutility power producers as mandated by governmental authorities.

Economy-Energy Purchases The company made short-term ("spot-market") purchases of low-cost electricity through the Western Systems Power Pool (WSPP) and from other utilities that saved customers $51 million in 1989, compared with the cost of generation using oil or natural gas at Edison's power plants. These economy-energy purchases supplied about 7% of Edison customers' total electric needs in 1989 at an average cost of 2.1 cents per kwh, compared with 1.8 cents in 1988.

The company saved about $15 million by purchasing and exchanging power as an active member of the WSPP, the largest power pool in the nation. Pool members use a centralized computer to efficiently buy and sell low-cost surplus power, and make better use of existing generation and transmission facilities. Market forces, rather than regulatory agencies, determine power prices under this program.

The company played a major role in establishing the WSPP in 1987 as an experimental program under the auspices of the Federal Energy Regulatory Commission (FERC). Since then, it has grown to 31 public and investor-owned utilities serving more than 55 million people in 22 states, primarily in the West. Although the program is scheduled to end in May 1990, efforts are under way to extend it for at least another year while member utilities and the FERC decide whether to make the program permanent.

Firm-Energy Purchases Purchases under long-term contracts with other utilities supplied 6% of Edison customers' electricity needs at an average cost of 4.1 cents per kwh.

A 20-year, power-purchase agreement signed in 1988 between Edison and the federal Bonneville Power Administration became effective July 1, 1989. Under it, Edison receives 250 MW of capacity and 1.2 billion kwh annually, or enough electricity to serve nearly 200,000 homes. The agreement will save Edison customers about $30 million annually, compared with the next lowest-cost alternative.

Purchases from Nonutility Producers Purchases of electricity from projects developed by nonutility power producers grew 45% in 1989 and supplied 25% of Edison's total system energy requirements. These purchases are made under terms mandated by state regulation, and are generally more costly than other sources of power.

The Public Utility Regulatory Policies Act (PURPA), enacted by the U.S. Congress in 1978, was intended to encourage the development of alternative and renewable energy resources by requiring electric utilities to purchase power from qualifying nonutility producers. Each state was required to establish its own implementation rules. In California, CPUC policy directed Edison and other investor-owned utilities to buy electricity from these independent power producers under standard long-term contracts at specified prices. The law was well-intended, but the result has been that Edison and other utilities are required to buy electric power at costs much higher than what the company can produce itself or purchase from other sources.

Today, although fuel oil and natural gas prices have decreased significantly from levels forecasted in the early 1980s, Edison still is required to buy this high-cost electric power from independent power producers under long-term contracts. In 1989, the electricity purchased from these outside producers cost an average of 6.9 cents per kwh, up 10% from the previous year. Overall, this high-cost electric power cost Edison's customers an additional $300 million in 1989.

By contrast, Edison's customers benefited from purchases from projects involving Mission Energy Company, SCEcorp's nonutility power-production subsidiary. The net cost to Edison of electric power from Mission Energy projects is below that allowed under standard CPUC contracts. The average cost of these purchases was 5.7 cents per kwh. Mission Energy's participation in these projects resulted in nearly $50 million of savings for ratepayers during 1989.

At the end of 1989, 366 nonutility projects in operation were contributing 2,907 MW of capacity to the Edison system. Edison also has contracts – most signed in 1984 and 1985 – for an additional 104 projects, representing another potential 1,292 MW of capacity. However, the company estimates that only about half of this contracted, but not built, capacity will go into service, primarily because of changes affecting nonutility producers in federal tax laws, air-quality considerations, and siting and permit requirements.

Higher Fuel Costs and New Gas-Supply Agreements

Fuel and purchased-power costs represent Edison's largest expense in supplying electricity to customers. Under California regulation, Edison can recover these costs from ratepayers on a dollar-for-dollar basis so long as they are accurately forecasted. These costs are subject to annual reasonableness reviews by the CPUC.

These combined costs rose from $2.21 billion in 1988 to $2.63 billion in 1989, primarily because of the substantial increases in purchases from nonutility power producers, as required under costly PURPA-mandated contracts.

Natural gas was the primary fuel used in Edison's gas and oil power plants, except when supplies were partially curtailed from February through May, then again in November and December. During the past two years, Edison's natural-gas supplies have been curtailed about 30% of the time, forcing Edison to burn more costly fuel oil. These curtailments have underscored the need for more gas pipeline capacity into California.

To protect its customers, Edison has sought more secure sources of natural gas. Under a trial program approved by the CPUC, the company was able to rent gas storage space for the first time from Southern California Gas Company. In November, this stored gas was used instead of more costly oil, saving Edison customers about $3 million in fuel expenses.

In addition, the company reached agreements in 1989 with Wyoming-California Pipeline Company, a subsidiary of Pacific Gas & Electric Company and Southern California Gas Company on gas pipeline projects that eventually could provide Edison with 250 million cubic feet of low-cost gas daily from Canada and Wyoming. This volume of gas would have supplied about 40% of Edison's total natural-gas requirements in 1989. These projects are in their early stages of development and are scheduled for completion in the next few years. They should increase reliability of gas service and produce fuel savings for Edison customers in years to come. Final regulatory approvals for these projects are expected in 1990.

Expanding Transmission Capacity

Over the years, the company has greatly expanded its transmission capacity to neighboring states to provide customers with more diverse sources of low-cost power. The major link for transmitting power between California and the Pacific Northwest is the Pacific Intertie transmission system. This major interconnection benefits both regions by allowing each region to sell or exchange its electricity to the other region and take advantage of seasonal differences in electric demand. This farsighted transmission system has saved Edison's customers hundreds of millions of dollars in addition to providing greater reliability and operational benefits.

Built in the 1960s, the Pacific Intertie includes two alternating current (AC) transmission lines and one direct current (DC) line, all capable of transmitting large amounts of electricity in either direction at extra-high voltages. In April, the completion of a joint expansion project with the Los Angeles Department of Water and Power boosted Edison's entitlement over the DC line by 221 MW to a total of 643 MW.

With other California utilities, Edison is seeking regulatory approval to build a third extra-high-voltage AC line to the Pacific Northwest. The proposed line, known as the California-Oregon Transmission Project and targeted for completion in 1992, would add about 1,600 MW of transmission capacity, including Edison's share of 281 MW.

Edison and 11 other utilities also are seeking a major expansion of transmission capacity between California and the Southwest by building a second extra-high-voltage AC line from the Palo Verde Nuclear Generating Station near Phoenix, Arizona, to the company's Devers Substation, near Palm Springs. If approved by the CPUC, it would increase Edison's transmission capacity by 508 MW in the 1990s.

At year end, Edison had 1,632 MW of transmission access to the Pacific Northwest and 2,700 MW to the Southwest. After completion of planned improvements, Edison's overall transfer capacity to these regions will increase 789 MW to more than 5,100 MW.

Employee Development and Safety

Edison sponsored a variety of training programs for its employees in 1989 to enhance their professional skills and ability to serve customers better. In all, about 4,400 employees participated in these programs.

Reflecting the fact that a safe and healthful work environment remains a high priority at Edison, the Edison Electric Institute awarded 16 different organizations at Edison with certificates of excellence for working 1 million or more hours without a lost-time accident. In 1989, industrial accidents declined 15% from 1988, while lost workdays dropped 31%.

Commitment to Equal Opportunity

On September 27, Edison signed a comprehensive equal opportunity pledge with a broad coalition of minority and women's groups. Members of the coalition who signed the agreement, including many of California's major black, Hispanic and Asian groups, praised it as a landmark and model for corporate America.

The plan will help Edison better meet its responsibilities to serve a demographically diverse, rapidly changing service territory. It calls for Edison to make a good-faith effort to meet the following goals:

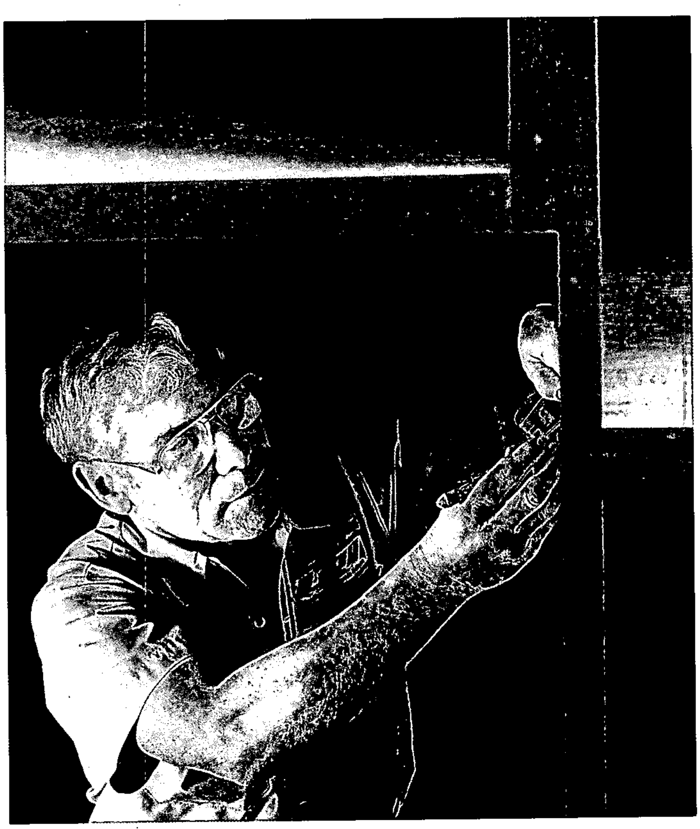
- advance minorities and women in the company's management so that they hold at least 30% of Edison's top 500 positions and 20% of the top 100 jobs by the year 2000. All advancements and promotions will be based on merit and experience. To help implement these goals, the company is developing new training programs for its top 500 supervisors and managers, along with other new programs to help employees develop more skills to further advance their careers;
- increase representation of women and minorities on its board of directors;
- award 30% of Edison's estimated $1 billion in procurement contracts to minority- and women-owned businesses by 1998;
- appoint an advisory council of community leaders who will meet quarterly and report directly to Edison's chief executive officer;
- increase charitable, cultural and community-related contributions to low-income, minority and women's organizations; and
- work with the CPUC to increase Edison's low-income assistance programs.

Percentage of male, female and minority employees at year-end 1984 and 1989	Male % Year-end		Female % Year-end		Black % Year-end		Asian American % Year-end		American Indian % Year-end		Hispanic % Year-end		Total Minorities % Year-end	
	1984	1989	1984	1989	1984	1989	1984	1989	1984	1989	1984	1989	1984	1989
Management(1)	82.4	78.8	17.6	21.2	3.8	4.4	6.3	7.5	0.5	0.4	8.0	10.5	18.6	22.8
Administrative & operative (2)	73.3	73.9	26.7	26.1	9.4	9.3	3.5	4.4	1.1	1.3	19.2	22.5	33.2	37.5
Total Edison (3)	76.4	75.8	23.6	24.2	7.5	7.5	4.4	5.6	0.9	0.9	15.3	17.9	28.1	31.9

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

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

(3) Regular employees only.



Employee Commitment to Quality Service Edison relies on teamwork and a strong commitment to excellence by employees working in many jobs behind the scenes – such as automotive mechanics, security personnel, carpenters and painters. In 1989, the dedication, hard work and high morale of Edison's 16,600 employees were a key reason for its financial and operating successes.

Today, women and minorities make up 46% of Edison's work force. In addition, the company has sought out many women- and minority-owned firms qualified to do business with Edison. Minority- and women-owned business contracts grew from 523 in 1984 to 1,963 at the end of 1989, with annual payments rising from $38 million to $128 million.

In 1989, Edison also established a new bank credit line and deposit program for minority- and women-owned financial institutions. Under it, the number of these institutions with whom Edison is doing business grew from 12 to 23 and its credit lines rose from $5 million to $27 million. The company also worked closely with five minority- and women-owned firms that manage 8%, or $135 million, of the employee pension fund. All of these financial services were cost-competitive with the company's other sources of financial services and were provided by firms staffed with professionally qualified people.

A Tradition of Community Service

Throughout Edison's 103-year history, the company has supported a wide variety of civic, educational and charitable organizations in more than 800 communities throughout its 50,000-square-mile service territory. The company and its employees also have voluntarily participated in a wide range of community activities.

Employees showed their spirit of generosity during the 1989 United Way Campaign by pledging more than $2.4 million to help people in need. On a per-capita basis, Edison employees were among the leading contributors to the more than 900 charitable organizations supported by United Way. And they also donated thousands of hours of their own time as volunteers to various community organizations—such as helping battered women and children, the disabled and homeless.

As a public service, the company sponsored a major exhibit on electricity that opened in April at the California Museum of Science and Industry in Los Angeles. This highly popular exhibit features 17 modules that allow youngsters and visitors of all ages to learn about electricity and magnetic forces by direct involvement. It is the fourth rebuild of Edison's exhibit in 25 years of continuous educational exhibits at the museum.

The company's support for education takes many forms. For example, Edison develops electric-related educational materials through various school programs in cooperation with teachers, administrators and community leaders. Students learn about energy conservation, electric safety, disaster preparedness, environmental issues and other energy-related topics. Edison also provides scholarships and grants on a competitive basis to students throughout its service territory. Each year, the company provides four $12,000 scholarships, 20 career-development awards of $3,000, and 50 educational grants of $500. It also awards two $12,000 scholarships annually to children of employees.

Another important educational program, known as the Science Connection, uses a 40-foot mobile classroom to stimulate interest in science and technology among elementary school children. Throughout Edison's service territory, this program provides scientific demonstrations to about 10,000 students each year.

Regulatory Review

Rate Approvals Edison received approval for various revenue changes in 1989 that resulted in a net annual rate increase of 5.0%, or $299 million in higher revenue. Additional changes effective February 1, 1990, further increased revenue by $60 million annually, or 0.9%. Actions contributing to these rate changes included:

- adjustments for changes in costs of fuel and purchased power—a $417-million annual increase effective July 1, 1989, and a partially offsetting decrease of $99 million effective February 1, 1990;
- an annual attrition increase for 1990 of $41 million to cover increased costs of inflation, capital additions and financing; this allowance includes a reduction in Edison's authorized regulatory return on common equity from 13.0% in 1989 to 12.85% in 1990, or a decrease in revenue of $12 million;
- a rate increase of $113 million as part of a CPUC-approved phased recovery of the company's investment in the Palo Verde Nuclear Generating Station in Arizona; and
- inclusion in rate base of the $269-million cost of constructing the Balsam Meadow hydroelectric project and the $136-million cost of the Devers-Valley-Serrano transmission line, after the CPUC determined that these costs were prudently incurred.

1991 General Rate Case Deferral As a result of the pending merger with San Diego Gas & Electric Company, the CPUC deferred the company's next general rate case for one year. For 1991, Edison is authorized to file a modified attrition request.

Palo Verde Outage On December 18, the CPUC issued an Order Instituting Investigation (OII) concerning Palo Verde Units 1 and 3. OIIs are mandatory under a provision of the California Public Utilities Code whenever generation facilities remain out of service for nine or more consecutive months. However, Edison believes that an OII should not be required in this case, because much of the outage for Palo Verde Units 1 and 3 was for planned refueling and modifications required by the Nuclear Regulatory Commission. If the OII is not dismissed, the CPUC will determine whether certain portions of the revenue collected in rates for these units will be refunded to customers.

Assistance Program for Low-Income Customers As a result of California legislation and CPUC actions, Edison instituted a program to provide 15% discounts to residential customers meeting CPUC-approved low-income guidelines.

Purchased Power Reasonableness Review The CPUC periodically reviews the reasonableness of Edison's fuel and purchased-power expenses. In 1989, CPUC proceedings focused on the reasonableness of Edison's expenses for power purchases from nonutility sources. Under the Public Utility Regulatory Policies Act (PURPA), federal regulations allow utilities to own up to a 50% interest in nonutility power producers, and require utilities to purchase nonutility power at prices established by the state regulatory commissions.

In this ongoing review, the CPUC's consumer advocacy staff, the Division of Ratepayer Advocates (DRA), alleges that Edison acted imprudently in negotiating and administering some of its contracts with nonutility producers. The DRA has recommended that the CPUC disallow $124 million of Edison's expenses incurred between late 1984 and 1987 under 18 of these PURPA-mandated contracts. Edison's position is that it acted prudently and consistent with state and federal regulations when it negotiated these 18 contracts.

One of these contracts involves a nonutility power producer in which Edison's Mission Energy affiliate has a 50% ownership interest – the 300-MW Kern River Cogeneration Company (KRCC). This contract amounts to $37 million of the $124 million proposed disallowance. The largest part of the DRA's recommended disallowance for the KRCC contract is based on its position that the contract is essentially for the purchase of non-firm, rather than firm power. This is inconsistent with the contract and the facts. Edison presented testimony to the CPUC in 1989 proving that the KRCC contract is more beneficial to Edison's customers than purchases mandated under standard contracts authorized by the CPUC. From late 1984 to 1987, payments under the KRCC contract alone saved Edison customers more than $24 million when compared with a CPUC-mandated standard contract.

For each of the 17 other contracts under review, none of which involves an Edison affiliate, Edison demonstrated that it consistently acted in accordance with the law and for the benefit of its customers.

In addition to these 18 contracts involving payments made between 1984 and 1987, Edison filed documents in May 1989 with the CPUC supporting the reasonableness of its fuel and purchased-power expenses, including purchases from nonutility power producers, incurred between December 1987 and March 1989. During this period Edison paid $1.08 billion under 262 PURPA-mandated contracts, including 10 contracts with projects involving Mission Energy. The DRA has not completed its analysis of Edison's filing on these additional contracts or taken any position on them, and the CPUC has not yet scheduled any hearings on these 262 contracts.

The Mission Group

The Mission Group consists of four nonutility subsidiaries: Mission Energy, Mission First Financial, Mission Land and Mission Power Engineering. These subsidiaries, which achieved considerable success in 1989, are focused generally on energy-related businesses and investments in 13 states. In 1989, revenue from these nonutility subsidiaries rose to $409.1 million from $333.1 million in 1988; net income increased to $99.9 million, or 46 cents per share, from $77.8 million, or 35 cents per share in 1988. At year end, The Mission Group had assets totaling $1.4 billion, with SCEcorp's equity investment amounting to $735.3 million.

The Mission Group earnings represent 13% of SCEcorp's total 1989 earnings, compared with 10% the previous year.

Mission Energy Company

Mission Energy is a national leader in the development, ownership and operation of major cogeneration and geothermal projects. It manages engineering and construction work, provides operating and maintenance services and assists in obtaining permits and financing for power generating facilities.

In June 1989, the Cogeneration Institute of the Association of Energy Engineers recognized Mission Energy as the 1988 Cogeneration Company of the Year. At year end, Mission Energy jointly owned 17 operating projects totaling 1,939 megawatts (MW) of capacity in six states, including 11 projects, totaling 791 MW, which were added in 1989. Another 15 projects with more than 2,200 MW of capacity are under construction or development outside of Edison's service territory in eight states.

During 1989, Mission Energy opened an office in Fairfax, Virginia, to take further advantage of business opportunities in the eastern United States. Additionally, Mission Energy has entered the international market by actively pursuing a project exceeding 150 MW in Canada and participating in a feasibility study for a large-scale cogeneration project in Great Britain.

Mission Energy is the largest subsidiary of The Mission Group, with revenue of $127.8 million in 1989, and a net income of $56.0 million, or 26 cents per share. By comparison, it had revenue of $88.2 million in 1988, and a net income of $38.6 million, or 18 cents per share. At year end, equity investment in the company totaled $391.7 million.

Mission First Financial

Mission First Financial participates in investment opportunities involving leveraged leasing, project financing, cash management and venture capital. The company plans to expand its project- and lease-financing activities over the next five years, primarily focusing on domestic and international energy-related investments.

In 1989, Mission First Financial agreed to help finance the sale and leaseback of the 1,370-MW Midland cogeneration plant in Michigan. The company also completed an aircraft sale and leaseback with United Airlines. In addition, Mission First Financial invested in seven projects that will provide affordable housing for low- and medium-income families and individuals. The company's other key investments include participation in a sale and leaseback of a nuclear power plant in Pennsylvania; participation in a paper mill and cogeneration plant in Minnesota; and management of a money-market investment program. About 80% of this subsidiary's investment portfolio is energy related.

In 1989, Mission First Financial had revenue of $25.7 million, with a net income of $15.3 million, or 7 cents per share. By comparison, it had revenue of $21.7 million in 1988, and a net income of $13.7 million, or 6 cents per share. At year end, equity investment in this subsidiary totaled $110.8 million.

Mission Land Company

Mission Land invests in real estate. The company owns, develops and operates industrial parks, as well as office, retail and residential properties. The company's active business development program has resulted in agreements for 14 new joint-venture partnerships in 1989.

This subsidiary owns and manages five industrial parks covering nearly 400 acres in Southern California and Arizona. These parks contain about 2.5-million square feet of leasable space.

During 1989, Mission Land's projects included the construction of buildings in Rancho Cucamonga and Corona, California; Munster, Indiana; and Phoenix, Arizona. Mission Land also became a partner in several joint ventures, including commercial projects in Camarillo and Hawthorne, California; industrial projects in Oceanside, California, and Carol Stream, Illinois, near Chicago; and 2,690 apartment units, primarily near Dallas-Fort Worth, Texas.

Revenue for 1989 was $45.7 million, with net income of $21.7 million, or 10 cents per share. By comparison, it had revenue of $48.7 million in 1988 and net income of $20.2 million, or 9 cents per share. Year-end equity investment in this company totaled $203.2 million.

Mission Power Engineering Company

Mission Power Engineering performs consulting, engineering and construction in the energy field. Since its formation in 1984, this subsidiary's projects have included electric-power generating units, transmission lines and substations.

During 1989, the company completed construction of three geothermal generating units, totaling 50 MW of capacity. At year end, it had an additional three units under construction, totaling 90 MW of capacity. Mission Power Engineering ranked 26th among the nation's top 400 engineering and design firms, according to the "Engineering News Record" published in 1989.

In 1989, it had revenue of $209.4 million and a net income of $6.6 million, or 3 cents per share. By comparison, it had revenue of $174.4 million in 1988 and a net income of $7.6 million, or 3 cents per share. Year-end equity investment in this subsidiary totaled $20.7 million.

SCEcorp achieved another year of outstanding financial performance, providing shareholders with an excellent return on their investment.

SCEcorp

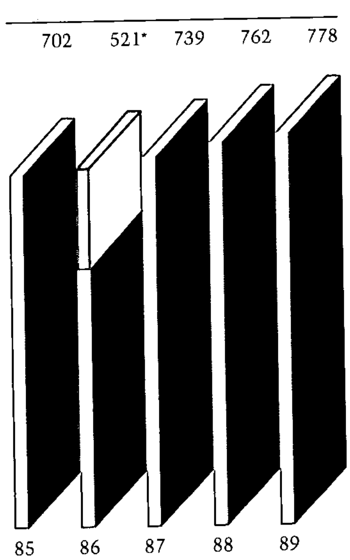
Record Earnings and Revenue SCEcorp's earnings rose in 1989 to a record $778 million, compared with $762 million in 1988. Revenue grew to a record $6.9 billion from $6.3 billion in 1988.

Earnings per share in 1989 increased 2% to a record $3.56 from $3.49 in 1988. Edison's contribution to SCEcorp's earnings was $3.10 per share, or 87% of total earnings, a decline of 4 cents from 1988. The decline in utility earnings resulted from costs associated with the Palo Verde Nuclear Generating Station outage and the one-time proceedings to secure regulatory approvals for the Edison–SDG&E merger, which were partially offset by a small increase in Edison's authorized rate of return on common equity and tight controls on its cost of doing business.

The Mission Group provided 46 cents per share, or 13% of total earnings, an increase of 11 cents per share, or 31% more than last year. All four nonutility subsidiaries were profitable in 1989. The growth in earnings resulted largely from additional Mission Energy projects placed into operation, project-financing investments at Mission First Financial and the management and sale of Mission Land properties.

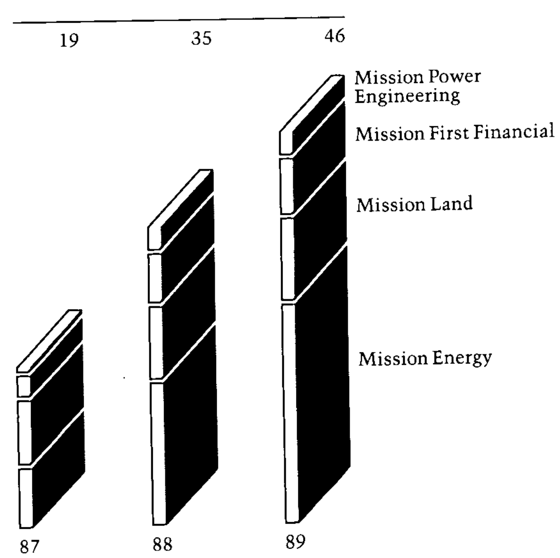
Dividend Increase In June, the board of directors increased the common stock dividend for the 14th time in 13 years. The new annual dividend rate of $2.56 per share is 3.2% higher than the previous annual rate of $2.48 per share. Dividends have been paid without interruption since the utility's incorporation in 1909.

Net Income (SCEcorp)
In millions of dollars



**Restated to reflect disallowance of nuclear-plant construction costs.*

Nonutility Earnings Per Share
In cents per share



Stock Price Performance and Shareholder Return On December 27, SCEcorp's common stock traded at an all-time high of $41. Total return to SCEcorp's common shareholders from stock price appreciation and dividends was 30% in 1989. For each of the past five-, 10- and 15-year periods, the total return to shareholders has averaged more than 20% annually, matching or exceeding returns from the Standard & Poor's 500 index and the Dow Jones utility average.

Southern California Edison Company

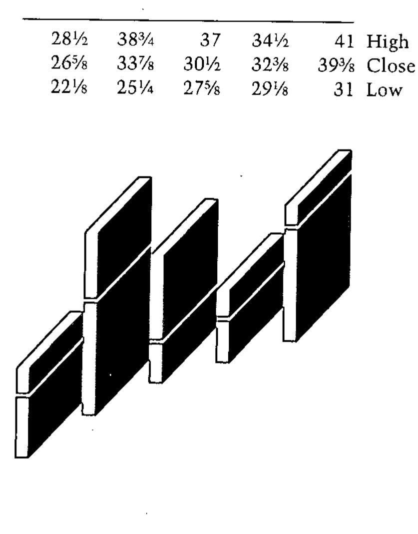
Corporate Financing In 1989, Edison internally generated all of its construction expenditures and most of the funds needed to retire maturing debt and preferred stock obligations. In total, Edison's internal generation was 88% of capital requirements, nearly a record. The company raised $150 million in the capital markets during the year to repay maturing bonds, meet sinking-fund requirements on bonds and preferred stock redemption requirements and to redeem more costly debt. In addition, Edison took advantage of lower interest rates to restructure $300 million of existing debt to further reduce costs.

Edison has the lowest cost of capital of any California utility. Through a continuing program of refunding high-coupon debt, Edison's average cost of debt declined from a high of 10.5% in 1983 to 9.1% for 1989.

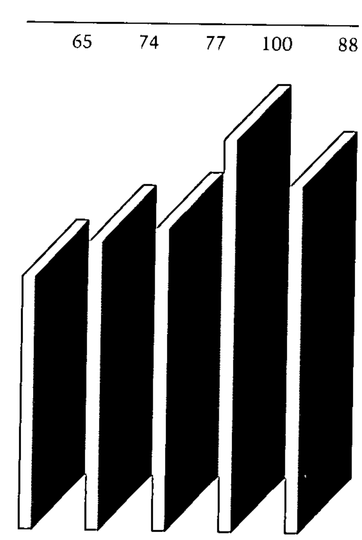
Edison continues to be the only major utility in California to have its bonds rated AA, meaning very strong. In September, Standard & Poor's raised Edison's bond-rating outlook from negative to stable, strengthening Edison's standing in the credit markets.

Global Commercial-Paper Program The company continued to expand its worldwide financing through its global commercial-paper program. This program enables Edison to borrow at the lowest interest rates available in the world. At the end of 1989, $75 million of Edison's commercial paper was outstanding in foreign markets, all at rates equal to or below those available in the domestic market.

Stock Price Range (SCEcorp)
In dollars



Internal Generation of Funds (Utility)
In percent



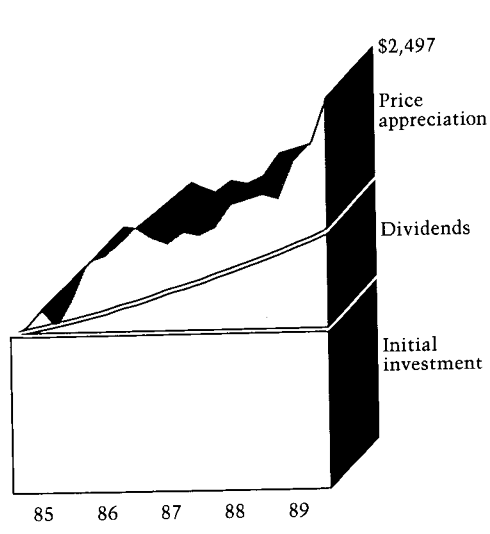
Credit Watch Edison continues to lead the utility industry in protecting customers from the few financially troubled commercial and industrial customers who may not pay their electric bills. Once these customers are identified through its early-warning credit-watch system, Edison makes arrangements to ensure collection of revenue by obtaining cash deposits, surety bonds or more frequent payments. The credit-watch program saved Edison's customers more than $450,000 in 1989 and more than $8 million since it began eight years ago.

SCEcorp and Edison Rates of Return

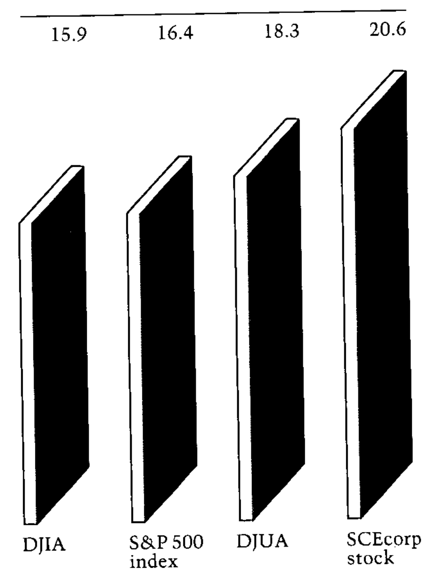
In 1989, SCEcorp's return on common equity was 15.0%. This was down slightly from the 15.3% return earned in 1988, primarily because of good, but somewhat lower, rates of return earned in SCEcorp's nonutility businesses.

In 1989, Edison's *authorized* return on rate base was 10.9%, while its *recorded* return on rate base was 10.6%. For 1990, the CPUC reduced Edison's authorized rate of return on rate base to 10.7%.

$1,000 Investment in SCEcorp Stock
In dollars



15-Year Annual-Return Comparison
(Stock price appreciation and dividends)
In percent



Board of Directors

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

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

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

**Retired from the board of directors, April 20, 1989.*

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

Roy A. Anderson
Chairman Emeritus
Lockheed Corporation
Burbank, California

Norman Barker Jr.
Chairman of the Board
Pacific American Income Shares, Inc.
(a closed-end bond fund)
Los Angeles, California

Warren Christopher
Chairman, O'Melveny & Myers
(a law firm)
Los Angeles, California

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

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

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

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

Carl F. Huntsinger
General Partner
DAE Limited Partnership, Ltd.
(agricultural management)
Ojai, California

Charles D. Miller
Chairman of the Board and
Chief Executive Officer
Avery International Corporation
(manufacturer of self-adhesive products)
Pasadena, California

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

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

Henry T. Segerstrom
Managing Partner
C. J. Segerstrom & Sons
(real estate development)
Costa Mesa, California

E. L. Shannon Jr.
President and Chief Executive Officer
Santa Fe International Corporation
(oil service, engineering, petroleum
exploration and production)
Alhambra, California

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

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

Executive Officers

SCEcorp

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

David J. Fogarty
Executive Vice President

John E. Bryson
Executive Vice President
and Chief Financial Officer

Michael R. Peevey
Executive Vice President

David N. Barry III
Vice President and General Counsel

Richard K. Bushey
Vice President and Controller

Michael L. Noel
Vice President and Treasurer

Diana L. Peterson-More
Secretary of the Corporation

Southern California Edison Company

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

David J. Fogarty
Executive Vice President

John E. Bryson
Executive Vice President
and Chief Financial Officer

Michael R. Peevey
Executive Vice President

L. T. Papay
Senior Vice President

David N. Barry III
Vice President and General Counsel

Kenneth P. Baskin
Vice President
(Fuel and Material Management)

Glenn J. Bjorklund
Vice President
(Power Supply)

Robert H. Bridenbecker
Vice President and Site Manager
San Onofre Nuclear Generating Station

Richard K. Bushey
Vice President and Controller

Ronald Daniels
Vice President
(Revenue Requirements)

Robert Dietch
Vice President
(Engineering, Planning and Research)

John R. Fielder
Vice President
(Information Services)

Charles B. McCarthy Jr.
Vice President
(Customer Service)

Michael L. Noel
Vice President and Treasurer

Lewis M. Phelps
Vice President
(Corporate Communications)

Harold B. Ray
Vice President
(Nuclear Engineering,
Safety and Licensing)

Jacque J. Sokolov
Vice President and Medical Director

Diana L. Peterson-More
Secretary of the Corporation

Nonutility Subsidiaries

David J. Fogarty
President and Chief Executive Officer
The Mission Group

J. Jack Adrian
President
Mission Power
Engineering Company

Thomas R. McDaniel
President
Mission First Financial

James S. Pignatelli
President
Mission Energy Company

Robert E. Umbaugh
President
Mission Land Company

Financial Information

Responsibility for Financial Reporting

The management of SCEcorp (the "corporation") is responsible for preparing the accompanying financial statements. The statements were prepared in accordance with generally accepted accounting principles and necessarily include amounts based on management's estimates and judgment. Management believes other information in the annual report is consistent with the financial statements.

Management maintains systems of internal control that provide reasonable assurance assets are safeguarded, transactions are properly executed in accordance with management's authorization, and accounting records may be relied upon for the preparation of financial statements and other financial information. The design of internal control systems involves management's judgment concerning the relative cost and expected benefits of specific control measures. These systems are augmented by internal audit programs through which the adequacy and effectiveness of internal controls, policies and procedures are evaluated and reported to management.

In addition, Arthur Andersen & Co., as part of its independent audit of the corporation's financial statements, is responsible under generally accepted auditing standards to evaluate the internal control structures in order to determine its auditing procedures for the purpose of expressing its opinion on the financial statements.

Management believes the corporation's systems of internal control are adequate to accomplish the objectives discussed herein. Management has implemented all of the internal and external auditors' significant recommendations regarding the systems of internal control.

The audit committee of the board of directors, which is composed entirely of non-employee directors, meets periodically with both the external and internal auditors, who have unrestricted access to the committee. This committee recommends to the board of directors the annual appointment of a firm of independent public accountants, considers the audit scope and independence of the external auditor, discusses the adequacy of internal controls, reviews financial reporting issues and is advised of management's actions regarding these matters.

Management is responsible for fostering a climate in which the corporation's affairs are conducted in accordance with the highest standards of personal and corporate conduct, which are reflected in the corporation's Standards of Conduct. Management maintains programs to encourage and assess compliance with these standards.

John E. Bryson
Executive Vice President
and Chief Financial Officer

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

February 2, 1990

Report of Independent Public Accountants

To the Shareholders and the Board of Directors, SCEcorp:

We have audited the accompanying consolidated balance sheets and statements of capitalization of SCEcorp (a California corporation hereinafter referred to as the "corporation") and its subsidiaries as of December 31, 1989, and 1988, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the corporation and its subsidiaries as of December 31, 1989, and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the corporation changed its method of accounting for unbilled revenue as of January 1, 1987.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Los Angeles, California
February 2, 1990

Consolidated Statements of Income

In thousands, except per-share amounts Year ended December 31,	1989	1988	1987
Electric revenue	**$6,524,386**	$5,931,682	$5,501,057
Investment and other	**380,000**	321,037	100,869
Total operating revenue	**6,904,386**	6,252,719	5,601,926
Fuel	**996,026**	972,973	1,091,973
Purchased power	**1,638,495**	1,235,110	780,599
Provisions for regulatory adjustment clauses – net	**184,206**	240,681	225,108
Other operating expenses	**1,172,651**	1,068,886	885,849
Maintenance	**377,888**	375,444	361,484
Depreciation and decommissioning	**689,614**	646,569	551,348
Income taxes	**497,793**	446,395	578,228
Property and other taxes	**179,939**	170,293	162,546
Total operating expenses	**5,736,612**	5,156,351	4,637,135
Operating income	**1,167,774**	1,096,368	964,791
Nuclear plant disallowance *(Note 3)*	–	–	(148,963)
Income taxes – nuclear plant disallowance	–	–	78,616
Provision for rate phase-in plan	**119,478**	170,856	137,832
Allowance for equity funds used during construction	**12,598**	18,125	73,406
Interest income	**168,331**	121,708	93,213
Taxes on nonoperating income	**(78,555)**	(79,547)	(80,490)
Other – net	**7,148**	(162)	20,144
Total other income – net	**229,000**	230,980	173,758
Income before interest and other expenses	**1,396,774**	1,327,348	1,138,549
Interest on long-term debt	**467,096**	439,842	404,767
Other interest expense	**130,210**	108,498	82,059
Allowance for borrowed funds used during construction	**(9,482)**	(11,883)	(42,926)
Capitalized interest	**(13,797)**	(17,636)	(25,933)
Preferred and preference stock dividend requirements of subsidiary	**44,506**	46,696	50,095
Total interest and other expenses – net	**618,533**	565,517	468,062
Income before cumulative effect of a change in accounting principle	**778,241**	761,831	670,487
Cumulative effect on prior years (to December 31, 1986) of accruing unbilled revenue – net of income taxes of $58,752,000 *(Note 2)*	–	–	68,044
Net income	**$ 778,241**	$ 761,831	$ 738,531
Weighted-average shares of common stock outstanding (000)	**218,463**	218,332	218,014
Earnings per share *(Note 2):*			
Before cumulative effect of a change in accounting principle	**$3.56**	$3.49	$3.08
Cumulative effect of a change in accounting principle	–	–	.31
Total earnings per share	**$3.56**	$3.49	$3.39

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

Consolidated Balance Sheets

In thousands December 31,	1989	1988
ASSETS		
Utility plant, at original cost	**$16,439,476**	$15,687,850
Less – accumulated provision for depreciation and decommissioning	**5,095,086**	4,529,938
	11,344,390	11,157,912
Construction work in progress	**593,760**	676,175
Nuclear fuel, at amortized cost	**394,124**	475,764
	12,332,274	12,309,851
Less – property-related accumulated deferred income taxes	**1,051,527**	914,532
Total utility plant	**11,280,747**	11,395,319
Nonutility property – less accumulated provision for depreciation of $36,017,000 and $22,570,000 at respective dates	**97,060**	107,851
Nuclear decommissioning trusts	**270,069**	157,086
Investments in partnerships and unconsolidated subsidiaries	**773,682**	480,458
Investments in leveraged leases	**169,997**	148,027
Other investments	**52,140**	31,978
Total other property and investments	**1,362,948**	925,400
Cash and equivalents	**150,676**	228,367
Receivables, including unbilled revenue, less allowances of $14,085,000 and $13,187,000 for uncollectible accounts at respective dates	**866,048**	700,343
Fuel stock	**89,895**	125,303
Materials and supplies, at average cost	**96,888**	96,767
Regulatory balancing accounts – net	**320,765**	395,026
Prepayments and other current assets	**150,486**	113,556
Total current assets	**1,674,758**	1,659,362
Unamortized debt issuance and reacquisition expense	**288,664**	296,094
Rate phase-in plan	**602,073**	435,941
Other deferred charges	**233,861**	154,160
Total deferred charges	**1,124,598**	886,195
Total assets	**$15,443,051**	$14,866,276

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

In thousands December 31,	1989	1988
CAPITALIZATION AND LIABILITIES		
Common shareholders' equity	$ 5,288,687	$ 5,064,848
Preferred stock of subsidiary:		
Not subject to mandatory redemption	358,755	358,755
Subject to mandatory redemption	223,800	239,037
Long-term debt of subsidiaries	5,282,764	5,421,747
Total capitalization *(see accompanying statements)*	11,154,006	11,084,387
Other long-term liabilities	154,819	136,810
Current portion of subsidiaries' long-term debt and redeemable subsidiary preferred stock	215,075	165,975
Short-term debt	793,967	658,418
Accounts payable	518,363	464,817
Accrued taxes	458,901	435,030
Accrued interest	132,284	117,477
Dividends payable	143,300	139,187
Accumulated deferred income taxes – net	100,669	166,754
Deferred unbilled revenue and other	398,765	304,470
Total current liabilities	2,761,324	2,452,128
Accumulated deferred investment tax credits	537,699	545,728
Accumulated deferred income taxes – net	542,736	398,827
Customer advances and other deferred credits	292,467	248,396
Total deferred credits	1,372,902	1,192,951
Commitments and contingencies *(Notes 1, 3, 8, 9 and 10)*		
Total capitalization and liabilities	$15,443,051	$14,866,276

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

Consolidated Statements of Cash Flows

SCEcorp and Subsidiaries

In thousands Year ended December 31,	1989	1988	1987
Cash flows from operating activities:			
Net income	$ 778,241	$ 761,831	$ 738,531
Adjustments for noncash items:			
Depreciation and decommissioning	689,614	646,569	551,348
Amortization	157,454	156,732	157,304
Nuclear plant disallowance – net	–	–	70,347
Allowance for funds used during construction	(22,080)	(30,008)	(116,332)
Rate phase-in plan	(166,132)	(196,181)	(149,110)
Regulatory deferrals – energy exploration projects	–	–	61,637
Deferred income taxes and investment tax credits	203,337	176,614	198,417
Equity in income from partnerships and unconsolidated subsidiaries	(127,036)	(87,070)	(51,739)
Income from leveraged leases	(12,231)	(17,056)	(10,289)
Other – net	(23,206)	(20,420)	22,443
Changes in working capital components:			
Receivables	(165,705)	(74,554)	(241,227)
Regulatory balancing accounts	74,261	226,609	(31,548)
Fuel stock, materials and supplies	35,287	2,047	133,518
Prepayments and other current assets	6,904	(12,689)	(3,713)
Accrued interest and taxes	38,638	(63,314)	8,607
Accounts payable and other current liabilities	134,170	(43,292)	267,883
Net cash provided by operating activities	1,601,516	1,425,818	1,606,077
Cash flows from financing activities:			
Issuances of long-term debt	193,306	631,343	374,787
Repayment of long-term debt	(168,368)	(350,383)	(325,967)
Redemption of subsidiary preferred and preference stock	(15,363)	(48,775)	(17,712)
Nuclear-fuel financing	(129,107)	(18,569)	(56,191)
Short-term debt financings – net	135,549	51,917	182,461
Dividends paid	(550,524)	(530,409)	(507,808)
Net cash used by financing activities	(534,507)	(264,876)	(350,430)
Cash flows from investing activities:			
Capital expenditures	(837,990)	(834,630)	(1,034,348)
Nuclear decommissioning trusts	(112,983)	(157,086)	–
Investments in leveraged leases – net	(6,101)	(200)	(102,865)
Investments in partnerships and unconsolidated subsidiaries	(272,557)	(168,332)	(164,037)
Distributions from partnerships and unconsolidated subsidiaries	100,432	55,998	37,838
Proceeds from sale of assets	35,370	27,637	23,900
Other – net	(50,871)	(19,388)	(18,217)
Net cash used by investing activities	(1,144,700)	(1,096,001)	(1,257,729)
Net increase (decrease) in cash and equivalents	(77,691)	64,941	(2,082)
Cash and equivalents, beginning of year	228,367	163,426	165,508
Cash and equivalents, end of year	$ 150,676	$ 228,367	$ 163,426
Noncash investing and financing activities:			
Obligation to fund investment in partnerships and unconsolidated subsidiaries	$13,401	$ –	$ –
Conversion of subsidiary 5.20% convertible preference stock	–	2,108	414
Conversion of subordinated debentures	–	2,973	3,136
Conversion of partnership notes to equity	–	–	18,670

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

Consolidated Statements of Capitalization

SCEcorp and Subsidiaries

Notes to consolidated statements of capitalization are on page 40

In thousands			December 31,	1989	1988
Common shareholders' equity (a):					
Common stock – no par value – 400,000,000 shares authorized, 218,474,432 and 218,461,932 outstanding at respective dates (b)				$ 2,464,266	$ 2,463,762
Retained earnings *(see accompanying statements)*				2,824,421	2,601,086
Total				5,288,687	5,064,848
Preferred stock of subsidiary (c) (d):					
		December 31, 1989			
Not subject to mandatory redemption:	Series	Shares Outstanding	Redemption Price		
Cumulative preferred:					
$25 par value:	4.08%	1,000,000	$ 25.50	25,000	25,000
	4.24	1,200,000	25.80	30,000	30,000
	4.32	1,653,429	28.75	41,336	41,336
	4.78	1,296,769	25.80	32,419	32,419
	5.80	2,200,000	25.25	55,000	55,000
$100 par value:	7.58	750,000	101.00	75,000	75,000
	8.70	500,000	104.00	50,000	50,000
	8.96	500,000	104.00	50,000	50,000
Total				358,755	358,755
Subject to mandatory redemption (e):					
Cumulative preferred:					
$100 par value:	7.325%	517,381	$103.28	51,738	54,738
	7.80	465,495	104.33	46,550	48,350
	8.54	592,500	102.75	59,250	61,500
	8.70A	419,999	104.56	42,000	43,312
	12.31	360,000	105.83	36,000	43,000
Preferred stock to be redeemed within one year				(11,738)	(11,863)
Total				223,800	239,037
Long-term debt of subsidiaries (e):					
	Maturity	Interest Rates			
First and refunding mortgage bonds (f):					
	1990 through 1993	4½% to 8¾%		515,000	575,000
	1994 through 1998	7⅛% to 9%		1,175,000	1,175,000
	1999 through 2003	8¼% to 9⅝%		700,000	700,000
	2004 through 2008	9.95%		73,500	78,750
	2009 through 2020	8⅜% to 13%		1,350,777	1,267,476
Pollution control bonds (g):	1999 through 2015	6¾% to 10¾% and variable		947,730	947,730
Funds held by trustees (g)				(11,945)	(11,119)
Debentures and notes (d) (h):	1990 through 1999	8.25% to 11% and variable		464,734	441,698
Nuclear fuel indebtedness (i)				292,517	424,168
Long-term debt due within one year				(203,337)	(154,112)
Unamortized debt discount – net				(21,212)	(22,844)
Total				5,282,764	5,421,747
Total capitalization				$11,154,006	$11,084,387

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

(a) Effective July 1, 1988, SCEcorp became the parent holding company of Southern California Edison Company (Edison) and The Mission Group. Holders of Edison's common stock became holders of SCEcorp common stock on a share-for-share basis. The California Public Utilities Commission's (CPUC) decision authorizing establishment of a holding company requires Edison to maintain a capital structure consistent with the CPUC's most recently authorized capital structure. As a result, Edison is limited as to the amount of dividends that it may pay to SCEcorp. At December 31, 1989, Edison had the capacity to pay approximately $700 million in additional dividends to SCEcorp and continue to maintain a capital structure consistent with that authorized by the CPUC.

The California Public Utilities Code also prohibits Edison from making loans or advances to SCEcorp or The Mission Group.

(b) Under Edison's Long-Term Incentive Compensation Plan, 1,477,500 shares of SCEcorp common stock were reserved at December 31, 1989, for issue to key employees in various forms, including the exercise of stock options.

A summary of SCEcorp common shares subject to option at December 31, 1989, is as follows:

Options:	Shares	Share Price Range At Grant*
Outstanding, beginning of year	–	
Granted	115,200	$32.00–$32.37
Canceled	(8,522)	32.37
Outstanding, end of year	106,678	$32.00–$32.37
Exercisable, end of year	–	–
Shares reserved for future grant:		
beginning of year	1,490,000	
end of year	1,370,822	

**Share options accrue dividend equivalents at a rate equal to dividends declared on outstanding common shares. Such dividend equivalents may be utilized against the grant price at the time the share options are exercised.*

(c) In connection with the formation of SCEcorp, each outstanding share of Edison's original preferred stock was converted into 2.1 shares of SCEcorp's common stock. Edison's authorized shares of original preferred, $25 cumulative preferred, $100 cumulative preferred, $25 preference and $100 preference stock are 480,000, 24,000,000, 12,000,000, 10,000,000 and 2,000,000 shares, respectively. There were no shares of original preferred or preference stock outstanding at December 31, 1989, and December 31, 1988. All series of cumulative preferred stock are redeemable. The 360,000 shares of $100 cumulative preferred stock, 12.31% Series, are not subject to redemption until May 1, 1992, other than pursuant to mandatory redemption provisions. The various series of $100 cumulative preferred stock are subject to certain restrictions on redemption for refunding purposes.

(d) On May 31, 1988, Edison either redeemed or converted its outstanding shares of 5.20% Series convertible preference stock and converted all of the outstanding 12½% convertible debentures at the conversion price of $16.1875. On April 30, 1989, Edison, at its option, redeemed, at par value, 35,000 shares of its outstanding 12.31% Series $100 cumulative preferred stock in addition to those shares reacquired in connection with mandatory redemption provisions.

(e) The following table presents the mandatory redemption requirements for preferred stock, long-term debt maturities and sinking-fund requirements for the five years subsequent to December 31, 1989:

	Year ended December 31,				
In thousands	1990	1991	1992	1993	1994
Preferred stock redemption requirements	$ 11,738	$ 11,738	$ 11,738	$ 12,338	$ 12,338
Long-term debt maturities and sinking-fund requirements	203,337	209,227	231,830	252,391	225,629
Total	$215,075	$220,965	$243,568	$264,729	$237,967

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

(g) Edison has issued first and refunding mortgage bonds and other indebtedness to governmental agencies in exchange for proceeds from pollution control bonds. These proceeds have been deposited with trustees and are used to finance construction of pollution control facilities. Certain pollution control bonds may be redeemed at the discretion of bondholders. Edison has made arrangements with security dealers for the remarketing or purchase of the pollution control bonds in such cases. Edison arranged lines of credit for $515 million as of December 31, 1989, to refinance these bonds, should remarketing be unsuccessful.

(h) SCEcorp's unregulated subsidiaries had debt outstanding in the amount of $99.0 million at December 31, 1989, and December 31, 1988, supported by lines of credit aggregating $392 million at December 31, 1989, and $280 million at December 31, 1988.

(i) Nuclear-fuel financing is comprised of:

	December 31,	
In thousands	**1989**	1988
Foreign-currency-denominated notes(1)(4)	**$ –**	$ 62,950
Commercial paper and notes(2)	**272,620**	338,777
Spent nuclear-fuel obligation(3)	**19,897**	22,441
	292,517	424,168
Less: Current maturities	**2,823**	65,494
Total	**$289,694**	$358,674

(1) Foreign-currency translation gains or losses have been deferred and are included in the translated value of the liability.

(2) A portion of commercial paper and $200 million in notes issued to finance nuclear fuel has been classified as long-term debt in connection with refinancing terms under lines of credit with commercial banks. The long-term portion finances nuclear fuel not scheduled for consumption within 12 months of the balance sheet dates.

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

(4) In February 1990, foreign-currency denominated notes totaling approximately $40 million were issued by a wholly owned subsidiary. The notes mature 24 months from the date of issuance and have been guaranteed by Edison.

Consolidated Statements of Retained Earnings

In thousands, except per-share amounts Year ended December 31,	1989	1988	1987
Balance at beginning of year	**$2,601,086**	$2,375,915	$2,150,751
Net income	**778,241**	761,831	738,531
Dividends declared on common stock	**(554,906)**	(536,660)	(513,367)
Balance at end of year	**$2,824,421**	$2,601,086	$2,375,915
Dividends declared per common share	**$2.54**	$2.45½	$2.35½

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

Notes to Consolidated Financial Statements

Note 1. Corporate Restructuring and Proposed Merger

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

On November 30, 1988, SCEcorp, Edison, and San Diego Gas & Electric Company (SDG&E) executed an agreement to merge SDG&E into Edison. Under the terms of the merger agreement, SCEcorp will exchange 1.3 shares of its newly issued common stock for each SDG&E common share. SDG&E preferred and preference stock will be exchanged for SCEcorp preferred and preference stock with similar provisions, except that dividends on each series will be increased between 10% and 20%. During April 1989, the shareholders of SCEcorp, Edison and SDG&E approved the merger agreement. The merger is subject to approval by regulatory agencies, including the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Hearings before the FERC and the CPUC were scheduled to begin in February and April 1990, respectively, and decisions are expected by year-end 1990.

Note 2. Summary of Significant Accounting Policies

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

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

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

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

The AFUDC rate, which reflects semiannual compounding, was 11.06% for 1989, 10.76% for 1988, and 11.57% for 1987.

Interest on loans that finance construction projects of partnerships and unconsolidated subsidiaries is capitalized until the projects are operational. Such capitalized interest is included in the consolidated statements of income as a reduction of interest charges and in the consolidated balance sheets as investments in partnerships and unconsolidated subsidiaries.

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

The estimated cost of decommissioning Edison's nuclear generating facilities is $788 million, in current-year dollars, and is recovered in rates through annual allowances charged to depreciation expense. Retail rates include annual decommissioning revenue requirements which are deposited in trusts until decommissioning begins. Trust fund contributions are invested in high-grade securities, which are reported at the lower of cost or market value. At December 31, 1989, the market value of the trusts was $275.3 million. Approximately 83% of the trust fund contributions qualify as tax deductions.

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

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

RD&D costs are reflected in the following table:

	Year ended December 31,		
In thousands	**1989**	1988	1987
RD&D costs charged to expense	**$42,555**	$43,414	$42,893
RD&D costs deferred/capitalized	**12,601**	17,455	14,855
Total RD&D costs	**$55,156**	$60,869	$57,748

Commencing in 1988, a balancing account was established for RD&D costs charged to expense. Under this mechanism, Edison is required to refund to ratepayers any authorized, but unspent, RD&D funds at the end of each general rate-case cycle.

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

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

Regulatory Balancing Accounts

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

Energy Costs An energy cost adjustment clause (ECAC) balancing account adjusts results of operations for variations between the recorded cost of fuel and purchased power, and revenue designated for recovery of such costs. Undercollected or overcollected energy costs are accumulated in the balancing account until they are recovered from, or refunded to, utility customers through CPUC-authorized rate adjustments. Previously, 90% of fuel and purchased-power costs were recovered through ECAC, and the remaining 10% of such costs were recovered through the annual energy rate (AER). On June 1, 1988, the CPUC suspended the AER rate component. As a result, all fuel and purchased-power costs, which include energy sales to Edison by unregulated energy-producing affiliates, were recovered through ECAC. The 10% AER rate component was reinstated effective February 1, 1990.

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

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

Commencing in 1988, ownership costs of San Onofre Units 2 and 3 are being recovered in base rates. The ownership costs of Palo Verde Units 1, 2 and 3 also are recovered in base rates to the extent they are not deferred in accordance with the Palo Verde rate phase-in plan, discussed below. Commencing in 1989, recovery of the remaining undercollections in the MAAC balancing accounts was authorized over a three-year period. Edison records interest income on these undercollections, excluding accumulated deferred income taxes, using the annual AFUDC rate. At December 31, 1989, $82.9 million remains to be collected in rates charged to utility customers.

Interest and Taxes Interest on regulatory balancing accounts, except for MAAC, is accrued at the three-month prime commercial paper rate. The weighted-average interest rates were 8.85% for 1989, 7.60% for 1988, and 6.57% for 1987. Income tax effects on the changes in the regulatory balancing accounts are deferred.

Palo Verde Rate Phase-In Plan Palo Verde Units 1, 2 and 3 have been in commercial operation, for rate-making purposes, since February 1, 1986, September 19, 1986, and January 20, 1988, respectively. The CPUC has adopted a 10-year rate phase-in plan, which defers $200 million of revenue during the first four years of operation for each unit. Deferrals for each unit, for years one through four, are $80 million, $60 million, $40 million, and $20 million, respectively. The deferrals and related interest income on the deferred balance will be recovered on a level basis during the final six years of each unit's rate phase-in plan. The deferred balance at December 31, 1989, is $602.1 million.

Statements of Cash Flows Beginning in 1988, SCEcorp presented statements of cash flows in conformity with a new accounting standard. Prior periods have been restated to be consistent with the current presentation. For purposes of the consolidated statements of cash flows, SCEcorp considers short-term temporary cash investments to be cash equivalents. Cash payments for interest were $512.6 million in 1989, $485.5 million in 1988, and $455.1 million in 1987.

Reclassifications Certain items in prior periods have been reclassified to conform to the financial statement presentations for December 31, 1989.

Note 3. Regulatory Matters

Energy Cost Proceedings In December 1988, the CPUC's Division of Ratepayer Advocates (DRA) recommended that the CPUC disallow $124 million of energy costs incurred between late 1984 and late 1987. Approximately $120 million of this proposed disallowance represented alleged overpayments to nonutility power producers, including electricity purchased by Edison from a 300-MW cogeneration facility owned by Kern River Cogeneration Company (KRCC). Mission Energy Company, which is one of SCEcorp's nonutility subsidiaries, is a partner in KRCC. Approximately $37 million ($44 million after escalation by the DRA to 1988 dollars) of the $120 million proposed disallowance represented the recommended disallowance for power purchases from KRCC. During hearings in early 1989, Edison demonstrated that the power purchases from KRCC actually saved its customers more than $24 million during the three years under consideration, compared with the "standard offer" contract approved by the CPUC. During the hearings, the DRA increased its proposed disallowance for the KRCC contract to approximately $43 million ($56 million after escalation by the DRA to 1988 dollars). A decision on the reasonableness of the KRCC contract is expected in 1990.

The DRA also alleged approximately $83 million in overpayments by Edison under 17 other contracts negotiated with nonutility power producers that are not SCEcorp affiliates. Edison signed these contracts during the early stages of California's efforts to rapidly develop renewable and alternative energy resources. At that time the projected prices over the lives of these 17 contracts were at, or below, avoided-cost standard-contract prices. Hearings are expected to commence in 1990 on the DRA allegations.

In December 1988, the DRA also recommended a disallowance of approximately $3 million for alleged overpayments made pursuant to a power purchase agreement with Pacific Power and Light Company (PP&L) during mid- to late 1987. In September 1989, the DRA recommended an additional disallowance of $26 million in energy costs incurred between late 1987 and early 1989. Approximately $20 million of the September 1989 proposed disallowance relates to the PP&L agreement, bringing the total proposed disallowance under this agreement to $23 million.

The probable effect that the outcome of these matters will have on net income cannot be determined at this time. Edison will work diligently to demonstrate that it reasonably entered into and administered the contracts under review.

Palo Verde Outage Review During March 1989, Arizona Public Service Company, operating agent for the Palo Verde Nuclear Generating Station, removed Units 1 and 3 from service for refueling and modifications of plant and management systems as required by regulatory agencies. The California Public Utilities Code requires Edison to notify the CPUC when a plant outage exceeds nine months. On December 6, 1989, Edison advised the CPUC of the Palo Verde outage and on December 18, 1989, the CPUC initiated an Order Instituting Investigation (OII) to determine, for rate recovery or refund purposes, the reasonableness of certain costs incurred during the period the Palo Verde units were not in service.

In its OII on December 18, 1989, the CPUC ordered the subsequent collection of customer revenue in connection with the ownership and operation of the Palo Verde units to be subject to refund pending the outcome of its outage review.

Edison, which owns a 15.8% interest in Palo Verde, believes the plant modifications and operating costs are reasonable and proper items for rate recovery. Although Edison cannot predict with certainty whether the CPUC will ultimately allow recovery of costs subject to the OII inquiry, Edison believes that the amount of refund likely to result from the investigation or the amount denied recovery, if any, will not have a material effect on results of operations.

CPUC Disallowances In July 1987, the CPUC issued a final decision affirming an October 1986 decision, but reducing the amount disallowed from $258.6 million to $198.9 million of Edison's $3.4 billion investment in San Onofre Units 2 and 3.

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

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

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

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

Note 4. Short-Term Debt

SCEcorp maintains unrestricted deposits of approximately $3 million at commercial banks and pays annual commitment fees of up to 0.125% to maintain lines of credit totaling $2.1 billion at December 31, 1989, which may be utilized at negotiated or bank index rates. Approximately $1.6 billion of these lines of credit support commercial paper and other borrowings to finance general cash requirements, fuel inventories and undercollections in regulatory balancing accounts. The remaining $515 million of these lines of credit are available for the long-term refinancing of certain variable-rate pollution-control indebtedness.

On March 14 and 15, 1989, a wholly owned subsidiary of Edison issued two series of fixed-rate notes, each in the principal amount of $100 million, to replace a portion of commercial paper borrowings for nuclear-fuel financing. These notes mature 18 and 12 months from the issuance dates, respectively. The subsidiary concurrently entered into interest-rate swap agreements to reduce the effective interest costs of the notes below prevailing commercial paper rates. The subsidiary's obligations pertaining to the notes and the interest-rate swap agreements are guaranteed by Edison.

Short-term debt of subsidiaries is comprised of:

	December 31,	
In millions	**1989**	1988
General purpose	**$ 89.2**	$ 67.1
Leveraged leases	**99.0**	99.0
Balancing accounts	**501.6**	400.0
Fuel	**481.6**	535.3
Total borrowings supported by lines of credit	**1,171.4**	1,101.4
Amount reclassified as long-term	**(371.6)**	(437.8)
Unamortized discount	**(5.8)**	(5.3)
Other short-term borrowings	**–**	0.1
Net short-term debt	**$ 794.0**	$ 658.4

Commercial paper outstanding was $893 million at December 31, 1989, and $1.1 billion at December 31, 1988.

Note 5. Income Taxes

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

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

The current and deferred components of income tax expense are:

	Year ended December 31,		
In thousands	**1989**	1988	1987
Current:			
Federal	**$253,469**	$241,917	$319,429
State	**119,542**	107,411	124,055
	373,011	349,328	443,484
Deferred – federal and state:			
Investment and energy tax credits – net	**(2,331)**	(11,210)	40,351
Depreciation	**207,703**	173,380	188,186
Regulatory balancing accounts	**(24,995)**	(79,774)	(23,871)
Leveraged leases	**35,063**	38,950	23,784
Nuclear plant disallowance	**–**	–	(78,616)
Cumulative effect of accounting change – unbilled revenue	**–**	–	58,752
Fuel inventory	**(1,890)**	26,573	14,299
Unbilled revenue	**(31,803)**	(24,420)	(27,467)
Rate phase-in plan	**66,682**	78,743	68,797
Accrued liabilities	**(21,929)**	7,994	(14,178)
Contributions in aid of construction	**(15,526)**	(28,836)	(14,000)
Interest capitalized	**(6,909)**	(7,747)	(21,605)
Other	**(728)**	2,961	(19,062)
	203,337	176,614	195,370
Total income tax expense	**$576,348**	$525,942	$638,854
Classification of income taxes:			
Included in operating expenses	**$497,793**	$446,395	$578,228
Included in other income	**78,555**	79,547	80,490
Nuclear plant disallowance	**–**	–	(78,616)
Related to cumulative effect of accounting change	**–**	–	58,752
Total income tax expense	**$576,348**	$525,942	$638,854

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

Cash payments for income taxes were $356.1 million in 1989, $421.9 million in 1988, and $466.7 million in 1987.

The following table reconciles the differences between recorded state and federal income taxes and amounts determined on income before taxes by applying the federal statutory tax rate. The federal and composite federal and state statutory income tax rates are 34% and 40.138%, respectively, for 1989 and 1988; and were 40% and 46.138%, respectively, for 1987.

	Year ended December 31,		
In thousands	**1989**	1988	1987
Expected federal income tax expense at statutory rate	**$ 460,560**	$ 437,843	$ 550,954
Increase (decrease) in income tax expense resulting from:			
Allowance for equity funds used during construction	**(4,282)**	(6,163)	(29,362)
Federal deduction for state taxes on income	**(41,976)**	(40,005)	(49,480)
Depreciation and related timing difference not deferred	**52,296**	39,015	82,558
State tax provision	**123,458**	117,662	123,700
Nuclear plant disallowance	**–**	–	(4,730)
Subsidiary preferred and preference dividends	**15,131**	15,876	20,038
Investment and energy tax credits	**(28,799)**	(34,869)	(31,251)
All other differences	**(40)**	(3,417)	(23,573)
Total income tax expense	**$ 576,348**	$ 525,942	$ 638,854
Pretax income	**$1,354,589**	$1,287,773	$1,377,385
Effective tax rate (total income tax expense ÷ pretax income)	**42.5%**	40.8%	46.4%

Deferred income taxes for tax depreciation prior to 1981 and certain construction overheads have not been provided because the tax effects of such timing differences are not allowed for retail rate-making purposes until the taxes become payable. The cumulative net amount of these timing differences was $1.8 billion at December 31, 1989, 1988 and 1987.

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

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

New Accounting Standard Under accounting rules currently in effect, deferred income tax balances are not adjusted to reflect changes in tax rates or laws. However, in 1987, the Financial Accounting Standards Board (FASB) released a new income tax accounting standard requiring such adjustments. The FASB is considering requests to amend certain provisions of the standard and, as a consequence, its effective date has been delayed three times by the FASB, most recently until 1992.

If the new income tax accounting standard becomes effective in its current form, other significant balance sheet adjustments will be recorded. SCEcorp will record additional deferred income taxes related to the equity component of AFUDC, which is currently recorded on an after-tax basis; the debt component of AFUDC, which was recorded on a net-of-tax basis prior to 1987; and other temporary differences for which deferred income taxes have not been provided.

Additional balance sheet adjustments will be recorded for the net reduction in deferred income tax liabilities resulting from income tax rate changes; the recognition of deferred income tax assets attributable to the reduction of the book basis of property by unamortized investment tax credits; and to classify property-related accumulated deferred taxes as a liability instead of a reduction of utility plant. The majority of additional deferred-tax assets and liabilities will be offset by recording regulatory assets and liabilities representing the anticipated effects of these adjustments on customer rates. Such regulatory assets and liabilities will be adjusted as they are recovered or refunded through the rate-making process and for changes in tax rates or laws. Accordingly, these changes are not expected to significantly affect future earnings.

Note 6. Employee Benefit Plans

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

Pension expense is comprised of the following components:

	Year ended December 31,		
In thousands	**1989**	1988	1987
Net pension expense:			
Service cost for benefits earned	**$ 49,307**	$ 43,340	$ 46,629
Interest cost on projected benefit obligation	**108,341**	102,249	91,025
Actual return on plan assets	**(306,493)**	(133,687)	(130,723)
Net amortization and deferral	**199,260**	40,610	46,699
Pension liability pursuant to accounting standards	**50,415**	52,512	53,630
Regulatory adjustment	**(4,210)**	(6,416)	(3,481)
Net pension cost recognized	**$ 46,205**	$ 46,096	$ 50,149

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

The plan's funded status is presented below:

	December 31,	
In thousands	**1989**	1988
Actuarial present value of benefit obligations:		
Vested benefits	**$1,061,799**	$ 905,190
Nonvested benefits	**32,781**	68,531
Accumulated benefit obligation	**1,094,580**	973,721
Value of projected future compensation levels	**486,779**	435,363
Projected benefit obligation	**$1,581,359**	$1,409,084
Plan assets at fair value	**$1,630,125**	$1,326,635
Projected benefit obligations in excess of (less than) plan assets	**$ (48,766)**	$ 82,449
Unrecognized net gain	**172,849**	49,021
Unrecognized prior service cost	**(7,000)**	–
Unrecognized net obligation being amortized over 17 years	**(84,117)**	(89,640)
Accrued pension liability	**$ 32,966**	$ 41,830
Assumptions for defined benefit pension plan:		
Discount rate	**7.5%**	8.0%
Rate of increase in future compensation	**6.0%**	6.0%
Expected long-term rate of return on assets	**8.5%**	8.5%

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

Employee Stock Plans SCEcorp maintains an Employee Stock Ownership Plan (ESOP) and a Stock Savings Plus Plan (SSPP), designed to supplement employees' retirement income. Contributions to the ESOP were funded primarily by federal income tax benefits and contributions by employees. SCEcorp contributions to the SSPP were $16.9 million each in 1989 and 1988, and $16.6 million in 1987.

Other Post-Employment Benefits Health care and life insurance are provided to retired employees and their dependents. Health care is provided by a combination of SCEcorp facilities and insurance programs. Group life insurance is provided through an insurance company. The costs of these benefits for retirees were $21.2 million in 1989, $22.8 million in 1988, and $18.0 million in 1987.

Note 7. Jointly Owned Utility Projects

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

The table below presents the investments in each project as included in the consolidated balance sheet as of December 31, 1989:

In thousands	Plant in Service	Accumulated Depreciation	Under Construction	Ownership Interest
El Dorado Transmission System	$ 23,627	$ 9,198	$ 952	60%(a)
Four Corners Coal Generating Station – Units 4 and 5	420,508	139,436	13,720	48
Mohave Coal Generating Station	234,180	98,991	8,144	56
Pacific Intertie DC Transmission System	180,925	39,496	3,049	50
Palo Verde Nuclear Generating Station	1,475,984	116,353	4,427	15.8
San Onofre Nuclear Generating Station	4,352,126	920,801	52,788	(b)
Yuma Axis Generating Station(c)	12,542	11,138	28	33.3
Total	$6,699,892	$1,335,413	$83,108	

(a) Represents a composite rate.

(b) Ownership interest in Unit 1 is 80%; ownership interests in Units 2 and 3 and common facilities are 75.05%–75.87%.

(c) In January 1990, Edison entered into an agreement to sell its interest in this facility, subject to CPUC and FERC approval.

Note 8. Leases

Investments in Leveraged Leases A wholly owned, nonutility subsidiary is the lessor in several leveraged-lease agreements, under which property is leased for terms extending from 24 to 29 years. All operating, maintenance, insurance and decommissioning costs are the responsibility of the lessees. The total cost of these facilities was $636 million and $609 million at December 31, 1989, and 1988, respectively.

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

	December 31,	
In thousands	**1989**	1988
Rentals receivable (net of principal and interest on nonrecourse debt)	**$257,782**	$243,999
Less – unearned income	**87,785**	95,972
Investments in leveraged leases	**169,997**	148,027
Less – deferred income taxes	**107,611**	74,453
Net investments in leveraged leases	**$ 62,386**	**$ 73,574**

Operating Lease Commitments SCEcorp's subsidiaries lease automotive, computer, office and miscellaneous equipment through operating rental agreements with varying terms, provisions and expiration dates. At December 31, 1989, estimated remaining rental commitments for noncancelable operating leases were as follows:

Year ended December 31,	*In thousands*
1990	$ 31,714
1991	27,566
1992	23,673
1993	18,986
1994	14,897
For periods thereafter	16,025
Total future rental commitments	$132,861

Note 9. Commitments

Construction Program and Fuel Supply As of December 31, 1989, construction expenditures for SCEcorp's subsidiaries are estimated to be $965 million for 1990, $825 million for 1991, and $854 million for 1992. In addition, minimum long-term commitments of approximately $1.66 billion existed as of December 31, 1989, under fuel-supply contracts.

Long-Term Purchased-Power and Transmission Contracts Edison has contracted to purchase a portion of the generating output of a certain facility and to purchase firm transmission service when appropriate. Although there is no investment in the facility or transmission line, these contracts provide for minimum payments based, in part, on the debt service requirements of the provider, whether or not the facility or transmission line is operable. The power contract is not expected to provide more than 5% of current or estimated future operating capacity.

The cost of power and firm transmission service obtained under these contracts, including payments made when the facility or transmission line is not operating, is included under purchased power and other operating expenses in the consolidated statements of income. Purchased-power costs are generally recoverable through the ECAC balancing-account procedure. Selected information pertaining to these contracts at December 31, 1989, is summarized as follows:

	Purchased Power	Transmission Service
Year contract expires	2017	2016
Share of effective operating capacity – megawatts	277.5	–
Share of energy output	5.54%	–
Required minimum annual payments	*In thousands*	
1990	$ 4,000	$ 4,898
1991	4,000	4,465
1992	4,000	4,287
1993	4,000	4,140
1994	4,000	4,140
For periods thereafter	91,000	64,310
Total	$111,000	$86,240

Purchased-power costs under this contract were $4.5 million in 1989, $3.8 million in 1988, and $2.3 million in 1987. Transmission costs were $4.4 million in 1989, $5.3 million in 1988, and $5.3 million in 1987.

Note 10. Contingencies

Nuclear Insurance On August 22, 1988, Congress amended the Price-Anderson Act, extending it until August 1, 2002. It increased – to $7.8 billion from $720 million – the limit on public liability claims that could arise from a nuclear incident. Participants in San Onofre and Palo Verde have purchased the maximum private primary insurance available, which currently is $200 million. The balance is to be covered by the industry's retrospective rating plan, using deferred premium charges. This secondary level of financial protection is required by the Nuclear Regulatory Commission (NRC). The maximum amount of the deferred premium that may be charged for each nuclear incident is $63 million per reactor, but not more than $10 million per reactor may be charged in any one year for each incident. Edison could be required to pay a maximum of $183.6 million per nuclear incident, on the basis of its ownership interests in San Onofre and Palo Verde, but it would have to pay no more than $29.1 million per incident in any one year. Such amounts include a 5% surcharge that would be applicable in the event that additional funds are needed to satisfy public liability claims, and are subject to adjustment for inflation.

Property damage insurance, including decontamination costs, covers losses up to $500 million at San Onofre and Palo Verde. Decontamination liability and property damage coverage in excess of the primary $500-million layer also has been purchased in amounts exceeding NRC requirements. Insurance covering part of the additional expense of replacement power, which could result from an accident-related nuclear unit outage, also is provided. After the first 21 weeks of such an outage, a maximum weekly indemnity of $2.8 million for a single unit for 52 weeks begins. An additional $1.9 million per week is provided for the next 52 weeks; and another $0.9 million per week is provided for 52 more weeks. These policies are issued primarily by mutual insurance companies owned by utilities with nuclear facilities. If losses at any nuclear facility covered by the arrangement were to exceed the accumulated funds available for these insurance programs, Edison could be assessed retrospective premium adjustments of up to $52.2 million per year. Insurance premiums are charged to operating expenses.

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

Edison filed findings of fact and conclusions of law with the court on November 21, 1986. A decision is pending.

In 1983, another resale customer also filed a suit in federal district court, alleging violation of certain antitrust laws. The customer alleges that it has been denied access to Edison's transmission lines, which limits its ability to purchase lower cost power. On July 25, 1989, Edison received the customer's final antitrust-damage study alleging total damages of approximately $59.6 million before trebling. A trial date of March 20, 1990, has been set.

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

Environmental Matters Edison is subject to numerous environmental legislative and regulatory requirements in the areas of air and water pollution; waste management; hazardous chemical use; noise abatement; land use; aesthetics; and nuclear control. These requirements have caused, and will continue to cause, Edison to incur substantial additional costs to operate its existing facilities, to construct and operate its new facilities and to clean up waste disposal sites for which it may be responsible. The total potential costs of these environmental requirements for Edison cannot be determined at this time. Edison believes that the costs incurred in complying with these environmental requirements either will be covered by insurance or recognized by the CPUC or the FERC as reasonable and necessary costs of service for rate purposes. There can be no assurance that these costs will be recoverable, but Edison believes that any costs that are unrecovered will not have a significant impact on its financial position or results of operations.

Quarterly Financial Data

SCEcorp and Subsidiaries

Unaudited

	1989					1988				
In millions, except per-share data	Total	Fourth	Third	Second	First	Total	Fourth	Third	Second	First
Operating revenue	$6,904	$1,620	$2,182	$1,572	$1,530	$6,253	$1,539	$2,029	$1,353	$1,332
Operating income	1,168	213	497	243	215	1,096	196	476	228	196
Net income	778	119	401	141	117	762	107	392	146	117
Per share:										
Earnings	3.56	.54	1.83	.65	.54	3.49	.49	1.79	.67	.54
Dividends declared	2.54	.64	.64	.64	.62	2.45½	.62	.62	.62	.59½
Common stock prices										
High	$41	$41	$37⅞	$36¼	$33⅝	$34½	$34½	$33⅝	$34½	$34
Low	31	34⅛	34½	31¼	31	29⅛	31¾	30¾	30	29⅛
Close	39⅜	39⅜	35¾	34¾	31½	32⅜	32⅜	32¾	32¾	30¾

Electric Revenue and Kilowatt-Hour Sales

Class of Service	Electric Revenue				Kilowatt-Hour Sales			
		In thousands				*In thousands*		
	% of 1989 Total	1989	1988	1987	% of 1989 Total	1989	1988	1987
Residential	**33.1**	**$2,155,328**	$1,881,290	$1,613,740	**30.9**	**21,355,283**	20,900,569	19,760,244
Agricultural	**1.6**	**105,982**	96,073	86,629	**1.6**	**1,082,919**	1,049,376	1,014,737
Commercial	**36.1**	**2,356,274**	2,095,514	1,910,480	**35.0**	**24,214,070**	23,039,977	21,610,315
Industrial	**17.9**	**1,170,246**	1,155,651	1,211,606	**22.0**	**15,221,756**	15,415,694	15,727,488
Public authorities	**8.6**	**558,811**	513,089	505,840	**8.3**	**5,761,603**	5,544,301	5,380,388
Interdepartmental	**–**	**118**	109	95	**–**	**1,232**	1,258	1,119
Resale	**1.3**	**84,979**	114,510	120,273	**2.2**	**1,498,885**	1,934,586	2,045,190
Sales of electric energy	**98.6**	**6,431,738**	5,856,236	5,448,663	**100.0**	**69,135,748**	67,885,761	65,539,481
Other electric revenue	**1.4**	**92,648**	75,446	52,394	**–**	**–**	–	–
Total	**100.0**	**$6,524,386**	$5,931,682	$5,501,057	**100.0**	**69,135,748**	67,885,761	65,539,481

Electric Revenue by Rate Components

Rate Components	Electric Revenue			% of Total		
		In thousands				
	1989	1988	1987	1989	1988	1987
Base rates – CPUC jurisdiction	**$3,625,331**	$3,397,923	$2,641,426	**55.6**	57.3	48.0
Energy cost adjustment billing factor	**2,743,451**	2,126,224	1,919,668	**42.0**	35.8	34.9
Major additions adjustment billing factor	**94,737**	153,840	804,606	**1.4**	2.6	14.6
Other billing factors	**(133,641)**	45,084	(45,604)	**(2.0)**	0.8	(0.8)
Resale rates (excluding fringe)	**88,565**	112,920	128,561	**1.4**	1.9	2.3
Unbilled revenue	**13,295**	20,245	6	**0.2**	0.3	–
Sales of electric energy	**6,431,738**	5,856,236	5,448,663	**98.6**	98.7	99.0
Other electric revenue	**92,648**	75,446	52,394	**1.4**	1.3	1.0
Total	**$6,524,386**	$5,931,682	$5,501,057	**100.0**	100.0	100.0

Selected Financial Data: 1985–1989

In thousands, except percent, per-share and ratio data	1989	1988	1987	1986 (a)	1985
SCEcorp and Subsidiaries					
Consolidated operating revenue	**$ 6,904,386**	$ 6,252,719	$ 5,601,926	$ 5,368,087	$ 5,217,167
Consolidated operating expenses	**5,736,612**	5,156,351	4,637,135	4,420,931	4,240,175
Consolidated net income	**778,241**	761,831	738,531	520,727	702,409
Weighted-average shares of common stock outstanding (000)	**218,463**	218,332	218,014	217,780	215,696
Per-share data:					
Earnings	**$3.56**	$3.49	$3.39	$2.39	$3.26
Dividends declared	**2.54**	2.45½	2.35½	2.25	2.13
Book value (a)	**24.21**	23.18	22.16	21.13	21.04
Market value at year end	**39⅜**	32⅜	30½	33⅞	26⅝
Dividend payout ratio (declared basis)	**71.3%**	70.3%	69.5%	94.1%	65.3%
Rate of return on common equity (a)	**14.99%**	15.33%	15.51%	11.09%	15.75%
Price/earnings ratio	**11.1**	9.3	9.0	14.2	8.2
Ratio of earnings to fixed charges	**2.79**	2.86	2.91	2.71	2.97
Total assets (a)	**$15,443,051**	$14,866,276	$14,350,664	$13,683,053	$13,256,054
Common stock–paid-in capital	**2,464,266**	2,463,762	2,457,819	2,454,318	2,450,754
Retained earnings	**2,824,421**	2,601,086	2,375,915	2,150,751	2,128,646
Common shareholders' equity (a)	**5,288,687**	5,064,848	4,833,734	4,605,069	4,579,400
Preferred and preference stock of subsidiary:					
Not subject to mandatory redemption	**358,755**	358,755	361,238	361,654	462,500
Subject to mandatory redemption	**223,800**	239,037	277,538	299,049	395,074
Long-term debt of subsidiaries	**5,282,764**	5,421,747	5,150,883	5,122,243	5,175,624
Southern California Edison Company					
Financial data:					
Earnings available for common stock	**$678,642**	$684,689	$697,188	$503,198	$694,113
Earnings per share (b)	**3.10**	3.14	3.20	2.31	3.22
Internal generation of funds	**88%**	100%	77%	74%	65%
Operating and sales data:					
Area peak demand (MW)	**15,632**	15,987	14,775	14,599	14,587
Area generating capacity at peak (MW)	**20,136**	18,893	18,206	18,320	17,776
Kilowatt-hour sales (000)	**69,135,748**	67,885,761	65,539,481	64,197,405	64,984,566
Customers	**3,940,949**	3,831,656	3,717,262	3,589,414	3,490,325
Employees	**16,627**	16,660	17,086	17,553	17,182
The Mission Group					
Common shareholder's equity	**$735,263**	$505,371	$292,108	$166,381	$134,310
Net income	**99,893**	77,763	41,343	17,529	8,296
Earnings per share (b)	**46¢**	35¢	19¢	8¢	4¢
Percent of SCEcorp's earnings per share	**12.9%**	10.0%	5.6%	3.3%	1.2%

(a) Restated for nuclear-plant construction-cost disallowances described in "Notes to Consolidated Financial Statements."
(b) Based on weighted-average shares of SCEcorp common stock outstanding.

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

Results of Operations

Earnings Summary Earnings per share for 1989 increased 7 cents from $3.49 to $3.56. Net income rose to $778.2 million in 1989 compared with $761.8 million in 1988 and $738.5 million in 1987. Revenue increased to $6.9 billion compared with $6.3 billion and $5.6 billion in 1988 and 1987, respectively. Factors contributing to the increased earnings include continued emphasis on cost containment and higher earnings from The Mission Group.

The Mission Group's contribution to earnings per share for 1989 was 46 cents, or 13%, of total SCEcorp earnings, compared with 35 cents, or 10.0%, in 1988, and 19 cents, or 5.6%, in 1987. The Mission Group's net income for 1989 was $99.9 million, up 28.5% from the $77.8 million earned in 1988. The higher earnings for the year resulted largely from additional Mission Energy projects placed into operation, project-financing investments at Mission First Financial and the management and sale of Mission Land properties. The increased earnings of the nonutility businesses more than offset a slight decline in utility earnings.

Utility earnings declined slightly in 1989 primarily as a result of costs associated with the Palo Verde Nuclear Generating Station (Palo Verde) outage, as discussed in Note 3 of "Notes to Consolidated Financial Statements," and the one-time effort to secure regulatory approvals of the proposed merger with San Diego Gas & Electric Company (SDG&E). These costs were partially offset by an increase in Southern California Edison Company's (Edison) authorized rate of return on common equity for 1989 and tight cost controls limiting the growth in operation and maintenance expenses.

Operating Revenue and Sales More than 98% of electric operating revenue is derived from retail sales, which are subject to rate regulation by the California Public Utilities Commission (CPUC). The remaining revenue is from sales to wholesale customers, which are regulated by the Federal Energy Regulatory Commission (FERC). Electric operating revenue increased $592.7 million, or 10.0%, when compared to last year. The increase in revenue is attributable to rate changes, including the attrition increase that became effective January 1, 1989, changes which reflect CPUC authorization of the recovery of energy costs, and a 2.6% increase in retail sales that resulted primarily from the addition of approximately 109,000 new customers. Partially offsetting the increases was a 22.5% decline in resale sales volume due to the availability of alternative energy sources to resale customers.

Investment and other operating revenue increased approximately $59 million, or 18.4%, primarily as a result of the continued growth in the nonutility businesses.

Operating Expenses Operating expenses in 1989 increased $580.3 million, or 11.3%, over 1988, compared with increases of $519.2 million, or 11.2%, in 1988, and $216.2 million, or 4.9%, in 1987.

The net increase in operating expenses resulted primarily from utility operations. Energy costs increased $426.4 million, or 19.3%, in 1989, compared with increases of $335.5 million in 1988, and $231.4 million in 1987. The increase in 1989 is primarily attributable to an increase in purchased-power costs of $403.4 million, or 32.7%, resulting from increased mandatory purchases from nonutility power producers at CPUC-mandated rates, which are higher than those for economy purchases, and a 2.4% increase in fuel expense as a result of higher fuel costs. The effect on earnings of energy-cost fluctuations is minimized by regulatory adjustment mechanisms established by the CPUC and the FERC.

The provisions for regulatory adjustment clauses for 1989 reflect net overcollections of $184.2 million, compared with $240.7 million in 1988 and $225.1 million in 1987. The overcollections are attributable to growth in kilowatt-hour sales, and CPUC-authorized recovery of previously deferred energy costs through the Energy Cost Adjustment Clause. The overcollection in 1989 was less than in 1988, due primarily to higher energy costs during the year.

Other operating expenses have increased $103.8 million in 1989 from 1988. The increase is due primarily to the costs associated with the Palo Verde outage, the proposed merger with SDG&E, system growth and increased nonutility operations. Efforts to secure the regulatory approval of the proposed merger with SDG&E will continue in 1990.

Income taxes on operating income for 1989 increased $51.4 million, or 11.5%, when compared to 1988, primarily as a result of increased revenue and certain nonrecurring nuclear decommissioning tax benefits received in 1988.

Other Income and Deductions Pursuant to the Palo Verde Rate Phase-In Plan, discussed in Note 2 of the "Notes to the Consolidated Financial Statements," revenue deferrals for each of the three units start at $80 million for the first year of operations and decrease by $20 million in each of the next three years. The declining amount of these deferrals resulted in reductions in the provision for rate phase-in plan of $51.4 million when compared to 1988.

Utility companies capitalize an Allowance for Funds Used During Construction (AFUDC), which represents the cost of debt and equity capital used to finance construction of plant additions. AFUDC has declined steadily over the past three years as a result of the completion of major utility construction projects.

The $46.6 million increase in interest income over 1988 resulted primarily from increased accumulated regulatory deferrals, higher interest rates and increased investment balances.

Interest Expense Interest expense increased approximately $49 million, or 8.9%, in 1989 compared with 1988, primarily as a result of increased short-term borrowings and higher interest rates.

New Accounting Standard As discussed further in Note 5 of the "Notes to Consolidated Financial Statements," if the new income tax accounting standard becomes effective in its current form, major balance sheet adjustments will be recorded. The Financial Accounting Standards Board (FASB) is considering requests to amend certain provisions of the new standard and as a consequence, its effective date has been delayed three times by the FASB, most recently until 1992. These changes are not expected to significantly affect future earnings.

Financial Condition

Liquidity and Capital Resources SCEcorp's liquidity is affected primarily by dividend payments, and by the subsidiaries' construction expenditures and debt maturities. Capital resources include cash provided by the subsidiaries' operations and external financings.

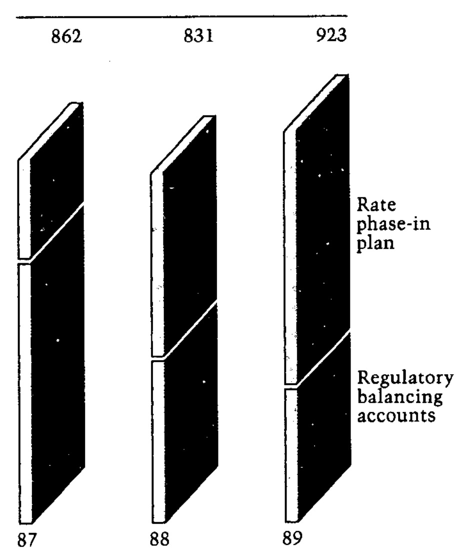
Market conditions and other factors, including limitations imposed by Edison's Articles of Incorporation and Trust Indenture, influence external financings. As of December 31, 1989, Edison could issue approximately $4.3 billion of additional First and Refunding Mortgage bonds and $2.1 billion of preferred stock at current interest and dividend rates.

The majority of SCEcorp's capital requirements continue to be met by cash generated through operations. For 1989, cash from operations increased 12.3% over last year, due primarily to declining revenue deferrals under the Palo Verde Rate Phase-In Plan and the completion of major construction projects, both with corresponding increases in cash revenue.

Monthly revenue deferrals under the Palo Verde Rate Phase-In Plan peaked in late 1988 and will continue to decline in future periods with corresponding increases in cash revenue. The total accumulated deferral is expected to peak in 1990 and decline thereafter as it is collected.

SCEcorp raised $193.3 million in 1989 through the issuance of long-term debt, of which Edison raised $148.1 million, primarily to repay bond maturities and meet sinking-fund requirements. The nonutility subsidiaries' long-term debt is primarily used to finance their continued growth and meet their capital requirements. In conformity with CPUC rate-

Balancing Account Undercollections and Rate Phase-in Plan (Utility)
In millions of dollars



making procedures, Edison's short-term borrowings finance fuel inventories and balancing account undercollections. The principal and interest related to these special purpose short-term borrowings are recovered through balancing account mechanisms. Total short-term debt increased $135.5 million in 1989. Note 4 of "Notes to Consolidated Financial Statements" discusses available lines of credit and related short-term borrowings.

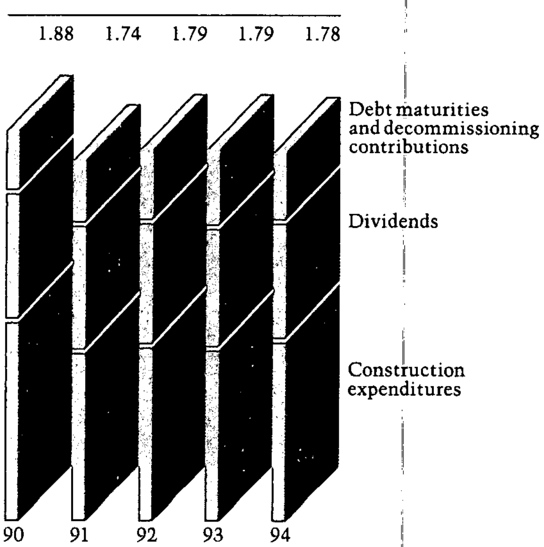
Net cash used by investing activities in 1989 increased $48.7 million over 1988, reflecting the subsidiaries' increased investments in nonutility businesses, offset partially by increased distributions from partnerships and a decrease in Edison's contributions to the nuclear decommissioning trusts. The initial contribution to nuclear decommissioning trusts in 1988 included contributions for prior years.

In June 1989, the CPUC authorized Edison a rate increase of $201 million, or 3.3%, effective July 1, 1989. The principal reason for the increase was to offset Edison's higher energy costs. The CPUC's rate-making procedure for energy costs is designed to reimburse Edison for its actual costs without profit. In the fourth quarter of 1989, the CPUC authorized a rate increase of $59.6 million for 1990, which includes an attrition rate increase of $41 million to offset Edison's higher nonfuel expenses. Additionally, the CPUC authorized a 12.85% return on common equity for 1990 for Edison, compared with 13.00% for 1989 and 12.75% for 1988.

The CPUC decision authorizing establishment of a holding company requires Edison to maintain a capital structure consistent with the CPUC's most recently authorized capital structure. As a result, Edison is limited as to the amount of dividends it may pay SCEcorp. At December 31, 1989, Edison had the capacity to pay approximately $700 million in additional dividends to SCEcorp and continue to maintain a capital structure consistent with that authorized by the CPUC. Additionally, the California Public Utilities Code prohibits Edison from making loans or advances to SCEcorp or The Mission Group. These restrictions are not expected to have an impact on SCEcorp's ability to meet its cash obligations.

Dividend payments and subsidiaries' construction expenditures continue to be the primary uses of capital. Edison's contributions to nuclear decommissioning trusts will continue until the nuclear units are decommissioned.

Projected Capital Requirements (SCEcorp)
In billions of dollars



Capital Structure

SCEcorp's capital structure at December 31, 1989, is reflected in the following table:

Common equity	47.4%
Preferred stock	5.2
Long-term debt	47.4
Total	100.0%

Pending Merger

As discussed in Note 1 of "Notes to Consolidated Financial Statements," during April 1989, the shareholders of SCEcorp, Edison and SDG&E approved the merger of SDG&E into Edison. Under the terms of the merger agreement, SCEcorp will exchange 1.3 shares of its newly issued common stock for each SDG&E common share. SDG&E preferred and preference stock will be exchanged for SCEcorp preferred and preference stock with similar provisions, except that dividends on each series will be increased between 10% and 20%. The proposed merger remains subject to the approval of various regulatory agencies, including the CPUC and the FERC. These agencies have established regulatory review schedules which are expected to lead to decisions in 1990.

Pro forma financial statements of the combined companies are presented in SCEcorp's 1989 Securities and Exchange Commission Form 10-K.

Stock Listing and Trading Information

SCEcorp common stock Listed on the New York, Pacific, London and Tokyo stock exchanges under the ticker symbol SCE. Shareholders can find the previous day's closing price in daily newspapers under the symbols SCEcp, or SCEcorp.

Edison preferred stocks Listed on the American and Pacific stock exchanges under the ticker symbol SCE. Previous day's closing prices are listed in the American Stock Exchange listing table under the symbol SoCalEd. The 7.325%, 7.80%, 8.70% A and 12.31% series are not listed.

Where to buy and sell stock The listed common and preferred stocks may be purchased through any brokerage firm. Firms handling unlisted series can be located through your broker.

Dividend-reinvestment and deposit services Please call or write the company's Shareholder Services for a prospectus on how SCEcorp's common stock shareholders can purchase additional shares by reinvesting their quarterly dividends. The plan also allows optional cash payments of up to $10,000 per calendar month. If you wish to have your dividend check mailed directly to your bank for deposit, send instructions, including your shareholder account, your bank account and the complete address of the bank to SCEcorp.

Transfer Agent and Registrar

Southern California Edison Company maintains shareholder records and acts as transfer agent and registrar for SCEcorp common stock and Edison preferred stocks. Shareholders may call Shareholder Services at (800) 347-8625 between 8:00 a.m. and 4:30 p.m. (Pacific time) every business day, regarding:

- stock transfer and name-change requirements
- address changes, including dividend addresses
- taxpayer identification number (Social Security number) submission or changes
- replacement of dividend checks
- duplicate 1099 forms and W-9 tax certification forms
- notices of lost or destroyed stock certificates
- SCEcorp's Dividend Reinvestment Plan, including enrollment, withdrawal, terminations, transfers and statements

Shareholders may call the 800 line or write to:
Shareholder Services
P.O. Box 400, Rosemead, California 91770
FAX: (818) 302-4815

How to transfer stock Whenever there is a name change on a stock certificate, regulations require a transfer of stock. This can happen when you sell the stock, make a gift of stock, or add or delete owners of the certificate. The transfer can be made by filling in the stock assignment form on the back of the stock certificate and signing it exactly as the name appears on the front. The signature of the individual transferring the stock must be guaranteed by a commercial bank or a brokerage firm that is a member of a national securities exchange. A notary's acknowledgment is not acceptable. The certificate should then be sent to Shareholder Services by registered or certified mail.

Annual Meetings of Shareholders

The annual meetings of shareholders of SCEcorp and Edison will be held on Thursday, April 19, 1990, at 10:00 a.m. at the Industry Hills and Sheraton Resort, One Industry Hills Parkway, City of Industry, California.

Shareholder Profile

As of December 31, 1989, there were 145,870 SCEcorp common stock shareholders of record and 14,109 Edison preferred stock shareholders. Thousands of other shares are held in "street name" by securities brokers and nominees. Below is a profile of common stock shareholders.

By account registration:	
Women	48,385
Joint accounts	38,279
Men	33,344
Fiduciaries	23,312
Securities brokers, nominees, others	2,550

By geographic area:	
California	77,580
Remainder of the United States	67,800
Foreign countries	490

By shares owned:	
1–99	38,877
100–300	55,580
301–500	20,419
501–1,000	19,059
1,001 or more	11,935

Corporate Offices

SCEcorp
2244 Walnut Grove Avenue
Rosemead, California 91770
(818) 302-2222

Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770
(818) 302-1212

The Mission Group
3010 Old Ranch Parkway
Seal Beach, California 90740
(213) 431-8488

2244 Walnut Grove Avenue
Rosemead, California 91770
(818) 302-2222

-NOTICE-

THE ATTACHED FILES ARE OFFICIAL RECORDS OF THE RECORDS & REPORTS MANAGEMENT BRANCH. THEY HAVE BEEN CHARGED TO YOU FOR A LIMITED TIME PERIOD AND MUST BE RETURNED TO THE RECORDS & ARCHIVES SERVICES SECTION P1-122 WHITE FLINT. PLEASE DO NOT SEND DOCUMENTS CHARGED OUT THROUGH THE MAIL. REMOVAL OF ANY PAGE(S) FROM DOCUMENT FOR REPRODUCTION MUST BE REFERRED TO FILE PERSONNEL.

-NOTICE-