EDISON INTERNATIONAL
Form 10-Q
November 02, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-9936

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

California	95-4137452
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2244 Walnut Grove Avenue (P. O. Box 976) Rosemead, California	91770
(Address of principal executive offices)	(Zip Code)

(626) 302-2222
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No £
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes S No £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer S	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at October 31, 2011
Common Stock, no par value	325,811,206

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GLOSSARY

The following terms and abbreviations appearing in the text of this report have the meanings indicated below.

2010 Form 10-K	Edison International's Annual Report on Form 10-K for the year-ended December 31, 2010
2010 Tax Relief Act	Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010
AFUDC	allowance for funds used during construction
Ambit project	American Bituminous Power Partners, L.P.
AOI	Adjusted Operating Income (Loss)
APS	Arizona Public Service Company
ARO(s)	asset retirement obligation(s)
BACT	best available control technology
BART	best available retrofit technology
Bcf	billion cubic feet
Big 4	Kern River, Midway-Sunset, Sycamore and Watson natural gas power projects
Btu	British thermal units
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
CAMR	Clean Air Mercury Rule
CARB	California Air Resources Board
CDWR	California Department of Water Resources
CEC	California Energy Commission
coal plants	Midwest Generation coal plants and Homer City plant
Commonwealth Edison	Commonwealth Edison Company
CPS	Combined Pollutant Standard
CPUC	California Public Utilities Commission
CSAPR	Cross-State Air Pollution Rule
CRRs	congestion revenue rights
DOE	U.S. Department of Energy
EME	Edison Mission Energy
EMG	Edison Mission Group Inc.
EMMT	Edison Mission Marketing & Trading, Inc.
EPS	earnings per share
ERRA	energy resource recovery account
EWG	Exempt Wholesale Generator
Exelon Generation	Exelon Generation Company LLC
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGIC	Financial Guarantee Insurance Company
FIP(s)	federal implementation plan(s)
Four Corners	coal fueled electric generating facility located in Farmington, New Mexico in which SCE holds a 48% ownership interest
GAAP	generally accepted accounting principles
GHG	greenhouse gas
Global Settlement	A settlement between Edison International and the IRS that resolved federal tax disputes related to Edison Capital's cross-border, leveraged leases through 2009, and all other outstanding federal tax disputes and affirmative claims for tax years 1986 through 2002 and related matters with state tax authorities.

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GRC	general rate case
GWh	gigawatt-hours
Homer City	EME Homer City Generation L.P., a Pennsylvania limited partnership that leases and operates three coal-fired electric generating units and related facilities located in Indiana County, Pennsylvania
Illinois EPA	Illinois Environmental Protection Agency
IRS	Internal Revenue Service
ISO	Independent System Operator
kWh(s)	kilowatt-hour(s)
LIBOR	London Interbank Offered Rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations in this report
Midwest Generation	Midwest Generation, LLC, a Delaware limited liability company that owns and/or leases, and that operates, the Midwest Generation plants
Midwest Generation plants	Midwest Generation's power plants (fossil fuel) located in Illinois
MMBtu	million British thermal units
Mohave	two coal fueled electric generating facilities that no longer operate located in Clark County, Nevada in which SCE holds a 56% ownership interest
Moody's	Moody's Investors Service
MRTU	Market Redesign and Technology Upgrade
MW	megawatts
MWh	megawatt-hours
NAAQS	national ambient air quality standards
NAPP	Northern Appalachian
NERC	North American Electric Reliability Corporation
Ninth Circuit	U.S. Court of Appeals for the Ninth Circuit
NOV	notice of violation
NOx	nitrogen oxide
NRC	Nuclear Regulatory Commission
NSR	New Source Review
NYISO	New York Independent System Operator
PADEP	Pennsylvania Department of Environmental Protection
Palo Verde	large pressurized water nuclear electric generating facility located near Phoenix, Arizona in which SCE holds a 15.8% ownership interest
PBOP(s)	postretirement benefits other than pension(s)
PBR	performance-based ratemaking
PG&E	Pacific Gas & Electric Company
PJM	PJM Interconnection, LLC
PRB	Powder River Basin
PSD	Prevention of Significant Deterioration
QF(s)	qualifying facility(ies)
ROE	return on equity
RPM	Reliability Pricing Model
RTO(s)	Regional Transmission Organization(s)
S&P	Standard & Poor's Ratings Services
San Onofre	large pressurized water nuclear electric generating facility located in south San Clemente, California in which SCE holds a 78.21% ownership interest
SCE	Southern California Edison Company

SNCR	selective non-catalytic reduction

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SDG&E	San Diego Gas & Electric
SEC	U.S. Securities and Exchange Commission
SIP(s)	state implementation plan(s)
SO_2	sulfur dioxide
US EPA	U.S. Environmental Protection Agency
VIE(s)	variable interest entity(ies)
year-ended 2010 MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the 2010 Form 10-K

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Consolidated Statements of Income — Edison International

(in millions, except per-share amounts, unaudited)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Electric utility	$3,385	$3,097	$8,060	$7,502
Competitive power generation	596	691	1,686	1,838
Total operating revenue	3,981	3,788	9,746	9,340
Fuel	352	328	866	877
Purchased power	1,264	1,118	2,422	2,337
Operations and maintenance	1,119	1,102	3,531	3,287
Depreciation, decommissioning and amortization	436	378	1,288	1,127
Total operating expenses	3,171	2,926	8,107	7,628
Operating income	810	862	1,639	1,712
Interest and dividend income	4	4	38	27
Equity in income from unconsolidated affiliates – net	56	62	68	101
Other income	27	33	110	103
Interest expense	(203)	(175)	(601)	(518)
Other expenses	(11)	(12)	(37)	(39)
Income from continuing operations before income taxes	683	774	1,217	1,386
Income tax expense	242	247	369	261
Income from continuing operations	441	527	848	1,125
Income (loss) from discontinued operations – net of tax	—	(4)	(3)	4
Net income	441	523	845	1,129
Dividends on preferred and preference stock of utility	15	13	44	39
Other noncontrolling interests	—	—	(1)	—
Net income attributable to Edison International common shareholders	$426	$510	$802	$1,090
Amounts attributable to Edison International common shareholders:				
Income from continuing operations, net of tax	$426	$514	$805	$1,086
Income (loss) from discontinued operations, net of tax	—	(4)	(3)	4
Net income attributable to Edison International common shareholders	$426	$510	$802	$1,090
Basic earnings per common share attributable to Edison International common shareholders:				
Weighted-average shares of common stock outstanding	326	326	326	326
Continuing operations	$1.31	$1.57	$2.47	$3.32
Discontinued operations	—	(0.01)	(0.01)	0.01
Total	$1.31	$1.56	$2.46	$3.33
Diluted earnings per common share attributable to Edison International common shareholders:				
Weighted-average shares of common stock outstanding, including effect of dilutive securities	329	328	329	328
Continuing operations	$1.30	$1.57	$2.46	$3.30
Discontinued operations	—	(0.01)	(0.01)	0.01
Total	$1.30	$1.56	$2.45	$3.31

Dividends declared per common share	$0.320	$0.315	$0.960	$0.945

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

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Consolidated Statements of Comprehensive Income Edison International

(in millions, unaudited)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Net income	$441	$523	$845	$1,129
Other comprehensive income (loss), net of tax:				
Pension and postretirement benefits other than pensions:				
Net gain arising during the period, net of income tax expense of $2 for the nine months ended September 30, 2010	—	1	—	13
Amortization of net (gain) loss included in net income, net of income tax expense (benefit) of $1 and $1 for the three months and $4 and $(3) for the nine months ended September 30, 2011 and 2010, respectively	3	1	7	(5)
Prior service credit arising during the period, net of income tax expense of $1 for the nine months ended September 30, 2010	—	—	—	2
Amortization of prior service credit, net of income tax benefit of $1 for the nine months ended September 30, 2010	—	—	—	(2)
Unrealized gain (loss) on derivatives qualified as cash flow hedges:				
Unrealized holding gain (loss) arising during the period, net of income tax expense (benefit) of $(19) and $29 for the three months and $(24) and $41 for the nine months ended September 30, 2011 and 2010, respectively	(30)	43	(38)	61
Reclassification adjustments included in net loss, net of income tax benefit of none and $5 for the three months and $12 and $54 for the nine months ended September 30, 2011 and 2010, respectively	—	(7)	(17)	(80)
Other comprehensive income (loss)	(27)	38	(48)	(11)
Comprehensive income	414	561	797	1,118
Less: Comprehensive income attributable to noncontrolling interests	15	13	43	39
Comprehensive income attributable to Edison International	$399	$548	$754	$1,079

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

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Consolidated Balance Sheets	Edison International	
(in millions, unaudited)	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$1,384	$ 1,389
Receivables, less allowances of $97 and $85 for uncollectible accounts at respective dates	1,218	931
Accrued unbilled revenue	709	442
Inventory	592	568
Prepaid taxes	72	390
Derivative assets	100	133
Restricted cash	15	2
Margin and collateral deposits	54	65
Regulatory assets	454	378
Other current assets	153	124
Total current assets	4,751	4,422
Nuclear decommissioning trusts	3,393	3,480
Investments in unconsolidated affiliates	569	559
Other investments	231	223
Total investments	4,193	4,262
Utility property, plant and equipment, less accumulated depreciation of $6,745 and $6,319 at respective dates	26,490	24,778
Competitive power generation and other property, plant and equipment, less accumulated depreciation of $2,083 and $1,865 at respective dates	5,579	5,406
Total property, plant and equipment	32,069	30,184
Derivative assets	191	437
Restricted deposits	43	47
Rent payments in excess of levelized rent expense under plant operating leases	1,320	1,187
Regulatory assets	4,486	4,347
Other long-term assets	619	644
Total long-term assets	6,659	6,662
Total assets	$47,672	$ 45,530

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

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Consolidated Balance Sheets — Edison International

(in millions, except share amounts, unaudited)	September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Short-term debt	$ 560	$ 115
Current portion of long-term debt	51	48
Accounts payable	1,224	1,362
Accrued taxes	128	52
Accrued interest	207	205
Customer deposits	203	217
Derivative liabilities	290	217
Regulatory liabilities	734	738
Other current liabilities	764	998
Total current liabilities	4,161	3,952
Long-term debt	13,010	12,371
Deferred income taxes	6,003	5,625
Deferred investment tax credits	89	122
Customer advances	133	112
Derivative liabilities	344	468
Pensions and benefits	2,293	2,260
Asset retirement obligations	2,658	2,561
Regulatory liabilities	4,481	4,524
Other deferred credits and other long-term liabilities	2,454	2,041
Total deferred credits and other liabilities	18,455	17,713
Total liabilities	35,626	34,036
Commitments and contingencies (Note 9)		
Common stock, no par value (800,000,000 shares authorized; 325,811,206 shares issued and outstanding at each date)	2,346	2,331
Accumulated other comprehensive loss	(124)	(76)
Retained earnings	8,793	8,328
Total Edison International's common shareholders' equity	11,015	10,583
Preferred and preference stock of utility	1,029	907
Other noncontrolling interests	2	4
Total noncontrolling interests	1,031	911
Total equity	12,046	11,494
Total liabilities and equity	$ 47,672	$ 45,530

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

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Consolidated Statements of Cash Flows — Edison International

(in millions, unaudited)	Nine months ended September 30, 2011	2010
Cash flows from operating activities:		
Net income	$845	$1,129
Less: Income (loss) from discontinued operations	(3)	4
Income from continuing operations	848	1,125
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, decommissioning and amortization	1,288	1,127
Regulatory impacts of net nuclear decommissioning trust earnings	131	106
Other amortization	112	90
Stock-based compensation	22	20
Equity in income from unconsolidated affiliates – net	(68)	(101)
Distributions from unconsolidated entities	52	76
Deferred income taxes and investment tax credits	373	414
Proceeds from U.S. treasury grants	310	92
Income from leveraged leases	(4)	(3)
Changes in operating assets and liabilities:		
Receivables	(205)	(184)
Inventory	(20)	(27)
Margin and collateral deposits – net of collateral received	6	32
Prepaid taxes	318	33
Other current assets	(319)	(224)
Rent payments in excess of levelized rent expense	(133)	(148)
Accounts payable	178	28
Accrued taxes	76	(23)
Other current liabilities	(189)	(129)
Derivative assets and liabilities – net	137	1,079
Regulatory assets and liabilities – net	(73)	(530)
Other assets	(14)	(40)
Other liabilities	1	(67)
Operating cash flows from discontinued operations	(3)	4
Net cash provided by operating activities	2,824	2,750
Cash flows from financing activities:		
Long-term debt issued	686	1,652
Long-term debt issuance costs	(24)	(35)
Long-term debt repaid	(97)	(371)
Bonds purchased	(86)	—
Preference stock issued – net	123	—
Short-term debt financing – net	573	13
Settlements of stock-based compensation – net	(14)	(7)
Dividends and distributions to noncontrolling interests	(43)	(39)
Dividends paid	(313)	(308)
Net cash provided by financing activities	$805	$905

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

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Consolidated Statements of Cash Flows — Edison International

(in millions, unaudited)	Nine months ended September 30, 2011	2010
Cash flows from investing activities:		
Capital expenditures	$(3,491)	$(3,129)
Purchase of interest in acquired companies	(3)	(4)
Proceeds from sale of nuclear decommissioning trust investments	2,108	903
Purchases of nuclear decommissioning trust investments and other	(2,254)	(1,036)
Proceeds from partnerships and unconsolidated subsidiaries, net of investment	6	35
Investments in other assets	—	3
Effect of consolidation and deconsolidation of variable interest entities	—	(91)
Net cash used by investing activities	(3,634)	(3,319)
Net increase (decrease) in cash and cash equivalents	(5)	336
Cash and cash equivalents, beginning of period	1,389	1,673
Cash and cash equivalents, end of period	$1,384	$2,009

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Edison International has two business segments for financial reporting purposes: an electric utility operation segment (SCE) and a competitive power generation segment (EMG). SCE is an investor-owned public utility primarily engaged in the business of supplying electricity to an approximately 50,000 square mile area of southern California. EMG is the holding company for its principal wholly owned subsidiary, EME. EME is a holding company with subsidiaries and affiliates engaged in the business of developing, acquiring, owning or leasing, operating and selling energy and capacity from independent power production facilities. EME also engages in hedging and energy trading activities in competitive power markets through its Edison Mission Marketing & Trading, Inc. ("EMMT") subsidiary.

Basis of Presentation

Edison International's significant accounting policies were described in Note 1 of "Edison International Notes to Consolidated Financial Statements" included in the 2010 Form 10-K. Edison International follows the same accounting policies for interim reporting purposes, with the exception of accounting principles adopted as of January 1, 2011, discussed below in "—New Accounting Guidance." This quarterly report should be read in conjunction with the financial statements and notes included in the 2010 Form 10-K.

In the opinion of management, all adjustments, including recurring accruals, have been made that are necessary to fairly state the consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America ("GAAP") for the periods covered by this quarterly report on Form 10-Q. The results of operations for the three- and nine-month periods ended September 30, 2011 are not necessarily indicative of the operating results for the full year.

The December 31, 2010 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

Cash Equivalents

Cash equivalents included investments in money market funds totaling $1.1 billion at both September 30, 2011 and December 31, 2010. Generally, the carrying value of cash equivalents equals the fair value, as these investments have maturities of three months or less.

Edison International temporarily invests the ending daily cash balance in its primary disbursement accounts until required for check clearing. Edison International reclassified $215 million and $197 million of checks issued against these accounts, but not yet paid by the financial institution, from cash to accounts payable at September 30, 2011 and December 31, 2010, respectively.

Inventory

Inventory is stated at the lower of cost or market, cost being determined by the weighted-average cost method for fuel, and the average cost method for materials and supplies. Inventory consisted of the following:

(in millions)	September 30, 2011	December 31, 2010
Coal, gas, fuel oil and other raw materials	$191	$184
Spare parts, materials and supplies	401	384
Total inventory	$592	$568

Earnings Per Share

Edison International computes earnings per share ("EPS") using the two-class method, which is an earnings allocation formula that determines EPS for each class of common stock and participating security. Edison International's participating securities are stock-based compensation awards payable in common shares, including stock options, performance shares and restricted stock units, which earn dividend equivalents on an equal basis with common shares. Stock options awarded during the period 2003 through 2006 received dividend equivalents. EPS attributable to Edison International common shareholders was computed as follows:

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(in millions)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Basic earnings per share – continuing operations:				
Income from continuing operations attributable to common shareholders, net of tax	$426	$514	$805	$1,086
Participating securities dividends	—	(3)	—	(5)
Income from continuing operations available to common shareholders	$426	$511	$805	$1,081
Weighted average common shares outstanding	326	326	326	326
Basic earnings per share – continuing operations	$1.31	$1.57	$2.47	$3.32
Diluted earnings per share – continuing operations:				
Income from continuing operations available to common shareholders	$426	$511	$805	$1,081
Income impact of assumed conversions	1	2	3	3
Income from continuing operations available to common shareholders and assumed conversions	$427	$513	$808	$1,084
Weighted average common shares outstanding	326	326	326	326
Incremental shares from assumed conversions	3	2	3	2
Adjusted weighted average shares – diluted	329	328	329	328
Diluted earnings per share – continuing operations	$1.30	$1.57	$2.46	$3.30

Stock-based compensation awards to purchase 5,943,378 and 9,700,218 shares of common stock for the three months ended September 30, 2011 and 2010, respectively, and 8,970,290 and 6,154,826 shares of common stock for the nine months ended September 30, 2011 and 2010 respectively, were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the awards was greater than the average market price of the common shares during the respective periods and, therefore, the effect would have been antidilutive.

New Accounting Guidance

Accounting Guidance Adopted in 2011

Revenue—Multiple-Deliverables

In October 2009, the Financial Accounting Standards Board ("FASB") issued amended guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenues based on those separate deliverables. This update also requires additional disclosure related to the significant assumptions used to determine the revenue recognition of the separate deliverables. This guidance is required to be applied prospectively to new or significantly modified revenue arrangements. Edison International adopted this guidance effective January 1, 2011. The adoption of this accounting standards update did not have a material impact on Edison International's consolidated results of operations, financial position or cash flows.

Fair Value Measurements and Disclosures

The FASB issued an accounting standards update modifying the disclosure requirements related to fair value measurements. Under these requirements, purchases and settlements for Level 3 fair value measurements are presented on a gross basis, rather than net. Edison International adopted this guidance effective January 1, 2011.

Accounting Guidance Not Yet Adopted

Fair Value Measurement

In May 2011, the FASB issued an accounting standards update modifying the fair value measurement and disclosure guidance. This guidance prohibits grouping of financial instruments for purposes of fair value measurement and requires the value be based on the individual security. This amendment also results in new disclosures primarily related to Level 3 measurements including quantitative disclosure about unobservable inputs and assumptions, a description of the valuation processes and a narrative description of the sensitivity of the fair value to changes in unobservable inputs. Edison International will adopt this

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guidance effective January 1, 2012 and does not expect the adoption of this standard will have a material impact on Edison International's consolidated statements of income, financial position or cash flows.

Presentation of Comprehensive Income

In June 2011, the FASB issued an accounting standards update on the presentation of comprehensive income. An entity can elect to present items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate but consecutive statements. Edison International will adopt this guidance effective January 1, 2012. Edison International currently presents the statement of comprehensive income immediately following the statement of income and expects to continue to do so. The adoption of this accounting standards update does not change the items that constitute net income and other comprehensive income.

Note 2. Consolidated Statements of Changes in Equity

The following table provides the changes in equity for the nine months ended September 30, 2011.

	Equity Attributable to Edison International				Noncontrolling Interests		
(in millions)	Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Subtotal	Other	Preferred and Preference Stock	Total Equity
Balance at December 31, 2010	$2,331	$ (76)	$8,328	$10,583	$4	$907	$11,494
Net income (loss)	—	—	802	802	(1)	44	845
Other comprehensive loss	—	(48)	—	(48)	—	—	(48)
Common stock dividends declared ($0.96 per share)	—	—	(313)	(313)	—	—	(313)
Dividends, distributions to noncontrolling interests and other	—	—	—	—	(1)	(44)	(45)
Stock-based compensation and other	7	—	(21)	(14)	—	—	(14)
Noncash stock-based compensation and other	22	—	(3)	19	—	(1)	18
Purchase of noncontrolling interests[1]	(14)	—	—	(14)	—	—	(14)
Issuance of preference stock	—	—	—	—	—	123	123
Balance at September 30, 2011	$2,346	$ (124)	$8,793	$11,015	$2	$1,029	$12,046

1 During the nine months ended September 30, 2011, EMG purchased the remaining interests in Pinnacle Wind Force, LLC, and Broken Bow I, LLC and all assets of the Crofton Bluffs project. All three projects are now 100% owned by EMG. The purchases of the noncontrolling interests were accounted for as equity transactions between controlling and noncontrolling interest holders.

The following table provides the changes in equity for the nine months ended September 30, 2010.

	Equity Attributable to Edison International				Noncontrolling Interests		
(in millions)	Common Stock	Accumulated Other Comprehensive Income	Retained Earnings	Subtotal	Other	Preferred and Preference Stock	Total Equity
Balance at December 31, 2009	$2,304	$ 37	$7,500	$9,841	$258	$907	$11,006
Net income	—	—	1,090	1,090	—	39	1,129
Other comprehensive loss	—	(11)	—	(11)	—	—	(11)
	—	—	—	—	(249)	—	(249)

Deconsolidation of variable interest entities							
Cumulative effect of a change in accounting principle, net of tax	—	—	15	15	—	—	15
Common stock dividends declared ($0.945 per share)	—	—	(308)	(308)	—	—	(308)
Dividends, distributions to noncontrolling interests and other	—	—	—	—	(4)	(39)	(43)
Stock-based compensation and other	5	—	(12)	(7)	—	—	(7)
Noncash stock-based compensation and other	16	—	(2)	14	—	—	14
Balance at September 30, 2010	$2,325	$ 26	$8,283	$10,634	$5	$907	$11,546

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Note 3. Variable Interest Entities

A variable interest entity ("VIE") is defined as a legal entity whose equity owners do not have sufficient equity at risk, or, as a group, the holders of the equity investment at risk lack any of the following three characteristics: decision-making rights, the obligation to absorb losses, or the right to receive the expected residual returns of the entity. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. Commercial and operating activities are generally the factors that most significantly impact the economic performance of VIEs in which Edison International has a variable interest. Commercial and operating activities include construction, operation and maintenance, fuel procurement, dispatch and compliance with regulatory and contractual requirements.

Categories of Variable Interest Entities

Projects or Entities that are Consolidated

At September 30, 2011 and December 31, 2010, EMG consolidated 13 and 14 projects, respectively, with a total generating capacity of 570 MW and 580 MW, respectively, that have interests held by others. In April 2011, EMG sold its 75% ownership interest in a Minnesota wind project.

The following table presents summarized financial information of the projects that were consolidated by EMG:

(in millions)	September 30, 2011	December 31, 2010
Current assets	$40	$26
Net property, plant and equipment	702	739
Other long-term assets	6	6
Total assets	$748	$771
Current liabilities	$28	$25
Long-term debt net of current portion	67	71
Deferred revenues	69	71
Other long-term liabilities	21	21
Total liabilities	$185	$188
Noncontrolling interests	$2	$4

At September 30, 2011 and December 31, 2010, assets serving as collateral for the debt obligations had a carrying value of $160 million and $163 million, respectively, and primarily consist of property, plant and equipment.

Variable Interest in VIEs that are not Consolidated

Power Purchase Contracts

SCE has 16 power purchase agreements ("PPAs") that have variable interests in VIEs, including 6 tolling agreements through which SCE provides the natural gas to fuel the plants and 10 contracts with qualifying facilities ("QFs") that contain variable pricing provisions based on the price of natural gas. SCE has concluded that it is not the primary beneficiary of these VIEs since it does not control the commercial and operating activities of these entities. In general, because payments for capacity are the primary source of income, the most significant economic activity for SCE's VIEs is the operation and maintenance of the power plants.

As of the balance sheet date, the carrying amount of assets and liabilities in SCE's consolidated balance sheet that relate to its involvement with VIEs result from amounts due under the PPAs or the fair value of those derivative contracts. Under these contracts, SCE recovers the costs incurred under its approved long-term power procurement plans. SCE has no residual interest in the entities and has not provided or guaranteed any debt or equity support, liquidity arrangements, performance guarantees or other commitments associated with these contracts other than the purchase commitments described in Note 9. As a result, there is no significant potential exposure to loss as a result of SCE's involvement with these VIEs. The aggregate capacity dedicated to SCE for these VIE projects was 3,820 MW at September 30, 2011 and the amounts that SCE paid to these projects were $178 million and $205 million for the three months ended September 30, 2011 and 2010, respectively, and $347 million and

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$447 million for the nine months ended September 30, 2011 and 2010, respectively. These amounts are recovered in customer rates.

Equity Interests

EMG accounts for domestic gas and wind energy projects in which it has less than a 100% ownership interest, and cannot exercise unilateral control, under the equity method. At September 30, 2011 and December 31, 2010, EMG had five significant variable interests in natural gas projects that are not consolidated, consisting of the Big 4 projects (Kern River, Midway-Sunset, Sycamore and Watson) and the Sunrise project. A subsidiary of EMG operates three of the four Big 4 projects and the Sunrise project and EMG's partner provides the fuel management services for the Big 4 projects. In addition, the executive director of these projects is provided by EMG's partner. Commercial and operating activities are jointly controlled by a management committee of each VIE. Accordingly, EMG accounts for its variable interests under the equity method.

EMG accounts for its interest in three renewable wind generating facilities under the equity method. At December 31, 2010, EMG had interests in 2 renewable wind generating facilities, the Elkhorn Ridge and San Juan Mesa projects. In addition to these 2 projects, at September 30, 2011, EMG had interests in Community Wind North, which achieved commercial operation on May 28, 2011. The commercial and operating activities of these entities are jointly directed by representatives of each partner. Thus, EMG is not the primary beneficiary of these projects.

The following table presents the carrying amount of EMG's investments in unconsolidated VIEs and the maximum exposure to loss for each investment:

	September 30, 2011	
(in millions)	Investment	Maximum Exposure
Natural gas-fired projects	$340	$340
Renewable energy projects	228	228

EMG's maximum exposure to loss in its VIEs accounted for under the equity method is generally limited to its investment in these entities. One of EMG's domestic energy projects has long-term debt that is secured by a pledge of project entity assets, but does not provide for recourse to EMG. Accordingly, a default under the project financing could result in foreclosure on the assets of the project entity resulting in a loss of some or all of EMG's investment, but would not require EMG to contribute additional capital. At September 30, 2011, entities which EMG has accounted for under the equity method had indebtedness of $64 million, of which $16 million is proportionate to EMG's ownership interest in this project.

Note 4. Fair Value Measurements

Recurring Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, referred to as an exit price. Fair value of an asset or liability should consider assumptions that market participants would use in pricing the asset or liability, including assumptions about nonperformance risk.

Edison International categorizes financial assets and liabilities into a fair value hierarchy based on valuation inputs used to determine fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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The following table sets forth assets and liabilities that were accounted for at fair value by level within the fair value hierarchy:

	As of September 30, 2011				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral[1]	Total
Assets at Fair Value					
Money market funds[2]	$1,056	$—	$—	$—	$1,056
Derivative contracts:					
Electricity	—	43	213	(36)	220
Natural gas	2	61	10	(6)	67
Fuel oil	2	—	—	(2)	—
Tolling	—	—	4	—	4
Coal	—	1	—	(1)	—
Subtotal of commodity contracts	4	105	227	(45)	291
Long-term disability plan	9	—	—	—	9
Nuclear decommissioning trusts:					
Stocks[3]	1,721	—	—	—	1,721
Municipal bonds	—	767	—	—	767
U.S. government and agency securities	378	123	—	—	501
Corporate bonds[4]	—	318	—	—	318
Short-term investments, primarily cash equivalents[5]	2	151	—	—	153
Subtotal of nuclear decommissioning trusts	2,101	1,359	—	—	3,460
Total assets[6]	3,170	1,464	227	(45)	4,816
Liabilities at Fair Value					
Derivative contracts:					
Electricity	—	17	84	(18)	83
Natural gas	—	240	12	(12)	240
Fuel oil	1	—	—	(1)	—
Tolling	—	—	231	—	231
Subtotal of commodity contracts	1	257	327	(31)	554
Interest rate contracts	—	80	—	—	80
Total liabilities	1	337	327	(31)	634
Net assets (liabilities)	$3,169	$1,127	$(100)	$(14)	$4,182

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(in millions)	As of December 31, 2010 Level 1	Level 2	Level 3	Netting and Collateral[1]	Total
Assets at Fair Value					
Money market funds[2]	$1,100	$—	$—	$—	$1,100
Derivative contracts:					
Electricity	—	70	363	(61)	372
Natural gas	1	69	11	(1)	80
Fuel oil	8	—	—	(8)	—
Tolling	—	—	118	—	118
Subtotal of commodity contracts	9	139	492	(70)	570
Long-term disability plan	9	—	—	—	9
Nuclear decommissioning trusts:					
Stocks[3]	2,029	—	—	—	2,029
Municipal bonds	—	790	—	—	790
Corporate bonds[4]	—	346	—	—	346
U.S. government and agency securities	215	73	—	—	288
Short-term investments, primarily cash equivalents[5]	1	31	—	—	32
Subtotal of nuclear decommissioning trusts	2,245	1,240	—	—	3,485
Total assets[6]	3,363	1,379	492	(70)	5,164
Liabilities at Fair Value					
Derivative contracts:					
Electricity	—	13	40	(21)	32
Natural gas	—	286	11	(4)	293
Tolling	—	—	344	—	344
Coal	—	1	—	(1)	—
Subtotal of commodity contracts	—	300	395	(26)	669
Interest rate contracts	—	16	—	—	16
Total liabilities	—	316	395	(26)	685
Net assets (liabilities)	$3,363	$1,063	$97	$(44)	$4,479

1 Represents the netting of assets and liabilities under master netting agreements and cash collateral across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

2 Money market funds are included in cash and cash equivalents and restricted cash on Edison International's consolidated balance sheets.

3 Approximately 69% and 67% of the equity investments were located in the United States at September 30, 2011 and December 31, 2010, respectively.

4 At September 30, 2011 and December 31, 2010, corporate bonds were diversified and included collateralized mortgage obligations and other asset backed securities of $21 million and $27 million, respectively.

5 Excludes net liabilities of $67 million and $5 million at September 30, 2011 and December 31, 2010, respectively, of interest and dividend receivables and receivables related to pending securities sales and payables related to pending securities purchases.

6 Excludes $31 million at both September 30, 2011 and December 31, 2010, of cash surrender value of life insurance investments for deferred compensation.

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The following table sets forth a summary of changes in the fair value of Level 3 assets and liabilities:

(in millions)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Fair value, net asset (liabilities) at beginning of period	$(275)	$(703)	$97	$62
Total realized/unrealized gains (losses):				
Included in earnings[1]	(4)	24	14	51
Included in regulatory assets and liabilities[2]	162 [3]	(142)	(220) [3]	(924)
Included in accumulated other comprehensive income	1	1	(2)	5
Purchases	24	15	51	48
Settlements	(8)	(76)	(38)	(128)
Transfers in or out of Level 3	—	(12)	(2)	(7)
Fair value, net liability at end of period	$(100)	$(893)	$(100)	$(893)
Change during the period in unrealized losses related to assets and liabilities held at the end of the period[4]	$(110)	$(163)	$(425)	$(882)

1 Reported in "Competitive power generation" revenue on Edison International's consolidated statements of income.

2 Due to regulatory mechanisms, SCE's realized and unrealized gains and losses are recorded as regulatory assets and liabilities.

3 Includes the elimination of the fair value of derivatives with SCE's consolidated affiliates.

4 Amounts reported in "Competitive power generation" revenue on Edison International's consolidated statements of income was a loss of $3 million for the three months ended September 30, 2010, and gains of $7 million and $1 million for the nine months ended September 30, 2011 and 2010, respectively. The remainder of the unrealized losses relate to SCE. See 2 above.

Edison International determines the fair value for transfers in and transfers out of each level at the end of each reporting period. There were no significant transfers between levels during 2011 and 2010.

Valuation Techniques Used to Determine Fair Value

Level 1

Includes financial assets and liabilities where fair value is determined using unadjusted quoted prices in active markets that are available at the measurement date for identical assets and liabilities. Financial assets and liabilities classified as Level 1 include exchange-traded equity securities, exchange traded derivatives, U.S. treasury securities and money market funds.

Level 2

Pricing inputs include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the derivative instrument. Financial assets and liabilities utilizing Level 2 inputs include fixed-income securities and over-the-counter derivatives.

Derivative contracts that are over-the-counter traded are valued using pricing models to determine the net present value of estimated future cash flows and are generally classified as Level 2. Inputs to the pricing models include forward published or posted clearing prices from exchanges (New York Mercantile Exchange and Intercontinental Exchange) for similar instruments and discount rates. A primary source that best represents traded activity for each market is used to develop observable forward market prices in determining the fair value of these positions. Broker quotes or prices from exchanges are used to validate and corroborate the primary source. These price quotations reflect mid-market prices (average of bid and ask) and are obtained from sources believed to provide the most liquid market for the commodity. Broker quotes are incorporated when corroborated with other information which may include a combination of prices from exchanges, other brokers and comparison to executed trades.

Level 3

Includes financial assets and liabilities where fair value is determined using techniques that require significant unobservable inputs. Over-the-counter options, bilateral contracts, capacity contracts, QF contracts, derivative contracts that trade infrequently (such as congestion revenue rights ("CRRs") in the California market), long-term power agreements, and derivative contracts with counterparties that have significant nonperformance risks are generally valued using pricing models that incorporate unobservable inputs and are classified as Level 3. Assumptions are made in order to value derivative contracts in which observable inputs are not available. In circumstances where Edison International cannot verify fair value with observable market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. As markets continue to develop and more pricing information becomes available, Edison International continues to assess valuation methodologies used to determine fair value.

For derivative contracts that trade infrequently (illiquid financial transmission rights and CRRs), changes in fair value are based on models forecasting the value of those contracts. The models' inputs are reviewed and the fair value is adjusted when it is concluded that a change in inputs would result in a new valuation that better reflects the fair value of those derivative contracts. For illiquid long-term power agreements, fair value is based upon the discounting of future electricity and natural gas prices derived from a proprietary model using the risk free discount rate for a similar duration contract, adjusted for credit risk and market liquidity. Changes in fair value are based on changes to forward market prices, including forecasted prices for illiquid forward periods. The fair value of the majority of SCE's derivatives that are classified as Level 3 is determined using uncorroborated non-binding broker quotes and models which may require SCE to extrapolate short-term observable inputs in order to calculate fair value. Broker quotes are obtained from several brokers and compared against each other for reasonableness.

Nonperformance Risk

The fair value of the derivative assets and liabilities are adjusted for nonperformance risk. To assess nonperformance risks, SCE considers the probability of and the estimated loss incurred if a party to the transaction were to default. SCE also considers collateral, netting agreements, guarantees and other forms of credit support when assessing nonperformance. EMG reviews credit ratings of counterparties (and related default rates based on such credit ratings) and prices of credit default swaps. The market price (or premium) for credit default swaps represents the price that a counterparty would pay to transfer the risk of default, typically bankruptcy, to another party. A credit default swap is not directly comparable to the credit risks of derivative contracts, but provides market information of the related risk of nonperformance. The nonperformance risk adjustment represented an insignificant amount at both September 30, 2011 and December 31, 2010.

Nuclear Decommissioning Trusts

SCE's nuclear decommissioning trust investments include equity securities, U.S. treasury securities and other fixed-income securities. Equity and treasury securities are classified as Level 1 as fair value is determined by observable market prices in active or highly liquid and transparent markets. The remaining fixed-income securities are classified as Level 2. The fair value of these financial instruments is based on evaluated prices that reflect significant observable market information such as reported trades, actual trade information of similar securities, benchmark yields, broker/dealer quotes, issuer spreads, bids, offers and relevant credit information.

Fair Value of Long-Term Debt Recorded at Carrying Value

The carrying value and fair value of long-term debt are:

	September 30, 2011		December 31, 2010	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, including current portion	$13,061	$13,500	$12,419	$12,360

Fair values of long-term debt are based on evaluated prices that reflect significant observable market information such as reported trades, actual trade information of similar securities, benchmark yields, broker/dealer quotes of new issue prices and relevant credit information.

The carrying value of trade receivables, payables and short-term debt approximates fair value.

Note 5. Debt and Credit Agreements

Long-Term Debt

In May 2011, SCE issued $500 million of 3.875% first and refunding mortgage bonds due in 2021. The proceeds from these bonds were used to repay commercial paper borrowings and to fund SCE's capital program. In October 2011, SCE issued $150 million of floating rate first and refunding mortgage bonds due in 2014. The proceeds from these bonds were used to finance fuel inventories.

In May 2011 and September 2011, SCE purchased $56 million and $30 million, respectively, of its variable rate tax-exempt bonds.

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Project Financings

Walnut Creek

On July 27, 2011, EMG completed, through wholly owned subsidiaries, non-recourse financings to fund construction of the Walnut Creek project, a 479 MW natural gas-fired peaker plant in southern California. The financings included floating rate construction loans totaling $495 million that will convert to 10-year amortizing term loans by June 30, 2013, subject to meeting specified conditions, and also included $122 million of letter of credit ($40 million outstanding at September 30, 2011) and working capital facilities.

The non-recourse financings were completed in two parts. A construction plus term loan financing of $442 million that initially accrues interest at the London Interbank Offered Rate (LIBOR) plus 2.25% and increases by 0.25% after the third, sixth and ninth anniversaries of the term conversion date. An interest rate swap agreement for a portion of the construction loan fixed the floating rate at 0.81% beginning November 30, 2011 through March 31, 2013. The effective rate for the outstanding loan of $44 million was 2.48% at September 30, 2011. Under the swap agreement for majority of the term loan, the fixed interest rate will be 3.54% beginning June 28, 2013 through May 31, 2023 and the effective rate is expected to be 5.84%.

A second construction plus term loan financing of $53 million was obtained by a holding company that accrues interest at LIBOR plus 4.00% over the entire term. An interest rate swap agreement for a portion of the construction loan fixed the floating rate at 0.79% beginning July 29, 2011 through May 31, 2013. The effective rate for the outstanding loan of $49 million was 4.94% at September 30, 2011. Under the swap agreement for the majority of the term loan, the fixed interest rate will be 4.00% beginning June 28, 2013 through May 31, 2023 and the effective rate is expected to be 8.00%, Both outstanding loans were recorded in long-term debt on Edison International's consolidated balance sheet at September 30, 2011.

Viento Funding II Wind Financing Amendment

In February 2011, EME completed, through its subsidiary, Viento Funding II, Inc., an amendment of its 2009 non-recourse financing of its interests in the Wildorado, San Juan Mesa and Elkhorn Ridge wind projects. The amendment increased the financing amount to $255 million, which included a $227 million ten-year term loan (expiring in December 2020), a $23 million seven-year letter of credit facility and a $5 million seven-year working capital facility. At September 30, 2011, $216 million was outstanding under this loan. The amount of outstanding letters of credit was $23 million. Interest under the term loan accrues at LIBOR plus 2.75% initially with the rate increasing 0.25% on every fourth anniversary.

Credit Agreements and Short-Term Debt

At September 30, 2011, SCE's outstanding short-term debt was $550 million at a weighted-average interest rate of 0.34%. This short-term debt was supported by a $2.4 billion credit facility. At December 31, 2010, there was no outstanding short-term debt. At September 30, 2011, letters of credit issued under SCE's credit facilities aggregated $83 million and are scheduled to expire in twelve months or less.

At September 30, 2011, Edison International (Parent)'s outstanding short-term debt was $10 million at a weighted-average interest rate of 0.60%. At December 31, 2010, the outstanding short-term debt was $19 million at a weighted-average interest rate of 0.63%.

Letters of Credit

At September 30, 2011, standby letters of credit under EME's credit facility aggregated $65 million and were scheduled to expire as follows: $1 million in 2011 and $64 million in 2012. In addition, letters of credit under EME's subsidiaries' credit facilities aggregated $98 million and were scheduled to expire as follows: $7 million in 2011, $63 million in 2012, $10 million in 2017, and $18 million in 2018.

Note 6. Derivative Instruments and Hedging Activities

Electric Utility

Commodity Price Risk

SCE is exposed to commodity price risk which represents the potential impact that can be caused by a change in the market value of a particular commodity. SCE's hedging program reduces ratepayer exposure to variability in market prices related to SCE's power and gas activities. As part of this program, SCE enters into options, swaps, forwards, tolling arrangements and CRRs. These transactions are pre-approved by the California Public Utilities Commission ("CPUC") or executed in compliance with CPUC-approved procurement plans. SCE recovers its related hedging costs through the energy resource

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recovery account ("ERRA") balancing account, and as a result, exposure to commodity price risk is not expected to impact earnings, but may impact cash flows.

SCE's electricity price exposure arises from electricity purchased from and sold to the California and other wholesale markets as a result of differences between SCE's load requirements and the amount of energy delivered from its generating facilities, power purchase agreements and California Department of Water Resources ("CDWR") contracts allocated to SCE.

SCE's natural gas price exposure arises from natural gas purchased for generation at the Mountainview power plant and peaker plants, QF contracts where pricing is based on a monthly natural gas index and power purchase agreements in which SCE has agreed to provide the natural gas needed for generation, referred to as tolling arrangements.

Notional Volumes of Derivative Instruments

The following table summarizes the notional volumes of derivatives used for hedging activities:

Commodity	Unit of Measure	Economic Hedges September 30, 2011	December 31, 2010
Electricity options, swaps and forwards	GWh	30,143	32,138
Natural gas options, swaps and forwards	Bcf	266	250
CRRs	GWh	146,628	181,291
Tolling arrangements	GWh	104,822	114,599

Fair Value of Derivative Instruments

The following table summarizes the gross and net fair values of commodity derivative instruments at September 30, 2011:

	Derivative Assets			Derivative Liabilities[1]			
(in millions)	Short-Term	Long-Term	Subtotal	Short-Term	Long-Term	Subtotal	Net Liability
Non-trading activities							
Economic hedges	$82	$145	$227	$305	$577	$882	$655
Netting and collateral	(14)	(13)	(27)	(18)	(23)	(41)	(14)
Total	$68	$132	$200	$287	$554	$841	$641

1 Includes the fair value of derivatives with SCE's consolidated affiliates; however, in Edison International’s consolidated financial statements, the fair value of such derivatives is eliminated.

The following table summarizes the gross and net fair values of commodity derivative instruments at December 31, 2010:

	Derivative Assets			Derivative Liabilities			
(in millions)	Short-Term	Long-Term	Subtotal	Short-Term	Long-Term	Subtotal	Net Liability
Non-trading activities							
Economic hedges	$87	$367	$454	$216	$449	$665	$211
Netting and collateral	—	—	—	(4)	—	(4)	(4)
Total	$87	$367	$454	$212	$449	$661	$207

Income Statement Impact of Derivative Instruments

SCE recognizes realized gains and losses on derivative instruments as purchased-power expense and expects that such gains or losses will be part of the purchased power costs recovered from ratepayers. As a result, realized gains and losses are not reflected in earnings, but may temporarily affect cash flows. Due to expected future recovery from ratepayers, unrealized gains and losses are recorded as regulatory assets and liabilities and therefore are also not reflected in earnings. The results of derivative activities and related regulatory offsets are recorded in cash flows from operating activities in the consolidated statements of cash flows.

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The following table summarizes the components of economic hedging activity:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Realized losses	$(58)	$(53)	$(132)	$(116)
Unrealized losses	(110)	(165)	(433)	(1,022)

Contingent Features/Credit Related Exposure

Certain derivative instruments and power procurement contracts under SCE's power and natural gas hedging activities contain collateral requirements. SCE has historically provided collateral in the form of cash and/or letters of credit for the benefit of counterparties. These requirements can vary depending upon the level of unsecured credit extended by counterparties, changes in market prices relative to contractual commitments and other factors.

Certain of these power contracts contain a provision that requires SCE to maintain an investment grade credit rating from each of the major credit rating agencies, referred to as a credit-risk-related contingent feature. If SCE's credit rating were to fall below investment grade, SCE may be required to pay the derivative liability or post additional collateral. The aggregate fair value of all derivative liabilities with these credit-risk-related contingent features was $162 million and $67 million as of September 30, 2011 and December 31, 2010, respectively, for which SCE has posted no collateral and $4 million of collateral to its counterparties for the respective periods. If the credit-risk-related contingent features underlying these agreements were triggered on September 30, 2011, SCE would be required to post $23 million of collateral.

Counterparty Default Risk Exposure

As part of SCE's procurement activities, SCE contracts with a number of utilities, energy companies, financial institutions, and other companies, collectively referred to as counterparties. If a counterparty were to default on its contractual obligations, SCE could be exposed to potentially volatile spot markets for buying replacement power or selling excess power. In addition, SCE would be exposed to the risk of non-payment of accounts receivable, primarily related to sales of excess energy and realized gains on derivative instruments. All of the contracts that SCE has entered into with counterparties are either entered into under SCE's short-term or long-term procurement plan which has been approved by the CPUC, or the contracts are approved by the CPUC before becoming effective. As a result of regulatory recovery mechanisms, losses from non-performance are not expected to affect earnings, but may temporarily affect cash flows.

To manage credit risk, SCE looks at the risk of a potential default by counterparties. Credit risk is measured by the loss that would be incurred if counterparties failed to perform pursuant to the terms of their contractual obligations. To mitigate credit risk from counterparties, master netting agreements are used whenever possible and counterparties may be required to pledge collateral when deemed necessary.

Competitive Power Generation

EMG uses derivative instruments to reduce its exposure to market risks that arise from price fluctuations of electricity, capacity, fuel, emission allowances, and transmission rights. Additionally, EMG's financial results can be affected by fluctuations in interest rates. The derivative financial instruments vary in duration, ranging from a few days to several years, depending upon the instrument. To the extent that EMG does not use derivative instruments to hedge these market risks, the unhedged portions will be subject to the risks and benefits of spot market price movements.

Risk management positions may be designated as cash flow hedges or economic hedges, which are derivatives that are not designated as cash flow hedges. Economic hedges are accounted for at fair value on EMG's consolidated balance sheets with offsetting changes recorded on the consolidated statements of operations. For derivative instruments that qualify for hedge accounting treatment, the fair value is recognized, to the extent effective, on EMG's consolidated balance sheets with offsetting changes in fair value recognized in accumulated other comprehensive loss until the related forecasted transaction occurs. The results of derivative activities are recorded in cash flows from operating activities on the consolidated statements of cash flows.

Derivative instruments that are utilized for trading purposes are measured at fair value and included on the consolidated balance sheets as derivative assets or liabilities. Changes in fair value are recognized in operating revenues on the consolidated statements of operations.

Where EMG's derivative instruments are subject to a master netting agreement and the criteria of authoritative guidance are met, EMG presents its derivative assets and liabilities on a net basis on its consolidated balance sheets.

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Notional Volumes of Derivative Instruments

The following table summarizes the notional volumes of derivatives used for hedging and trading activities:

September 30, 2011

				Hedging Activities					
Commodity	Instrument	Classification	Unit of Measure	Cash Flow Hedges		Economic Hedges		Trading Activities	
Electricity	Forwards/Futures	Sales	GWh	15,910	1	13,353	3	36,597	
Electricity	Forwards/Futures	Purchases	GWh	101	1	13,230	3	42,429	
Electricity	Capacity	Sales	MW-Day (in thousands)	134	2	—		12	2
Electricity	Capacity	Purchases	MW-Day (in thousands)	12	2	—		219	2
Electricity	Congestion	Sales	GWh	—		90	4	15,910	4
Electricity	Congestion	Purchases	GWh	—		4,023	4	253,688	4
Natural gas	Forwards/Futures	Sales	bcf	—		—		55.3	
Natural gas	Forwards/Futures	Purchases	bcf	—		—		53.4	
Fuel oil	Forwards/Futures	Sales	barrels	—		—		100,000	
Fuel oil	Forwards/Futures	Purchases	barrels	—		240,000		140,000	
Coal	Forwards/Futures	Sales	tons	—		—		1,485,000	
Coal	Forwards/Futures	Purchases	tons	—		—		1,485,000	

(in millions)

Instrument	Purpose	Type of Hedge	Notional Amount	Expiration Date
Accreting forward starting interest rate swap	Convert floating rate (1-month LIBOR debt to fixed rate (0.8135%) debt	Cash flow	$ 39	May 2013
Accreting interest rate swap	Convert floating rate (1-month LIBOR debt to fixed rate (0.79%) debt	Cash flow	24	May 2013
Amortizing interest rate swap	Convert floating rate (6-month LIBOR debt to fixed rate (3.175%) debt	Cash flow	84	June 2016
Amortizing interest rate swap	Convert floating rate (6-month LIBOR debt to fixed rate (3.415%) debt	Cash flow	110	December 2020
Amortizing forward starting interest rate swap	Convert floating rate (3-month LIBOR debt to fixed rate (3.5429%) debt	Cash flow	398	May 2023
Amortizing forward starting interest rate swap	Convert floating rate (3-month LIBOR debt to fixed rate (4.0025%) debt	Cash flow	48	May 2023
Amortizing interest rate swap	Convert floating rate (3-month LIBOR debt to fixed rate (4.29%) debt	Cash flow	119	December 2025
Amortizing interest rate swap	Convert floating rate (3-month LIBOR) debt to fixed rate (3.46%) debt	Cash flow	67	March 2026

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December 31, 2010

Commodity	Instrument	Classification	Unit of Measure	Hedging Activities Cash Flow Hedges	Hedging Activities Economic Hedges	Trading Activities
Electricity	Forwards/Futures	Sales	GWh	16,799 [1]	22,456 [3]	34,630
Electricity	Forwards/Futures	Purchases	GWh	408 [1]	22,931 [3]	37,669
Electricity	Capacity	Sales	MW-Day (in thousands)	190 [2]	—	136 [2]
Electricity	Capacity	Purchases	MW-Day (in thousands)	8 [2]	—	419 [2]
Electricity	Congestion	Sales	GWh	—	136 [4]	12,020 [4]
Electricity	Congestion	Purchases	GWh	—	1,143 [4]	187,689 [4]
Natural gas	Forwards/Futures	Sales	bcf	—	—	30.6
Natural gas	Forwards/Futures	Purchases	bcf	—	—	34.3
Fuel oil	Forwards/Futures	Sales	barrels	—	250,000	10,000
Fuel oil	Forwards/Futures	Purchases	barrels	—	490,000	10,000
Coal	Forwards/Futures	Sales	tons	—	—	2,630,500
Coal	Forwards/Futures	Purchases	tons	—	—	2,645,500

(in millions)

Instrument	Purpose	Type of Hedge	Notional Amount	Expiration Date
Amortizing interest rate swap	Convert floating rate (6-month LIBOR) debt to fixed rate (3.175%) debt	Cash flow	$138	June 2016
Amortizing forward starting interest rate swap	Convert floating rate (3-month LIBOR) debt to fixed rate (4.29%) debt	Cash flow	122	December 2025
Amortizing forward starting interest rate swap	Convert floating rate (3-month LIBOR) debt to fixed rate (3.46%) debt	Cash flow	68	March 2026

1 EMG's hedge products include forward and futures contracts that qualify for hedge accounting. This category excludes power contracts for the coal plants which meet the normal purchases and sales exception and are accounted for on the accrual method.

2 EMG's hedge transactions for capacity result from bilateral trades. Capacity sold in the PJM Reliability Pricing Model (RPM) auction is not accounted for as a derivative.

3 EMG also entered into transactions that adjust financial and physical positions, or day-ahead and real-time positions to reduce costs or increase gross margin. These positions largely offset each other. The net sales positions of these categories are primarily related to hedge transactions that are not designated as cash flow hedges.

4 Congestion contracts include financial transmission rights, transmission congestion contracts or congestion revenue rights. These positions are similar to a swap, where the buyer is entitled to receive a stream of revenues (or charges) based on the hourly day-ahead price differences between two locations.

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Fair Value of Derivative Instruments

The following table summarizes the fair value of derivative instruments reflected on EMG's consolidated balance sheets:

September 30, 2011	Derivative Assets			Derivative Liabilities			Net Assets
(in millions)	Short-term	Long-term	Subtotal	Short-term	Long-term	Subtotal	(Liabilities)
Non-trading activities							
Cash flow hedges	$34	$8	$42	$16	$90	$106	$(64)
Economic hedges	29	3	32	31	2	33	(1)
Trading activities	132	102	234	96	37	133	101
	195	113	308	143	129	272	36
Netting and collateral received[1]	(163)	(54)	(217)	(140)	(49)	(189)	(28)
Total	$32	$59	$91	$3	$80	$83	$8
December 31, 2010							
Non-trading activities							
Cash flow hedges	$54	$2	$56	$10	$25	$35	$21
Economic hedges	77	2	79	71	—	71	8
Trading activities	184	103	287	148	29	177	110
	315	107	422	229	54	283	139
Netting and collateral received[1]	(269)	(37)	(306)	(223)	(35)	(258)	(48)
Total	$46	$70	$116	$6	$19	$25	$91

1 Netting of derivative receivables and derivative payables and the related cash collateral received and paid is permitted when a legally enforceable master netting agreement exists with a derivative counterparty.

Income Statement Impact of Derivative Instruments

The following table provides the cash flow hedge activity as part of accumulated other comprehensive loss:

	Cash Flow Hedge Activity[1] Nine Months Ended September 30,		Income Statement Location
(in millions)	2011	2010	
Beginning of period derivative gains	$27	$175	
Effective portion of changes in fair value	(62)	102	
Reclassification to net income	(29)	(134)	Competitive power generation revenue
End of period derivative gains (losses)	$(64)	$143	

1 Unrealized derivative gains (losses) are before income taxes. The after-tax amounts recorded in accumulated other comprehensive income (loss) at September 30, 2011 and 2010 were $(39) million and $86 million, respectively.

For additional information, see Note 11—Accumulated Other Comprehensive Loss.

The portion of a cash flow hedge that does not offset the change in the value of the transaction being hedged, which is commonly referred to as the ineffective portion, is immediately recognized in earnings. EMG recorded net gains of $4 million during each of the third quarters of 2011 and 2010, and $6 million and $5 million during the nine months ended September 30, 2011 and 2010, respectively, in operating revenues on the consolidated statements of operations representing the amount of cash flow hedge ineffectiveness.

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The effect of realized and unrealized gains (losses) from derivative instruments used for economic hedging and trading purposes on the consolidated statements of operations is presented below:

		Three months ended September 30,		Nine months ended September 30,	
(in millions)	Income Statement Location	2011	2010	2011	2010
Economic hedges	Competitive power generation revenue	$(6)	$7	$20	$—
	Fuel	(3)	2	1	—
Trading activities	Competitive power generation revenue	11	28	68	108

Contingent Features

Certain derivative instruments contain margin and collateral deposit requirements. Since EMG's subsidiaries' credit ratings are below investment grade, EMG's subsidiaries have provided collateral in the form of cash and letters of credit for the benefit of derivative counterparties. Future increases in power prices could expose EMG's subsidiaries to additional collateral postings.

Margin and Collateral Deposits

Margin and collateral deposits include cash deposited with counterparties and brokers, and cash received from counterparties and brokers as credit support under energy contracts. The amount of margin and collateral deposits generally varies based on changes in the fair value of the related positions. Edison International nets counterparty receivables and payables where balances exist under master netting agreements. Edison International presents the portion of its margin and collateral deposits netted with its derivative positions on its consolidated balance sheets. The following table summarizes margin and collateral deposits provided to and received from counterparties:

(in millions)	September 30, 2011	December 31, 2010
Collateral provided to counterparties:		
Offset against derivative liabilities	$ 16	$ 8
Reflected in margin and collateral deposits	53	65
Collateral received from counterparties:		
Offset against derivative assets	30	52

Note 7. Income Taxes

Effective Tax Rate

The table below provides a reconciliation of income tax expense computed at the federal statutory income tax rate to the income tax provision from continuing operations.

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Income from continuing operations before income taxes	$683	$774	$1,217	$1,386
Provision for income tax at federal statutory rate of 35%	239	271	426	485
Increase (decrease) in income tax from:				
Items presented with related state income tax, net:				
Global Settlement related[1]	—	(37)	—	(175)
Change in tax accounting method for asset removal costs[2]	—	—	—	(40)
State tax – net of federal benefit	30	34	43	57
Health care legislation[3]	—	—	—	39
Production and housing credits	(12)	(14)	(48)	(48)
Property-related and other	(15)	(7)	(52)	(57)
Total income tax expense from continuing operations	$242	$247	$369	$261
Effective tax rate	35%	32%	30%	19%

1

During the nine months ended September 30, 2010, Edison International recognized a $175 million earnings benefit resulting from the

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Global Settlement, including $138 million in the second quarter resulting from the acceptance by the California Franchise Tax Board of the tax positions finalized with the Internal Revenue Service ("IRS") in 2009 and revision to interest recorded on the federal Global Settlement, and $37 million in the third quarter resulting from receipt of the final interest determination from the California Franchise Tax Board.

2 During the second quarter of 2010, the IRS approved Edison International's request to change its tax accounting method for asset removal costs primarily related to SCE's infrastructure replacement program. As a result, Edison International recognized a $40 million earnings benefit (of which $28 million relates to asset removal costs incurred prior to 2010) from deducting asset removal costs earlier in the construction cycle. These deductions were recorded on a flow-through basis.

3 During the first quarter of 2010, Edison International recorded a $39 million non-cash charge to reverse previously recognized federal tax benefits eliminated by the federal health care legislation enacted in March 2010. The health care law eliminated the federal tax deduction for retiree health care costs to the extent those costs are eligible for federal Medicare Part D subsidies.

The CPUC requires flow-through ratemaking treatment for the current tax benefit arising from certain property-related and other temporary differences which reverse over time. The accounting treatment for these temporary differences results in recording regulatory assets and liabilities for amounts that would otherwise be recorded to deferred income tax expense.

Accounting for Uncertainty in Income Taxes

Authoritative guidance related to accounting for uncertainty in income taxes requires an enterprise to recognize, in its financial statements, the best estimate of the impact of a tax position by determining if the weight of the available evidence indicates it is more likely than not, based solely on the technical merits, that the position will be sustained upon examination. The guidance requires the disclosure of all unrecognized tax benefits, which includes both the reserves recorded for tax positions on filed tax returns and the unrecognized portion of affirmative claims.

Unrecognized Tax Benefits

The following table provides a reconciliation of unrecognized tax benefits:

(in millions)	2011	2010
Balance at January 1,	$565	$664
Tax positions taken during the current year:		
Increases	53	60
Tax positions taken during a prior year:		
Increases	60	251
Decreases	(37)	(86)
Decreases for settlements during the period	—	(82)
Balance at September 30,	$641	$807

As of September 30, 2011 and December 31, 2010, $500 million and $455 million, respectively, of the unrecognized tax benefits, if recognized, would impact the effective tax rate.

Edison International's federal income tax returns and its California combined franchise tax returns are currently open for years subsequent to 2002. In addition, specific California refund claims made by Edison International for years 1991 through 2002 are currently under review by the Franchise Tax Board. The IRS examination phase of tax years 2003 through 2006 was completed in the fourth quarter of 2010, which included proposed adjustments for the following two items:

- A proposed adjustment increasing the taxable gain on the 2004 sale of EMG's international assets, which if sustained, would result in a federal tax payment of approximately $191 million, including interest and penalties through September 30, 2011 (the IRS has asserted a 40% penalty for understatement of tax liability related to this matter).
- A proposed adjustment to disallow a component of SCE's repair allowance deduction, which if sustained, would result in a federal tax payment of approximately $92 million, including interest through September 30, 2011.

Edison International disagrees with the proposed adjustments and filed a protest with the IRS in the first quarter of 2011.

Accrued Interest and Penalties

The total amount of accrued interest and penalties related to Edison International's income tax liabilities was $230 million and $213 million as of September 30, 2011 and December 31, 2010, respectively.
The net after-tax interest and penalties recognized in income tax expense was $5 million and $10 million for the three- and

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nine-month periods ended September 30, 2011, respectively, compared to a benefit of $7 million and $95 million for the same periods in 2010.

Note 8. Compensation and Benefit Plans

Pension Plans and Postretirement Benefits Other Than Pensions

Pension Plans

During the nine months ended September 30, 2011, Edison International made contributions of $113 million and during the remainder of 2011, expects to make $30 million of additional contributions. In 2011, annual contributions made to most of SCE's pension plans are recovered through CPUC-approved regulatory mechanisms and are expected to be, at a minimum, equal to the annual expense.

Expense components are:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Service cost	$43	$34	$129	$102
Interest cost	52	54	156	162
Expected return on plan assets	(60)	(52)	(180)	(156)
Amortization of prior service cost	2	2	6	6
Amortization of net loss	6	7	18	21
Expense under accounting standards	43	45	129	135
Regulatory adjustment – deferred	(6)	(14)	(18)	(42)
Total expense recognized	$37	$31	$111	$93

Postretirement Benefits Other Than Pensions

During the nine months ended September 30, 2011, Edison International made contributions of $18 million and during the remainder of 2011, expects to make $38 million of additional contributions. Annual contributions made to SCE's plans are recovered through CPUC-approved regulatory mechanisms and are expected to be, at a minimum, equal to the annual expense.

Expense components are:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Service cost	$11	$8	$33	$24
Interest cost	33	31	99	93
Expected return on plan assets	(28)	(25)	(84)	(75)
Amortization of prior service credit	(9)	(9)	(27)	(27)
Amortization of net loss	9	8	27	24
Total expense	$16	$13	$48	$39

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Stock-Based Compensation

During 2011, Edison International granted stock-based compensation awards, which included stock options, performance shares and restricted stock units.

Stock Options

The following is a summary of the status of Edison International stock options:

	Stock options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2010	19,142,209	$33.28		
Granted	3,394,229	37.95		
Expired	(113,348)	48.52		
Forfeited	(369,267)	33.03		
Exercised	(1,557,548)	26.22		
Outstanding at September 30, 2011	20,496,275	34.51	6.07	
Vested and expected to vest at September 30, 2011	20,021,144	34.53	6.02	$123
Exercisable at September 30, 2011	12,043,993	34.93	4.52	84

At September 30, 2011, there was $23 million of total unrecognized compensation cost related to stock options, net of expected forfeitures. That cost is expected to be recognized over a weighted-average period of approximately three years.

Performance Shares

The following is a summary of the status of Edison International nonvested performance shares:

	Equity Awards		Liability Awards	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Fair Value
Nonvested at December 31, 2010	415,028	$ 30.99	415,028	$ 34.74
Granted	153,067	30.19	153,067	
Forfeited[1]	(119,835)	42.64	(119,835)	
Nonvested at September 30, 2011	448,260	27.96	448,260	23.26

[1] Includes performance shares that expired with zero value as performance targets were not met.

The current portion of nonvested performance shares classified as liability awards is reflected in "Other current liabilities" and the long-term portion is reflected in "Pensions and benefits" on the consolidated balance sheets.

At September 30, 2011, there was $5 million of total unrecognized compensation cost related to performance shares. That cost is expected to be recognized over a weighted-average period of approximately two years.

Restricted Stock Units

The following is a summary of the status of Edison International nonvested restricted stock units:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2010	644,796	$ 32.18
Granted	251,890	37.95
Forfeited	(27,114)	32.05
Paid Out	(133,958)	47.60
Nonvested at September 30, 2011	735,614	$ 32.15

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At September 30, 2011, there was $10 million of total unrecognized compensation cost related to restricted stock units, net of expected forfeitures, which is expected to be recognized as follows: $2 million in 2011, $5 million in 2012 and $3 million in 2013.

Supplemental Data on Stock Based Compensation

(in millions)	Three months ended September 30, 2011	2010	Nine months ended September 30, 2011	2010
Stock based compensation expense[1]	$8	$9	$25	$26
Income tax benefits related to stock compensation expense	3	3	10	10
Excess tax benefits[2]	3	3	7	5
Stock options				
Cash used to purchase shares to settle options	20	17	59	30
Cash from participants to exercise stock options	16	10	41	19
Value of options exercised	4	7	18	11
Restricted stock units				
Value of shares settled	1	—	6	—
Tax benefits realized from settlement of awards	—	—	2	—

[1] Reflected in "Operations and maintenance" on the consolidated statements of income.

[2] Reflected in "Settlements of stock based compensation—net" in the financing section of the consolidated statements of cash flows.

Note 9. Commitments and Contingencies

Third-Party Power Purchase Agreements

During the nine months ended September 30, 2011, additional renewable energy power purchase contracts became effective and were classified as operating leases. SCE's additional commitments under these contracts are estimated to be: $116 million each year in 2012 – 2015 and $1.9 billion for the period remaining thereafter.

In October 2011, SCE completed its 2011 annual request for offers and entered into new power purchase contracts with commitments estimated to be: $5 million in 2012, $81 million in 2013, $178 million in 2014 and $240 million in 2015.

Other Commitments

Firm Transmission Commitments

During the nine months ended September 30, 2011, SCE had a firm transmission agreement with additional commitments estimated to be: $1 million in 2011, $4 million each year in 2012 – 2015 and $78 million for the period remaining thereafter.

Fuel Supply Contracts and Coal Transportation Agreements

At September 30, 2011, Midwest Generation and EME Homer City Generation L.P. ("Homer City") had commitments to purchase coal from third-party suppliers at fixed prices, subject to adjustment clauses. These commitments, together with estimated transportation costs under existing agreements, are estimated to aggregate $925 million, which consists of: $245 million for the remainder of 2011, $332 million in 2012, $198 million in 2013 and $150 million in 2014.

Turbine Commitments

Based upon a June 2011 contract amendment, EMG was required to schedule turbine deliveries by September 2011 or incur a termination obligation equal to its turbine deposit of $29 million. Under the terms of a September 2011 contract amendment, EMG scheduled turbine deliveries for the Broken Bow I wind project which will utilize the $29 million turbine deposit. In October 2011, EMG entered into a contractual agreement for the purchase of additional turbines with commitments of $39 million through 2012 for the Crofton Bluffs wind project.

On October 8, 2010, an agreement was reached to settle disputes included in the complaint filed by EMG against Mitsubishi Power Systems Americas, Inc. and Mitsubishi Heavy Industries, Ltd. with respect to a wind turbine generator supply agreement. As a result of this agreement, EMG may elect to deploy up to 60 additional wind turbines (aggregating 144 MW)

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that were part of the original contract, or may be obligated to make a payment of up to $30 million following the end of the three-year period, which commenced on October 8, 2010, if it has not elected to deploy the additional turbines and if certain other criteria apply.

Capital Commitments

At September 30, 2011, EMG's subsidiaries had firm commitments to spend approximately $157 million during the remainder of 2011, $235 million in 2012 and $19 million in 2013 for capital expenditures. These expenditures primarily relate to the Walnut Creek project and the construction of wind projects. EMG intends to fund these expenditures through project level financing, U.S. Treasury grants, Midwest Generation and EME lines of credit, if available, cash on hand and cash generated from operations.

Guarantees and Indemnities

Edison International's subsidiaries have various financial and performance guarantees and indemnity agreements which are issued in the normal course of business. The contracts discussed below included performance guarantees.

Environmental Indemnities Related to the Midwest Generation Plants

In connection with the acquisition of the Midwest Generation plants, EME agreed to indemnify Commonwealth Edison Company ("Commonwealth Edison") with respect to specified environmental liabilities before and after December 15, 1999, the date of sale. The indemnification obligations are reduced by any insurance proceeds and tax benefits related to such indemnified claims and are subject to a requirement that Commonwealth Edison takes all reasonable steps to mitigate losses related to any such indemnification claim. Also, in connection with the sale-leaseback transaction related to the Powerton and Joliet Stations in Illinois, EME agreed to indemnify the lessors for specified environmental liabilities. These indemnities are not limited in term or amount. Due to the nature of the obligations under these indemnities, a maximum potential liability cannot be determined. Commonwealth Edison has advised EME that Commonwealth Edison believes it is entitled to indemnification for all liabilities, costs, and expenses that it may be required to bear as a result of the litigation discussed below under "—Contingencies—Midwest Generation New Source Review and Other Litigation." Except as discussed below, EME has not recorded a liability related to these environmental indemnities.

Midwest Generation entered into a supplemental agreement with Commonwealth Edison and Exelon Generation Company LLC on February 20, 2003 to resolve a dispute regarding interpretation of Midwest Generation's reimbursement obligation for asbestos claims under the environmental indemnities set forth in the Asset Sale Agreement. Under this supplemental agreement, Midwest Generation agreed to reimburse Commonwealth Edison and Exelon Generation for 50% of specific asbestos claims pending as of February 2003 and related expenses less recovery of insurance costs, and agreed to a sharing arrangement for liabilities and expenses associated with future asbestos-related claims as specified in the agreement. The obligations under this agreement are not subject to a maximum liability. The supplemental agreement had an initial five-year term with an automatic renewal provision for subsequent one-year terms (subject to the right of either party to terminate); pursuant to the automatic renewal provision, it has been extended until February 2012. There were approximately 230 cases for which Midwest Generation was potentially liable that had not been settled and dismissed at September 30, 2011. Midwest Generation had recorded a liability of $55 million at September 30, 2011 related to this contractual indemnity.

The amounts recorded by Midwest Generation for the asbestos-related liability are based upon a number of assumptions. Future events, such as the number of new claims to be filed each year, the average cost of disposing of claims, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs to be higher or lower than projected.

Environmental Indemnity Related to the Homer City Plant

In connection with the acquisition of the Homer City plant, Homer City agreed to indemnify the sellers with respect to specified environmental liabilities before and after the date of sale. EME guaranteed this obligation of Homer City. Also, in connection with the sale-leaseback transaction related to the Homer City plant, Homer City agreed to indemnify the lessors for specified environmental liabilities. Due to the nature of the obligations under these indemnity provisions, they are not subject to a maximum potential liability and do not have expiration dates. EME has not recorded a liability related to this indemnity. For discussion of the New Source Review lawsuit filed against Homer City, see "—Contingencies—Homer City New Source Review and Other Litigation."

Indemnities Provided under Asset Sale and Sale-Leaseback Agreements

The asset sale agreements for the sale of EME's international assets contain indemnities from EME to the purchasers, including indemnification for taxes imposed with respect to operations of the assets prior to the sale and for pre-closing environmental

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liabilities. Not all indemnities under the asset sale agreements have specific expiration dates. At September 30, 2011, EME had recorded a liability of $43 million related to these matters.

In connection with the sale of various domestic assets, EME has from time to time provided indemnities to the purchasers for taxes imposed with respect to operations of the assets prior to the sale. EME has also provided indemnities to purchasers for items specified in each agreement (for example, specific pre-existing litigation matters and/or environmental conditions). Not all indemnities under the asset sale agreements have specific expiration dates. Due to the nature of these potential obligations, a maximum potential liability cannot be determined and has not been recorded as a liability related to these indemnities.

In connection with the sale-leaseback transactions related to the Homer City plant in Pennsylvania, the Powerton and Joliet Stations in Illinois and, previously, the Collins Station in Illinois, EME and several of its subsidiaries entered into tax indemnity agreements. Under these tax indemnity agreements, the lessees in the sale-leaseback transactions agreed to indemnify the lessors for specified adverse tax consequences that could result from certain situations set forth in each tax indemnity agreement, including specified defaults under the respective leases. Although the Collins Station lease terminated in April 2004, Midwest Generation's indemnities in favor of its former lease equity investors are still in effect. EME provided similar indemnities in the sale-leaseback transactions related to the Powerton and Joliet Stations in Illinois. The potential indemnity obligations under these tax indemnity agreements could be significant. Due to the nature of these potential obligations, EME cannot determine a maximum potential liability which would be triggered by a valid claim from the lessors. EME has not recorded a liability for these matters.

EME agreed to indemnify the lessors in the sale-leaseback transaction related to the Homer City plant for certain negative federal income tax consequences should the rent payments be “levelized” for tax purposes and for potential foreign tax credit losses in the event that the lessor's debt is characterized as recourse, rather than non-recourse. This indemnity covers a limited range of possible tax consequences that are unrelated to performance under the lease.

Indemnity Provided as Part of the Acquisition of Mountainview

In connection with the acquisition of the Mountainview power plant, SCE agreed to indemnify the seller with respect to specific environmental claims related to SCE's previously owned San Bernardino Generating Station, divested by SCE in 1998 and reacquired as part of the Mountainview acquisition. SCE retained certain responsibilities with respect to environmental claims as part of the original divestiture of the station. The aggregate liability for either party to the purchase agreement for damages and other amounts is a maximum of $60 million. This indemnification for environmental liabilities expires on or before March 12, 2033. SCE has not recorded a liability related to this indemnity.

Mountainview Filter Cake Indemnity

The Mountainview power plant utilizes water from on-site groundwater wells and City of Redlands ("City") recycled water for cooling purposes. Unrelated to the operation of the plant, the groundwater contains perchlorate. The pumping of the water removes perchlorate from the aquifer beneath the plant and concentrates it in the plant's wastewater treatment "filter cake." Use of this impacted groundwater for cooling purposes was mandated by Mountainview's California Energy Commission permit. SCE has indemnified the City for cleanup or associated actions related to groundwater contaminated by perchlorate due to the disposal of filter cake at the City's solid waste landfill. The obligations under this agreement are not limited to a specific time period or subject to a maximum liability. SCE has not recorded a liability related to this indemnity.

Other Edison International Indemnities

Edison International provides other indemnifications through contracts entered into in the normal course of business. These are primarily indemnifications against adverse litigation outcomes in connection with underwriting agreements, and indemnities for specified environmental liabilities and income taxes with respect to assets sold. Edison International's obligations under these agreements may or may not be limited in terms of time and/or amount, and in some instances Edison International may have recourse against third parties. Edison International has not recorded a liability related to these indemnities. The overall maximum amount of the obligations under these indemnifications cannot be reasonably estimated.

Contingencies

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

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Midwest Generation New Source Review and Other Litigation

In August 2009, the United States Environmental Protection Agency ("US EPA") and the State of Illinois filed a complaint in the Northern District of Illinois alleging that Midwest Generation or Commonwealth Edison performed repair or replacement projects at six Illinois coal-fired electric generating stations in violation of the Prevention of Significant Deterioration ("PSD") requirements and of the New Source Performance Standards of the Clean Air Act ("CAA"), including alleged requirements to obtain a construction permit and to install controls sufficient to meet best available control technology ("BACT") emission rates. The US EPA also alleged that Midwest Generation and Commonwealth Edison violated certain operating permit requirements under Title V of the CAA. Finally, the US EPA alleged violations of certain opacity and particulate matter standards at the Midwest Generation plants. In addition to seeking penalties ranging from $25,000 to $37,500 per violation, per day, the complaint calls for an injunction ordering Midwest Generation to install controls sufficient to meet BACT emission rates at all units subject to the complaint; to obtain new PSD or New Source Review permits for those units; to amend its applications under Title V of the CAA; to conduct audits of its operations to determine whether any additional modifications have occurred; and to offset and mitigate the harm to public health and the environment caused by the alleged CAA violations. The remedies sought by the plaintiffs in the lawsuit could go well beyond the requirements of the Combined Pollutant Standard ("CPS"). Several Chicago-based environmental action groups have intervened in the case.

Nine of ten PSD claims have been dismissed, along with claims related to alleged violations of Title V of the CAA to the extent based on the dismissed PSD claims. The court has also dismissed all claims asserted against Commonwealth Edison and EME. The court denied a motion to dismiss a claim by the Chicago-based environmental action groups for civil penalties in the remaining PSD claim, but noted that the plaintiffs will be required to convince the court that the statute of limitations should be equitably tolled. The court did not address other counts in the complaint that allege violations of opacity and particulate matter limitations under the Illinois State Implementation Plan and Title V of the CAA. Trial of the liability portion of the case is scheduled to commence June 3, 2013. A motion filed by the plaintiffs requesting that the dismissals be certified as “partial final judgments” capable of appeal, and requesting that the remaining claims be stayed pending such an appeal, is pending.

In May 2011, two complaints were filed against Midwest Generation in the Northern District of Illinois by residents living near the Crawford and Fisk facilities on behalf of themselves and all others similarly situated, each asserting claims of nuisance, negligence, trespass, and strict liability. The plaintiffs sought to have their suits certified as a class action and requested injunctive relief, as well as compensatory and punitive damages. In October 2011, the complaints were dismissed for lack of federal jurisdiction. EME does not know whether the plaintiffs will appeal the dismissal or file a complaint in state court.

Adverse decisions in these cases could involve penalties and remedial actions that could have a material impact on the financial condition and results of operations of Midwest Generation and EME. EME cannot predict the outcome of these matters or estimate the impact on the Midwest Generation plants, or its and Midwest Generation's results of operations, financial position or cash flows.

Homer City New Source Review and Other Litigation

In January 2011, the US EPA filed a complaint in the Western District of Pennsylvania against Homer City, the sale-leaseback owner participants of the Homer City plant, and two prior owners of the Homer City plant. The complaint alleged violations of the PSD and Title V provisions of the CAA, as a result of projects in the 1990s performed by prior owners without PSD permits and the subsequent failure to incorporate emissions limitations that meet BACT into the station's Title V operating permit. In addition to seeking penalties ranging from $32,500 to $37,500 per violation, per day, the complaint called for an injunction ordering Homer City to install controls sufficient to meet BACT emission rates at all units subject to the complaint and for other remedies. The Pennsylvania Department of Environmental Protection, the State of New York and the State of New Jersey intervened in the lawsuit.

Also in January 2011, two residents filed a complaint in the Western District of Pennsylvania, on behalf of themselves and all others similarly situated, against Homer City, the sale-leaseback owner participants of the Homer City plant, two prior owners of the Homer City plant, EME, and Edison International, claiming that emissions from the Homer City plant had adversely affected their health and property values. The plaintiffs sought to have their suit certified as a class action and requested injunctive relief, the funding of a health assessment study and medical monitoring, as well as compensatory and punitive damages.

On October 12, 2011, all of the claims in the US EPA's lawsuit were dismissed with prejudice. On October 13, 2011, the claims in the purported class action lawsuit that were based on the federal CAA were dismissed with prejudice, while state law statutory and common law claims were dismissed without prejudice to re-file in state court should the plaintiffs choose to do so. EME does not know whether the US EPA and the other plaintiffs in these cases will appeal the dismissal of these cases, or whether plaintiffs in the purported class action lawsuit will file a complaint in state court. If the plaintiffs are able to revive the lawsuits, adverse decisions in these cases could involve penalties, remedial actions and damages that could have a material impact on the financial condition and results of operations of Homer City and EME.

Four Corners New Source Review Litigation

In October 2011, four private environmental organizations filed a CAA citizens' lawsuit against the co-owners of Four Corners. The complaint alleges that certain work performed at the Four Corners generating units 4 and 5, over the approximate periods of 1985-1986 and 2007-present, constituted plant “major modifications” for which the plant should have, but did not, obtain permits and install BACT in violation of the PSD requirements and of the New Source Performance Standards of the CAA. The complaint also alleges subsequent and continuing violation of BACT air emissions limits. The lawsuit seeks injunctive and declaratory relief, civil penalties, including a mitigation project and litigation costs. In November 2010, SCE entered into an agreement to sell its ownership interest in generating units 4 and 5 to APS. The sale is subject to regulatory approvals and is expected to close in late 2012. Under the agreement SCE would remain responsible for its pro rata share of certain environmental liabilities, including penalties arising from environmental violations prior to the sale, but SCE would not be liable for any costs of installing BACT or other costs related to continuing or extending Four Corners operations. SCE cannot predict the outcome of these matters or estimate the impact on its financial statements.

Concurrently, the US EPA has proposed a regional haze federal implementation plan based on an APS proposal that would require shut down of units 1, 2 and 3 by 2016 and the installation of selective catalytic reduction technology on units 4 and 5 by 2018. APS' proposal contemplated that these actions would both satisfy the federal regional haze requirements and resolve any New Source Review claims the US EPA might have. A final federal implementation plan is expected in early 2012.

Malibu Fire Order Instituting Investigation ("OII")

Following a 2007 wildfire in Malibu, California, the CPUC issued an OII to determine if any statutes, CPUC general orders, rules or regulations were violated by SCE or telecomm providers (“OII Respondents”) that shared the use of three failed power poles in the wildfire area. The CPUC's Consumer Protection and Safety Division (“CPSD”) has alleged, among other things, that the poles were overloaded, that the OII Respondents violated the CPUC's rules governing the design, construction and inspection of poles and misled the CPUC during its investigation of the fire, and that SCE failed to preserve evidence relevant to the investigation. In October 2011, the CPSD proposed that the OII Respondents be assessed penalties of approximately $99 million, with SCE being allocated approximately $50 million of the total. SCE has denied the allegations and believes the proposed penalties are excessive. CPSD's allegations will likely be set for hearing in the first quarter of 2012. SCE cannot predict the amount, if any, of penalties that the CPUC may ultimately impose on SCE.

Navajo Nation Litigation

On August 1, 2011, SCE and the other defendants entered into a comprehensive settlement with the Navajo Nation of the litigation filed in June 1999 against SCE and others concerning royalty payments to the Navajo for the coal supplied to the Mohave Generating Station. Pursuant to the settlement, the Navajo Nation lawsuit was dismissed. The settlement agreement reached with the Navajo Nation did not have a material impact on SCE's financial statements.

Environmental Remediation

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

As of September 30, 2011, Edison International's recorded estimated minimum liability to remediate its 27 identified material sites (sites in which the upper end of the range of costs is at least $1 million) at SCE (24 sites) and EMG (3 sites primarily related to Midwest Generation) was $60 million, of which $51 million was related to SCE, including $15 million related to San Onofre. In addition to its identified material sites, SCE also has 33 immaterial sites for which the total minimum recorded liability was $3 million. The ultimate costs to clean up Edison International's identified sites may vary from its recorded liability due to numerous uncertainties inherent in the estimation process, such as: the extent and nature of contamination; the scarcity of reliable data for identified sites; the varying costs of alternative cleanup methods; developments resulting from investigatory studies; the possibility of identifying additional sites; and the time periods over which site remediation is expected to occur. Edison International believes that, due to these uncertainties, it is reasonably possible that cleanup costs at these

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identified material sites and immaterial sites could exceed its recorded liability by up to $195 million and $7 million, respectively, all of which is related to SCE. The upper limit of this range of costs was estimated using assumptions least favorable to Edison International among a range of reasonably possible outcomes.

The CPUC allows SCE to recover 90% of its environmental remediation costs at certain sites, representing $32 million of its recorded liability, through an incentive mechanism (SCE may request to include additional sites). In addition, SCE expects to recover 100% of environmental remediation costs incurred at the majority of the remaining sites through customer rates, representing $18 million of its recorded liability. SCE has recorded a regulatory asset of $50 million at September 30, 2011 for its estimated minimum environmental cleanup costs expected to be recovered through customer rates.

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

SCE expects to clean up its identified sites over a period of up to 30 years. Remediation costs in each of the next several years are expected to range from $7 million to $17 million. Costs incurred for the nine months ended September 30, 2011 and 2010, were $9 million and $7 million, respectively.

Based upon the CPUC's regulatory treatment of environmental remediation costs incurred at SCE, Edison International believes that costs ultimately recorded will not materially affect its results of operations, financial position or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to estimates.

Nuclear Insurance

Federal law limits public liability claims from a nuclear incident to the amount of available financial protection, which is currently approximately $12.6 billion. SCE and other owners of San Onofre and Palo Verde have purchased the maximum private primary insurance available ($375 million). The balance is covered by a loss sharing program among nuclear reactor licensees. If a nuclear incident at any licensed reactor in the United States results in claims and/or costs which exceed the primary insurance at that plant site, all nuclear reactor licensees could be required to contribute their share of the liability in the form of a deferred premium.

Based on its ownership interests, SCE could be required to pay a maximum of approximately $235 million per nuclear incident. However, it would have to pay no more than approximately $35 million per incident in any one year. If the public liability limit above is insufficient, federal law contemplates that additional funds may be appropriated by Congress. This could include an additional assessment on all licensed reactor operators as a measure for raising further federal revenue.

Property damage insurance covers losses up to $500 million, including decontamination costs, at San Onofre and Palo Verde. Decontamination liability and property damage coverage exceeding the primary $500 million also has been purchased in amounts greater than federal requirements. Additional insurance covers part of replacement power expenses during an accident-related nuclear unit outage. A mutual insurance company owned by entities with nuclear facilities issues these policies. If losses at any nuclear facility covered by the arrangement were to exceed the accumulated funds for these insurance programs, SCE could be assessed retrospective premium adjustments of up to approximately $48 million per year. Insurance premiums are charged to operating expense.

Spent Nuclear Fuel

Under federal law, the Department of Energy ("DOE") is responsible for the selection and construction of a facility for the permanent disposal of spent nuclear fuel and high-level radioactive waste. The DOE did not meet its contractual obligation to begin acceptance of spent nuclear fuel by January 31, 1998. Extended delays by the DOE have led to the construction of costly alternatives and associated siting and environmental issues. Currently, both San Onofre and Palo Verde have interim storage for spent nuclear fuel on site sufficient for the current license period.

In June 2010, the United States Court of Federal Claims issued a decision granting SCE and its co-owners damages of approximately $142 million to recover costs incurred through December 31, 2005 for the DOE's failure to meet its obligation to begin accepting spent nuclear fuel from San Onofre. The DOE's appeal of the decision was denied in August 2011. Additional legal action would be necessary to recover damages incurred after December 31, 2005. Any damages recovered are subject to CPUC review as to what amounts would be returned to SCE ratepayers or used to offset past or future fuel decommissioning or storage costs for the benefit of ratepayers.

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Note 10. Regulatory and Environmental Developments
Environmental Developments
Cross-State Air Pollution Rule
On July 6, 2011, the US EPA adopted the Cross-State Air Pollution Rule ("CSAPR"). CSAPR is the final form of a previously proposed replacement for the Clean Air Interstate Rule ("CAIR"), originally called the Clean Air Transport Rule that was released in 2010. CSAPR establishes emissions reductions for annual sulfur dioxide ("SO_2") emissions and annual and ozone season nitrogen oxide ("NOx") emissions in two phases: a first phase effective January 1, 2012 and, in most states subject to the program (including Illinois and Pennsylvania), a second phase effective January 1, 2014 that requires additional reductions in annual SO_2 emissions.
CSAPR, like the CAIR, is an allowance-based regulation that provides for emissions trading. Under CSAPR, the amount of actual SO_2 or NOx emissions from operations will need to be matched by a sufficient amount of SO_2 or NOx allowances that are either allocated or purchased in the open market. In connection with CSAPR, the US EPA has, for each phase, established SO_2 and NOx allowance allocations for each state and each generating unit subject to the regulation, and at the close of the annual or seasonal compliance period, units must surrender allowances for each ton of SO_2 and NOx emitted or face penalties. While trading of allowances is permitted within designated groups of states, the rule provides for penalties against a unit with emissions in excess of its predefined "assurance level," but only if the state in which it is located also exceeds its budgeted emissions level. On October 6, 2011, the US EPA announced a proposed revision to the rule that would effectively eliminate such penalties in the first phase.
EMG believes that Midwest Generation's current environmental remediation plan developed to comply with the CPS, along with the allowances allocated to it under CSAPR, will be sufficient to comply with the requirements of CSAPR and the US EPA's proposed regulation on hazardous air pollutant emissions. In order to achieve compliance, Midwest Generation has begun work to install SO_2 controls at certain of its plants.
The SO_2 allowances allocated to Homer City in CSAPR Phase I (25,797 tons in 2012 and 2013) are significantly lower than the amount that would be required based on Homer City's historical emissions (2010 SO_2 emissions were 112,951 tons). Therefore, pending installation of additional equipment for Units 1 and 2 (Homer City's Unit 3 is equipped with a wet scrubber flue gas desulfurization system to meet environmental standards), Homer City expects that it will be required to procure additional allowances. It is unclear at this time whether Homer City will be able to acquire allowances for 2012 and 2013 in sufficient quantity to cover its normal operations and whether it will be able to pass through the cost of such allowances in the marketplace. Also, Homer City's SO_2 emissions could exceed its assurance level, and, therefore, unless the proposed revision to the rule is adopted, Homer City could be subject to penalties depending on whether, collectively, emissions from all of the subject electrical generating facilities in Pennsylvania exceed the state's budgeted emissions level. Accordingly, Homer City is evaluating alternative options, including reduced dispatch and fuel modifications, for complying with Phase I of CSAPR. The cost of allowances, together with possible operational impacts or reductions of output that may be required to comply with Phase I of CSAPR, could have a material effect on Homer City.
Homer City has begun work on designing SO_2 and particulate emissions control equipment for Units 1 and 2. While the Phase II SO_2 emission allowances under CSAPR (11,068 tons) are less than were contemplated under the proposed Clean Air Transport Rule, the additional reductions are not expected to materially change the design for the SO_2 controls at Units 1 and 2. The installation of those SO_2 controls will require capital commitments for the Homer City plant well in advance of the 2014 effective date, including some expenditures in 2011, in order to meet regulatory deadlines. Given the relatively short period of time before Phase II of CSAPR takes effect in 2014, there is no assurance that Homer City will be able to complete all the work that will be required before the deadline. Homer City is continuing to review technologies available to reduce SO_2 and mercury emissions; however, it has not determined the most effective and efficient technology to meet all requirements that may be imposed on it. Consequently, the timing, selection of technology and ultimate capital costs remain uncertain. Based on preliminary estimates, Homer City currently believes the cost of such equipment may be between $600 million and $700 million. An application for a construction permit to install the additional controls was filed on October 3, 2011 with the Pennsylvania Department of Environmental Protection.

Homer City does not currently have sufficient capital and does not expect to generate sufficient funds from operations to complete such retrofits and will have to seek third-party financing, which will be subject to decisions by Homer City's lessors, holders of bonds who provided financing for the sale-leaseback transaction and new providers of capital funding. There is no assurance that sufficient financing will be obtained or will not result in significant dilution of Homer City's interest in the Homer City plant.

In July 2011, EME asked the US EPA to stay the effectiveness of CSAPR pending judicial review, and in October 2011, Homer

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City asked the US EPA to reconsider the rule. In August 2011, Homer City asked the United States Court of Appeals for the District of Columbia to review CSAPR and requested a stay of the rule while its motion is pending. Numerous similar challenges have been filed by other industry participants and by several states.

Proposed Hazardous Air Pollutant Regulations

In March 2011, the US EPA proposed National Emission Standards for Hazardous Air Pollutants, limiting emissions of hazardous air pollutants from coal- and oil-fired electrical generating units. This regulation is expected to be finalized by December 2011. Based on its continuing review, EMG does not expect that these standards, if adopted as proposed, would require Midwest Generation to make material changes to the approach to compliance with state and federal environmental regulations that it contemplates for CPS compliance. EMG also does not expect that these standards, if adopted as proposed, would require Homer City to make additional capital requirements beyond those that would be required to comply with CSAPR.

Ozone and Particulates

In September 2011, President Obama announced that the proposed revision to the National Ambient Air Quality Standards ("NAAQS") for ozone, which was expected to have set a more stringent standard for primary ozone and a distinct secondary standard to protect sensitive vegetation and ecosystems, was being withdrawn. The ozone NAAQS established in 2008 remains in place, but the implementation process must be completed before the 0.075 parts-per-million standard can be enforced. The US EPA has indicated that it intends to issue initial area designations of attainment, nonattainment, and unclassifiable areas across the nation in 2012. States will then be required develop and submit state implementation plans outlining how compliance with the 2008 NAAQS will be achieved. New primary and secondary ozone standards are expected in 2014.

Water Quality

Once-Through Cooling Issues

In March 2011, the US EPA proposed standards under the federal Clean Water Act which would affect cooling water intake structures at generating facilities. The standards are intended to protect aquatic organisms by reducing capture in screens attached to cooling water intake structures (impingement) and in the water volume brought into the facilities (entrainment). The regulations are expected to be finalized by July 2012. Edison International is evaluating the proposed standards and believes, from a preliminary review, that compliance with the proposed standards regarding impingement will be achievable for both the Midwest Generation plants and the Homer City plant without incurring material additional capital expenditures or operating costs. The required measures to comply with the proposed standards regarding entrainment are subject to the discretion of the permitting authority, and Edison International is unable at this time to assess potential costs of compliance, which could be significant for the Midwest Generation plants and San Onofre, but are not expected to be material for the Homer City plant, which already has cooling towers.

In addition to the proposed draft US EPA standards, the existing California once-through cooling policy may result in significant capital expenditures at San Onofre and may affect its operations. If other coastal power plants in California that rely on once-through cooling are forced to shut down or limit operations, the California policy may also significantly impact SCE's ability to procure generating capacity from those plants, which could have an adverse effect on system reliability and the cost of electricity.

Greenhouse Gas Regulation

California Air Resources Board's ("CARB") regulations implementing a California cap-and-trade program continue to be the subject of litigation. In June 2011, the CARB announced that initial cap-and-trade program compliance for the electricity sector would be delayed until January 2013.

In April 2011, California enacted a law requiring California utilities to procure 33% of their electricity requirements from renewable resources, as defined in the statute. The impact of the new 33% law will depend on how the CPUC and CEC implement the law, which remains uncertain.

Greenhouse Gas Litigation Developments

In June 2011, the U.S. Supreme Court dismissed public nuisance claims against five power companies, ruling that the CAA and the US EPA actions it authorizes displace federal common law nuisance claims that might arise from the emission of greenhouse gases. The court also affirmed the Second Circuit's determination that at least some of the plaintiffs had standing to bring the case. The court did not address whether the CAA also preempts state law claims arising from the same circumstances.

Parties to the case brought by the Alaskan Native Village of Kivalina against Edison International and other defendants, the

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appeal of which was deferred before the Ninth Circuit Court of Appeals pending the Supreme Court's ruling described above, have requested that the appeal recommence and have asked for permission to file additional briefs on the impact of the Supreme Court's ruling. The stay of the appeal has now been lifted and argument before the Ninth Circuit is scheduled for November 2011. Kivalina is seeking damages of up to $400 million for the cost of relocating the village.

On May 27, 2011, private citizens filed a purported class action complaint in the United States District Court for the Southern District of Mississippi, naming among a large number of defendants, Edison International and its subsidiaries, including SCE and EME. Plaintiffs allege that the defendants' activities resulted in emissions of substantial quantities of greenhouse gases that have contributed to climate change and sea level rise, which in turn are alleged to have increased the destructive force of Hurricane Katrina. The lawsuit alleges causes of action for negligence, public and private nuisance, and trespass, and seeks unspecified compensatory and punitive damages. The claims in this lawsuit are nearly identical to a subset of the claims that were raised against many of the same defendants in a previous lawsuit that was filed in, and dismissed by, the same federal district court where the current case has been filed. Edison International was dismissed as a defendant in this complaint in July 2011, but SCE and EME remain defendants.

Note 11. Accumulated Other Comprehensive Loss

Edison International's accumulated other comprehensive loss consists of:

(in millions)	Unrealized Gain (Loss) on Cash Flow Hedges	Pension and PBOP – Net Gain (Loss)	Pension and PBOP – Prior Service Cost	Accumulated Other Comprehensive Loss
Balance at December 31, 2010	$16	$(87)	$(5)	$ (76)
Current period change	(55)	7	—	(48)
Balance at September 30, 2011	$(39)	$(80)	$(5)	$ (124)

Included in accumulated other comprehensive loss at September 30, 2011 was $10 million, net of tax, of unrealized gains on commodity-based cash flow hedges; and $49 million, net of tax, of unrealized losses related to interest rate hedges. The maximum period over which a commodity cash flow hedge is designated is May 31, 2014.

Unrealized gains on commodity hedges consist of futures and forward electricity contracts that qualify for hedge accounting. These gains arise because current forecasts of future electricity prices in these markets are lower than the contract prices. Approximately $11 million of unrealized gains on cash flow hedges, net of tax, are expected to be reclassified into earnings during the next 12 months. Management expects that reclassification of net unrealized gains will increase energy revenues recognized at market prices. Actual amounts ultimately reclassified into earnings over the next 12 months could vary materially from this estimated amount as a result of changes in market conditions.

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Note 12. Supplemental Cash Flows Information

Edison International's supplemental cash flows information is:

	Nine months ended September 30,	
(in millions)	2011	2010
Cash payments (receipts) for interest and taxes:		
Interest – net of amounts capitalized	$529	$486
Tax payments (refunds) – net	(330)	44
Noncash investing and financing activities:		
Accrued capital expenditures	$393	$421
Details of debt exchange:		
Pollution-control bonds redeemed	$(86)	$(303)
Pollution-control bonds issued	86	303
Consolidation of variable interest entities:		
Assets other than cash	$—	$(94)
Liabilities and noncontrolling interests	—	99
Deconsolidation of variable interest entities:		
Assets other than cash	$—	$380
Liabilities and noncontrolling interests	—	(476)
Dividends declared but not paid:		
Common stock	$104	$103
Preferred and preference stock	12	9

Note 13. Preferred and Preference Stock of Utility

In March 2011, SCE issued 1,250,000 shares of 6.5% Series D preference stock (cumulative, $100 liquidation value). The Series D preference stock may not be redeemed prior to March 1, 2016. After March 1, 2016, SCE may, at its option, redeem the shares, in whole or in part for a price of $100 per share plus accrued and unpaid dividends, if any. These shares are not subject to mandatory redemption. The proceeds from the sale of these shares were used for general corporate purposes.

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Note 14. Regulatory Assets and Liabilities

Regulatory assets included on the consolidated balance sheets are:

(in millions)	September 30, 2011	December 31, 2010
Current:		
Regulatory balancing accounts	$ 191	$ 213
Energy derivatives	262	162
Other	1	3
Total Current	454	378
Long-term:		
Deferred income taxes – net	1,938	1,855
Pensions and other postretirement benefits	1,084	1,097
Unamortized generation investment – net	323	355
Unamortized loss on reacquired debt	253	268
Energy derivatives	214	177
Nuclear-related investment – net	160	154
Unamortized transmission and distribution investment – net	153	105
Regulatory balancing accounts	62	56
Other	299	280
Total Long-term	4,486	4,347
Total Regulatory Assets	$ 4,940	$ 4,725

Regulatory liabilities included on the consolidated balance sheets are:

(in millions)	September 30, 2011	December 31, 2010
Current:		
Regulatory balancing accounts	$ 728	$ 733
Other	6	5
Total Current	734	738
Long-term:		
Costs of removal	2,663	2,623
Asset Retirement Obligations	944	1,099
Regulatory balancing accounts	873	802
Other	1	—
Total Long-term	4,481	4,524
Total Regulatory Liabilities	$ 5,215	$ 5,262

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Note 15. Other Investments

Nuclear Decommissioning Trusts

Future decommissioning costs of removal of nuclear assets are expected to be funded from independent decommissioning trusts, which currently receive contributions of approximately $23 million per year included in SCE customer rates. Contributions to the decommissioning trusts are reviewed every three years by the CPUC. If additional funds are needed for decommissioning, it is probable that the additional funds will be recoverable through customer rates. Funds collected, together with accumulated earnings, will be utilized solely for decommissioning. The CPUC has set certain restrictions related to the investments of these trusts.

The following table sets forth amortized cost and fair value of the trust investments:

(in millions)	Longest Maturity Dates	Amortized Cost September 30, 2011	Amortized Cost December 31, 2010	Fair Value September 30, 2011	Fair Value December 31, 2010
Stocks	—	$861	$895	$1,721	$2,029
Municipal bonds	2051	644	706	767	790
U.S. government and agency securities	2041	445	270	501	288
Corporate bonds	2054	266	288	318	346
Short-term investments and receivables/payables	One-year	81	26	86	27
Total		$2,297	$2,185	$3,393	$3,480

Trust fund earnings (based on specific identification) increase the trust fund balance and the asset retirement obligations ("ARO") regulatory liability. Proceeds from sales of securities (which are reinvested) were $962 million and $302 million for the three months ended September 30, 2011 and 2010, respectively, and $2.1 billion and $903 million for the nine months ended September 30, 2011 and 2010, respectively. Unrealized holding gains, net of losses, were $1.1 billion and $1.3 billion at September 30, 2011 and December 31, 2010, respectively.

The following table sets forth a summary of changes in the fair value of the trust:

(in millions)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Balance at beginning of period	$3,657	$3,083	$3,480	$3,140
Realized gains – net	41	14	76	48
Unrealized gains (losses) – net	(305)	233	(199)	90
Other-than-temporary impairments	(22)	(5)	(35)	(16)
Interest, dividends, contributions and other	22	22	71	85
Balance at end of period	$3,393	$3,347	$3,393	$3,347

Due to regulatory mechanisms, earnings and realized gains and losses (including other-than-temporary impairments) have no impact on operating revenue or earnings.

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Note 16. Other Income and Expenses

Other income and expenses are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Other income:				
Equity Available Funds Used During Construction	$18	$24	$74	$76
Increase in cash surrender value of life insurance policies	6	7	19	19
Other	2	2	10	8
Total utility other income	26	33	103	103
Competitive power generation and other income	1	—	7	—
Total other income	$27	$33	$110	$103
Other expenses:				
Civic, political and related activities and donations	$6	$7	$21	$21
Other	4	3	14	18
Total utility other expenses	10	10	35	39
Competitive power generation and other expenses	1	2	2	—
Total other expenses	$11	$12	$37	$39

Note 17. Business Segments

Edison International has two business segments for financial reporting purposes: an electric utility operation segment (SCE) and a competitive power generation segment (EMG). The significant accounting policies of the segments are the same as those described in Note 1.

Reportable Segments Information

The following is information (including the elimination of intercompany transactions) related to Edison International's reportable segments:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Operating Revenue:				
Electric utility	$3,386	$3,098	$8,063	$7,504
Competitive power generation	596	691	1,686	1,838
Parent and other[2]	(1)	(1)	(3)	(2)
Consolidated Edison International	$3,981	$3,788	$9,746	$9,340
Net Income (Loss) attributable to Edison International:				
Electric utility	$406	$394	$838	$858
Competitive power generation[1]	33	110	(17)	214
Parent and other[2]	(13)	6	(19)	18
Consolidated Edison International	$426	$510	$802	$1,090

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Segment balance sheet information was:

(in millions)	September 30, 2011	December 31, 2010
Total Assets:		
Electric utility	$38,122	$35,906
Competitive power generation	9,881	9,597
Parent and other[2]	(331)	27
Consolidated Edison International	$47,672	$45,530

[1] Includes earnings (losses) from discontinued operations of none and $(4) million for the three months ended September 30, 2011 and 2010, respectively, and $(3) million and $4 million for the nine months ended September 30, 2011 and 2010, respectively.

[2] Includes amounts from Edison International (parent) and other Edison International subsidiaries that are not significant as a reportable segment, as well as intercompany eliminations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect Edison International's current expectations and projections about future events based on Edison International's knowledge of present facts and circumstances and assumptions about future events and include any statement that does not directly relate to a historical or current fact. Other information distributed by Edison International that is incorporated in this report, or that refers to or incorporates this report, may also contain forward-looking statements. In this report and elsewhere, the words "expects," "believes," "anticipates," "estimates," "projects," "intends," "plans," "probable," "may," "will," "could," "would," "should," and variations of such words and similar expressions, or discussions of strategy or of plans, are intended to identify forward-looking statements. Such statements necessarily involve risks and uncertainties that could cause actual results to differ materially from those anticipated. Some of the risks, uncertainties and other important factors that could cause results to differ from those currently expected, or that otherwise could impact Edison International, include, but are not limited to:

- cost of capital and the ability of Edison International or its subsidiaries to borrow funds and access the capital markets on reasonable terms;
- environmental laws and regulations, at both state and federal levels, or changes in the application of those laws, that could require additional expenditures or otherwise affect the cost and manner of doing business, including compliance with CPS at Midwest Generation and the CSAPR and the proposed National Emission Standards for Hazardous Air Pollutants at Midwest Generation and Homer City;
- ability of SCE to recover its costs in a timely manner from its customers through regulated rates;
- decisions and other actions by the CPUC, the FERC and other regulatory authorities and delays in regulatory actions;
- possible customer bypass or departure due to technological advancements or cumulative rate impacts that make self-generation or use of alternative energy sources economically viable;
- risks associated with the operation of transmission and distribution assets and nuclear and other power generating facilities including: nuclear fuel storage issues, public safety issues, failure, availability, efficiency, output, cost of repairs and retrofits of equipment and availability and cost of spare parts;
- cost and availability of electricity including the ability to procure sufficient resources to meet expected customer needs in the event of significant counterparty defaults under power purchase agreements;
- changes in the fair value of investments and other assets;
- changes in interest rates and rates of inflation, including those rates which may be adjusted by public utility regulators;
- governmental, statutory, regulatory or administrative changes or initiatives affecting the electricity industry, including the market structure rules applicable to each market and price mitigation strategies adopted by Independent System Operators and Regional Transmission Organizations;
- availability and creditworthiness of counterparties and the resulting effects on liquidity in the power and fuel markets and/or the ability of counterparties to pay amounts owed in excess of collateral provided in support of their obligations;
- cost and availability of labor, equipment and materials;
- ability to obtain sufficient insurance, including insurance relating to SCE's nuclear facilities and wildfire-related liability, and to recover the costs of such insurance;
- ability to recover uninsured losses in connection with wildfire-related liability;
- effects of legal proceedings, changes in or interpretations of tax laws, rates or policies, and changes in accounting standards;
- potential for penalties or disallowances caused by non-compliance with applicable laws and regulations;
- cost and availability of coal, natural gas, fuel oil, and nuclear fuel, and related transportation to the extent not recovered through regulated rate cost escalation provisions or balancing accounts;

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- cost and availability of emission credits or allowances for emission credits;
- transmission congestion in and to each market area and the resulting differences in prices between delivery points;
- ability to provide sufficient collateral in support of hedging activities and power and fuel purchased;
- risks inherent in the development of generation projects and transmission and distribution infrastructure replacement and expansion projects, including those related to project site identification, construction, permitting, and governmental approvals;
- risks that competing transmission systems will be built by merchant transmission providers in SCE's territory; and
- weather conditions and natural disasters.

Additional information about risks and uncertainties, including more detail about the factors described above, is contained throughout this MD&A and in Edison International's 2010 Form 10-K, including the "Risk Factors" section in Part I, Item 1A. Readers are urged to read this entire report, including the information incorporated by reference, as well as the 2010
Form 10-K, and carefully consider the risks, uncertainties and other factors that affect Edison International's business. Forward-looking statements speak only as of the date they are made and Edison International is not obligated to publicly update or revise forward-looking statements. Readers should review future reports filed by Edison International with the U.S. Securities and Exchange Commission.

This MD&A for the three- and nine-month periods ended September 30, 2011 discusses material changes in the consolidated financial condition, results of operations and other developments of Edison International since December 31, 2010, and as compared to the three- and nine-month periods ended September 30, 2010. This discussion presumes that the reader has read or has access to Edison International's MD&A for the calendar year 2010 (the "year-ended 2010 MD&A"), which was included in the 2010 Form 10-K.

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EDISON INTERNATIONAL MANAGEMENT OVERVIEW

Highlights of Operating Results

(in millions)	Three months ended September 30, 2011	2010	Change	Nine months ended September 30, 2011	2010	Change
Net Income (Loss) attributable to Edison International						
SCE	$406	$394	$12	$838	$858	$(20)
EMG	33	110	(77)	(17)	214	(231)
Edison International Parent and Other	(13)	6	(19)	(19)	18	(37)
Edison International Consolidated	426	510	(84)	802	1,090	(288)
Less: Non-Core Items						
Global Settlement:						
SCE	—	42	(42)	—	95	(95)
EMG	—	(6)	6	—	52	(52)
Edison International Parent and Other	—	1	(1)	—	28	(28)
SCE – tax impact of health care legislation	—	—	—	—	(39)	39
EMG discontinued operations	—	(4)	4	(3)	4	(7)
Total non-core items	—	33	(33)	(3)	140	(143)
Core Earnings (Losses)						
SCE	406	352	54	838	802	36
EMG	33	120	(87)	(14)	158	(172)
Edison International Parent and Other	(13)	5	(18)	(19)	(10)	(9)
Edison International Consolidated	$426	$477	$(51)	$805	$950	$(145)

Edison International's earnings are prepared in accordance with generally accepted accounting principles used in the United States. Management uses core earnings by principal operating subsidiary internally for financial planning and for analysis of performance. Core earnings (losses) by principal operating subsidiary are also used when communicating with analysts and investors regarding our earnings results to facilitate comparisons of the Company's performance from period to period. Core earnings (losses) are a non-GAAP financial measure and may not be comparable to those of other companies. Core earnings (losses) are defined as earnings attributable to Edison International shareholders less income or loss from discontinued operations and income or loss from significant discrete items that management does not consider representative of ongoing earnings, such as: exit activities, including lease terminations, sale of certain assets, early debt extinguishment costs and other activities that are no longer continuing; asset impairments and certain tax, regulatory or legal settlements or proceedings.

SCE's 2011 core earnings increased $54 million and $36 million for the quarter and year-to-date, respectively. Core earnings in both periods increased due to rate base growth. The quarterly core earnings increase was also attributable to lower income taxes. The year-to-date increase was partially offset by higher income tax expense, including a $40 million benefit in the second quarter of 2010 from a change in tax accounting for asset removal costs primarily related to SCE's infrastructure replacement program. In October 2011, the CPUC authorized SCE to recover legal costs incurred between 2004 and 2009 in support of SCE's efforts to obtain generator refunds. As a result, SCE expects to record revenue of approximately $25 million in the fourth quarter of 2011.

EMG's 2011 core earnings decreased $87 million and $172 million for the quarter and the year-to-date, respectively. The decrease in core earnings during the quarter was due to lower capacity revenues, realized energy prices and generation from merchant coal plants, and lower trading income and capacity factors from renewable projects. The decrease in core earnings during the quarter was also due to a gain in 2010 from the sale of bankruptcy claims. The decrease in year-to-date core earnings was due to lower realized energy prices and generation from merchant coal plants, higher plant maintenance costs from outages, higher interest expense related to renewable projects, and lower trading income. In addition, unrealized losses were $4 million for the nine months of 2011 compared to unrealized losses of $30 million in the same period last year.

Edison International Parent and Other 2011 core earnings decreased $18 million and $9 million for the quarter and the

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year-to-date, respectively, primarily due to lower tax benefits in 2011 compared to 2010.

Consolidated non-core items for Edison International included:

- An earnings benefit of $175 million recorded in 2010 relating to the California impact of the federal Global Settlement, including $138 million in the second quarter resulting from acceptance by the Franchise Tax Board of the tax positions finalized with the IRS in 2009 and $37 million in the third quarter resulting from receipt of the final interest determination from the Franchise Tax Board.
- An after tax earnings charge of $39 million recorded in the first quarter of 2010 to reverse previously recognized federal tax benefits eliminated by federal health care legislation enacted in 2010. The health care law eliminated the federal tax deduction for retiree health care costs to the extent those costs are eligible for federal Medicare Part D subsidies.

Management Overview of SCE

Capital Program

During the first nine months of 2011, SCE's capital investment program focused on upgrading and expanding SCE's transmission and distribution system; replacing generation asset equipment; and installing smart meters. Total capital expenditures (including accruals) were $2.5 billion during the first nine months of 2011 compared to $2.4 billion during the same period in 2010.

As discussed under "Liquidity and Capital Resources—Capital Investment Plan" in the year-ended 2010 MD&A, SCE continues to project that 2011 capital expenditures will be in the range of $3.9 billion to $4.4 billion and that 2011 - 2014 total capital expenditures will be in the range of $15.6 billion to $17.5 billion. Actual capital spending will be affected by: changes in regulatory, environmental and engineering design requirements; permitting and project delays; cost and availability of labor, equipment and materials; and other factors.

SCE is currently completing the final engineering design for the Tehachapi Transmission Project and anticipates an increase in its 2011-2014 expenditures for the project as a result of cost pressures associated with engineering design and scope changes, environmental mitigation work, and regulatory and permit delays. The project may be further impacted by the CPUC's response to SCE's petition to modify the 2009 decision approving the project for the purpose of obtaining authorization to install aviation marking and lighting. In October 2011, the CPUC staff notified SCE that the constructed portions of the project could be marked and lighted as required, but instructed SCE to defer completion of remaining project components that may require aviation marking or lighting pending CPUC review of the petition to modify. Community opposition to portions of the project continues and requests for reconsideration of the CPUC's 2009 decision are pending. Once final engineering is complete, SCE will file a revised cost estimate with the CPUC. As with all transmission investments, cost recovery will be subject to future rate proceedings.

In July 2011, the FERC adopted new rules that remove incumbent public utility transmission owners' federally-based right of first refusal to construct certain new transmission facilities. The rules direct regional entities, such as ISOs, to create new processes that would allow other providers to develop new transmission projects. The new processes will not become effective until approved by the FERC, which is expected in late 2012. The majority of SCE's 2011 – 2014 transmission capital forecast relates to transmission projects that have been approved by the CAISO and barring a re-evaluation under the new rules, will not be subject to the new processes. SCE does not expect these projects to be re-evaluated. The impact of the new rules on future transmission projects will depend on the processes ultimately implemented by regional entities.

2012 CPUC General Rate Case

As discussed in the year-ended 2010 MD&A, SCE filed its GRC application in November 2010. In October 2011, SCE submitted updated testimony to reflect changes in escalation rates, known changes due to governmental actions and changes in the timing of recovery for nuclear outages, which taken together changed its requested 2012 base rate revenue requirement to $6.3 billion. SCE's updated request, after considering the effects of sales growth, would result in incremental customer base rate increases of $824 million, $136 million and $532 million in 2012, 2013 and 2014, respectively. The updated request also reflects a previously submitted base revenue requirement reduction of $38 million, $133 million and $145 million in 2012, 2013 and 2014, respectively, primarily due to a reduction in rate base from inclusion of higher deferred income taxes resulting from bonus depreciation deductions under the 2010 Tax Relief Act.

The Division of Ratepayer Advocates ("DRA") recommended that SCE's requested 2012 base rate revenue requirement be decreased by approximately $850 million, comprised of approximately $630 million in operation and maintenance expense reductions and approximately $220 million in capital-related revenue requirement reductions. The Utility Reform Network or

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TURN and other intervenors recommended an additional $610 million revenue requirement reduction, beyond the DRA adjustments, primarily capital-related in nature, as well as disallowances of recorded capital costs for specific projects. Intervenors have also recommended changes to SCE's proposed post test year ratemaking methodology to be used for 2013 and 2014.

The current schedule anticipates a final decision on SCE's 2012 GRC by the end of 2011, but the Administrative Law Judge handling the GRC has indicated that a final decision is not expected before year-end. To the extent that a final decision is delayed beyond the end of 2011, the CPUC has authorized the establishment of a GRC memorandum account, which will make the revenue requirement ultimately adopted by the CPUC effective as of January 1, 2012. SCE cannot predict the revenue requirement the CPUC will ultimately authorize or the timing of the final 2012 GRC decision.

FERC Formula Rates

In August 2011, the FERC accepted, subject to refund and settlement procedures, SCE's request to implement a formula rate effective January 1, 2012, to determine SCE's FERC transmission revenue requirement, including its construction work in progress ("CWIP") revenue requirement that was previously recovered through a separate mechanism. The FERC reduced SCE's proposed base ROE request from 11.5% to 9.93%. SCE estimates its total 2012 FERC weighted average ROE will be 11.1%, including the previously authorized 50 basis point incentive for CAISO participation and individual authorized project incentives. The actual weighted average ROE is dependent upon the amount and timing of capital expenditures among FERC incentive and non-incentive projects. SCE's request proposed the adoption of a specific formula to calculate a forecast revenue requirement that is used to establish rates and is trued-up annually to allow SCE to recover its actual revenue requirement, including its actual cost of service, actual rate base and the authorized return on investment. SCE's request also allows SCE to make single-issue rate filings requesting changes to certain elements of the formula, including the base ROE, depreciation rates and the retail rate structure. SCE and the other parties to the proceeding are currently in settlement negotiations. SCE does not expect a final decision until 2012 and cannot predict the formula rate structure that the FERC will ultimately authorize.

In September 2011, SCE reduced its forecasted 2012 transmission revenue requirement for the lower ROE by $49 million to $722 million. SCE had requested a rehearing of the adopted base ROE, however the FERC denied such request in October 2011. SCE is evaluating and must decide by December 2011 whether to appeal the FERC order at the DC Circuit Court. Separately, in October 2011, the FERC issued an order denying SCE's request for rehearing of its 2008 and 2011 CWIP proceedings which adopted a base ROE of 9.54% and 10.3%, respectively, compared to SCE's request of 11.5%. The reduced ROE in these proceedings did not have a material impact on SCE's financial statements.

Nuclear Industry and Regulatory Response to Events in Japan

As discussed in the 2010 Form 10-K under the heading "Nuclear Power Plant Regulation," SCE is subject to the jurisdiction of the NRC with respect to its ownership interest in San Onofre and Palo Verde. In light of the significant safety events at the Fukushima Daiichi nuclear plant in Japan resulting from the March 2011 earthquake and tsunami, the NRC has been performing and plans to continue to perform additional operational and safety reviews of nuclear facilities in the United States. The NRC's Near Term Task Force ("NTTF") conducted a systematic review of U.S. NRC processes and regulations to determine whether additional improvements to the existing nuclear regulatory system are warranted in light of the events in Japan. The NTTF concluded that a sequence of events like the Fukushima accident is unlikely to occur in the U.S., and that continued operation of U.S. reactors does not pose an imminent risk to public health and safety. The NTTF Report proposed changes to regulations applicable to protection against natural phenomena, including earthquakes and flooding and emergency preparedness, and the NTTF made a number of recommendations as to actions that the NRC might implement. The timing and prioritization of these recommendations must be voted on by the NRC and the nuclear industry will have an opportunity to comment on the timing and scope of these recommendations prior to their implementation. If implemented, the recommendations may impact future operations and capital requirements at United States nuclear facilities, including the operations and capital requirements of SCE's nuclear facilities.

Management Overview of EMG

The profitability of EMG's competitive power generation operations is expected to be significantly lower in 2011 compared to 2010 as a result of lower realized energy prices at the Midwest Generation plants, higher fuel costs and outages at the Homer City plant. In addition, the profitability of EMG's Midwest Generation plants is expected to be adversely affected by a decline in capacity prices and higher rail transportation costs (due to the expiration at the end of 2011 of a favorable long-term rail contract), and EMG's Homer City plant may be adversely impacted by new environmental regulations discussed further below. As a result, EMG may incur net losses during 2011 and in subsequent years unless energy and capacity prices increase or its costs decline.

At September 30, 2011, EMG and its subsidiaries had $1.3 billion in cash and cash equivalents and $1.0 billion of liquidity

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available from credit facilities that expire in 2012. EMG's principal subsidiary, EME, had $3.7 billion of senior notes outstanding at September 30, 2011, $500 million of which mature in 2013. EMG's business plans are focused on operating effectively through the current commodity price cycle, environmental compliance and energy project development plans.

Cross-State Air Pollution Rule

On July 6, 2011, the US EPA adopted the CSAPR . CSAPR is the final form of a previously proposed replacement for the CAIR, originally called the Clean Air Transport Rule that was released in 2010. CSAPR establishes emissions reductions for annual SO_2 emissions and annual and ozone season NOx emissions in two phases: a first phase effective January 1, 2012 and, in most states subject to the program (including Illinois and Pennsylvania), a second phase effective January 1, 2014 that requires additional reductions in annual SO_2 emissions.

CSAPR, like the CAIR, is an allowance-based regulation that provides for emissions trading. Under CSAPR, the amount of actual SO_2 or NOx emissions from operations will need to be matched by a sufficient amount of SO_2 or NOx allowances that are either allocated or purchased in the open market. In connection with CSAPR, the US EPA has, for each phase, established SO_2 and NOx allowance allocations for each state and each generating unit subject to the regulation, and at the close of the annual or seasonal compliance period, units must surrender allowances for each ton of SO_2 and NOx emitted or face penalties. While trading of allowances is permitted within designated groups of states, the rule provides for penalties against a unit with emissions in excess of its predefined "assurance level," but only if the state in which it is located also exceeds its budgeted emissions level. On October 6, 2011, the US EPA announced a proposed revision to the rule that would effectively eliminate such penalties in the first phase.

EMG believes that Midwest Generation's current environmental remediation plan developed to comply with the CPS, along with the allowances allocated to it under CSAPR, will be sufficient to comply with the requirements of CSAPR and the US EPA's proposed regulation on hazardous air pollutant ("HAP") emissions. In order to achieve compliance, Midwest Generation has begun work to install SO_2 controls at certain of its plants.

The SO_2 allowances allocated to Homer City in CSAPR Phase I (25,797 tons in 2012 and 2013) are significantly lower than the amount that would be required based on Homer City's historical emissions (2010 SO_2 emissions were 112,951 tons). Therefore, pending installation of additional equipment for Units 1 and 2 (Homer City's Unit 3 is equipped with a wet scrubber flue gas desulfurization system to meet environmental standards), Homer City expects that it will be required to procure additional allowances. It is unclear at this time whether Homer City will be able to acquire allowances for 2012 and 2013 in sufficient quantity to cover its normal operations and whether it will be able to pass through the cost of such allowances in the marketplace. Also, Homer City's SO_2 emissions could exceed its assurance level, and, therefore, unless the US EPA's proposed revision to the rule is adopted, Homer City could be subject to penalties depending on whether, collectively, emissions from all of the subject electrical generating facilities in Pennsylvania exceed the state's budgeted emissions level. Accordingly, Homer City is evaluating alternative options, including reduced dispatch and fuel modifications, for complying with Phase I of CSAPR. The cost of allowances, together with possible operational impacts or reductions of output that may be required to comply with Phase I of CSAPR, could have a material effect on Homer City.

Homer City has begun work on designing SO_2 and particulate emissions control equipment for Units 1 and 2. While the Phase II SO_2 emission allowances under CSAPR (11,068 tons) are less than were contemplated under the proposed Clean Air Transport Rule, the additional reductions are not expected to materially change the design for the SO_2 controls at Units 1 and 2. The installation of those SO_2 controls will require capital commitments for the Homer City plant well in advance of the 2014 effective date, including some expenditures in 2011, in order to meet regulatory deadlines. Given the relatively short period of time before Phase II of CSAPR takes effect in 2014, there is no assurance that Homer City will be able to complete all the work that will be required before the deadline. Homer City is continuing to review technologies available to reduce SO_2 and mercury emissions; however, it has not determined the most effective and efficient technology to meet all requirements that may be imposed on it. Consequently, the timing, selection of technology and ultimate capital costs remain uncertain. Based on preliminary estimates, Homer City currently believes the cost of such equipment may be between $600 million and $700 million. An application for a construction permit to install the additional controls was filed on October 3, 2011 with the Pennsylvania Department of Environmental Protection.

Homer City Capital Needs and Liquidity

Homer City does not currently have sufficient capital and does not expect to generate sufficient funds from operations to complete retrofits effectively required by CSAPR Phase II. EME is under no legal obligation to, and has chosen not to, provide funding. Homer City expects to fund $13 million of project costs during the remainder of 2011. However, Homer City will need third-party capital to undertake the retrofits required by 2014 under CSAPR and to fund capital costs beginning in 2012 in order to complete the requisite retrofits by early 2014. However, restrictions under the agreements entered into as part of

Homer City's 2001 sale-leaseback transaction affect, and in some cases significantly limit or prohibit, Homer City's ability to incur indebtedness or make capital expenditures. Consequently, Homer City's ability to install environmental compliance equipment will be dependent on approvals by its lessors and holders of bonds who provided financing for the sale-leaseback transaction, and its ability to obtain new capital funding.

Homer City has engaged a financial advisor and commenced a process to obtain capital funding from third parties to install the environmental improvements. Homer City's objective is to maximize the value of its leasehold interest while obtaining the incremental capital needed to make such improvements. There can be no assurance that Homer City will be able to raise the financing necessary to install the required SO_2 control equipment in a timely manner or on terms that will not result in a significant dilution of its interest in the Homer City plant. A significant dilution of interest in the Homer City plant may result in a financial statement deconsolidation of Homer City if EME no longer retains control for inclusion in the consolidated financial statements. In this event, the transaction would be accounted for as a disposition and could result in a material loss. At September 30, 2011, the book value of EME's investment in Homer City and related assets was approximately $1.1 billion.

Homer City believes that the persistence of low power prices, combined with the outages suffered earlier this year and the possible impacts of compliance with CSAPR Phase I in 2012, will make it unlikely that Homer City will meet the covenant requirements of its sale-leaseback documents relating to the payment of equity rent at April 1, 2012. Under the sale-leaseback documents, rent payments are comprised of two components, senior rent and equity rent. Senior rent is used exclusively for debt service to holders of senior secured bonds issued in connection with the sale-leaseback transaction, while equity rent is paid to the owner-lessors. In order to pay equity rent, among other requirements, Homer City must meet historical and projected senior rent service coverage ratios of 1.7 to 1 (subject to reduction to 1.3 to 1 under certain circumstances). A failure to pay equity rent does not entitle the owner-lessors to foreclose upon Homer City's leasehold interest, but it does result in the suspension of Homer City's ability to make permitted distributions. Moreover, the ability to make permitted distributions would be permanently frozen if a failure to pay equity rent when due was not cured within nine months, or even if timely cured, there occurred more than one additional failure to pay equity rent when due at any future time during the term of the lease. Homer City is not subject to any minimum historical and projected senior rent service coverage ratios except as conditions to distributions and equity rent payments. Also, failure by Homer City to pay equity rent when due in April 2012 could trigger termination of the $47 million senior rent reserve letter of credit. Homer City would then be required to fund the senior rent reserve, and failure to do so could entitle counterparties to seek available remedies under the sale-leaseback documents, including termination or foreclosure upon the leasehold interest.

EME's subsidiary, EMMT, enters into energy and capacity transactions on behalf of Homer City pursuant to an intercompany agreement. Those transactions are generally back-to-back transactions in which EMMT enters into a transaction with a third party as a principal and then enters into an equivalent transaction with Homer City. In the case of energy sales, if Homer City fails to perform its obligations under the intercompany agreement, EMMT would seek to fulfill its third-party obligations through market transactions which may result in losses. In the case of capacity, EMMT has sold Homer City capacity in the annual PJM base residual auctions through May 2015. If Homer City were to default on its obligations to supply capacity, then EMMT would be liable to PJM to supply that capacity, and failure to do so would expose EMMT to penalties under the PJM tariffs. If one or more of the Homer City units were to be unavailable as a capacity resource and EMMT did not fulfill this obligation through market transactions, then PJM would assess a penalty against EMMT (excluding a refund of any capacity payments received by EMMT) equal to the greater of 20% of the capacity payments or $20 per MW-day.

Failure of Homer City to find an economic manner to continue plant operations, by installing the required equipment or otherwise, could result in a foreclosure on its leasehold interest and/or a curtailment of plant operations. These events or other matters described above could have an adverse effect on future financial results, cash flow, financial flexibility and assets of EME compared to historical levels.

Midwest Generation Environmental Compliance Plans and Costs

During 2011, Midwest Generation continued its permitting and planning activities for NOx and SO_2 controls to meet the requirements of the CPS. Midwest Generation does not anticipate a material change to its current approach in order to comply with CSAPR. Based on its continuing review, EME also does not expect the US EPA's proposed

National Emission Standards for Hazardous Air Pollutants, if adopted, would require Midwest Generation to make material changes to the approach to compliance with state and federal environmental regulations that it contemplates for CPS compliance. Midwest Generation expects to continue to develop and implement a compliance program that includes the use of activated carbon injection, upgrades to particulate removal systems and dry sorbent injection, combined with its use of low sulfur PRB coal, to meet emissions limits for criteria pollutants, such as NOx and SO_2 as well as for HAPs, such as mercury, acid gas and non-mercury metals. Based on stack tests performed at various Midwest Generation plants, Midwest Generation believes that currently installed activated carbon injection and particulate removal equipment is sufficient to achieve or exceed the mercury standards outlined in the US EPA's existing and proposed rules.

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In February 2011, the Illinois EPA issued construction permits authorizing Midwest Generation to install a dry sorbent injection system using Trona or other sodium-based sorbents at the Powerton Station's Units 5 and 6.

Decisions regarding whether or not to proceed with retrofitting units to comply with CPS requirements for SO_2 emissions, including those that have received permits, remain subject to a number of factors, such as market conditions, regulatory and legislative developments, and forecasted commodity prices and capital and operating costs applicable at the time decisions are required or made. Midwest Generation could also elect to temporarily or permanently shut down units, instead of installing controls, to be in compliance with the CPS.

Therefore, decisions about any particular combination of retrofits and shutdowns Midwest Generation may ultimately employ also remain subject to conditions applicable at the time decisions are required or made. Final decisions on whether to install controls, to install particular kinds of controls, and to actually expend capital or continue with the expenditure of capital that is budgeted may not occur until 2012 for some of the units and potentially later for others, subject to the requirements of the CPS and other applicable regulations. Pending such final decisions, Midwest Generation plans to continue with any work necessary to comply with issued permits.

Environmental Regulation Developments

For additional discussion of environmental regulation developments regarding the Cross-State Air Pollution Rule, proposed Hazardous Air Pollutant Regulations, Ozone and Particulates Standards, Once-Through Cooling Issues, Greenhouse Gas Regulation and Greenhouse Gas Litigation Developments, see "Edison International Notes to Consolidated Financial Statements—Note 10. Regulatory and Environmental Developments."

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SOUTHERN CALIFORNIA EDISON COMPANY
RESULTS OF OPERATIONS
SCE's results of operations are derived mainly through two sources: