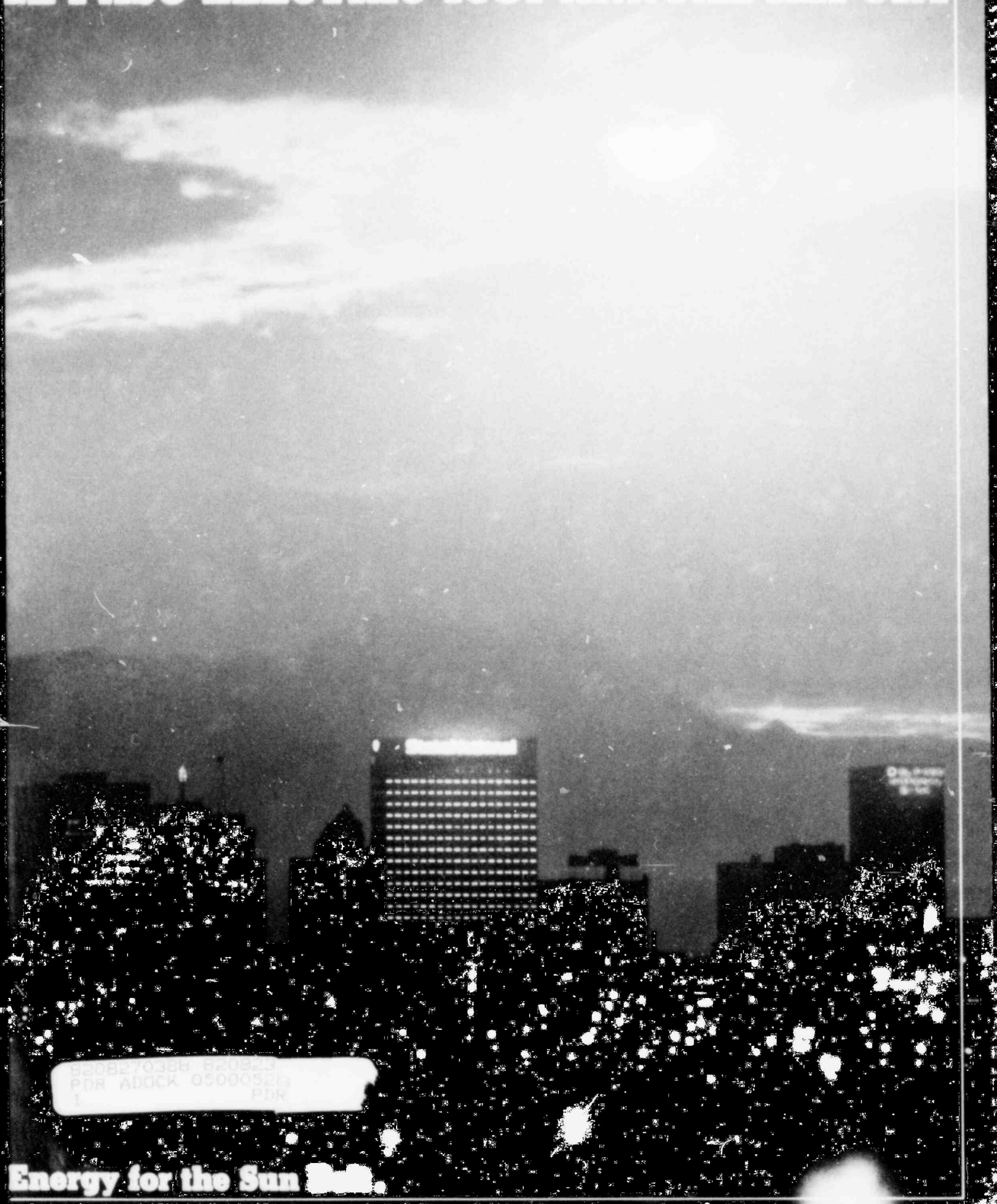
EL PASO ELECTRIC 1981 ANNUAL REPORT



Energy for the Sun Belt.

Corporate Information

Figures appearing in this report are presented as general information and not in connection with any sale or offer to sell or solicitation of any offer to buy any securities nor are they intended as a representation by the Company of the value of its securities.

Annual Meeting of Shareholders

All Shareholders are invited to attend the 1982 Annual Meeting of Shareholders on Monday, May 17, 1982, at 10 a.m. El Paso time, in the El Paso Civic Center, the North Hall, El Paso, Texas.

Proxies for the meeting will be solicited by the Board of Directors in a communication to be mailed in early April. This Annual Report is not a part of such proxy solicitation and is not intended to be used as such.

A copy of the Company's most recent 10-K Report, filed by El Paso Electric Company with the Securities and Exchange Commission, will be made available to Shareholders without charge upon written request to:

Theta S. Fields, Secretary
El Paso Electric Company
Post Office Box 982
El Paso, Texas 79960

Dividend Reinvestment

Another year of growth was noted in the Company's Dividend Reinvestment and Stock Purchase Plan. The plan is available to holders of record of Common Stock and is a convenient method of investing dividends and optional cash payments in new shares without payment of commissions and fees. The 1982 dividends reinvested under the plan are eligible for the exclusion provided by the Economic Recovery Tax Act of 1981. An enrollment card may be obtained by writing the Company Secretary.

Common Stock Shareholders

The Common Stock of the Company is held in every state of the union, the District of Columbia, some U.S. territories and many foreign countries. The number of Shareholders increased from 42,132 at December 31, 1980 to 45,952 at December 31, 1981. Our records indicate that 79% of the Company's Shareholders own less than 500 shares each.

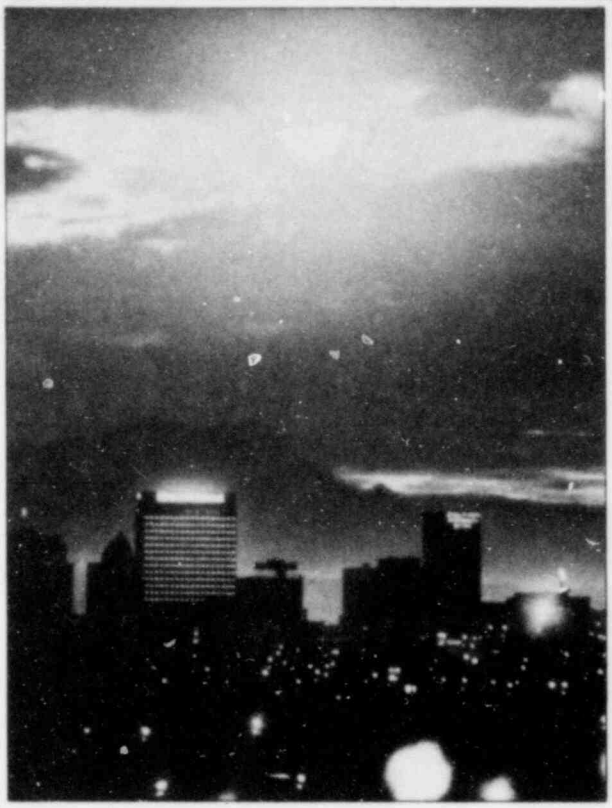
Toll-Free Telephone System Installed

The Company recently installed a toll-free telephone system for the convenience of Shareholders who may have questions or inquiries concerning their accounts. If you are calling from within Texas the number is 800-592-1634. Elsewhere in the U.S. call 800-351-1621.

Transfer Agents

National Bank of North America, 80 Pine Street, New York, New York 10005. (Common and Preferred Stock)

The State National Bank of El Paso
Post Office Box 1072
El Paso, Texas 79958 (Common Stock Only)



ON THE COVER — A late afternoon-after dark double exposure of the El Paso skyline captures the theme of this year's annual report, "Energy for the Sun Belt."

Contents

Highlights

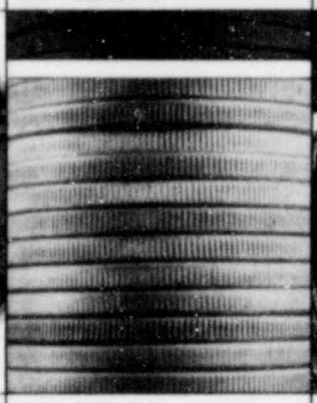
At December 31, 1981

- 1981 Percentage Over 1980
- 1980 Figures

Operating Revenues (000)
UP 18.9% over 1980
1981 - $250,379

1980 - $210,513

Operating Expenses (000)
UP 16.1% over 1980
1981 - $200,094



1980 - $172,296

Net Income (000)
UP 37.7% over 1980
1981 - $56,697

1980 - $41,177

Net Income Per Common Share UP 8.8% over 1980
1981 - $2.23

1980 - $2.05

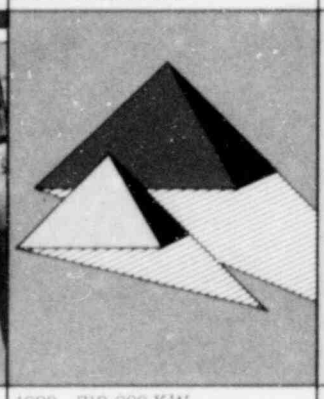
Number of Customers
UP 3.0% over 1980
1981 - 186,388

1980 - 180,922

Number of Employees
UP 4.0% over 1980
1981 - 1,025

1980 - 986

Peak Load
UP 2.5% over 1980
1981 - 736,000 KW



1980 - 718,000 KW

Net Generating Capacity
SAME as 1980
1981 - 977,000 KW

1980 - 977,000 KW

	At December 31, 1981		At December 31, 1980	
Operating Revenues (000)	$ 250,379		$ 210,513	
Operating Expenses (000)	$ 200,094		$ 172,296	
Net Income (000)	$ 56,697		$ 41,177	
Net Income Per Common Share	$ 2.23		$ 2.05	
Dividends Paid Per Common Share	$ 1.25		$ 1.13	
Book Value Per Common Share	$ 11.54		$ 10.82	
Common Shares Outstanding	25,110,066		20,485,067	
Number of Common Shareholders	45,952		42,132	
Number of Customers	186,388		180,922	
Number of Employees	1,025		986	
Peak Load	736,000	KW	718,000	KW
Net Generating Capacity	977,000	KW	977,000	KW
Average Annual Residential Use	5,849	KWH	6,065	KWH
Fuei Expense (000)	$ 107,562		$ 95,461	
Energy Sales	3,698,872	MWH	3,728,022	MWH
Utility Plant (000)	$ 898,333		$ 715,190	

Dividends Paid Per Common Share UP 10.6% over 1980
1981 - $1.25

1980 - $1.13

Book Value Per Share UP 6.7% over 1980
1981 - $11.54

1980 - $10.82

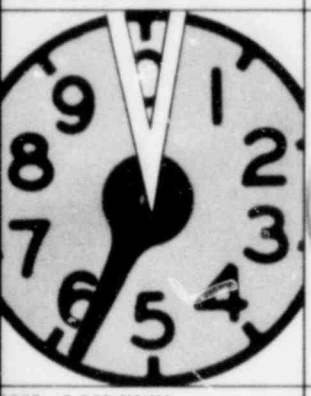
Common Shares Outstanding UP 22.6% over 1980
1981 - 25,110,066

1980 - 20,485,067

Number of Common Shareholders UP 9.1% over 1980
1981 - 45,952

1980 - 42,132

Average Annual Residential Use DOWN 3.6% from 1980
1981 - 5,849 KWH

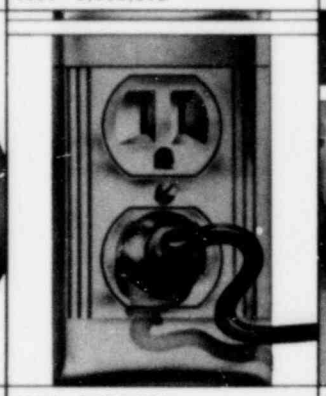


1980 - 6,065 KWH

Fuel Expense (000) UP 12.7% over 1980
1981 - $107,562

1980 - $95,461

Energy Sales (MWH) DOWN .8% from 1980
1981 - 3,698,872



1980 - 3,728,022

Utility Plant (000) UP 25.6% over 1980
1981 - $898,333

1980 - $715,190

A share in the Sun Belt. A message from Evern R. Wall, President.

A sense of optimism and excitement describes our view of the future for El Paso Electric, the people and the area we serve. The Company finished 1981 much better prepared to respond to the needs of customers, shareholders and employees in the coming years.

Our optimism stems from the progress made toward our goal of enhancing the financial strength of the Company through continued improvements in the overall financial integrity. In addition, the innovation, dedication and foresight of our employees, coupled with hard work, has projected our Company toward its second goal of becoming the number one corporate citizen in our community.

Both goals were achieved while maintaining a consistently high level of service and reliability to our customers and a competitive rate of return to our Shareholders.

We live in an important region of the nation—The Buckle on the Sun Belt—and for that reason we have titled this Annual Report to Shareholders: *"Energy for the Sun Belt."*

To follow, we'll give you our unique view of the Sun Belt as it relates to Texas, New Mexico, Mexico, and how it also relates to our investors, our Company, our customers, our employees and our communities.

It is generally recognized that the Sun Belt begins on the west coast and follows the southern tier of states to the east coast. It extends along the border with Mexico, a country with a surging economy fueled by energy wealth just now being tapped.

Growth, prosperity and a vibrant future characterize the prospects for the Sun Belt in the coming years.

"In sheer numbers," notes Edric Weld Jr., a Cleveland State University urban affairs expert, "five states—California, Texas, Florida, Arizona and Georgia accounted for half the growth in U.S. population from 1970-1980. We have seldom seen such a uniform shift from one part of the country to another....This is a shift from the Old World to the New World."

While the nation's population rose in that period by 11.4%, Texas exploded by 27.1% and New Mexico by 17%.

The Sun Belt dominates a Chase Econometrics forecast of the 50 fastest growing job markets because "lower wages, lower taxes and good weather have drawn business away from the Northeast and Midwest." Of the ten fastest growing metropolitan centers, according to the national forecasting firm, four are in Texas, one of which is El Paso.

Newsweek has called Texas an "Economic Superstate."

Money Magazine calls Texas "...an empire to itself" and continues to note in a report on "The Surging States" that: "The West's appeal today — and tomorrow — rests on two promises, sometimes kept, sometimes not. They are the promises of prosperity and that elusive abstraction known as quality of life."

The report continued: "Whatever the problems of the West, its energy resources alone are sufficient grounds for optimism over its future...they are creating across the West a demand for construction, health facilities, transportation planning, social services, hotels, restaurants and plenty of other retail businesses."

Today, the El Paso Electric service area holds more potential than ever for people who want to work, attend school, retire, start a business or invest from afar in a company that's likely to thrive. In short, the spirit of the El Paso Southwest characterizes the entire Sun Belt region and will offer tempting investments

"Growth, prosperity and a vibrant future characterize the prospects for the Sun Belt..."

– Evern R. Wall, President and Chairman of the Board

Mills Building
El Paso Electric
Company
Headquarters

in companies that stand to grow along with the region.

El Paso Electric, serving South Central New Mexico and Far West Texas, has been one of those growing companies during 1981.

We are convinced that we can achieve the quantity and quality of growth that is necessary to create jobs for an increasing population and at the same time afford the people of this area an acceptable standard of living, encompassing a higher quality of life while safeguarding the environment. At the same time we will strive toward assuring the maintenance of a reasonable social balance and improving the average level of consumption of goods and services through the availability of an abundant supply of electrical energy.

You've already seen our expanded graphic highlights but I would like to draw your attention further to some important points:

- Income growth continued in 1981 as net income per share of common stock increased to $2.23 in 1981 from $2.05 in 1980. Operating revenues for the year increased to $250.4 million from $210.5 million a year ago, while operating expenses increased to $200.1 million in 1981 from $172.3 million the previous year.

- The Board of Directors increased quarterly dividends on Common Stock by 1.5 cents in March and an additional 1.5 cents in September, increasing the indicated quarterly dividend on Common Stock to 32 cents, or $1.28 for the year.

- The Company continued in 1981 to make substantial sales of energy to Southern California Edison Company which provided approximately $6.9 million in annual revenues.

- We have for the past eight years aggressively pursued a large-scale fuel conversion program through our involvement in the Palo Verde Nuclear Generating Station designed to reduce dependence on petroleum-based fuel and meet the growing energy demands of our customers. Palo Verde is on the threshold of beginning commercial operation in 1983.

- The Company plans to open a vital interconnection with Southwestern Public Service Company in the next 2 years to provide an additional source of needed electricity to our service area. The agreement calls for the purchase of 100 megawatts (MW) of interruptible electric energy from Southwestern.

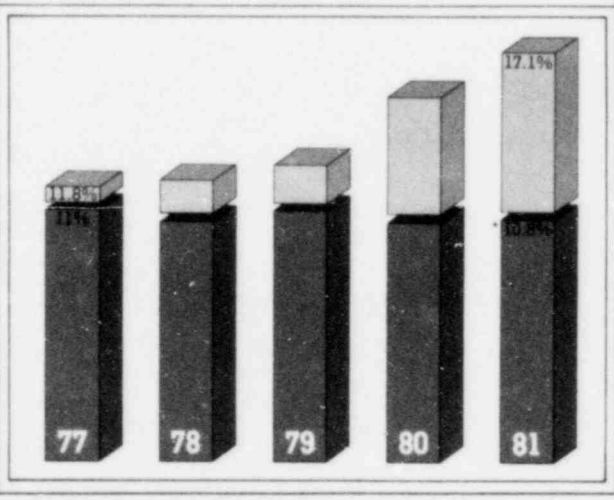
- While our support for nuclear energy remains strong, the Company in 1981 entered into an agreement to sell a portion of its ownership in the Palo Verde Station to M-S-R Public Power Agency in California.

- We have continued to excel in providing reliable, efficient service to our customers and in assuming a leadership role in our communities, both of which are covered in detail in this report.

- In order to provide an opportunity to its customers to become owners of the Company, a Customer Stock Purchase Plan has been adopted. We anticipate the plan will attract as many as 2,000 new shareholders from our customer base during 1982.

We're proud of our participation in the Sun Belt's growth; and our accomplishments and vital role in the community as a company, as a servant to our customers, as an employer and as an investment opportunity. We invite you to explore these accomplishments in the details which follow.

Evern R. Wall
President and Chairman of the Board



1977-1981
RETURN ON COMMON EQUITY

■ Industry Average.
□ El Paso Electric return above industry average.

*Projected estimate from previous 5-year average.

The Sun Belt communities we serve.

The Electric Company supplies electricity to approximately 10,000 square miles of West Texas and South Central New Mexico. The communities served by the Company extend from Van Horn, Texas to Caballo Dam in Central New Mexico.

The cities of El Paso, Texas, and Las Cruces, New Mexico, hold the majority of the population of our service area. From 1970 to 1980 the population of the City of El Paso rose to over 425,000; Las Cruces to approximately 51,000. El Paso is the 28th largest city in the U.S. and fourth largest in Texas. Las Cruces is the second largest city in New Mexico.

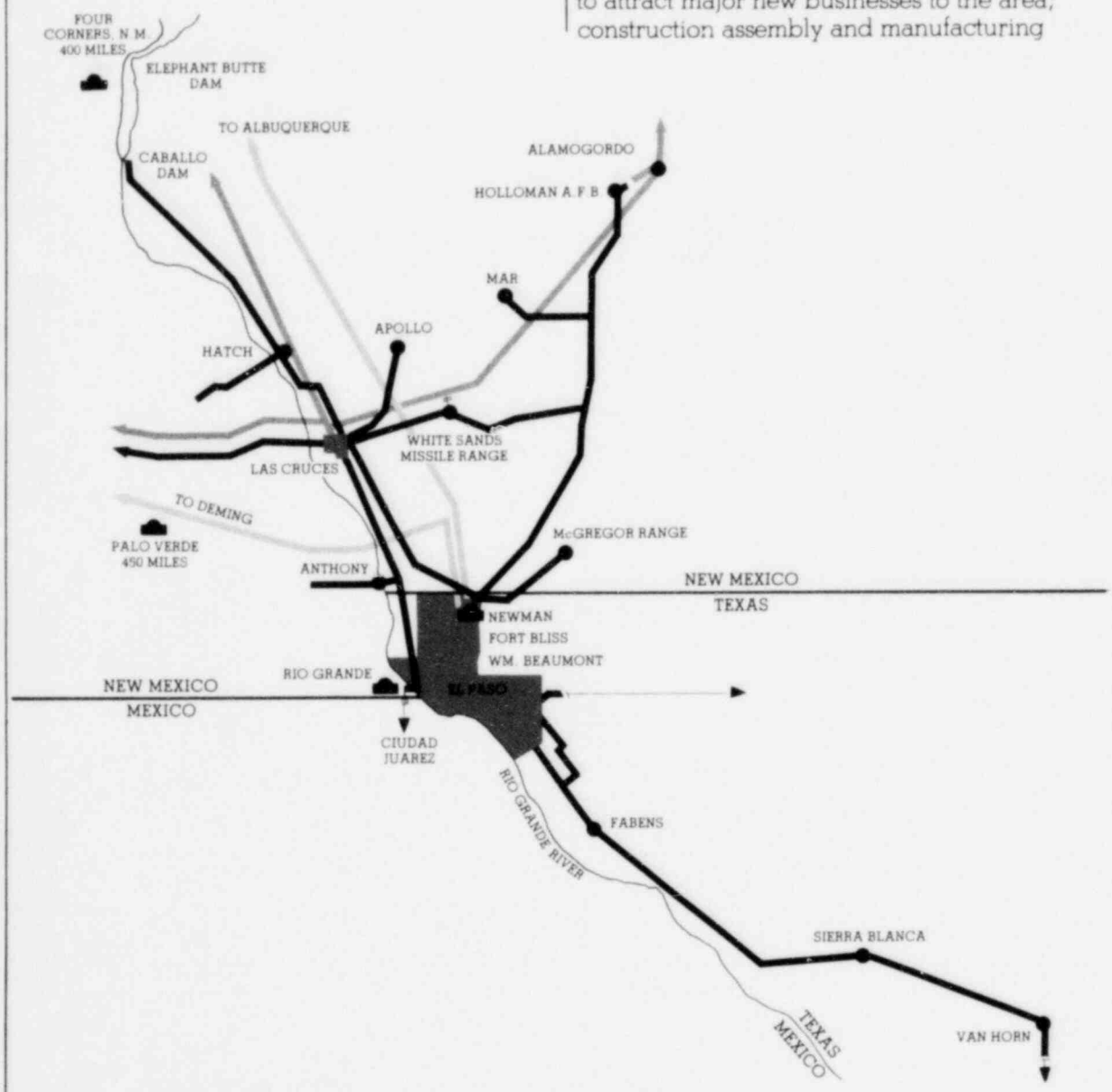
According to Chase Econometrics, a national forecaster, El Paso is expected to be the eighth fastest growing population center in the United States with annual growth projected at 3.6%.

El Paso has grown so fast that, in terms of percentage of population change, it was surpassed in the last decade only by San Jose, California and equaled only by Phoenix, Arizona.

El Paso is the largest border port of entry for imports from Mexico. Last year over one billion dollars worth of goods passed through the border cities of Juarez, Mexico, and El Paso destined for locations throughout ine U.S. The fact remains: Juarez is good for the El Paso economy and vice versa.

Two factors attributable to our border location continued to inject optimism into the unique border economy during 1981.

First, the "Twin Plant" program continued to attract major new businesses to the area; construction assembly and manufacturing



Service Area Map

COMPANY LINES
COMPANY 345KV
OTHER LINES
POWER STATION

operations in Juarez and technical, distribution and management payrolls in El Paso facilities.

The El Paso Times noted: "Political stability compared to other Third World countries, a large low-cost labor force, high productivity and an adequate framework of government regulations that allow companies to work in their own environment are the major selling points to be offered businessmen building plants in Mexico."

These "smokeless" industries are, by and large, centered around electronics and apparel. In 1981 nine major firms moved operations into the El Paso area including Contico International, Woodhead El Paso, El Paso Wire Inc. and Dietzgen Corporation. Two major expansions include ATARI Inc. and Dale Electronics.

Also, 1981 was a "boom" year for industrial development in the Las Cruces and Santa Teresa, New Mexico, industrial areas. Eight firms located new facilities in these areas during the first eleven months of the year. Among these companies were Entersteel Products Co., Farah Manufacturing Co., Inc., Micro-Switch (a division of Honeywell Corp.), Prepared Foods Inc., Semco Manufacturing Inc., Septor Company, SWIG (pecan processing) and Tri-Color, Inc.

One factor which could have a positive effect on the local economy is the completion of a 16-inch natural gas pipeline from the heart of fuel-rich Mexico to Juarez. It is expected to eventually attract heavy industry to the border area.

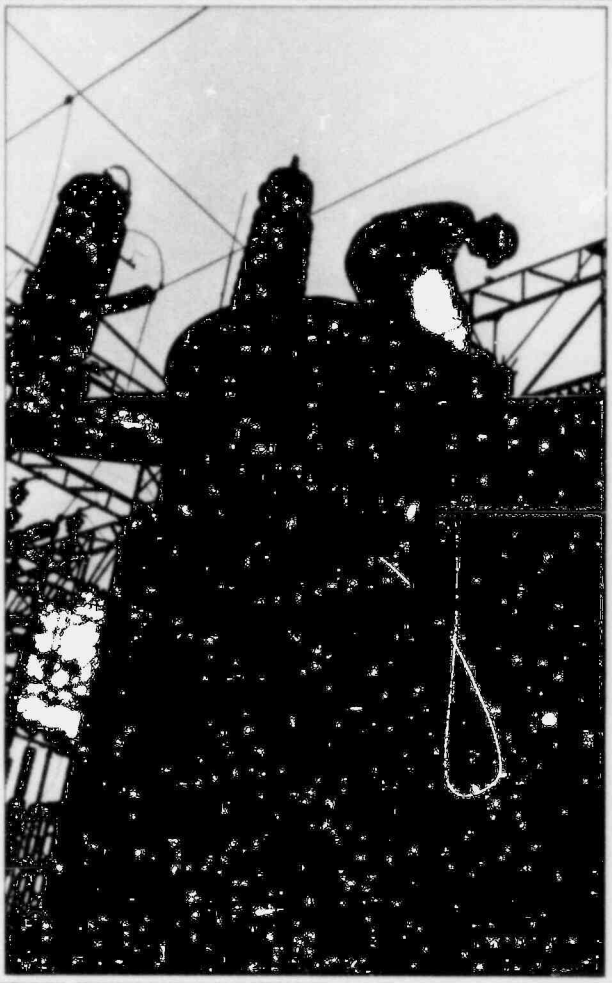
Another economic plus was the designation and the start of construction of a Foreign Trade Zone, as well as the construction of a 300-room Marriott Hotel in El Paso and the opening of a $12.2 million regional shopping mall in Las Cruces.

During 1981 the relocation and expansion of firms to El Paso has resulted in nearly 4,000 new manufacturing jobs in the city. Approximately 5,000 indirect jobs, mainly in the service sector, have also resulted. In El Paso alone, employment is up 3.3% over 1980 figures to 163,400.

In Las Cruces, nonagricultural jobs have risen by approximately 15.6% since 1974. This has resulted in a total employed work force of 35,000, up 5.2% since 1980.

El Paso Electric has made major contributions in the communities it serves by accepting the responsibility of being one of the area's major home-based, home-managed corporations.

Corporate responsibility to the community was reflected in the Company's leadership role during 1981 in El Paso's quadricentennial, the 4 Centuries '81 celebration, as well as strong support for public television in El Paso and



Las Cruces, United Way, the League of United Latin American Citizens (LULAC), Junior Achievement, The Boys' Club and the "hands-on" Insights Science Museum housed in the basement of the Company's corporate headquarters.

Key to the Company's continuing corporate responsibility role in the community is El Paso Renaissance 400, a broad community revitalization program which recruited Company President Evern Wall as its chairman.

The goal of Renaissance 400 is to promote and coordinate an increased and broader involvement of private enterprise in the continuing development and improvement of the economic and social growth of our city.

The Company has assumed this leadership role and very strongly supports sound, planned area growth because it enhances the area's overall economy and broadens the base on which the city levies taxes, consequently enhancing the ability of the city to provide needed services.

"All of the people in this area are our customers," says Wall, "and we have a very unique responsibility to our communities. We are a leading corporation in the support of major civic projects. I believe that 1981 proved that and in 1982 The Electric Company will continue to accept a more responsible role in the community."

"Planning for future energy needs is an important function at The Electric Company."

– Harry Zimmer, Vice President, Engineering, Transmission and Distribution Division

The Company's operations and new developments during 1981.

Major factors and indicators contributing to the Company's operating revenues during 1981 were:

• **Total sales** of electricity decreased slightly in 1981, but sales to customers in the Company's service area increased to 3,564,000 megawatt-hours (MWH). This reflects an increase of 4.1%. A record-breaking system peak load of 736,000 KW was reached on June 22, an increase of 2.5% over 1980. During 1981 approximately 78% of the Company's revenues were derived from Texas customers, 16% from New Mexico customers, 3% from sales for resale customers and 3% from off-system sales.

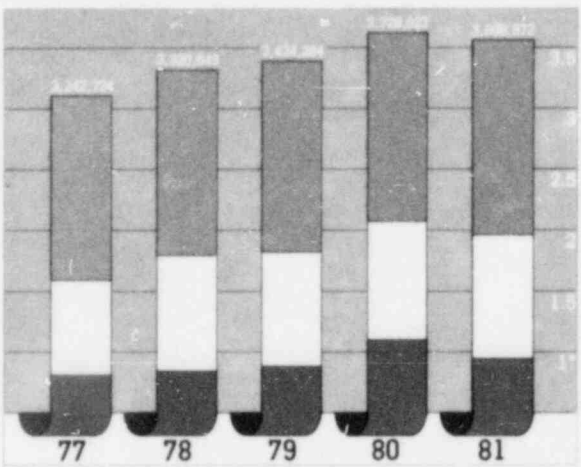
1977-1981 MEGAWATT HOUR (MWH) SALES

Commercial and Industrial Sales

Residential Sales

Other Sales

*In millions.



• **El Paso Electric's net generating capacity** is 977 megawatts (MW) from four power stations: Rio Grande Power Station (333 MW), Newman Power Station (463 MW), Copper Power Station (69 MW) and an entitlement from the Four Corners Power Station in northwestern New Mexico (112 MW).

• **Residential electricity** usage was 966,487 (MWH) in 1981, a slight decrease from 1980. There were 4,855 new residential customers added during 1981, and the aver residential customer used 5,849 KWH duri the year, a decrease from 6,065 KWH in 1980.

1981 REVENUE DOLLAR SOURCE

Residential

Commercial, Large

Sales to Public Authorities

Other

Sales for Resale

Off System Sales

Commercial, Small

• **Commercial and industrial customers** used 1,736,182 MWH, an increase of 129,182 from 1980. The Company had a net gain of over 500 new customers in this category which includes schools, hospitals, other public facilities, stores and offices.

• **Southern California Edison Company** paid approximately $6.9 million to the Company for electricity and firm capacity in 1981 the second year of a three year contract.

• **Rates and regulations:** Retail base electric rates did not increase in either the Company's Texas or New Mexico jurisdictions in 1981.

In Texas the Company is operating in compliance with an agreement reached in August 1980 between the Company, the City of El Paso and the Public Utility Commission of Texas. The Company agreed not to implement a base rate increase until after April 1, 1982, which was voluntarily extended by the Company to October 1, 1982.

As part of the final agreement, the Company agreed to a hearing regarding its level of participation in the Palo Verde Nuclear Generating Station. The hearing is tentatively scheduled to take place during 1982 but it could be postponed indefinitely or canceled due to the Company's agreement to sell a portion of its Palo Verde entitlement. The Commission has on two previous occasions certified the Company's full participation in the project.

In New Mexico the Company is operating under a July 1980 rate order.

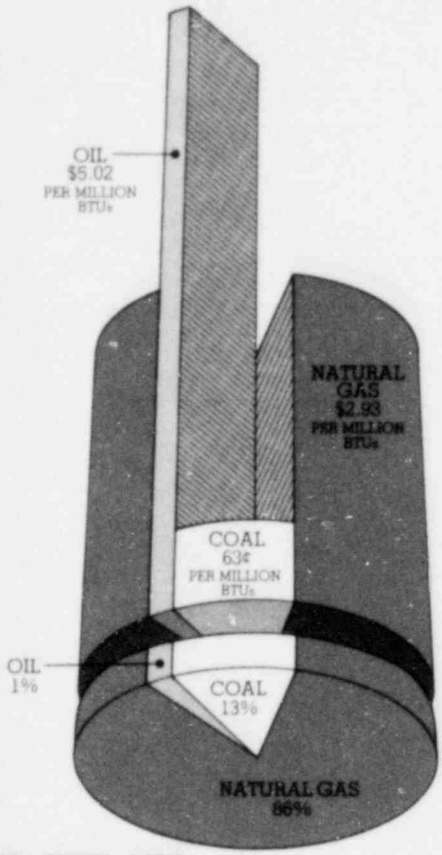
While the Company is keenly aware of the effects of rising energy costs on its customers, it has been able to hold the line on further base rate increases, even with its heavy construction schedule. Although financial indicators were strong in 1981, increasing costs affecting the Company will make it necessary to seek rate increases in both jurisdictions sometime in late 1982 for implementation in early 1983.

Major expense items and developments during 1981 included:

• **Fuel expenses for the year were up** 12.7% to $107.6 million. Approximately 43 cents of each revenue dollar went to pay the Company's fuel bill.

In 1981, the Company's fuel mix to generate electricity was 86% natural gas, 13% coal and 1% oil. Approximately 96% of fuel costs went for natural gas, 3% for coal and 1% for oil. The Company paid an average of $2.93 per million BTUs for natural gas, up 17% over 1980; 63 cents per million BTUs for coal, up 37% and $5.02 per million BTUs for oil, up

1981 COST PER MILLION BTUs



1981 FUEL MIX

1981 FUEL MIX AND COST PER BTUs OF ENERGY GENERATION

- Oil
- Natural Gas
- Coal

19%. The Company has fuel cost recovery provisions in all of its jurisdictions.

Fuel cost control was enhanced by the modification of natural gas facilities at Newman Station during the year, allowing it to utilize interstate gas (the lowest cost fuel for local generation) as well as intrastate gas (higher, yet less expensive than oil) depending upon availability of the different fuel sources.

El Paso Electric will gain even further control over fuel and purchased power costs with the addition of nuclear energy and a proposed interconnection with Southwestern Public Service Company.

• **New interconnection agreements** were completed in late 1981 for the construction of a 125-mile, 345-kilovolt (KV) transmission line from the El Paso area to Artesia, New Mexico. The line is being constructed in conjunction with Texas-New Mexico Power Company which will own one-third of the line. Construction is scheduled to begin in 1983 and when completed will provide an interconnection with Southwestern Public Service Company. A direct current terminal to connect the two systems, which are not synchronized electrically, will be built by Southwestern. The interconnection will make available 100 MW of interruptible electric energy beginning in 1984 and will allow the Company to purchase electricity at a lower cost than that generated locally by fuel oil or natural gas.

"There was no rate increase in Texas or New Mexico in 1981...the Company's financial indicators were strong enough for us to be successful without one...."

– ***Billye E. Bostic, Senior Vice President, Financial Division***

• **Environmental protection** measures are important to El Paso Electric. The Company's Newman, Copper and Rio Grande Power Stations are in compliance with all existing environmental regulations and standards. A large-scale environmental protection installation is currently under way at the coal-fired Four Corners Power Station (shared with 5 other utilities in the west). Particulate removal equipment construction at the Station is scheduled for completion in December 1982, while sulfur dioxide removal equipment is still in design stages and not scheduled for completion until late 1984.

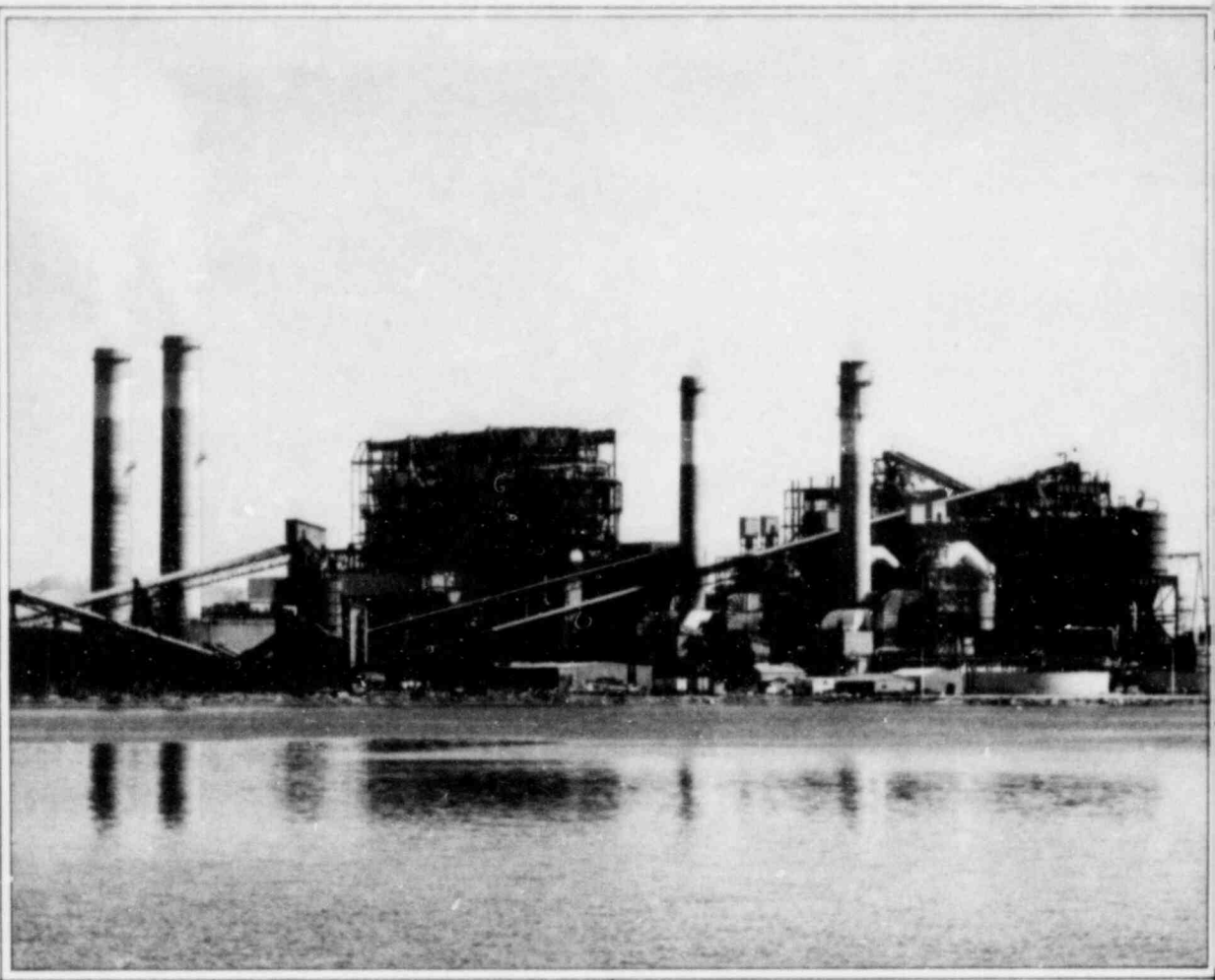
• **Research and development** programs on new energy producing sources and techniques are actively supported by the Company through a variety of means.

El Paso Electric is currently producing electricity from an experimental 20-KW photovoltaic solar cell system installed at the Newman Power Station. The project, the first such installation in the country, started a two-year research-demonstration test period in June 1981. A joint effort with the New Mexico Solar Energy Institute (NMSEI), and supported in part by a grant from the Department of Energy (DOE), the sun-to-electricity system is providing electricity to the control computer of Newman Unit No. 4.

The Electric Company along with the NMSEI has also applied for a grant from the Texas Energy Resources Advisory Council to conduct a feasibility study for a "solar pond" to be located at Newman Station. A solar pond would utilize high concentrations of salt water to trap heat which would, in turn, boil a secondary fluid and power a generator. Because of the storage properties of salt water, this technology could feasibly work at night as well as during cloudy days. With funding, the project could begin as early as spring 1982.

1981 REVENUE DOLLAR EXPENDITURE

Four Corners Power Station



"The attention the Company is directing to coal and nuclear energy does not mean it is disregarding alternative energy sources."

— Donald Isbell, Vice President, Energy Resource and Development Division

An advanced study on a solar repowering project was started under a DOE grant in 1981. The initial conceptual design study was conducted in 1979-1980. The proposal calls for a field of mirrors ("heliostats") focusing the sun's energy on a central receiver, or power tower, where water would boil generating enough steam to provide an estimated 50% of the energy needed to operate Unit No. 1 at Newman Station. The new study will incorporate and refine new information into the previous design and is expected to be completed in April 1982 and could lead to a preliminary engineering design grant during the year.

The Company initiated a wind turbine site selection and installation project in 1981 with two goals: (1) to determine the power producing potential of small wind-electric generating systems in the Company's service area; and (2) to investigate interconnection requirements, effects on the electric system and the actual power producing potential of a small (25 KW) wind turbine system.

In addition to conducting its own research, El Paso Electric also participated in research and development through its membership in organizations including The Electric Power Research Institute, Texas Atomic Energy Research Foundation and Western Energy Supply and Transmission Associates (WEST).

Palo Verde: nuclear power for the Sun Belt.

El Paso Electric is a participant with four other Sun Belt utilities in the construction of the three-unit, Palo Verde Nuclear Generating Station, 50 miles west of Phoenix, Arizona.

Construction started in 1976 and the first of the three 1,250-MW units is scheduled to begin commercial operation in May 1983.

At the close of 1981, Unit No. 1 was 95% complete with fuel scheduled to be on-site and loaded in late 1982. Unit No. 2 was 75% complete and due to begin operation a year later in May 1984; and Unit No. 3 was 30%

The first of three nuclear units at Palo Verde comes on line in May 1983.

complete and scheduled for operation in 1986.

Other participants in the Palo Verde Project include Arizona Public Service Company, Salt River Project Agricultural Improvement District, Public Service Company of New Mexico and Southern California Edison.

El Paso Electric owns a 15.8% undivided interest (200 MW from each unit) in Palo Verde, but late in 1981 entered into an assignment agreement to sell 25% of its participation (a total of 150 MW) to the M-S-R Public Power Agency. M-S-R is a California consortium composed of the cities of Modesto, Santa Clara and Redding.

The sale to M-S-R is contingent upon both parties obtaining all requisite approvals. M-S-R is making monthly deposits of earnest money with the Company and will continue to do so until the sale is completed. The closing for the sale is projected to take place in August 1982.

The addition of nuclear fuel to El Paso Electric's fuel mix is expected to have a stabilizing affect on fuel costs extending through the 1990's.

To generate electricity today and in the future, energy supplies are needed that are safe, clean, economical and available. That limits the choices to a very few. Clearly, nuclear energy is already an integral part of the nation's electric power supply system, approaching 50 percent of the generation in some parts of the country. There are now about 78 nuclear power plants in the United States licensed to operate, supplying the nation with electricity that otherwise could require burning nearly one and a half million barrels of oil per day.

When electric power begins flowing to The Electric Company's service area from the Palo Verde Station in 1983, uranium fuel will be added to the Company's fuel mix. One of the principal objectives of the Company for the past several years has been to convert from its reliance on petroleum fuels toward the use of more abundant and less costly coal and nuclear energy. Palo Verde represents a major step in that direction.

A successful energy production program is based on sound planning principles. Planning for future energy needs is an important function at The Electric Company and is, at the same time, growing in complexity. Just as the Company began preparing almost a decade ago for Palo Verde it is also planning today in order to meet the needs of tomorrow's customers.

"As long as the nation needs electricity, it is going to need nuclear energy to supply much of its electrical requirements. The consumer will be the ultimate beneficiary."

– Rolland York, Senior Vice President, Power Supply Division

Residential energy audit

"As a Company we manufacture and distribute electricity, but our product is service..."

– James Jones, Vice President, Mesilla Valley Division

Serving our customers.

The Company's primary function is to manufacture and distribute electricity, but its product is service and this philosophy continued to be accented during 1981 in a myriad of customer service programs.

In an Area Development Department Program, 50 major industrial customers were called upon in 1981 by a management-service team to discuss Company services.

Under another program, mandated by Congress and implemented through the DOE, the Company conducted over 1,700 conservation energy audits on request by commercial and residential customers. The program is the continuation of a valuable service offered by the Company for many years.

"Star Services," a service-oriented section offering special assistance to eligible customers, including alternative methods of bill payment to customers over 62 years of age on a fixed income, low income persons or those with other financial difficulties, has been fully implemented now. In 1981 Star Services employees handled over 2,900 personal contacts. The section consists of four specially trained employees. A Star Services office was also implemented and staffed with one full-time employee in Las Cruces.

The Company's Community Services Section offers a number of programs ranging from present and future energy-related topics and electrical safety as well as conservation information. The programs are designed to help answer questions about energy and the electric utility industry. During 1981 over 26,000 personal contacts were made by employees of Community Services.

Several special customer programs continued to be offered to the public, including a do-it-yourself Solar Water Heating Workshop in which over 100 customers participated in 1981. These individuals built a total of 268 solar panels with a net result of 104 new solar water heating systems being placed in service.

Contacts and communications with the customer, while most relevant on a one-to-one personal basis, remains most cost-efficient through the use of mass media including active advertising and public affairs programs.

The Electric Company as a Sun Belt employer.

For the first time in 1981, the number of Company employees topped the one thousand mark at 1,025, up from 986 in 1980.

Of this total:

• On the management level, of the 145 officers and managers, 14.5% are female and minorities represent 22%.

• In the professional fields (151 employees), 39.7% are minorities and 23.8% of the total are female.

• 29.6% are female (compared to 28.7% in 1980) and 53.6% are minorities (up from 52.7% in 1980).

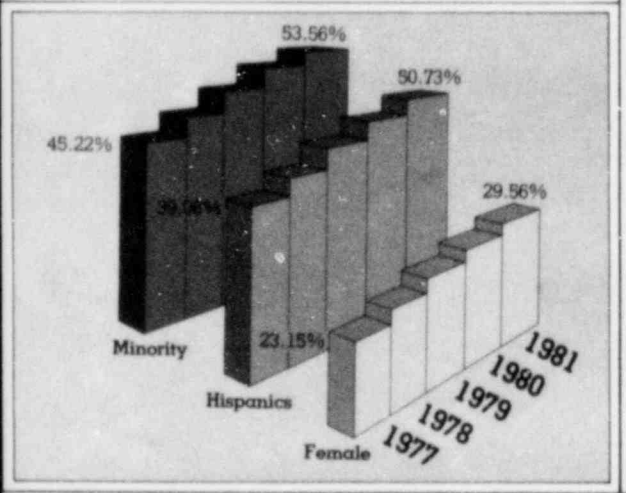
• 332 (32.4%) are members of Local 960 of the International Brotherhood of Electrical Workers. A two-year labor agreement between the Company and Local 960 was finalized in February 1982, and became effective on Monday, March 1, 1982. The contract contains a mutually acceptable wage agreement.

The Company actively supports an affirmative action program and is an equal opportunity employer.

The Company provides many training programs for its employees. In 1981 a supervisor orientation program was initiated to better prepare employees advancing to higher positions. The program was instituted to provide supervisory personnel new to supervision with the basics for operating and managing their departments and sections.

An education tuition aid program provides reimbursement to employees of 90% of the cost of tuition for courses (completed with a specified grade) at a university, college or business/trade school. Over 170 employees participated in the program in 1981.

In addition, the Intex Communications System correspondence program offers a myriad of job-related course programs through the correspondence method.



1977 - 1981
AFFIRMATIVE
ACTION PROGRESS

- Minority Employment - All Employees
- Hispanic Percentage of Total
- Female Percentage of Total

"Dedication and high performance are not cliches at El Paso Electric...they are the norm."

– Charles Mais, Vice President, Administrative Division

Employees are also offered Company stock through two plans. The Employee Stock Purchase Plan allows for payroll deductions to purchase stock while the Employee Stock Ownership Plan (ESOP) provides common stock to those employees who have been with the Company a minimum of three years.

Management changes in 1981 included William W. Royer who joined the Company as General Counsel in 1981 to establish, for the first time, a corporate legal division. Lawrence M. Downum, Jr. was appointed Assistant Vice President of the Mesilla Valley Division. Downum has been with the Company 21 years, most recently as Manager of Public Affairs.

Wall Harvey Boney Smith Matkin Ivey Cutler Salas-Porras Goodman

Directors Of The Company

Evern R. Wall*,
President and Chairman of the Board [7].

Paul Harvey*,
Honorary Chairman of the Board of the Company, Investments [41].

Robert E. Boney*,
Investments, Las Cruces, New Mexico [34].

Tad R. Smith,
Attorney, Kemp, Smith, Duncan & Hammond; Counsel for the Company [21].

George G. Matkin*,
Senior Chairman of the Board, State National Bank of El Paso and PanNational Group, Inc. [15].

Ben L. Ivey,
Farming, Chairman of the Board, Bank of Ysleta [12].

Robert H. Cutler*,
Chairman of the Board, Illinois-California Express, Inc. (common carrier, motor transportation) [11].

Leonard A. Goodman, Jr.,
Chartered Life Underwriter/General Agent, John Hancock Mutual Life Insurance Company [3].

Josefina A. Salas-Porras,
Executive Director, BI Language Services [3].

* Members of the Executive Committee.

[ ] Years of service on the board.

Officers Of The Company

Evern R. Wall,
President and Chairman of the Board [24].

Rolland E. York,
Senior Vice President [31].

Billye E. Bostic,
Senior Vice President [34].

James H. Jones,
Vice President [18].

Harry I. Zimmer,
Vice President [36].

Donald G. Isbell,
Vice President [17].

Charles Mais,
Vice President [27].

Ralph G. Crocker,
Treasurer [42].

William J. Johnson,
Controller [4].

Theta S. Fields,
Secretary [31].

William W. Royer
General Counsel [1].

Robert N. Hackett,
Assistant Vice President [11].

Lawrence M. Downum, Jr.
Assistant Vice President [21].

Robert L. Corbin,
Assistant Treasurer & Assistant Secretary [33].

Richard E. Farlow,
Assistant Treasurer [33].

Cecelia R. Shea,
Assistant Secretary [24].

Years of service [ ].

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of a business' ability to provide cash for normal operations and for expansion of its facilities necessary to provide its product at a reasonable cost. Capital resources are those sources of cash available to the business for liquidity and include internal cash generation, short-term and long-term obligations, preferred and common stock and other financial arrangements. During a major construction program a utility's ability to secure capital resources from external financings, such as selling common stock, preferred stock and long-term obligations, may be the best measure of its liquidity.

The Company is participating in the construction of the Palo Verde Nuclear Generating Station (Palo Verde Station) which has required substantial amounts of capital. To date the Company has been successful in securing the resources needed as shown in the table below. The Company expects to be able to continue to secure the funds necessary for its continuing construction program; however, due to market conditions, rate relief allowed and other uncontrollable factors, there can be no assurance that it will. The principal cash requirements of the Company and sources of such cash were approximately as follows:

	1981	1980	1979
		(In thousands)	
Requirements:			
Construction	**$146,000**	$130,000	$114,000
Sources:			
Common stock	**48,000**	56,000	35,000
Preferred stock	—	15,000	26,000
Long-term obligations and other	**56,000**	25,000	55,000
Short-term obligations, net of repayments	**43,000**	21,000	(8,000)
Internally generated	**11,000**	15,000	10,000

The Company's capital structure has changed from 45% long-term obligations, 15% preferred stock and 40% common equity at December 31, 1978, to 41% long-term obligations, 13% preferred stock and 46% common equity at December 31, 1981. The change in the Company's capitalization structure has improved the Company's indenture of mortgage coverage from 3.02 at December 31, 1978, to 4.84 at December 31, 1981, and would have allowed the issuance of an additional $162,700,000 in first mortgage bonds at an assumed rate of 16%. The Company's Restated Articles of Incorporation contain restrictions on the issuance of preferred stock. The most restrictive of these conditions would have allowed the issuance of an additional $97,300,000 in preferred stock at December 31, 1981, at an assumed dividend rate of 13%.

Rate relief to support construction and financing has been aggressively pursued and has resulted in the granting of rate increases of approximately $52,300,000 over the past three years from all jurisdictions. While the Company has been successful in the past, there can be no assurance that the Company will continue to receive rate increases or that the rate increases, if granted, will be in the amounts requested.

The Company's estimated construction expenditures for 1982 through 1985, including allowance for funds used during construction, are approximately $677,300,000. Of this amount, approximately $481,900,000 will be spent for the construction of the Palo Verde Station. External financing for the 1982 through 1985 construction program will be approximately $373,000,000 and will be accomplished through a combination of first mortgage bonds, preferred stock, common stock, other secured and unsecured debt and pollution control bonds. The timing and amount of additional external financing will depend upon market conditions, rate increases, the possible sale by the Company of 25% of its ownership interest in the Palo Verde Station and other factors. The above construction and financing estimates do not take into account the possible Palo Verde sale. Such sale, if consummated in August 1982 as currently scheduled, would provide approximately $180,000,000 to $200,000,000 cash proceeds to the Company either at such time or within a twelve-month period after August 1982. In addition, the purchaser would assume responsibility for future construction costs applicable to its interest in the Palo Verde Station, thereby substantially reducing the Company's estimated construction expenditures for the Palo Verde Station during the 1982-1985 period.

The Company expects that its current capitalization ratio, as discussed above, will not change substantially for the next several years.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

RESULTS OF OPERATIONS

Operating Revenues

Operating revenues increased approximately $39,900,000 in 1981 over 1980 representing an 18.9% increase. While recovery of escalating fuel costs represented approximately $15,300,000 of this increase, the balance of the increase resulted from base rate increases authorized by the Public Utility Commission of Texas (Texas Commission) and the New Mexico Public Service Commission (New Mexico Commission), partially offset by a slight decrease in volume. Special sales to Southern California Edison Company (SCE), including fuel, were approximately the same in 1981 and 1980. Special sales to Comision Federal de Electricidad (CFE), Ciudad Juarez, Mexico, decreased in 1981 as compared to 1980 by approximately $14,200,000, including fuel.

Operating revenues increased approximately $50,800,000 in 1980 over 1979 representing a 31.8% increase. While recovery of escalating fuel costs represented approximately $17,000,000 of this increase, the major portion resulted from base rate increases authorized by the Texas and New Mexico Commissions and special sales to SCE and CFE. Sales to SCE and CFE totaled approximately $21,400,000, including fuel, during 1980. There were no special sales to SCE and CFE in 1979. Of the increase in base revenues, average base rates and volume accounted for 79% and 21%, respectively.

The increases in average base rates for all periods reflect increases in rates allowed by the various regulatory bodies which became effective in June and November 1979, and April, July and November 1980.

Operating Expenses

Increases in operating expenses for 1981 over 1980 and 1980 over 1979 were primarily due to increases in fuel expense and Federal income taxes. Increases in other operations expense also contributed to the increase for 1981 over 1980. Fuel expense, Federal income taxes and other operations expense accounted for 44%, 18% and 15%, respectively, of the total increase for 1981 over 1980. Fuel expense and Federal income taxes accounted for 38% and 34%, respectively, of the total increase for 1980 over 1979.

Fuel expense increased in 1981 over 1980 and 1980 over 1979 primarily due to escalating fuel costs. The Company's primary fuel source for generation of electricity for all periods has been natural gas (86% in 1981, 81% in 1980 and 79% in 1979). It is anticipated that fuel expense will increase during the coming year based upon increased natural gas prices recently announced by the Company's supplier. Natural gas will likely continue to be the Company's primary fuel source until the Palo Verde Station starts commercial operation. Unit 1 of this station is scheduled to start operation in 1983. The Company also has an interest in an electrical interconnection system scheduled to start operation in early 1984. With this system, the Company will be supplied with interruptible electric energy and it is anticipated that this will save on overall fuel and purchased power expenditures.

Total Federal income tax expenses increased in 1981 over 1980 primarily due to increased taxable income and increased provision for deferred income taxes relating to the borrowed portion of allowance for funds used during construction. Total Federal income tax expenses increased in 1980 over 1979 primarily due to increased taxable income and increased provision for deferred income taxes relating to the borrowed portion of allowance for funds used during construction, changes in deferred fuel balances and taxes capitalized.

Other operations expense increased in 1981 over 1980 primarily as a result of increased payroll, provision for uncollectible accounts, employee benefits and pensions, travel, automobile usage, general office supplies and property insurance.

Allowance for Funds Used During Construction (AFUDC)

AFUDC increased in 1981 over 1980 and in 1980 over 1979 due to the increased cumulative construction expenditures principally associated with the Palo Verde Station and the adoption of AFUDC compounding in 1980 on major projects, as well as increased accrual rates.

AFUDC amounted to 70%, 63% and 63% of net income applicable to common stock during the years ended December 31, 1981, 1980 and 1979, respectively. AFUDC's contribution to net income is net of the effect of deferred Federal income taxes on the borrowed portion of AFUDC. See Note I of Notes to Consolidated Financial Statements for further details and a discussion of the non-cash nature of AFUDC.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

Other Income, Net of Other Expenses and Federal Income Taxes

The increase in 1981 as compared to 1980 is primarily due to interest earned on pollution control bond proceeds held in trust during 1981.

Interest Charges

Interest on long-term obligations increased in all periods primarily due to the issuance of an additional first mortgage bond series, long-term floating rate notes and pollution control bonds. Additionally, average prime interest rates used to determine interest costs on the floating rate notes increased in all periods.

The changes in other interest in 1981 and 1980 over the respective prior years reflect increased short-term borrowing and higher prevailing average interest rates.

Supplemental Information Concerning the Effects of Inflation

Information required in regard to the effects of inflation is included on pages 37 through 39 of this report.

MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's Common Stock is traded in the over-the-counter market. The bid quotations as reported on the National Association of Securities Dealers Automated Quotations System (NASDAQ) and published by The Wall Street Journal and the quarterly dividends per share for the periods indicated were as follows:

	Bid Quotation		
	High	Low	Dividends
1980			
First Quarter	10	7 7/8	$0.275
Second Quarter	9 7/8	8 1/8	0.275
Third Quarter	10 1/8	9 1/8	0.29
Fourth Quarter	9 5/8	8 3/8	0.29
1981			
First Quarter	9 7/8	9 1/8	0.305
Second Quarter	10 1/2	9	0.305
Third Quarter	11	9 3/4	0.32
Fourth Quarter	11 5/8	10 5/8	0.32

The above quotations do not include retail mark-ups, mark-downs, or commissions and do not necessarily represent actual transactions.

At February 25, 1982 there were 47,657 holders of record of the Company's common stock.

The Company's Restated Articles of Incorporation, the original Indenture of Mortgage and certain of the supplemental indentures relating to the various series of first mortgage bonds contain restrictions as to the payment of dividends on the common stock of the Company and as to the purchase or retirement of capital stock of the Company. At December 31, 1981 the amount available for dividends on the common stock under the most restrictive of those provisions was approximately $54,000,000.

The Company has paid quarterly dividends on its common stock without interruption since distribution of the common stock to the public in 1947 (34 years).

At its meeting in January 1982 the Board of Directors declared a cash dividend of $0.32 per share of common stock, payable March 15, 1982, to shareholders of record at the close of business on February 25, 1982. The current indicated annual dividend rate is $1.28 per share. The Company intends to continue to pay quarterly dividends on its common stock, but future dividends will depend upon earnings, cash flow, the financial condition of the Company and other factors.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

SELECTED QUARTERLY FINANCIAL DATA

For the years ended December 31, 1981 and 1980
(Unaudited)

	Operating Revenues	Operating Expenses	Operating Income	Net Income	Net Income Applicable to Common Stock	Net Income Per Share of Common Stock
	(In thousands of dollars except for per share data)					
1981						
First Quarter	$54,400	$42,142	$12,258	$12,520	$10,741	$.52
Second Quarter	61,933	49,302	12,631	13,145	11,365	.55
Third Quarter	73,532	57,465	16,067	17,864	16,085	.70
Fourth Quarter	60,514	51,185	9,329	13,168	11,388	.46
1980						
First Quarter	38,761	31,993	6,768	6,415	4,972	.32
Second Quarter	49,372	41,187	8,185	9,107	7,665	.48
Third Quarter	65,860	53,519	12,341	14,131	12,688	.74
Fourth Quarter	56,520	45,597	10,923	11,524	9,734	.50

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors
El Paso Electric Company:

We have examined the consolidated balance sheets of El Paso Electric Company and Subsidiary at December 31, 1981 and 1980, and the related consolidated statements of income, retained earnings and changes in financial position for the three years ended December 31, 1981, 1980 and 1979. 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 consolidated financial statements referred to above present fairly the consolidated financial position of El Paso Electric Company and Subsidiary at December 31, 1981 and 1980, and the consolidated results of operations and changes in financial position for the three years ended December 31, 1981, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Dallas, Texas
February 12, 1982

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	1981	1980
	(In thousands)	
Utility plant (Notes B, E and H):		
Electric plant in service	**$328,694**	$315,551
Less accumulated depreciation and amortization	**92,565**	82,239
Net plant in service	**236,129**	233,312
Construction work in progress	**561,851**	386,149
Held for future use	**7,788**	397
Other investments	**—**	13,093
Net utility plant	**805,768**	632,951
Nonutility property and investments, at cost net of accumulated depreciation of $268,000 and $150,000, respectively	**11,656**	2,239
Current assets:		
Cash (Note F)	**13,555**	7,799
Accounts receivable, principally trade (less allowance for doubtful accounts of $436,000 and $371,000, respectively)	**24,486**	25,042
Federal income taxes refundable	**2,694**	2,694
Inventories:		
Materials and supplies	**4,868**	4,572
Fuel (Note H)	**14,380**	10,551
Prepayments	**2,896**	1,961
Other	**567**	11
Total current assets	**63,446**	52,630
Deferred charges and other assets	**9,201**	3,172
Total assets	**$890,071**	$690,992

The accompanying notes are an integral part of the consolidated financial statements.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1981	December 31, 1980
	(In thousands)	
Capitalization:		
Common stock, no par value, 40,000,000 and 30,000,000 shares authorized, respectively. Issued and outstanding 25,110,066 and 20,485,067 shares, respectively (Note C)	**$210,148**	$162,303
Retained earnings (Note E)	**79,602**	59,383
Common stock equity	**289,750**	221,686
Preferred stock, cumulative, no par value, 2,000,000 and 1,000,000 shares authorized, respectively (Note D):		
Redemption required, issued and outstanding 642,000 and 646,000 shares, respectively	**64,200**	64,600
Redemption not required, issued and outstanding 190,000 shares	**18,873**	18,873
Long-term obligations (Note E)	**252,415**	202,263
Total capitalization	**625,238**	507,422
Current liabilities:		
Current portion of long-term obligations (Note E)	**1,736**	54
Notes payable banks (Note F)	**54,200**	16,225
Notes payable other (Note F)	**2,265**	15,850
Commercial paper (Note F)	**63,508**	44,836
Fuel purchase commitment (Note H)	**14,279**	10,449
Accounts payable, principally trade	**13,682**	9,244
Taxes accrued	**7,563**	9,121
Interest accrued	**6,042**	4,351
Other	**4,515**	4,594
Total current liabilities	**167,790**	114,724
Deferred credits and other liabilities:		
Accumulated deferred Federal income taxes	**46,554**	33,260
Accumulated deferred investment tax credit	**42,499**	31,721
Other (Note H)	**7,990**	3,865
Total deferred credits and other liabilities	**97,043**	68,846
Commitments and contingencies (Notes H and J)		
Total capitalization and liabilities	**$890,071**	$690,992

The accompanying notes are an integral part of the consolidated financial statements.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In thousands)	
Operating revenues	**$250,379**	$210,513	$159,712
Operating expenses (Note J):			
Operations:			
Fuel	**107,562**	95,461	81,669
Purchased and interchanged power	**2,551**	(820)	(3,531)
Other	**29,113**	24,839	20,962
Maintenance	**10,087**	7,925	6,725
Depreciation and amortization (Note B)	**10,508**	9,090	8,245
Taxes (Note G):			
Federal income, current	**3,691**	5,396	1,238
Federal income, deferred	**13,005**	8,743	6,138
Charge equivalent to investment tax credit, net of amortization	**12,505**	9,941	4,083
Other	**11,072**	11,721	10,114
	200,094	172,296	135,643
Operating income	**50,285**	38,217	24,069
Other income (deductions):			
Allowance for equity funds used during construction (Note I)	**22,813**	14,377	7,450
Other income, net of other expenses and Federal income taxes (Note G)	**1,342**	(366)	292
	24,155	14,011	7,742
Income before interest charges	**74,440**	52,228	31,811
Interest charges (credits):			
Interest on long-term obligations	**27,401**	16,875	11,589
Other interest (Note B)	**14,218**	10,533	7,420
Other interest capitalized (Note B)	**(1,498)**	(1,980)	(1,643)
Allowance for borrowed funds used during construction (Note I)	**(22,378)**	(14,377)	(8,745)
	17,743	11,051	8,621
Net income (Note I)	**56,697**	41,177	23,190
Preferred stock dividend requirements	**7,118**	6,118	3,948
Net income applicable to common stock (Notes C and I)	**$ 49,579**	$ 35,059	$ 19,242
Net income per share of common stock, based on weighted average number of shares outstanding during the year (Notes C and I)	**$2.23**	$2.05	$1.45
Weighted average number of common shares outstanding (Note C)	**22,250,664**	17,063,864	13,252,102

The accompanying notes are an integral part of the consolidated financial statements.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In thousands)	
Retained earnings at beginning of year	**$ 59,383**	$ 45,097	$ 40,753
Add:			
Net income	**56,697**	41,177	23,190
	116,080	86,274	63,943
Deduct:			
Cash dividends:			
Preferred stock	**7,118**	6,118	3,948
Common stock	**28,448**	20,012	14,523
Capital stock expense	**912**	761	375
	36,478	26,891	18,846
Retained earnings at end of year	**$ 79,602**	$ 59,383	$ 45,097

The accompanying notes are an integral part of the consolidated financial statements.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In thousands)	
Source of funds:			
From operations:			
Net income	**$ 56,697**	$ 41,177	$ 23,190
Items not requiring (providing) working capital:			
Depreciation and amortization	**10,508**	9,090	8,245
Deferred Federal income taxes	**12,979**	8,387	6,875
Investment tax credit	**12,492**	10,641	4,083
Allowance for equity funds used during construction	**(22,813)**	(14,377)	(7,450)
Other	**(1,710)**	337	278
Funds provided by operations	**68,153**	55,255	35,221
From financings and external sources:			
Sale of common stock	**47,845**	55,974	35,060
Sale of preferred stock	**—**	15,000	26,000
Long-term obligations:			
Sale of first mortgage bonds	**40,000**	—	25,000
Pollution control obligation, net of amount on deposit with trustee	**7,366**	—	—
Sale of unsecured promissory notes	**—**	18,000	25,000
Other	**4,401**	12,477	—
Earnest money deposits on proposed sale	**3,500**	—	—
Sale of uranium venture and nuclear fuel to trust	**4,376**	—	4,712
Sale of assets	**1,284**	—	—
Deferred gain on capital lease	**—**	2,386	—
Long-term purchase commitment	**—**	—	591
Short-term obligations*	**44,744**	20,669	—
Total from financings and external sources	**153,516**	124,506	116,363
Decrease in working capital other than short-term obligations*	**—**	—	6,789
Total source of funds	**$221,669**	$179,761	$158,373
Application of funds:			
Gross additions to plant	**$191,969**	$158,008	$130,048
Allowance for equity funds used during construction	**(22,813)**	(14,377)	(7,450)
Gross additions to nonutility property	**9,535**	32	794
Dividends on preferred stock	**7,118**	6,118	3,948
Dividends on common stock	**28,448**	20,012	14,523
Redemption of preferred stock	**400**	400	—
Reduction of long-term obligations	**1,736**	—	4,549
Increase (decrease) in deferred charges and other assets	**(1,059)**	(380)	876
Transfer of long-term purchase commitment to current liabilities	**—**	—	7,754
Other, net	**3,841**	865	(193)
Short-term obligations*	**—**	—	3,524
Increase in working capital other than short-term obligations*	**2,494**	9,083	—
Total application of funds	**$221,669**	$179,761	$158,373

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION - (Continued)

For the years ended December 31, 1981, 1980 and 1979

	1981	1980	1979
		(In thousands)	
Increase (decrease) in components of working capital other than short-term obligations*:			
Current assets:			
Cash	**$ 5,756**	$ (2,885)	$ 4,652
Accounts receivable, principally trade	**(556)**	6,715	3,002
Federal income taxes refundable	**—**	—	(3,344)
Materials and supplies	**296**	692	1,059
Fuel	**3,829**	2,491	(789)
Prepayments	**935**	249	(76)
Other	**556**	(1,019)	(1,096)
	10,816	6,243	3,408
Current liabilities:			
Turbine contract payable	**—**	(7,754)	7,754
Fuel purchase commitment	**3,830**	2,491	(789)
Accounts payable, principally trade	**4,438**	(1,363)	1,625
Taxes accrued	**(1,558)**	2,998	704
Interest accrued	**1,691**	1,168	352
Other	**(79)**	(380)	551
	8,322	(2,840)	10,197
Increase (decrease) in working capital other than short-term obligations	**$ 2,494**	$ 9,083	$ (6,789)

*Short-term obligations are represented by the current portion of long-term obligations, notes payable banks, notes payable other and commercial paper.

The accompanying notes are an integral part of the consolidated financial statements.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

General

The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC).

Reclassification

In accordance with an FERC requirement, during 1980 the Company began charging all capital stock expense incurred directly to retained earnings. The Consolidated Statement of Retained Earnings for the year ended December 31, 1979 has been reclassified to reflect the amount of capital stock expense incurred. Certain immaterial amounts in the consolidated financial statements for 1980 and 1979 have been reclassified to be consistent with classifications in 1981.

Principles of Consolidation

The consolidated financial statements include El Paso Electric Company and its wholly-owned subsidiary. All intercompany balances and significant intercompany transactions have been eliminated in consolidation.

Utility Plant

Utility plant is stated at original cost. The Company provides for depreciation on a straight-line basis at annual rates which will amortize the undepreciated cost of depreciable property over estimated remaining service lives.

The Company charges the cost of repairs and minor replacements to the appropriate operating expense and capitalizes the cost of renewals and betterments. The cost of depreciable plant retired or sold and the cost of removal, less salvage, are charged to accumulated depreciation.

Inventories

Inventories are valued at the lower of average cost or market.

Revenues

Revenues are recognized based on cycle billings rendered to customers monthly. The Company does not accrue revenues with respect to energy consumed but not billed at the end of a fiscal period.

Unamortized Debt Expense and Premium or Discount on Debt

Unamortized amounts apply to outstanding issues and are being amortized ratably over the lives of such issues.

Federal Income Taxes and Investment Tax Credit

Accelerated methods of computing depreciation of utility plant are used for Federal income tax reporting purposes which differ from the methods used for financial reporting purposes. Differences in the tax and financial methods of accounting for fuel costs and other capitalized costs also exist. In accordance with regulatory authority requirements, provision has been made in the financial statements for Federal income taxes deferred to future years as a result of these items. In addition, deferred Federal income taxes are provided on the borrowed portion of AFUDC.

Investment tax credit utilized is deferred and amortized to income over the estimated useful lives of the related properties after such properties are placed in service.

Net Income Per Share of Common Stock

Net income per share of common stock is computed using the weighted average number of common shares outstanding during the year. Common equivalent shares related to the Amended Employee Stock Purchase Plan are not significant.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

B. Utility Plant

During the years ended December 31, 1981, 1980 and 1979, interest in the amount of $1,498,000, $1,980,000 and $1,643,000, respectively, relative to funds borrowed by a turbine trust and the Company's subsidiary has been capitalized. The borrowed funds, at rates ranging from 4-1/4% to 21-1/2%, were used to acquire utility plant and various other assets. The interest amount has been included in the Consolidated Statements of Income as "Other Interest" with a corresponding amount included in "Other Interest Capitalized."

The Company has a 7% undivided interest in Units 4 and 5 of the Four Corners Project (coal-fired generating station) located in northwestern New Mexico and a 15.8% undivided interest in Units 1, 2 and 3 of the Palo Verde Station which is under construction near Phoenix, Arizona. The Company also has an interest in constructing transmission facilities related to the Palo Verde Station. Participants in the joint plants are responsible for obtaining their respective financing. The extent of the Company's interests in these facilities (Palo Verde Project and Four Corners Project), excluding nuclear fuel, is as follows:

	December 31,			
	1981		1980	
	Palo Verde Project	Four Corners Project	Palo Verde Project	Four Corners Project
	(In thousands)			
Electric plant in service	$ —	$17,095	$ —	$15,425
Accumulated depreciation	—	(3,986)	—	(3,500)
Construction work in progress	547,648	10,317	378,516	3,108

The Company's direct expenses associated with the in-service portion of the Four Corners Project are included in the applicable operating expense categories of the Consolidated Statements of Income.

Total depreciation was $10,201,000 in 1981, $9,004,000 in 1980 and $8,531,000 in 1979, of which $281,000, $257,000 and $286,000, respectively, was applicable to transportation equipment and has been charged to other accounts. Additionally, amortization of electric plant under capital lease, commencing in June 1980, amounted to $588,000 for 1981 and $343,000 for 1980.

The average annual depreciation rate used by the Company for the year ended December 31, 1979 was 2.93%. Effective November 1980, in accordance with a Texas Commission order, the rate was changed from 2.93% to 3.28%. That rate was in effect through December 31, 1981.

C. Common Stock

Under a shareholder approved employee stock purchase plan, qualified employees may purchase shares of the Company's common stock at two specified dates each year for a period ending no later than June 30, 1984. The purchase price is 90% of the average bid price of the stock at the option dates. In the event the option price exceeds the average of the bid and ask prices at the purchase date, then the options lapse and shares are purchased in the open market by the Company. During 1981, 1980 and 1979, 14,305, 12,388 and 6,717 shares of common stock, respectively, were issued at an aggregate amount of $124,000, $106,000 and $63,000, respectively. The cumulative aggregate corresponding fair market values as of the option dates were $138,000, $117,000 and $70,000 in 1981, 1980 and 1979, respectively. At December 31, 1981, 40,185 shares were reserved for future purchases under the plan. Proceeds from issuances are credited to common stock and no charges are reflected in income with respect to the plan.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company has a dividend reinvestment and stock purchase plan which provides holders of its common stock the option to invest cash dividends and/or optional cash payments (up to $3,000 per calendar quarter) in additional shares of the Company's common stock. During 1981, 1980 and 1979, 405,360, 292,136 and 178,652 shares, respectively, were purchased by shareholders who reinvested dividends and invested cash in the amounts of $4,210,000, $2,711,000 and $1,854,000, respectively. The purchase price is the average of the highest closing bid and lowest closing ask price of the stock on the purchase date. At December 31, 1981, 384,699 shares were reserved for future purchases under the plan. In January 1982, an additional 1,500,000 shares were reserved.

The Company has an employee stock ownership plan (ESOP). In accordance with Federal income tax provisions, effective through 1982, common stock with a value equal to the sum of a specified amount of the Company's investment tax credit and employee cash participation will be contributed to the plan. Under the provisions of the Economic Recovery Tax Act of 1981, the ESOP investment tax credit based on investment in property will terminate with respect to qualifying investments made after 1982. Beginning in 1983, the ESOP investment tax credit will be based upon payroll costs. In October 1981, 1980 and 1979, the Company and participating employees contributed 205,334, 177,170 and 126,633 shares of stock, respectively, with a market value of $2,191,000, $1,709,000 and $1,287,000, respectively, to the plan. At December 31, 1981, 714,334 shares were reserved for future contributions under the plan.

In November 1981, the Company implemented a customer stock purchase plan. The shares are being offered to the Company's Texas and New Mexico customers who enroll in the plan. The purchase price per share is the average of the highest closing bid and lowest closing ask price on the investment date. Customers may purchase shares by making cash payments in amounts of not less than $25 per payment nor more than $3,000 total investment per calendar quarter. Dividends paid on all shares purchased by a participant will be automatically reinvested in additional shares, except for those participants who request the stock certificates and cash dividends. At December 31, 1981, 500,000 shares were reserved for future purchases under the plan. In January and February 1982, a total of 61,417 shares were purchased by participants.

The Company's Restated Articles of Incorporation were amended in June 1981, to increase the number of authorized shares of common stock from 30,000,000 to 40,000,000.

Changes in common stock are as follows:

	Common Stock	
	Shares	Amount
		(In thousands)
Balance, December 31, 1978	11,191,371	$ 71,269
Sales of Common Stock:		
1979	3,312,002	35,060
1980	5,981,694	55,974
1981	4,624,999	47,845
Balance, December 31, 1981	25,110,066	$210,148

Net income applicable to common stock, net income per share of common stock and weighted average number of common shares outstanding for the year ended December 31, 1981, would have been $52,221,000, $2.08 and 25,110,066, respectively, assuming that the proceeds (before expenses of sale) of $47,845,000 from the sale of common stock during the year were used to retire short-term obligations outstanding during the year.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

D. Preferred Stock

(1) Preferred Stock — Redemption required

Following is a summary of outstanding preferred stock - redemption required:

	December 31,				Optional Redemption Price Per Share at December 31, 1981
	1981		1980		
	Shares	Amount	Shares	Amount	
		(In thousands)		(In thousands)	
$10.75 Dividend	92,000	$ 9,200	96,000	$ 9,600	$108.00
$ 8.44 Dividend	150,000	15,000	150,000	15,000	108.44
$ 8.95 Dividend	150,000	15,000	150,000	15,000	108.95
$ 9.00 Dividend	100,000	10,000	100,000	10,000	—
$ 8.80 Dividend	50,000	5,000	50,000	5,000	—
$ 9.50 Dividend	100,000	10,000	100,000	10,000	—
	642,000	$64,200	646,000	$64,600	

The $10.75 preferred shares are entitled to the benefits of an annual sinking fund whereby on January 1 of each year, beginning in 1980, the Company will redeem 4,000 shares at the sinking fund redemption price of $100 per share plus accrued dividends. The $10.75 preferred shares are redeemable at the option of the Company; however, no optional redemption of the shares may be made prior to January 1, 1985, as a part of, or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest or dividend cost of less than 10.75% per annum.

The $8.44 preferred shares are entitled to the benefits of an annual sinking fund whereby on October 1 of each year, beginning in 1984, the Company will redeem 4% (and may, at its option, redeem an additional 4%) of the aggregate maximum number of shares outstanding at the sinking fund redemption price of $100 per share plus accrued dividends. The $8.44 preferred shares are redeemable at the option of the Company; however, except as set forth above, no optional redemption of the shares may be made prior to October 1, 1988, as a part of, or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest or dividend cost of less than 8.44% per annum.

The $8.95 preferred shares are entitled to the benefits of an annual sinking fund whereby on October 1 of each year, beginning in 1985, the Company will redeem 5% (and may, at its option, redeem an additional 5%) of the aggregate maximum number of shares outstanding at the sinking fund redemption price of $100 per share plus accrued dividends. The $8.95 preferred shares are redeemable at the option of the Company; however, no optional redemption of the shares may be made prior to October 1, 1984, as a part of, or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest or dividend cost of less than 8.95% per annum.

The $9.50 preferred shares are entitled to the benefits of an annual sinking fund whereby on July 1 of each year, beginning in 1986, the Company will offer to purchase on the next succeeding October 1, out of funds legally available for the purchase or redemption of $9.50 preferred shares, not less than 20,000 shares (or the number of such shares then outstanding if less than 20,000) at a purchase price of $100 per share, plus accrued dividends. The Company is required to redeem on October 1, 1990, all shares then outstanding at a redemption price equal to $100 per share plus an amount equal to accrued and unpaid dividends to and including the date of redemption. The $9.50 preferred shares are redeemable at the option of the Company, however, no optional redemption of the shares may be made prior to October 1, 1987.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Sinking fund requirements for each of the above series are cumulative and, in the event they are not satisfied at any redemption date, the Company is restricted from paying any dividends on its common stock (other than dividends in common stock or other class of stock ranking junior to the preferred stock as to dividends or assets).

The $9.00 preferred shares have no provision for a sinking fund, are not redeemable at the option of the Company, and must be redeemed in full on October 1, 1986, at $100 per share plus accrued dividends. In the event the Company fails to provide sufficient funds for redemption, the Company is restricted from paying any dividends on its common stock (other than dividends in common stock or other class of stock ranking junior to the the preferred stock as to dividends and assets).

The $8.80 preferred shares have no provision for a sinking fund and are not redeemable at the option of the Company until October 1, 1987. On October 1 of each year, beginning in 1990, the Company will offer to purchase on the next succeeding February 1, out of funds legally available for the purchase or redemption of the $8.80 preferred shares, any or all outstanding shares of $8.80 preferred shares at a purchase price of $100 per share, plus accrued dividends. In the event the Company fails to provide sufficient funds for redemption, the Company is restricted from paying any dividends on its common stock (other than dividends in common stock or other stock ranking junior to the preferred stock as to dividends and assets).

The aggregate amounts of the above preferred stock required to be retired for each of the next five years are as follows:

	(In thousands)
1982	$ 400
1983	400
1984	1,000
1985	1,750
1986	13,750

Sales and redemption of preferred stock — redemption required were as follows:

	Shares	Amount
		(In thousands)
Balance, December 31, 1978	240,000	$24,000
Issuance of Preferred Stock, $8.44 Dividend	10,000	1,000
Issuance of Preferred Stock, $8.95 Dividend	150,000	15,000
Issuance of Preferred Stock, $9.00 Dividend	100,000	10,000
Balance, December 31, 1979	500,000	50,000
Redemption of Preferred Stock, $10.75 Dividend	(4,000)	(400)
Issuance of Preferred Stock, $8.80 Dividend	50,000	5,000
Issuance of Preferred Stock, $9.50 Dividend	100,000	10,000
Balance, December 31, 1980	646,000	64,600
Redemption of Preferred Stock, $10.75 Dividend	(4,000)	(400)
Balance, December 31, 1981	642,000	$64,200

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(2) Preferred Stock — Redemption not required

Following is a summary of preferred stock which is not redeemable except at the option of the Company:

	Shares	Amount December 31, 1981	Amount December 31, 1980	Optional Redemption Price Per Share at December 31, 1981
		(In thousands)		
$4.50 Dividend	15,000	$ 1,534	$ 1,534	$109.00
$4.12 Dividend	15,000	1,506	1,506	103.98
$4.72 Dividend	20,000	2,001	2,001	104.00
$4.56 Dividend	40,000	4,000	4,000	100.00
$8.24 Dividend	100,000	9,832	9,832	107.52
	190,000	$18,873	$18,873	

The above preferred shares are redeemable at the option of the Company; however, no optional redemption of the $8.24 shares may be made prior to April 1, 1982, directly or indirectly as part of, or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest or dividend cost less than 8.38% per annum.

There have been no changes in preferred stock - redemption not required during the three years ended December 31, 1981.

All preferred stock issues (redemption required and redemption not required) are entitled, in preference to common stock, to $100.00 per share, plus accrued dividends, upon involuntary liquidation. All issues except the $9.00, $8.80 and $9.50 preferred stock issues, are entitled to an amount per share equal to the applicable optional redemption price, plus accrued dividends, upon voluntary liquidation. The $9.00, $8.80 and $9.50 preferred stock issues are entitled to a fixed price ($109.00, $108.80 and $109.50 per share at December 31, 1981, respectively), plus accrued dividends, upon voluntary liquidation.

The Company's Restated Articles of Incorporation were amended in June 1981, to increase the number of authorized shares of preferred stock from 1,000,000 to 2,000,000.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

E. Long-term Obligations

Outstanding long-term obligations are as follows:

	December 31, 1981	December 31, 1980	Redemption Price at December 31, 1981
	(In thousands)		
First mortgage bonds:			
3 1/8% Series, due 1984	$ 4,950	$ 4,950	$100.45
4 1/4% Series, due 1988	6,100	6,100	101.45
16.35% Series, due 1991	40,000	—	—
4 5/8% Series, due 1992	10,385	10,385	102.02
6 3/4% Series, due 1998	24,800	24,800	103.73
7 3/4% Series, due 2001	15,838	15,838	105.85
9% Series, due 2004	20,000	20,000	106.45
9.95% Series, due 2004	25,000	25,000	109.95
10 1/2% Series, due 2005	15,000	15,000	109.05
8 1/2% Series, due 2007	25,000	25,000	107.55
	187,073	147,073	
9% Pollution Control Revenue Bonds 1981 Series A, due 1984, net of $28,074,000 on deposit with trustee, collateralized by second mortgage bonds	7,366	—	
Unsecured promissory notes, floating rate (15.75% at December 31, 1981 and 20.50% to 21.50% at December 31, 1980):			
Due 1984	25,000	25,000	
Due 1985	18,000	18,000	
Obligation under capital lease	13,725	12,477	
Other secured and unsecured notes payable, interest at rates ranging from 8.8125% to 14% per annum, due in installments through 1998	5,174	2,075	
	256,338	204,625	
Current maturities of long-term obligations	(1,736)	(54)	
Unamortized premium and discount	(2,187)	(2,308)	
	$252,415	$202,263	

The premiums reflected in the redemption prices shown above continue at reduced amounts in future years, finally resulting in each case in redemption at par at maturity.

The Company's indenture of mortgage securing its first mortgage bonds provides for sinking and improvement funds. For each series other than the 9.95% and 16.35% series, the Company is required to make annual payments to the trustee equivalent to 1% ($1,230,000 at December 31, 1981 and 1980) of the greatest aggregate principal amount of such series outstanding prior to a specified date. The Company has generally satisfied the 1% requirements by relinquishing the right to use a net amount of additional property for the issuance of bonds or by purchasing bonds in the open market and expects to continue this practice. With respect to the 9.95% series, commencing April 30, 1985, the Company will be required to make annual cash payments to the trustee equivalent to 4-1/4% of the greatest aggregate principal amount of such series outstanding at any one time prior to a specified date. The 4-1/4% cash payments must be applied to redeem bonds of the 9.95% series at 100% of the principal amount thereof plus accrued interest. No sinking fund is required for the 16.35% series.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Scheduled maturities of long-term obligations at December 31, 1981, excluding obligation under capital lease and sinking fund requirements are as follows (in thousands):

1982	$ 298
1983	408
1984	37,652
1985	18,374
1986	417
Thereafter	185,464

The funds on deposit with a trustee at December 31, 1981 represent a portion of the proceeds from pollution control revenue bonds issued in June 1981. The Company can draw funds from the trustee account as qualified construction expenditures for pollution control are made.

Substantially all of the Company's utility plant is subject to a lien under the indenture of mortgage collateralizing the Company's first mortage bonds and a lien collateralizing the Company's second mortgage bonds. The second mortgage bonds in the amount of $35,440,000 were issued solely to secure $35,440,000 principal amount of 9% Pollution Control Revenue Bonds 1981 Series A, due 1984.

In accordance with certain provisions of the indenture covering the first mortgage bonds, payments of cash dividends on common stock are restricted to an amount equal to retained earnings accumulated after December 31, 1966, plus $4,100,000. Retained earnings in the amount of approximately $54,000,000 are unrestricted as to the payment of cash dividends at December 31, 1981.

The unsecured floating rate notes due in 1984 and 1985 may be prepaid at the option of the Company without premium.

At December 31, 1979 the Company had a commitment in the amount of $7,754,000 to purchase a turbine from an independent trust no later than a specified date in 1980. During 1980 the turbine and related equipment were sold to a second independent trust and an arrangement was made whereby the Company leased the turbine and certain other related equipment from the trust-lessor for a twenty-year period with renewal options for up to seven more years. Semi-annual lease payments, including interest, commencing in January 1982, are $719,000 through January 1991 and $861,000 thereafter to July 2000. The effective annual interest rate implicit in this lease is calculated to be 9.6%. The total cost of the equipment to the trust-lessor of $11,800,000 plus $1,925,000 interest accrued is reflected in long-term obligations at December 31, 1981. Of the $11,800,000 approximately $8,400,000 was paid to the equipment trust which owned the turbine and approximately $3,400,000 was paid to the Company for its interest in the turbine and certain other related equipment. The difference between the sales price and the original basis of the turbine and related equipment is being amortized to income over the lease term.

F. Notes Payable and Commercial Paper

The Company and its subsidiary have informal lines of credit with various lenders. Certain of these arrangements provide for the maintenance of compensating balances for the available lines of credit and the loans outstanding. At December 31, 1981 the lines of credit available under these arrangements totaled $127,316,000 (including subsidiary lines of $9,316,000 not guaranteed by the Company). Average bank balances of $9,788,000 were maintained as compensating balances at December 31, 1981 in connection with the informal lines of credit. The amount of unused lines of credit at December 31, 1981 was $84,165,000. In January 1982, an independent trust increased the available line of credit to the Company and subsidiary from $30,000,000 to $70,000,000 which increased the unused line of credit by $40,000,000 pending expenditures by the trust for nuclear fuel.

Through December 31, 1982, the FERC has authorized the Company to incur short-term debt (in the form of promissory notes or commercial paper) in an amount not to exceed $175,000,000 outstanding at any one time, exclusive of short-term debt of the Company's subsidiary. The interest rates are to be at the prime rate in effect at the time of issuance, plus in some cases, provisions for compensating balances of 20% under certain conditions. The net proceeds from the issuance of the short-term debt are to be used primarily for construction expenditures.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

G. Federal Income Taxes

The provisions (credits) for deferred Federal income taxes, which arise from timing differences between financial and tax reporting, are as follows:

	Years Ended December 31,		
	1981	1980	1979
		(In thousands)	
Tax effect of:			
Operating income:			
Depreciation differences	$ 1,550	$ 1,560	$ 1,769
Deferred fuel costs	270	226	(1,074)
Allowance for borrowed funds used during construction	10,294	6,613	4,023
Other	891	338	1,420
Other income	48	(609)	—
	$13,053	$ 8,134	$ 6,138

Federal income tax provisions are less than the amounts computed by applying the statutory rate of 46% to book income before Federal income taxes. Details are as follows:

	Years Ended December 31,		
	1981	1980	1979
		(In thousands)	
Tax computed at statutory rate	$40,003	$30,103	$16,062
Decreases due to:			
Allowance for equity funds used during construction	(10,494)	(6,613)	(3,427)
Other	757	774	(907)
Total Federal income tax expense	$30,266	$24,264	$11,728
Effective Federal income tax rate	34.8%	37.1%	33.6%

Total Federal income tax expense is as follows:

	Years Ended December 31,		
	1981	1980	1979
		(In thousands)	
Current income taxes — operating	$ 3,691	$ 5,396	$ 1,238
Current income taxes — other income	1,030	93	269
Total current	4,721	5,489	1,507
Deferred income taxes — operating	13,005	8,743	6,138
Deferred income taxes (credit) — other income	48	(609)	—
Deferred investment tax credit — operating	12,939	10,355	4,379
Deferred investment tax credit — other income	(13)	700	—
Amortization of deferred investment tax credit — operating	(434)	(414)	(296)
	$30,266	$24,264	$11,728

At December 31, 1981, the Company had available for Federal income tax purposes an investment tax credit carryforward of approximately $16,100,000 expiring in 1996.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

H. Commitments and Contingencies

The Company has approximately a 15.8% interest in three units of a nuclear plant (Palo Verde Station) and related transmission lines and switchyard facilities presently under construction. Transmission lines represent approximately 6% of the aggregate costs of these projects. The estimated aggregate costs of these projects to be incurred by the Company subsequent to December 31, 1981, are approximately $507,000,000, including approximately $219,700,000 of allowance for funds used during construction (AFUDC).

The Company has entered into an assignment agreement, subject to certain conditions, for the sale of 25% of the Company's interest in the Palo Verde Station and related switchyard as well as nuclear fuel and uranium venture interest held by the trust discussed below. The proposed sales price is expected to exceed the carrying value of the assets. As of December 31, 1981, the Company had received $3,500,000 in earnest money deposits related to the sale which are included in other deferred credits. The estimated costs in the preceding paragraph do not give effect to the sale.

The Company is also committed at December 31, 1981 for construction of pollution control facilities in the amount of approximately $39,300,000, including approximately $13,700,000 of AFUDC.

The above estimated amounts were computed assuming an estimated average annual inflation rate of 9% and an average AFUDC rate of 13.5%.

The Company has an agreement with an independent trust whereby the trust purchases, at cost, all of the Company's nuclear fuel requirements and amounts related to a uranium venture. Under the trust agreement the Company has the option of either repurchasing the fuel from the trust or leasing the heat generated by the fuel. Management of the Company intends to enter into a basic heat supply contract whereby title to the fuel remains with the trust and the Company will make lease payments for the heat generated. Based on this intention and in accordance with industry practice, the nuclear fuel and uranium venture assets and their related liabilities are not included in the accompanying balance sheets. The aggregate investment at December 31, 1981 amounted to approximately $27,700,000. The Company is committed to reimburse the trust for its cash investment in nuclear fuel and uranium venture costs, not expected to exceed a maximum cash amount of $93,000,000 during the ten-year period ending December 31, 1991, as well as for interest and other carrying costs of the trust.

Included in the aggregate investment of the trust, described in the preceding paragraph, at December 31, 1981, is a $4,900,000 joint venture interest in certain mining claims and leases. In 1981, two of the participants in the venture expensed their investment in the venture due to their determination that production from the venture's mining claims and leases was not feasible in view of limited reserves and depressed market prices. The Company believes these revaluations to be inappropriate and at this time does not intend to provide for a reduction in the value of the investment of the trust. A minimum amount of exploration and development work is presently being performed.

The Company's fuel supply arrangements include short-term commitments under a fuel supply arrangement with a trust, whereby the Company concurrently assigned its principal long-term fuel supply contract to the trust and agreed to purchase all fuel oil delivered to the trust by the fuel supplier. Payments to the trust for fuel oil purchases consist of the trust's cost of oil determined on an average cost basis plus related administrative and carrying costs. For financial reporting purposes, purchases of the trust are assumed to have been made on behalf of the Company. Accordingly, the balance sheets at December 31, 1981 and 1980, include $14,279,000 and $10,449,000, respectively, recorded as fuel and fuel purchase commitment, representing the Company's commitment to purchase the trust's fuel oil inventory as of those dates.

In December 1981, the Company entered into an agreement with Texas-New Mexico Power Company (TNP) for the purpose of constructing, operating and maintaining a transmission system. This system includes a transmission line connecting with an existing switchyard in New Mexico, related switchyards and communication equipment. Completion of this system will allow the Company to purchase interruptible electric energy from another utility. In the performance of this agreement, the Company has been named Project Manager and will be responsible for all construction, operation and maintenance work. The agreement provides for the Company to receive advance funds, on a monthly basis, from TNP in order to perform all required work. The Company's interest in the construction, operation and maintenance costs is approximately 67%. The estimated cost of construction to be incurred by the Company subsequent to December 31, 1981, is approximately $14,600,000, including $900,000 of AFUDC.

In December 1981, the Company entered into an agreement with Southwestern Public Service Company (SPS) for the purpose of constructing a direct current terminal in New Mexico. The Company is obligated to advance funds, on a monthly basis, to SPS who will perform the construction work. The Company's interest in the construction is approximately 67%. The estimated cost of construction to be incurred by the Company subsequent to December 31, 1981, is $19,400,000, including $1,800,000 of AFUDC.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

I. Allowance for Funds Used During Construction (AFUDC)

The applicable regulatory uniform system of accounts provides for AFUDC which is defined as an amount which includes the net cost during a period of construction of borrowed funds used for construction purposes plus a reasonable rate on other funds when so used. While AFUDC results in an increase in utility plant under construction for ratemaking purposes with a corresponding credit to income, it is not a current cash item. AFUDC is realized in cash net of certain tax effects after the related plant is placed in service and the depreciation charges based on the total cost of the plant, including AFUDC, are allowed in cost of service amounts by regulatory authorities.

The amount of AFUDC is determined by applying an accrual rate to the balance of certain utility plant construction. In this connection, the FERC has promulgated procedures for the computation (a prescribed formula) of the accrual rate. The rates used by the Company do not exceed those permitted by the FERC.

The Company used an accrual rate of 11.0% in 1979. Effective January 1, 1980, the Company increased the accrual rate to 11.9%. During 1981, the Company increased the accrual rate to an effective rate of 13.8%.

The increase in the AFUDC rate used during 1980 increased net income and net income applicable to common stock (excluding effect of compounded AFUDC) by $1,490,000 and net income per share by $.09. The increase in the AFUDC rate used during 1981 increased net income and net income applicable to common stock (excluding effect of compounded AFUDC) by $4,060,000 and net income per share by $.18.

Effective January 1, 1980, the Company began semi-annual compounding of AFUDC on major construction projects. Compounding involves using previously capitalized AFUDC as part of the cost base on which to apply the AFUDC rate. The increase in net income and net income applicable to common stock related to compounded AFUDC for 1980 and 1981 was $2,444,000 and $2,965,000, respectively. The increase in net income per share of common stock related to compounded AFUDC for 1980 and 1981 was $.14 and $.13, respectively.

J. Pension Plan

The Retirement Income Plan (the plan) covers employees who have completed one year of service with the Company. The plan is a noncontributory defined benefit plan. Upon retirement or death of a vested plan participant, assets of the plan are used to purchase an annuity contract with an insurance company. Therefore, assets available for plan benefits and the present value of vested benefits represent amounts attributable to active employees only.

The financial statements of the plan are presented on a cash basis. Under this method of accounting, certain revenue and expense items are not recognized when earned and incurred, but rather when cash is actually received or paid.

Contributions from the Company are based on the amounts required to be funded under provisions of the plan as actuarially calculated. The benefits to be provided under the plan are valued using the Frozen Initial Liability variation of the Entry Age Normal Cost Method. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits presented below was 6%, compounded annually.

Accumulated net assets available for plan benefits and the actuarial present value of accumulated plan benefits as of the most recent actuarial determination date are presented below:

	June 30,	
	1981	1980
	(In thousands)	
Net assets available for plan benefits	$7,682	$6,440
Actuarial present value of accumulated plan benefits:		
Vested benefits:		
Participants currently receiving payments	$ 225	$ 180
Other participants	8,239	7,736
	8,464	7,916
Nonvested benefits	695	401
Total actuarial present value of accumulated plan benefits	$9,159	$8,317

The pension expense in 1981, 1980 and 1979 was $920,000, $800,000 and $751,000, respectively, which includes amortization of past service cost over a 30-year period beginning in 1972.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

SUPPLEMENTAL INFORMATION CONCERNING THE EFFECTS OF INFLATION (Unaudited)

The following supplementary information is supplied in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of plant net of accumulated depreciation and amortization, which includes electric plant in service, construction work in progress, other investments and nonutility property, represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current year's provision for depreciation and amortization on the constant dollar and current cost amounts of plant was determined by applying effective depreciation and amortization rates to the indexed plant amounts.

Fuel inventories and the cost of fuel used in generation have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in FASB Statement 33, income taxes were not adjusted.

Under the rate making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the rate making process gives no recognition to the current cost of replacing plant assets, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Supplemental Consolidated Statement of Income from Operations Adjusted for Changing Prices, the reduction of plant to net recoverable amount should be offset by the gain from the decline in purchasing power of net amounts owed on a constant dollar basis. Meanwhile, on a current cost basis the excess of the increase in general price level over the increase in specific prices at the net recoverable amount should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The purchasing power gain on net monetary items owed is equal to the net gain found by restating in constant dollars the opening and closing balances of, and transactions in, monetary assets and liabilities. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance plant assets. Since the depreciation of plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Restated net assets (which is equal to common stock equity and preferred stock) is measurable by adjusting the amount reported for net assets in the balance sheet for the difference between the historical cost and the restated constant dollar amounts or lower recoverable amounts of property less reserves. Because of the "lower recoverable amounts" provision, the determination of net assets for a utility company is based on the historical cost at year end, after conversion to constant dollars, with no aging of property required. FASB Statement 33 did not define what should be included in net assets, leaving the calculation open to experimentation. The Company calculates net assets by restating net utility plant, net nonutility property and monetary items on a constant dollar and current cost basis.

Inferences which, in the case of some industries may be drawn from information in the nature of that presented below as to the adequacy of future cash flows in relation to future plant replacement requirements are believed by the Company to be less valid in the case of public utilities which, like itself, should be able to establish rates to cover increased costs of new plant. However, the information may provide some indication of the expanded capital structure that will be required for making plant replacements and additions with inflated dollars.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

SUPPLEMENTAL INFORMATION CONCERNING THE EFFECTS OF INFLATION (Unaudited) — (Continued)

Supplemental Consolidated Statement Of Income
From Operations Adjusted For Changing Prices
For the year ended December 31, 1981
(Unaudited)

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
		(In thousands)	
Operating revenues	$250,379	$250,379	$250,379
Fuel, purchased and interchanged power	110,113	110,113	110,113
Other operating and maintenance expenses	50,272	50,272	50,272
Depreciation and amortization	10,508	22,479	23,180
Federal income taxes	29,201	29,201	29,201
Interest expense	17,743	17,743	17,743
Other income	(24,155)	(24,155)	(24,155)
	193,682	205,653	206,354
Net income	$ 56,697	$ 44,726 (2)	$ 44,025
Increase in specific prices (current cost) of plant held during the year (1)			$ 84,494
Reduction of plant to net recoverable amount		$(48,922)(2)	(38,062)
Effect of increase in general price level			(91,022)
Excess of increase in general price level over increase in specific prices at net recoverable amount			(44,590)
Gain from decline in purchasing power of net amounts owed		32,306	32,306
Net		$(16,616)	$(12,284)

(1) At December 31, 1981, current cost of plant net of accumulated depreciation was $1,219,234,000 while historical cost or net amount recoverable through depreciation was $817,424,000.

(2) Inclusion of the reduction to net recoverable amount in net income on a constant dollar basis produces a loss of $4,196,000.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

SUPPLEMENTAL INFORMATION CONCERNING THE EFFECTS OF INFLATION (Unaudited) — (Continued)

Five Year Comparison Of Selected Supplementary
Financial Data Adjusted For Effects Of Changing Prices (1)
(Unaudited)

	Years ended December 31,				
	1981	1980	1979	1978	1977
	(In thousands except for per share amounts)				
Operating revenues					
Historical cost	$250,379	$210,513	$159,712	$136,556	$112,339
Constant dollars	250,379	232,349	200,118	190,368	168,601
Net income					
Historical cost	$ 56,697	$ 41,177	$ 23,190	—	—
Constant dollars	44,726	35,195	19,824	—	—
Current cost	44,025	33,663	16,925	—	—
Net income per share of common stock					
Historical cost	$ 2.23	$ 2.05	$ 1.45	—	—
Constant dollars	1.69	1.67	1.13	—	—
Current cost	1.66	1.58	.90	—	—
Net assets at year-end at net recoverable amounts					
Historical cost	$372,823	$305,159	$220,299	—	—
Constant dollars	360,770	321,693	261,024	—	—
Current cost	360,770	321,693	261,024	—	—
Excess of increase in general price level over increase in specific prices at net recoverable amount, current cost	$ 44,590	$ 59,204	$ 53,762	—	—
Other information					
Gain from decline in purchasing power of net amounts owed, constant dollars	$ 32,306	$ 38,130	$ 37,585	—	—
Cash dividends declared per share of common stock:					
Historical cost	$ 1.25	$ 1.13	$ 1.07	$ 1.02	$ .99
Constant dollars	1.25	1.25	1.34	1.42	1.49
Market price per share of common stock at year-end:					
Historical cost	$ 10.88	$ 9.50	$ 9.38	$ 10.88	$ 12.00
Constant dollars	10.53	10.01	11.11	14.61	17.56
Average consumer price index	272.4	246.8	217.4	195.4	181.5

(1) Constant dollars and current cost amounts are stated in average 1981 dollars.

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

SELECTED FINANCIAL DATA
For the years ended December 31
(In thousands except for per share amounts)

	1981	1980	1979
Operating revenues	$250,379	$210,513	$159,712
Fuel	107,562	95,461	81,669
Operation and maintenance	41,751	31,944	24,156
Depreciation and amortization	10,508	9,090	8,245
Taxes	40,273	35,801	21,573
Other income	(24,155)	(14,011)	(7,742)
	175,939	158,285	127,901
Income before interest charges	74,440	52,228	31,811
Total interest charges	17,743	11,051	8,621
Income before cumulative effect on prior years of change in accounting method	56,697	41,177	23,190
Cumulative effect to January 1, 1974, of change in accounting for fuel costs, net of related income taxes ($912,000)			
Net income	$ 56,697	$ 41,177	$ 23,190
Net income per share of common stock, based on weighted average number of shares outstanding during each year:			
Income applicable to common stock before cumulative effect of change in accounting method	$ 2.23	$ 2.05	$ 1.45
Cumulative effect to January 1, 1974, of change in accounting for fuel costs			
Net income applicable to common stock	$ 2.23	$ 2.05	$ 1.45
Pro forma amounts assuming the new method of accounting for fuel costs is applied retroactively:			
Net income applicable to common stock			
Net income per share of common stock			
Dividends per share paid on common stock	$ 1.25	$ 1.13	$ 1.07
Gross utility plant	$898,333	$715,190	$560,932
Total assets	$890,071	$690,992	$537,118
Long-term obligations and preferred stock redemption required	$316,615	$266,863	$221,721

1978	1977	1976	1975	1974	1973	1972
$136,556	$112,339	$111,188	$ 91,461	$ 63,072	$ 49,483	$ 43,284
73,447	59,442	53,154	44,714	24,914	15,766	10,951
21,171	16,685	17,954	14,516	11,463	8,160	8,101
7,361	6,498	6,233	5,506	4,345	4,102	3,776
14,128	12,377	15,727	11,197	9,809	9,573	9,279
(3,688)	(1,689)	(838)	(1,423)	(770)	(84)	(668)
112,419	93,313	92,230	74,510	49,761	37,517	31,439
24,137	19,026	18,958	16,951	13,311	11,966	11,845
8,113	7,604	7,442	6,853	5,280	3,962	3,591
16,024	11,422	11,516	10,098	8,031	8,004	8,254
				988		
$ 16,024	$ 11,422	$ 11,516	$ 10,098	$ 9,019	$ 8,004	$ 8,254
$ 1.30	$ 1.11	$ 1.29	$ 1.30	$ 1.19	$ 1.19	$ 1.22
				.15		
$ 1.30	$ 1.11	$ 1.29	$ 1.30	$ 1.34	$ 1.19	$ 1.22
					$ 8,270	$ 8,035
					$ 1.29	$ 1.25
$ 1.02	$ .99	$ .95	$ .91	$ .88	$ .86	$ .83
$437,468	$338,598	$274,502	$250,375	$227,196	$185,058	$174,485
$415,975	$326,910	$258,407	$240,659	$206,490	$156,435	$146,401
$150,152	$128,171	$102,290	$103,104	$ 85,906	$ 66,309	$ 66,299

Financial

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

SELECTED OPERATING AND STATISTICAL DATA

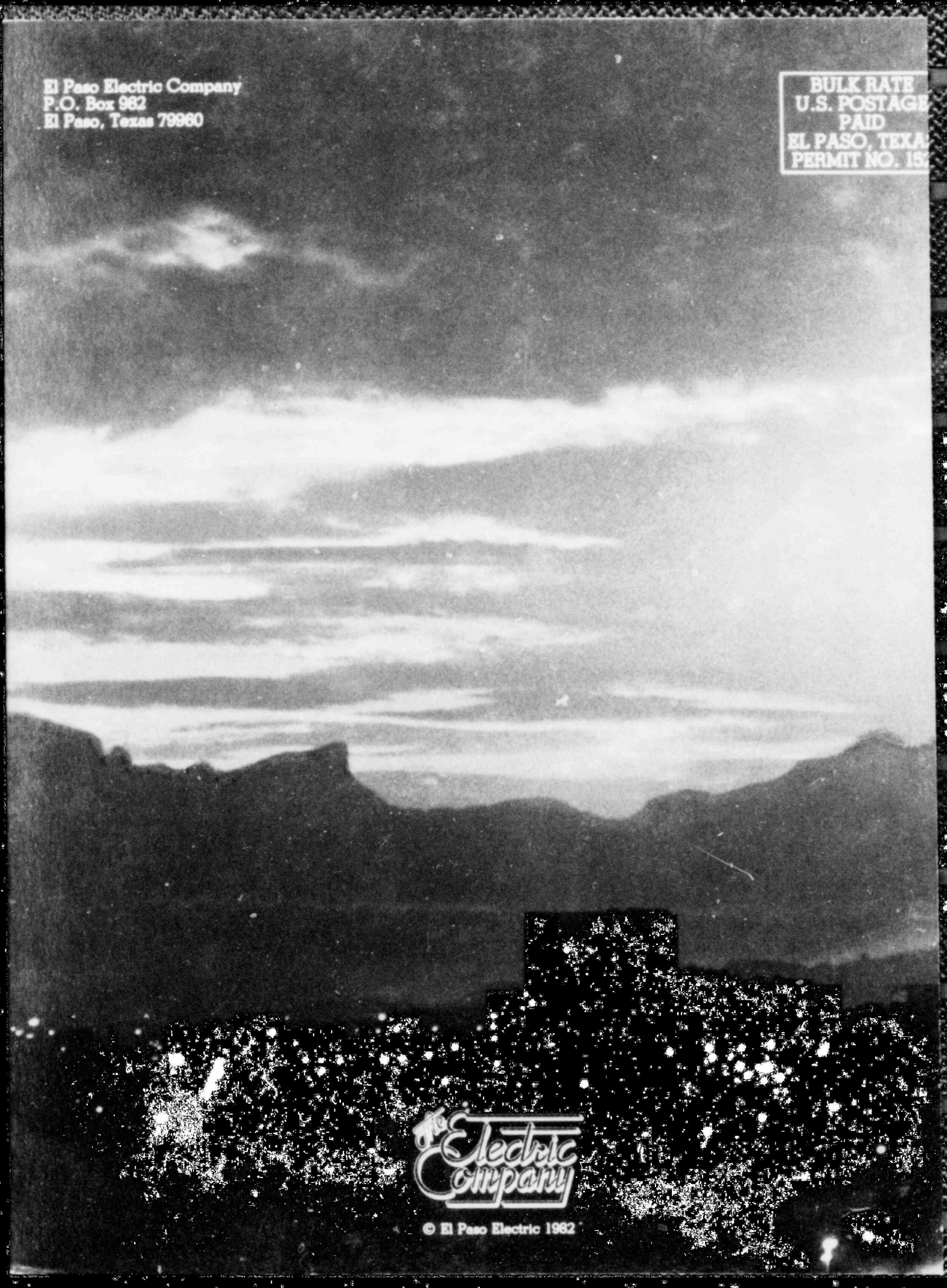
	1981	1980	1979
Population served at retail, estimated	610,000	600,000	554,000
Number of customers:			
Residential	167,625	162,770	157,601
Commercial and industrial, small	16,724	16,169	15,791
Commercial and industrial, large	43	42	44
Other	1,996	1,941	1,875
Total	186,388	180,922	175,311
Annual native system peak load, net kilowatts	736,000	718,000	688,000
Output, net generated and purchased, thousand kilowatt-hours:			
Steam	3,790,666	3,928,860	3,771,043
Other	25,704	47,969	—
Purchased and interchanged	138,104	9,794	(119,166)
Total (a)	3,954,474	3,986,623	3,651,877
Sales of electricity, thousands of dollars:			
Residential	$ 79,019	$ 63,659	$ 52,899
Commercial and industrial, small	76,585	58,679	46,741
Commercial and industrial, large	38,625	28,155	26,402
Other	55,128	59,043	32,577
Total	$249,357	$209,536	$158,619
Sales, thousand kilowatt-hours:			
Residential	966,487	972,070	937,858
Commercial and industrial, small	1,033,859	985,123	949,514
Commercial and industrial, large	702,323	621,877	682,163
Other	996,203	1,148,952	854,749
Total (a)	3,698,872	3,728,022	3,424,284
Average annual use per residential customer, KWH	5,849	6,065	6,072
Average annual revenue per residential customer	$ 478.21	$ 397.74	$ 342.49
Average revenue per KWH sold, cents (b):			
Residential	8.18¢	6.56¢	5.64¢
Commercial and industrial, small	7.41	5.96	4.92
Commercial and industrial, large	5.50	4.53	3.87
Average revenue per KWH; total sales	6.74	5.64	4.63
Electric line, pole miles:			
Over 15,000 volts	2,157	2,131	2,070
Less than 15,000 volts (c)	2,865	2,841	2,794
Total	5,022	4,972	4,864
Total employees	1,025	986	965

(a) Differences between total output and total sales represent Company use and line losses.
(b) Includes adjustments under existing fuel clauses.
(c) Includes minor amounts of line on poles owned by telephone utility.

1978	1977	1976	1975	1974	1973	1972
544,000	532,000	520,000	505,000	495,000	485,000	475,000
150,739	143,645	135,344	130,010	126,760	123,653	119,170
15,381	14,518	14,203	13,294	13,163	12,816	12,333
47	46	39	32	29	27	27
1,842	1,715	1,748	1,663	1,545	1,445	1,351
168,009	159,924	151,334	144,999	141,497	137,941	132,881
690,000	657,000	677,000	640,000	638,000	618,000	543,400
3,673,685	3,475,753	3,501,416	3,433,698	3,369,606	3,450,021	3,075,013
—	—	—	—	—	—	—
(84,609)	(3,574)	51,013	15,837	(13,709)	(180,767)	(112,435)
3,589,076	3,472,179	3,552,429	3,449,535	3,355,897	3,269,254	2,962,578
$ 44,178	$ 34,484	$ 31,415	$ 27,080	$ 20,126	$ 16,749	$ 15,133
39,780	33,583	33,628	28,870	19,192	14,942	12,948
22,402	17,666	15,709	11,816	7,824	6,061	5,231
29,289	25,581	29,537	22,880	15,595	11,416	9,696
$135,649	$111,314	$110,289	$ 90,646	$ 62,737	$ 49,168	$ 43,008
907,956	874,140	816,169	782,285	765,636	755,701	694,855
913,038	902,699	929,556	909,967	853,960	799,997	696,584
650,542	617,955	582,125	513,637	508,482	536,754	487,945
849,113	847,930	1,030,812	1,006,311	980,175	958,252	853,978
3,320,649	3,242,724	3,358,662	3,212,200	3,108,253	3,050,704	2,733,362
6,153	6,261	6,193	6,097	6,116	6,211	5,948
$ 299.40	$ 246.99	$ 238.36	$ 211.04	$ 160.72	$ 137.59	$ 129.53
4.87¢	3.94¢	3.85¢	3.46¢	2.63¢	2.22¢	2.18¢
4.36	3.72	3.62	3.17	2.25	1.87	1.86
3.44	3.47	2.70	2.30	1.54	1.13	1.07
4.09	3.45	3.30	2.82	2.02	1.61	1.57
1,999	1,811	1,759	1,706	1,647	1,581	1,539
2,759	2,755	2,727	2,691	2,673	2,616	2,565
4,758	4,566	4,486	4,397	4,320	4,197	4,104
908	838	816	778	726	704	659

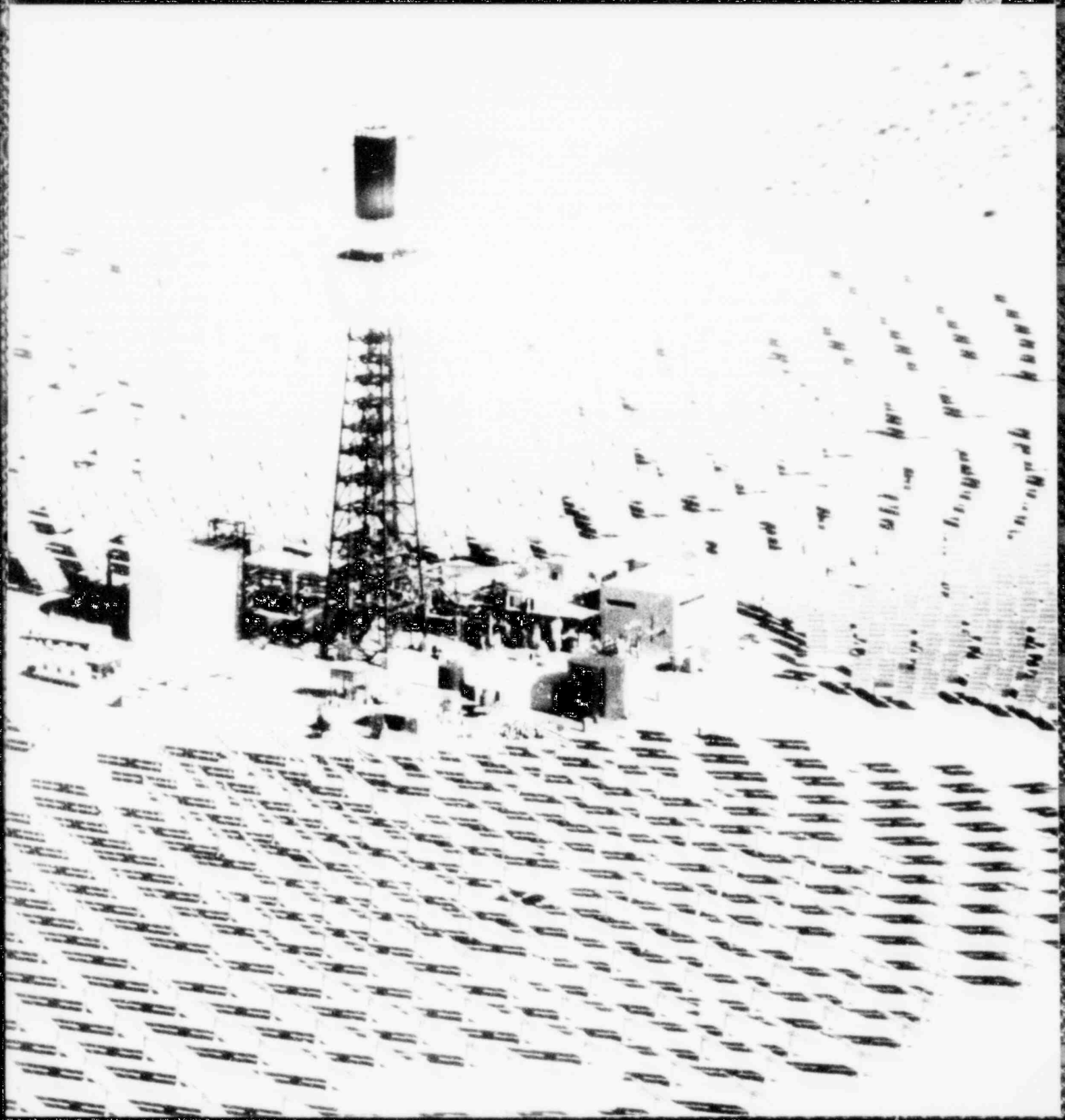
El Paso Electric Company
P.O. Box 982
El Paso, Texas 79960

BULK RATE
U.S. POSTAGE
PAID
EL PASO, TEXA
PERMIT NO. 15



The Electric Company

Southern
California
Edison
Company



Southern California Edison Company

Southern California Edison Company provides electric service in a 50,000 square-mile area of Central and Southern California. This area includes some 800 cities and communities with a population of more than eight million people.

Edison's gross investment in utility plant totals nearly $9.5 billion. Area generating capacity at peak during 1981 totaled 15,592 megawatts (MW), which included 13,269 MW of Company-owned facilities and 2,323 MW of capacity from other sources. Of the Company-owned facilities, 78% was comprised of oil-and gas-fired generating units. SCE's interest in coal-fired generating units accounted for another 12%, and 7% was in hydroelectric plants. The Company's 80% interest in a nuclear plant accounted for the remaining 3%.

The Company, incorporated in 1909 under the laws of California, is a public utility and its retail operations are subject to regulation by the California Public Utilities Commission which has the authority, among other things, to establish retail rates and to regulate security issuances, accounting and depreciation. The Company's resale operations are subject to regulation by the Federal Energy Regulatory Commission as to rates on sales for resale, as well as to other matters including accounting and depreciation.

Under the National Energy Act, [illegible] Department of Energy has been granted regula[illegible] authority over certain aspects of energy conservation, solar energy development, power plant fuel use, coal conversion, public utility regulatory policy and natural gas pricing.

The Company's planning and siting of new plant construction are subject to the jurisdiction of the California Energy Commission. Edison also is subject to various governmental licensing requirements, to Securities and Exchange Commission filing and disclosure requirements, and to certain other federal, state and local laws and regulations, including those related to nuclear energy and nuclear plant construction, environmental protection, fuel supplies and land use.

Contents

On the Cover

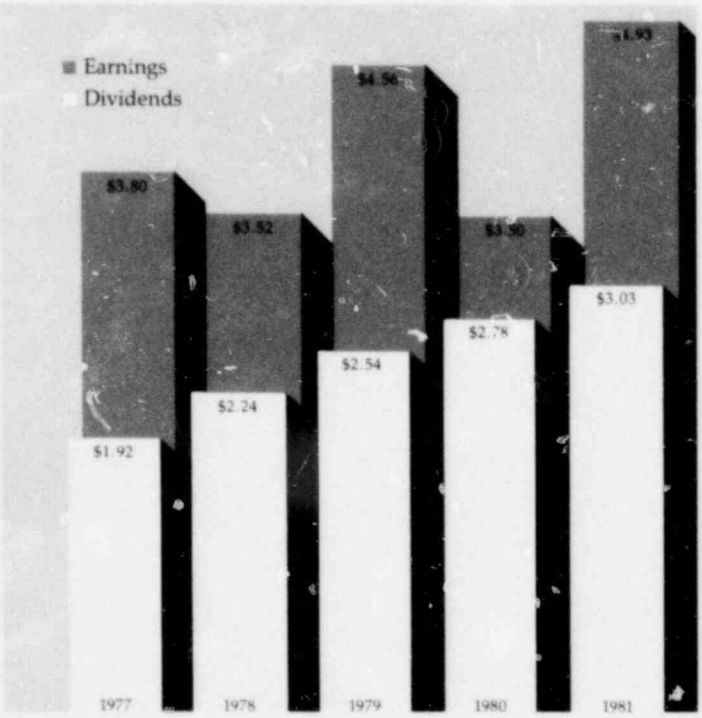
Solar rays reflected from heliostats (mirrors) at solar thermal generating station near Daggett, California, form star-like test pattern in cover photograph. When facility is placed in operation in current year, 1,818 heliostats will concentrate sun's rays on 300-foot high central receiver tower to produce 10 MW of electrical energy. Named Solar One, facility is the largest central receiver solar generating plant ever built and represents a cooperative effort by Edison, the Department of Energy, the Los Angeles Department of Water and Power and the California Energy Commission.

1981 Annual Report

Highlights	1981	1980	% Change	% Five-Year Compound Growth
Earnings Per Share	$4.93	$3.50	40.9%	5.3%
Common Dividends Paid Per Share (a)	$3.03	$2.78	9.0	12.5
Rate of Return on Common Equity	14.87%	10.44%	42.4	3.7
Operating Revenues (000)	$4,054,356	$3,661,117	10.7	17.0
Energy Costs (000)	$2,467,933	$2,371,827	4.1	21.9
Operating Expenses Net of Energy Costs and Taxes on Income (000)	$ 897,403	$ 878,473	2.2	9.7
Kilowatt-Hour Sales (000)	62,451,319	59,915,187	4.2	3.1
Customers Served	3,232,687	3,163,968	2.2	2.8
Area Peak Demand (Megawatts)	13,738	12,841	7.0	4.0
Area Generating Capacity at Peak (Megawatts)	15,592	15,504	0.6	2.1

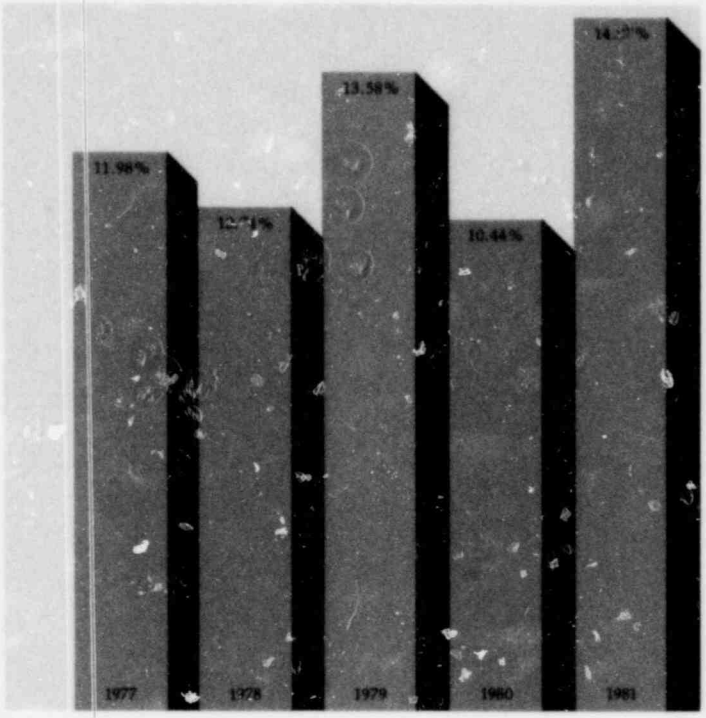
(a) On September 17, 1981, the Company's Board of Directors authorized an increase in the common stock quarterly dividend to $0.81 from $0.74 per share, effective with the October 31, 1981 payment, which is equivalent to $3.24 per share on an annual basis.

Earnings Per Share and Dividends Paid Per Share



The Company's earnings per share of $4.93 for 1981 were the highest recorded in the Company's history, surpassing the previous high of $4.56 per share recorded in 1979. In addition, the 9.5% increase in the common stock dividend, authorized in September, represented the sixth increase in the past five years.

Rate of Return on Common Equity



Rate of return on common equity of 14.87% for 1981 closely approached the Company's authorized return of 14.95%. The California Public Utilities Commission, in authorizing the Company's 1981 general rate increase, also provided for a $92 million attrition allowance in 1982 to help meet inflation-related costs in this non-rate case year.

To Our More Than 190,000 Shareholders:

1981 was a year of record earnings for your Company despite the continued impact of inflation on virtually all phases of our operations. It was also the year in which we set in motion innovative plans to strengthen further our financial integrity over the course of this decade through strict internal cost controls, renewable resources, and practical conservation and load management programs.

Earnings per share improved to $4.93 compared to $3.50 a year ago. This improvement resulted from our increased emphasis on cost control and productivity improvement programs, the timely authorization of the 1981 general rate increase, hot weather-related increased kilowatt-hour sales, and increased non-cash allowances for funds used during construction.

Even though inflation continued in Southern California at near double-digit levels in 1981, Edison's operating expenditures were held to an increase of only 2% during the year through productivity improvement programs and the efforts of our people in adhering to strict operating and maintenance budgets.

In order to support 1981 construction and refunding requirements totaling $1.2 billion, eight major financings were accomplished in spite of the most inflationary and volatile capital market in recent history. To help meet these requirements innovatively, we became the first high quality U.S. utility to enter the European money market and completed three Euro-Debenture issues amounting to $175 million.

Approximately $275 million from our total 1981 financings of $956 million was required for San Onofre Nuclear Units 2 and 3 which at year-end were 99% complete, and 92% complete, respectively. In February 1982, following the close of licensing hearings, the Nuclear Regulatory Commission issued the Company a low-power license for Unit 2, and we expect that a full-power license will be issued in time to permit Unit 2 to begin operation in mid-1982. We expect Unit 3 to be operational in mid-1983.

In keeping with the Company's objective to provide a competitive return to its shareholders and in recognition of our improved earnings, your Board of Directors declared a 9.5% increase in the common stock quarterly dividend by raising the rate, on an annual basis, from $2.96 per share to $3.24 per share. The Board's action represented the sixth dividend increase in the past five years. Over that period, the annual dividend increase has averaged 14%.

Warren Christopher rejoined the Company in 1981 as a Director. He had resigned in 1977 to serve as Deputy Secretary of State and was awarded the Medal of Freedom, the nation's highest civilian award, for his work in helping gain the release of the U.S. hostages in Iran.

In other Board actions, effective January 1, 1982, David J. Fogarty, formerly senior vice president, was elected executive vice president, and John R. Bury, the Company's general counsel, was elected vice president and general counsel.

Projected 1983 increases in operating and maintenance expenses including labor, new revenue requirements associated with changes in tax laws, carrying costs on new facilities, and continuing inflation and increased capital costs resulted in our filing with the California Public Utilities Commission (CPUC) for a general rate increase to produce additional annual revenues of $1.247 billion, effective January 1, 1983. We are seeking an increase in the rate of return on common equity from the 14.95% currently allowed to 19% and an increase in the rate of return on rate base from the present 11.2% to 14%. We are also asking for CPUC support of our resource planning through increased funding for research, development and the demonstration of alternate and renewable energy resources, and for consumer conservation and load management programs. Additionally, we have requested an attrition allowance of $169 million in increased revenues for the 1984 non-rate-case year.

Conservation programs saved more than 4.2 billion kilowatt-hours of electricity during the year, the equivalent of approximately seven million barrels of fuel oil, and successes in load management encouraged us to increase our total load management re-

source commitment from 1,000 megawatts (MW) to 1,400 MW by the end of the decade. Through managed load reductions, we plan to hold growth in electric peak demand to 2% annually, compared to a forecasted demand growth of 2.6% annually without load management. This should result in significant reductions in new plant and capital costs.

Even with reduced load growth, however, Edison will need to construct and/or purchase about 5,860 MW of new resources during the current decade. This is equivalent to approximately 40% of today's existing generating system. Approximately 2,100 MW of these additions are expected to be based on alternative and renewable resources such as hydroelectric, including small hydro (plants of less than 30 MW), cogeneration, wind, solar, geothermal and fuel cell technology.

Our commitment and progress toward accelerating the development of these resources are detailed in the text of this report. It is important to note, however, that the Company is on schedule at this early stage in meeting the alternative resource commitments we initially outlined last year. Hydroelectric power, wind and cogeneration development thus far have been the pacesetters in our shift to renewables. Photovoltaics, geothermal and fuel cells have developed less rapidly than expected.

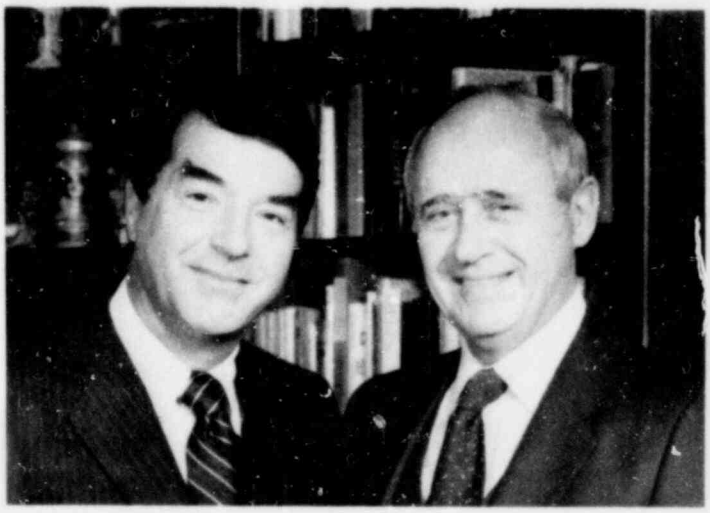
When Solar One, a pilot 10-MW central station solar/thermal generating plant, comes on line this year, it will bring us to the point where we utilize eight primary energy resources—oil, natural gas, coal, hydro, nuclear, wind, geothermal and solar—more than any other electric utility in the world.

As indicated by this diverse list, your Company is actively committed to a decade of technological transition; a decade where we believe strict internal cost controls and productivity programs coupled to renewable resource development at the cutting-edge of technology will provide the needed flexibility to keep pace with a changing social, financial and regulatory climate. In short, we have embarked on a new way of doing business in these difficult and changing times.

Already during the 1980s, we've seen continued improvement in the regulatory environment at the state level and, on the national level, the beginnings of a workable energy policy which relies heavily on free market forces. Last year the Economic Recovery Tax Act was enacted with provisions that should help relieve some of the intense capital pressure on utilities and provide incentives for reinvestment of dividends in utility stocks.

In the face of change, however, the goals of Edison remain unalterably the same... to provide reliable electric service to our customers at a reasonable price and to provide our shareholders with a competitive return on their investment.

We are deeply appreciative of the hard work and innovative skills of our employees in helping us achieve our goals. We thank you, our shareholders, for your support, and we pledge our continuing efforts to earn that support in the future.



Howard P. Allen
President

William R. Gould
Chairman of the Board and Chief Executive Officer

February 18, 1982

Significant accomplishments in a number of important areas related to the Company's operating plan for this decade were achieved during the year.

Paced by strict cost controls and productivity improvement programs, and further helped by rate increases, increased hot weather-related sales and innovative financing, earnings were the highest ever recorded. Record purchases of lower-cost electricity from other utilities supplied over 26% of the Company's energy requirements in 1981 or the equivalent of 31 million barrels of oil.

Company-developed conservation programs continued to encourage more efficient use of electric energy, while commitments in load management were significantly increased to help manage demand growth for the 1980s and beyond. San Onofre Nuclear Units 2 and 3 moved measurably closer to operation and progress was achieved in the accelerated development of alternative and renewable resources.

Together, these results are indices of the success of Edison's efforts in 1981 to reduce its dependence on low sulfur fuel oil, eliminate the adverse financial impact of conventional generating plant development including capital requirements, and economically and efficiently meet the needs of its customers as the decade progresses.

Alternative and Renewable Energy Resources

Progress and achievements during 1981 in Edison's accelerated development of alternative and renewable resources justified a continued sense of optimism. At this early stage, the Company's commitment to utilize renewable resources for about one-third, or 2,100 megawatts (MW), of SCE capacity additions this decade is still on target and achievable.

Hydroelectric

Hydroelectric power is Edison's oldest source of electrical energy (the Company was the third largest U.S. hydroelectric utility in the 1920s) and also the Company's prime source of alternative energy for the 1980s.

Until recently, it had been presumed that all cost-effective hydro sites had already been developed. As other fuel costs have climbed, however, more and more small hydro projects have become feasible. As a result, the Company has scheduled 140 MW of generating capacity by 1990 from small hydro plants of under 30 MW each and 600 MW from large hydro facilities. Together, these additions will almost double the Company's total hydro resources.

Edison completed three small hydro contracts in 1981 totaling 24.5 MW. Small hydro resources totaling 7 MW also were achieved by the upgrading of Units 1 and 2 at Big Creek Plant 4 in December 1981 and January 1982, respectively.

In the area of large hydro development, preliminary engineering is in the early stages for a 200-MW Company-owned unit at Balsam Meadow, near Shaver Lake, with operation scheduled for 1986. Additionally, Edison is continuing to examine the feasibility of purchasing the output of the proposed 284-MW Granite Project as well as the output of the 120-MW Dinkey Creek Project, both located on the west side of the High Sierra.

Cogeneration

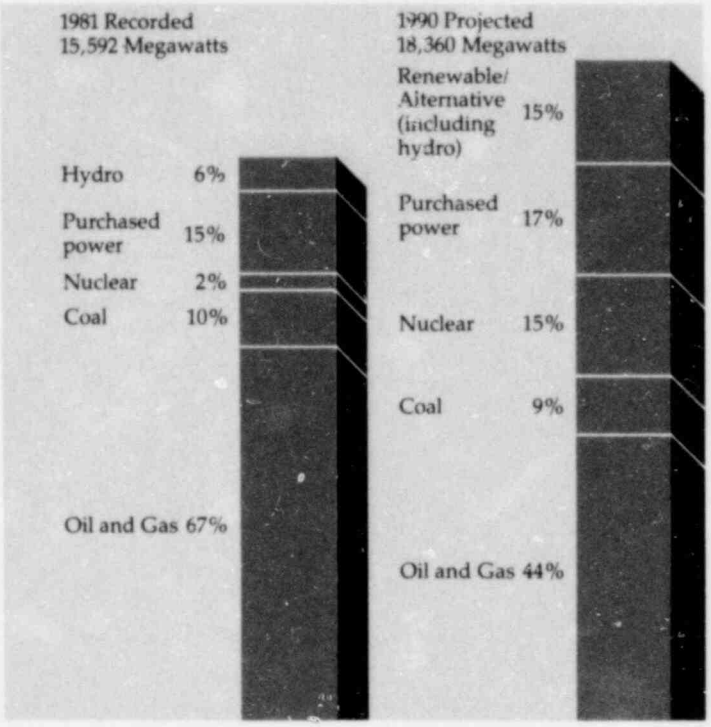
In an effort to conserve energy resources, the Company continued to develop methods of capturing waste heat to produce or cogenerate electricity at large commercial, industrial and residential sites. California's first multi-unit residential cogeneration demonstration project, one of the most innovative of these efforts, was

Technician watches graphic video display of computer-controlled mirrors, or heliostats, in control room of Solar One facility, the world's largest central receiver generating station located in the Southern California desert. Bull's-eye pattern in center of display represents 300-foot central tower receiver where reflected thermal energy from heliostats will be concentrated when the system is placed on-line early this year. Computer places heliostats in mirror-down position when not in use to prevent reflective surface damage.

dedicated in July 1981. The project is located at an apartment complex near Los Angeles and can provide up to 3.9 million kilowatt-hours (KWH) of cogenerated electricity per year to the Edison system.

A total of 156 MW of cogeneration is on line or in the start-up phase of operation. The Company's resource plan calls for 1,000 MW of cogeneration capacity to be operational by the end of this decade of which 500 MW will be a firm resource dedicated to system needs.

Generation Capacity Mix



During the decade of the 1980s, nearly all capacity additions are projected to be derived from nuclear, purchases and alternative and renewable resources. These sources, which represented 23% of the Company's generating capacity in 1981, are projected to comprise approximately 47% by 1990.

Wind

Wind power, like hydro power, can come in both small and large forms. Small wind turbines at privately-owned wind parks in the Tehachapi Mountains and in Riverside County with total outputs of 2 MW and 5.5 MW, respectively, were contracted for the Edison generating system in 1981 following the Company's third-party wind park opportunity announcement in late 1980. Principles of agreement were also reached during the year for an additional 74 MW of both small and large wind turbine energy from other developer-entrepreneurs.

The largest customer-owned wind turbine generator contributing to the Edison system, a 40-KW Mehrkam Induction Unit, was placed in service in 1981 near Lancaster, along with a second 18-KW system integrated into Federal Aviation Administration operations at the Fox Field Airport near Lancaster.

At SCE's Wind Energy Center near Palm Springs, developmental testing of large wind generators also continued during the year. The three-bladed, horizontal axis Bendix/Schachle unit is now undergoing a major modification. It was successfully operated while synchronized to the Edison system, producing 20,000 KWH with output levels of up to 1 MW. A vertical-axis wind turbine generator, which encountered a rotor failure during initial tests by Alcoa last year, is also undergoing redesign for planned operation in late 1982. Additionally, a vertical-axis wind turbine genertor, developed by DAF Indal Ltd., has been procured for testing in 1982.

Edison will continue to pursue wind generation as a viable resource in the current decade even though some early tests have reflected the developmental nature of this new technology, especially in hydraulics and rotor design and in scaling-up from small to large wind units. The goal is 560 MW of wind capacity by the end of the decade, equivalent to 140 MW of firm capacity, a reduction which reflects the resource's intermittent availability.

Geothermal

Geothermal power is the generation of electricity utilizing hot water and steam resources locked beneath the earth's surface. High concentrations of salts inherent in some geothermal resources initially limited cost-effective applications by creating severe scaling and corrosion problems. Progress in materials and process technologies in recent years, however, has reduced these difficulties in generating plant operation. The Company's geothermal resource goal is 375 MW in this decade.

In 1981, Edison's geothermal programs centered on three Company-owned power plants—the 10-MW Brawley unit which has been operating for 18 months with an average capacity factor of 50% and availability in the 80% to 90% range, a 10-MW Salton Sea geothermal project scheduled for completion at mid-year, and the 57-MW Heber dual-flash geothermal plant which is planned for operation in 1984.

Additionally, purchased power negotiations continued during the year with third-party geothermal producers in the U.S. and with Mexico's Comision Federal de Electricdad for up to 260 MW in geothermal purchases to supplement 70 MW already under contract.

Solar

Solar power can be divided into two distinct categories: solar thermal which converts solar energy into steam for electric power generation; and solar photovoltaic, which converts sunlight directly into electrical energy.

During 1981, the Company expanded its efforts to provide 290 MW of solar-generated power by 1990 by pursuing both technologies for central station use to help meet the overall electricity needs of its customers.

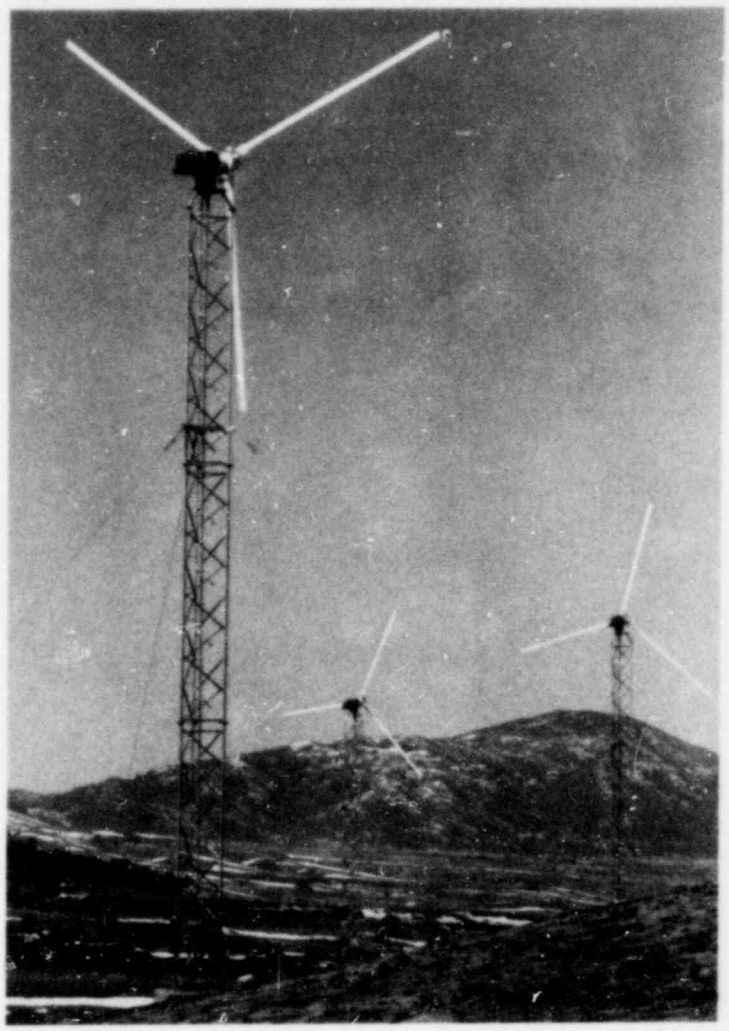
The Company also continued to encourage installation of small, solar-supplemented water and space heating systems which currently are feasible and economical in certain applications.

Solar One, the world's largest central receiver electric power plant at the Cool Water Generating Station site near Daggett, is scheduled for initial operation in the spring of 1982. The 10-MW solar/thermal system is the result of a cooperative effort by Edison, the Department of Energy, the Los Angeles Department of Water and Power, and the California Energy Commission.

Concurrently, conceptual engineering and financial studies are under way for a 100-MW solar thermal central receiver plant. This resource is planned for development at Edison's Lucerne Valley site.

A letter of intent has been signed to purchase electricity from a 10-MW solar parabolic trough project to be located at the Cool Water generating station, and preliminary engineering has begun on a 5-MW solar salt pond generating facility at the Salton Sea. In addition, SCE is working with a private contractor to develop a 25-KW parabolic dish solar project.

Development efforts also continued in the area of solar photovoltaics, with delivery to Edison last April of the first of some 60 solar panels, each containing 228 laser-etched solar cells produced from dendritic-web ribbon. Sites are also being studied near Palm Springs and Barstow for installation of a 3-KW solar photovoltaic experimental system.



Wind turbine generators dot ridges of mile-high Tehachapi Mountains, 100-miles north of Los Angeles. Built by an entrepreneur-developer in response to Edison's 1980 third-party wind park opportunity announcement, units are the first of 40 to 50 small wind turbines, each scheduled to contribute 25- to 50-kilowatts to Edison's system over the next four years.

Fuel Cells

Fuel cells, which convert chemical energy directly into electrical energy, are an environmentally attractive generating source provided that current fuel cell power designs meet the technical and economic objectives of utility users. In this regard, the future of Edison's program will depend upon the degree of success demonstrated by the fuel cell facilities under development with utility support in New York City and in Tokyo, Japan. SCE's goal is 55 MW by 1990.

Other Research and Development

Edison's research and development expenditures in 1981 totaled $43 million. Expenditures of nearly $47 million currently are planned for research and development in 1982, including substantial alternative energy R&D.

The Company's research efforts in 1981 included stepped-up funding support for a demonstration coal gasification facility at Edison's Cool Water Generating Station site. Problems with financial participation by other entities were overcome and construction of the facility began in December. When completed in mid-1984, it will be the nation's first power plant based on coal gasification technology and will initially process 1,000 tons per day of Utah coal to a medium BTU gas for electrical generation.

A comprehensive, one-year study will begin in 1982 at the Company's Huntington Beach Generating Station

to assess a process for the reduction of nitrogen oxides from boiler flue gas. Also, a wood waste gasification demonstration project was initiated during the year to determine the compatibility of burning a wood-derived gas in existing generating stations.

The Company made continued progress in marine biology and its interface with coastal generating plants, including aquaculture in the thermal discharge waters at the Redondo and Ormond Beach Generating Stations and an artificial reef development near Camp Pendleton, California.

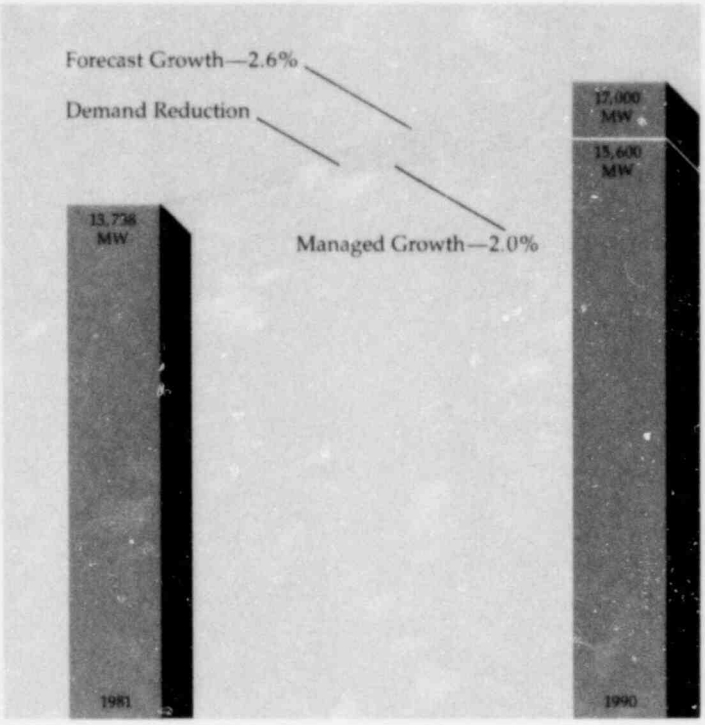
Record Peak Set During Heat Wave

A record area peak demand of 13,738 MW was set on August 27 as a result of heavy air-conditioning loads during the longest period of consistently hot weather in SCE's operating history. The new area peak demand represents a 7.0% increase over the previous 12,841 MW record of July 30, 1980. The annual compound growth in peak demand over the last five years, including the 1981 peak, has been 4.0%.

Target Of 2% Set for Managed Load Growth

To help reduce the rate of growth of annual peak demand and further defer costly new generating plant construction, the Company in 1981 established a managed load growth target of 2% for the 1980s compared to the forecasted peak demand growth of 2.6% without load management. It is noteworthy that the 1981 peak demand exceeded the 2% load growth target for only eleven hours, thus further underscoring the need for load management. The reduced load growth rate, which the Company considers both financially and environmentally prudent in the face of continued inflation, is reflected in Edison's commitment to vigorously pursue load management to decrease demand on its system by 1,400 MW by 1990. Load management programs totaling 425 MW are already in place with the balance planned to be met through the expansion of earlier experiments in load cycling and through several new programs which were successfully demonstrated during the year. Such programs include:

Peak Demand Forecast



The Company is projecting a managed load growth target of 2.0% compared with the forecast growth rate of 2.6% annually. By 1990, load management programs are expected to reduce peak demand by 1,400 megawatts. Holding growth at a 2.0% level with load management should enable the Company to maintain capital requirements at a manageable level.

Residential Air-Conditioning Cycling: For several years, Edison has been evaluating the cycling of residential air conditioners. The intent of this program is to remotely control the use of residential air conditioners during system capacity shortages. More than 16,000 control units were under evaluation in the Company's service territory at year-end. This enabled Edison to determine customer acceptance, communication system and cycling equipment reliability, as well as the overall cost effectiveness of the program.

Based on the results of the program, Edison plans to install over 70,000 load control devices on customers' air conditioners in high temperature climates by 1984. A load reduction of approximately 5 MW was realized from the 1981 program with over 150 MW of load reduction expected from the expansion of the program by 1984.

Demand Subscription Service: This approach to reducing peak demand is the most technologically innovative of Edison's residential load management programs. Demand Subscription Service (DSS) uses remotely-activated load controllers on residential customer meters.

In operation, the customer selects a minimum level of electrical service which will satisfy the customer's basic electrical requirements during utility system capacity shortages. During normal utility operating conditions, the customer has normal electrical service. During periods of system capacity shortages, however, the customer's DSS device is remotely activated and the customer's load cannot exceed the previously agreed upon level of service. If the customer's load exceeds his subscribed service level, the customer's total electrical service is interrupted. To

restore service, the customer must turn off various appliances to lower the load and then reset the DSS device.

The Company's successful test of 2,600 units in 1981 has resulted in plans to install more than 110,000 additional units by the end of 1984. The 1981 test yielded a load reduction of approximately one megawatt. The expanded program is expected to yield over 140 MW of load reduction.

Commercial and Industrial Load Cycling:
During 1981, Edison initiated an experiment in commercial and industrial air-conditioning load control using an AM radio station to remotely activate cycling devices. This is the first load management program in the United States to utilize AM broadcast technology. Approximately 600 commercial and industrial customers were equipped with cycling equipment involving 3,000 air-conditioning units.

These efforts in 1981 resulted in approximately one megawatt of load reduction. Based on these results, the commercial/industrial air-conditioning cycling program will be expanded to approximately 10,000 customers by the end of 1984 which is expected to result in over 60 MW of load reduction.

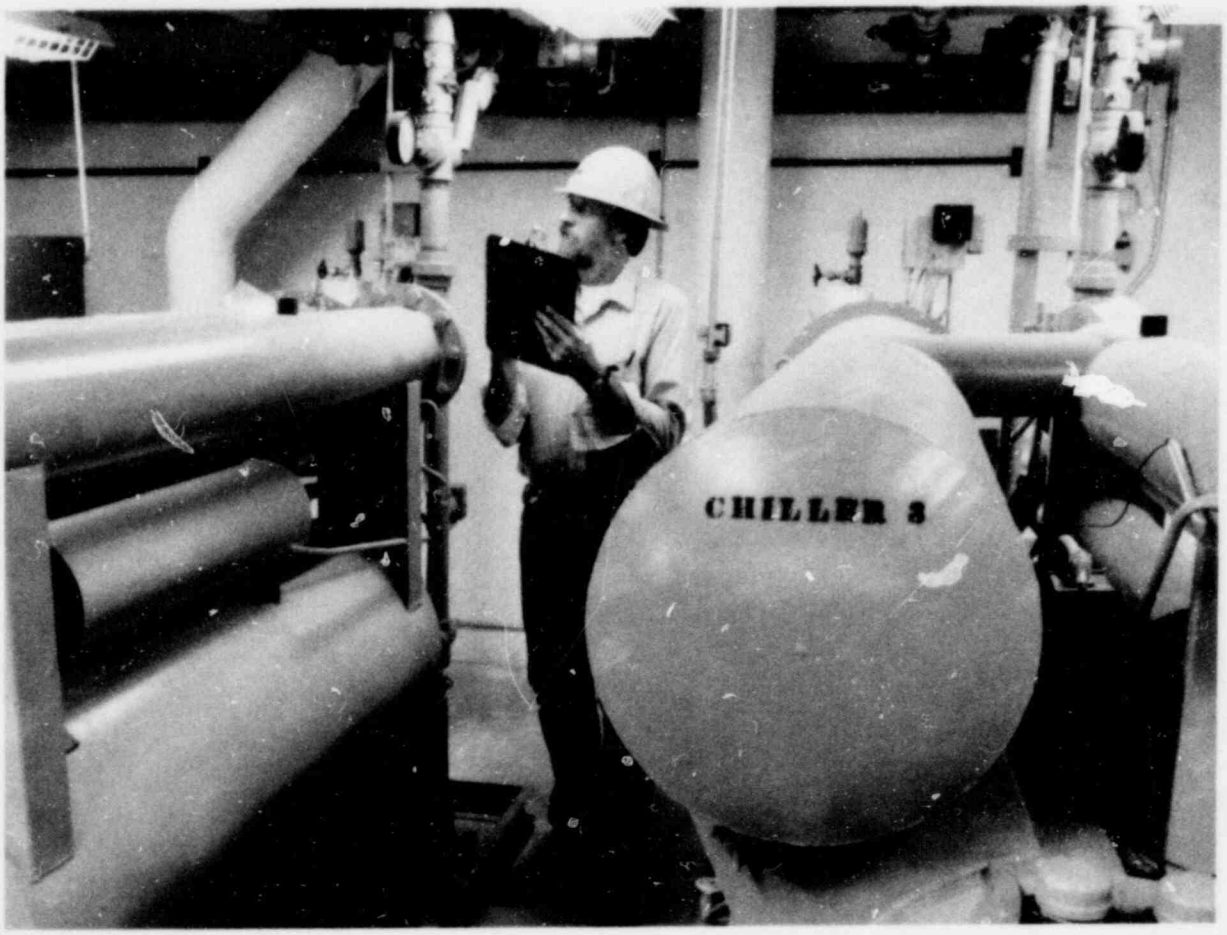
Off-Peak Thermal Storage:
Edison began a program in 1981 that encourages the installation of off-peak cooling systems in large commercial and industrial facilities. These systems chill or freeze water during off-peak periods and store it for air-conditioning use during the hot hours of the day.

Three large customers that began operation in 1981 shifted approximately 3,000 tons of air-conditioning load to off-peak hours of operation. This effort resulted in approximately 3 MW of load reduction for the year. Continued emphasis in the development of off-peak storage applications is expected to result in 14 MW of deferred load by the end of 1984.

Energy Coalition:
The Southern California Energy Coalition, formed in 1979, is an association of four Orange County companies committed to cooperative load management. In 1981, the Coalition signed an operating agreement with Edison for load management and interruptible service under an incentives schedule which resulted in an energy savings of about 4 MW during the year. The U.S. Department of Energy has adopted the concept, calling it "Operation Powerplay."

Conservation Programs Gain Added Momentum

Electric consumption by Edison's 3.2 million customers during the year was 59.6 billion KWH compared to 58 billion



Heat recovery system of California's first multi-unit residential cogeneration demonstration project at a San Dimas apartment complex can provide up to 3.9 million KWH of electricity per year to SCE's system. Edison's resource plan calls for 500 MW of cogeneration capacity to be a firm operational resource by the end of the decade with a total of 156 MW presently on line or in the start-up phase of operation.

KWH in 1980. Conservation programs were a primary factor in holding total electric consumption by Edison's residential customers to a 1.3% growth rate in 1981 even though air conditioning usage was at a high level due to record summer temperatures and despite the fact that new residential customers in the Company's service territory during the year increased by 59,279 or 2.1%.

Customer conservation efforts in 1981 and the higher cost of electricity held average annual KWH residential consumption to 5,879 KWH compared to 5,939 KWH per customer in 1980.

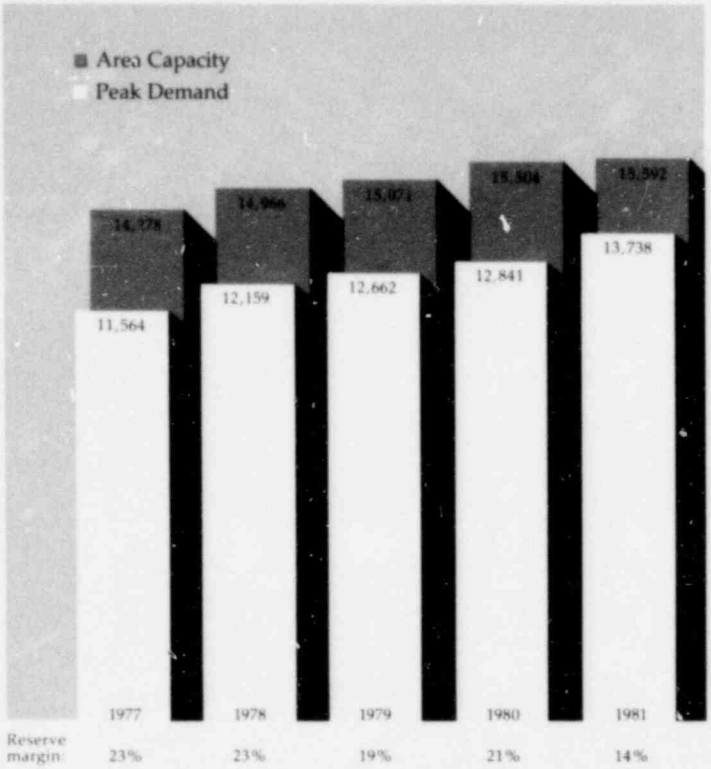
Customer response to the Company's conservation programs and Edison's own efforts in voltage regulation, distribution circuit management and streetlight conversion in 1981 resulted in savings of more than 4.2 billion KWH of electricity, the equivalent of about seven million barrels of expensive fuel oil. The streetlight conversion program reached a 50% completion level in 1981, with a total savings to date of more than 75 million KWH through the change to high-pressure sodium-vapor lamps.

New conservation programs implemented in 1981 included Residential Conservation Service, low and zero interest financing of conservation hardware, and solar water heater backfits.

The Residential Conservation Service is a federally-mandated program enforced through a state plan which offers comprehensive in-home energy surveys to recommend conservation actions to residential customers. In 1981, Edison became the first utility to implement this program in California, logging more than 28,000 home energy audits by year-end.

A Zero Interest Loan Program (ZIP) for financing residential conservation investments was pioneered in Edison's Eastern Desert service area to assist customers with high bills. By year-end, more than $2 million in zero interest loans had been committed, and Edison became the first California utility to have 1,000 ZIP loans granted to its customers. Conservation measures recommended for ZIP financing are identified during the Residential Conservation Service home energy survey.

Area Capacity and Peak Demand (in megawatts)



A record peak demand of 13,738 megawatts occurred on August 27, 1981, representing a 7% increase over the peak set in 1980. The 1981 peak exceeded the 2% growth target in large part because of a record summer heat wave during which Southern California experienced 84 consecutive days in which the temperature exceeded 80 degrees.

A solar incentive program was initiated during the year to encourage energy-conserving retrofit installation of solar water heating systems on existing electric water heaters. Qualifying customers are eligible for a $720 rebate on systems which meet regulatory requirements. A 1981 heat pump water heater demonstration program offered an alternative where solar panel applications were not practical.

The Company initiated the "Conservation Means Business" program which involves contractors in the selling of conservation. The program provides incentives to contractors and lighting distributors who sell energy-efficient lighting systems, and heating/air-conditioning contractors who sell maintenance agreements and economy cycling equipment to commercial and industrial customers. By year-end, more than 1,000 participants representing 300 contracting firms were involved in the program.

In 1981, non-residential audit efforts helped businesses save 1.2 billion KWH of electricity.

John and Alice Tyler Ecology/Energy Prize: In 1981, Edison became the first corporate winner in the eight-year history of the prestigious John and Alice Tyler Ecology-Energy Prize. The Company received the honor for achievements in conservation and for its commitment to aggressively develop renewable and alternative energy sources. The Prize was commenced in 1973 by the late John C. Tyler, founder and former chairman of the Farmers Insurance Group, and his wife, Alice C. Tyler. Edison directed that its $100,000 prize be presented in equal amounts to the University of Southern California and the California Institute of Technology.

Technicians monitor control room instruments during startup activities of San Onofre Nuclear Unit 2 prior to initial fueling. Unit 2 is scheduled to be operational in mid-1982. San Onofre Nuclear Unit 3, which is 92% complete, is scheduled to begin operation in mid-1983. In full operation, the two units will join Unit 1, on-line at the same site since 1968, to produce a total Edison-owned output of 2,000 MW of electricity, enough energy to supply a city the size of Los Angeles.

Generation Resources for the 1980s
Even with the combined impact of Edison's conservation and load management programs, the Company projects a need for 5,860 MW of new generating capacity for this decade to meet the electricity needs of its customers. This generation requirement is equal to about 40% of current Company-owned facilities and will be supplied by 2,340 MW of nuclear capacity, 1,420 MW of purchases, and 2,100 MW of alternative and renewable technologies.

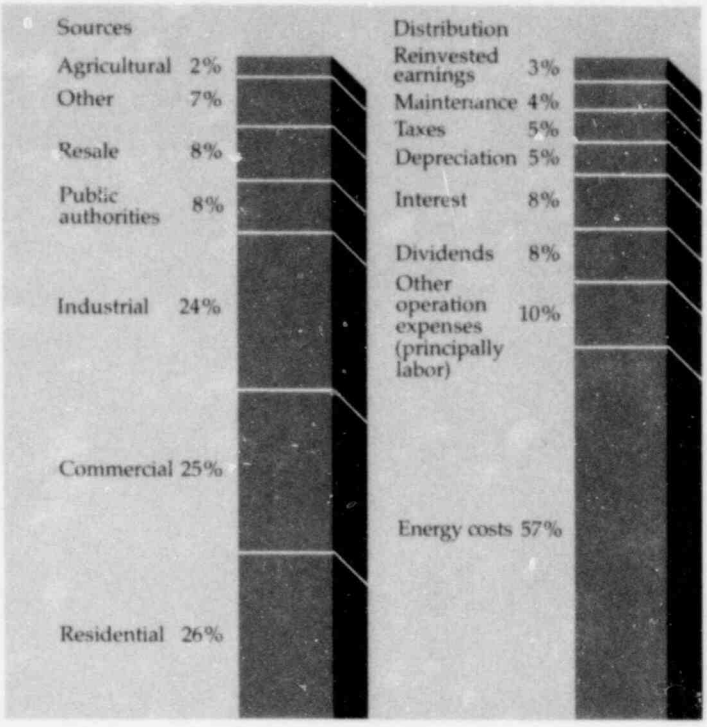
Nuclear Units Approach Completion
In January of 1982, the Atomic Safety and Licensing Board rendered a favorable decision on seismic issues and matters relating to the low-power operation of San Onofre Nuclear Units 2 and 3. The decision provided a basis for the Nuclear Regulatory Commission's issuance of a low-power license in February. A full-power operating license is expected in time to permit Unit 2 to begin operation in mid-1982. Unit 3 is scheduled to follow a year later.

Unit 1 at San Onofre was returned to service in early November after equipment repairs were completed. The unit has operated at approximately 90 percent of rated capacity since that time. Unit 1 was originally placed in service in January 1968.

Subject to regulatory approvals, the City of Anaheim purchased an additional 1.5% ownership interest in Units 2 and 3 in 1981. The Company's ownership interest in Unit 1 at San Onofre remains at 80%. Edison's interest in Units 2 and 3 will be reduced to 75.05% when the sale to the City of Anaheim is completed. SCE's total megawatt ownership in the three units is 2,000 MW.

Edison also has a 15.8% interest totaling 579 MW in three 1,222-MW units being constructed at the Palo Verde Nuclear Generating Station near Phoenix, Arizona. Construction is more than 70% complete, and operation is scheduled for the 1983–1986 period.

1981 Sources and Distribution of Income



Energy costs, which in 1981 accounted for 57 cents out of every dollar of revenue collected by the Company, are recoverable under the Energy Cost Adjustment Clause procedure and should have no impact on earnings.

Ivanpah Coal Project
Edison anticipates the addition of approximately 1,200 MW by 1993 from its 80% share in the 1,500-MW California Coal Project. The coal-fired generating station is planned to be located in Ivanpah Valley in the Eastern California desert.

Purchased Power Resources
Edison continued to actively pursue the acquisition of non-capital generation resources in an effort to reduce the large amount of capital required for annual construction programs, and to further reduce dependence on expensive foreign oil. As opportunities arise, the Company plans to continue to purchase generating resources constructed and owned by others in an effort to reduce the need for capital expenditures.

In 1981, a capacity exchange agreement was completed with California's Department of Water Resources (CDWR) which will make 225 MW of generation capacity available to the Company during peaks with the energy returned to the Department during off-peak periods. The contract brings Edison's total capacity purchases with CDWR to 695 MW.

Fuel and Purchased Power Costs
Fuel and purchased power costs for 1981 totaled $2.6 billion, as compared with $2.0 billion in 1980. Fuel oil consumption during the year was 23.6 million barrels, down from 30.2 million barrels in 1980. This was primarily due to record power purchases of approximately 18.4 billion KWH in 1981, equivalent to 31 million barrels of oil, and the availability of more than 244 billion cubic feet of natural gas, equivalent to 42 million barrels of oil, the largest available quantity since 1970.

Although a surplus of conventional fuel oil exists in today's world market, Southern California utilities are required to burn a very low sulfur oil to meet local air pollution standards.

This low-sulfur fuel oil continues to command a premium price and has limited availability in world markets. Moreover, contrary to earlier projections, natural gas has largely supplanted the Company's use of fuel oil and even though less costly than oil, its price has increased substantially. As a result, fuel costs continued to rise, but remained below levels that could have been expected if natural gas had not been available.

Amended Federal Fuel Use Law
In 1981, Congress amended the Powerplant and Industrial Fuel Use Act of 1978 to remove prohibitions on the use of natural gas as a primary energy source in existing powerplants. Formerly, the Act limited the amount of natural gas an existing powerplant could use prior to January 1, 1990, to a percentage of the gas consumed during the base period of 1974–1976, and prohibited the use of natural gas in existing powerplants thereafter. Had this Act not been amended, Edison's future costs could have increased substantially.

Economic Recovery Tax Act of 1981
Changes made by the Economic Recovery Tax Act of 1981 (Tax Act) will improve the Company's cash flow and the quality of earnings in 1983.

Provisions of the Tax Act include: (1) normalized accounting for the tax benefits derived from accelerated cost recovery depreciation on plant placed in service subsequent to December 31, 1980; and (2) normalized accounting for the full 10% Investment Tax Credit.

The California Public Utilities Commission (CPUC), in conformance with provisions of the Tax Act, has issued an interim order authorizing utilities to comply with provisions of the Tax Act in establishing rates in rate proceedings. The Company's 1983 general rate filing reflects the provisions of the Tax Act.

1983 General Rate Request
As a result of continued increases in costs of providing electric service, Edison prepared and filed during the year an application with the CPUC for a general rate increase to be effective in 1983.

The request, if approved, would raise annual Company revenues in 1983 by $1.247 billion and by an additional $169 million in the 1984 non-rate-case year. The increase is made necessary by high interest rates and capital costs, increased operation and maintenance expenses including labor, recent federal tax law changes and construction and carrying costs associated with the need to provide facilities to serve new customers.

CPUC rate-case procedures call for a 12-month time period during which extensive public hearings are held and expert witness testimony is taken.

Jack K. Horton Humanitarian Award
Sixteen Edison employees were the first recipients in 1981 of the Jack K. Horton Humanitarian Awards which were established in 1980 to recognize acts of courage and initiative by Edison people. Gold medals were presented to three employees who endangered their own lives while saving the lives of others. A total of seven silver medals were presented for other heroic acts. Bronze medals were presented to six additional employees for humanitarian contributions ranging from apprehension of a thief to long-term involvement with handicapped youngsters.

Affirmative Action Progress Continues
Increases in the representation of females and minorities in the work force continued during the year. Edison's minority representation increased from 24.8% at the beginning of 1981 to 25.4% at year-end. During the same period, female representation increased from 20.2% to 20.6%. During the five-year period from year-end 1976 through year-end 1981, minority representation in the work force increased from 17.9% to 25.4%, and females from 16.7% to 20.6%.

Edison's Procurement Division also continued efforts in 1981 to increase opportunities provided to Minority Business Enterprises (MBE). Since the Company's Minority and Small Business Development Program was formally introduced in 1979, the number of MBEs qualified to provide goods and services to Edison has increased by 72%, and the number of opportunities provided annually has increased 330% over the past three years.

Percentage of Male, Female and Minority Employees at Year-End 1976 and 1981

	Male % Year-End		Female % Year-End		Black % Year-End		Asian American % Year-End		American Indian % Year-End		Hispanic % Year-End		Total Minorities % Year-End	
	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981	1976	1981
Management[1]	92.9	86.3	7.1	13.7	1.8	3.2	3.6	5.1	0.6	0.5	4.3	6.7	10.3	15.5
Non-Management[2]	79.2	76.0	20.8	24.0	6.7	8.9	1.7	3.1	0.8	1.0	11.9	17.3	21.2	30.2
Total Company[3]	83.3	79.4	16.7	20.6	5.3	7.0	2.3	3.7	0.7	0.8	9.6	13.8	17.9	25.4

(1) Management employees include the "Officials and Managers" and "Professionals" Affirmative Action Categories.

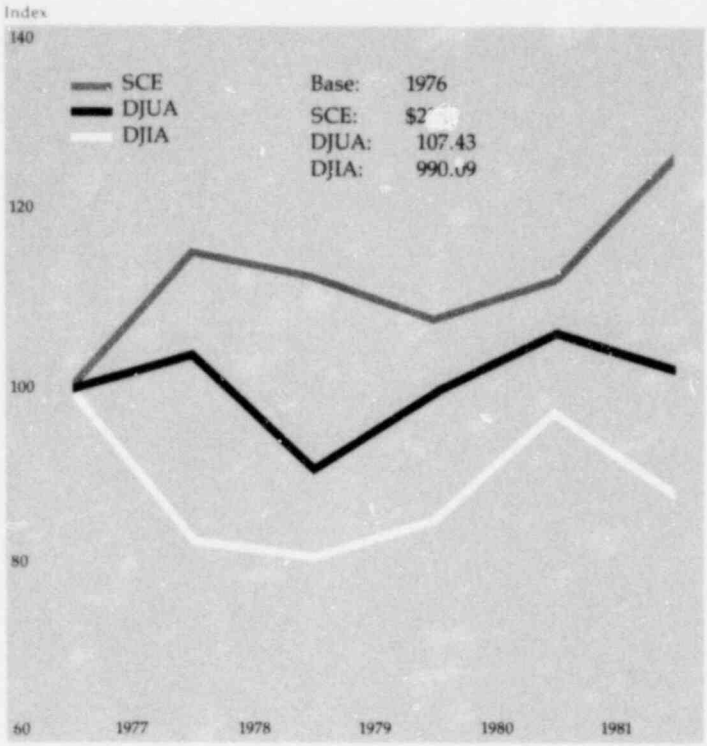
(2) Non-Management employees include the "Technicians," "Office and Clerical," "Craftsmen," "Operators," "Laborers" and "Service Workers" Affirmative Action Categories.

(3) Includes all classes of employees.

Financial Review

The events and occurrences which had a significant impact on the Company's financial condition during 1981 are highlighted in the following discussion. Also addressed are certain items which the Company believes will have an impact in 1982 and beyond. A more detailed review of the factors affecting the Company's operations during 1981 is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 32 of this report.

Common Stock Price Comparison (year-end)



The Company's common stock price has performed well during the past five years compared with the Dow Jones Industrial and Dow Jones Utility Averages. The Company attributes much of this favorable performance to an aggressive dividend policy, the commitment to developing alternative and renewable resources and improved earnings which reflect the implementation of stringent and effective cost control and productivity programs.

Earnings Summary

Earnings per share for 1981 were a record $4.93, surpassing the previous high of $4.56 recorded in 1979 and representing a significant improvement over the depressed earnings of $3.50 per share recorded in 1980. The 41% increase in earnings per share for 1981 reflected:

- the results of stringent and effective cost control and productivity measures implemented by the Company
- increased kilowatt-hour sales primarily attributable to a record summer heat wave during which Southern California experienced 84 consecutive days of temperatures exceeding 80 degrees
- higher non-cash allowances for funds used during construction, and
- the favorable impact of a general rate increase granted on January 1, 1981.

Despite inflation and a sluggish economy, rate of return on common equity for the year 1981 was 14.87%, which favorably compares to the 14.95% allowed by the California Public Utilities Commission (CPUC) and to the 10.44% earned in 1980. The Company's cost control and productivity efforts contributed significantly to the improvement in rate of return on common equity in 1981.

Revenues for 1981 totaled $4.05 billion, an increase of $393 million, or 10.7%, over 1980 recorded revenues of $3.66 billion. In addition to the impact of the general rate increase and higher weather-related kilowatt-hour sales, the increase in 1981 revenue reflects rate increases granted under the Energy Cost Adjustment Clause (ECAC) procedure to provide for the recovery of increased fuel and purchased power costs.

Dividend Rate Increased

In keeping with the Company's objective to provide a competitive return to its shareholders, the Board of Directors on September 17, 1981, authorized a 9.5% increase in the common stock quarterly dividend rate. On an annual basis, the Board's action raised the dividend rate to $3.24 per share, marking the sixth increase in the dividend rate in five years, representing a compound annual increase during that time of 14%. At year-end, the dividend was providing an 11.3% yield on common stock market value of $28.75 per share.

Rate Increases and Adjustments

General Rate Increase—The CPUC granted the Company a general rate increase of $294 million, effective January 1, 1981. This increase was authorized to cover substantial inflationary increases in operating and capital costs, along with additional expenses for customer conservation programs. In its 1981 general rate decision, the CPUC also addressed the adverse impact of inflation on the Company's financial condition in the 1982 non-rate-case year by authorizing the Company an additional base rate increase of $92 million, effective January 1, 1982. This increase was placed in effect on schedule.

Energy Cost Adjustments—During the course of a year, the Company is subject to fluctuations in both the availability and price of fuel oil, natural gas and purchased power. Under the ECAC procedure, electric rates may be

adjusted up or down three times annually to reflect changes in the cost of fuel and purchased power used to generate electricity. Energy costs above or below those used in the established rates are accumulated in a balancing account, and the accumulated amount is reflected in succeeding rate adjustments. Although cash flow can be affected for relatively short periods of time, the ECAC procedure has the effect of preventing fluctuations in earnings as a result of changes in energy costs.

During 1981, the following ECAC-related rate adjustments were authorized by the CPUC:

- an ECAC rate decrease of $194 million annually, effective January 1, 1981, and
- a $318.3 million annualized increase, effective October 25, 1981.

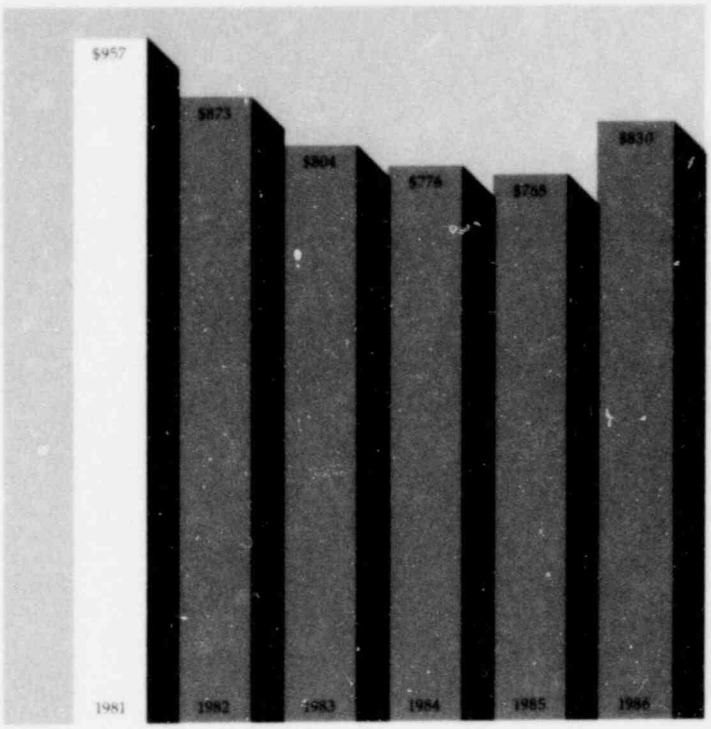
The net annualized increase in ECAC-related revenues for the year 1981 was $124.3 million. Effective January 5, 1982, the Company was authorized a $172 million increase in ECAC revenues for the four-month period ending April 30, 1982.

Resale Rates—On December 16, 1980, the Company filed an application with the Federal Energy Regulatory Commission to increase rates for electricity sold to resale customers, such as Anaheim and Riverside, which resell this electricity to their own customers. These rates, which went into effect on July 16, 1981, subject to refund, are designed to increase revenues by $16.7 million on an annual basis.

Financing the Construction Program

A record amount of new capital, $956 million, was raised in 1981 to fund the Company's continuing construction program. During 1981, the Company sold eight security issues in addition to the ongoing sales of common stock through the Dividend Reinvestment and Stock Purchase Plan, the Employee Stock Purchase Plan and the Employee Stock Ownership Plan. Details of these issues are provided in the accompanying table.

Funds Required for Construction (in millions)



With San Onofre Nuclear Units 2 and 3 scheduled for completion in 1982 and 1983, respectively, and the Company's lower growth rate projections reducing the need for costly new plant additions, construction expenditures are projected at more manageable levels for the 1982 through 1986 timeframe.

Interest rates which reached record highs and were extremely volatile during the year made the selection and timing of financings extremely important. For example, to take advantage of rates below those prevailing in the domestic bond market, the Company entered the European market on three occasions during the year. In the second quarter of 1981, the Company sold two $50 million debt offerings in the European market and in the fourth quarter, sold a $75 million debt offering. All of these issues were placed at rates below levels existing in the domestic market.

Also, on December 1, the Company completed its eighth and final major financing of 1981, a $200 million issue of 30-year mortgage bonds at an interest rate of 15¾%. The Company postponed this offering from the scheduled October 27 issue date when long-term interest rates reached 18½%. Deferring the issue until December 1 enabled the Company to save more than $5 million annually in interest costs.

In addition, the Company issued pollution control equipment bonds on two occasions during the year. These tax-exempt financings also allowed the Company to take advantage of lower rates.

Reflecting the $956 million of total capital raised in 1981, Edison's capital structure at year-end 1981 was as follows: 47.3% debt, 12.0% preferred and preference stock, and 40.7% common equity.

In 1982, funds required for the Company's construction expenditures are projected at $873 million. For the five-year period 1982 through 1986, funds required for construction expenditures are projected to total $4.0 billion.

The first financing of 1982, $176,800,000 of tax-exempt pollution control bonds with a 10% interest rate, was placed on January 26. Also, the Company offered on February 17, 1982, 5 million shares of common stock at a public offering price of $28⅝ per share, raising approximately $139 million in net proceeds. In addition, the Company's financing plans for 1982 include mortgage bonds and possibly preferred stock, as well as again pursuing the European market as a source of new capital.

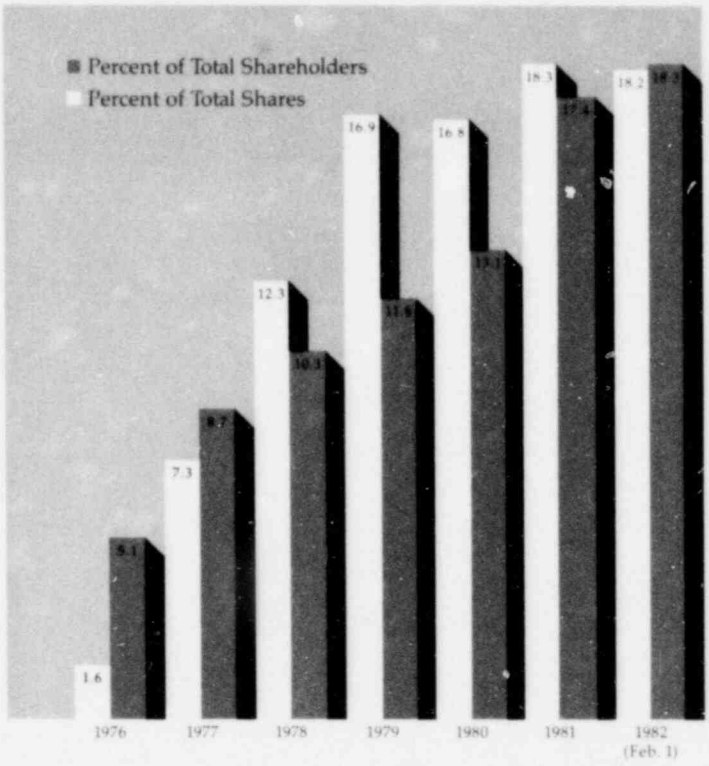
Dividend Reinvestment Plan

Under provisions of the Economic Recovery Tax Act of 1981, shareholders who reinvest dividends in qualified public utility companies may exclude up to $750 of dividends per year ($1,500 on a joint return) from current taxable income. This provision applies to dividends distributed in the years 1982 through 1985. This change has begun to increase participation in the Dividend Reinvestment Plan.

At the end of 1981, approximately 26,600 shareholders, or about 17.4% of the eligible holders of Edison's common stock, were participating in the Dividend Reinvestment and Stock Purchase Plan (DRP). At year-end 1981, approximately 16.0 million shares were enrolled in DRP representing 18.3% of the total number of shares outstanding. During 1981, DRP participants purchased approximately 1.9 million shares by reinvesting over $47 million of dividends and optional payments.

As of February 1, 1982, approximately 27,900 shareholders, representing 18.3% of eligible shareholders, were participating in DRP. At that time, approximately 15.9 million shares were enrolled in DRP, representing 18.2% of the total number of shares outstanding.

Dividend Reinvestment and Stock Purchase Plan



Participation in the Dividend Reinvestment and Stock Purchase Plan has increased to approximately 27,900 participating shareholders as of February 1, 1982, representing an increase of approximately 7,900 participants since year-end 1980. The increase in participation is attributable to provisions of the Economic Recovery Tax Act of 1981, which for the years 1982 through 1985 excludes from current-year taxable income up to $750 of dividends ($1,500 on a joint return) reinvested in qualified public utility companies.

1981 Financings:

Month	Issue	Term	Coupon Rate	Amount (Millions)
January	Common Stock— 8,000,000 shares @ $24⅜			$189
March	Pollution Control Bonds— Four Corners Generating Station	3 Years	8⅛%	93
March	Euro-Debentures	6 Years	14%	50
May	First & Refunding Mortgage Bonds	10 Years	15¼%	200
June	Euro-Debentures	7 Years	14¾%	50
July	Pollution Control Bonds— Huntington Beach Generating Station	40 Years	10¾%	8
October	Euro-Debentures	5 Years	16¾%	75
December	First & Refunding Mortgage Bonds	30 Years	15¾%	200
Ongoing	Dividend Reinvestment and Stock Purchase Plan			47
	Employee Stock Purchase Plan			28
	Employee Stock Ownership Plan			16
Total				$956

Responsibility for Financial Statements

The management of Southern California Edison Company has prepared and is responsible for the financial statements and the other related financial data contained in this Annual Report. The financial statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

To meet its responsibilities with respect to financial information, the Company maintains a system of internal accounting controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records properly reflect the authorized transactions of the Company. This system is supported by written policies and procedures, organization structures that provide for appropriate division of responsibility, the selection and training of qualified personnel and is augmented by programs of internal audits. There are limits inherent in all systems of internal accounting control based on the recognition that the cost of such system should not exceed the benefits to be derived. The Company believes its system of internal accounting control appropriately balances this cost-benefit relationship.

An independent examination of these financial statements has been conducted by Arthur Andersen & Co., independent public accountants, in accordance with generally accepted auditing standards. In connection therewith, the independent accountants develop and maintain an understanding of the Company's accounting and financial controls, and conduct such tests and related procedures as they deem necessary to render their opinion as to the fairness of the financial statements.

The Audit Committee of the Board of Directors, composed entirely of directors who are not officers or employees of the Company, meets periodically with the management of the Company, the independent public accountants and the internal auditors to make inquiries as to the manner in which the responsibilities of each are being discharged. In addition, the Audit Committee recommends to the Board of Directors the annual appointment of the independent public accountants with whom the Audit Committee reviews the scope of the audit and the nature of other services provided as well as the related fees, the accounting principles being applied by the Company in financial reporting, the scope of internal financial auditing procedures, and the adequacy of internal accounting controls.

To further assure independence in performing and reporting the results of audits, representatives of the independent public accountants and the Company's staff of internal auditors have full and free access to meet with the Audit Committee, without members of Company management being present, to discuss any accounting, auditing, or financial reporting matter.

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 capital stock and long-term debt of Southern California Edison Company (a California corporation, hereinafter referred to as the "Company"), as of December 31, 1981 and 1980, and the related statements of income, earnings reinvested in the business, additional paid-in capital and sources of funds used for construction expenditures for each of the three years in the period ended December 31, 1981. 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, and also included similar examinations of the financial statements for each quarter within each of the years.

In our opinion, the financial statements referred to above present fairly the financial position of the Company as of December 31, 1981 and 1980, 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, 1981, and further, in our opinion, the quarterly financial data set forth in Note 7 of "Notes to Financial Statements" summarize fairly the results of operations for each quarter within such years, all in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Los Angeles, California
February 5, 1982

ARTHUR ANDERSEN & CO.

Statements of Income

		Thousands of Dollars		
		Year Ended December 31,		
		1981	1980	1979
Operating Revenues:	Sales *(Notes 1 and 2)*	$4,026,548	$3,631,373	$2,553,126
	Other	27,808	29,744	10,848
	Total operating revenues *(Note 7)*	4,054,356	3,661,117	2,563,974
Operating Expenses:	Fuel	2,078,393	1,729,552	1,433,658
	Purchased power *(Note 9)*	479,813	280,675	99,245
	Provision for energy cost adjustments *(Notes 1 and 4)*	(90,273)	361,600	(188,880)
	Subtotal—energy costs	2,467,933	2,371,827	1,344,023
	Other operation expenses *(Notes 2, 5, 6 and 9)*	441,939	392,593	322,191
	Maintenance *(Note 1)*	193,397	228,269	177,407
	Provision for depreciation *(Note 1)*	202,182	187,959	178,637
	Taxes on income—current and deferred *(Notes 1 and 4)*	197,865	38,683	100,292
	Property and other taxes *(Note 4)*	59,885	69,652	56,428
	Total operating expenses *(Note 8)*	3,563,201	3,288,983	2,178,978
Operating Income *(Note 7)*		491,155	372,134	384,996
Other Income and Income Deductions:	Allowance for equity funds used during construction *(Note 1)*	162,879	121,488	92,019
	Interest income	39,025	33,889	22,860
	Other—net *(Notes 1 and 4)*	68,157	31,882	24,879
	Total other income and income deductions	270,061	187,259	139,758
Total Income before Interest Charges		761,216	559,393	524,754
Interest Charges:	Interest on long-term debt	271,324	227,163	179,626
	Other interest and amortization *(Note 1)*	69,653	55,493	25,456
	Total interest charges	340,977	282,656	205,082
	Allowance for debt funds used during construction *(Note 1)*	(69,673)	(40,799)	(26,547)
	Net interest charges	271,304	241,857	178,535
Net Income *(Note 7)*		489,912	317,536	346,219
Dividends on Cumulative Preferred and Preference Stock		67,888	60,950	53,738
Earnings Available for Common and Original Preferred Stock		$ 422,024	$ 256,586	$ 292,481
Weighted Average Shares of Common and Original Preferred Stock Outstanding and Common Stock Equivalents (000)		85,610	73,241	64,202
Earnings Per Share:	Primary *(Notes 1 and 7)*	$4.93	$3.50	$4.56
	Fully diluted *(Notes 1 and 7)*	$4.91	$3.48	$4.39
Dividends Declared Per Common Share		$3.10	$2.84	$2.60

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

Southern California Edison Company

Balance Sheets

Assets		Thousands of Dollars December 31, 1981	1980
Utility Plant:	Utility plant, at original cost *(Notes 1, 2 and 8)*	$6,115,484	$5,785,200
	Less—Accumulated provision for depreciation *(Notes 1 and 8)*	2,015,212	1,840,233
	Net utility plant	4,100,272	3,944,967
	Construction work in progress *(Notes 5 and 8)*	3,377,644	2,600,460
	Nuclear fuel, at amortized cost	24,542	20,649
	Total utility plant	7,502,458	6,566,076
Other Property and Investments:	Real estate and other, at cost—less accumulated provision for depreciation	9,194	9,754
	Subsidiary companies *(Note 1)*	124,558	96,757
	Total other property and investments	133,752	106,511
Current Assets:	Cash and temporary cash investments *(Note 3)*	10,409	7,642
	Receivables, less reserves of $10,682,000 and $8,005,000 for uncollectible accounts at respective dates *(Note 1)*	306,267	288,979
	Fuel stock, at cost *(First-in, First-out) (Note 3)*	579,633	593,008
	Materials and supplies, at average cost	63,197	48,942
	Regulatory balancing accounts—net *(Notes 1 and 4)*	39,441	—
	Accumulated deferred income taxes—net *(Notes 1 and 4)*	4,872	29,343
	Prepayments and other (taxes, insurance, etc.)	38,943	54,040
	Total current assets	1,042,762	1,021,954
Deferred Charges:	Unamortized debt expense *(Note 1)*	22,368	18,880
	Other deferred charges	27,203	20,477
	Total deferred charges	49,571	39,357
		$8,728,543	$7,733,898

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

Capitalization and Liabilities		Thousands of Dollars December 31, 1981	1980
Capitalization:	Preferred Stock—subject to mandatory redemption/repurchase requirements:		
	Cumulative Preferred Stock	$ 337,500	$ 337,500
	Preference Stock	62,000	62,000
	Preferred Stock—other:		
	Original Preferred Stock	4,000	4,000
	Cumulative Preferred Stock	458,755	458,755
	Preference Stock	13,553	19,897
	Common Stock, including additional stated capital	776,523	673,921
	Other Shareholders' Equity:		
	Additional paid-in capital	953,268	763,519
	Earnings reinvested in the business	1,238,317	1,092,137
	Long-term debt *(Note 1)*	3,444,080	2,945,824
	Total capitalization	7,287,996	6,357,553
Current Liabilities:	Accounts payable	360,018	356,340
	Commercial paper payable *(Note 3)*	266,500	164,975
	Notes payable to banks *(Note 3)*	28,687	19,998
	Current maturities of long-term debt	121,025	143,548
	Customer refunds	3,939	66,160
	Taxes accrued *(Note 4)*	61,774	121,916
	Interest accrued	85,089	66,124
	Customer deposits	12,518	11,242
	Dividends declared	75,036	60,292
	Regulatory balancing accounts—net *(Notes 1 and 4)*	—	37,518
	Other	72,330	26,167
	Total current liabilities	1,086,916	1,074,280
Commitments and Contingencies *(Notes 2 and 9)*			
Reserves and Deferred Credits:	Customer advances and other deferred credits	66,697	63,652
	Accumulated deferred income taxes and investment tax credits *(Notes 1 and 4)*	247,711	198,476
	Reserves for pensions, insurance, etc. *(Note 6)*	39,223	39,937
	Total reserves and deferred credits	353,631	302,065
		$8,728,543	$7,733,898

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

Southern California Edison Company

Statements of Sources of Funds Used for Construction Expenditures

		Thousands of Dollars		
		Year Ended December 31,		
		1981	1980	1979
Funds Provided By—				
Operations:	Net income *(Note 7)*	$489,912	$317,536	$346,219
	Non-cash items in net income—			
	Depreciation *(Note 1)*	202,182	187,959	178,637
	Allowance for debt and equity funds used during construction *(Note 1)*	(232,552)	(162,287)	(118,566)
	Investment tax credits deferred—net *(Notes 1 and 4)*	47,386	25,235	45,533
	Other—net	3,701	29,271	7,136
	Total funds from operations	510,629	397,714	458,959
	Dividends	(336,546)	(273,312)	(221,400)
	Total funds from operations—reinvested	174,083	124,402	237,559
Long-term Financing:	Sales of securities—			
	Long-term debt	634,435	350,000	355,000
	Preferred stock	—	75,000	127,500
	Common stock (a)	292,356	258,607	62,002
	Reduction of long-term debt—current maturities	(121,025)	(143,548)	(84,544)
	Conversion of preference stock	(6,344)	(7,169)	(13,828)
	Total funds from long-term financing	799,422	532,890	446,130
Other Sources (Uses) of Funds—	Working capital changes—			
	Receivables—net	(17,288)	(76,251)	(1,103)
	Fuel stock and materials and supplies *(Note 3)*	(880)	(284,654)	(165,812)
	Regulatory balancing accounts—net *(Notes 1 and 4)*	(37,568)	235,512	(162,586)
	Accounts payable	3,678	67,443	134,402
	Net short-term borrowings and current maturities of long-term debt	87,691	89,797	185,002
	Other changes in working capital	(43,805)	60,337	64,823
	Net (increase) decrease in working capital	(8,172)	92,184	54,726
	Sale of non-current assets	50,623	89,557	—
	Other—net	(59,193)	(57,523)	(64,268)
	Total other sources (uses) of funds	(16,742)	124,218	(9,542)
Funds Used for Construction Expenditures		$956,763	$781,510	$674,147

(a) Includes conversions of Preference Stock, 5.20% Convertible Series, to Common Stock.

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

Statements of Earnings Reinvested in the Business

		Thousands of Dollars		
		Year Ended December 31,		
		1981	1980	1979
Balance at January 1		$1,092,137	$1,054,296	$ 931,217
Add:	Net income	489,912	317,536	346,219
		1,582,049	1,371,832	1,277,436
Deduct:	Dividends declared on capital stock—			
	Original preferred	1,454	1,334	1,219
	Cumulative preferred	62,504	55,230	47,574
	Preference	5,384	5,720	6,164
	Common—$3.10 per share for 1981, $2.84 per share for 1980 and $2.60 per share for 1979	267,204	211,028	166,443
	Capital stock expense	7,186	6,383	1,740
		343,732	279,695	223,140
Balance at December 31 (a)		$1,238,317	$1,092,137	$1,054,296

(a) Includes undistributed earnings of unconsolidated subsidiaries of $16,325,000 at December 31, 1981.

Statements of Additional Paid-in Capital

	Thousands of Dollars		
	Year Ended December 31,		
	1981	1980	1979
Balance at January 1	$763,519	$601,578	$569,673
Premium received on sale of common stock	189,754	161,949	31,908
Payments made in lieu of issuing fractional shares of common stock	(5)	(8)	(3)
Balance at December 31	$953,268	$763,519	$601,578

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

Statements of Capital Stock

	December 31, 1981		Thousands of Dollars	
			Stated Value—December 31,	
	Shares Outstanding	Redemption Price Per Share	1981	1980
Preferred Stock—Subject to Mandatory Redemption/Repurchase Requirements (a) (b):				
$100 Cumulative Preferred—par value $100 per share (f):				
7.325% Series	750,000	$110.00	$ 75,000	$ 75,000
7.80% Series	600,000	110.00	60,000	60,000
8.54% Series	750,000	108.54	75,000	75,000
8.70% Series A	525,000	110.00	52,500	52,500
12.00% Series	750,000	112.00	75,000	75,000
			$337,500	$337,500
Preference—par value $25 per share: 7.375% Series	2,480,000	25.75	$ 62,000	$ 62,000
Preferred Stock—Other:				
Original Preferred—5%, prior, cumulative, participating, not redeemable, authorized 480,000 shares, par value $8⅓ per share	480,000		$ 4,000	$ 4,000
Cumulative Preferred—authorized 24,000,000 shares, par value $25 per share (a): 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
8.85% Series	2,000,000	26.50	50,000	50,000
9.20% Series	2,000,000	26.50	50,000	50,000
$100 Cumulative Preferred—authorized 12,000,000 shares, par value $100 per share (a): 7.58% Series	750,000	105.00	75,000	75,000
8.70% Series	500,000	107.00	50,000	50,000
8.96% Series	500,000	107.00	50,000	50,000
			$458,755	$458,755
Preference—authorized 10,000,000 shares, par value $25 per share (a) (c) (f): 5.20% Convertible Series	542,139	25.00	$ 13,553	$ 19,897
$100 Preference—authorized 2,000,000 shares, par value $100 per share	—	—	$ —	$ —
Common Stock—authorized 140,000,000 shares, par value $8⅓ per share, including additional stated capital (c) (d) (e) (f)	87,603,272		$776,523	$673,921

(a) All series of $100 Cumulative Preferred Stock, Cumulative Preferred Stock and Preference Stock are redeemable at the option of the Company. The various series of the $100 Cumulative Preferred Stock, and the Preference Stock, 7.375% Series, are subject to certain restrictions on redemption for refunding purposes. Authorized shares of Preferred Stock—Subject to Mandatory Redemption or Repurchase Requirements are included under Preferred Stock—Other.

(b) Preferred Stock Subject to Mandatory Redemption or Repurchase Requirements:

	Redemption or Repurchase		
Series	*Commencement Date*	*Number of Shares Annually*	*Price Per Share (1)*
$100 Cumulative Preferred			
7.325%	7/1/83	30,000	$100
7.80%	11/30/83	15,000(2)	$100
8.54%	6/30/86	22,500	$100
8.70% A	6/30/85	13,125(3)	$100
12.00%	12/31/86	22,500	$100
Preference			
7.375%	2/1/85	496,000	$ 25

(1) Plus accumulated unpaid dividends. Redemption or repurchase to continue annually until all shares are redeemed or repurchased.

(2) Based upon 2.5% of shares originally outstanding and increasing to 5.5% by 2003.

(3) Based upon 2.5% of shares originally outstanding and increasing to 9.5% by 2000.

For each of the five 12-month periods subsequent to December 31, 1981, the aggregate mandatory redemption or repurchase requirements will be: none for 1982, $4,500,000 for 1983, $4,500,000 for 1984, $18,212,500 for 1985 and $22,712,500 for 1986.

(c) Under a prescribed formula, the conversion price of the Preference Stock, 5.20% Convertible Series is adjusted when additional shares of Common Stock are sold by the Company. The shares of Common Stock reserved for conversion and the adjusted conversion prices per share were as follows:

	December 31,	
	1981	*1980*
Shares of Common Stock reserved	430,268	612,230
Adjusted conversion price per share	$31.50	$32.50

(d) At December 31, 1981, there were 5,575,702 authorized and unissued shares of Common Stock reserved for sale and issuance under provisions of the Company's stock purchase plans. On February 1, 1982, the Company issued 587,126 shares of Common Stock under these plans.

(e) The Company anticipates that 5,000,000 shares of Common Stock will be issued on February 24, 1982.

(f) Transactions in the capital stock accounts during 1981, 1980 and 1979 reflect the following:

In 1981, 8,000,000 shares of Common Stock at an initial public offering price of $24.375 per share were issued; in 1980, 7,000,000 shares of Common Stock at an initial public offering price of $23.125 per share and 750,000 shares of $100 Cumulative Preferred Stock, 12% Series were issued; in 1979, 525,000 shares of $100 Cumulative Preferred Stock, 8.70% Series A and 750,000 shares of $100 Cumulative Preferred Stock, 8.54% Series, were issued. Additional shares of Common Stock were issued for the Dividend Reinvestment and Stock Purchase Plan (DRP), Employee Stock Purchase Plan (ESPP), Employee Stock Ownership Plan (ESOP), and the conversion of 253,761, 286,780 and 553,140 shares in the respective years of Preference Stock, 5.20% Convertible Series (5.20% Series) as follows:

	Shares Issued		
	1981	*1980*	*1979*
DRP	1,906,474	1,751,330	1,165,073
ESPP	1,053,413	953,885	756,427
ESOP	591,084	1,033,794	30,282
5.20% Series	198,483	219,873	406,573

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

Statements of Long-term Debt

		Thousands of Dollars	
		Year Ended December 31, 1981	1980
First and Refunding Mortgage Bonds (a):			
Series G,	Due 1981 (3⅝%)	$ —	$ 40,000
Series H,	Due 1982 (4¼%)	37,500	37,500
Series I,	Due 1982 (4¾%)	40,000	40,000
Series J,	Due 1982 (4⅞%)	40,000	40,000
Series K,	Due 1983 (4⅝%)	50,000	50,000
Series L,	Due 1985 (5%)	30,000	30,000
Series M,	Due 1985 (4⅜%)	60,000	60,000
Series N,	Due 1986 (4½%)	30,000	30,000
Series O,	Due 1987 (4¼%)	40,000	40,000
Series P,	Due 1987 (4¼%)	50,000	50,000
Series Q,	Due 1988 (4⅜%)	60,000	60,000
Series R,	Due 1989 (4⅜%)	60,000	60,000
Series S,	Due 1990 (4½%)	60,000	60,000
Series T,	Due 1991 (5¼%)	75,000	75,000
Series U,	Due 1991 (6⅛%)	80,000	80,000
Series V,	Due 1992 (5⅞%)	80,000	80,000
Series W,	Due 1993 (6⅜%)	100,000	100,000
Series X,	Due 1994 (7⅛%)	75,000	75,000
Series Y,	Due 1994 (8⅛%)	100,000	100,000
Series Z,	Due 1995 (7⅞%)	100,000	100,000
Series AA,	Due 1996 (8%)	100,000	100,000
Series BB,	Due 1997 (7⅜%)	125,000	125,000
Series CC,	Due 1999 (8¼%)	100,000	100,000
Series DDP,	Due 1999 (7%) (a)	15,030	15,030
Series EE,	Due 1981 (9%)	—	100,000
Series FF,	Due 2000 (8⅞%)	150,000	150,000
Series GG,	Due 2001 (8⅞%)	125,000	125,000
Series HH,	Due 2002 (8¼%)	125,000	125,000
Series II,	Due 1984 (7¼%)	75,000	75,000
Series JJ,	Due 2003 (9⅝%)	200,000	200,000
Series KK,	Due 2004 (9.95%) (a)	105,000	105,000
Series LL,	Due 1987 (9⅝%)	50,000	50,000
Series MM,	Due 2004 (11¾%)	200,000	200,000
Series NN,	Due 2005 (15⅛%)	200,000	200,000
Series OO,	Due 2010 (13½%)	150,000	150,000
Series PP,	Due 1991 (15¼%)	200,000	—
Series QQP,	Due 2021 (10¾%) (e)	8,300	—
Series RR,	Due 2011 (15¾%)	200,000	—
		3,295,830	3,027,530
First Mortgage Bonds (Calectric) (a)	Due 1984–1991 (3¼%–5⅛%)	60,000	60,000
Promissory Notes (b)	Due 1982–1983 (5½%)	7,027	10,576
Promissory Notes (d)	Due 1986–1988 (14%–16¾%)	175,000	—
Pollution Control Indebtedness (c)	Due 1984 (8⅛%)	92,500	—
Principal amounts outstanding		3,630,357	3,098,106
Current maturities of long-term debt (f)		(121,025)	(143,548)
Unamortized premium (discount)—net		(16,252)	(8,734)
Securities held by trustees (c) (e)		(49,000)	—
Total long-term debt		$3,444,080	$2,945,824

(a) The authorized principal amount of each series of First and Refunding Mortgage Bonds is equal to the amount outstanding. The Trust Indenture under which these bonds are issued permits the issuance from time to time of additional bonds, including additional bonds equal in principal amount to bonds retired, pursuant to the restrictions and conditions contained therein. The trust indenture requires semi-annual deposits with the Trustees of 1½% of the principal amount of the Company's outstanding First and Refunding Mortgage Bonds and the Calectric First Mortgage Bonds. The Calectric Indenture requires an annual cash deposit with the Trustee of 1% of the principal amount of Calectric First Mortgage Bonds issued or 166⅔% of such amount if property additions are used to satisfy the annual deposit requirements. In addition, an amount equivalent to the excess of 15% of defined operating revenues over costs of maintenance of the property subject to the lien of such indenture is required to be deposited with the trustee annually. These deposit requirements of such indentures may be or have been satisfied by property additions and replacements, and by delivery and cancellation of bonds outstanding under the applicable indenture. The Series DDP and KK, First and Refunding Mortgage Bonds, are subject to mandatory sinking fund requirements commencing on July 1, 1990 and June 15, 1985, respectively. In addition, on February 4, 1982, the Company sold $176,800,000 First and Refunding Mortgage Bonds, Series SSP, Due 1985, (10%) to finance pollution control facilities at the Four Corners Generating Station.

(b) The Company has entered into a financing agreement, as amended, with certain English banks pursuant to which it issued promissory notes payable in pounds sterling. These notes are secured by a pledge of the Company's customer accounts receivable. On June 28, 1976, the Company entered into forward exchange contracts with a United States bank to purchase at various times from February 1979 to August 1983, pounds sterling to repay substantially all of the promissory notes.

(c) On March 19, 1981, the City of Farmington, New Mexico (City) issued and sold $92,500,000 aggregate principal amount of Pollution Control Revenue Bonds, 1981 Series A (Bonds). The net proceeds have been deposited with a Trustee and, after excluding capitalized interest, represent funds on which the Company may draw to defray its construction and other specified costs of pollution control facilities being built at the Four Corners Generating Station.The Company is obligated to pay the principal and interest on the City's Bonds. The Company has provided an Irrevocable Documentary Letter of Credit drawn on a commercial bank (Bank) to the Trustee in the amount of the Company's obligation. The Company is obligated to reimburse the Bank for amounts drawn under the Irrevocable Documentary Letter of Credit.

(d) During 1981, Southern California Edison Finance Company N. V. (Finance), an affiliate of the Company, sold $175,000,000 principal amount of Guaranteed Debentures Due 1986–1988 to representatives of purchasers in European countries. Payment of the principal and interest on the Debentures is unconditionally guaranteed by the Company. The net proceeds of the Debentures were loaned by Finance to the Company in exchange for the Company's promissory notes.

(e) On August 19, 1981, the California Pollution Control Financing Authority (Authority) issued $8,300,000 of Pollution Control Revenue Bonds, Series 198'. Due August 1, 2021 (10¾%). The net proceeds have been deposited in a Construction Fund and are being utilized to finance the acquisition and construction of pollution control facilities at the Huntington Beach Generating Station. The Company has issued and sold to the Authority an identical principal amount of the Company's First and Refunding Mortgage Bonds, Series QQP, with the same maturity date and interest rate as the Authority's bonds.

(f) Current maturities of long-term debt on December 31, 1981 include 5½% Promissory Notes Due February 28, 1982, in the amount of $1,765,000 and Due August 31, 1982, in the amount of $1,760,000 and First and Refunding Mortgage Bonds, Series H, Due February 15, 1982 (4¼%) in the amount of $37,500,000, Series I, Due July 1, 1982 (4¾%) in the amount of $40,000,000 and Series J, Due September 1, 1982 (4⅞%) in the amount of $40,000,000. The amounts of long-term debt maturing in the four twelve-month periods subsequent to December 31, 1982 will be: $53,501,000 in 1983; $175,500,000 in 1984; $278,050,000 in 1985; and $118,250,000 in 1986. The amounts for 1985 and 1986 include mandatory sinking fund requirements for First and Refunding Mortgage Bonds, Series KK.

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

Notes to Financial Statements

Note 1—Summary of Significant Accounting Policies

General–
The Company is a public utility primarily engaged in the business of supplying electric energy in portions of central and southern California, excluding the City of Los Angeles and certain other cities. The accounting records of the Company are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the California Public Utilities Commission (CPUC).

Utility Plant—
The cost of additions and replacements of retirement units of property is capitalized and included in utility plant. Such cost includes labor, material, indirect charges for engineering, supervision, transportation, etc., and an allowance for debt and equity funds used during construction (AFUDC). The amount of AFUDC capitalized is also reported in the Statements of Income as a reduction of interest charges for the debt component of AFUDC and as other income for the equity component. Although AFUDC increases net income, it does not represent current cash earnings. The AFUDC rate was 8.77% for 1981, 7.82% for 1980 and 7.76% for 1979, and is based upon a formula prescribed by the FERC.

The cost of minor additions and repairs is charged to maintenance expense and the original cost, less net salvage, of retired property units is charged to the accumulated provision for depreciation.

Depreciation—
For financial reporting purposes, depreciation of utility plant is computed on a straight-line remaining life basis and approximated 3.6%, 3.5%, and 3.5% of average depreciable plant for the years 1981, 1980, and 1979, respectively. The Company's rates are designed to recover the original cost of utility plant, including the estimated decommissioning costs of $58,000,000 (stated in current year dollars) for nuclear generation facilities in service, through depreciation expense over the estimated remaining useful lives of the facilities.

Taxes—
Accounting policies with respect to taxes on income and related investment tax credits are set forth in Note 4, together with supplementary income tax information.

Debt Premium and Discount—
Debt premium or discount and related expenses are amortized to income over the lives of the issues to which they pertain.

Revenues and Regulatory Balancing Accounts—
Customers are billed monthly on a cycle basis and revenues are recorded when customers are billed. As authorized by the CPUC, the Company has established several regulatory balancing accounts for most of its energy costs. The Energy Cost Adjustment Clause (ECAC) balancing account is used by the Company to record monthly entries to adjust the results of operations for the variation between ECAC-related energy costs incurred and those included in rates billed to customers. Such variations, including interest thereon, are accumulated in the balancing account until they are refunded to, or recovered from, utility customers through CPUC-authorized rate adjustments. ECAC-related energy costs include incurred transportation and interim storage costs related to spent nuclear fuel. The income tax effects of ECAC variations are deferred. Billed revenues and incurred energy costs are utilized in the determination of taxable income. The CPUC has also authorized the recovery of $39,000,000 of fuel oil carrying costs relating principally to prior accounting periods and, consistent with the Company's policy of recording revenues when customers are billed, the Company has recognized revenues of $14,800,000 in 1981.

Subsidiaries—
The Company's investments in unconsolidated subsidiary companies, all of which are wholly-owned, are accounted for by the equity method. None of the Company's wholly-owned subsidiaries is considered significant for financial reporting purposes.

Earnings Per Share—
Primary earnings per share are determined by dividing the earnings available for Common and Original Preferred Stock by a weighted average number of such shares outstanding. After providing for cumulative preferred and preference dividend requirements, effect is given to the participating provisions of the Original Preferred Stock and Common Stock Equivalents for funds held for the purchase of the Company Stock by the Employee Stock Purchase Plan Trustee in each period. Fully-diluted earnings per share give effect to the dilution which would result from the conversion of convertible securities outstanding at the end of each period and treat all actual conversions during each period as if they took place at the beginning of the period. In the computations of fully-diluted earnings per share, consideration has been given to the dilutive effect of potential conversion of the Preference Stock, 5.20% Convertible Series, and, for 1979 only, the 3⅛% Convertible Debentures, Due 1980.

Note 2—Commitments and Contingencies

Construction program and fuel supply—
The Company has significant purchase commitments in connection with its continuing construction program. As of December 17, 1981 (the date of the Company's latest approved budget), funds required for construction expenditures are estimated at $872,859,000 for 1982, $803,698,000 for 1983 and $775,634,000 for 1984. Minimum long-term commitments of approximately $9.5 billion existed on December 31, 1981 under the Company's fuel supply and transportation arrangements.

Government licenses—
The terms and provisions of licenses granted by the United States cover the Company's major and certain minor hydroelectric plants. These licenses also cover certain storage and regulating reservoirs and related transmission facilities. All of the above licenses expire at various times between 1982 and 2009. The licenses contain numerous restrictions and obligations on the part of the Company, including the right of the United States to acquire Company properties or the FERC to issue a license to a new licensee under certain conditions and upon the payment to the Company of specified compensation.

Resale revenues—
Pursuant to FERC procedures, on February 1, 1976, August 16, 1979, and July 16, 1981, increases in the Company's resale rates became effective, subject to refund with interest to the extent that any of the increases are subsequently determined to be inappropriate. Effective May 2, 1974, a Fuel Clause Adjustment was added to the Company's resale rates and has been modified concurrent with the subsequent base rate increases beginning with the February 1, 1976 increase. As of December 31, 1981, approximately $565,000,000 had been billed subject to refund. The Company believes that any amounts which the FERC may require the Company to refund should not have a material financial effect on the Company.

Legal matters—
In March 1978, five resale customers filed a suit against the Company in federal court alleging violation of certain antitrust laws. The complaint seeks damages in excess of $23,000,000, consequential damages and a trebling of such damages, and certain injunctive relief, and alleges that the Company (i) is engaging in anti-competitive behavior by charging more for wholesale electricity sold to resale customers than the Company charges certain classes of its retail customers, and (ii) has taken actions 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' wholesale purchases from the Company. 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.

Leases and Rentals—
The Company has entered into various arrangements to lease automotive equipment, computer equipment, nuclear fuel, office space, oil storage facilities and other incidental equipment and property. These agreements are accounted for as operating leases based upon ratemaking practices. The present value of the minimum commitments under capital leases are not considered material for financial reporting purposes.

Note 3—Compensating Balances and Short-Term Debt

In order to continue lines of credit with various banks, the Company presently maintains deposits aggregating approximately $12,000,000 which are not legally restricted as to withdrawal. The lines of credit, which are also available to support commercial paper, amounted to $551,000,000 and $555,000,000 as of December 31, 1981 and December 31, 1980, respectively. In addition, the Company also has lines of credit totaling $35,000,000 and $20,000,000 as of December 31, 1981, and December 31, 1980, respectively, which may be utilized for general corporate purposes.

The Company has an additional $150,000,000 line of credit which may be utilized only for the purchase of fuel oil through the use of bankers' acceptances. Notes issued under this agreement are secured by a pledge of the Company's fuel oil inventory.

Note 4—Taxes

In accordance with CPUC requirements, no deferred income taxes are provided for net increases or decreases in income tax expense which result from reporting certain transactions for income tax purposes in a period different from that in which they are reported in the financial statements. The major items for which deferred income taxes are provided are the additional investment tax credits (ITC) discussed below, and the tax effects of resale revenues and regulatory balancing account provisions.

Although a portion of the Company's ITC have been applied as a current reduction of income tax expense, additional ITC, permitted by the Tax Reduction Act of 1975 and the Tax Reform Act of 1976, have been deferred and are being amortized as reductions to income tax expense ratably over the lives of the properties which gave rise to the credits.

For plant additions after December 31, 1980 (post-1980 property), provisions of the Economic Recovery Tax Act of 1981 apply to tax depreciation and ITC. Under these provisions tax depreciation is based upon generally shorter lives, and additional ITC are available. In addition, there are provisions which require the adoption of normalization accounting for post-1980 property with respect to the difference between tax depreciation and depreciation of tax basis using book method and lives. There are also provisions which no longer permit the flow through of ITC. Under transitional rules of the Act, these new normalization provisions are not applicable to the Company for 1981 and will first apply, in part, in 1982.

Supplementary information regarding taxes on income and other taxes is set forth in the following table:

	Thousands of Dollars		
	Year Ended December 31,		
	1981	1980	1979
Current:			
Federal	$ 44,800	$ 38,582	$ 6,717
State	25,629	36,909	4,019
	70,429	75,491	10,736
Deferred—Federal and State:			
Investment tax credits—net	47,386	25,235	45,533
Regulatory balancing accounts	26,548	(107,322)	34,148
Other	(759)	14,921	(13,644)
	73,175	(67,166)	66,037
Total taxes on income	$143,604	$ 8,325	$ 76,773
Taxes on income included in operating expenses	$197,865	$ 38,683	$100,292
Taxes on income included in other income	(54,261)	(30,358)	(23,519)
Total taxes on income	$143,604	$ 8,325	$ 76,773
Differences between the federal statutory tax rate and the Company's effective tax rate are reconciled as follows:			
Federal statutory tax rate	46.0%	46.0%	46.0%
Allowance for debt and equity funds used during construction	(16.9)	(22.9)	(12.9)
Percentage repair allowance	—	(3.5)	(3.3)
Administrative and general expenses capitalized	(1.5)	(3.4)	(2.2)
Investment tax credits—net	(4.3)	(6.8)	(8.1)
Nuclear fuel lease interest capitalized	(3.0)	(3.3)	(0.9)
Taxes capitalized	(2.3)	(2.3)	(1.5)
State tax provision	4.9	2.1	4.7
All other differences	(0.2)	(3.3)	(3.7)
Effective tax rate	22.7%	2.6%	18.1%
Other taxes included in operating expenses:			
Property	$ 41,632	$ 54,114	$ 48,300
Payroll and other	18,253	15,538	8,128
	$ 59,885	$ 69,652	$ 56,428

Note 5—Research and Development

Research and Development (R&D) costs are expensed currently if they are of a general nature. Plant-related R&D costs are accumulated in construction work in progress (CWIP) until a determination is made as to whether such projects will result in construction of electric plant. If no construction of electric plant ultimately results, the costs are generally charged to operating expense. The balance of R&D expenditures included in CWIP at December 31, 1981, 1980 and 1979 was $51,372,000, $35,076,000, and $29,438,000 respectively.

	Thousands of Dollars		
	Year Ended December 31,		
	1981	1980	1979
R&D charged to expense	$26,542	$21,964	$15,778
R&D charged to CWIP—net	16,297	19,812	12,260
Total R&D expenditures	$42,839	$41,776	$28,038

Note 6—Employee Benefit Plans

Pension Plan—

The Company's current pension program is based on a trusteed pension plan, which is non-contributory by employees. Company contributions are determined on the basis of a level premium funding method. There are no unfunded prior service costs. The annual normal cost of the plan is funded by the Company. Pension costs are reserved for on the basis of actuarial determinations and amounted to $36,137,000, $40,321,000 and $37,456,000 for 1981, 1980 and 1979, respectively. The decline in pension costs for 1981 is due to an investment return in excess of the actuarial return assumption and changes in actuarial assumptions.

	Thousands of Dollars	
	December 31,	
	1980(a)	1979
Actuarial present value of accumulated plan benefits:		
Vested	$383,676	$301,429
Nonvested	16,621	19,965
	$400,297	$321,394
Net assets available for benefits	$478,658	$375,846

(a) Latest available information.

Actuarial rate of return assumptions of 6.5% and 5.5% were used in determining the actuarial present value of accumulated plan benefits for 1980 and 1979, respectively.

Employee Stock Purchase Plan—
Under the Employee Stock Purchase Plan adopted to supplement employees' income after retirement, employees may elect to contribute specified percentages of their regular monthly base pay to a trustee for the purchase of Company Common Stock. The Company contributes to the Plan an amount equal to one-half of the employees' contributions, less forfeitures. The Company's contributions to this Plan amounted to $4,452,000, $3,679,000 and $3,263,000 for 1981, 1980 and 1979, respectively. In addition, employees may elect to contribute up to 5% of their regular monthly base pay through supplemental contributions without regard to their years of service. These supplemental contributions are not matched by the Company.

Employee Stock Ownership Plan—
Under the Employee Stock Ownership Plan (ESOP), shares of Company Common Stock are purchased for the benefit of eligible employees and held in trust using funds generated by additional 1% and ½% investment tax credits and matching employee contributions for the ½% ITC. The Company has elected the additional 1% ITC for the years 1976 through 1980, and the ½% ITC for the years 1978 through 1980. As of December 31, 1981, 1,961,301 shares of Common Stock were held by the Trustee under the Plan. In addition, as of December 31, 1981, the Company had a liability to the Plan in the amount of $10,179,000.

For the years 1978 through 1980 the amounts of ESOP ITC were higher than those utilized in the Federal income tax returns for such years. All of the 1978 and 1979 ESOP ITC were utilized in the 1980 Federal income tax return. However, none of the 1980 ESOP ITC was utilized in the 1980 Federal income tax return. If not completely utilized in 1981 or future income tax returns, the excess ITC would expire in 1995, in which event the Company would be allowed a tax deduction for the amounts contributed to the ESOP.

Note 7—Quarterly Financial Data

	Thousands of Dollars			Earnings Per Share	
Three Months Ended	Operating Revenues	Operating Income	Net Income	Primary	Fully Diluted
December 31, 1981	$1,039,320	$113,026	$127,862	$1.27	$1.26
September 30, 1981	1,122,674	150,996	147,944	1.51	1.51
June 30, 1981	983,848	121,409	113,939	1.13	1.13
March 31, 1981	908,514	105,724	100,167	1.00	1.00
December 31, 1980	969,227	91,649	70,495	0.71	0.71
September 30, 1980	1,058,916	103,011	88,427	0.99	0.98
June 30, 1980	828,028	88,996	76,929	0.84	0.82
March 31, 1980	804,946	88,478	81,685	0.96	0.93
December 31, 1979	709,252	100,352	92,538	1.19	1.15
September 30, 1979	684,334	106,738	98,822	1.32	1.27
June 30, 1979	566,656	81,748	71,183	0.91	0.88
March 31, 1979	603,733	96,159	83,677	1.13	1.09

Note 8—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 Company's proportionate share of expenses pertaining to such projects is included in the appropriate category of operating expenses in the Statements of Income. In the table below, the amounts represent the Company's share for each such project as reported on the Balance Sheets:

	Thousands of Dollars			
	December 31, 1981			
Projects	Utility Plant in Service	Estimated Accumulated Provision for Depreciation	Construction Work in Progress	Ownership Interest
Axis Generating Station	$ 12,285	$ 7,180	$ 2	33.3%
Cool Water Coal Gasification	—	—	7,936	16.7
El Dorado System	19,747	5,639	625	60.0(a)
Four Corners Generating Station	100,511	32,402	82,695	48.0
Mohave Generating Station	187,316	47,007	2,364	56.0
Pacific Intertie DC System	67,822	18,708	1,033	50.0
Palo Verde Generating Station	—	—	526,457	15.8
San Onofre Generating Station—Unit 1	266,064	61,110	45,415	80.0
San Onofre Generating Station—Units 2 & 3	—	—	2,241,320	75.05
San Onofre Generating Station, Common Facilities—Units 1, 2, & 3	4,715	—	—	75.87
Solar Power Generating Project	—	—	16,729	80.0
Total	$658,460	$172,046	$2,924,576	

(a) Represents a composite rate.

Note 9—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 the Company has no investment in such facilities, these contracts provide that the Company pay certain minimum amounts (which are based at least in part on the debt service requirements of the provider) whether or not the facility or transmission line is operating. None of such power contracts provides, or is expected to provide, in excess of five percent of the Company's current or estimated future operating capacity. The cost of power and firm transmission service

obtained under the contracts, including payments made when a facility or transmission line is not operating, is included in Purchased Power and Other Operation Expenses, respectively, in the Statements of Income. Information as of December 31, 1981 pertaining to such contracts is summarized in the following tables:

	Purchased Power (Dollars in Thousands)		
	Navajo Layoff	Hoover Sales	Oroville-Thermalito
Date of Expiration	December 31, 1984	May 31, 1987(b)	April 1, 1983
Share of Effective Operating Capacity—Megawatts (MW)	327.5 (a)	391.0 (c)	340
Share of Energy Output	14.6%	7.9%	37.6%
Estimated Annual Cost	$38,850	$1,872	$5,985 (e)
Company's Portion of Estimated Annual Cost Applicable to Supplier's Annual Minimum Debt Service Requirement	$ 4,870 (d)	$ 456	$5,234 (d)
Company's Allocable Portion of Interest of Supplier Included in Annual Minimum Debt Service Requirement	$ 3,509 (d)	$ 74	$4,495 (d)
Related Long-term Debt or Lease Obligations Outstanding of Company	None	None	None
Variable Components of Contracts	Pro-rata Share of Actual Operating, Maintenance, and Fuel Costs	Based on U.S. Government Cost of Service, currently 2.1 mills/KWH	None
Required Future Minimum Annual Payments			
1982	$ 8,230	$1,280	$5,985
1983	7,590	1,400	1,496
1984	7,070	1,540	—
1985	—	1,700	—
1986	—	1,860	—
Later years	—	854	—
Total	22,890	8,634	7,481
Less Amount Representing Interest to Reduce Total to Present Value	(1,414)	(832)	(439)
Total at Present Value	$21,476	$7,802	$7,042
Total Purchases for Each of the Three Years in the Period Ended December 31, 1981			
1981	$34,792	$1,812	$6,415
1980	35,621	2,500	6,596
1979	32,596	1,872	6,038

(a) The Company has agreed to certain reductions in its share of effective operating capacity prior to the December 31, 1984 termination date.
(b) The Company has certain renewal rights under the existing agreement.
(c) Effective operating capacity may vary according to water availability and other conditions.
(d) Based on amortization of the suppliers debt service obligation extending over a 50-year period. The Company's obligation to purchase power terminates prior to the expiration of the 50-year period.
(e) Based on average energy deliveries over the life of the contract. Actual deliveries vary according to water availability.

	Transmission Service (Dollars in Thousands)	
	Navajo Layoff	Four Corners
Date of Expiration	December 31, 1984	July 19, 2016
Variable Components of Contracts	Pro-rata Share of Operating and Maintenance Costs	Actual Operating and Maintenance Costs
Required Future Minimum Annual Payments		
1982	$1,058	$ 6,100
1983	976	6,000
1984	909	5,900
1985	—	5,800
1986	—	5,700
Later years	—	120,315
Total	2,943	149,815
Less Amount Representing Interest to Reduce Total to Present Value	(182)	(88,926)
Total at Present Value	$2,761	$ 60,889
Total Payments for Each of the Three Years in the Period Ended December 31, 1981		
1981	$1,214	$6,443
1980	1,200	6,954
1979	1,183	7,096

Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

The Company's primary financial statements are stated on the basis of historical costs in accordance with generally accepted accounting principles. During periods of significant changes in price levels, amounts reported on this basis reflect dollars of varying purchasing power and accordingly do not measure the effects of inflation. The following supplementary information is presented in accordance with the requirements of the Financial Accounting Standards Board (FASB) for the purpose of providing certain information about the effects of both general inflation (represented by constant dollar amounts) and changes in specific prices (represented by current cost amounts).

This information inherently involves the use of assumptions, approximations and estimates, and therefore, should be viewed in that context and not as precise measurements of the effects of inflation on the Company.

Statement of Earnings Available for Common and Original Preferred Stock Adjusted for Changing Prices for the Year Ended December 31, 1981

	Thousands of Dollars		
	As Reported in the Primary Financial Statements	Adjusted For General Inflation (a) (Constant Dollar)	Adjusted For Changes in Specific Prices (a) (Current Cost)
Total Operating Revenues	$4,054,356	$4,054,356	$4,054,356
Operating Expenses:			
Provision for depreciation	202,182	468,000	552,000
Other operating expenses	3,361,019	3,361,019	3,361,019
Other income and deductions	(270,061)	(270,061)	(270,061)
Net interest charges	271,304	271,304	271,304
Dividends on cumulative preferred and preference stock	67,888	67,888	67,888
	3,632,332	3,898,150	3,982,150
Earnings available for common and original preferred stock (excluding reduction of utility plant to net recoverable cost)	$ 422,024	$ 156,206	$ 72,206
Other Adjustments For Changing Prices:			
Excess of increase in general price level of $1,149,000,000 over increase in specific prices of $1,102,000,000 of utility plant held during the year (b)			$ (47,000)
Reduction of utility plant to net recoverable cost		$ (348,000)	$ (217,000)
Gain from decline in purchasing power of net monetary liabilities		$ 375,000	$ 375,000

(a) Average 1981 dollars.

(b) At December 31, 1981, current cost of utility plant, net of accumulated depreciation, was $14,000,000,000 while related historical cost and net recoverable cost was $7,502,000,000. The difference of $6,498,000,000, which includes $1,102,000,000 for the current year, represents the changes in specific prices (current cost) of utility plant from the date the plant was originally acquired.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices

(Data adjusted for the effects of changing prices are reported in average 1981 dollars.)

In Thousands of Dollars, Except Per Share Amounts	Year Ended December 31, 1981	1980	1979	1978	1977
Total Operating Revenues					
As reported	$4,054,356	$3,661,117	$2,563,974	$2,328,798	$2,064,914
In constant 1981 dollars	$4,054,356	$4,041,000	$3,213,000	$3,246,000	$3,099,000
Earnings Available for (Loss on) Common and Original Preferred Stock (a)					
As reported	$422,024	$256,586	$292,481		
In constant 1981 dollars	$156,206	$ 42,543	$151,760		
At current cost	$ 72,206	$(47,962)	$ 70,315		
Earnings (Loss) Per Share on Common and Original Preferred Stock (a)					
As reported	$4.93	$ 3.50	$4.56		
In constant 1981 dollars	$1.82	$ .58	$2.36		
At current cost	$ .84	$ (.65)	$1.10		
Excess of Increase in General Price Level Over Increase in Specific Prices of Utility Plant after Reduction to Net Recoverable Cost	$264,000	$462,000	$622,000		
Net Assets at Year End at Net Recoverable Cost					
As reported	$2,968,108	$2,529,577	$2,233,133		
In constant 1981 dollars and current cost	$2,866,000	$2,671,000	$2,646,000		
Gain from Decline in Purchasing Power of Net Monetary Liabilities	$375,000	$491,000	$567,000		
Cash Dividends Declared Per Common Share					
As reported	$3.10	$2.84	$2.60	$2.30	$2.06
In constant 1981 dollars	$3.07	$3.10	$3.22	$3.18	$3.07
Market Price Per Share at Year End					
In historical dollars	$28.75	$25.625	$24.50	$25.75	$26.375
In constant 1981 dollars	$27.76	$27.01	$29.03	$34.57	$38.61
Average Consumer Price Index (Base Year 1967 = 100)	272.4	246.8	217.4	195.4	181.5

(a) Excludes Reduction of Utility Plant to Net Recoverable Cost.

The amounts adjusted for general inflation represent historical costs of utility plant restated in terms of dollars of equal purchasing power (constant dollars) as measured by the Consumer Price Index for all Urban Consumers. This method is intended to measure income after restating all revenues and expenses in dollars of equivalent purchasing power.

The current cost amounts reflect the changes in specific prices of utility plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that prices in general have increased more or less rapidly than specific prices. The current cost of utility plant represents the estimated cost of replacing existing plant assets and was determined by restating its historical cost using Company projections of year-end indices to be reported in the Handy-Whitman Index of Public Utility Construction Costs. This method is intended to measure income after reflecting the cost of providing electric service at current price levels.

In accordance with procedures specified by the FASB, total operating revenues and all expenses other than depreciation were considered to reflect the average price level for the current year and accordingly remain unchanged from those amounts reported in the Company's primary financial statements. The current year's provision for depreciation on the constant dollar and current cost amounts of utility plant was determined by applying the Company's average annual depreciation rates to the indexed plant amounts.

No adjustments to income tax expense have been made

in computing the impact of inflation since only historical costs are deductible for income tax purposes.

Fuel inventories and the cost of fuel consumed in the generation of electricity have not been restated from their historical cost. The recovery of fuel and purchased power costs are limited to historical costs through the operation of the Company's energy cost adjustment clauses. For this reason fuel inventories and deferred recoverable energy costs are effectively monetary assets.

Under ratemaking procedures prescribed by the regulatory commissions exercising rate jurisdiction over the Company, only the historical cost of utility plant is recoverable through future depreciation charges. Therefore, the cost of utility plant, stated in terms of constant dollars or current cost, exceeding the historical cost of utility plant is not presently recoverable through depreciation charges, and, accordingly, the excess is reflected as a reduction of utility plant to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing utility plant, based on past ratemaking practices, the Company believes it will be allowed to recover and earn a return on the increased cost of its investment when replacements of utility plant occur.

During inflationary periods, holders of monetary assets experience a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net monetary liabilities is primarily attributable to the substantial amount of debt which has been used to finance utility plant. However, to properly reflect the economics of rate regulation, the gain from the decline in purchasing power of net monetary liabilities, including Cumulative Preferred and Preference Stock, is offset by the reduction to the recoverable cost of utility plant. The Company, therefore, does not have the opportunity to realize such holding gain on net monetary liabilities.

Capital Stock—Dividend and Price Information

Class and Series of Stock	Quarterly Dividends Paid Per Share (a) (f)	High and Low Sales Prices ($)															
		Calendar Quarter—1981								Calendar Quarter—1980							
		1		2		3		4		1		2		3		4	
		High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Original Preferred	.74	24⅞	22	26	22¾	27	23¼	27½	24	26	22¼	28½	19½	27	23¼	25¼	22
Cumulative Preferred:																	
4.08%	.25½	8⅝	7	8¼	7	7⅞	6⅝	8⅛	6¼	10⅛	6¾	10	7½	9¾	7⅜	9	7
4.24%	.26½	8⅞	7¼	8⅜	7¼	8⅞	6⅞	9½	6⅝	10⅜	7½	10¾	8	10⅝	8	8⅝	7⅛
4.32%	.27	8½	7⅝	8½	7⅛	8½	7	8¼	6¾	9¾	7⅛	10¾	7⅝	11¾	8	8¾	7⅛
4.78%	.29⅞	9⅛	7⅞	9⅛	7¾	9¾	7¾	9	7¼	11⅜	8	11⅞	8⅛	11⅝	8¾	10⅛	7⅞
5.80%	.36¼	11⅝	10	11⅝	9¾	10¾	9½	10⅞	9	13¾	10⅝	14⅝	10⅝	14⅜	11¼	12⅜	10
8.85%	.553125	17	15⅝	16¾	14⅞	15⅞	14⅛	16⅛	14	20½	15⅞	22⅝	15⅜	21⅜	16¾	17¾	14¾
9.20%	.57½	17¾	16	17	15⅛	16⅝	14¾	17⅛	14½	20¾	15⅝	22⅝	16¼	22⅛	17⅝	19⅛	15
$100 Cumulative Preferred:																	
7.325% (b)	1.83⅛	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
7.58%	1.89½	57⅜	54	55⅞	50	54	48½	53	48	67¾	54	74⅜	51	70¼	60	62⅝	50½
7.80% (b)	1.95	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8.54%	2.13½	(c)	(c)	(c)	(c)	72⅝	62½	62¼	61¾	92⅝	79	93	74	90	88½	87	70⅛
8.70%	2.17½	66	59	64	57	62	54⅝	61¾	55¾	79	56⅜	84	60	82	67¼	71	59⅞
8.70%-A (b)	2.17½	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8.96%	2.24	68¼	63	66⅜	61	64	58⅝	66	56¾	77¾	66	85	58½	82¾	72¾	74¾	62
12.00%	3.00	100⅝	95	99	94½	97¼	88½	93¾	82⅜	—	—	—	—	—	—	101	97
Preference:																	
5.20%	.32½	20	17¾	21⅝	19	21⅝	19	24	20¼	17⅞	15⅝	20⅞	16⅜	19¾	18½	20⅛	17¾
Convertible 7.375% (b)	.460938	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Common (d)(e)	.74	26¼	22⅞	28	24	28¼	24¼	30⅝	26⅜	24⅞	20¼	27⅞	2[illegible]⅝	26¼	24⅛	26⅞	23⅛

(a) Quarterly dividends were paid at the rates indicated in each quarter of 1981 except the fourth quarter dividend on Original Preferred Stock and Common Stock which was at the rate of $0.81 per share.

(b) There are no prices as these issues are private placements and shares are not traded.

(c) No shares traded.

(d) Dividends declared on Common Stock totaled $3.10 and $2.84 for 1981 and 1980, respectively.

(e) As of December 31, 1981, there were approximately 152,000 Common Stock shareholders.

(f) The Indenture securing the Company's First and Refunding Mortgage Bonds provides, in substance, that the Company shall not pay any cash dividends except out of its earnings reinvested in the business and net income.

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

Results of Operations

The Company's results of operations for 1981 were favorably affected by a decision, effective January 1, 1981, from the California Public Utilities Commission (CPUC) which authorized a general rate increase of $294 million annually. In addition, the decision provided for an attrition allowance to help meet inflation-related cost increases which have been a primary cause of fluctuations in net income between rate cases. The attrition allowance was implemented on January 1, 1982, and increased base rates by $92 million annually.

The following table presents amounts and percentages of increase (decrease) in the rate components of operating revenues from the prior years.

Increase (Decrease) from Prior Years	Millions of Dollars 1981	%	1980	%	1979	%
Operating Revenues:						
Energy Cost Adjustment Clause	$ (19)	(0.9)	$ 973	80.6	$ 75	6.6
Annual Energy Rate	32	—	—	—	—	—
Base Rates	280	23.3	31	2.6	153	15.1
Resale & Special Contracts	102	41.5	74	43.0	30	21.0
Other Electric Revenue	(2)	(6.5)	19	174.2	(23)	(68.3)
Total Operating Revenues	$ 393	10.7	$1,097	42.8	$ 235	10.1
KWH Sales (Millions)	2,536	4.2	397	0.7	2,491	4.4
Customers	68,719	2.2	81,586	2.6	95,837	3.2

For 1981, total operating revenues increased as a result of the net effect of the general rate increase, increased sales to other utilities, an annual energy rate which became effective on October 25, 1981, and lower energy cost adjustment clause revenues which are offset by energy costs and do not affect earnings. Kilowatt-hour sales increased 4.2% for 1981 primarily as a result of unusually high temperatures experienced in Southern California in the third quarter and increased sales to other utilities.

The following table presents amounts and percentages of increase (decrease) from the prior years in selected items from the Statements of Income.

Increase (Decrease) from Prior Years	Millions of Dollars, Except Earnings Per Share Data 1981	%	1980	%	1979	%
Other Operation Expenses	$ 49	12.6	$ 70	21.9	$ 39	13.6
Maintenance Expense	(35)	(15.3)	51	28.7	13	8.1
Taxes on Income	159	(a)	(62)	(61.4)	27	37.8
Total Interest Charges	58	20.6	78	37.8	22	12.3
Allowance for Debt and Equity Funds Used During Construction	70	43.3	44	36.9	40	51.2
Net Income	172	54.3	(29)	(8.3)	95	37.6
Earnings Available for Common and Original Preferred Stock	165	64.5	(36)	(12.3)	90	44.6
Earnings Per Share	1.43	40.9	(1.06)	(23.2)	1.04	29.5
Weighted Average Number of Shares (Millions)	12	16.9	9	14.1	7	11.7

(a) Indicates over 200%.

Increases in other operation expenses continue to be due to system growth and to the impact of inflation on the costs of labor, material and services. The Company, however, is continuing its efforts to alleviate the impact of inflation on these expenses with continued emphasis on productivity and cost controls.

Maintenance expense reflects the impact of inflation as well as varying weather conditions. The comparative decreases for 1981 are principally the result of the large maintenance expenditures which were incurred in 1980 at the Mohave and San Onofre (Unit 1) Generating Stations.

Taxes on income for 1981 increased over 1980 primarily as a result of increased pre-tax net income. Additionally, income taxes increased because of adjustments to pre-tax income, including the loss, due to recent Federal legislation, of the percentage repair allowance deduction for periods after 1980.

The Company's reported net income reflects, in addition to the items discussed above, the impact of higher interest charges which were due to additional short- and long-term debt outstanding and higher interest rates. The additional indebtedness was incurred by the Company primarily in connection with its continuing construction program, which is also responsible for the increasing levels of the non-cash allowance for debt and equity funds used during construction.

Earnings available for common and original preferred stock were affected by the additional dividend requirements of a series of $100 cumulative preferred stock issued in October 1980 and two series of $100 cumulative preferred stock issued in 1979. Earnings per share have been impacted by the dilutive effect of an increasing number of outstanding shares of Common Stock sold to help finance the Company's continuing construction program.

A discussion relating to supplementary information to disclose the effects of changing prices follows the "Notes to Financial Statements" on page 29 of this report.

Liquidity

Liquidity refers to the ability of a company to generate funds, whether from operations, long-term financings or other sources, adequate to meet its needs. The following table provides a summary of the Company's sources of funds used for construction expenditures for the years 1981, 1980 and 1979.

	Millions of Dollars 1981	1980	1979
Funds Provided by Operations—Reinvested	$ 174	$ 125	$ 238
Funds Provided by Long-term Financing—net	800	533	446
Other Sources (Uses) of Funds	(17)	124	(10)
Funds Used for Construction	$ 957	$ 782	$ 674
Funds Provided by Operations as a Percent of Funds Used for Construction	18%	16%	35%

The Company is engaged in an extensive construction program designed to accommodate existing and projected demands on its electric system. Because of the high level of construction work in progress primarily related to the

construction of San Onofre Units 2 and 3, a significant portion of the Company's net income in recent years has been attributable to the Allowance for Funds Used During Construction (AFUDC), which does not represent current cash income of the Company. AFUDC constituted approximately 47%, 51% and 34% of net income for the years 1981, 1980 and 1979, respectively. AFUDC is expected to decline significantly when San Onofre Units 2 and 3 are placed in service with a resulting reduction in this non-cash portion of net income. Assuming the costs incurred in connection with the construction and operation of these units receive appropriate and timely rate treatment, sufficient revenues are expected to be authorized to offset the decline in AFUDC.

Capital Resources

To provide the funds for construction expenditures for the five years through 1986 estimated to total $4.0 billion and to meet long-term debt maturities and preferred stock sinking fund requirements aggregating $796 million during such years, the Company estimates that approximately $2.9 billion, or 60%, of such expenditures will be provided by long-term financing. The balance of funds required for these purposes is expected to be obtained from operations, primarily during the latter part of such period, with a substantial majority of construction funds in 1982 projected to be obtained from external sources.

The Company's estimates of funds available from operations assume the receipt of adequate and timely rate relief, the timely inclusion of the new San Onofre Units and Palo Verde Units in rate base and the realization of its assumptions regarding cost increases, including the cost of capital. The Company's estimates and underlying assumptions are subject to continuous review and periodic revision.

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

Funds provided by long-term financing after giving effect to the reduction of long-term debt, securities held by trustees and the conversion of preference stock amounted to $800 million in 1981. This reflects pollution control equipment financing bond issues and unsecured debt offerings in the European market, as well as traditional public debt and equity offerings. In addition, the Company uses short-term borrowings as a part of normal daily operations and to meet interim cash needs for capital projects, pending periodic reductions or repayment through long-term financing. The Company has a total of $736 million of available short-term borrowing facilities with foreign and domestic banks. At December 31, 1981, approximately $295 million of such borrowings were outstanding.

The Company's long-term goal is to maintain a capital structure with approximately equal amounts of debt and equity. The Company's capital structure at the end of the years 1981, 1980 and 1979 is shown below.

	1981	1980	1979
Long-Term Debt	47.3%	46.3%	47.4%
Preferred and Preference Stock	12.0	13.9	14.1
Common Equity	40.7	39.8	38.5
	100.0%	100.0%	100.0%

Operating Revenues and Kilowatt-Hour Sales

Class of Service	Operating Revenues (Thousands of Dollars)				Kilowatt-Hour Sales (000)			
	% of 1981 total	1981	1980	% change	% of 1981 total	1981	1980	% change
Residential	27.5	$1,115,758	$1,026,778	8.7	26.7	16,688,956	16,471,840	1.3
Agricultural	1.9	75,257	68,503	9.9	1.8	1,116,308	964,452	15.7
Commercial	26.9	1,090,694	979,051	11.4	24.9	15,562,087	14,778,843	5.3
Industrial	26.2	1,063,823	997,831	6.6	27.2	17,000,598	16,777,563	1.3
Public Authorities	8.2	331,972	312,578	6.2	7.5	4,667,700	4,623,886	0.9
Interdepartmental	—	77	51	51.1	—	1,218	1,138	7.0
Resale	6.0	244,720	198,543	23.3	7.3	4,539,467	4,415,038	2.8
Subtotal	96.7	3,922,301	3,583,335	9.5	95.4	59,576,334	58,032,760	2.7
Resale-Special Contracts	2.5	99,240	44,631	122.4	2.6	1,639,158	1,071,184	53.0
Public Authorities-Special	0.1	5,007	3,407	47.0	2.0	1,235,827	811,243	52.3
Total Sales of Electric Energy	99.3	4,026,548	3,631,373	10.9	100.0	62,451,319	59,915,187	4.2
Other Electric Revenues	0.7	27,808	29,744	(6.5)	—	—	—	
Total	100.0	$4,054,356	$3,661,117	10.7	100.0	62,451,319	59,915,187	4.2

Selected Financial Data 1971–1981

		1981	1980
Summary of Operations *(in thousands except percent and per share data)*	Operating Revenues	$4,054,356	$3,661,117
	Operating Expenses	3,563,201	3,288,983
	Energy Costs (a)	2,467,933	2,371,827
	Taxes on Income—Current and Deferred (a)	197,865	38,683
	Allowance for Debt and Equity Funds Used During Construction	232,552	162,287
	Interest Charges	340,977	282,656
	Net Income	489,912	317,536
	Earnings Available for Common and Original Preferred Stock	$ 422,024	$ 256,586
	Weighted Average Shares of Common and Original Preferred Stock Outstanding and Common Stock Equivalents	85,610	73,241
	Per Share Data:		
	Primary Earnings	$4.93	$3.50
	Fully Diluted Earnings	$4.91	$3.48
	Dividends Declared Per Common Share	$3.10	$2.84
	Dividend Payout Ratio (paid basis)	61.5%	79.4%
Balance Sheet Data *(in thousands of dollars except percent and per share data)*	Total Assets	$8,728,543	$7,733,898
	Gross Utility Plant	9,517,670	8,406,309
	Accumulated Provision for Depreciation	2,015,212	1,840,233
	Percent of Gross Utility Plant	21.2%	21.9%
	Long-term Debt (excludes current maturities) (b) :		
	Bonds	3,224,867	2,938,796
	Debentures	—	—
	Other	219,213	7,028
	Preferred Stock—Subject to Mandatory Redemption/Repurchase Requirements	399,500	399,500
	Preferred Stock—Other	476,308	482,652
	Common Stock, including Additional Stated Capital	776,523	673,921
	Additional Paid-in Capital	953,268	763,519
	Earnings Reinvested in the Business	$1,238,317	$1,092,137
	Capital Structure (percent):		
	Long-term Debt (excludes current maturities) (b):		
	Bonds	44.3%	46.2%
	Debentures	—	—
	Other	3.0	0.1
	Preferred & Preference Stock	12.0	13.9
	Common Equity	40.7	39.8
	Rate of Return on Common Equity	14.87%	10.44%
	Book Value Per Common Share	$33.74	$33.19
Operating and Sales Data	Area Generating Capacity at Peak (MW) (c)	15,592	15,504
	Total Energy Requirement (KWH) (000)	69,179,641	65,459,278
	Percent Output:		
	Thermal	67.7%	71.4%
	Hydro-Company Plants	5.7	9.0
	Purchased Power & Other Sources	26.6	19.6
	Kilowatt-Hour Sales (000)	62,451,319	59,915,187
	Number of Customers	3,232,687	3,163,968
	Average Annual KWH Sales Per Residential Customer	5,879	5,939
	Number of Employees	14,569	14,157
	Area Peak Demand (MW)	13,738	12,841

(a) Included in Operating Expenses.

1979	1978	1977	1976	1975	1974	1973	1972	1971
$2,563,974	$2,328,798	$2,064,914	$1,846,540	$1,647,134	$1,360,959	$1,075,949	$ 927,674	$ 802,434
2,178,978	2,004,197	1,734,192	1,539,400	1,380,528	1,108,249	843,530	709,724	612,732
1,344,023	1,240,029	1,040,091	916,131	824,826	541,890	344,990	240,135	192,982
100,292	72,803	68,792	59,506	46,623	70,618	46,496	44,542	38,542
118,566	78,[illegible]	60,238	47,610	26,773	16,163	10,190	7,152	15,859
205,082	182,658	161,078	144,368	126,185	112,959	97,728	91,752	82,308
346,219	251,683	251,979	226,798	176,781	160,344	146,110	135,648	127,297
$ 292,481	$ 202,226	$ 206,330	$ 185,047	$ 137,177	$ 124,656	$ 117,268	$ 110,469	$ 105,752
64,202	57,477	54,347	48,678	47,965	44,580	43,965	43,965	43,041
$4.56	$3.52	$3.80	$3.80	$2.86	$2.80	$2.67	$2.51	$2.46
$4.39	$3.38	$3.63	$3.61	$2.75	$2.68	$2.57	$2.43	$2.37
$2.60	$2.30	$2.06	$1.68	$1.68	$1.68	$1.56	$1.56	$1.51½
[illegible].7%	63.6%	50.5%	44.2%	58.7%	58.9%	58.4%	62.2%	61.0%
$6,977,237	$6,057,697	$5,725,266	$5,020,843	$4,729,444	$4,481,488	$3,893,379	$3,774,664	$3,498,985
7,577,670	6,810,891	6,191,733	5,658,433	5,147,[illegible]	4,766,175	4,458,631	4,233,067	3,998,045
1,676,148	1,519,174	1,383,009	1,258,327	1,149,311	1,051,024	958,210	851,910	779,409
22.1%	22.3%	22.3%	22.2%	22.3%	22.1%	21.5%	20.1%	19.5%
2,685,632	2,388,212	2,219,716	2,055,966	1,931,757	1,863,951	1,640,349	1,640,139	1,584,840
—	75,046	75,135	75,224	75,313	75,401	75,490	75,579	74,902
60,575	14,216	20,023	20,671	25,968	14,327	6,871	7,991	7,991
324,500	197,000	197,000	75,000	75,000	75,000	75,000	—	—
489,822	503,650	518,172	537,753	537,753	487,753	437,753	437,753	362,753
577,259	547,166	470,374	442,741	395,709	395,709	362,376	362,376	362,376
601,578	569,673	443,109	427,422	350,503	350,503	316,636	316,636	316,636
$1,054,296	$ 931,217	$ 862,956	$ 769,425	$ 671,548	$ 616,562	$ 569,938	$ 512,164	$ 470,754
46.4%	45.7%	46.2%	46.7%	47.5%	48.1%	47.1%	48.9%	49.9%
—	1.4	1.5	1.7	1.9	1.9	2.2	2.3	2.4
1.0	0.3	0.4	0.5	0.6	0.4	0.2	0.2	0.2
14.1	13.4	14.9	13.9	15.1	14.5	14.7	13.1	11.4
38.5	39.2	37.0	37.2	34.9	35.1	35.8	35.5	36.1
13.58%	10.74%	11.98%	12.40%	9.78%	9.35%	9.59%	9.42%	9.58%
$34.22	$32.57	$32.30	$30.67	$29.64	$28.50	$28.46	$27.14	$26.20
15,071	14,966	14,278	14,071	13,941	13,750	13,500	12,819	11,575
66,216,910	63,877,116	63,344,706	59,427,973	56,279,231	55,105,988	57,730,121	55,686,776	52,672,084
82.1%	73.9%	87.5%	75.2%	76.2%	75.2%	84.9%	86.6%	80.0%
7.6	9.2	2.4	4.3	8.4	10.0	9.0	6.4	8.4
10.3	16.9	10.1	20.5	15.4	14.8	6.1	7.0	11.6
59,517,861	57,027,035	57,726,273	53,685,378	51,327,508	51,089,981	54,092,934	52,309,906	48,856,493
3,082,382	2,986,545	2,900,856	2,814,403	2,749,680	2,691,691	2,626,492	2,566,341	2,497,342
6,010	5,883	5,630	5,650	5,596	5,541	5,885	5,777	5,642
12,917	12,845	12,671	12,510	12,377	12,970	13,391	12,907	12,534
12,662	12,159	11,564	11,292	10,369	10,279	10,535	10,317	9,817

(b) The years subsequent to 1971 include unamortized premium or discount related to each category of long-term debt.

(c) Includes 2,323, 2,283 and 1,944 MW available from others in 1981, 1980 and 1979, respectively.

Board of Directors

William R. Gould, *Chairman of the Board and Chief Executive Officer*

Howard P. Allen, *President*

Roy A. Anderson, *Chairman of the Board and Chief Executive Officer, Lockheed Corporation, Burbank, California*

Norman Barker, Jr., *Chairman of the Board and Chief Executive Officer, First Interstate Bank of California, and Vice Chairman of the Board, First Interstate Bancorp, Los Angeles, California*

Edward W. Carter, *Chairman of the Board, Carter Hawley Hale Stores, Inc., Los Angeles, California*

Warren Christopher, *Senior Partner, Law Firm of O'Melveny & Myers, Los Angeles, California*

Walter B. Gerken, *Chairman of the Board and Chief Executive Officer, Pacific Mutual Life Insurance Company, Newport 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*

Frederick G. Larkin, Jr., *Chairman of the Executive Committee, Security Pacific National Bank, Los Angeles, California*

T. M. McDaniel, Jr., *Corporate Director and Consultant (Retired President, Southern California Edison Company), San Marino, California*

John V. Newman, *President, CBS-Sony California, Inc. (Citrus Production), Oxnard, California*

Gerald H. Phipps, *President, Gerald H. Phipps, Inc., General Contractors (Building Construction), Denver, Colorado*

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

E. L. Shannon, Jr., *Chairman of the Board and Chief Executive Officer, Santa Fe International Corporation (Oil Service, Engineering, Petroleum Exploration and Production), Alhambra, California*

H. Russell Smith, *Chairman of the Board, Avery International (Manufacturer of Self-Adhesive Products), Pasadena, California*

Richard R. Von Hagen, *President, Lloyd Corporation, Ltd. (Real Estate Development and Production of Oil and Gas), Beverly Hills, California*

Executive Officers

William R. Gould, *Chairman of the Board and Chief Executive Officer*

Howard P. Allen, *President*

H. Fred Christie, *Executive Vice President and Chief Financial Officer*

(1)David J. Fogarty, *Senior Vice President*

A. Arenal, *Vice President (Engineering and Construction)*

G. J. Bjorklund, *Vice President (System Development)*

Robert Dietch, *Vice President (Nuclear Engineering and Operations)*

C. E. Hathaway, *Vice President (Human Resources)*

Joe T. Head, Jr., *Vice President (Power Supply)*

P. L. Martin, *Vice President (Customer Service)*

A. L. Maxwell, *Vice President and Comptroller*

Edward A. Myers, Jr., *Vice President (Conservation, Communications and Revenue Services)*

Michael L. Noel, *Vice President and Treasurer*

L. T. Papay, *Vice President (Advanced Engineering)*

William H. Seaman, *Vice President (Fuel Supply)*

Robert E. Umbaugh, *Vice President (Administration)*

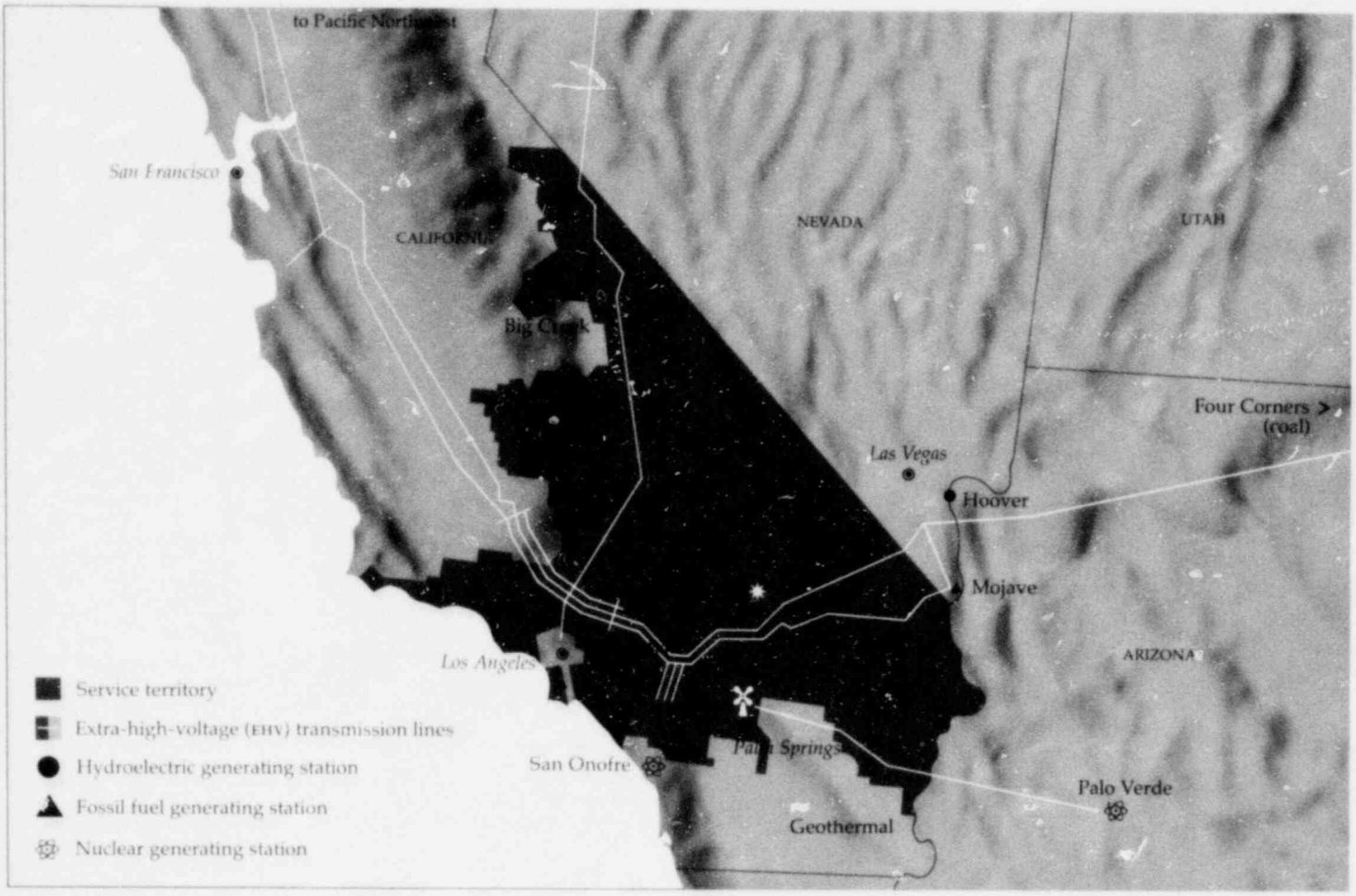
(2)John R. Bury, *General Counsel*

Honor Muller, *Secretary*

(1) Mr. Fogarty was elected Executive Vice President, effective January 1, 1982

(2) Mr. Bury was elected Vice President and General Counsel, effective January 1, 1982

Southern California Edison Company System



1982 Annual Shareholders' Meeting:
The annual meeting of shareholders of Southern California Edison Company will be held at 10 a.m., Thursday, April 15, 1982, at the Company's Corporate Headquarters, 2244 Walnut Grove Avenue, Rosemead, California 91770. Telephone (213) 572-1212.

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

This Annual Report and the statements and statistics contained herein have been assembled for general informative purposes and are not intended to induce, or for use in connection with, any sale or purchase of securities. Under no circumstances is this report or any part of its contents to be considered a prospectus, or as an offer to sell, or the solicitation of an offer to buy, any securities.

For Investor Relations:
Institutional Investors contact:
Treasurer's Department
Manager of Investor Relations
Telephone (213) 572-1090

Individual Shareholders contact:
Southern California Edison Company
Secretary's Department—Room 240
Post Office Box 400
Rosemead, California 91770

For Dividend Reinvestment and Stock Purchase Plan information:
Telephone (213) 572-1852 or
(213) 572-1995

For other shareholder inquiries: (Dividends, account status, etc.)
Telephone (213) 572-1997

Stock Transfer Agent:
Southern California Edison Company
Post Office Box 400
Rosemead, California 91770
Telephone (213) 572-1393 or
(213) 572-1394

Registrar of Stock:
Security Pacific National Bank
Los Angeles, California

Dividend Reinvestment and Stock Purchase Plan Agent:
Bank of America N.T. & S.A.
San Francisco, California

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

Preferred and Preference Stocks:
American Stock Exchange
Pacific Stock Exchange

Ticker Symbol:
SCE (Common Stock)

Media Listings:
SCalEd