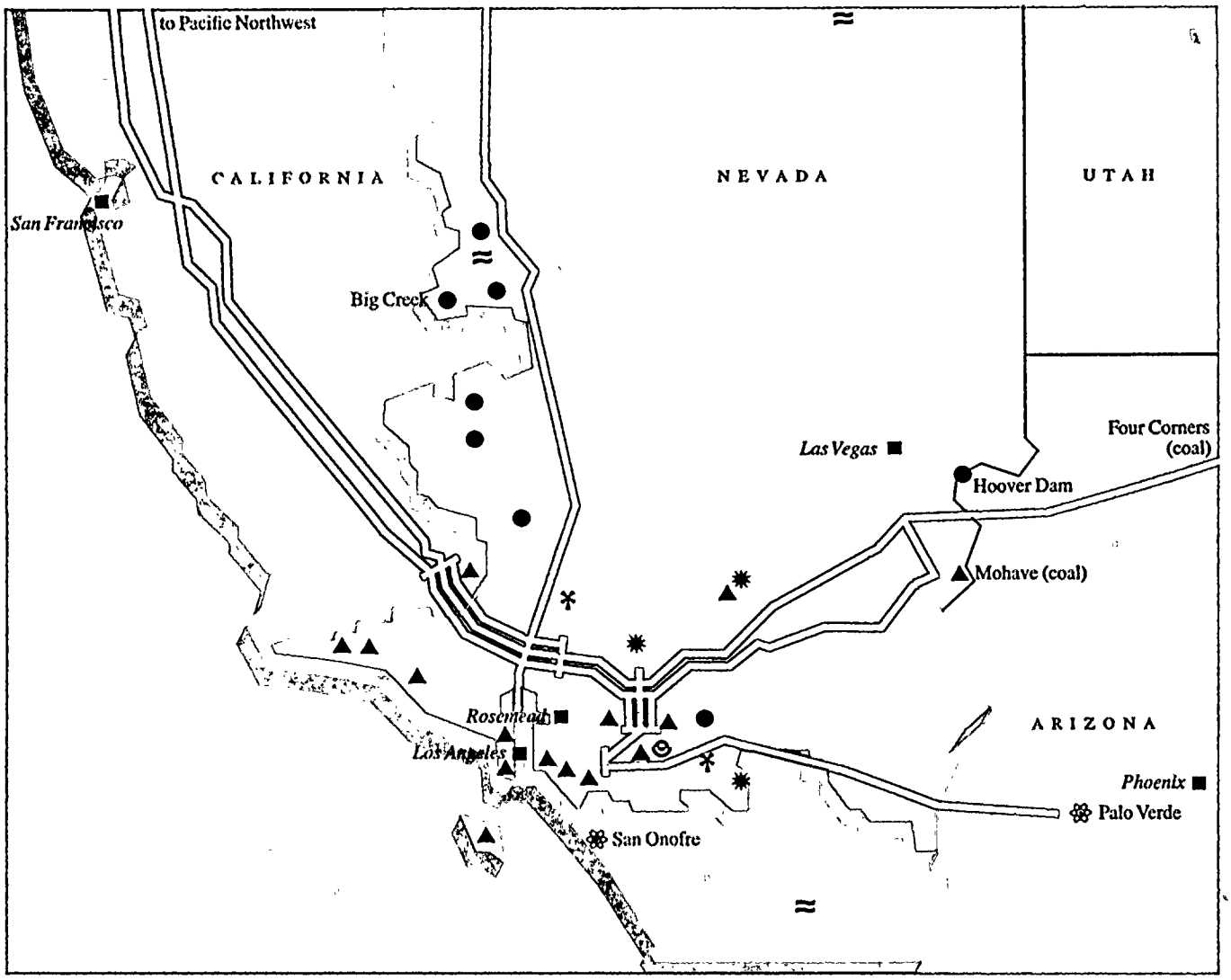
1987 Annual Report

Southern California Edison Company

Quality service in a changing



□ Service territory
Extra high voltage (EHV) transmission lines
● Hydroelectric
▲ Fossil (includes coal gasification)
Nuclear
≈ Geothermal
Wind
Solar
Biomass

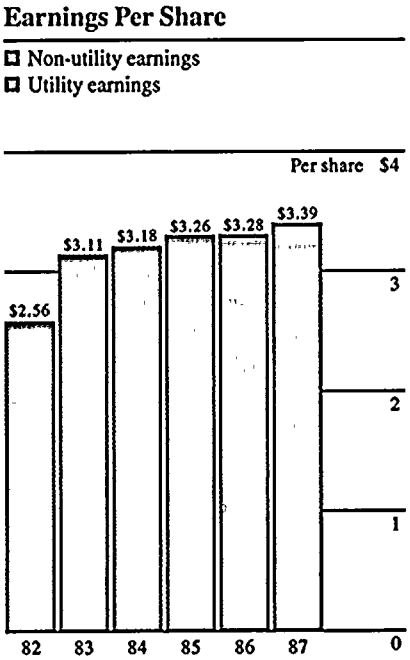
Southern California Edison Company provides electric service to a 50,000-square-mile area of Central and Southern California. With headquarters in Rosemead, California, Edison is an investor-owned, regulated utility serving 10 million people in one of the nation's most dynamic and prosperous regional economies. The Company supplies 3.7 million customers with electricity from nine energy resources, more resources than any other electric utility in the world.

Contents:

Highlights

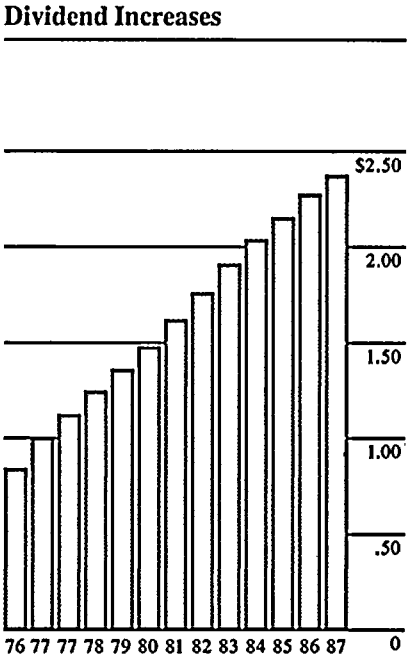
	1987	1986	Percent Change	Five-Year Compound Annual Growth Rate
Operating revenues (000)	$5,492,669	$5,311,733	3.4%	5.0%
Fuel and purchased power costs (000)	$1,870,788	$1,653,854	13.1	(3.4)
Net income (000)	$788,626	$768,617	2.6	7.3
Earnings available for Common and Original Preferred Stock (000)	$738,531	$713,933	3.4	8.8
Weighted average shares of Common and Original Preferred Stock (000)	217,966	217,732	0.1	2.9
Earnings per share	$3.39	$3.28	3.4	5.7
Dividends paid per common share	$2.33	$2.22	5.0	7.1
Market price per common share—year-end	$30½	$33⅞	(10.0)	11.7
Book value per common share	$23.05	$22.02	4.7	5.7
Total assets (000)	$14,218,570	$13,768,668	3.3	7.0
Funds used for construction expenditures (000)	$1,021,178	$1,156,385	(11.7)	0.5
Kilowatt-hour sales (000)	65,539,481	64,197,405	2.1	2.0
Number of customers	3,717,262	3,589,414	3.6	2.6
Number of employees	17,083	17,553	(2.7)	1.6
Area generating capacity at peak (megawatts)	18,206	18,320	(0.6)	3.5

Earnings Per Share



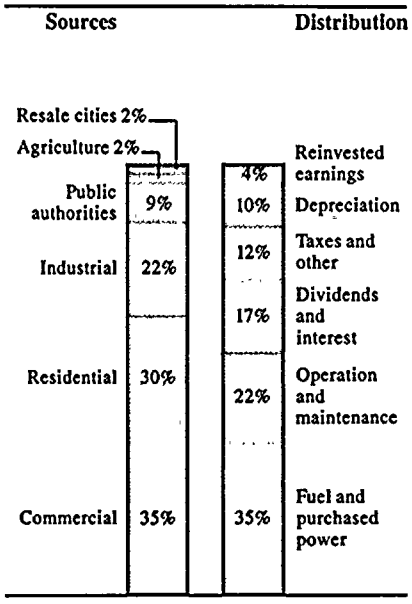
For the calendar year 1987, the Company achieved its seventh consecutive year of record earnings. Earnings from non-utility subsidiaries more than doubled in 1987, contributing 19¢, or 5.6%, of total earnings.

Dividend Increases



In June, Edison increased the dividend on common stock 4.4% to $2.38 per share, the 12th increase in the past 11 years.

Sources and Distribution of Revenues



The Company's 1987 sources of revenue reflect a reasonably balanced contribution among the three major customer classes—commercial, residential and industrial. Fuel and purchased power costs continued to represent the largest portion of the distribution of revenues.

The Year at a Glance

Earnings per share of common stock rose to an all-time high of $3.39, the seventh consecutive year of record earnings.

The Board of Directors increased the common stock dividend 4.4% in June to $2.38 per share, the 12th increase in the past 11 years.

Net income rose to a record $788.6 million and revenues to a record $5.5 billion.

Although the price of Edison common stock declined in 1987, it outperformed the Dow Jones utility average for the year. Its financial strength was exhibited during the stock market's October 19 plunge as Edison's common stock price decreased 14%, compared with 23% for the Dow Jones industrial average. Edison stock has since recovered all that it lost during the market plunge.

Compound annual return to shareholders over the past five years was 21% from stock appreciation and dividends, exceeding the Dow Jones industrial and utility averages, as well as the Standard & Poor's 500 index.

Internal generation of funds rose to 77%, the highest level in more than 25 years.

The Company had a net increase of nearly 128,000 customers in 1987, the highest growth in its history, surpassing 1986 growth by 29%.

Sales to retail customers increased 5.1%; total sales, including municipal and utility customers, rose 2.1%, despite a 46% reduction in sales to Edison's six resale cities that obtained most of their power from other sources.

The California Public Utilities Commission (CPUC) issued its final decision on construction costs of Edison's nuclear plants, allowing the Company to recover in rates 94% of its investment in San Onofre Units 2 and 3, 98% of its investment in Palo Verde Units 1, 2 and 3, and 100% of the seismic upgrading costs for San Onofre Unit 1.

Edison's three units at the San Onofre Nuclear Generating Station produced almost 17% of the Company's electrical generation in 1987, and produced the second highest output of any nuclear plant in the nation.

The CPUC's 1988 general rate case decision brought customer rates more closely in line with the Company's actual cost of providing service; although the Commission lowered the authorized rate of return on common equity from 13.9% in 1987 to 12.75% in 1988, it adopted more realistic expense levels than in past decisions.

The 207-megawatt Balsam Meadow hydroelectric unit went into service ahead of schedule and $44 million under budget on December 1, 1987, after four years of construction with an excellent safety record.

Edison initiated an ambitious five-year Cost Containment Plan designed to reduce projected 1992 revenue requirements from customers by $900 million.

The CPUC authorized the formation of a holding company, to be called SCEcorp. Subject to shareholder approval, it will commence operation on July 1, providing a better separation of utility and non-utility businesses.

Fellow Shareholders:

An Outstanding Year

By every important measure, 1987 was one of the most successful years in your Company's history. In addition to setting new financial and operating records, Edison laid the foundation in 1987 for future success despite significant changes in our business environment.

Our earnings per share of $3.39 in 1987—the seventh consecutive year of record earnings—are particularly noteworthy in light of the many changing business conditions and regulatory actions that occurred during the year. Among these were the California Public Utilities Commission (CPUC) action lowering our authorized rate of return on common equity to 13.9% in 1987 from 14.6% in 1986, and disallowing $237 million of the construction costs of our San Onofre and Palo Verde nuclear power plants.

Regulatory Issues Resolved

On the positive side, we resolved many of the major regulatory issues that had been pending before the CPUC—some for many years. These included recovery of the safety and seismic upgrading and replacement fuel costs of San Onofre Unit 1, the recovery of almost all the costs of settling fuel oil and uranium supply contracts, and the CPUC decision on our 1988 general rate case application. However, one part of the rate case decision will result in dramatic distortions of quarterly earnings comparisons between 1987 and 1988 quarters, but will have little or no effect on full-year results. This matter is more fully explained on page 17.

Many important issues still face us in today's changing business, governmental and regulatory environment. We are working hard to remain flexible and innovative to meet whatever the future holds. One major issue is efforts at the federal level to deregulate the electric utility business. While continuing to believe that this is not in our customers' best interests, we are prepared to protect our shareholders and customers if it comes about.

Customer Self-Generation

Another immediate challenge is the threat that some of our large industrial and commercial customers will bypass the Edison system and generate their own electricity, increasing costs to the remaining customers, especially residential ones. Bypass has appeared attractive to some customers because their cost of self-generated electricity sometimes is lower than prices Edison has been required to charge them under the rates set by the CPUC. In brief, the Commission in the past has set residential rates too low, and large commercial and industrial customer rates too high, when compared with our cost of serving these customer classes.

Meeting Business Challenges

We are meeting this challenge on three fronts by:

• Working with the CPUC to restructure our rates so that rates for all customer classes will more nearly reflect the actual cost of serving them. Under the plan, which the CPUC has approved, we expect to remove the artificial financial incentive for many of our large commercial and industrial customers to generate their own electricity.

• Launching new programs to strengthen our ability to provide Quality Service to these customers. We have sharply expanded communications and service assistance programs for our 200 largest commercial and industrial customers, who provide about one-fifth of our revenues.

• Establishing a Cost Containment Plan that substantially cuts our operating costs in 1988 and beyond, thus lowering our cost of providing service to all customers and making our cost of service more competitive. Our Cost Containment Plan calls for reducing our customer revenue requirements by $900 million by 1992, compared with what they would have been without these actions.

These ambitious goals will be difficult to achieve, but your management is committed to keeping the Company competitive. Together, these steps should assure our continued ability to provide quality customer service at reasonable and competitive rates and a fair return to our shareholders.

With our near-term major power plant construction program behind us, we are beginning to generate more funds than are needed for investment in our utility business. Moreover, returns from the utility business alone are not expected to give us the future earnings growth we wish to achieve. Accordingly, to achieve the earnings growth we desire, we are seeking ways to invest prudently and profitably in other enterprises.

Holding Company Proposal

To achieve this and ensure a better separation of our utility and non-utility businesses, management and the Board of Directors have proposed to shareholders the creation of a holding company, to be called SCEcorp. If shareholders approve our proposal at the annual meeting in April, we anticipate that the holding company will commence operations on July 1, 1988.

As part of these efforts, H. Frederick Christie resigned the presidency of Southern California Edison in September to become President of The Mission Group, our subsidiary that oversees the operation of Edison's non-utility businesses. During this transition period, your Chairman assumed the additional title of President.

Management Changes

Effective January 1, 1988, several officers were assigned new responsibilities to broaden their management experience. Charles B. McCarthy, Jr., a nuclear engineer who had been our Vice President-Customer Service, became Vice President and Site Manager at our San Onofre nuclear generating facility. Harold B. Ray, who previously headed operations at San Onofre, became Vice President-Fuel and Material Management. Robert H. Bridenbecker, previously Vice President-Fuel Supply, succeeded Mr. McCarthy as head of our Customer Service Department. In addition, Michael L. Noel, Vice President and Corporate Treasurer, assumed officer responsibility for the Company's Health Care Department.

We also have had some changes in our Board of Directors. Charles D. Miller, Chairman and Chief Executive Officer of Avery International, was elected to succeed H. Russell Smith, who ably served on Edison's board for 13 years. Robert H. Smith, President and Chief Executive Officer of Security Pacific Bank, joined the Board in September, succeeding Mr. Christie.

Our achievements in 1987, and our ability to quickly and prudently adapt to new business conditions, make me proud to lead an outstanding officer and management team and our 17,000 able, dedicated and hard-working employees. With the continuing wise counsel of our Board of Directors, and the support of you, our shareholders, I look forward to a successful 1988.

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

February 18, 1988

Ray Cervantes, a distribution crew foreman, oversees the installation of underground electric service at a new housing development in Chino Hills, located in the "Inland Empire" east of Los Angeles. This area covers the two fastest-growing counties in California—Riverside and San Bernardino. During 1987, Edison gained an all-time record of nearly 128,000 new customers, continuing a trend of significant growth in recent years.

1987 was an excellent year for Southern California Edison Company in terms of service to customers, operational achievements and financial performance. Management leadership, together with teamwork among 17,000 employees, contributed greatly to this success. In a changing business environment, Edison continued to strongly emphasize quality service for customers, a competitive return for its shareholders, and creation of a rewarding work environment for its employees.

Customer Growth and Energy Sales

Edison serves 3.7 million customers, the second highest number of any electric utility in the nation. Its generally prosperous and rapidly growing service territory covers 50,000 square miles in Central and Southern California.

The Company recorded the highest customer growth in its history, with a net increase of nearly 128,000 customers during 1987. This increase surpassed growth in 1986 by 29%, and was nearly 9% above the previous record set in 1964. Residential customers represented about 88% of the total customer growth.

New customers were the main reason that retail electric sales grew 5.1% —from 60.4 billion kilowatt-hours (kwh) in 1986 to 63.5 billion kwh during 1987. Electric sales would have been even higher except for mild summer temperatures that reduced air-conditioning use.

Edison's total electric sales, including sales to other utilities and municipalities, increased by 2.1%—from 64.2 billion kwh in 1986 to 65.5 billion kwh during 1987. These gains were achieved despite a 46% decline in energy purchases by Edison's six resale city customers, who now obtain most of their electric power from sources other than the Edison system.

The peak customer demand for electricity was 14,775 megawatts (MW) on September 2, 1987. This was the second highest peak in Edison's history, surpassed only by the 15,189 MW record set during an extended heat wave in September 1984.

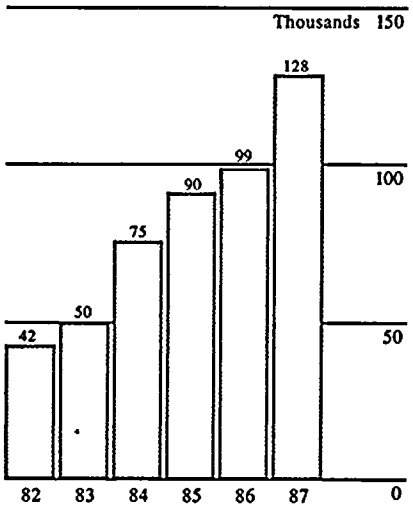
Customer Self-Generation

Despite growth in its customers and electric sales, the Company has faced a business environment in which some commercial and industrial customers have decided to generate their own electricity, thereby leaving the Company's electric system. This problem of customer self-generation is faced by many electric utilities across the country.

In California, the incentive for self-generation largely arises from a California Public Utilities Commission (CPUC) past practice—encouraged by legislative policy—of establishing rates that subsidize residential customers at the expense of commercial and industrial users. Because of this rate structure, large customers have paid significantly more than what it costs Edison to serve them, and often more than it would cost them to generate their own electricity. Unfortunately, the departure of these large customers could substantially increase electricity prices to the remaining customers, especially residential customers.

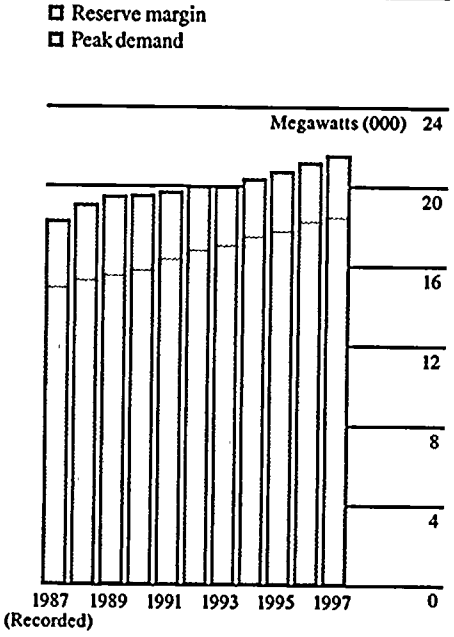
The Company did a number of things during the year to help correct this situation. In its 1988 general rate case, decided by the CPUC in December 1987, Edison sought and obtained approval of a rate structure based more closely on the costs of serving each class of customers—residential, commercial and industrial. Effective January 1, 1988, the CPUC approved average rate increases for residential customers of 4.9%, while rates for large commercial and industrial customers were reduced an average 4.7%. The Commission also granted Edison's request for more flexibility in negotiating rates and services for some large customers. The 1988 general rate case decision should go a long way in helping to reduce self-generation by making Edison's rates more competitive.

Customer Growth



In 1987, almost 128,000 customers were added to the Edison system. This represents the largest annual increase in the Company's history and indicates the economic prosperity within Edison's service territory.

Projected Peak Demand and Reserve margin



The Company's reserve margin in 1987 assured system reliability on September 2 when peak customer demand for electricity reached 14,775 megawatts. With the recent completion of the Balsam Meadow hydro project and Palo Verde nuclear Unit 3, the Company will continue to have sufficient generating capacity to meet sales growth.

Ron Frontino, a major account executive in the Customer Service Department, has helped the Kimberly-Clark Company cut electricity bills at its paper products manufacturing plant in Fullerton. With his assistance, Kimberly-Clark was able to take advantage of lower rates available to customers willing to curtail their electricity use when there is excessive demand on the Edison system. Major account executives serve as single points of contact for meeting promptly and efficiently all the energy-related needs of Edison's 200 largest customers.

In addition, the Company's energy service representatives work with commercial and industrial customers to develop better alternatives to self-generation, including ways to reduce electricity costs through special rates and the installation of more energy-efficient equipment. Further, the Company expanded its special service program to cover the 200 largest commercial and industrial customers, twice as many as before. These large customers represent about one-fifth of Edison's revenues. Under the program, major account executives serve as a single point of contact in determining and meeting all the energy-related needs of these customers promptly and efficiently.

Cost Control

To remain competitive in a changing business environment, Edison is committed to reducing substantially the costs of doing business in 1988 and beyond without compromising its high quality of service to customers. This commitment has resulted in the five-year Cost Containment Plan, put into effect in 1987, with the goal of reducing previously projected 1992 revenue requirements from customers by $900 million.

These steps include sharply reducing the Company's planned construction expenditures for 1988-1992; holding annual increases in the operations and maintenance budget below the rate of inflation; and reducing fuel and purchased power costs.

Though the Company has a lean and highly productive work force, it also has been seeking ways to establish better control of the number of employees and cut costs even more. In 1987, Edison streamlined various departments and took a number of actions to increase the efficiency and productivity of its work force. Total employment at the end of 1987 was 17,083, a decline of 470 from the 1986 level. The number of corporate officers was reduced to 16 in 1987, a decrease of five over the last three years.

During the year, the Company also consolidated its five geographic divisions into four, thereby cutting costs and achieving a more efficient utilization of personnel and physical resources.

Customer Service

A key element in the Company's approach to large and small customers alike has been its strong commitment to excellent service. Quality service has been the cornerstone of Edison's way of doing business throughout its 101-year history. Since its early days, the Company's motto guiding all its operations has been, "Good Service, Square Dealing, Courteous Treatment."

Good customer service at Edison takes many forms. When emergencies arise, Edison employees mobilize rapidly to restore service. Nowhere was their dedication more evident than during fires, heat waves, rain and windstorms in 1987 as service crews and support personnel worked around-the-clock to restore service.

As part of its public responsibility, Edison has developed extensive plans to ensure rapid and appropriate response to both natural and man-caused disasters. These plans were implemented on October 1, when a major earthquake occurred with an epicenter less than a mile from Edison's headquarters. The quake, which registered 5.9 on the Richter scale, required immediate evacuation of the headquarters complex where about 4,000 employees work.

Management teams rapidly relocated key functions to designated locations. Other groups began an immediate inspection of the headquarters facilities to determine the extent and nature of the damage and to ensure that the buildings were safe for occupancy. Edison people worked through the night to make the main building functional despite the extensive non-structural damage it sustained.

At the same time, employees in the field worked long hours to repair damaged power lines and substation facilities, quickly restoring electric service to some 325,000 customers who lost power because of the earthquake. The Company's generating facilities were not damaged by the quake.

Quality service by Edison played a major part in another of the Company's important successes of 1987. The city council of South Gate, a city with a population of 79,000 in southern Los Angeles County, proposed to take over the Company's facilities and form a municipal utility. In response, the citizens of South Gate gave strong grass-roots support to Edison, sending the city over 6,000 post cards objecting to the proposed acquisition. At a city council meeting in August, more than 1,000 people turned out to protest the proposed acquisition, voicing their overwhelming satisfaction with the quality of service Edison has provided over the years. Shortly thereafter, the South Gate City Council cancelled its plans to take over Edison's facilities. This is a good example of how quality service is good business.

The Company's energy management programs continued to help customers reduce energy consumption and hold down their electricity bills. These programs encourage customers to conserve energy and shift electricity use from periods of high use to times of lower demand. This reduces peak demand and allows Edison to use its generating facilities more efficiently. At the end of 1987, the Company's energy management programs resulted in a total reduction of more than 1,500 MW in electric demand during peak periods, or the equivalent of the output of one-and-a-half large nuclear generating units.

During the year, the Company developed a new program to further

Robert Clement, Jr., one of the Company's highly skilled nuclear training instructors, conducts intensive training sessions for control room operators at the San Onofre Nuclear Generating Station near San Clemente, California. The simulator at the training facility contains the same gauges and instruments found in the control room of Units 2 and 3. Thanks to the professionalism and dedication of San Onofre employees, the Company's training programs in 10 key areas received full accreditation by the Institute of Nuclear Power Operations during 1987, and Edison attained full membership in the National Academy for Nuclear Training.

enhance the quality of each department's level of service. The program focuses on reliability, consistency, and responsiveness. To encourage these goals, the Company developed awards giving greater recognition to employees who come up with innovative ideas that increase productivity, lower costs, or provide better service. As a result, the number of employees making such suggestions has doubled. Quality service teams were established to better coordinate responses to customers' needs. Furthermore, Edison initiated increased communications to heighten employees' awareness of the need to keep costs low and service quality high.

These programs fostered a number of improvements, such as:

• reducing from 69 to 20 days the time needed to provide customers with cost estimates for relocation of Edison facilities;

• implementing a postcard survey system that seeks feedback from customers. About 95% of customer comments have been favorable; customer service managers contact each customer who has a concern. This survey supplements other means of measuring customer satisfaction;

• analyzing power quality for customers with sensitive electronic equipment, and helping them solve any problems discovered;

• developing greater coordination between two departments to improve efficiency of switching distribution circuits while line work is done, saving about $500,000 in labor costs.

Other steps the Company took during 1987 to provide customers with quality service included:

• reducing the average time needed to answer customer telephone calls from 84 seconds to less than 30 seconds, as well as reducing lost calls 45%, by interconnecting the Company's four telephone information centers, which receive 5 million calls annually;

• furnishing toll-free telephone numbers answered by Edison representatives fluent in Spanish, Chinese, Vietnamese and Cambodian to assist the growing number of non-English speaking customers;

• providing energy management assistance to 72,000 low-income customers, including bilingual educational services and free installation of energy-efficient equipment.

Generating Resources

The Company makes electricity from nine different energy resources, more than any other utility in the world. This resource diversity gives Edison flexibility in adapting to unforeseen changes in world energy markets.

Nuclear Power

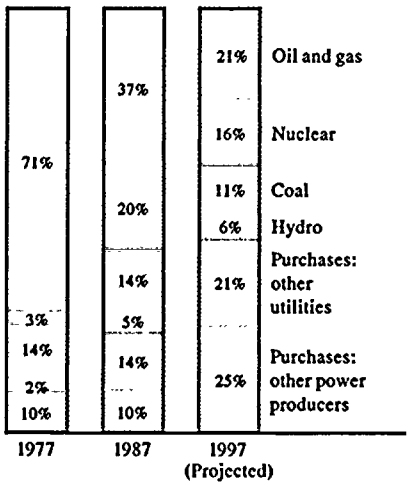
Nuclear power plants in Southern California and Arizona are important elements of the Company's resource mix, generating 20% of customers' electricity needs during 1987, up from 16% in 1986. This increase resulted from two factors: sharply improved operating performance at the San Onofre Nuclear Generating Station, and the first full year of operation of Units 1 and 2 at the Palo Verde Nuclear Generating Station in Arizona.

Edison's three nuclear units at the San Onofre plant generated almost 17% of customers' electricity needs in 1987. Edison owns 80% of the 450-MW Unit 1, and 75% of the 2,200-MW combined capacities of Units 2 and 3. It manages and operates all three San Onofre units.

Total generation from the three San Onofre units was the second highest among all nuclear plants in the United States. The output of the three San Onofre units displaced the equivalent of about 26 million barrels of oil in 1987, thereby saving customers over $215 million in fuel costs.

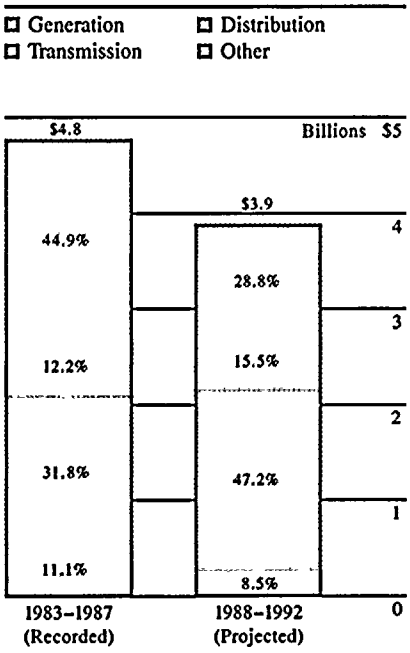
During the year, all three San Onofre units operated above the national industry average of 59% for nuclear units. Unit 1, which completed its 20th year of commercial operation, operated at 72% of its capacity, Unit 2 at 66% and Unit 3 at 80%. Also, the

Generation Energy Mix

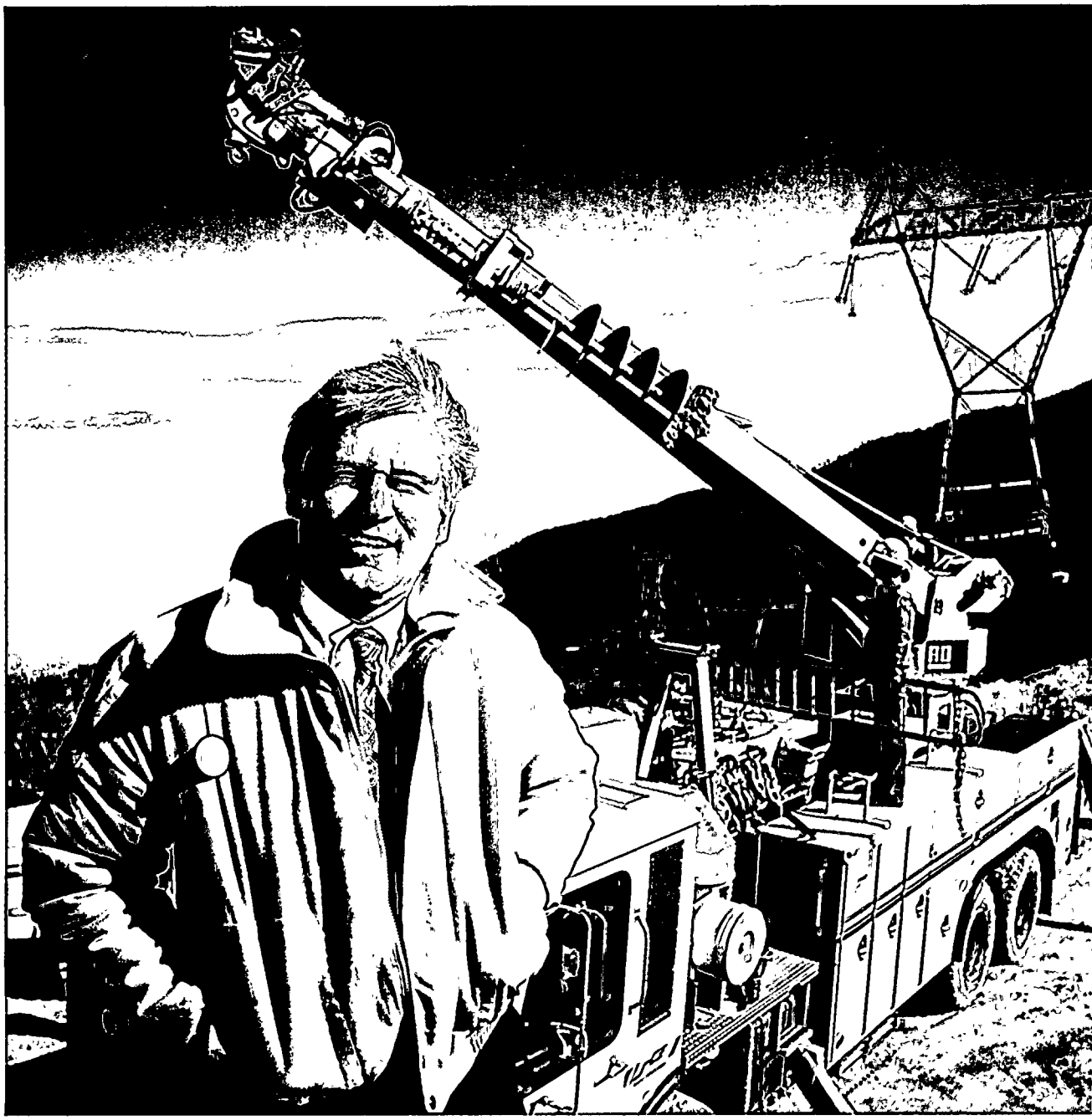


The Company's resource goals include a balanced generation mix without dependence on any one fuel source. Edison has reduced its dependence on oil and gas from 71% in 1977 to 37% in 1987. Purchases from other power producers are expected to increase from 10% of the Company's energy mix in 1987 to 25% by 1997.

Funds Required for Construction



With the completion of major generating projects, the Company's construction program over the next five years is estimated to decline to $3.9 billion, compared with $4.8 billion for the past five years.



Bill Wedesweiler, project manager in the Engineering and Construction Department, managed the engineering and construction of a major transmission line that improves Edison's ability to import bulk power from the Southwest to serve the growing areas of Riverside, Orange and Los Angeles counties. This 82-mile link, between the Company's Devers Substation near Palm Springs and the Serrano Substation in Orange County, traversed the rugged mountains of the Cleveland National Forest.

Company completed the third refueling for Unit 2, and the second for Unit 3.

Edison has continued intensive efforts to reduce costs at the three San Onofre units. In 1987, there was a 14% reduction in total operations and maintenance costs per kwh produced from the previous year.

Furthermore, Edison personnel took the initiative in repairing the main transformer at Unit 3 rather than return it to the manufacturer. This saved the Company $3 million.

The Company also owns a 15.8% interest in the Palo Verde Nuclear Generating Station near Phoenix, Arizona. The three 1,221-MW units, which are managed by the Arizona Public Service Company, comprise the largest nuclear plant in the United States. Units 1 and 2 went into commercial operation in 1986. Startup testing for Unit 3 took place in 1987; the unit began commercial operation in January 1988.

Palo Verde Units 1 and 2 operated at capacity factors of 49% and 77%, respectively, for the year. The first refueling outage for Unit 1 was begun in 1987, while refueling for Unit 2 is scheduled for early 1988.

Fossil Fuel Resources

The Company's 47 generating units, which burn oil or natural gas, remain the foundation of its generating system. These units represent more than 10,000 MW of capacity and provided 37% of customers' energy needs during the year. In 1987, they were fueled almost entirely by natural gas.

Edison owns 56% and 48% of two coal-fired plants—the Mohave Generating Station in Nevada and the Four Corners Generating Station in New Mexico, respectively. They provided 14% of customers' electricity needs in 1987. The Mohave plant operated at 63% of its maximum capacity, and Four Corners at 79%—a new production record for its 18-year history. Edison was awarded $15.5 million in 1987 for their high output under the CPUC's coal plant incentive program.

Hydro Power

The Big Creek hydroelectric system in the Sierra Nevada is an important source of low-cost power, representing 1,000 MW of capacity. Today this huge hydroelectric system, which was started in 1911, includes six dams, nine major tunnels and nine powerhouses with 24 generating units.

During 1987, the Company completed the four-year Balsam Meadow construction project, a 207-MW addition to the Big Creek system and Edison's largest hydro unit. That $277 million unit went into service on December 1, a month ahead of schedule, $44 million under budget, and with an excellent construction safety record.

Edison designed and managed the Balsam Meadow project, which included special measures to protect wildlife and the environment. It was built by blasting four miles of tunnels through solid granite to connect Huntington and Shaver lakes. The power station is 1,000 feet below ground in a huge, excavated cavern. Edison named the station in honor of John S. Eastwood, the visionary engineer who conceived the Big Creek hydroelectric system in the late 1800s.

Purchased Power

The purchase of power from a diversity of outside sources gives Edison flexibility in meeting its customers' electric needs. Furthermore, the Company continues to save customers money by buying less expensive electric power from utilities in the Pacific Northwest and the Southwest.

During 1987, the Company bought about 24% of its customers' electric needs from non-Edison sources, compared with 37% in 1986. Low precipitation in the Pacific Northwest and California, and greater use of less expensive natural gas in Edison's generating plants, caused this decline in purchased power.

Economy Energy Purchases Edison's short-term electricity purchases on the "spot market" from the Pacific Northwest and Southwest saved Edison customers about $50 million during 1987, compared with the cost of generation on the Edison system using natural gas. The cost of this electric power averaged about 1.6 cents per kwh. Economy energy purchases supplied about 8% of customers' total electric energy needs in 1987.

Edison played a major role in developing the Western Systems Power Pool (WSPP), the largest power pool in the nation. It began operations in May 1987 as a two-year experiment to purchase and exchange economy energy among 24 public and investor-owned utilities in 10 Western states and Mexico. The power pool allows members to use a centralized computer to shop around more efficiently for low-cost surplus power and to make better use of existing generation and transmission facilities. Under this program, market forces, rather than regulatory agencies, determine power prices.

Firm Purchases Purchases under long-term contracts with other utilities represented about 6% of customers' electricity needs. The average cost for these purchases was about 4.0 cents per kwh.

In March, the Company signed a new 30-year contract with the U.S. Department of Energy to renew Edison's entitlement to low-cost hydroelectric power from the Hoover Dam on the Colorado River. The agreement gives Edison 277 MW of capacity.

The Company has concluded mutually beneficial agreements with California's two largest water agencies that result in more efficient utilization of energy and water resources. In April, Edison signed a long-term agreement with the California Department of Water Resources, which will give the Company access to 225 MW of capacity during its peak demand periods.

Tammy Irwin, an energy service representative in the Customer Service Department, was among more than 30 Edison employees volunteering on their own time during 1987 to help at the Blind Children's Learning Center in Santa Ana, California. The privately supported center prepares young children with vision disabilities for full participation in public elementary schools. In 1987, Edison employees also demonstrated their spirit of community responsibility by giving nearly $2.7 million to the United Way campaign that helps support this center and a variety of other community service organizations.

In June, Edison and the Metropolitan Water District (MWD) of Southern California reached a 30-year agreement for sharing electrical services. It integrates MWD's generation and pumping facilities into the Edison electric system.

The Company also signed a 20-year contract with Pacific Power and Light in Oregon for 200 to 300 MW of power during peak-use periods. This contract is expected to save Edison customers more than $200 million over its life.

Purchases from Non-Utility Power Producers About 10% of customers' energy needs came from alternative and renewable energy projects developed by non-utility power producers. This power is generally much more costly than the other types of purchased power or production on the Edison system. During 1987, the average cost for this electric power was 6.2 cents per kwh.

The federal Public Utility Regulatory Policies Act (PURPA) of 1978 encouraged the development of alternative and renewable energy by requiring electric utilities to purchase electric power from qualifying, non-utility producers. The legislation, as implemented in California, forced Edison and other utilities to purchase power which, in most cases, was not needed, and at costs much higher than the electric power the Company can now produce or purchase from other sources.

At the end of 1987, there were 305 power projects in service, which were owned and operated by non-utility producers and contributed 1,250 MW of effective capacity to the Edison system. Edison has signed CPUC-mandated contracts with non-utility producers for an additional 156 projects, representing another potential 3,070 MW.

For many reasons, including changes in federal tax laws, air quality considerations, and siting and permit requirements, the Company estimates that only about one-half of these 156 projects will be built.

Although the sharp drop in oil and natural gas prices has reduced the cost-competitiveness of many renewable and alternative resources, these technologies remain important components of the Company's diverse energy resource mix, particularly if oil and gas become scarce or costly in the future.

Fuel and Purchased Power Costs

The largest portion of the Company's cost to supply electricity to customers comes from the combined costs of fuel for its generating plants and power purchased from outside sources. Under California regulation, Edison is allowed to pass these costs to customers, subject to annual reasonableness reviews by the CPUC.

The Company's combined fuel and purchased power costs increased from $1.65 billion in 1986 to $1.87 billion in 1987. This increase resulted from more purchases from non-utility power producers under earlier contracts Edison was ordered to sign, and from reduced hydro production in the Pacific Northwest and California because of below-average precipitation.

During 1987, new CPUC rules allowed Edison to purchase natural gas directly from sources other than the traditional supplier. Under these new rules, Edison obtained 35% of the total 263 billion cubic feet of gas it burned from these new sources, which saved the Company about $5 million. This helped to reduce Edison's average cost of natural gas from $2.58 per million Btu in 1986 to $2.55 in 1987.

Planning and Research

In 1987, the Company's resource planning strategy increasingly emphasized maximum flexibility in adapting to future uncertainties in energy supply and demand.

Edison is testing a two-way, electronic communications network linking the Company with its residential customers. This network is designed to provide customers with information services and new options for reducing electricity costs by shifting their electricity usage to low-cost periods. These all-electronic devices also are expected to reduce Company costs by allowing remote meter reading from Edison offices.

The Company is cooperating in the development of electric vehicles and new advances in battery technology. Widespread use of electric vehicles in Southern California would reduce air pollution, traffic noise and excessive dependence on oil. Furthermore, nighttime battery charging would increase off-peak electric load, resulting in a more efficient use of Edison's generating capacity. The Company is working closely with state and federal governmental agencies on demonstration projects for electric vehicles.

The Company also is testing energy storage technology at a 10-MW project in Chino, California, that will be the world's largest battery-energy storage system. The system will charge batteries at night, when demand is low and electricity less expensive, and supply electricity during the day when power costs and peak demand are much higher. It is scheduled for operation in May 1988.

Edison continues to be a major supporter of the Electric Power Research Institute (EPRI), a research and development association in the electric utility industry. EPRI conducts research into energy technologies and scientific developments that could benefit customers by reducing overall energy costs, improving reliability of electric service and protecting the environment.

Human Resources

The dedication, hard work and high morale of Edison's 17,000 employees were a key part of the Company's financial and operating successes during 1987.

The Company expanded and upgraded its employee training programs. During the year, Edison sponsored a variety of companywide training programs in which slightly more than 5,000 employees participated.

The Company also places a high priority on maintaining a safe work environment for its employees. In 1987, total industrial accidents declined 14% from the previous year, and lost workdays decreased 9%. In addition, 21 Company organizations earned awards from the Edison Electric Institute for 1 million or more safe work-hours without a lost-time accident.

Affirmative Action

Minority representation rose from 26.3% of total employment in 1982 to 30.7% in 1987. The proportion of female employees increased from 21.9% to 24.9% in the same period.

Edison established a Female and Minority Business Development program within its procurement division in 1979. Over the last five years, the number of female- and minority-owned enterprises meeting qualifications to do business with Edison has more than doubled, from 372 to 799. Annual payments to these firms rose from $14.3 million, or 2.1% of total procurement in 1982, to $67 million, or 7.2% of the total in 1987.

Community Service

Edison and its employees have played an important part in the civic and cultural life of communities throughout Central and Southern California. In 1987, employees voluntarily participated in a wide range of community activities and programs, including Junior Achievement, the Special Olympics, the Junior Chamber of Commerce, YMCA, YWCA and Scouting.

In the 1987 United Way campaign, Edison employees showed this spirit individually by generously giving a record $2.7 million to help those in need. On a per-capita basis, this placed Edison people among the leading contributors in California to the more than 900 charitable organizations supported by United Way.

In education, the Company worked closely with teachers, administrators and community leaders to develop educational materials in schools throughout its service territory. Students learned about electrical safety, energy conservation, disaster preparedness, environmental issues and other energy-related topics. Edison's Science Connection program helped stimulate greater interest in science and technology among elementary school children using a 40-foot van as a mobile classroom for scientific demonstrations to more than 8,000 youngsters during 1987. Edison is a partner with the Jet Propulsion Laboratory and the National Aeronautics and Space Administration in this unique program.

Regulatory Review

The California Public Utilities Commission (CPUC) issued a number of key decisions affecting the Company in 1987.

Reasonableness Review of San Onofre Units 2 and 3 Construction Costs

In October 1986, the CPUC concluded a four-year reasonableness review of the construction and start-up costs for Units 2 and 3 of the San Onofre Nuclear Generating Station by ruling that $258.6 million of Edison's $3.4 billion investment should be disallowed.

The Commission made its ruling despite a finding by the administrative law judge who heard the entire case that all costs incurred were prudent and reasonable. Following an appeal by Edison, the Commission reduced Edison's disallowance nearly $60 million in July 1987. As a result of this decision, Edison will recover in rates 94% of its investment in the two San Onofre units.

The Company thinks no disallowance was justified because Units 2 and 3 were built faster and at less cost than most of the 34 other comparable nuclear plants in the nation. Despite this disallowance, Edison fared better than most utilities that have undergone nuclear construction cost reasonableness reviews.

Percentage of Male, Female and Minority Employees at Year-end 1982 and 1987	Male % Year-end		Female % Year-end		Black % Year-end		Asian American % Year-end		American Indian % Year-end		Hispanic % Year-end		Total Minorities % Year-end	
	1982	1987	1982	1987	1982	1987	1982	1987	1982	1987	1982	1987	1982	1987
Management(1)	84.9	80.4	15.1	19.6	3.5	3.9	5.7	7.0	0.5	0.5	6.8	9.3	16.5	20.7
Administrative & Operative(2)	74.6	72.2	25.4	27.8	9.1	9.4	3.2	4.1	1.1	1.2	17.8	21.5	31.3	36.2
Total Company(3)	78.1	75.1	21.9	24.9	7.2	7.4	4.1	5.1	0.9	1.0	14.1	17.2	26.3	30.7

(1) Includes the "Officials" and "Professionals" Affirmative Action Categories.

(2) Includes the "Technicians," "Office and Clerical," "Craftsmen," "Operators," "Laborers" and "Service Workers" categories.

(3) Includes all classes of employees.

San Onofre Unit 1

In August 1987, the Commission authorized Edison to recover $197.4 million for seismic upgrading and other Nuclear Regulatory Commission-mandated work completed on Unit 1 since February 1982. The CPUC also determined that the $193.5 million in replacement energy costs, incurred while Unit 1 was out of service for upgrading, was reasonable.

Palo Verde

In late 1986, the CPUC approved the stipulation between Edison and the CPUC staff establishing a formula which would eliminate the need for an extended and expensive construction cost reasonableness review of this nuclear project. The formula relates the construction cost disallowance of the Palo Verde nuclear units in Arizona to the result of the CPUC reasonableness review on the construction costs for San Onofre Units 2 and 3. The San Onofre reasonableness review required four years to complete, and the Palo Verde review could have been even more complicated because as many as four state public utility commissions could have been involved.

The stipulation approved by the CPUC provided that, for every dollar disallowed from Edison's investment in San Onofre Units 2 and 3, 19.3 cents of Palo Verde construction costs would be disallowed from rate recovery. Accordingly, the final resolution of San Onofre's construction costs resulted in a $38 million disallowance of the Company's $1.5 billion investment in the three-unit Palo Verde plant.

The CPUC-approved ratemaking stipulation also includes a 10-year plan for phasing into rates $1.5 billion of construction costs for Palo Verde Units 1, 2 and 3. These units began commercial operation on February 1, 1986, September 19, 1986, and January 20, 1988, respectively. The costs for owning, operating and maintaining the three units were reflected in rates in accordance with the stipulation.

Holding Company Formation

On January 28, 1988, the CPUC approved Edison's application to form a holding company to provide a better corporate separation between Edison's utility and non-utility businesses. The holding company plan requires shareholder approval at the Annual Shareholders' Meeting on April 21, 1988.

Nuclear Decommissioning

Implementing a 1985 state law requiring nuclear utilities to establish externally managed trusts to pay for the eventual retirement of their nuclear power plants, the CPUC authorized the Company to begin recovering in rates $106 million a year to pay for decommissioning Edison's share of the San Onofre and Palo Verde nuclear plants. Under the law, Edison has established a trust for these funds that is managed by independent trustees appointed by the Company, subject to approval by the CPUC.

1988 General Rate Case

As part of its three-year rate review procedure, the CPUC on January 1, 1988, reduced Edison's rates by $48.5 million, or 0.9%. The rate decrease reflected in large part a reduction by the CPUC in Edison's authorized regulatory return on common equity from 13.9% in 1987 to 12.75% for 1988.

In its rate case application, Edison requested and the CPUC approved a rate design that brings overall rates more in line with actual costs of service. Under past rate structures approved by the Commission, large commercial and industrial customers paid much more than the cost of providing electric service to them, while residential customers paid less.

Consequently, some large customers found it economical to install their own generating facilities. The loss of these customers from the Edison system forces the remaining commercial and residential customers to absorb higher costs. The new CPUC-adopted rate structure, to be phased in over several years, should significantly reduce the economic incentive to bypass Edison's electric system. The Commission approved an average rate reduction for large commercial and industrial customers of 4.7%, an increase of less than 1% for the remaining commercial customers, and an average increase of 4.9% for residential customers. In addition, the CPUC significantly changed the demand component of the rate structure for many large commercial and industrial customers.

This change in the demand component of the rate structure will cause dramatic variations in comparisons of 1987 and 1988 quarterly earnings, but should have little or no effect on comparisons of full-year 1987 and 1988 earnings. For example, had the new rate structure been in effect during 1987, per-share earnings in the first, second and fourth quarters would have been approximately 23 cents, 26 cents, and 25 cents lower, respectively, than actually recorded in 1987; third quarter 1987 earnings, however, would have been 74 cents higher. Full-year results for 1987 would have been unchanged from what was recorded.

The distorted, quarter-to-quarter earnings comparisons caused by the change in rate structure will occur only for comparisons of 1987 and 1988 quarterly earnings and not in years beyond. However, there will continue to be a substantial variation in quarterly earnings in each year, with third quarter earnings sharply higher than earnings in the other three quarters.

These quarterly variations result from a new seasonal charge added to the bills of many large commercial and industrial customers in summer months and a reduction in winter months. Previously, the demand component of the rates, which is the portion of the bill based on the highest daytime usage during the billing period, was, for the most part, spread evenly over the year. Under the new rate structure, a much greater portion of the demand charge is recovered during the four summer months, when electricity consumption is highest on the Edison system. The new rate structure is intended to encourage these customers to shift their electricity consumption from high-use to low-use periods.

Fuel-Related Rate Proceedings
The Energy Cost Adjustment Clause (ECAC) is designed to adjust rates annually to reflect changes in Edison's fuel and purchased power costs. As a result of the Company's lower energy costs, the CPUC reduced Edison's rates by $194.8 million, effective December 1, 1987. The action will have little effect on electric bills because the ECAC rate reduction was offset by other authorized rate increases (see Chevron Settlement, Uranium Contract Settlement, and Nuclear Decommissioning elsewhere in this section).

Chevron Settlement
In June, the CPUC authorized Edison to recover in rates about 98% of the $350 million fuel-oil contract litigation settlement negotiated in 1985 with Chevron Corporation. The Commission also authorized Edison to collect in rates 90% of the $9 million annual fixed cost of a new, long-term standby supply agreement with Chevron. Under this agreement, Edison can order specified quantities of low-sulfur fuel oil from Chevron as needed and pay Chevron the current market price.

The early termination of the original contract saved Edison customers more than $1 billion. The new agreement provides Edison with a reliable, competitively priced source of fuel oil and enables the Company to carry less oil in inventory.

Uranium Contract Settlement
When uranium fuel costs were projected to increase substantially, and uranium was expected to be in short supply, Edison entered into long-term contracts with Bear Creek Uranium Company and Homestake Mining Company to protect its customers. By 1985, however, supply was plentiful and market prices had decreased significantly. In response, Edison negotiated early termination of these contracts. This allowed Edison to buy lower-cost uranium from other sources and save its customers an estimated $190 million in fuel expense.

Edison applied to the CPUC to recover $78 million of the payments made to terminate the contracts. In October 1987, the CPUC authorized Edison to recover $75 million. The Federal Energy Regulatory Commission authorized recovery of an additional $4 million in payments under its jurisdiction.

New CPUC Commissioner
John B. Ohanian, former Chief Deputy Director of the California Governor's Office of Planning and Research, was appointed to the CPUC in March 1987 by Governor George Deukmejian. From 1966 to 1983, Mr. Ohanian served the CPUC as an engineer, and later, as a representative responsible for enforcement and compliance. He replaces Commissioner Victor Calvo, whose term expired. Mr. Ohanian's term expires January 1, 1993.

Legislative Review

Congress and the national administration took action on a number of important matters affecting the Company and the electric utility industry in 1987.

Nuclear Waste Policy Act
In December 1987, Congress amended the Nuclear Waste Policy Act of 1982, designating a single site for the nation's first high-level nuclear waste repository. This site is Yucca Mountain, Nevada, about 100 miles northwest of Las Vegas. The new law, supported by Edison and other utilities operating nuclear power plants, directs the U.S. Department of Energy to proceed with geological suitability studies at the Nevada site and to stop work at other possible sites in Texas and Washington.

Tax-Exempt Bonds
The Budget Reconciliation Act of 1987 included a provision that places restrictions on the use of tax-exempt bonds to acquire investor-owned utility property. These restrictions, strongly supported by Edison, substantially limit the use of tax-exempt bonds to finance the takeover of investor-owned utility property by municipalities or other government entities. This corrects an unfair U.S. taxpayer subsidy of possible attempts to take over investor-owned electric utilities.

Federal Utility Services

Reflecting efforts by Edison and several other utilities, Congress imposed a permanent ban on federal agencies shopping around for electricity or services from a utility other than the one franchised to serve the area.

Federal Energy Regulatory Commission Proposal

In mid-1987, the Chairman of the Federal Energy Regulatory Commission (FERC) announced that the Commission would be considering changes in the Public Utility Regulatory Policies Act of 1978, essentially deregulating new sources of electrical generating capacity. Also, the FERC proposal would reduce federal regulation of independent power producers.

Edison opposes this effort because, in the Company's opinion, the changes would not be in the long-term interests of consumers, and would reduce the long-term reliability of the nation's electricity supply. The issue is still pending before FERC and, at the end of 1987, the U.S. House of Representatives and U.S. Senate were reviewing the matter.

In addition, Edison supported other federal legislative measures that were enacted during 1987, including adequate funding for clean coal technology, amendments to the Fuel Use Act to allow burning of natural gas in new electric generating plant boilers, and establishment of national home appliance efficiency standards.

Non-Utility Subsidiaries

Edison formed The Mission Group in 1987 to manage its four non-utility subsidiaries: Mission Energy, Mission Land, Mission Power Engineering and Mission First Financial.

The capital invested in these subsidiaries is small compared with Edison's investment in utility operations. Nevertheless, at year-end 1987, Edison's investment in The Mission Group totaled $292 million. Revenues for 1987 from The Mission Group were $107.6 million, producing a net income of $41.4 million, or 19 cents per share, compared with 8 cents per share in 1986. Non-utility subsidiary earnings represent 5.6% of Edison's 1987 total earnings, and are projected to increase in the years to come.

Mission Energy Company

Since commencing operations in May 1986, Mission Energy has become a national leader in the ownership, development and operation of major cogeneration projects that are exempt from utility regulation.

Mission Energy provides a full range of services, including management of engineering and construction, permitting, financing, and operations and maintenance. At year-end 1987, Mission Energy jointly owned, and had in operation, 795 MW of capacity and another 620 MW under construction. These included five major cogeneration projects in California, totaling 1,290 MW; a 110-MW cogeneration project in Virginia; and a 15-MW geothermal project in Nevada.

Mission Land Company

Mission Land is in the business of owning, developing and operating industrial parks with medium-sized warehouses and distribution buildings. The company owns and manages about 300 acres of land and more than 2.4-million square feet of leasable space in Southern California. Mission Land also is developing industrial property it owns in Phoenix, Arizona, and is participating in a joint-venture industrial property development in Chicago, Illinois.

During 1987, approximately 300,000 square feet of warehouse and distribution floor space were completed in four business parks. In addition, all of the 3,000-acre Calabasas Park residential and commercial property joint venture, located in the western end of Los Angeles County, has been sold, is under contract of sale, or is being developed. Part of this development includes approximately 300 acres on which Mission Land and a partner are building 600 residential units.

Mission Power Engineering Company

Mission Power Engineering provides engineering and construction services related to the energy field.

The company has grown steadily since its formation in 1984, with $79 million in contracts executed in 1987. Major engineering and construction jobs include a 16-MW coal-fired, fluidized-bed-combustion power plant in the California desert, 45 miles southwest of Las Vegas, Nevada; two 30-MW geothermal power plants at the China Lake Naval Weapons Center, about 130 miles north of Los Angeles; and an 18.5-mile, 230-kilovolt transmission line and substation for the Imperial Irrigation District in Southern California.

Mission First Financial

Mission First Financial is the investment subsidiary, whose principal areas of investment are high-quality, short-term securities, leveraged leasing and energy-related venture capital.

Since it began operations in September 1987, Mission First Financial has made several investments, including participation with a group of investors in a sale and leaseback for a portion of the Beaver Valley Unit 2 Nuclear Power Plant near Pittsburgh, Pennsylvania, and a sale and leaseback of a paper plant in Duluth, Minnesota.

Jim Scilacci, manager of corporate finance, negotiates with investment bankers on innovative ways to reduce Edison's financing costs to benefit both customers and shareholders. In August, the Company issued the equivalent of $60 million in New Zealand-dollar "Kiwi" notes. This transaction made Edison the first utility to issue foreign currency-denominated debt in the United States and will save more than $400,000 in interest expense.

Financial Review

The Company continued its record of strong financial performance during 1987:

- Earnings per share reached an all-time high of $3.39, the seventh consecutive year of record per-share earnings;
- Net income reached $788.6 million, an increase of 2.6% over the 1986 level;
- The common stock dividend was increased for the 12th time in 11 years, up 4.4% from $2.28 to $2.38 per share;
- Edison's non-utility subsidiaries contributed 19 cents per share, or 5.6%, to Company earnings;
- A total of $1.3 billion of debt was refinanced to reduce debt costs; Edison's weighted-average cost of outstanding debt remained lower than any other investor-owned California energy utility;
- Interest coverage, at 3.9 times, remains above the industry average of 3.3 times;
- Internal generation of funds climbed to 77% of capital requirements, the highest level in more than a quarter century, reducing the need for new financings;
- Although the price of Edison's common stock fell 10% during 1987, it outperformed the Dow Jones utility average, which fell 15%; and,
- Over the past five years, the Company's compound annual return to common stock shareholders from price appreciation and dividends was 21%, outperforming the Dow Jones industrial and utility averages, as well as the Standard & Poor's 500 index.

Record Net Income and Revenues

Earnings per share of $3.39 increased 3.4% from the previous year's $3.28 as the Company's net income rose to a record $788.6 million and revenues to a record $5.5 billion.

A number of factors contributed to Edison's increased earnings. These included strong emphasis on productivity improvements and cost control; an accounting change to include in earnings the revenues from electricity which has been delivered to customers, but for which bills have not been sent; the contribution of non-utility subsidiaries; and a reward for the Company's favorable coal-plant operating performance approved by the CPUC. These gains were achieved despite downward pressure on earnings from write-offs related to the nuclear plant construction cost disallowances at San Onofre and Palo Verde, and the reduction of the Company's authorized rate of return on common equity by the CPUC.

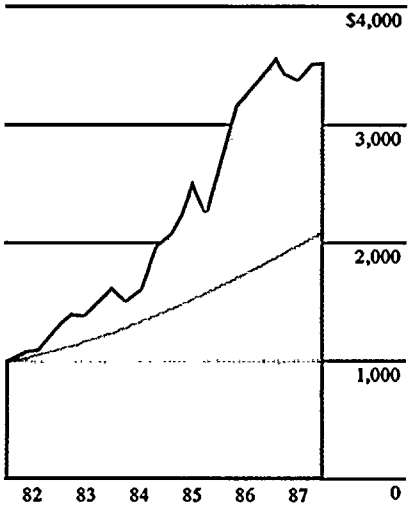
Dividend Increase

In keeping with the Company's efforts to provide shareholders with a competitive return, the Board of Directors in June increased the common stock dividend for the 12th time in 11 years. The new annual dividend rate of $2.38 per share is 4.4% higher than the previous year's $2.28. The current dividend provided a 7.8% yield based on Edison's year-end market price of $30½ per share. For the past 11 years, Edison's annual dividend growth has exceeded the average annual rate of inflation by 3.5 percentage points.

Stock Performance

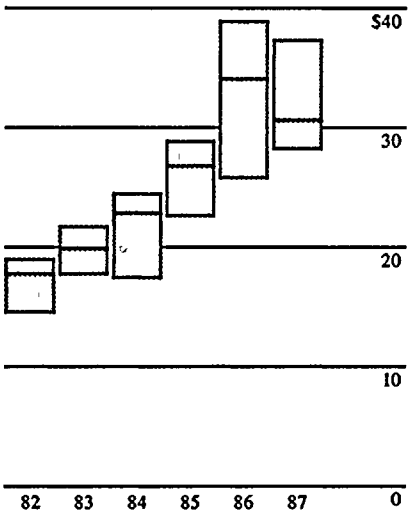
Edison's common stock performed well, relative to other stocks, in the stock market decline on October 19. The Dow Jones industrial average fell 508 points, or 23%, on that day. Edison's stock price declined 4½ points, or 14%. After October 19, many inves-

$1,000 Investment in SCE Stock



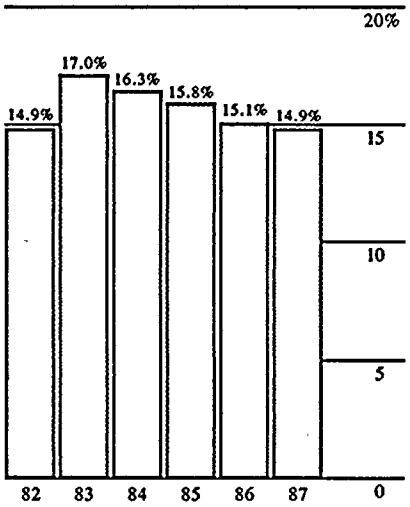
A $1,000 investment in Edison common stock at the beginning of 1982 would have grown to over $3,500 by year-end 1987.

SCE Stock Performance



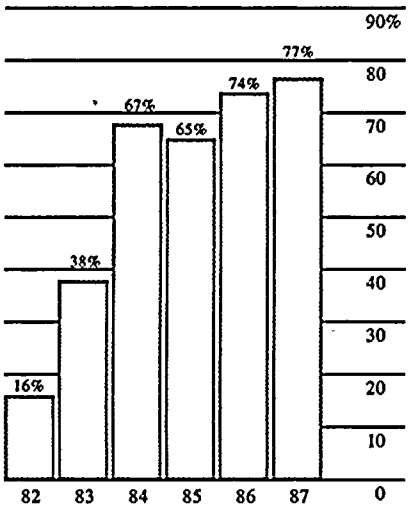
Although the Company's stock price declined slightly in 1987, the Company's total return to common stock shareholders averaged over 20% annually for the past five-year and six-year periods—exceeding the Dow Jones industrial and utility averages as well as the Standard & Poor's 500 index.

Corporate Recorded Financial Rate of Return on Common Equity



Edison's recorded financial return on common equity in 1987 was 14.9%, down only slightly from 15.1% in 1986. Utilities across the country have recorded lower financial returns on common equity in recent years because of reductions in their authorized regulatory rates of return reflecting lower rates of inflation and interest.

Internal Generation of Funds



The Company generated 77% of its capital needs internally in 1987. This was the highest level of internally generated funds in over 25 years and reduced Edison's need to raise new money in the capital markets.

tors moved their funds to stocks and bonds of companies that had demonstrated financial strength. By November 5, Edison's stock price had regained what it had lost on October 19 and was again trading at $32½.

Authorized Regulatory Rate of Return Reduced

After a review conducted in 1986, the CPUC reduced the authorized regulatory return on common equity for all California utilities. This reduction reflected lower inflation and interest rates. Edison's authorized regulatory return on common equity was reduced from 14.6% in 1986 to 13.9% for 1987.

Financial and Regulatory Returns Differ

The CPUC authorizes the Company to earn a return on its regulatory rate base, which is the value of the Company's assets that are used to serve customers. The authorized regulatory return on rate base is designed to allow the Company to recover the costs of long-term debt, preferred stock and the authorized regulatory return on common equity.

In 1987, Edison's authorized regulatory return on rate base was 11.2%, and authorized regulatory return on common equity was 13.9%. For 1987, the Company's recorded regulatory return on rate base was 10.2%, and its recorded regulatory return on common equity was 11.6%.

The Company's recorded *financial* return on common equity shown in financial reports—as distinguished from the *regulatory* return on common equity—is based upon all Company operations, and includes several factors that can cause it to differ from the authorized regulatory return on common equity. These factors include the effect of the federal investment tax credits, CPUC-established awards for high output from designated power plants, and the earnings of non-utility subsidiaries. In 1987, the Company's recorded financial return on common equity was 14.9%, compared with 15.1% in 1986.

1987 Financing Program

Series	Term *Years*	Amount *Millions*
NEW ISSUES		
First and Refunding Mortgage Bonds:		
87A-D, Pollution Control, Variable Rate	21	$ 135
87E-H, Pollution Control, Variable Rate	21	100
87I, 8¾%	3	100
Pollution Control Revenue Bonds:		
1987 Series A, Pollution Control, Variable Rate	21	40
Commercial Paper:		
Nuclear Fuel Lease		490
Balancing Accounts		388
Commercial Paper Indexed:		
Nuclear Fuel Lease (Kiwi)		60
Balancing Accounts (STILBS)		12
Total new issues		1,325
RETIREMENTS		
First and Refunding Mortgage Bonds:		
Calectric, 4¾%		(6)
O, 4¼%		(40)
P, 4¼%		(50)
Ongoing:		
Sinking Fund Obligations		(23)
REDEMPTIONS*		
First and Refunding Mortgage Bonds:		
85C, 13% (purchase)		(2)
TT, 16% (call)		(16)
ZZ, 12¾% (purchase)		(1)
Pollution Control Revenue Bonds:		
85A-D, Var. Rate, due 2008 (call)		(135)
84B, Var. Rate, due 2008 (call)		(100)
Eurodebentures:		
10½%, due 1990 (call)		(76)
11½%, due 1990 (call)		(76)
Commercial Paper:		
Fuel Oil Inventory		(99)
Nuclear Fuel Lease		(632)
Total retirements and redemptions		(1,256)
Net capital raised in 1987		$ 69

**Includes debt reacquisition expenses, if any.*

Capitalization

Since 1982, the Company has reduced its dependence on external financing as the internal generation of funds has improved from 16% to 77% of capital requirements. During this same period, long-term debt has decreased from 47.9% of capital to 44.6%, preferred and preference stock have fallen from 11.1% to 6.3%, and common equity has increased from 41.0% to 49.1%.

The reduced need for debt financing has helped Edison maintain its high-quality, AA bond rating with both Moody's and Standard & Poor's. Edison is the only California investor-owned utility with an AA bond rating from both Moody's and Standard & Poor's, and whose bonds have never been downgraded by either rating agency.

Corporate Financing

In 1987, Edison's financings totaled $1.3 billion. Refunding and restructuring of existing financings saved customers $6 million in interest and administrative costs. This is in addition to $70 million in annual interest savings from refinancings of higher-cost securities from 1984 to 1986.

During the year, Edison converted $235 million of tax-exempt pollution control bonds into tax-exempt commercial paper, to give the Company greater flexibility to move between fixed and floating interest rates as market conditions warranted. In addition, the Company issued $40 million of new tax-exempt bonds using the same flexible structure to finance pollution control facilities for its Mohave Generating Station. Furthermore, the Company saved customers $2 million annually through a reduction in administrative costs for its nuclear fuel lease.

These financings, along with maintenance of a high-quality AA bond rating from both Moody's and S&P, have made Edison's average cost of debt the lowest among investor-owned California energy utilities.

Global Financing

During the year, the Company expanded its global financing to obtain access to the lowest-cost funds throughout the world. For example, Edison became the first utility to sell foreign currency-denominated debt in the United States when it issued the equivalent of $60 million of two-year notes denominated in New Zealand dollars. These so-called "Kiwi" notes will save Edison's customers $400,000 in interest costs.

Edison also became the first utility to sell Short-Term Index-Linked Borrowings (STILBS) in the United Kingdom that allow investors to exclude from taxation under British law the part of interest earnings attributable to inflation. The Company has issued these securities at rates well below more traditional forms of financing.

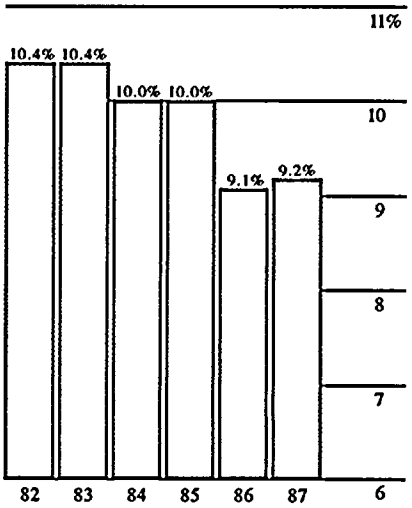
In addition, the Company established a short-term-debt, commercial paper program in Europe to complement its domestic program. As a result, Edison can sell commercial paper in either market and take advantage of the lowest available interest rate on a daily basis. Although the European market still is developing, the Company sold $175 million of commercial paper in Europe during 1987—all at rates equal to or below domestic commercial paper rates.

In December, Edison listed its common stock on the Tokyo Stock Exchange, the world's largest exchange in terms of market capitalization. This listing will improve the Company's name recognition in one of the world's most important financial centers.

Credit Watch

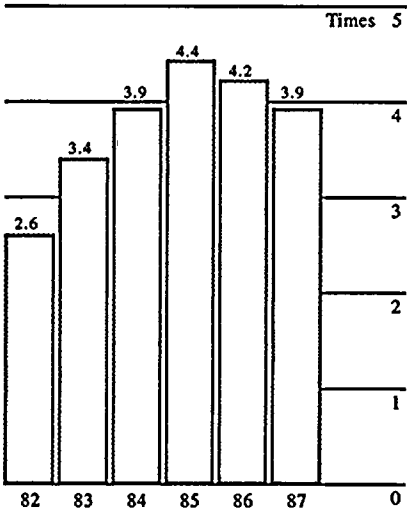
In 1987, Edison's early-warning, credit-watch system reduced bad debt write-offs by $500,000, increasing total savings for the six-year program to $7 million. The system tracks the credit records of the Company's 500,000 non-residential customers and identifies those in danger of business failure. Arrangements are then made to ensure that Edison's revenue is protected through cash deposits, surety bonds or more frequent payments.

Weighted-Average Cost of Long-Term Debt



As a result of Edison's global financing program and aggressive efforts to refinance at attractive rates, the Company's average cost of debt is the lowest among investor-owned California energy utilities.

Pretax Interest Coverage



Interest coverage of 3.9 times for 1987, although down slightly from previous years, remains well above the industry average of 3.3 times. Interest coverage declined as a result of including nuclear fuel leases on the balance sheet for the first time, and a lowering of the authorized return.

Responsibility for Financial Statements

The management of Southern California Edison Company is responsible for the information and representations contained in the financial statements and the related financial information presented in this report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and include amounts based on judgments and estimates of management.

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

The Company's financial statements have been examined in accordance with generally accepted auditing standards by independent public accountants who have expressed their opinion with respect to the fairness of these statements.

The Audit Committee of the Board of Directors, composed entirely of non-employee directors, meets periodically with the independent public accountants, internal auditors and management. This Committee, which recommends the annual appointment of the independent public accountants, also considers the audit scope and nature of other services provided, discusses the adequacy of internal accounting controls, reviews financial and reporting issues and is advised of management actions on these matters. Both the independent public accountants and the internal auditors have full and free access to the Audit Committee.

Report of Independent Public Accountants

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

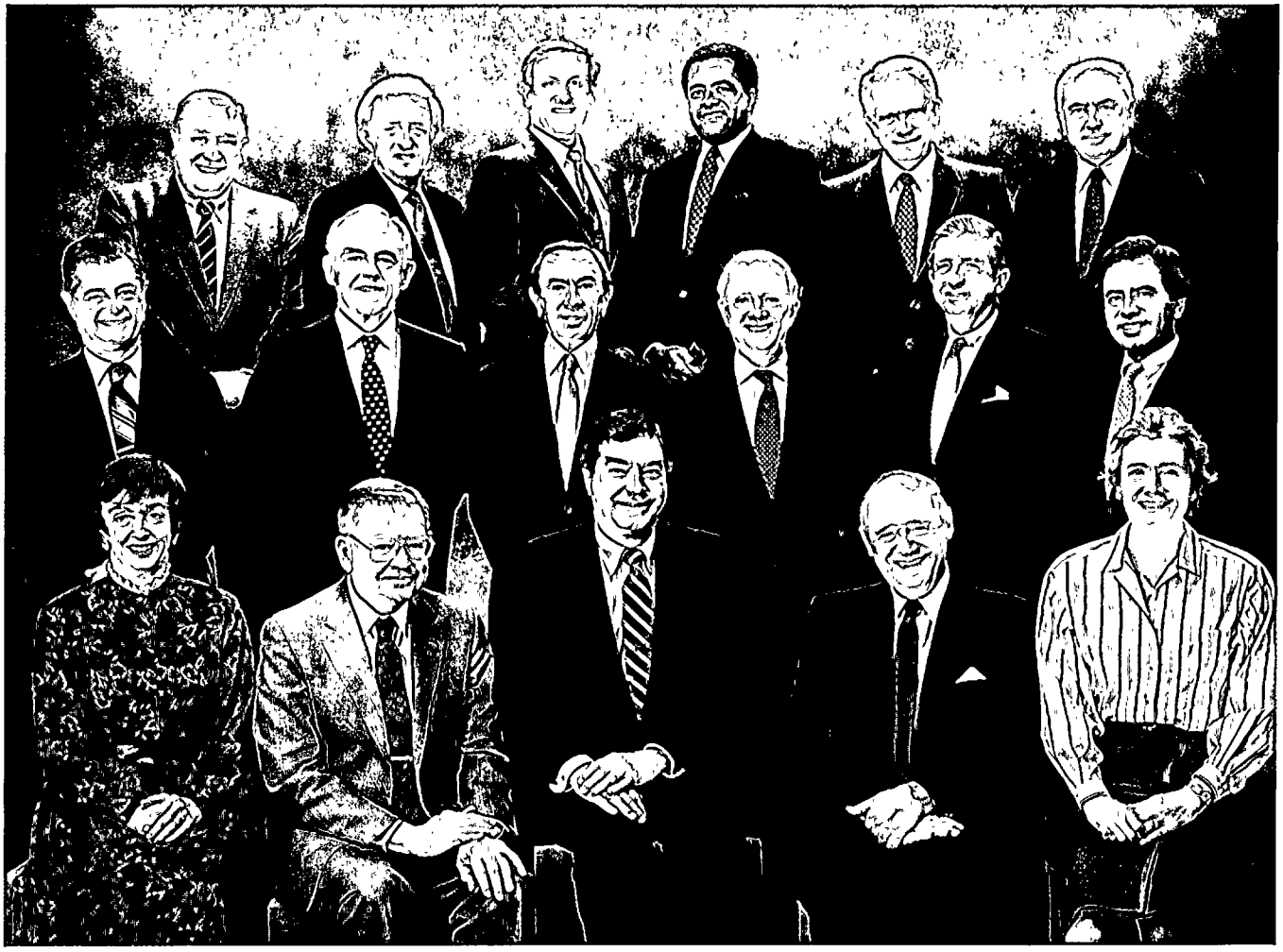
We have examined the balance sheets and statements of capitalization of Southern California Edison Company (a California corporation, hereinafter referred to as the "Company"), as of December 31, 1987 and 1986 and the related statements of income, common shareholders' equity and sources of funds used for construction expenditures for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Company as of December 31, 1987 and 1986 and the results of its operations and the sources of its funds used for construction expenditures for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in accounting for unbilled revenues as discussed in Note 1 to the financial statements, were applied on a consistent basis.

Arthur Andersen & Co.

Los Angeles, California,
February 5, 1988.

ARTHUR ANDERSEN & CO.



Seated from left: Joan C. Hanley, Jack K. Horton, Howard P. Allen, William R. Gould, Camilla C. Frost. *Second row from left:* Carl F. Huntsinger, Henry T. Segerstrom, Warren Christopher, Walter B. Gerken, Norman Barker, Jr., Edward Zapanta. *Third row from left:* Charles D. Miller, Roy A. Anderson, Robert H. Smith, James M. Rosser, E. L. Shannon, Jr., J. J. Pinola.

1985	1984	1983	1982	1981	1980	1979	1978	1977
$ 5,168,848	$ 4,899,152	$ 4,464,256	$ 4,302,602	$4,054,356	$3,661,117	$2,563,974	$2,328,798	$2,064,914
4,196,094	3,932,527	3,760,225	3,765,875	3,563,201	3,288,983	2,178,978	2,004,197	1,734,192
2,389,087	2,084,941	2,027,756	2,227,901	2,558,206	2,010,227	1,532,903	1,204,749	1,189,597
720,938	639,875	497,236	177,251	197,865	38,683	100,292	72,803	68,792
157,694	194,787	365,856	303,118	232,552	162,287	118,566	78,421	60,238
487,800	530,322	539,377	420,282	340,977	282,656	205,082	182,658	161,078
774,107	732,428	690,780	555,754	489,912	317,536	346,219	251,683	251,979
$ 702,409	$ 659,385	$ 617,303	$ 483,358	$ 422,024	$ 256,586	$ 292,481	$ 202,226	$ 206,330
215,649	207,576	198,348	188,514	171,220	146,482	128,404	114,954	108,694
$3.26	$3.18	$3.11	$2.56	$2.46	$1.75	$2.28	$1.76	$1.90
$2.13	$2.01	$1.83	$1.69	$1.55	$1.42	$1.30	$1.15	$1.03
64.4 %	61.9%	57.7%	64.5%	61.5%	79.4%	55.7%	63.6%	50.5%
15.75%	16.3%	17.0%	14.9%	14.9%	10.4%	13.6%	10.7%	12.0%
3.80	3.38	2.91	2.44	2.72	2.09	2.90	2.53	2.78
$13,144,396	$11,906,508	$11,550,874	$10,593,440	$9,009,939	$7,947,093	$7,109,307	$6,123,941	$5,751,348
14,541,307	13,382,809	12,402,424	11,199,954	9,827,888	8,646,469	7,737,060	6,904,787	6,245,013
3,152,141	2,763,651	2,426,368	2,185,667	2,015,212	1,840,233	1,676,148	1,519,174	1,383,009
21.7%	20.7%	19.6%	19.5%	20.5%	21.3%	21.7%	22.0%	22.1%
$ 902,821	$ 885,637	$ 839,501	$ 805,766	$ 730,027	$ 632,115	$ 540,791	$ 521,138	$ 455,387
1,543,933	1,470,347	1,307,413	1,193,318	999,764	805,325	638,046	595,701	458,096
2,128,646	1,886,804	1,646,425	1,393,780	1,238,317	1,092,137	1,054,296	931,217	862,956
4,575,400	4,242,788	3,793,339	3,392,864	2,968,108	2,529,577	2,233,133	2,048,056	1,776,439
466,500	467,258	469,025	471,020	476,308	482,652	489,822	503,650	518,172
395,074	422,286	440,500	445,000	399,500	399,500	324,500	197,000	197,000
$ 4,717,411	$ 4,248,647	$ 4,051,836	$ 3,970,400	$3,444,080	$2,945,824	$2,746,207	$2,477,474	$2,314,874
45.1%	45.2%	43.3%	41.0%	40.7%	39.8%	38.5%	39.2%	37.0%
4.6	5.0	5.4	5.7	6.5	7.6	8.5	9.6	10.8
3.9	4.5	5.0	5.4	5.5	6.3	5.6	3.8	4.1
46.4%	45.3%	46.3%	47.9%	47.3%	46.3%	47.4%	47.4%	48.1%
$21.04	$19.89	$18.76	$17.48	$16.87	$16.60	$17.11	$16.29	$16.15
14,587	15,189	13,464	13,149	13,738	12,841	12,662	12,159	11,564
17,776	17,354	16,365	15,349	15,592	15,504	15,071	14,966	14,337
73,755,963	72,431,625	68,020,197	66,578,540	69,179,641	65,459,278	66,216,910	63,877,116	63,344,706
58.7%	54.1%	48.6%	55.5%	67.6%	71.2%	82.0%	73.8%	87.5%
6.0	7.5	10.3	9.7	5.8	9.2	7.7	9.3	2.4
35.3%	38.4%	41.1%	34.8%	26.6%	19.6%	10.3%	16.9%	10.1%
64,984,566	63,310,047	59,892,583	59,326,853	62,451,319	59,915,187	59,517,861	57,027,035	57,726,273
6,099	6,147	5,879	5,685	5,879	5,939	6,010	5,883	5,630
3,490,325	3,400,182	3,325,308	3,275,144	3,232,687	3,163,968	3,082,382	2,986,545	2,900,856
17,182	16,844	16,292	15,797	14,569	14,157	12,917	12,845	12,671

(c) Excludes current portion.

(d) Includes non-Edison owned renewable/alternative sources.

Selected Financial Data 1977–1987

		1987	1986
Summary of Operations	Operating revenues	$ 5,492,669	$ 5,311,733
In thousands, except percent	Operating expenses	4,492,753	4,332,712
and per share data	Fuel and purchased power costs (a)	1,870,788	1,653,854
	Income taxes (a)	624,464	732,322
	Allowance for equity and borrowed funds used during construction	116,332	135,222
	Total interest charges	457,039	482,855
	Net income	788,626	768,617
	Earnings available for common and original preferred stock	$ 738,531	$ 713,933
	Weighted-average shares of common and original preferred stock outstanding (000)	217,966	217,732
	Per share data:		
	Earnings per common share	$3.39	$3.28
	Dividends declared per common share	$2.35½	$2.25
	Dividend payout ratio (paid basis)	68.7 %	67.7 %
	Rate of return on common equity	14.91%	15.06%
	Ratio of earnings to fixed charges	3.62	3.83
Balance Sheet Data	Total assets (b)	$14,218,570	$13,768,668
In thousands, except percent	Gross utility plant (b)	16,514,587	15,638,258
and per share data	Accumulated depreciation	4,024,478	3,586,080
	Percent of gross utility plant	24.4%	22.9%
	Common stock, at par value	$ 904,694	$ 903,777
	Additional paid-in capital	1,549,125	1,546,541
	Earnings reinvested in the business	2,569,121	2,343,957
	Common shareholders' equity	5,022,940	4,794,275
	Preferred and preference stock		
	—without mandatory redemption requirements	365,238	365,654
	—with mandatory redemption requirements (c)	277,538	299,049
	Long-term debt (c)	$ 4,561,032	$ 4,667,891
	Capital structure (percent):		
	Common shareholders' equity	49.1%	47.3%
	Preferred and preference stock		
	—without mandatory redemption requirements	3.6	3.6
	—with mandatory redemption requirements (c)	2.7	3.0
	Long-term debt (c)	44.6%	46.1%
	Book value per common share	$23.05	$22.02
Operating and Sales Data	Area peak demand (MW)	14,775	14,599
	Area generating capacity at peak (MW)	18,206	18,320
	Total energy requirement (KWH) (000)	74,142,513	73,208,697
	Percent energy requirement:		
	Thermal	70.8%	55.6%
	Renewable/alternative (including hydro)	4.7	7.9
	Purchased power and other sources (d)	24.5%	36.5%
	Kilowatt-hour sales (000)	65,539,481	64,197,405
	Average annual KWH sales per residential customer	6,117	5,999
	Number of customers	3,717,262	3,589,414
	Number of employees	17,083	17,553

(a) Included in Operating Expenses.

(b) The years 1977 through 1981 have been restated to reflect the deduction of property-related accumulated deferred income taxes from Utility Plant, and the years 1977 through 1986 have been restated to include nuclear fuel leased from an affiliate and the related obligation for comparison to such assets and liabilities reported as of December 31, 1987.

Operating Revenues and Kilowatt-Hour Sales

Class of Service	Operating Revenues % of 1987 Total	Operating Revenues In thousands 1987	Operating Revenues In thousands 1986	Operating Revenues % of Change	Kilowatt-Hour Sales (000) % of 1987 Total	Kilowatt-Hour Sales (000) 1987	Kilowatt-Hour Sales (000) 1986	Kilowatt-Hour Sales (000) % of Change
Residential	29.4	$1,613,740	$1,510,925	6.8	30.2	19,760,244	18,766,947	5.3
Agricultural	1.6	86,629	73,260	18.2	1.5	1,014,737	851,862	19.1
Commercial	34.8	1,910,480	1,788,590	6.8	33.0	21,610,315	20,270,295	6.6
Industrial	22.0	1,211,606	1,208,783	0.2	24.0	15,727,488	15,463,013	1.7
Public authorities	9.2	505,840	461,366	9.6	8.2	5,380,388	5,077,729	6.0
Interdepartmental	—	95	81	17.3	—	1,119	970	15.4
Resale	2.2	120,273	232,542	(48.3)	3.1	2,045,190	3,766,589	(45.7)
Sales of electric energy	99.2	5,448,663	5,275,547	3.3	100.0	65,539,481	64,197,405	2.1
Other electric revenues	0.8	44,006	36,186	21.6	—	—	—	—
Total	100.0	$5,492,669	$5,311,733	3.4	100.0	65,539,481	64,197,405	2.1

Operating Revenues by Rate Components

Rate Components	Operating Revenues In thousands 1987	Operating Revenues In thousands 1986	Operating Revenues In thousands 1985	Percent of Total 1987	Percent of Total 1986	Percent of Total 1985
Base rates—CPUC jurisdiction	$2,641,426	$2,522,565	$2,411,836	48.1	47.5	46.7
Energy cost adjustment billing factor	1,919,668	1,798,697	1,587,763	35.0	33.8	30.7
Annual energy rate	5,834	12,173	115,027	0.1	0.2	2.2
Major additions adjustment billing factor	804,606	801,276	732,232	14.6	15.1	14.2
Other billing factors	(51,432)	(91,765)	(52,617)	(0.9)	(1.7)	(1.0)
Resale rates (excluding fringe)	128,561	232,601	347,494	2.3	4.4	6.7
Sales of electric energy	5,448,663	5,275,547	5,141,735	99.2	99.3	99.5
Other electric revenues	44,006	36,186	27,113	0.8	0.7	0.5
Total	$5,492,669	$5,311,733	$5,168,848	100.0	100.0	100.0

creased level of funds generated internally is principally the result of placing completed nuclear facilities into rate base and tax benefits resulting from growth in the Company's investment in plant assets.

While internal generation of funds remains at favorable levels, the repeal of the investment tax credit and reduced tax deductions for depreciation under the Tax Reform Act of 1986 negatively impacts cash flow.

Cash flow and liquidity during 1988 will be favorably affected by the recovery of balancing account undercollections and unfavorably affected by revenues deferred to future ratemaking periods resulting from the Palo Verde Phase-In Plan. The timing and amount of revenue deferred under the Phase-In Plan are discussed in Note 1 of "Notes to Financial Statements."

Liquidity and Capital Resources

Short- and intermediate-term borrowings are used to finance fuel oil inventory, leased nuclear fuel, and commencing in 1987, balancing account undercollections. The cost of these borrowings is recovered through balancing account procedures. The increase in short-term borrowings during 1987 is the result of utilizing short-term financing for balancing account undercollections, which is partially offset by a decrease in requirements for general corporate purposes. Details of available lines of credit and related short-term borrowings are discussed in Note 3 of "Notes to Financial Statements."

In addition to short-term financings, liquidity is affected by construction expenditures and other capital requirements including debt and capital stock maturities. Capital resources available to meet these requirements include funds from internal generation and external financings. External financing through short-term borrowings and security issuances is influenced by market conditions and other factors including limitations imposed by the Company's Articles of Incorporation and Trust Indenture. As of December 31, 1987, the Company could issue approximately $3.5 billion of additional First and Refunding Mortgage Bonds or $3.3 billion of preferred stock at current interest and dividend rates, respectively.

Capital Requirements

The following table presents the Company's projected capital requirements for 1988 through 1992:

In millions	1988	1989	1990	1991	1992
Construction expenditures	$874	$811	$ 728	$762	$680
Maturities of long-term debt	80	68	306	172	190
Redemptions of preferred and preference stock	22	24	12	12	12
Capital requirements	$976	$903	$1,046	$946	$882

Capital Structure

The Company's capital structure as of December 31, 1987 is reflected in the table below:

Common equity	49.1%
Preferred and preference stock	6.3
Long-term debt	44.6
Total	100.0%

The one-time charge against common equity of approximately $193 million for the nuclear construction cost disallowances will reduce the common equity component of the Company's capital ratio by approximately 1%.

Revenue pertaining to the recovery of income tax expense during 1987 was collected subject to refund pending a decision by the CPUC on the effects of the Tax Reform Act of 1986. In January 1988, the CPUC issued its initial decision ordering $44 million be refunded. The Company provided a reserve for this item and other pending issues. The refund to customers will not affect earnings.

Operating Expenses

Fuel expense increased by $212 million for 1987 reflecting the reduced availability of hydro resources and increased use of Company-owned generating facilities. This increase was partially offset by reduced natural gas prices and increased use of lower cost nuclear and coal generation. The effect on earnings of fluctuations in the Company's fuel and purchased power expenses is minimized by regulatory adjustment clauses established by the CPUC and the Federal Energy Regulatory Commission (FERC).

Increases in other operating, depreciation, and maintenance expenses continue to be influenced by system growth, including the commercial operation of Palo Verde Nuclear Generating Station Unit 1 on February 1, 1986, and Unit 2 on September 19, 1986. This trend will continue in 1988 with the costs of operating the Balsam Meadow Hydro Project and Palo Verde Unit 3, which were placed into commercial operation on December 1, 1987, and January 20, 1988, respectively.

The recovery of depreciation expense attributable to San Onofre Units 2 and 3 and Palo Verde Units 1 and 2 was authorized through the Major Additions Adjustment Clause. For these units, depreciation expense exceeding amounts recovered through rates was recorded in balancing accounts pending future rate recovery and, therefore, did not adversely affect earnings. Commencing in 1988, the costs of owning and operating these units are being recovered through base rates to the extent they are not deferred pursuant to the Palo Verde Rate Phase-In Plan discussed further in Note 1 of "Notes to the Financial Statements."

Tax expense on operating income for 1987 decreased by $107.9 million reflecting lower corporate tax rates and lower pretax income. As explained more fully in Note 4 of "Notes to Financial Statements," the decline in corporate tax rates under the Tax Reform Act of 1986 will further reduce federal income tax expense in future years. This reduction will be accompanied by a reduction in customer rates and is expected to have little or no impact on net income.

Other Income and Income Deductions

Interest income decreased by $16.5 million for 1987 reflecting lower interest rates, a decline in cash investments, and lower balancing account undercollections. Reductions in interest expense and preferred dividends during 1987 are the result of the Company's aggressive refinancing program and lower interest rates.

The Company's non-utility subsidiaries continued to expand operations during 1987 providing $100.9 million in revenue and $41.4 million in net income, or 19 cents per share, which compares to 8 cents per share in 1986. Non-utility subsidiary earnings represent 5.6% of total 1987 earnings.

Significant Accounting Changes

Recently adopted amendments to accounting standards will require significant adjustments to the Company's financial statements. As discussed in Note 2 of "Notes to Financial Statements," the Company recorded a one-time, after-tax charge against common equity of approximately $193 million in January 1988 because of a new accounting standard requiring plant investment costs disallowed for ratemaking purposes to be written off. This adjustment will be reported as a restatement of 1986 net income.

In conformity with other new accounting standards, the Company will be required to present consolidated financial statements by year-end 1988 and, commencing in 1989, will record major balance sheet adjustments in accordance with income tax accounting amendments. These changes are not expected to significantly impact future earnings.

If approved by shareholders, the formation of a holding company will result in the transfer of the Company's investment in non-utility subsidiaries and related earnings to the holding company.

Financial Condition

Internal Generation of Funds

The majority of capital requirements continue to be obtained from operations. For 1987, approximately 77% of such requirements were provided by internally generated funds, compared to 74% for 1986 and 65% for 1985. The in-

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

Results of Operations

Earnings Summary

Earnings per share for 1987 reached an all time high of $3.39, representing a 3.4% increase over the previous year's $3.28 as shown in the chart below. This represents the seventh consecutive year of record earnings. Net income rose to a record $788.6 million and revenues to a record $5.5 billion. Significant factors contributing to the earnings increase include strong emphasis on productivity improvements and cost control; the cumulative effect of an accounting change to include revenues from electricity delivered to customers, but for which bills have not been sent; increased income contributed by non-utility subsidiaries; and a coal plant operating performance reward approved by the California Public Utilities Commission (CPUC).

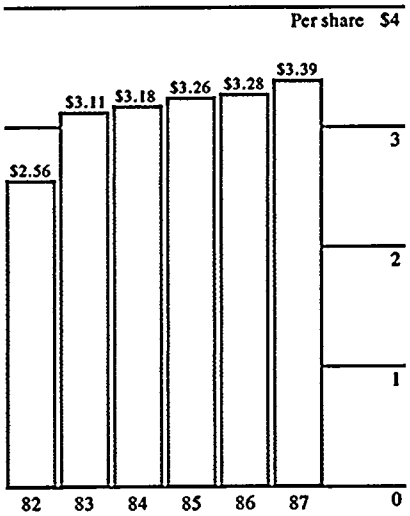
Strong financial performance was achieved in 1987 despite write-offs of previously accrued revenues related to nuclear plant construction disallowances and a decrease in the authorized rate of return on common equity to 13.9% in 1987 from 14.6% in 1986.

Operating Revenues and Sales

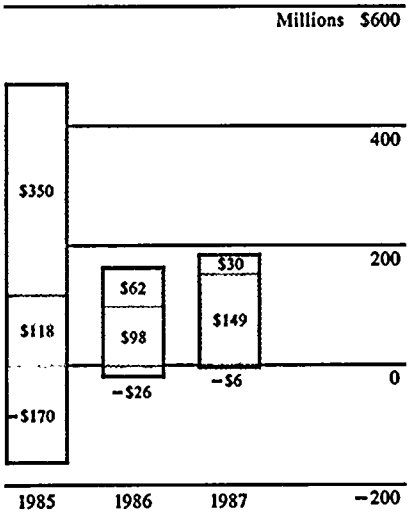
Electric operating revenue increased over the prior year by $181 million, or 3.4%. This increase reflects a 5.1% increase in retail sales volume due largely to record customer growth and the effect of rate changes that caused revenue per kilowatt-hour to increase by 1.2%. This increase was achieved despite a $112 million decrease in sales to wholesale customers who obtained most of their power from other sources. Increases in operating revenues of 2.8% in 1986 and 5.5% in 1985 reflect the effects of rate changes and a 1.2% sales decline in 1986 and a 2.6% sales increase in 1985. The chart below shows the changes in major components of operating revenue that contributed to the overall variations for the past three years.

Rate changes effective January 1, 1988, will reduce rates by $33 million or 0.6% annually, reflecting the CPUC's general rate case decision and other rate adjustments decided by the Commission during 1987. The rate decrease reflected in large part a reduction by the CPUC in Edison's authorized rate of return on common equity from 13.9% in 1987 to 12.75% in 1988.

Earnings Per Share



Operating Revenues—Changes



Note 9. Contingencies

Nuclear Insurance

The Price-Anderson Act currently limits the public liability claims that could arise from a nuclear incident to a maximum amount of $720 million for each licensed nuclear facility. Private insurance for this exposure has been purchased by the participants in San Onofre and Palo Verde in the maximum available amount, presently $160 million, with the balance to be provided by secondary financial protection required by the Nuclear Regulatory Commission (NRC). Under the NRC agreement, retrospective premium adjustments of up to $27.7 million per year could be assessed in the event of nuclear incidents involving any licensed reactor in the United States. The Price-Anderson Act expired for nuclear units not currently licensed; however, the act remains in effect on existing and licensed units until new legislation is passed.

Property damage insurance covers losses up to $500 million at San Onofre and Palo Verde. Decontamination liability and property damage insurance in excess of the primary $500 million layer has also been purchased. Also provided is insurance covering part of the additional expense of replacement power resulting from an accident-related nuclear unit outage. After the first 26 weeks of such an outage, maximum weekly indemnity of $2.6 million for a single unit for 52 weeks begins. An additional $1.3 million per week is provided for the next 52 weeks. These policies are provided primarily through mutual insurance companies owned by utilities with nuclear facilities. If losses at any nuclear facility covered by the arrangement were to exceed the accumulated funds available for these insurance programs, the Company could be assessed retrospective premium adjustments of up to $56.3 million per year. Insurance premiums are charged to Operating Expenses.

Government Licenses

The terms and provisions of federal licenses cover the Company's major and certain minor hydroelectric plants. These licenses also cover certain storage and regulating reservoirs as well as related transmission facilities.

These licenses expire at various times between 1988 and 2009. They contain numerous restrictions and obligations on the part of the Company, including the right of the United States to acquire Company properties or, under certain conditions, the FERC to issue a license to a new licensee upon the payment to the Company of specified compensation. Applications are pending for the relicensing of certain hydroelectric plants referred to above with aggregate effective operating capacity of 61 megawatts. The terms of any new licenses are expected to be less favorable than those of the expired licenses.

Antitrust Litigation

In March 1978, five resale customers filed a suit in federal court alleging violation of antitrust laws. The complaint seeks monetary damages, a trebling of such damages and certain injunctive relief. The complaint alleges that the Company (i) is engaging in anticompetitive behavior by charging more for electricity sold to the resale customers than is charged to certain classes of its retail customers ("price squeeze"), and (ii) has acted alone and in concert with other utilities to prevent or limit such resale customers from obtaining bulk power supplies from other sources to reduce or replace the resale customers' purchases from the Company ("foreclosure"). The plaintiffs estimated their actual damages for alleged price squeeze, before trebling, at approximately $22.7 million and foreclosure damages stemming from alleged loss of energy and capacity at approximately $76.8 million before trebling, for the period February 1, 1978 to December 31, 1985. The trial began on July 8, 1986, and concluded on September 26, 1986. Findings of Fact and Conclusions of Law were filed by the Company with the Court on November 21, 1986. No date has been given for the decision. The foregoing proceedings involve complex issues of law and fact and, although the Company is unable to predict their final outcome, it has categorically denied the allegations of these resale customers.

Note 8. Commitments

Construction Program and Fuel Supply

There are significant purchase commitments in connection with the continuing construction program. As of December 31, 1987, budgeted construction expenditures are estimated at $874 million for 1988, $811 million for 1989, and $728 million for 1990. Minimum long-term commitments of approximately $1,547 million existed on December 31, 1987 under fuel supply transportation arrangements.

Nuclear Waste Policy Act

Under the Nuclear Waste Policy Act of 1982, contracts for disposal of spent nuclear fuel have been entered into with the U.S. Department of Energy (DOE). A quarterly fee of one mill per kilowatt-hour is paid to the DOE for nuclear generation on and after April 7, 1983. Generation before April 7, 1983 requires payment of a one-time fee equivalent to one mill per kilowatt-hour plus accrued interest. The one-time fee has been recorded as a deferred charge pending future rate recovery, and including accrued interest, approximated $24.1 million at December 31, 1987. Commencing in 1985, the obligation for this one-time fee is being discharged by equal payments over 40 quarters. Amounts charged to income for current generation were $14.6 million, $10.7 million, and $8.9 million for 1987, 1986, and 1985, respectively. Expenses associated with disposal of spent nuclear fuel are recovered through the ECAC procedure.

Long-Term Purchased Power and Transmission Contracts

Under firm contracts, the Company has agreed to purchase portions of the generating output of certain facilities and to purchase firm transmission service where appropriate. Although there is no investment in such facilities, these contracts provide for minimum payments based in part on the debt service requirements of the provider whether or not the facility or transmission line is operating. None of these power contracts provide, or are expected to provide, more than 5% of current or estimated future operating capacity. The cost of power and firm transmission service obtained under these contracts, including payments made when a facility or transmission line is not operating, is included in Purchased Power and Other Operating Expenses, respectively, in the Statements of Income. Purchased power costs are generally recoverable through the ECAC balancing account procedure. Selected information as of December 31, 1987 pertaining to purchased power contracts is summarized as follows:

Dollars in thousands	
Share of effective operating capacity— Megawatts (a)	627.5
Share of energy output	5.54%–100%
Total estimated annual cost	$117,081
Company's portion of estimated annual cost applicable to supplier's annual minimum debt service requirement	$ 18,891
Company's allocable portion of interest of suppliers included in annual minimum debt service	$ 18,102
Related long-term debt or lease obligations outstanding	None

(a) Effective operating capacity may vary according to water availability and other conditions.

Additional information as of December 31, 1987 regarding both purchased power and transmission service contracts is summarized below:

	Purchased Power	Transmission Service
Dates of expiration	1990–2017	1990–2016
Variable components of contracts	(a)	(a)
Required future minimum annual payments	*In thousands*	
1988	$ 64,767	$ 10,751
1989	40,092	9,234
1990	14,081	6,109
1991	2,500	4,474
1992	2,500	4,422
Later years	61,875	90,498
Total	185,815	125,488
Less amount representing interest to reduce total to present value	65,683	66,176
Total at present value	$120,132	$ 59,312
Total purchases for the years ended December 31,		
1987	$117,993	$ 11,219
1986	115,322	12,007
1985	91,421	10,090

(a) The variable components of certain contracts are based on a pro-rata share of actual operating, maintenance, and fuel costs or on the U.S. Government cost of service.

Employee Stock Plans

An Employee Stock Ownership Plan (ESOP) and a Stock Savings Plus Plan (SSPP) are maintained to supplement employees' retirement income. Contributions to the ESOP are funded primarily by federal income tax benefits and contributions by participating employees. Contributions to the SSPP amounted to $16.6 million, $15.4 million, and $13.9 million for the years 1987, 1986, and 1985, respectively.

Other Post-Employment Benefits

Health care and life insurance benefits are provided for retired employees and their dependents. Group life insurance benefits are provided through an insurance company. Health care benefits are provided through a combination of Company facilities and insurance programs. The cost of these benefits for retirees was $18.0 million, $15.4 million, and $13.1 million for the years 1987, 1986, and 1985, respectively.

Note 6. Jointly-Owned Utility Projects

The Company owns undivided interests in several jointly-owned generating stations and transmission systems for which each participant must provide its own financing. The proportionate share of expenses pertaining to such projects is included in the appropriate category of operating expenses in the Statements of Income. Below are the investments in each project as reported on the Balance Sheet as of December 31, 1987:

In thousands	Utility Plant in Service	Accumulated Depreciation	Construction Work in Progress	Ownership Interest
Projects:				
El Dorado Transmission System	$ 21,156	$ 7,894	$ 241	60.0%(a)
Four Corners Coal Generating Station —Units 4 & 5	400,325	101,357	1,652	48.0
Mohave Coal Generating Station	231,105	85,816	6,644	56.0
Pacific Intertie DC Transmission System	111,938	32,384	29,656	50.0
Palo Verde Nuclear Generating Station	981,927	43,176	583,239	15.8
San Onofre Nuclear Generating Station:				
Unit 1	519,288	134,358	14,692	80.0
Units 2 & 3	2,971,073	415,159	22,478	75.05
Common Facilities— Units 2 & 3	821,496	87,821	544	75.05
Common Facilities— Units 1, 2 & 3	173,072	22,480	2,704	75.87
Solar One Generating Station	18,062	17,410	—	80.0
Yuma Axis Combined Cycle Generating Station	12,369	10,029	—	33.3
California-Oregon 500 Kv Transmission Line	—	—	5,467	18.71
Total	$6,261,811	$957,884	$667,317	

(a) Represents a composite rate.

Note 7. Leases

The Company obtains a portion of its nuclear fuel under a capital lease. Under the terms of the lease agreement, monthly payments are based on nuclear fuel consumption and are designed to return to the lessor the accumulated investment in nuclear fuel and a financing charge on unrecovered costs. In accordance with an accounting standard applicable to rate regulated enterprises, the Company began recording the asset and obligation associated with the nuclear fuel lease in 1987. All Balance Sheets and Statements of Sources of Funds Used for Construction Expenditures presented for periods prior to 1987 have been restated to reflect the capitalization of leased nuclear fuel. The effect of this restatement increased nuclear fuel and the related obligations at December 31, 1986 in the amount of $523.7 million. This change did not affect revenues, net income, or retained earnings.

On June 10, 1987, a wholly-owned subsidiary purchased the nuclear fuel leasing company. The acquisition cost of approximately $521.2 million was financed primarily by the assumption of the lease company's commercial paper obligations. The Company has presented leased nuclear fuel indebtedness on its Balance Sheets.

Rental payments representing interest and amortization under the nuclear fuel lease which were charged to operating expenses were $136.5 million, $109.9 million, and $89.3 million for 1987, 1986, and 1985, respectively. Such payments are recoverable through regulatory balancing account mechanisms. Future minimum nuclear fuel lease payments cannot be reasonably estimated due to variations in nuclear fuel consumption. Leased nuclear fuel, net of accumulated amortization, totals $462.6 million and $523.7 million at December 31, 1987 and 1986, respectively.

The Company also leases automotive, computer, office, and miscellaneous equipment through operating rental agreements with varying terms, provisions, and expiration dates.

At December 31, 1987, estimated remaining rental commitments for non-cancelable operating leases were:

Year ended December 31,	*In thousands*
1988	$ 24,381
1989	21,741
1990	19,119
1991	16,660
1992	13,662
For periods thereafter	15,675
Total future rental commitments	$111,238

rate for corporations from 9.6% to 9.3%. Because the effect of state and federal tax reform legislation is reflected in customer rates, the effect on net income is not significant.

Ratemaking Investigation The CPUC has completed an investigation to evaluate the impact of the Act on ratemaking procedures. Revenue pertaining to the recovery of income tax expense during 1987 was collected subject to refund pending a decision by the CPUC on the effects of the Tax Reform Act of 1986. In January 1988, the CPUC issued its initial decision ordering $44 million be refunded. The Company provided a reserve for this item and other pending issues. The refund to customers will not affect earnings.

New Accounting Standard Under present accounting standards, deferred income tax balances are not adjusted to reflect changes in income tax law or rates. However, a new accounting standard will require adjustment of deferred tax balances to reflect the effects of such changes commencing not later than 1989. The Company has not determined whether it will reflect the initial application of this statement as a cumulative effect of a change in accounting principle in the year of adoption or as a restatement of prior years' financial statements.

The new standard requires significant balance sheet adjustments to 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. Balance sheet adjustments will also 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 recorded regulatory assets and liabilities representing the anticipated impact of these adjustments on customer rates. Such regulatory assets and liabilities will be adjusted as they are recovered or refunded through the ratemaking process.

Note 5. Employee Benefit Plans

Pension Plan

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

In 1987, a new accounting standard for defined benefit plans was implemented for determining pension cost for financial reporting purposes. Pension cost under the new standard is comprised of the components listed below using the projected unit credit actuarial cost method. The expected long term rate of return on assets was 8.5%. For prior years, pension cost was based on the actuarial method used to determine annual contributions to the plan.

In thousands	
Net pension expense for 1987:	
Service cost for benefits earned	$ 46,629
Interest cost on projected benefit obligation	91,025
Return on plan assets	(130,723)
Net amortization and deferral	46,699
Pension liability pursuant to accounting standards	53,630
Regulatory adjustment	(3,481)
Net pension cost recognized	$ 50,149

In conformity with accounting principles applicable to rate-regulated enterprises, a regulatory adjustment is recorded to reflect in results of operations the pension costs determined under the actuarial method used for ratemaking purposes. As a result of this adjustment, approximately $3.5 million has been recorded in a deferred debit account. Pension expense amounted to $48.6 million and $57.9 million for 1986 and 1985, respectively. The following table reflects the plan's funded status at December 31, 1987 and 1986:

	December 31,	
In thousands	1987	1986
Actuarial present value of benefit obligations:		
Vested benefits	$ 800,952	$ 760,587
Nonvested benefits	57,306	57,906
Accumulated benefit obligation	858,258	818,493
Value of projected future compensation levels	372,095	418,868
Projected benefit obligation	$1,230,353	$1,237,361
Plan assets at fair value	$1,201,550	$1,076,519
Benefit obligation in excess of plan assets	$ (28,803)	$ (160,842)
Unrecognized net gain	(101,579)	—
Unrecognized net obligation being amortized over 17 years	95,163	100,686
Accrued pension liability	$ (35,219)	$ (60,156)

Plan assets consist primarily of common stocks, corporate and government bonds, short-term investments, and guaranteed investment contracts.

The weighted-average discount rates used to determine the present value of the projected benefit obligation were 8.5% and 7.5% for 1987 and 1986, respectively. The assumed rate of increase in future compensation was 6%.

Note 4. Income Taxes

Current and Deferred Taxes

The current and deferred components of income tax expense are as follows:

In thousands	Year ended December 31, 1987	1986	1985
Current:			
Federal	$391,899	$324,733	$(39,600)
State	121,471	108,290	24,841
	513,370	433,023	(14,759)
Deferred—Federal and State:			
Investment tax credits—net	(15,824)	61,737	84,134
Accelerated cost recovery system property	173,226	170,848	145,957
Regulatory balancing accounts	(23,445)	(21,400)	365,296
Debt reacquisition expenses	(1,390)	81,968	24,453
Fuel contract settlements	16,002	9,528	91,681
Loss related to nuclear plant disallowance	(78,616)	(20,829)	—
Cumulative effect of accounting change	44,064	—	—
Other	(13,277)	(14,125)	12,248
	100,740	267,727	723,769
Total income tax expense	$614,110	$700,750	$709,010
Classification of income taxes:			
Included in operating expenses	$624,464	$732,322	$720,938
Included in other income	9,510	(10,743)	(11,928)
Loss related to nuclear plant disallowance	(78,616)	(20,829)	—
Cumulative effect of accounting change	58,752	—	—
Total income tax expense	$614,110	$700,750	$709,010

Total income tax expense includes the current tax liability generated 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. Consistent with current ratemaking procedures, the major items for which deferred income taxes are provided include regulatory balancing account provisions, phase-in plan deferrals, accelerated depreciation under the Accelerated Cost Recovery System, and debt reacquisition costs.

Pursuant to the Tax Reform Act of 1986 (Act), the cumulative effect of accruing unbilled revenues is included in taxable income over a period of four years beginning on January 1, 1987. Deferred income taxes have been provided on the portion of unbilled revenues reported for financial reporting purposes but not yet included in taxable income.

For ratemaking purposes, property-related accumulated deferred federal income taxes are deducted from rate base and amortized or otherwise applied as a reduction (or increase) in federal income tax expense in future years. Accumulated deferred investment tax credits (ITC) are amortized over the lives of the related properties. Prior to 1987, tax deductions relating to construction overheads such as interest, pension provisions, and taxes charged to construction were accounted for as current reductions in income tax provisions.

Commencing in 1987, the Act requires the capitalization of construction overhead and financing costs for determining the depreciable basis of certain properties for tax purposes. This change has increased taxable income and has reduced differences in construction costs for tax and financial accounting purposes.

Deferred income taxes for tax depreciation prior to 1981 and construction overheads have not been provided because the tax effects of such timing difference reversals are not allowed for retail rate-making purposes until the taxes become payable. The cumulative net amounts of these timing differences were $2,044 million on December 31, 1987, and $2,196 million on December 31, 1986.

The following table reflects the differences between reported state and federal income taxes and amounts determined on income before taxes by applying the federal statutory tax rate. The federal and the composite federal and state statutory tax rates are 46% and 51.184%, respectively, for periods before January 1, 1987, and 40% and 46.138%, respectively, for 1987.

In thousands	Year ended December 31, 1987	1986	1985
Expected federal income tax expense at statutory rate	$ 561,094	$ 675,908	$ 682,234
Increase (decrease) in income tax expense resulting from:			
Allowance for equity and borrowed funds used during construction	(26,728)	(62,202)	(72,539)
Federal deduction for state taxes on income	(45,917)	(55,355)	(54,578)
Depreciation timing difference not deferred	100,269	101,896	92,900
State tax provision	114,224	120,337	118,647
All other differences	(88,832)	(79,834)	(57,654)
Total income tax expense	$ 614,110	$ 700,750	$ 709,010
Pretax income	$1,402,735	$1,469,367	$1,483,117
Effective tax rate (total income tax expense÷pretax income)	43.8%	47.7%	47.8%

In addition to the above changes, the Act retroactively repealed ITC for property placed in service after December 31, 1985, except for property then under construction which is covered by various transitional rules. However, the Act requires a 100% reduction in depreciable basis for any transitional ITC. Because the Company defers the recognition of ITC, its elimination has not significantly impacted earnings. The Act also reduced federal income tax rates to 40% in 1987 and 34% in 1988 and later years.

In September 1987 California adopted income tax reform legislation, retroactive to January 1, 1987, to conform to the Act. Significant provisions include the capitalization of overheads and interest and accrual of unbilled revenues. Additionally, the California law reduces the general tax

Note 2. Regulatory Matters

CPUC Disallowances

In October 1986 the CPUC issued a decision on the reasonableness of $3.4 billion of the Company's investment in San Onofre Units 2 and 3, disallowing $258.6 million. The Company appealed the decision in December 1986 by filing for rehearing on $213.4 million of the disallowed costs. In March 1987 the Commission granted rehearing on issues pertaining to indirect construction costs and in July 1987 issued a decision which reduced the original $258.6 million disallowance to $198.9 million.

Pursuant to a ratemaking agreement adopted by the CPUC, the recovery of the Company's $1.5 billion investment in the Palo Verde Nuclear Generating Station is reduced by an amount equal to 19.33% of the amount disallowed for San Onofre Units 2 and 3. After giving effect to this agreement, the CPUC's investment disallowances for San Onofre and Palo Verde total $237.3 million.

Revenues for recovery of prior years' ownership costs associated with San Onofre and Palo Verde plant investment disallowed by the CPUC have been written-off from the MAAC balancing account. The Company wrote off $15 million after income taxes in December 1986 for the portion of disallowances the Company did not appeal and approximately $70 million after income taxes during 1987 for disallowances reflected in the CPUC's final decisions on the Company's petition for rehearing.

In December 1986 the Financial Accounting Standards Board adopted a new accounting standard requiring the write-off of construction costs disallowed and excluded from rate base. The new standard, which is effective for 1988, provides for the restatement of prior period financial statements for cost disallowances occurring prior to the effective date of the new standard. Accordingly, in the 1988 financial statement presentations which include 1986 and 1987 comparative financial statements, the disallowances will result in a one-time restatement of 1986 financial statements resulting in an after-tax charge against 1986 earnings and common shareholders' equity of approximately $193 million, or 89 cents per share.

Fuel Supply Contract Settlements

On June 15, 1987, the CPUC authorized recovery of $392 million of the $403 million of oil supply contract litigation settlement costs. Such recovery through the ECAC procedure is to be completed by 1989.

On October 16, 1987, the CPUC disallowed recovery of $3.2 million of $82.1 million in uranium contract termination payments. The allowed portion of the termination costs will be recovered through the ECAC balancing account procedure.

Resale Rates

In accordance with FERC procedures, resale rate increases are subject to refund with interest to the extent that they are subsequently disallowed by the FERC. As of December 31, 1987, revenues subject to refund aggregated approximately $849 million. The Company believes that the amount of refunds, if any, likely to result from the outstanding proceedings would not have a material effect on results of operations.

Note 3. Commercial Borrowings

Short-Term

Unrestricted deposits of approximately $7 million are maintained at commercial banks in order to continue certain lines of credit. These lines support commercial paper and other borrowings to finance general cash requirements, fuel oil inventory and, commencing in 1987, cost undercollections recorded in regulatory balancing accounts.

Commercial paper issued by a wholly-owned finance subsidiary is supported by its own lines of credit in addition to the Company's and is used primarily for financing nuclear fuel. The commercial paper is guaranteed by the Company and is presented on the Balance Sheet.

Borrowings outstanding and weighted-average interest rates are as follows:

	December 31,	
In millions	1987	1986
Total lines of credit	$1,041.0	$851.0
Amounts outstanding:		
General purpose	$ 16.9	$115.0
Balancing accounts and fuel oil	517.1	213.0
Subsidiary	420.1*	48.8
Totals	$ 954.1	$376.8
Weighted average interest rates	7.8%	6.8%

**Under credit agreements with commercial banks which allow the Company to refinance short-term borrowings on a long-term basis, $354 million of the subsidiary's commercial borrowings, including intermediate-term indebtedness, have been reclassified as long-term obligations on the Balance Sheet to reflect the anticipated timing of payments for leased nuclear fuel.*

Intermediate-Term

Foreign currency denominated notes were issued by a wholly-owned subsidiary on September 1, 1987, to replace a portion of commercial paper borrowings for nuclear fuel financing. The notes, which mature 24 months from the date of issuance, total $66.0 million at the exchange rate in effect on December 31, 1987. Under a currency exchange agreement, a securities firm pays the foreign currency denominated interest and principal and assumes all currency translation gains and losses. The Company's subsidiary pays interest on the proceeds of the issuance based on the average daily commercial paper rate. The average rate paid during 1987 was 7.09%. Currency translation gains or losses have been deferred and included in the translated value of the liability. The foreign currency denominated notes are guaranteed by the Company and are included in the Company's Balance Sheet in U.S. dollars.

cruing estimated unbilled revenues for electricity delivered after billing dates through the end of each month. This accounting change conforms to the Tax Reform Act of 1986 which required utilities to include unbilled revenues in taxable income, commencing in 1987, and provides a better matching of revenues and expenses.

The table below provides pro forma Net Income and Earnings Per Share as if the new method were in effect before the income statement periods presented. The pro forma amounts are adjusted to remove the cumulative effect of the change in accounting method.

In thousands, except per share amounts	As Reported		Pro Forma (Unaudited)	
Year ended December 31,	Net Income	Per Share	Net Income	Per Share
1986	$768,617	$3.28	$765,945	$3.27
1985	$774,107	$3.26	$773,699	$3.26

Regulatory Balancing Accounts

Operating Revenues The CPUC has authorized an Electric Revenue Adjustment Mechanism that removes the effect on earnings of retail sales fluctuations. Under this mechanism, differences between authorized and recorded base rate revenues are accrued in a regulatory balancing account.

Energy Costs An Energy Cost Adjustment Clause (ECAC) balancing account is used to record monthly entries to adjust the results of operations for variations between 90% of recorded fuel and purchased power costs and those included in rates. Such variations are deferred and accumulated in the balancing account until they are refunded to, or recovered from, utility customers through CPUC-authorized rate adjustments. The Company has been authorized Annual Energy Rate (AER) revenues to recover the remaining 10% of forecasted fuel and purchased power costs.

In 1987, the CPUC authorized a one-time write-down of the cost of fuel oil inventory to market prices and use of the last-in, first-out method for measuring the recoverable cost of fuel oil consumption. The one-time write-down, aggregating $108.7 million, including interest, has been recorded in the ECAC balancing account.

The CPUC has established performance incentive mechanisms for the Company's Nuclear Generating Stations based on targeted ranges of generation levels. Fuel savings or costs attributable to generation levels above or below the targeted ranges are divided equally between shareholders and customers. Under an incentive procedure adopted for coal plant operations, rewards and penalties are computed by comparing certain recorded performance criteria with designated standards.

Major Plant Additions Major Additions Adjustment Clause (MAAC) balancing account mechanisms were established to account for the difference between revenues required to provide recovery of San Onofre Units 2 and 3 and Palo Verde Units 1 and 2 ownership costs and revenues that are authorized.

Commencing in 1988, ownership costs related to the Company's investment in San Onofre Units 2 and 3 are recovered in base rates. Ownership costs pertaining to the Palo Verde Nuclear Generating Station will be recovered in base rates in 1988 to the extent they are not deferred pursuant to the Palo Verde Rate Phase-In Plan. Rate recovery of undercollections recorded in MAAC balancing accounts have been authorized over a three-year period beginning in 1988.

Palo Verde Rate Phase-In Plan Palo Verde Units 1, 2, and 3 have been in commercial operation for ratemaking purposes since February 1 and September 19, 1986, and January 20, 1988, respectively. The CPUC has adopted a 10-year rate phase-in plan which provides for the deferral of $200 million of revenue during the first four years of operation for each of the three units commencing on their commercial operation dates. Revenue to be deferred for each unit for years one through four is $80 million, $60 million, $40 million, and $20 million, respectively. These deferrals and related interest are to be recovered on a levelized basis during the final six years of each unit's phase-in plan.

Interest and Taxes Interest on regulatory balancing accounts and Palo Verde rate phase-in plan deferrals are accrued at the most recent three-month prime commercial paper rate published by the Federal Reserve. The weighted-average interest rates were 6.57% and 6.65% for 1987 and 1986, respectively. Income taxes on the changes in the regulatory balancing accounts are deferred.

Subsidiaries

Investments in unconsolidated subsidiary companies are accounted for by the equity method except subsidiaries engaged in Eurodebenture and nuclear fuel financings. For these subsidiaries, cash investments, commercial borrowings, and nuclear fuel are presented separately on the Company's Balance Sheets. Other subsidiaries are not considered significant for financial reporting purposes. A new accounting standard will require all subsidiaries to be reported on a consolidated basis at year-end 1988.

Restatements

Balance Sheets prior to 1987 have been restated to include leased nuclear fuel and the related obligations according to amended disclosure requirements for rate-regulated enterprises. Further discussion of the effects of this restatement is in Note 7.

Reclassifications

Certain items have been reclassified in prior periods to conform them to the financial statement presentations at December 31, 1987.

Note 1. Summary of Significant Accounting Policies

Regulation

The Company is regulated by the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Accounting records are maintained according to the Uniform System of Accounts prescribed by the FERC and adopted by the CPUC. The financial statements reflect ratemaking policies of these commissions and conform to generally accepted accounting principles that are applicable to rate-regulated enterprises.

Utility Plant

The cost of additions, including replacements of units of property and betterments, is capitalized and included in utility plant. Costs include contracted work, direct material and labor, construction overhead, and an allowance for funds used during construction.

Property maintenance, repairs, and minor replacements and additions are charged to maintenance expense. The cost of property that is replaced, renewed, or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation.

Property-related accumulated deferred income taxes are deducted from utility plant in conformity with the ratemaking method used to determine rate base.

Allowance for Funds Used During Construction (AFUDC)

AFUDC represents the cost of debt and equity funds that finance the construction of new facilities. AFUDC capitalized is also reported in the Statements of Income as a reduction of interest charges for the borrowed funds component and as other income for the equity funds component. Although AFUDC increases net income, it does not represent cash earnings. The cash recovery of AFUDC, as well as other construction costs, occurs when completed projects are placed into commercial operation and related depreciation is authorized to be recovered through rates.

The Tax Reform Act of 1986 requires interest costs on debt related to certain plant construction to be capitalized for determining depreciable tax basis. As a result, commencing in 1987, the debt component of AFUDC was computed on the basis of pretax interest expense. Prior to 1987, interest was included in the AFUDC calculation net of the tax benefit realized from deducting such amounts from taxable income. The AFUDC rate, which reflects semi-annual compounding, is 11.57% for 1987 under the gross method and was 10.53% and 10.40% for 1986 and 1985, respectively, under the net-of-tax method.

Depreciation

Depreciation of utility plant, other than nuclear fuel, is computed on a straight-line, remaining-life basis using the composite service lives by classes of depreciable property.

Nuclear generation station decommissioning costs are recovered in rates through an annual allowance and charged to depreciation expense. As of December 31, 1987, nuclear decommissioning costs are estimated to aggregate $713 million. Estimated annual decommissioning expense recovered in retail rates for 1988 and certain prior years are being deposited in trust funds until the decommissioning of nuclear facilities takes place. A portion of such fund contributions are tax deductible pursuant to federal and state income tax legislation adopted in 1987.

Nuclear Fuel

The cost of nuclear fuel, including its disposal, is amortized based on generation over its service life. Nuclear fuel costs are recovered through regulatory balancing account mechanisms. Leased nuclear fuel is discussed further in Note 7.

Research and Development (R&D)

General R&D costs are expensed as incurred. R&D costs related to specific projects are capitalized until a determination is made as to whether such projects will result in the construction of electric plant. If the construction of electric plant does not ultimately result, the costs are charged to expense.

	Year ended December 31,		
In thousands	1987	1986	1985
R&D costs charged to expense	$42,893	$47,122	$44,139
R&D costs deferred/capitalized	14,855	3,888	1,030
Total R&D expenditures	$57,748	$51,010	$45,169

Income Taxes

Deferred income taxes are provided for certain benefits realized from depreciation deductions utilized for tax purposes, regulatory balancing accounts, debt reacquisition expenses, and certain other items. Income tax accounting policies are discussed further in Note 4.

Unamortized Debt Issuance and Reacquisition Expense

Debt premium, discount, and related issuance expenses are amortized over the lives of the issuances. Debt reacquisition expenses related to issues redeemed without refunding are amortized over the period the retired issue would have remained outstanding. When debt is reacquired with refunding, the related expenses are amortized over the lives of the new debt issues.

Change in Accounting Principle

Prior to 1987, revenues were recorded based on customer billings. Effective January 1, 1987, the Company began ac-

Notes to Statements of Capitalization

(a) As of December 31, 1987, authorized shares for the Original Preferred, $25 Cumulative Preferred, $100 Cumulative Preferred, $25 Preference, and $100 Preference Stock were 480,000, 24,000,000, 12,000,000, 10,000,000, and 2,000,000 shares, respectively. All series of Cumulative Preferred, $100 Cumulative Preferred, and Preference Stock are redeemable at the option of the Company. The 500,000 shares of $100 Cumulative Preferred Stock, 12.31% Series, are not subject to such redemption until May 1, 1992. The various series of $100 Cumulative Preferred Stock, and the Preference Stock, 7.375% Series, are subject to certain restrictions on redemption for refunding purposes.

(b) As of December 31, 1987, the conversion price of the Preference Stock, 5.20% Convertible Series was $15.75 per share. The 12½% Convertible Subordinated Debentures Due 1997, issued by Southern California Edison Finance Company N.V., are convertible into Company common stock at the conversion price of $16.1875 per share.

(c) For Preferred and Preference Stock with Mandatory Redemption Requirements, the aggregate mandatory redemption requirements for the five years subsequent to December 31, 1987, are as follows:

	No. of Shares	Commencing	Year ended December 31, 1988	1989	1990	1991	1992
			In thousands				
$100 Cumulative Preferred							
7.325%	30,000	7/31/83	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
7.80%	18,000	11/30/83	1,800	1,800	1,800	1,800	1,800
8.54%	22,500*	6/30/86	—	—	2,250	2,250	2,250
8.70%A	13,125	6/30/85	1,313	1,313	1,313	1,313	1,313
12.31%	35,000**	4/30/88	3,500	3,500	3,375	3,375	3,375
Preference							
7.375%	496,000	2/01/85	12,400	12,400	4,063	—	—
			$22,013	$22,013	$15,801	$11,738	$11,738

*45,000 shares relating to 1988 and 1989 have been acquired through open market purchases.
**Decreases to 33,750 shares beginning in April 1990.

During 1987, the Company made optional redemptions of 22,500 and 13,125 shares of the $100 Cumulative Preferred Stock, 8.54% Series and 8.70% Series A, respectively. Such optional redemptions reduce the final series of mandatory redemption requirements.

(d) Substantially all of the properties of the Company are subject to the liens of Trust Indentures.

(e) Maturities and sinking fund requirements of long-term debt for the five years subsequent to December 31, 1987 are as follows:

Year ended December 31,	Maturities	Sinking Fund Requirements	Total
		In thousands	
1988	$ 74,292	$5,250	$ 79,542
1989	62,544	5,250	67,794
1990	299,823	5,725	305,548
1991	166,134	6,230	172,364
1992	183,478	6,300	189,778

(f) First and Refunding Mortgage Bonds and other indebtedness have been issued to governmental agencies in exchange for the proceeds from the issuance of Pollution Control Revenue Bonds and Pollution Control Revenue Refunding Bonds. The proceeds have been deposited with Trustees and are being utilized to defray the construction and other specified costs of pollution control facilities and retirement of maturing issues. Such Bonds may be redeemed at the election of the Bond holders. The Company has entered into agreements with security dealers which provide for the remarketing or purchase of the Bonds when such elections are made.

(g) Promissory Notes payable to Southern California Edison Finance Company N.V. (Finance) have been issued in exchange for the proceeds from the issuance of Debentures by Finance. Payment of the principal and interest on $2,973,000 principal amount of the Debentures, which are convertible into the Company's Common Stock, is guaranteed on a subordinated basis by the Company.

(h) Pursuant to the Nuclear Waste Policy Act of 1982, the Company has entered into a contract with the U.S. Department of Energy for disposal of spent nuclear fuel for the San Onofre Nuclear Generating Station.

Notes to Statements of Common Shareholders' Equity

(a) At December 31, 1987, shares of Common Stock reserved for issuance were as follows:

	Shares
Conversion of Preference Stock, 5.20% Convertible Series	157,683
Conversion of 12½% Convertible Subordinated Debentures, Due 1997, Issued by Southern California Edison Finance Company N.V.	294,858
Stock purchase plans	4,238,575*
Total	4,691,116

*These plans include the Dividend Reinvestment and Stock Purchase Plan (DRP), Stock Savings Plus Plan (SSPP), and Employee Stock Ownership Plan (ESOP). Common Stock currently required for the plans are provided through open market purchases.

(b) Transactions in the capital stock accounts during 1987, 1986, and 1985 reflect the issuance of common stock through stock purchase plans, the conversion of 16,620, 33,825, and 30,323 shares in the respective years of Preference Stock, 5.20% Convertible Series (5.20% Series), and conversion of 12½% Convertible Subordinated Debentures, Due 1997, as follows:

Shares issued	1987	1986	1985
DRP	—	—	2,942,754
SSPP	—	—	—
ESOP	—	—	—
5.20% Series	26,359	53,656	48,090
12½% Convertible Debentures	193,715	175,974	1,133,325

(c) Includes undistributed earnings of unconsolidated subsidiaries of $46,953,000 and appropriated reinvested earnings related to certain federally licensed hydroelectric projects of $4,197,000 at December 31, 1987.

Statements of Common Shareholders' Equity

Southern California Edison Company

Notes to Statements of Common Shareholders' Equity are on page 31.	1987	1986	1985
		In thousands	
Common Stock—par value $4⅙ per share, 280,000,000 shares authorized, 217,126,601, 216,906,527, and 216,676,897 outstanding at December 31 of respective years (a)(b):	$ 904,694	$ 903,777	$ 902,821
Additional paid-in capital:			
Balance at beginning of period	$1,546,541	$1,543,933	$1,470,347
Premium received on sale of Common Stock and security conversions (a)(b)	2,608	2,664	73,652
Capital stock expense	(24)	(56)	(66)
Balance at end of period	$1,549,125	$1,546,541	$1,543,933
Earnings reinvested in the business:			
Balance at beginning of period	$2,343,957	$2,128,646	$1,886,804
Add:			
Net income	788,626	768,617	774,107
	3,132,583	2,897,263	2,660,911
Less:			
Dividends declared on capital stock—			
Common—$2.35½ per share for 1987, $2.25 per share for 1986, and $2.13 per share for 1985	511,130	487,778	458,551
Original Preferred	2,237	2,131	2,016
Cumulative Preferred	47,730	51,311	67,676
Preference	2,365	3,062	4,022
	563,462	544,282	532,265
Loss on reacquired capital stock	—	9,024	—
Balance at end of period (c)	$2,569,121	$2,343,957	$2,128,646
Total common shareholders' equity at December 31,	$5,022,940	$4,794,275	$4,575,400

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

Statements of Capitalization

Southern California Edison Company

Notes to Statements of Capitalization are on page 31.		December 31, 1987 Shares outstanding	December 31, 1987 Redemption price	at December 31, 1987	at December 31, 1986
				In thousands	
Common shareholders' equity (detailed on page 30)		217,126,601	—	$ 5,022,940	$ 4,794,275
Original Preferred—5%, prior, cumulative, participating, not redeemable, par value $8⅓ per share		480,000	—	4,000	4,000
Cumulative Preferred—par value $25 per share:					
	4.08% Series	1,000,000	$ 25.50	25,000	25,000
	4.24% Series	1,200,000	25.80	30,000	30,000
	4.32% Series	1,653,429	28.75	41,336	41,336
	4.78% Series	1,296,769	25.80	32,419	32,419
	5.80% Series	2,200,000	25.25	55,000	55,000
$100 Cumulative Preferred—par value $100 per share:	7.58% Series	750,000	101.00	75,000	75,000
	8.70% Series	500,000	104.00	50,000	50,000
	8.96% Series	500,000	104.00	50,000	50,000
Preference—par value $25 per share:	5.20% Convertible Series	99,337	25.00	2,483	2,899
$100 Preference—par value $100 per share				—	—
Total Preferred and Preference Stock (without mandatory redemption requirements) (a)(b)				365,238	365,654
$100 Cumulative Preferred—par value $100 per share:					
	7.325% Series	600,000	103.79	60,000	63,000
	7.80% Series	509,995	104.91	51,000	52,500
	8.54% Series	637,500	105.65	63,750	66,000
	8.70% Series A	459,374	110.00	45,937	48,562
	12.31% Series	500,000	105.83	50,000	50,000
Preference—par value $25 per share:	7.375% Series	1,154,546	25.00	28,864	37,200
				299,551	317,262
Preferred and Preference Stock to be redeemed within one year				(22,013)	(18,213)
Total Preferred and Preference Stock (with mandatory redemption requirements) (a)(c)				277,538	299,049
			Interest rates		
First and refunding mortgage bonds (d)(e):					
	Due 1988 through 1991		(4½%–10%)	592,000	588,000
	Due 1992 through 1996		(5⅞%–8⅛%)	955,000	955,000
	Due 1997 through 2001		(7⅜%–8⅞%)	500,000	500,000
	Due 2002 through 2006		(8¼%–9.95%)	409,000	414,250
	Due 2007 through 2019		(8⅜%–13%)	1,084,413	1,101,612
Pollution control indebtedness (f):	Due 1999 through 2015		(7%–10¾% and variable)	897,730	857,730
Debentures and promissory notes (b)(e)(g):	Due 1992 through 1997		(10½%–13%)	202,973	356,109
Other long-term debt (e)(h)			(10.57%)	24,733	26,797
Principal amounts outstanding				4,665,849	4,799,498
Long-term debt due within one year—net (e)				(79,542)	(103,315)
Unamortized debt premium or (discount)—net				(14,803)	(17,069)
Securities held by trustees (f)				(10,472)	(11,223)
Total long-term debt				4,561,032	4,667,891
Total capitalization				$10,226,748	$10,126,869

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

Statements of Sources of Funds Used for Construction Expenditures

Southern California Edison Company

In thousands Year ended December 31,	1987	1986	1985
Funds provided by:			
Net income	$ 788,626	$ 768,617	$ 774,107
Items in net income not affecting working capital:			
Depreciation	549,089	504,701	454,574
Amortization of nuclear fuel	139,511	113,387	75,617
Allowance for borrowed and equity funds used during construction	(116,332)	(135,222)	(157,694)
Rate phase-in plan	(149,110)	(90,650)	—
Deferred income taxes	199,793	266,571	192,575
Deferred investment tax credits—net	(18,833)	59,252	84,134
Other—net	(22,357)	446	3,831
Total funds provided by operations	1,370,387	1,487,102	1,427,144
Dividends	(563,462)	(544,282)	(532,265)
Total funds provided by operations—reinvested	806,925	942,820	894,879
Sales of securities:			
Common stock	3,500	3,504	90,770
Long-term debt	129,412	1,427,026	1,111,880
Increase in nuclear fuel obligation	58,223	66,708	77,515
Reduction for preferred and preference stock to be redeemed within one year	(17,950)	(18,213)	(20,463)
Conversion of preference stock	(414)	(845)	(758)
Reduction for long-term debt due within one year	(79,542)	(103,315)	(45,110)
Reduction in nuclear fuel obligation due within one year	(114,412)	(113,229)	(93,939)
Refunding and early retirement of preferred stock and long-term debt—net	(175,273)	(1,730,888)	(653,632)
Total funds provided (used) by long-term financing	(196,456)	(469,252)	466,263
Total funds provided	610,469	473,568	1,361,142
Other sources (uses) of funds:			
Cash and equivalents and cash investments	69,842	102,588	20,268
Receivables—net	(250,723)	(13,301)	20,455
Fuel stock, materials, and supplies	132,891	4,678	154,659
Regulatory balancing accounts—net	117,415	52,961	(773,656)
Accumulated deferred income taxes—net	(84,206)	(50,829)	392,808
Preferred and preference stock and long-term debt due within one year	(19,973)	55,955	(53,890)
Net short-term borrowings	175,810	232,240	41,493
Accounts payable	71,264	13,629	6,005
Accrued taxes	9,410	226,449	(2,653)
Deferred unbilled revenue	111,492	—	—
Other changes in working capital	99,600	59,865	19,658
Net (increase) decrease in working capital	432,822	684,235	(174,853)
Fuel contract settlement payments, net of deferred taxes	—	—	(62,402)
Special funds and other —net	(22,113)	(1,418)	30,123
Total other sources (uses) of funds	410,709	682,817	(207,132)
Funds used for construction expenditures	$1,021,178	$1,156,385	$1,154,010

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

In thousands At December 31,	1987	1986
Capitalization and Liabilities		
Common stock, at par value, 217,126,601 and 216,906,527 shares outstanding at respective dates	$ 904,694	$ 903,777
Additional paid-in capital	1,549,125	1,546,541
Earnings reinvested in the business	2,569,121	2,343,957
Common shareholders' equity	5,022,940	4,794,275
Preferred and preference stock without mandatory redemption requirements	365,238	365,654
Preferred and preference stock with mandatory redemption requirements	277,538	299,049
Long-term debt *(Note 1)*	4,561,032	4,667,891
Total capitalization	10,226,748	10,126,869
Nuclear fuel obligation—financing subsidiary *(Notes 1, 3, and 7)*	354,296	410,487
Accumulated provisions for pensions, insurance, and other *(Note 5)*	113,348	95,680
Total long-term obligations	467,644	506,167
Preferred and preference stock to be redeemed within one year	22,013	18,213
Long-term debt due within one year	79,542	103,315
Short-term borrowings *(Note 3)*	534,025	328,000
Short-term borrowings—financing subsidiaries *(Notes 1, 3, and 7)*	131,814	162,029
Accounts payable	486,382	415,118
Accrued taxes *(Note 4)*	469,581	460,171
Accrued interest	104,875	109,034
Dividends payable	133,281	127,783
Accumulated deferred income taxes—net *(Note 4)*	256,746	340,952
Deferred unbilled revenue and other	347,444	134,174
Total current liabilities	2,565,703	2,198,789
Accumulated deferred investment tax credits *(Note 4)*	526,033	544,866
Accumulated deferred income taxes—net *(Note 4)*	172,063	121,943
Customer advances and other deferred credits	260,379	270,034
Total deferred credits	958,475	936,843
Commitments and contingencies *(Notes 2, 7, 8, and 9)*		
Total capitalization and liabilities	$14,218,570	$13,768,668

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

Balance Sheets

Southern California Edison Company

In thousands At December 31,	1987	1986
Assets		
Utility plant, at original cost *(Notes 1, 2, and 6)*	$14,733,811	$13,676,746
Less—Accumulated depreciation *(Notes 1 and 6)*	4,024,478	3,586,080
	10,709,333	10,090,666
Construction work in progress *(Notes 1 and 6)*	1,232,990	1,342,169
Nuclear fuel, at amortized cost *(Notes 1, 3, and 7)*	547,786	619,343
	12,490,109	12,052,178
Less—Property-related accumulated deferred income taxes *(Notes 1 and 4)*	858,109	708,436
Total utility plant	11,632,000	11,343,742
Non-utility property and other investments, at cost—less accumulated depreciation	54,631	45,546
Investments in and advances to subsidiaries *(Note 1)*	291,915	207,282
Total other property and investments	346,546	252,828
Cash and equivalents *(Note 3)*	14,517	33,603
Cash investments—financing subsidiary *(Note 1)*	14,789	65,545
Receivables, including unbilled revenues, less reserves of $14,829,000 and $11,874,000 for uncollectible accounts at respective dates *(Note 1)*	615,119	364,396
Fuel stock *(Note 1)*	118,540	233,528
Materials and supplies, at average cost	105,577	123,480
Regulatory balancing accounts—net *(Notes 1 and 2)*	621,635	739,050
Prepayments and other	76,325	72,808
Total current assets	1,566,502	1,632,410
Unamortized debt issuance and reacquisition expense *(Note 1)*	301,741	303,599
Rate phase-in plan *(Note 2)*	239,760	90,650
Other deferred charges *(Note 8)*	132,021	145,439
Total deferred charges	673,522	539,688
Total assets	$14,218,570	$13,768,668

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

Statements of Income

Southern California Edison Company

In thousands, except per share amounts Year ended December 31,	1987	1986	1985
Sales *(Notes 1 and 2)*	$5,448,663	$5,275,547	$5,141,735
Other	44,006	36,186	27,113
Total operating revenues	5,492,669	5,311,733	5,168,848
Fuel *(Notes 1 and 2)*	1,090,189	878,040	1,683,363
Purchased power *(Note 8)*	780,599	775,814	705,724
Provisions for regulatory adjustment clauses—net *(Note 1)*	87,276	136,865	(607,036)
Other operating expenses *(Notes 7 and 8)*	838,373	809,000	755,325
Maintenance *(Note 1)*	361,201	352,696	352,635
Depreciation *(Note 1)*	549,089	504,701	454,574
Income taxes *(Notes 1 and 4)*	624,464	732,322	720,938
Property and other taxes	161,562	143,274	130,571
Total operating expenses	4,492,753	4,332,712	4,196,094
Operating income	999,916	979,021	972,754
Loss related to nuclear plant disallowance *(Note 2)*	(148,963)	(35,841)	—
Income taxes related to nuclear plant loss *(Note 4)*	78,616	20,829	—
Earnings from non-utility subsidiaries	41,425	16,702	9,377
Allowance for equity funds used during construction *(Note 1)*	73,406	105,744	123,179
Interest income	83,879	100,427	83,867
Taxes on non-operating income *(Note 4)*	(9,510)	10,743	11,928
Other income and deductions—net	15,926	24,369	26,287
Total other income	134,779	242,973	254,638
Income before interest charges	1,134,695	1,221,994	1,227,392
Interest on long-term debt and amortization *(Note 1)*	395,944	432,608	426,783
Other interest charges	61,095	50,247	61,017
Total interest charges	457,039	482,855	487,800
Allowance for borrowed funds used during construction *(Note 1)*	(42,926)	(29,478)	(34,515)
Net interest charges	414,113	453,377	453,285
Income before cumulative effect of a change in accounting principle	720,582	768,617	774,107
Cumulative effect on prior years (to December 31, 1986) of accruing unbilled revenue—net of income taxes of $58,752,000 *(Notes 1 and 4)*	68,044	—	—
Net income	788,626	768,617	774,107
Dividends on Cumulative Preferred and Preference Stock	50,095	54,684	71,698
Earnings available for Common and Original Preferred Stock	$ 738,531	$ 713,933	$ 702,409
Weighted-average shares of Common and Original Preferred Stock outstanding (000)	217,966	217,732	215,649
Earnings per share:			
Before cumulative effect of a change in accounting principle	$3.08	$3.28	$3.26
Cumulative effect of a change in accounting principle *(Note 1)*	.31	—	—
Total earnings per share	$3.39	$3.28	$3.26
Dividends declared per common share	$2.35½	$2.25	$2.13

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

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

Executive Officers

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

**Effective as of January 1, 1988.*

Executive Officers of Non-Utility Subsidiaries

H. Frederick Christie	*President and Chief Executive Officer, The Mission Group*
J. Jack Adrian	*President, Mission Power Engineering Company*
Thomas R. McDaniel	*President, Mission First Financial*
Edward A. Myers, Jr.	*President, Mission Energy Company*
Robert E. Umbaugh	*President, Mission Land Company*

Quarterly Financial Data

	1987					1986				
In millions, except per share data	Total	Fourth	Third	Second	First	Total	Fourth	Third	Second	First
Operating revenues	$5,493	$1,390	$1,487	$1,332	$1,284	$5,312	$1,311	$1,550	$1,211	$1,240
Operating income	1,000	239	270	262	229	979	227	267	235	250
Net income	789	183	224	200	182*	769	159	217	194	199
Per share:										
Earnings	$3.39	.78	.97	.86	.78*	$3.28	.67	.94	.83	.84
Dividends declared	$2.35½	.59½	.59½	.59½	.57	$2.25	.57	.57	.57	.54
Common Stock prices										
High	$37	$33¾	$33⅜	$32⅝	$37	$38¾	$36	$38¾	$32⅛	$31⅞
Low	$27⅝	$27⅝	$29⅞	$28⅛	$31¾	$25¼	$31⅞	$30⅜	$28⅜	$25¼

**Includes $68 million, or 31 cents per share, resulting from an accounting change. (See Note 1 in "Notes to Financial Statements.")*

Corporate Information

1988 Annual Shareholders' Meeting:
The annual meeting of shareholders of Southern California Edison Company will be held at 10 a.m., Thursday, April 21, 1988, at the Industry Hills and Sheraton Resort, One Industry Hills Parkway, City of Industry, California 91744.

Individual Shareholders Contact:
Southern California Edison Company
Shareholder Services, Room 240
P.O. Box 400, Rosemead, California 91770
Telephone (818) 302-1937

Institutional Investors Contact:
Manager, Investor Relations
Telephone (818) 302-2515

Stock Transfer Agent:
Southern California Edison Company
Stock Transfer, Room 240
P.O. Box 400, Rosemead, California 91770
Telephone (818) 302-1393 or (818) 302-1936

Dividend Reinvestment and Stock Purchase Plan Agent:
Southern California Edison Company
Shareholder Relations, Room 240
P.O. Box 400, Rosemead, California 91770
Telephone (818) 302-1852 or (818) 302-1995

Stock Exchange Listings:
Common Stock:
New York Stock Exchange
Pacific Stock Exchange
London Stock Exchange
Tokyo Stock Exchange

Preferred and Preference Stocks:
American Stock Exchange
Pacific Stock Exchange

Ticker Symbol:
SCE (Common Stock)

Newspaper Stock Table Listing:
SCalEd

Non-Utility Subsidiaries:
3010 Old Ranch Parkway, Suite 400
Seal Beach, California 90740-2750
Telephone (213) 431-8488

Statistical Supplement:
A comprehensive financial and statistical supplement to this report is available in limited quantity.
A copy may be requested by writing:
Manager of Investor Relations
Southern California Edison Company
P.O. Box 800, Rosemead, California 91770.

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