

EDISON INTERNATIONAL
 Form 10-K
 February 21, 2017

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 FORM 10-K
 (Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
 For the fiscal year ended December 31, 2016
 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	Exact Name of Registrant as specified in its charter	State or Other Jurisdiction of Incorporation or Organization	IRS Employer Identification Number
1-9936	EDISON INTERNATIONAL	California	95-4137452
1-2313	SOUTHERN CALIFORNIA EDISON COMPANY	California	95-1240335

EDISON INTERNATIONAL 2244 Walnut Grove Avenue (P.O. Box 976) Rosemead, California 91770 (Address of principal executive offices) (626) 302-2222 (Registrant's telephone number, including area code)	SOUTHERN CALIFORNIA EDISON COMPANY 2244 Walnut Grove Avenue (P.O. Box 800) Rosemead, California 91770 (Address of principal executive offices) (626) 302-1212 (Registrant's telephone number, including area code)
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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Edison International: Common Stock, no par value	NYSE LLC
Southern California Edison Company: Cumulative Preferred Stock 4.08% Series, 4.24% Series, 4.32% Series, 4.78% Series	NYSE MKT LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Edison International Yes No Southern California Edison Company Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Edison International Yes No Southern California Edison Company Yes No

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.

Edison International Yes No Southern California Edison Company Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Edison International Yes No Southern California Edison Company Yes No

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

Edison International Southern California Edison Company

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 "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-12 of the Exchange Act. (Check One):

Edison International	Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
Southern California Edison Company	Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-accelerated Filer <input checked="" type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>

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

Edison International Yes No Southern California Edison Company Yes No

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrants as of June 30, 2016, the last business day of the most recently completed second fiscal quarter:

Edison International Approximately \$25.3 billion Southern California Edison Company Wholly owned by Edison International

Common Stock outstanding as of February 17, 2017:

Edison International 325,811,206 shares
Southern California Edison Company 434,888,104 shares (wholly owned by Edison International)

DOCUMENTS INCORPORATED BY REFERENCE

Designated portions of the Proxy Statement relating to registrants' joint 2017 Annual Meeting of Shareholders have been incorporated by reference into the parts of this report where indicated.

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This is a combined Form 10-K separately filed by Edison International and Southern California Edison Company. Information contained herein relating to an individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

GLOSSARY

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

AFUDC	allowance for funds used during construction
ALJ	administrative law judge
ARO(s)	asset retirement obligation(s)
Bcf	billion cubic feet
Bonus depreciation	Current federal tax deduction of a percentage of the qualifying property placed in service during periods permitted under tax laws
BRRBA	Base Revenue Requirement Balancing Account
CAISO	California Independent System Operator
CPUC	California Public Utilities Commission
DOE	U.S. Department of Energy
DERs	distributed energy resources
DRP	Distributed Resources Plan
Edison Energy	Edison Energy, LLC, a wholly-owned subsidiary of Edison Energy Group that advises and provides energy solutions to large energy users
Edison Energy Group	Edison Energy Group, Inc., the holding company for subsidiaries engaged in competitive businesses focused on providing energy services, including distributed generation and/or storage, to commercial and industrial customers
EME	Edison Mission Energy
EME Settlement Agreement	Settlement Agreement by and among Edison Mission Energy, Edison International and the Consenting Noteholders identified therein, dated February 18, 2014
EMG	Edison Mission Group Inc., a wholly owned subsidiary of Edison International and the parent company of EME and Edison Capital
ERRA	energy resource recovery account
FERC	Federal Energy Regulatory Commission
GAAP	generally accepted accounting principles
GHG	greenhouse gas
GRC	general rate case
GWh	gigawatt-hours
HLBV	hypothetical liquidation at book value
IRS	Internal Revenue Service
Joint Proxy Statement	Edison International's and SCE's definitive Proxy Statement filed with the SEC in connection with Edison International's and SCE's Annual Shareholders' Meeting held on April 27, 2017
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations in this report
MHI	Mitsubishi Heavy Industries, Inc. and related companies
MW	megawatts
MWdc	megawatts measured for solar projects representing the accumulated peak capacity of all the solar modules
NEIL	Nuclear Electric Insurance Limited
NEM	net energy metering
NERC	North American Electric Reliability Corporation
NRC	Nuclear Regulatory Commission
ORA	CPUC's Office of Ratepayers Advocates
OII	Order Instituting Investigation
Palo Verde	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)

QF(s) qualifying facility(ies)

v

ROE	return on common equity
S&P	Standard & Poor's Ratings Services
San Onofre	retired nuclear generating facility located in south San Clemente, California in which SCE holds a 78.21% ownership interest
San Onofre OII Settlement Agreement	Settlement Agreement by and among TURN, ORA, SDG&E, the Coalition of California Utility Employees, and Friends of the Earth, dated November 20, 2014
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric
SEC	U.S. Securities and Exchange Commission
SED	Safety and Enforcement Division of the CPUC, formerly known as the Consumer Protection and Safety Division or CPSD
SoCalGas	Southern California Gas Company
SoCore Energy	SoCore Energy LLC, a subsidiary of Edison Energy Group that provides solar energy and energy storage solutions
TURN	The Utility Reform Network
US EPA	U.S. Environmental Protection Agency

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect Edison International's and SCE's current expectations and projections about future events based on Edison International's and SCE's knowledge of present facts and circumstances and assumptions about future events and include any statements that do not directly relate to a historical or current fact. Other information distributed by Edison International and SCE 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 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 and SCE, include, but are not limited to the:

- ability of SCE to recover its costs in a timely manner from its customers through regulated rates, including costs related to San Onofre and proposed spending on grid modernization;
- decisions and other actions by the CPUC, the FERC, the NRC and other regulatory authorities, including determinations of authorized rates of return or return on equity, approval of proposed spending on grid modernization, outcome of San Onofre CPUC proceedings, and delays in regulatory actions;
- ability of Edison International or SCE to borrow funds and access the capital markets on reasonable terms;
- risks associated with cost allocation, including the potential movement of costs to certain customers, caused by the ability of cities, counties and certain other public agencies to generate and/or purchase electricity for their local residents and businesses, along with other possible customer bypass or departure due to increased adoption of distributed energy resources ("DERs") or technological advancements in the generation, storage, transmission, distribution and use of electricity, and supported by public policy, government regulations and incentives;
- risks inherent in the construction of SCE's transmission and distribution infrastructure investment program, including those related to project site identification, public opposition, environmental mitigation, construction, permitting, power curtailment costs (payments due under power contracts in the event there is insufficient transmission to enable acceptance of power delivery), and governmental approvals;
- risks associated with the operation of transmission and distribution assets and power generating facilities including: public safety issues, failure, availability, efficiency, and output of equipment and availability and cost of spare parts;
- risks associated with the decommissioning of San Onofre, including those related to public opposition, permitting, governmental approvals, and cost overruns;
- physical security of Edison International's and SCE's critical assets and personnel and the cybersecurity of Edison International's and SCE's critical information technology systems for grid control, and business and customer data;
- ability of Edison International to develop Edison Energy Group, manage new business risks, and recover and earn a return on its investment in newly developed or acquired businesses;
- cost and availability of electricity, including the ability to procure sufficient resources to meet expected customer needs in the event of power plant outages or significant counterparty defaults under power-purchase agreements;
- environmental laws and regulations, at both the 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;
- changes in tax laws and regulations, at both the state and federal levels, or changes in the application of those laws; that could affect recorded deferred tax assets and liabilities and effective tax rate;
- changes in the fair value of investments and other assets;
- changes in interest rates and rates of inflation, including escalation 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 adopted by the NERC, CAISO, WECC and similar regulatory bodies in adjoining regions;

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 or in the absence of insurance the ability to recover uninsured losses;

potential for penalties or disallowance for non-compliance with applicable laws and regulations;

cost of fuel for generating facilities and related transportation, which could be impacted by, among other things, disruption of natural gas storage facilities, to the extent not recovered through regulated rate cost escalation provisions or balancing accounts;

disruption of natural gas supply due to unavailability of storage facilities, which could lead to electricity service interruptions; and

weather conditions and natural disasters.

See "Risk Factors" in this report for additional information on risks and uncertainties that could cause results to differ from those currently expected or that otherwise could impact Edison International, SCE or their subsidiaries. Additional information about risks and uncertainties, including more detail about the factors described in this report, is contained throughout this report. Readers are urged to read this entire report, including information incorporated by reference, and carefully consider the risk, uncertainties and other factors that affect Edison International's and SCE's businesses. Forward-looking statements speak only as of the date they are made and neither Edison International nor SCE are obligated to publicly update or revise forward-looking statements. Readers should review future reports filed by Edison International and SCE with the SEC. Edison International and SCE provide direct links to SCE's regulatory filings with the CPUC and the FERC in open proceedings most important to investors at www.edisoninvestor.com (SCE Regulatory Highlights) so that such filings are available to all investors upon SCE filing with the relevant agency.

Except when otherwise stated, references to each of Edison International, SCE, EMG, Edison Energy Group, EME or Edison Capital mean each such company with its subsidiaries on a consolidated basis. References to "Edison International Parent and Other" mean Edison International Parent and its consolidated competitive subsidiaries.

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

MANAGEMENT OVERVIEW

Highlights of Operating Results

Edison International is the parent holding company of SCE. SCE is a public utility primarily engaged in the business of supplying and delivering electricity to an approximately 50,000 square mile area of southern California. Edison International is also the parent company of Edison Energy Group, a holding company for subsidiaries engaged in pursuing competitive business opportunities across energy services and distributed solar to commercial and industrial customers. Such business activities are currently not material to report as a separate business segment. References to Edison International refer to the consolidated group of Edison International and its subsidiaries. References to Edison International Parent and Other refer to Edison International Parent and its competitive subsidiaries. Unless otherwise described, all of the information contained in this annual report relates to both filers.

(in millions)	2016	2015	2016 vs 2015 Change	2014
Net income (loss) attributable to Edison International				
Continuing operations				
SCE	\$1,376	\$998	\$ 378	\$1,453
Edison International Parent and Other	(77)	(13)	(64)	(26)
Discontinued operations	12	35	(23)	185
Edison International	1,311	1,020	291	1,612
Less: Non-core items				
SCE				
Write-down, impairment and other charges	—	(382)	382	(72)
NEIL insurance recoveries	—	12	(12)	—
Edison International Parent and Other				
Edison Capital sale of affordable housing portfolio	—	10	(10)	—
Income from allocation of losses to tax equity investor	5	9	(4)	2
Discontinued operations	12	35	(23)	185
Total non-core items	17	(316)	333	115
Core earnings (losses)				
SCE	1,376	1,368	8	1,525
Edison International Parent and Other	(82)	(32)	(50)	(28)
Edison International	\$1,294	\$1,336	\$ (42)	\$1,497

Edison International's earnings are prepared in accordance with GAAP used in the United States. Management uses core earnings internally for financial planning and for analysis of performance. Core earnings (losses) are also used when communicating with investors and analysts regarding Edison International's 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 non-core items. Non-core items include income or loss from discontinued operations, income resulting from allocation of losses to tax equity investor under the HLBV accounting method and income or loss from significant discrete items that management does not consider representative of ongoing earnings, such as: exit activities, including sale of certain assets and other activities that are no longer continuing, write downs, asset impairments and other gains and losses related to certain tax, regulatory or legal settlements or proceedings.

Edison International's 2016 earnings increased \$291 million, driven by an increase in SCE's earnings of \$378 million partially offset by increased costs at Edison International Parent and Other and lower income from discontinued operations. SCE's increased net income consisted of \$8 million of higher core earnings and \$370 million of higher non-core earnings. The increase in core earnings was due to an increase in revenue from the escalation mechanism set

forth in the 2015 GRC decision and lower operations and maintenance expenses, partially offset by higher net financing costs and tax expense.

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Edison International Parent and Other results for 2016 consisted of \$50 million of higher core losses and \$14 million of lower non-core earnings. During 2016, Edison International Parent and Other recorded an after-tax charge of \$13 million related to the buy-out of an earn-out provision with the former shareholders of a company acquired by Edison Energy at the end of 2015. The buy-out was completed, together with modification to employment contracts, in order to align long-term incentive compensation. In addition, core losses for 2016 included higher operating and development costs and lower revenue and gross margin from the sale of solar systems at Edison Energy Group. Results during 2015 included income from Edison Capital's investments in affordable housing projects, which were sold at the end of 2015.

Consolidated non-core items for 2016 and 2015 for Edison International included:

- SCE's write-down of \$382 million in 2015 of regulatory assets previously recorded for recovery of deferred income taxes from 2012 – 2014 incremental tax repair deductions.

- Income of \$20 million (\$12 million after-tax) in 2015 at SCE related to shareholder's portion of NEIL insurance recoveries arising from the outage and shutdown of the San Onofre Units 2 and 3 generating stations and the recovery of legal costs.

- Income of \$16 million (\$10 million after-tax) in 2015 related to completion of the sale of Edison Capital's affordable housing investment portfolio which represented the exit from this business activity.

- Income of \$5 million and \$9 million for 2016 and 2015, respectively, related to losses (net of distributions) allocated to tax equity investors under the HLBV accounting method. Edison International reflected in core earnings the operating results of the solar projects, related financings and the priority return to the tax equity investor. The losses allocated to the tax equity investor under HLBV accounting method results in income allocated to subsidiaries of Edison International, neither of which is due to the operating performance of the projects but rather due to the allocation of income tax attributes under the tax equity financing. Accordingly, Edison International has included the non-operating allocation of income as a non-core item. For further information on HLBV, see "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies."

- Income from discontinued operations, net of tax, was \$12 million and \$35 million for 2016 and 2015, respectively, primarily related to the resolution of tax issues related to EME. The discontinued operations from 2015 also reflects proceeds from insurance recoveries related to EME. See "Notes to Consolidated Financial Statements—Note 7. Income Taxes" for further information.

See "Results of Operations" for discussion of SCE and Edison International Parent and Other results of operations, including a comparison of 2015 results to 2014.

Electricity Industry Trends

The electric power industry is undergoing transformative change driven by technological advancements such as customer-owned generation and energy storage, which could alter the nature of energy generation and delivery. California's environmental policy objectives are accelerating the pace and scope of the industry change. The electric grid is a critical enabler of the adoption of new energy technologies that support California's climate change and GHG reduction objectives, which continue to be publicly supported by California policy makers notwithstanding a potential change in the federal approach to such matters. The grid is also key to enabling more customer choices with respect to new energy technologies. The transformative change taking place in the electric power industry is integral to Edison International's strategy.

SCE plans to be a key enabler of the adoption of new energy technologies that benefit customers of the electric grid while also helping the state of California achieve its environmental goals. SCE expects to achieve these objectives through modernizing the electric grid to improve the safety and reliability of the transmission and distribution network and enabling increased penetration of DERs. SCE's ongoing focus to drive operational and service excellence should allow it to achieve these objectives while controlling costs and customer rates. SCE's focus on the transmission and distribution side of the utility business aligns with California's policy supporting competitive power markets. It also represents a lower risk than investment in conventional, natural gas-fired generation, which faces potentially stricter GHG limits as well as the increasing competitiveness of renewable resource fueled generation. For more information on the distribution grid development, see "—Capital Program—Distribution Grid Development" below.

Changes in the electric power industry are impacting customers and jurisdictions outside California as well. Edison International believes that other states will also pursue climate change and GHG reduction objectives, even if the federal approach to such objectives changes, and large commercial and industrial customers will continue to pursue cost reduction and sustainability goals. Edison Energy Group provides energy services to large commercial and industrial customers who may be impacted by these changes. Edison Energy Group seeks to provide advice in dealing with increasingly complex tariff and technology choices in order to support customers and their management of energy costs and risks.

Capital Program

Total capital expenditures (including accruals), were \$3.5 billion in 2016. SCE's year-end rate base was \$25.9 billion at December 31, 2016 compared to \$24.6 billion at December 31, 2015.

To support a safe and reliable transmission and distribution network, and to modernize the electric grid to enable increased penetration of DERs, SCE forecasts capital expenditures of up to \$19.3 billion for 2017 – 2020. The capital forecast for

2017 – 2020 reflects updates primarily to reflect the delay in receipt of project approvals on the West of Devers project and the Mesa Substation project (see "Liquidity—Capital Investment Plan" for further information). The forecasted CPUC capital expenditures include traditional capital spending, such as infrastructure replacement and maintenance, expansions and additions due to load growth and work requested by customers, as well as expenditures for grid modernization to support improved safety and reliability and increased levels of DERs. Traditional capital spending for 2017 reflects SCE's forecast capital expenditures for CPUC and FERC capital projects. Also included in 2017 capital expenditures is a baseline of grid modernization spending that will promote increased safety and reliability and also allow for a timely ramp-up of grid modernization capital expenditures in subsequent years. SCE has requested CPUC approval of a memorandum account to facilitate recovery in rates of such expenditures. The memorandum account has not yet been approved by the CPUC. SCE may receive further guidance on grid modernization spending from the CPUC as part of the DRP proceeding in the second half of 2017. Traditional capital expenditures for 2018 – 2020 reflect the amounts requested in the 2018 GRC filing and FERC capital projects. The CPUC has approved 81%, 89% and 92% of the traditional capital expenditures requested in the 2009, 2012 and 2015 GRC decisions, respectively. While SCE cannot predict the level of traditional capital spending that will be approved in the 2018 GRC decision, management is not aware of factors that would cause the percentage of SCE's request that is ultimately approved to be materially different from what has been approved in recent GRC decisions. SCE does not have prior approval experience with grid modernization capital expenditures and, therefore, is unable to predict an expected outcome.

Forecasted expenditures for FERC capital projects is subject to timely receipt of permitting, licensing and regulatory approvals. The following table sets forth a summary of capital expenditures for 2016 actual spend and a forecast for 2017 – 2020 on the basis described above:

(in millions)	2016 Actual	2017	2018	2019	2020	Total 2017 – 2020
Traditional capital expenditures						
Distribution	\$2,840	\$3,145	\$3,214	\$3,156	\$3,085	\$12,600
Transmission	457	629	919	996	1,033	3,577
Generation	203	204	225	216	206	851
Total requested traditional capital expenditures ^{1, 2}	\$3,500	\$3,978	\$4,358	\$4,368	\$4,324	\$17,028
Grid modernization capital expenditures	\$27	\$182	\$637	\$751	\$714	\$2,284
Total capital expenditures	\$3,527	\$4,160	\$4,995	\$5,119	\$5,038	\$19,312

¹ Includes Energy Storage of \$50 million in 2016 and \$60 million in the 2017 – 2020 period. Also, includes \$12 million Charge Ready Pilot in 2017.

² Capital expenditures for 2017 reflect management's expectations based on the 2015 GRC decision.

Capital expenditures for traditional capital projects under CPUC jurisdiction for 2017 are included in SCE's 2015 GRC. The 2018 – 2020 capital expenditures are included in the 2018 GRC application request discussed below.

Recovery for

2017 – 2020 planned expenditures for traditional capital projects under FERC jurisdiction will be pursued through FERC-authorized mechanisms. For further information regarding the capital program, see "Liquidity and Capital Resources—SCE—Capital Investment Plan."

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SCE's estimated weighted average annual rate base for 2017 – 2020 using the capital expenditures set forth in the table above is as follows:

(in millions)	2017	2018	2019	2020
Rate base for requested traditional capital expenditures	\$26,241	\$29,052	\$31,161	\$33,229
Rate base for requested grid modernization capital expenditures	—	279	802	1,398
Total rate base	\$26,241	\$29,331	\$31,963	\$34,627

The rate base above does not reflect reductions from the amounts requested in the 2018 GRC that may be included in a final decision.

Distribution Grid Development

Distribution Resources Plan

In July 2015, SCE filed its DRP with the CPUC. The filing was made as part of a CPUC proceeding that was initiated to support California's climate change and GHG reduction targets, modernize the electric distribution system to accommodate two-way flows of energy associated with DERs, such as rooftop solar, and facilitate customer choice of new technologies and services that reduce emissions and improve resilience. SCE's DRP included an indicative forecast of capital investment in distribution automation, substation automation, communications systems, technology platforms and applications, and grid reinforcement. The 2018 GRC includes operation and maintenance and capital expenditure requests consistent with SCE's DRP operation and maintenance and capital spending. Capital investments for 2017 may be updated or revised based on developments and guidance received from the CPUC as a part of the GRC, DRP rule making, technology availability, pace of DER adoption, and other factors. In January 2016, the CPUC issued a scoping memo that provided for the issuance of guidance on utility spending to modify its grid in order to support its DRP. SCE expects to receive such guidance in the second half of 2017.

Charge Ready Program

In January 2016, the CPUC approved SCE's \$22 million Charge Ready Phase 1 pilot program, which will allow SCE to install light-duty vehicle charging infrastructure, provide rebates to offset the cost of qualified customer-owned charging stations, and implement a supporting market education effort. Under the Phase 1 pilot program, SCE will build, own and maintain the electric infrastructure needed to serve the qualified charging stations at participating customer locations. Participating customers will install, own, maintain, and operate the charging stations. By the end of January 2017, SCE had executed agreements for 50 sites to deploy 776 charge ports. The results of this pilot will help shape Phase 2 of the program. SCE will file an application to obtain CPUC approval for Phase 2 after at least one year (Phase 1 launched in late May 2016) and 1,000 charge ports have been deployed.

Transportation Electrification Plan

In January 2017, SCE filed a transportation electrification plan with the CPUC that aims to accelerate the adoption of electric transportation, which is critical to California's climate change and GHG reduction objectives. The plan proposes a five-year program to fund medium- and heavy-duty vehicle charging infrastructure that follows the model developed for SCE's Charge Ready program discussed above. The proposal has an estimated five-year cost of \$554 million (\$532 million capital) in 2016 dollars. In addition, the plan proposes six pilot projects to be considered by the CPUC on an accelerated basis. The pilot projects would install charging infrastructure for electric transit buses and the Port of Long Beach; build clusters of fast charging sites in urban areas, and establish programs that would incentivize electric vehicle adoption. The estimated total cost of the six pilot projects is approximately \$19 million (\$14 million capital) in 2016 dollars. SCE expects to propose additional programs and pilots in the future.

All of the plan's proposed transportation electrification projects are subject to CPUC review and the timing and amount of capital investments for any approved project will depend upon implementation decisions, including scope and pace of adoption and GRC ratemaking decisions and other CPUC actions. SCE is unable to predict an expected outcome on or timing of implementation of any of the proposed projects. The capital costs for these proposed projects are not included in SCE's capital spending and rate base forecasts provided above.

Edison International Dividend Policy

In December 2016, Edison International declared a 13% increase to the annual dividend rate from \$1.92 per share to \$2.17 per share. Edison International plans to increase its dividends to common shareholders at a higher than industry average growth rate within its target payout ratio of 45% to 55% of SCE earnings in steps over time. This is expected to yield a dividend growth at a faster pace than SCE's earnings growth.

Regulatory Proceedings

2018 General Rate Case

In September 2016, SCE filed its 2018 GRC application for the three-year period 2018 – 2020, which requested a 2018 revenue requirement of \$5.885 billion, an increase of \$222 million over the projected 2017 GRC authorized revenue requirement. In addition, SCE requested \$48 million in one-time balancing and memorandum account recoveries. This represents a 2.7% increase over presently authorized total rates. SCE's 2018 GRC request also includes proposed revenue requirement increases of \$533 million in 2019 and \$570 million in 2020. For 2019 and 2020, respectively, these represent 4.2% and 5.2% increases over presently authorized total rates.

The capital programs requested in SCE's 2018 GRC are focused on safety and reliability through investments in the distribution grid to replace aging equipment and enhance capabilities to integrate increasing amounts of DERs. For further information, see "—Capital Program" above.

SCE's 2018 GRC request identifies areas of reduced operating cost to partially mitigate the customer rate impacts of the request.

SCE requested that the CPUC issue a final decision by the end of 2017. If the schedule for a final decision is delayed, SCE will request the CPUC to issue an order directing that the authorized revenue requirement changes be effective January 1, 2018. SCE cannot predict the revenue requirement the CPUC will ultimately authorize for 2018 through 2020 or forecast the timing of a final decision.

Permanent Retirement of San Onofre

Replacement steam generators were installed at San Onofre in 2010 and 2011. On January 31, 2012, a leak suddenly occurred in one of the heat transfer tubes in San Onofre's Unit 3 steam generators. The Unit was safely taken off-line and subsequent inspections revealed excessive tube wear. Unit 2 was off-line for a planned outage when areas of unexpected tube wear were also discovered. On June 6, 2013, SCE decided to permanently retire Units 2 and 3.

San Onofre CPUC Proceedings

In November 2014, the CPUC approved the San Onofre OII Settlement Agreement, which resolved the CPUC's investigation regarding the steam generator replacement project at San Onofre and the related outages and subsequent shutdown of San Onofre. Subsequently, the San Onofre OII proceeding record was reopened by a joint ruling of the Assigned Commissioner and the Assigned ALJ to consider whether, in light of the Company not reporting certain ex parte communications on a timely basis, the San Onofre OII Settlement Agreement remained reasonable, consistent with the law and in the public interest, which is the standard the CPUC applies in reviewing settlements submitted for approval. In comments filed with the CPUC in July 2016, SCE asserted that the Settlement Agreement continues to meet this standard and therefore should not be disturbed. A number of the parties to the OII, however, have requested that the CPUC either modify the San Onofre OII Settlement Agreement or vacate its previous approval of the settlement and reinstate the OII for further proceedings.

In a December 2016 joint ruling, the Assigned Commissioner and the Assigned ALJ expressed concerns about the extent to which the failure to timely report ex parte communications had impacted the settlement negotiations and directed SCE to meet and confer with the other parties in the OII to consider changing the terms of the San Onofre OII Settlement Agreement. The ruling set out a schedule requiring that at least two meet and confer sessions be held in the first quarter of 2017 and requiring the parties to submit a joint status report to the CPUC by April 28, 2017 if no modifications have been agreed to by some or all of the parties as a result of the meet and confer process. SCE has recorded a regulatory asset to reflect the expected recoveries under the San Onofre OII Settlement Agreement. At December 31, 2016, \$857 million remains to be collected.

For more information on the challenges to the settlement of the San Onofre OII and the claims that SCE is pursuing against MHI, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies—Contingencies—San Onofre Related Matters."

Cost of Capital

On February 7, 2017, SCE, Pacific Gas and Electric Company, SDG&E, and SoCalGas (collectively, the “Investor-Owned Utilities”), ORA and TURN jointly filed a petition to modify the prior CPUC decisions addressing the Investor-Owned Utilities' costs of capital. The requested modifications would extend the next cost of capital application filing deadline two years to April 22, 2019 for the year 2020; reset SCE's authorized cost of long-term debt and preferred stock in 2018; and reduce SCE's authorized ROE. Subject to the CPUC's approval of the petition for modification, SCE's authorized ROE will be reduced from the current 10.45% to 10.30% beginning on January 1, 2018. The updated cost of capital and corresponding revenue requirement impact will be submitted to the CPUC in September 2017, to be effective January 1, 2018. While the actual changes to SCE's revenue requirement resulting from the petition for modification will not be known until SCE's filing in September 2017, SCE estimates that its annual revenue requirement will be reduced by approximately \$66 million (approximately \$39 million after-tax), beginning in 2018. Changes in market interest rates can have material effects on the cost of SCE's future financings and consequently on the estimated change in annual revenue requirements.

The petition for modification provides that SCE's long-term debt, preferred stock and common equity costs will be reset for the year 2018 and will then remain unchanged until December 31, 2019 unless they are changed by the operation of the cost of capital adjustment mechanism. SCE's current ratemaking capital structure (48% common equity, 43% long-term debt, and 9% preferred equity) will remain unchanged and the cost of capital adjustment mechanism would not operate in 2017 but could operate in 2018 to change the cost of capital for 2019. If the mechanism is activated for 2019, SCE's new 10.30% ROE will be adjusted according to the existing terms of the mechanism.

Energy Efficiency Incentive Mechanism

In December 2016, the CPUC awarded SCE incentives of approximately \$18 million, approximately 75% of the requested award, for Part 2 of the 2014 program year and Part 1 of the 2015 program year savings. There is no assurance that the CPUC will make an award for any given year.

FERC Formula Rates

In November 2016, SCE filed its 2017 annual update with the FERC with the rates effective from January 1, 2017 to December 31, 2017. The update provided support for an increase in SCE's transmission revenue requirement of \$97 million or 9% over amounts currently authorized in rates. The increase is mainly due to the completion of several major transmission projects in 2015 and to recover prior undercollections. FERC has approved SCE's formula or methodology for setting transmission rates under its jurisdiction through 2017. SCE is required to file a replacement rate methodology by November 2017, to be effective January 2018.

Long Beach Service Interruptions

In July 2015, SCE's customers who are served via the network portion of SCE's electric system in Long Beach, California experienced service interruptions due to multiple underground vault fires and underground cable failures. No personal injuries were reported in connection with these events. SCE expects to incur penalties as a result of these events. Although resolution will be subject to settlement discussions with SED and CPUC review and approval, SCE has recorded a liability for the estimated loss.

RESULTS OF OPERATIONS

SCE

SCE's results of operations are derived mainly through two sources:

Earning activities – representing revenue authorized by the CPUC and FERC which is intended to provide SCE a reasonable opportunity to recover its costs and earn a return on its net investment in generation, transmission and distribution assets. The annual revenue requirements are comprised of authorized operation and maintenance costs, depreciation, taxes and a return consistent with the capital structure. Also, included in earnings activities are revenues or penalties related to incentive mechanisms, other operating revenue, and regulatory charges or disallowances.

Cost-recovery activities – representing CPUC- and FERC-authorized balancing accounts which allow for recovery of specific project or program costs, subject to reasonableness review or compliance with upfront standards.

Cost-recovery activities include rates which provide recovery, subject to reasonableness review of, among other things, fuel costs, purchased power costs, public purpose related-program costs (including energy efficiency and

demand-side management programs) and certain operation and maintenance expenses. SCE earns no return on these activities.

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The following table is a summary of SCE's results of operations for the periods indicated.

(in millions)	2016			2015			2014		
	Earning Activities	Cost-Recovery Activities	Total Consolidated	Earning Activities	Cost-Recovery Activities	Total Consolidated	Earning Activities	Cost-Recovery Activities	Total Consolidated
Operating revenue	\$6,504	\$5,326	\$ 11,830	\$6,305	\$5,180	\$ 11,485	\$6,831	\$6,549	\$ 13,380
Purchased power and fuel	—	4,527	4,527	—	4,266	4,266	—	5,593	5,593
Operation and maintenance	1,939	798	2,737	1,977	913	2,890	2,106	951	3,057
Depreciation, decommissioning and amortization	1,998	—	1,998	1,915	—	1,915	1,720	—	1,720
Property and other taxes	351	—	351	334	—	334	318	—	318
Impairment and other charges	—	—	—	—	—	—	163	—	163
Total operating expenses	4,288	5,325	9,613	4,226	5,179	9,405	4,307	6,544	10,851
Operating income	2,216	1	2,217	2,079	1	2,080	2,524	5	2,529
Interest expense	(540)	(1)	(541)	(525)	(1)	(526)	(528)	(5)	(533)
Other income and expenses	79	—	79	64	—	64	43	—	43
Income before income taxes	1,755	—	1,755	1,618	—	1,618	2,039	—	2,039
Income tax expense	256	—	256	507	—	507	474	—	474
Net income	1,499	—	1,499	1,111	—	1,111	1,565	—	1,565
Preferred and preference stock dividend requirements	123	—	123	113	—	113	112	—	112
Net income available for common stock	\$1,376	\$—	\$ 1,376	\$998	\$—	\$ 998	\$1,453	\$—	\$ 1,453
Net income available for common stock			\$ 1,376			\$ 998			\$ 1,453
Less: Non-core items									
Impairment and other charges			—			(382)			(72)
NEIL insurance recoveries			—			12			—
Core earnings ¹			\$ 1,376			\$ 1,368			\$ 1,525

¹ See use of non-GAAP financial measures in "Management Overview—Highlights of Operating Results."

Earning Activities

2016 vs 2015

Earning activities were primarily affected by the following:

Higher operating revenue of \$199 million is primarily due to:

An increase in revenue of approximately \$191 million related to the increase in authorized revenue from the escalation mechanism set forth in the 2015 GRC decision.

An increase in FERC-related revenue of \$68 million primarily related to higher operating costs including amortization of the regulatory asset associated with the Coolwater-Lugo transmission project and rate base growth partially offset by a \$15 million increase in 2015 due to a change in estimate under the FERC formula rate mechanism.

An increase in revenue of \$25 million (\$15 million after-tax) related to the incremental return on the pole loading rate base recorded through the pole loading balancing account.

An increase of \$46 million primarily due to tax benefits recognized in 2015 related to net operating loss carrybacks for San Onofre decommissioning costs resulting in a reduction in revenue in 2015 (offset in income taxes).

A decrease in revenue of \$52 million for incremental tax benefits refunded to customers. In 2016, SCE recorded a revenue refund to customers of \$133 million for 2012 – 2014 incremental tax benefits related to repair deductions (offset in income taxes as discussed below). This revenue refund resulted from the CPUC's approval of SCE's request to refund incremental tax repair deductions that were not addressed in SCE's 2015 GRC decision. Partially offsetting

the refund of 2012 – 2014 incremental tax repair deductions, SCE recognized \$81 million lower incremental tax repairs and other benefits refunded to customers through balancing accounts in 2016.

Energy efficiency incentive awards were \$18 million in 2016 compared to \$29 million in 2015. In addition, in 2016, the CPUC approved a settlement agreement in which SCE agreed to refund \$13 million related to incentive awards SCE received for savings achieved by its 2006 – 2008 energy efficiency programs.

SCE's portion of NEIL insurance and legal cost recoveries of approximately \$20 million in 2015 arising from the outage and shutdown of the San Onofre Units 2 and 3 generating stations.

A decrease of \$29 million for other operating revenue resulting from lower contributions received from customers due to the retroactive extension of bonus depreciation in the PATH Act of 2015.

Lower operation and maintenance expense of \$38 million primarily due to lower labor related to SCE's focus on operational and service excellence as well as lower outside services partially offset by higher transmission and distribution costs for rain and storm-related activities.

Higher depreciation, decommissioning and amortization expense of \$83 million primarily related to depreciation on higher rate base and amortization of the regulatory asset related to the Coolwater-Lugo plant, as discussed above.

- Higher property and other taxes of \$17 million primarily due to higher property assessed values in 2016.

Higher interest expense of \$15 million primarily due to reduced interest capitalization (AFUDC debt) related to lower construction work in progress balances and a higher interest rate on balancing account overcollections in 2016.

Higher other income and expenses of \$15 million primarily due to higher insurance benefits and lower advertising expense in 2016. See "Notes to Consolidated Financial Statements—Note 14. Interest and Other Income and Other Expenses" for further information.

Lower income taxes of \$251 million primarily due to the following:

- Write-down of \$382 million in 2015 of regulatory assets previously recorded for recovery of deferred income taxes from 2012 – 2014 incremental tax repair deductions.

- Higher income tax benefits in 2016 of \$31 million primarily due to \$79 million related to the flow-through of incremental tax benefits for 2012 – 2014 to customers partially offset by lower income tax benefits in 2016 of \$48 million related to the flow-through of incremental tax repair and other benefits refunded to customers through balancing accounts.

Lower income tax expense in 2016 of \$13 million related to the adoption of the FASB guidance on accounting for share-based payments (see "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Guidance—New Accounting Guidance" for further information).

- A change in liabilities related to uncertain tax positions related to repair deductions, which resulted in income tax benefits of \$100 million during the second quarter of 2015. See "—Income Taxes" below for more information.

- Higher pre-tax income in 2016, as discussed above.

- Higher preferred and preference stock dividends of \$10 million primarily related to new issuances in 2016 and late 2015 partially offset by redemptions of preferred stock.

2015 vs 2014

Earning activities were primarily affected by the following:

- Lower operating revenue of \$526 million is primarily due to:

- A decrease in authorized CPUC revenue of \$379 million (excludes amounts classified as cost-recovery activities). The decrease in revenue is primarily due to lower authorized revenue for operation and maintenance expenses and for flow-through items for income tax benefits related to repair and cost of removal deductions.

- A decrease in revenue from approximately \$300 million of tax benefits in excess of amounts authorized in the 2015 GRC and recognized through the TAMA and the pole loading balancing account (offset in income tax benefits

discussed below). In addition, SCE recorded \$39 million (\$26 million after-tax) of incremental return on the pole loading rate base recorded through this balancing account.

• An increase in FERC-related revenue of \$83 million primarily related to rate base growth and higher operating costs. An increase in San Onofre-related revenue of \$40 million due to the implementation of the San Onofre OII Settlement Agreement. Revenue for San Onofre for 2015 primarily related to recovery of amortization of the regulatory asset and authorized return as provided by the San Onofre Settlement Agreement compared to revenue in 2014 related to recovery of San Onofre's cost of service.

• Energy efficiency incentive awards were \$29 million in 2015 compared to \$22 million in 2014.

• SCE's portion of NEIL insurance and legal cost recoveries of approximately \$20 million in 2015 (See "Notes to the Consolidated Financial Statements—Note 11. Commitments and Contingencies—Contingencies—San Onofre Related Matters" for further information on the agreement with NEIL).

• Higher revenue in 2014 from approval by the CPUC of a \$30 million increase in the 2012 – 2014 authorized revenue requirement related to deferred income taxes and from \$15 million of generator settlements. See "Notes to the Consolidated Financial Statements—Note 10. Regulatory Assets and Liabilities—Net Regulatory Balancing Accounts."

• Lower operation and maintenance expense of \$129 million primarily due to:

• Lower San Onofre-related expense of \$93 million. During 2014, San Onofre-related expenses were recorded as operation and maintenance expenses. During 2015, the CPUC authorized SCE reimbursement of 2014 costs from the nuclear decommissioning trusts with such reimbursement subsequently refunded to customers. During 2015, decommissioning expenses were reimbursed from the nuclear decommissioning trust and, therefore, did not result in operation and maintenance expenses.

• A decrease of \$77 million primarily related to transmission and distribution, legal, and customer service costs partially offset by higher outside service costs in 2015.

• Higher severance costs related to workforce reduction efforts (\$26 million in 2015 and \$2 million in 2014).

• In 2015, SCE incurred a penalty of approximately \$17 million related to not reporting certain ex parte communications on a timely basis.

• Higher depreciation, decommissioning and amortization expense of \$195 million primarily due to San Onofre-related expense of \$134 million in 2015 related to the amortization of the regulatory asset and a \$61 million increase in depreciation primarily related to transmission and distribution investments.

• Higher property and other taxes of \$16 million primarily due to an increase in assessed property values in 2015.

• Impairment and other charges of \$163 million (\$72 million after-tax) in 2014 related to the San Onofre OII Settlement Agreement, as discussed below.

• Higher other income and expenses of \$21 million primarily due to higher AFUDC equity income related to a higher rate and higher construction work in progress balances in 2015 and a \$15 million penalty recorded in 2014 resulting from the San Bernardino and San Gabriel settlements. These increases were offset by \$10 million of lower insurance benefits in 2015 and a \$7 million of sales tax refund related to San Onofre received in 2014. See "Notes to Consolidated Financial Statements—Note 14. Interest and Other Income and Other Expenses" for further information.

• Higher income taxes of \$33 million primarily due to the following:

• Write-down of \$382 million in 2015 of regulatory assets previously recorded for recovery of deferred income taxes from 2012 – 2014 incremental tax repair deductions.

• An increase in income tax benefits in 2015 primarily related to \$263 million (after-tax) of repair deductions (offset in operating revenue above) for TAMA and pole loading balancing account partially offset by lower tax benefits on other property-related items in 2015.

• A change in liabilities related to uncertain tax positions related to repair deductions, which resulted in income tax benefits of \$100 million and \$29 million during the second quarters of 2015 and 2014, respectively. See "—Income Taxes" below for more information.

Lower pre-tax income in 2015, as discussed above, partially offset by the impact of the San Onofre OII Settlement Agreement.

Cost-Recovery Activities

2016 vs 2015

Cost-recovery activities were primarily affected by the following:

Higher purchased power and fuel of \$261 million primarily due to the NEIL insurance recoveries received in 2015 (discussed below) and a change in portfolio mix partially offset by lower load related to cooler weather.

In October 2015, San Onofre owners reached an agreement with NEIL to resolve all insurance claims arising out of the failures of the San Onofre replacement steam generators. SCE customer's portion of amounts recovered from NEIL has been distributed to SCE customers via a credit to SCE's ERRR account of approximately \$300 million in 2015.

Lower operation and maintenance expense of \$115 million primarily due to lower transmission access charges and lower spending on various public purpose programs partially offset by an increase in transmission and distribution costs for drought related activities.

2015 vs 2014

Cost-recovery activities were primarily affected by the following:

Lower purchased power and fuel of \$1.3 billion primarily driven by lower power and gas prices, the NEIL insurance recoveries and the CAISO generation surcharge of \$83 million in 2014 (as discussed below). These decreases were partially offset by higher realized losses on economic hedging activities (\$148 million in 2015 compared to \$57 million in 2014). Fuel costs were \$176 million in 2015 and \$256 million in 2014.

During 2014, the CAISO issued invoices implementing a FERC order which revised FERC tariffs for costs associated with scheduling coordinator activities. The impact of implementing the order and revised invoices resulted in a transmission refund of \$106 million reflected in operation and maintenance expense and a generation surcharge of \$83 million reflected in purchased power expense. These transactions did not impact earnings as the net refund was provided to customers through a FERC balancing account mechanism.

Lower operation and maintenance expense of \$38 million primarily due to lower spending on various public purpose programs, lower pension and benefit expenses and a decrease in transmission access charges, partially offset by the 2014 CAISO refund of \$106 million as discussed above.

Supplemental Operating Revenue Information

SCE's retail billed and unbilled revenue (excluding wholesale sales and balancing account over/undercollections) was \$10.7 billion in 2016 and \$12.2 billion for both 2015 and 2014.

The 2016 revenue reflects:

A decrease of \$1.15 billion primarily due to the implementations of the 2016 ERRR rate decrease and the 2015 GRC decision in January 2016.

A sales volume decrease of \$321 million due to lower load requirements related to cooler weather experienced in 2016 compared to 2015.

The 2015 revenue reflects:

An increase of \$160 million primarily due to the implementations of the 2014 ERRR rate increase in June 2014 and the San Onofre-related rate adjustment in January 2015.

A sales volume decrease of \$169 million due to lower load requirements related to cooler weather experienced in 2015 compared to 2014.

As a result of the CPUC-authorized decoupling mechanism, SCE earnings are not affected by changes in retail electricity sales (see "Business—SCE—Overview of Ratemaking Process").

Income Taxes

SCE's income tax provision decreased by \$251 million in 2016 compared to 2015 and increased by \$33 million in 2015 compared to 2014. The effective tax rates were 14.6%, 31.3% and 23.2% for 2016, 2015 and 2014, respectively. SCE's effective tax rate is below the federal statutory rate of 35% primarily due to CPUC's 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. The effective tax rate decrease in 2016 was primarily due to the

\$382 million write-down in 2015 of regulatory assets (discussed in "Management Overview—Highlights of Operating Results") partially offset by revisions in liabilities related to uncertain tax positions in 2015. The effective tax rate increase in 2015 was primarily due to a \$382 million write-down in 2015 of regulatory assets and income tax benefits in 2014 related to San Onofre OII Settlement Agreement, partially offset by higher income tax benefits related to tax repair deductions (as discussed above) and the change in liabilities related to uncertain tax positions.

See "Notes to Consolidated Financial Statements—Note 7. Income Taxes" for a reconciliation of the federal statutory rate of 35% to the effective income tax rates and "Management Overview—Permanent Retirement of San Onofre" above for more information.

Edison International Parent and Other

Results of operations for Edison International Parent and Other includes amounts from other subsidiaries that are not significant as a reportable segment, as well as intercompany eliminations.

Loss from Continuing Operations

The following table summarizes the results of Edison International Parent and Other:

(in millions)	Years ended		
	December 31,		
	2016	2015	2014
Edison Energy Group and subsidiaries ¹	\$(38)	\$(6)	\$(5)
Edison Mission Group and subsidiaries	—	32	36
Corporate expenses and other ²	(39)	(39)	(57)
Total Edison International Parent and Other ³	\$(77)	\$(13)	\$(26)

¹ Includes income of \$5 million, \$9 million and \$2 million in 2016, 2015, 2014 related to losses (net of distributions) allocated to tax equity investors under the HLBV accounting method.

² Includes interest expense (pre-tax) of \$37 million, \$31 million and \$25 million in 2016, 2015, and 2014, respectively.

³ Includes income tax benefits of \$15 million in 2016 related to the adoption of an accounting standard for share-based payments. See "Notes to Consolidated Financial Statements—Note 1" for further information.

The loss from continuing operations of Edison International Parent and Other increased \$64 million in 2016 compared to 2015 primarily due to:

An increase in losses of Edison Energy Group of \$32 million, including a \$13 million after-tax charge during 2016 from a buy-out of an earn-out provision contained in one of the 2015 acquisitions, higher operating and development expenses and lower revenue and gross margin from the sale of solar systems in 2016 compared to 2015. The results for the twelve months ended December 31, 2016 include the three businesses acquired by Edison Energy in December 2015 and expanded sales and support personnel. Revenue for the Edison Energy Group was \$42 million and \$34 million for the twelve months ended December 31, 2016 and 2015, respectively.

A decrease in income from Edison Mission Group and subsidiaries of \$32 million in 2016 primarily due to income related to affordable housing projects in 2015. In December 2015, EMG's subsidiary, Edison Capital, completed the sale of its remaining affordable housing investment portfolio which represents the exit of this business activity.

The loss from continuing operations of Edison International Parent and Other decreased \$13 million in 2015 compared to 2014 primarily due to:

An increase in losses of Edison Energy Group primarily due to higher operating expenses for 2015. The change was partially offset by an increase in income allocated to subsidiaries of Edison Energy Group under the HLBV accounting method that resulted in losses allocated to tax equity investors. For further information, see "Management Overview—Highlights of Operating Results."

In December 2015, EMG's subsidiary, Edison Capital, completed the sale of its remaining affordable housing investment portfolio which represents the exit of this business activity. Earnings from Edison Capital were \$30 million and \$34 million for 2015 and 2014, respectively.

A decrease in the loss from corporate expenses and other primarily due to income tax benefits and lower corporate expenses during 2015.

Income from Discontinued Operations (Net of Tax)

Income from discontinued operations, net of tax, was \$12 million, \$35 million and \$185 million for the years ended December 31, 2016, 2015 and 2014, respectively. The 2016 and 2015 income were primarily related to the resolution of tax issues related to EME. The 2015 income also included insurance recoveries. The 2014 income was related to the impact of completing the transactions called for in the EME Settlement Agreement and income tax benefits from resolution of uncertain tax positions and other impacts related to EME.

LIQUIDITY AND CAPITAL RESOURCES

SCE

SCE's ability to operate its business, fund capital expenditures, and implement its business strategy is dependent upon its cash flow and access to the bank and capital markets. SCE's overall cash flows fluctuate based on, among other things, its ability to recover its costs in a timely manner from its customers through regulated rates, changes in commodity prices and volumes, collateral requirements, interest obligations, dividend payments to Edison International, and the outcome of tax and regulatory matters.

In the next 12 months, SCE expects to fund its obligations, capital expenditures and dividends through operating cash flows, tax benefits and capital market financings of debt and preferred equity, as needed. SCE also has availability under its credit facilities to fund cash requirements.

Available Liquidity

At December 31, 2016, SCE had \$1.89 billion available under its \$2.75 billion credit facility. For further details see "Notes to Consolidated Financial Statements—Note 5. Debt and Credit Agreements." SCE may finance balancing account undercollections and working capital requirements to support operations and capital expenditures with commercial paper or other borrowings, subject to availability in the capital markets.

Debt Covenant

The debt covenant in SCE's credit facility limits its debt to total capitalization ratio to less than or equal to 0.65 to 1.

At December 31, 2016, SCE's debt to total capitalization ratio was 0.43 to 1.

At December 31, 2016, SCE was in compliance with all other financial covenants that affect access to capital.

Capital Investment Plan

Major Transmission Projects

A summary of SCE's large transmission and substation projects during the next four years is presented below. The timing of the projects below is subject to timely receipt of permitting, licensing and regulatory approvals.

Project Name	Project Lifecycle Phase	Direct Expenditures (in millions) ¹	Inception to Date (in millions) ¹	Scheduled In-Service Date
West of Devers	Construction	\$1,075	\$58	2021
Mesa Substation	Construction	\$608	\$24	2020 – 2021
Alberhill System	Licensing	\$397	\$36	2021
Riverside Transmission Reliability	Licensing	\$233	\$5	2021
Eldorado-Lugo-Mohave Upgrade	Planning	\$269	\$5	2020

¹ Direct expenditures include direct labor, land and contract costs incurred for the respective projects and exclude overhead costs that are included in the capital expenditures forecasted for remaining investment.

West of Devers

The West of Devers Project consists of upgrading and reconfiguring approximately 48 miles of existing 220 kV transmission lines between the Devers, El Casco, Vista and San Bernardino substations, increasing the power transfer capabilities in support of California's renewable portfolio standards goals.

In August 2016, the CPUC approved the construction of the West of Devers Project. As a result of the delay in receipt of the Project's approval from the CPUC, SCE has deferred the timing of project capital expenditures. ORA filed an Application for Rehearing in September 2016 stating that the August 2016 decision failed to follow the California Environmental Quality Act when it approved the Project and should have approved the alternative project with the amended scope. SCE does not know when the CPUC will issue a decision on the Application for Rehearing. There is no stay of activities pending determination of the Application for Rehearing and SCE is continuing to perform activities related to construction, such as environmental permitting and mitigation planning in order to achieve a 2021 in-service date.

Mesa Substation

The Mesa Substation Project consists of demolishing the existing 220 kV Mesa Substation and constructing a new 500 kV substation. The Mesa Substation project would address reliability concerns by providing additional transmission import capability, allowing greater flexibility in the siting of new generation, and reducing the total amount of new generation required to meet local reliability needs in the Western Los Angeles Basin area. In February 2017, the CPUC issued a final decision approving SCE's proposed project. Construction planning activities that had been delayed pending the CPUC's final decision have commenced.

Alberhill System

The Alberhill System Project consists of constructing a new 500-kV substation, two 500-kV transmission lines to connect the proposed substation to the existing Serrano-Valley 500-kV transmission line, telecommunication equipment and subtransmission lines in unincorporated and incorporated portions of western Riverside County. The Project was designed to meet long-term forecasted electrical demand in the proposed Alberhill Project area and to increase electrical system reliability. In April 2016, the CPUC issued a draft environmental impact report that identified an alternative substation site. The \$397 million estimated cost for this project reflects the scope proposed by SCE.

Riverside Transmission Reliability

The Riverside Transmission Reliability Project is a joint project between SCE and Riverside Public Utilities (RPU), the municipal utility department of the City of Riverside. While RPU would be responsible for constructing some of the Project's facilities within Riverside, SCE's portion of the Project consists of constructing upgrades to its system, including a new 230-kV Substation; certain interconnection and telecommunication facilities and transmission lines in the cities of Riverside, Jurupa Valley and Norco and in portions of unincorporated Riverside County. The purpose of the Project is to provide RPU and its customers with adequate transmission capacity to serve existing and projected

load, to provide for long-term system capacity for load growth, and to provide needed system reliability. Due to changed circumstances since the time the Project

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was originally developed, SCE informed the CPUC in July 2016 that it supports a revised description of the Project. The CPUC continues to collect information regarding the revised Project in support of a supplemental environmental review. Potential revisions to the Project have not been reflected in the direct expenditures or scheduled in service date in the table above, however, revisions are likely to increase the total direct expenditures and delay the completion of the Project.

Eldorado-Lugo-Mohave Upgrade

The Eldorado-Lugo-Mohave Upgrade Project will increase capacity on existing transmission lines to allow additional renewable energy to flow from Nevada to southern California. The Project would modify SCE's existing Eldorado, Lugo, and Mohave electrical substations to accommodate the increased current flow from Nevada to southern California; increase the power flow through the existing 500 kV transmission lines by constructing two new capacitors along the lines; raise transmission tower heights to meet ground clearance requirements; and install communication wire on our transmission lines to allow for communication between existing SCE substations.

Tehachapi

The Tehachapi Project consists of new and upgraded electric transmission lines and substations between eastern Kern County and San Bernardino County and was undertaken to bring renewable resources in Kern County to energy consumers in the Los Angeles basin and the California energy grid. The project consists of eleven segments. Segments 1-3 were placed in service beginning in 2009 through 2013. Segments 4-11 were placed in service in December 2016. SCE filed a petition for modification with the CPUC in January 2017 to update the cost estimate for all elements of segments 4-11 to \$2.7 billion (2016 dollars) from \$2.0 billion (2016 dollars) of CPUC-approved cost findings. The cost increase is based on several factors, including additional project scope, schedule delays and work stoppages due to regulatory activity, increased environmental activities, and higher costs than the historical data used for estimates. Many of the cost increases are due to external factors not contemplated when the initial cost estimates were developed and not accounted for in the CPUC's original cost findings, which had also reduced the amount of contingency significantly below SCE's original estimates. Cost recovery for nearly all transmission elements of the project is incorporated in the existing FERC rates, subject to FERC review and approval.

Coolwater-Lugo

In February 2016, SCE filed an abandoned plant recovery request at FERC for the costs of the cancelled Coolwater-Lugo transmission project pursuant to the authority granted by FERC for SCE to recover 100% of all prudently-incurred costs if the project is cancelled for reasons beyond SCE's control. The project was cancelled by the CPUC in 2015 due to a reduction in need. SCE requested recovery of the \$37.1 million in costs that SCE incurred for the project over a twelve-month period through the FERC transmission formula rate. In December 2016, SCE reached a settlement under which it will recover 100% of the requested \$37.1 million of costs incurred in return for certain additional procedural safeguards to be implemented in all future abandoned plant recovery requests. The period for parties to file any protests to the settlement has expired without any protests filed but the settlement remains subject to FERC approval.

Decommissioning of San Onofre

The decommissioning of a nuclear plant requires the management of three related activities: radiological decommissioning, non-radiological decommissioning and the management of spent nuclear fuel. The decommissioning process is expected to take many years. Decommissioning of San Onofre Unit 1 began in 1999 and major decommissioning work was completed in 2008, except for reactor vessel disposal and certain underground work that was deferred to allow for the construction of the San Onofre Independent Spent Fuel Storage Installation. The initial activity phase of radiological decommissioning of Units 2 and 3 began in June 2013 with SCE filing a certification of permanent cessation of power operations at San Onofre with the NRC. SCE is currently permitted to start major radiological decommissioning activities pursuant to NRC regulations, provided SCE obtains all necessary environmental permits for decommissioning. SCE has engaged a decommissioning general contractor to undertake a significant scope of decommissioning activities for Units 1, 2 and 3 at San Onofre.

During the second quarter of 2014, SCE updated its decommissioning cost estimate based on a site specific assessment. The decommissioning cost estimate in 2014 dollars is \$4.4 billion (SCE share is \$3.3 billion) and includes costs from June 7, 2013 through to the respective completion dates to decommission San Onofre Units 2 and 3

estimated to be in 2052. The decommissioning cost estimate is subject to a number of uncertainties including the cost of disposal of nuclear waste, cost of removal of property, site remediation costs as well as a number of other assumptions and estimates, including when the federal government may remove spent fuel canisters from the San Onofre site, as to which there can be no assurance. The cost estimate is subject to change and such changes may be material. For further information, see "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies—Nuclear Decommissioning and Asset

Retirement Obligations." The CPUC will conduct a reasonableness review for costs for each year. SCE's share of the decommissioning costs recorded during 2016 were \$168 million and are subject to reasonableness review by the CPUC.

SCE has nuclear decommissioning trust funds for San Onofre Units 2 and 3 of \$2.8 billion as of December 31, 2016. If the decommissioning cost estimate and assumptions regarding trust performance do not change, SCE believes that future contributions to the trust funds will not be necessary.

SCE Dividends

SCE made \$701 million and \$758 million in dividend payments to its parent, Edison International, in 2016 and 2015, respectively. The timing and amount of future dividends are dependent upon several factors including the level of capital expenditures, operating cash flows and earnings. See "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies—SCE Dividend Restrictions" for discussion of dividend restrictions.

Margin and Collateral Deposits

Certain derivative instruments, power procurement contracts and other contractual arrangements contain collateral requirements. Future collateral requirements may differ from the requirements at December 31, 2016, due to the addition of incremental power and energy procurement contracts with collateral requirements, if any, and the impact of changes in wholesale power and natural gas prices on SCE's contractual obligations.

Some of the power procurement contracts contain provisions that require SCE to maintain an investment grade credit rating from the major credit rating agencies. If SCE's credit rating were to fall below investment grade, SCE may be required to pay the liability or post additional collateral.

The table below provides the amount of collateral posted by SCE to its counterparties as well as the potential collateral that would be required as of December 31, 2016.

(in millions)

Collateral posted as of December 31, 2016 ¹	\$91
Incremental collateral requirements for power procurement contracts resulting from a potential downgrade of SCE's credit rating to below investment grade	37
Incremental collateral requirements for power procurement contracts resulting from adverse market price movement ²	3
Posted and potential collateral requirements	\$131

¹ Net collateral provided to counterparties and other brokers consisted \$93 million in letters of credit and surety bonds and \$2 million of cash reflected in "Other current liabilities" on the consolidated balance sheets.

Incremental collateral requirements were based on potential changes in SCE's forward positions as of December 31, 2016 due to adverse market price movements over the remaining lives of the existing power procurement contracts using a 95% confidence level.

Regulatory Balancing Accounts

SCE's cash flows are affected by regulatory balancing accounts over- or under-collections. Over- and under-collections represent differences between cash collected in current rates for specified forecasted costs and the costs actually incurred. With some exceptions, SCE seeks to adjust rates on an annual basis or at other designated times to recover or refund the balances recorded in its balancing account. Under- or over-collections in these balancing accounts impact cash flows and can change rapidly. Over- and under-collections accrue interest based on a three-month commercial paper rate published by the Federal Reserve.

As of December 31, 2016, SCE had regulatory balancing account net overcollections of \$1.7 billion, primarily consisting of overcollections related to the base rate revenue account and public purpose-related and energy efficiency program costs. Overcollections related to the base rate revenue account are expected to decrease as refunds are provided to customers during 2017. Overcollections related to public purpose-related programs are expected to decrease as costs are incurred to fund programs established by the CPUC. See "Notes to Consolidated Financial Statements—Note 10. Regulatory Assets and Liabilities" for further information.

Edison International Parent and Other

Edison International Parent and Other's liquidity and its ability to pay operating expenses and pay dividends to common shareholders are dependent on dividends from SCE, realization of tax benefits and access to bank and capital markets. Edison International may also finance working capital requirements, payment of obligations and capital investments, including capital contributions to subsidiaries to fund new businesses, with commercial paper or other borrowings, subject to availability in the capital markets.

At December 31, 2016, Edison International Parent had \$712 million available under its \$1.25 billion multi-year revolving credit facility. For further details, see "Notes to Consolidated Financial Statements—Note 5. Debt and Credit Agreements."

The debt covenant in Edison International Parent's credit facility requires a consolidated debt to total capitalization ratio as defined in the credit agreement of less than or equal to 0.65 to 1. At December 31, 2016, Edison International Parent's consolidated debt to total capitalization ratio was 0.47 to 1.

At December 31, 2016, Edison International Parent was in compliance with all financial covenants that affect access to capital.

Net Operating Loss and Tax Credit Carryforwards

Edison International has approximately \$1,152 million of net operating loss and tax credit carryforwards at December 31, 2016 (excluding \$176 million of unrecognized tax benefits and \$242 million of Capistrano Wind net operating loss and tax credit carryforwards) which are available to offset future consolidated taxable income or tax liabilities (see Note 7 for further information on taxes payable to Capistrano Wind). In December 2015, the PATH Act of 2015 extended 50% bonus depreciation for qualifying property retroactive to January 1, 2015 and through 2017 and provided for 40% bonus depreciation in 2018 and 30% in 2019. As a result, realization of these tax benefits has been deferred (currently forecasted to be realized through 2021). The timing of realization of these tax benefits may be further delayed in the event of other changes in tax regulations and the value of the net operating loss carryforwards could be permanently reduced if tax reform decreases the corporate tax rate.

Edison Energy Group Capital Expenditures

Forecasted capital expenditures for Edison Energy Group's commercial solar activities are estimated to be \$114 million in 2017. Edison Energy Group expects to finance a majority of these expenditures through project debt and tax equity financings. For further information, see "Notes to Consolidated Financial Statements—Note 9. Investments."

Historical Cash Flows

SCE

(in millions)	2016	2015	2014
Net cash provided by operating activities	\$3,523	\$4,624	\$3,660
Net cash (used in) provided by financing activities	(219)	(812)	181
Net cash used in investing activities	(3,291)	(3,824)	(3,857)
Net increase (decrease) in cash and cash equivalents	\$13	\$(12)	\$(16)

Net Cash Provided by Operating Activities

The following table summarizes major categories of net cash provided by operating activities as provided in more detail in SCE's consolidated statements of cash flows for 2016, 2015 and 2014.

(in millions)	Years ended December 31,			Change in cash flows	
	2016	2015	2014	2016/2015	2015/2014
Net income	\$1,499	\$1,111	\$1,565		
Non cash items ¹	2,108	2,231	2,381		
Subtotal	\$3,607	\$3,342	\$3,946	\$265	\$ (604)
Changes in cash flow resulting from working capital ²	236	16	79	220	(63)
Derivative assets and liabilities, net	13	45	(40)	(32)	85
Regulatory assets and liabilities, net	(292)	1,729	(358)	(2,021)	2,087
Other noncurrent assets and liabilities, net ³	(41)	(508)	33	467	(541)
Net cash provided by operating activities	\$3,523	\$4,624	\$3,660	\$(1,101)	\$ 964

¹ Non cash items include depreciation, decommissioning and amortization, allowance for equity during construction, impairment and other charges, deferred income taxes and investment tax credits and other.

² Changes in working capital items include receivables, inventory, accounts payable, prepaid and accrued taxes, and other current assets and liabilities.

³ Includes the nuclear decommissioning trusts.

Net cash provided by operating activities was impacted by the following:

Net income and noncash items increased in 2016 by \$265 million from 2015 and decreased in 2015 by \$604 million from 2014. The increase in 2016 was primarily due to higher authorized revenue in 2016 from the escalation mechanism set forth in the 2015 GRC decision. The decrease in 2015 was primarily due to the implementation of the 2015 GRC decision. The factors that impacted these items are discussed under "Results of Operations—SCE—Earning Activities."

Net cash for working capital was \$236 million, \$16 million and \$79 million in 2016, 2015 and 2014, respectively. The net cash for 2016 and 2015 was primarily related to timing of disbursements (\$45 million in 2016 and \$120 million in 2015) and timing of receipts from customers (\$230 million in 2016 and \$70 million in 2015). In addition, SCE had net tax payments of \$78 million in 2016 and \$144 million in 2015. The net cash in 2014 was primarily related to net tax refunds of \$88 million due to net operating loss carrybacks to periods that SCE previously had taxable income.

Net cash provided by regulatory assets and liabilities, including changes in over (under) collections of balancing accounts, was \$(292) million, \$1.7 billion and \$(358) million in 2016, 2015 and 2014, respectively. SCE has a number of balancing accounts, which impact cash flows based on differences between timing of collection of amounts through rates and accrual expenditures. Cash flows were primarily impacted by the following:

2016

Lower cash due to a decrease in ERRA overcollections for fuel and purchased power of \$419 million in 2016 primarily due to the implementation of the 2016 ERRA rate decrease in January 2016, partially offset by lower than forecasted power and gas prices experienced in 2016.

The public purpose and energy efficiency programs track differences between amounts authorized by the CPUC and amounts incurred to fund programs established by the CPUC. Overcollections increased by \$309 million in 2016 due to higher funding and lower spending for these programs.

SCE had a decrease in cash of approximately \$182 million primarily due to a 2016 refund of 2015 overcollections resulting from the implementation of the 2015 GRC decision which was authorized to be refunded to customers over a two year period.

2015

Higher cash due to a decrease in ERRA undercollections of \$1.5 billion in 2015 primarily due to lower power and gas prices experienced in 2015, the 2015 application of 2013 and 2014 nuclear decommissioning costs refunds against ERRA undercollections and the NEIL settlement proceeds from insurance claims arising out of the failures of the San Onofre replacement steam generators. In January 2015, SCE reclassified the regulatory liability for generator settlements to ERRA to refund customers as required by the CPUC.

During 2015, BRRBA overcollections increased by \$314 million primarily due to revenue previously collected from customers that was expected to be refunded as part of the 2015 GRC decision.

Overcollections for the public purpose and energy efficiency programs decreased by \$191 million in 2015 primarily due to higher spending for these programs. The decrease was partially offset by an increase in funding of the new system generation program for 2015.

The 2015 GRC Decision established a tax accounting memorandum account (referred to as "TAMA"). As a result of this memorandum account, together with a balancing account for pole loading expenditures, any differences between the forecasted tax repair deductions and actual tax repair deductions will be adjusted through customer rates. At December 31, 2015, SCE had a regulatory liability of \$248 million related to these accounts (impact of TAMA is offset in non-cash items above).

2014

During 2014, BRRBA overcollections decreased by \$242 million primarily due to refunds to customers of approximately \$150 million, related to the sale of Four Corners, an electric generating facility in which SCE held a 48% ownership interest, in December 2013.

Overcollections for the public purpose and energy efficiency programs decreased by \$278 million in 2014, respectively, primarily due to higher spending for these programs. The decrease was partially offset by an increase in funding of the new system generation program for 2014.

During 2014, ERRA undercollections increased by \$23 million primarily due to the amount and price of power and fuel being higher than forecasted. The increase was partially offset by a \$540 million reclassification from regulatory liabilities to ERRA for collection of GRC revenue in excess of cost of service related to San Onofre consistent with its advice filing in November 2014.

Cash flows (used in) provided by other noncurrent assets and liabilities were \$(41) million, \$(508) million and \$33 million in 2016, 2015 and 2014, respectively. Major factors affecting cash flow related to noncurrent assets and liabilities were activities related to SCE's nuclear decommissioning trusts (principally related to the payment of decommissioning costs). Decommissioning costs of San Onofre were approximately \$168 million and \$216 million in 2016 and 2015, respectively (such costs were recorded as a reduction of SCE's asset retirement obligation).

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Net Cash (Used in) Provided by Financing Activities

The following table summarizes cash provided by financing activities for 2016, 2015 and 2014. Issuances of debt and preference stock are discussed in "Notes to Consolidated Financial Statements—Note 5. Debt and Credit Agreements—Long-Term Debt" and "—Note 12. Preferred and Preference Stock of Utility."

(in millions)	2016	2015	2014
Issuances of first and refunding mortgage bonds, net	\$—	\$1,287	\$498
Issuances of pollution control bonds, net and other	—	126	—
Long-term debt matured or repurchased	(217)	(761)	(607)
Short-term debt financing, net	719	(619)	490
Issuances of preference stock, net	294	319	269
Payments of common stock dividends to Edison International	(701)	(758)	(378)
Redemptions of preference stock	(125)	(325)	—
Payments of preferred and preference stock dividends	(123)	(116)	(111)
Other	(66)	35	20
Net cash (used in) provided by financing activities	\$(219)	\$(812)	\$181

Net Cash Used in Investing Activities

Cash flows used in investing activities are primarily due to capital expenditures and funding of nuclear decommissioning trusts. Capital expenditures were \$3.6 billion for 2016, \$4.2 billion for 2015 and \$3.9 billion for 2014, primarily related to transmission, distribution and generation investments. The decrease in capital expenditures during 2016 was primarily due to lower FERC capital spending. Net proceeds (purchases) of nuclear decommissioning trust investments were \$179 million, \$374 million and \$(44) million for 2016, 2015 and 2014, respectively. See "Nuclear Decommissioning Trusts" below for further discussion. The 2016 net proceeds from sale of nuclear decommissioning trust investments was used to fund decommissioning costs less net earnings during the period. The 2015 net proceeds from sale of nuclear decommissioning trust investments was used to fund 2013, 2014 and a portion of 2015 decommissioning costs less net earnings during the period. The 2014 net purchase of nuclear decommissioning trust investments was due to net earnings during the period. In addition, during the third quarter of 2016, SCE received proceeds of \$140 million for a loan on the cash surrender value of life insurance policies. The proceeds were used for general corporate purposes.

Nuclear Decommissioning Trusts

SCE's statement of cash flows includes activities of the Nuclear Decommissioning Trusts which are reflected in the following line items:

(in millions)	2016	2015	2014
Net cash (used in) provided by operating activities:			
Nuclear decommissioning trusts	\$(179)	\$(428)	\$39
Net cash flow from investing activities:			
Proceeds from sale of investments	3,212	3,506	2,617
Purchases of investments	(3,033)	(3,132)	(2,661)
Net cash impact	\$—	\$(54)	\$(5)

Net cash (used in) provided by operating activities of the nuclear decommissioning trusts relate to interest and dividends less administrative expenses, taxes and decommissioning costs. See "Notes to Consolidated Financial Statements—Note 9. Investments" for further information. Such activities represent the source (use) of the funds for investing activities. The net cash impact represents the contributions made by SCE to the nuclear decommissioning trusts. During 2015, SCE made a contribution of \$54 million to the non-qualified decommissioning trust related to tax benefits received and pursuant to a CPUC decision related to decommissioning costs for San Onofre Unit 1.

In future periods, decommissioning costs of San Onofre will increase significantly. Beginning in March 2016, funds for decommissioning costs are requested from the nuclear decommissioning trusts one month in advance.

Decommissioning disbursements are funded from sales of investments of the nuclear decommissioning trusts. See "Notes to Consolidated Financial Statements—Note 9. Investments" for further information.

Edison International Parent and Other

The table below sets forth condensed historical cash flow from operations for Edison International Parent and Other. (in millions)

	2016	2015	2014
Net cash used in operating activities	\$(267)	\$(115)	\$(412)
Net cash provided by financing activities	314	224	464
Net cash used in investing activities	(125)	(68)	(50)
Net (decrease) increase in cash and cash equivalents	\$(78)	\$41	\$2

Net Cash Used in Operating Activities

Net cash used in operating activities increased in 2016 by \$152 million from 2015 and decreased in 2015 by \$297 million from 2014 due to:

\$214 million, \$204 million and \$225 million of cash payments made to the Reorganization Trust in September 2016, September 2015 and April 2014, respectively, related to the EME Settlement Agreement. See "Notes to Consolidated Financial Statements—Note 15. Discontinued Operations—EME Chapter 11 Bankruptcy" for further information.

\$143 million receipt of intercompany tax-allocation payments in 2015 and a \$189 million deposit made with the IRS in 2014 related to open tax years 2003 through 2006.

\$21 million outflow in June 2016 related to the buy-out of an earn-out provision with the former shareholders of a company acquired by Edison Energy in 2015. See "Results of Operations—Edison International Parent and Other—Loss from Continuing Operations" for further information.

\$32 million cash outflow from operating activities in 2016, compared to \$54 million cash inflow in 2015 and \$2 million cash outflow in 2014, due to timing of payments and receipts relating to interest and operating costs.

Net Cash Provided by Financing Activities

Net cash provided by financing activities were as follows:

(in millions)	2016	2015	2014
Dividends paid to Edison International common shareholders	\$(626)	\$(544)	\$(463)
Dividends received from SCE	701	758	378
Payment for stock-based compensation	(110)	(119)	(106)
Receipt from stock option exercises	59	67	66
Long-term debt issuance, net	397	7	(4)
Short-term debt financing, net	(108)	47	589
Other	1	8	4
Net cash provided by financing activities	\$314	\$224	\$464

Net Cash Used in Investing Activities

Net cash used in investing activities relates to Edison Energy Group's capital expenditures primarily for commercial solar installations (\$101 million in 2016, \$15 million in 2015 and \$49 million in 2014). In addition, the cash outflow in 2015 was due to the acquisitions of three companies for approximately \$100 million to support Edison Energy Group's commercial and industrial services growth strategy. See "Notes to Consolidated Financial Statements—Note 9. Investments" for further information.

Contractual Obligations and Contingencies

Contractual Obligations

Edison International Parent and Other and SCE's contractual obligations as of December 31, 2016, for the years 2017 through 2021 and thereafter are estimated below.

(in millions)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
SCE:					
Long-term debt maturities and interest ¹	\$ 18,801	\$ 1,044	\$ 1,442	\$ 1,509	\$ 14,806
Power purchase agreements: ²					
Renewable energy contracts	31,199	1,516	3,310	3,562	22,811
Qualifying facility contracts	530	187	235	55	53
Other power purchase agreements	4,039	769	1,120	892	1,258
Other operating lease obligations ³	443	52	83	50	258
Purchase obligations: ⁴					
Other contractual obligations	1,211	156	244	180	631
Total SCE ^{5,6,7}	56,223	3,724	6,434	6,248	39,817
Edison International Parent and Other:					
Long-term debt maturities and interest ¹	925	426	32	28	439
Total Edison International Parent and Other ⁵	925	426	32	28	439
Total Edison International ^{6,7}	\$ 57,148	\$ 4,150	\$ 6,466	\$ 6,276	\$ 40,256

For additional details, see "Notes to Consolidated Financial Statements—Note 5. Debt and Credit Agreements."

¹ Amount includes interest payments totaling \$8.36 billion and \$93 million over applicable period of the debt for SCE and Edison International Parent and Other, respectively.

² Certain power purchase agreements entered into with independent power producers are treated as operating or capital leases. For further discussion, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies."

³ At December 31, 2016, SCE's minimum other operating lease payments were primarily related to vehicles, office space and other equipment. For further discussion, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies."

For additional details, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies."

⁴ At December 31, 2016, other commitments were primarily related to maintaining reliability and expanding SCE's transmission and distribution system and capacity reduction contracts.

At December 31, 2016, Edison International Parent and Other and SCE had estimated contributions to the pension and PBOP plans. SCE estimated contributions are \$106 million, \$106 million, \$115 million, \$157 million and \$160 million in 2017, 2018, 2019, 2020 and 2021, respectively, which are excluded from the table above. Edison

⁵ International Parent and Other estimated contributions are \$51 million, \$18 million, \$28 million, \$26 million and \$26 million for the same respective periods and are excluded from the table above. These amounts represent estimates that are based on assumptions that are subject to change. See "Notes to Consolidated Financial Statements—Note 8. Compensation and Benefit Plans" for further information.

⁶ At December 31, 2016, Edison International and SCE had a total net liability recorded for uncertain tax positions of \$471 million and \$371 million, respectively, which is excluded from the table. Edison International and SCE cannot make reliable estimates of the cash flows by period due to uncertainty surrounding the timing of resolving these open tax issues with the tax authorities.

⁷ The contractual obligations table does not include derivative obligations and asset retirement obligations, which are discussed in "Notes to Consolidated Financial Statements—Note 6. Derivative Instruments," and "—Note 1. Summary of Significant Accounting Policies" and "—Note 9. Investments," respectively.

Contingencies

SCE has contingencies related to San Onofre Related Matters, Long Beach Service Interruptions, Nuclear Insurance, Wildfire Insurance and Spent Nuclear Fuel, which are discussed in "Notes to Consolidated Financial

Statements—Note 11. Commitments and Contingencies."

Environmental Remediation

For a discussion of SCE's environmental remediation liabilities, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies—Environmental Remediation."

Off-Balance Sheet Arrangements

SCE has variable interests in power purchase contracts with variable interest entities and a variable interest in unconsolidated Trust I, Trust II, Trust III, Trust IV and Trust V that issued \$475 million (aggregate liquidation preference) of 5.625%, \$400 million (aggregate liquidation preference) of 5.10%, \$275 million (aggregate liquidation preference) of 5.75%, \$325 million (aggregate liquidation preference) of 5.375% and \$300 million (aggregate liquidation preference) of 5.45%, trust securities, respectively, to the public, see "Notes to Consolidated Financial Statements—Note 3. Variable Interest Entities."

Environmental Developments

For a discussion of environmental developments, see "Business—Environmental Regulation of Edison International and Subsidiaries."

MARKET RISK EXPOSURES

Edison International's and SCE's primary market risks include fluctuations in interest rates, commodity prices and volumes, and counterparty credit. Derivative instruments are used to manage market risks including market risks of SCE's customers. For a further discussion of market risk exposures, including commodity price risk, credit risk and interest rate risk, see "Notes to Consolidated Financial Statements—Note 6. Derivative Instruments" and "—Note 4. Fair Value Measurements."

Interest Rate Risk

Edison International and SCE are exposed to changes in interest rates primarily as a result of its financing, investing and borrowing activities used for liquidity purposes, and to fund business operations and capital investments. The nature and amount of Edison International and SCE's long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. Fluctuations in interest rates can affect earnings and cash flows. Changes in interest rates may impact SCE's authorized rate of return for the period beyond 2017, see "Business—SCE—Overview of Ratemaking Process" for further discussion. The following table summarizes the increase or decrease to the fair value of long-term debt including the current portion as of December 31, 2016, if the market interest rates were changed while leaving all other assumptions the same:

(in millions)	Carrying Value	Fair Value	10% Increase	10% Decrease
Edison International	\$ 11,156	\$ 12,368	\$ 11,892	\$ 12,876
SCE	10,333	11,539	11,070	12,040

Commodity Price Risk

SCE and its customers are exposed to the risk of a change in the market price of natural gas, electric power and transmission congestion. SCE's hedging program is designed to reduce exposure to variability in market prices related to SCE's purchases and sales of electric power and natural gas. SCE expects recovery of its related hedging costs through the ERRA balancing account or CPUC-approved procurement plans, and as a result, exposure to commodity price is not expected to impact earnings, but may impact timing of cash flows. As part of this program, SCE enters into energy options, swaps, forward arrangements, tolling arrangements, and congestion revenue rights ("CRRs"). The transactions are pre-approved by the CPUC or executed in compliance with CPUC-approved procurement plans.

Fair Value of Derivative Instruments

The fair value of derivative instruments is included in the consolidated balance sheets unless subject to an exception under the applicable accounting guidance. Realized gains and losses from derivative instruments are expected to be recovered from or refunded to customers through regulatory mechanisms and, accordingly, changes in SCE's fair value have no impact on earnings. SCE does not use hedge accounting for these transactions due to this regulatory accounting treatment. For further discussion on fair value measurements and the fair value hierarchy, see "Notes to Consolidated Financial Statements—Note 4. Fair Value Measurements."

The fair value of outstanding derivative instruments used to mitigate exposure to commodity price risk was a net liability of \$1.1 billion and \$1.2 billion at December 31, 2016 and 2015, respectively. The following table summarizes the increase or decrease to the fair values of the net liability of derivative instruments included in the consolidated balance sheets as of December 31, 2016, if the electricity prices or gas prices were changed while leaving all other assumptions constant:

(in millions)	December 31, 2016
Increase in electricity prices by 10%	\$ 112
Decrease in electricity prices by 10%	(92)
Increase in gas prices by 10%	(36)
Decrease in gas prices by 10%	43

Credit Risk

For information related to credit risks, see "Notes to Consolidated Financial Statements—Note 6. Derivative Instruments."

Credit risk exposure from counterparties for power and gas trading activities is measured as the sum of net accounts receivable (accounts receivable less accounts payable) and the current fair value of net derivative assets (derivative assets less derivative liabilities) reflected on the consolidated balance sheets. SCE enters into master agreements which typically provide for a right of setoff. Accordingly, SCE's credit risk exposure from counterparties is based on a net exposure under these arrangements. SCE manages the credit risk on the portfolio for both rated and non-rated counterparties based on credit ratings using published ratings of counterparties and other publicly disclosed information, such as financial statements, regulatory filings, and press releases, to guide it in the process of setting credit levels, risk limits and contractual arrangements, including master netting agreements.

As of December 31, 2016, the amount of balance sheet exposure as described above broken down by the credit ratings of SCE's counterparties, was as follows:

(in millions)	December 31, 2016	
	Exposures ¹	Net Collateral Exposure
S&P Credit Rating ¹		
A or higher	\$74	(\$ 3) \$ 71

SCE assigns a credit rating based on the lower of a counterparty's S&P, Fitch or Moody's Investors Service rating.

¹ For ease of reference, the above table uses the S&P classifications to summarize risk, but reflects the lower of the three credit ratings.

Exposure excludes amounts related to contracts classified as normal purchases and sales and non-derivative

² contractual commitments that are not recorded on the consolidated balance sheets, except for any related net accounts receivable.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The accounting policies described below are considered critical to obtaining an understanding of Edison International and SCE's consolidated financial statements because their application requires the use of significant estimates and judgments by management in preparing the consolidated financial statements. Management estimates and judgments are inherently uncertain and may differ significantly from actual results achieved. Management considers an accounting estimate to be critical if the estimate requires significant assumptions and changes in the estimate or, the use of alternative estimates, could have a material impact on Edison International's results of operations or financial position. For more information on Edison International's accounting policies, see "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies."

Rate Regulated Enterprises

Nature of Estimate Required. SCE follows the accounting principles for rate-regulated enterprises which are required for entities whose rates are set by regulators at levels intended to recover the estimated costs of providing service, plus a return on net investment, or rate base. Regulators may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of revenue, these principles allow a cost that would

otherwise be charged as an expense by an unregulated entity to be capitalized as a regulatory asset if it is probable that such cost is recoverable through future rates; conversely the principles allow creation of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and are refundable to customers.

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In November 2014, the CPUC approved the San Onofre OII Settlement Agreement, which resolved the CPUC's investigation regarding the steam generator replacement project at San Onofre and the related outages and subsequent shutdown of San Onofre. In a December 2016 joint ruling, the Assigned Commissioner and the Assigned ALJ expressed concerns about the extent to which the failure to timely report ex parte communications had impacted the settlement negotiations and directed SCE to meet and confer with the other parties in the OII to consider changing the terms of the San Onofre OII Settlement Agreement.

In November 2015, SCE received the 2015 GRC decision. As part of this decision, the CPUC adopted a rate base offset associated with forecasted tax repair deductions during 2012 – 2014. The 2015 rate base offset is \$324 million and amortizes on a straight line basis over 27 years. As a result of the rate base offset included in the final decision, SCE recorded an after tax charge of \$382 million during the fourth quarter of 2015 to write down the regulatory assets previously recorded for recovery of deferred income taxes related to 2012 – 2014 incremental tax repair deductions.

Key Assumptions and Approach Used. SCE's management assesses at the end of each reporting period whether regulatory assets are probable of future recovery by considering factors such as the current regulatory environment, the issuance of rate orders on recovery of the specific or a similar incurred cost to SCE or other rate-regulated entities, and other factors that would indicate that the regulator will treat an incurred cost as allowable for ratemaking purposes. Using these factors, management has determined that existing regulatory assets and liabilities are probable of future recovery or settlement. This determination reflects the current regulatory climate and is subject to change in the future. SCE's judgment that the San Onofre Regulatory Asset recorded at December 31, 2016 is probable, though not certain, of recovery is based on SCE's knowledge of the facts and judgment in applying the relevant regulatory principles to the issue. Such judgment is subject to uncertainty, and regulatory principles and precedents are not necessarily binding and are capable of interpretation. SCE has recorded a regulatory asset to reflect the expected recoveries under the San Onofre OII Settlement Agreement. At

December 31, 2016, \$857 million remains to be collected.

Effect if Different Assumptions Used. Significant management judgment is required to evaluate the anticipated recovery of regulatory assets, the recognition of incentives and revenue subject to refund, as well as the anticipated cost of regulatory liabilities or penalties. If future recovery of costs ceases to be probable, all or part of the regulatory assets and liabilities would have to be written off against current period earnings. At December 31, 2016, the consolidated balance sheets included regulatory assets of \$7.8 billion and regulatory liabilities of \$6.5 billion. If different judgments were reached on recovery of costs and timing of income recognition, SCE's earnings may vary from the amounts reported.

Income Taxes

Nature of Estimates Required. As part of the process of preparing its consolidated financial statements, Edison International and SCE are required to estimate income taxes for each jurisdiction in which they operate. This process involves estimating actual current period tax expense together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within Edison International and SCE's consolidated balance sheets, including net operating loss and tax credit carryforwards that can be used to reduce liabilities in future periods. Edison International and SCE take certain tax positions they believe are in accordance with the applicable tax laws. However, these tax positions are subject to interpretation by the IRS, state tax authorities and the courts. Edison International and SCE determine uncertain tax positions in accordance with the authoritative guidance.

Key Assumptions and Approach Used. Accounting for tax obligations requires management judgment. Edison International and SCE's management use judgment in determining whether the evidence indicates it is more likely than not, based solely on the technical merits, that a tax position will be sustained, and to determine the amount of tax benefits to be recognized. Judgment is also used in determining the likelihood a tax position will be settled and possible settlement outcomes. In assessing uncertain tax positions Edison International and SCE consider, among others, the following factors: the facts and circumstances of the position, regulations, rulings, and case law, opinions or views of legal counsel and other advisers, and the experience gained from similar tax positions. Edison International and SCE's management evaluates uncertain tax positions at the end of each reporting period and makes adjustments when warranted based on changes in fact or law.

Effect if Different Assumptions Used. Actual income taxes may differ from the estimated amounts which could have a significant impact on the liabilities, revenue and expenses recorded in the financial statements. Edison International and SCE continue to be under audit or subject to audit for multiple years in various jurisdictions. Significant judgment is required to determine the tax treatment of particular tax positions that involve interpretations of complex tax laws. Such liabilities are based on judgment and a final determination could take many years from the time the liability is recorded. Furthermore, settlement of tax positions included in open tax years may be resolved by compromises of tax positions based on current factors and business considerations that may result in material adjustments to income taxes previously estimated.

Nuclear Decommissioning – Asset Retirement Obligation

Key Assumptions and Approach Used. The liability to decommission SCE's nuclear power facilities is based on decommissioning studies performed in 2013 for Palo Verde and in 2014 for San Onofre Units 1, 2 and 3. See "Liquidity and Capital Resources—SCE—Decommissioning of San Onofre" for further discussion of the plans for decommissioning of San Onofre. SCE estimates that it will spend approximately \$6.3 billion through 2079 to decommission its nuclear facilities. San Onofre Units 1, 2 and 3 decommissioning cost estimates are updated in each Nuclear Decommissioning Triennial Proceeding. Palo Verde decommissioning cost estimates are updated every three years by the operating agent, Arizona Public Services.

The current ARO estimates for San Onofre and Palo Verde are based on the assumptions from these decommissioning studies:

Decommissioning Costs. The estimated costs for labor, "material, equipment and other," and low-level radioactive waste costs are included in each of the NRC decommissioning stages; license termination, site restoration, and spent fuel storage.

Escalation Rates. Annual escalation rates are used to convert the decommissioning cost estimates in base year dollars to decommissioning cost estimates in future-year dollars. Escalation rates are primarily used for labor, material, equipment, and low level radioactive waste burial costs. SCE's current estimates are based upon SCE's decommissioning cost methodology used for ratemaking purposes. Average escalation rates range from 1.7% to 7.5% (depending on the cost element) annually.

Timing. Cost estimates for Palo Verde are based on an assumption that decommissioning will commence promptly after the current NRC operating licenses expire. The Palo Verde 1, 2, 3 operating licenses currently expire in 2045, 2046 and 2047 respectively. San Onofre Unit 1 started decommissioning in 1998 and Units 2 and 3 began in 2013. Cost estimates for San Onofre Units are currently based on completion of decommissioning activities by 2052.

Spent Fuel Dry Storage Costs. Cost estimates are based on an assumption that the DOE will begin to take spent fuel in 2024, and will remove the last spent fuel from the San Onofre and Palo Verde sites by 2051 and 2075, respectively. Costs for spent fuel monitoring are included until 2051 and 2075, respectively.

Changes in Decommissioning Technology, Regulation, and Economics. The current cost studies assume the use of current technologies under current regulations and at current cost levels.

Effect if Different Assumptions Used. The ARO for decommissioning SCE's nuclear facilities was \$2.5 billion as of December 31, 2016, based on decommissioning studies performed in 2013 for Palo Verde and in 2014 for San Onofre Units 1, 2 and 3. Changes in the estimated costs, execution strategy or timing of decommissioning, or in the assumptions and judgments by management underlying these estimates, could cause material revisions to the estimated total cost to decommission these facilities which could have a material effect on the recorded liability. The ARO for decommissioning San Onofre Units 2 & 3 is expected to be updated after onboarding the decommissioning general contractor and the subsequent development of a new decommissioning cost estimate during 2017.

The following table illustrates the increase to the ARO liability if the cost escalation rate was adjusted while leaving all other assumptions constant:

(in millions)	Increase to ARO and Regulatory Asset at
---------------	--

December 31,
2016

Uniform increase in escalation rate of 1 percentage point \$ 481

The increase in the ARO liability driven by an increase in the escalation rate would result in a decrease in the regulatory liability for recoveries in excess of ARO liabilities.

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Pensions and Postretirement Benefits Other than Pensions ("PBOP(s)")

Nature of Estimate Required. Authoritative accounting guidance requires companies to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as assets and liabilities in the balance sheet; the assets and/or liabilities are normally offset through other comprehensive income (loss). In accordance with authoritative guidance for rate-regulated enterprises, regulatory assets and liabilities are recorded instead of charges and credits to other comprehensive income (loss) for its postretirement benefit plans that are recoverable in utility rates. Edison International and SCE have a fiscal year-end measurement date for all of its postretirement plans.

Key Assumptions of Approach Used. Pension and other postretirement obligations and the related effects on results of operations are calculated using actuarial models. Two critical assumptions, discount rate and expected return on assets, are important elements of plan expense, and the discount rate is important to liability measurement.

Additionally, health care cost trend rates are critical assumptions for postretirement health care plans. These critical assumptions are evaluated at least annually. Other assumptions, which require management judgment, such as rate of compensation increases and rates of retirement and turnover, are evaluated periodically and updated to reflect actual experience.

As of December 31, 2016, Edison International's and SCE's pension plans had a \$4.3 billion and \$3.8 billion benefit obligation, respectively, and total 2016 expense for these plans was \$101 million and \$93 million, respectively. As of December 31, 2016, the benefit obligation for both Edison International's and SCE's PBOP plans were \$2.3 billion, and total 2016 expense for Edison International's and SCE's plans was \$20 million and \$19 million, respectively.

Annual contributions made to most of SCE's pension plans are currently recovered through CPUC-approved regulatory mechanisms and are expected to be, at a minimum, equal to the related annual expense.

Pension expense is recorded for SCE based on the amount funded to the trusts, as calculated using an actuarial method required for ratemaking purposes, in which the impact of market volatility on plan assets is recognized in earnings on a more gradual basis. Any difference between pension expense calculated in accordance with ratemaking methods and pension expense calculated in accordance with authoritative accounting guidance for pension is accumulated as a regulatory asset or liability, and is expected, over time, to be recovered from or returned to customers. As of December 31, 2016, this cumulative difference amounted to a regulatory asset of \$95 million, meaning that the accounting method has recognized more in expense than the ratemaking method since implementation of authoritative guidance for employers' accounting for pensions in 1987.

Edison International and SCE used the following critical assumptions to determine expense for pension and other postretirement benefit for 2016:

(in millions)	Pension Plans	Postretirement Benefits Other than Pensions
Discount rate ¹	4.18 %	4.55 %
Expected long-term return on plan assets ²	7.00 %	5.60 %
Assumed health care cost trend rates ³	*	7.50 %

* Not applicable to pension plans.

¹ The discount rate enables Edison International and SCE to state expected future cash flows at a present value on the measurement date. Edison International and SCE select its discount rate by performing a yield curve analysis. This analysis determines the equivalent discount rate on projected cash flows, matching the timing and amount of expected benefit payments. The AON-Hewitt yield curve is considered in determining the discount rate.

To determine the expected long-term rate of return on pension plan assets, current and expected asset allocations are considered, as well as historical and expected returns on plan assets. A portion of PBOP trusts asset returns are subject to taxation, so the 5.6% rate of return on plan assets above is determined on an after-tax basis. Actual ² time-weighted, annualized returns on the pension plan assets were 8.5%, 9.7% and 5.8% for the one-year, five-year and ten-year periods ended December 31, 2016, respectively. Actual time-weighted, annualized returns on the PBOP plan assets were 7.0%, 9.5% and 5.0% over these same periods. Accounting principles provide that differences between expected and actual returns are recognized over the average future service of employees.

³ The health care cost trend rate gradually declines to 5.0% for 2022 and beyond.

As of December 31, 2016, Edison International and SCE had unrecognized pension costs of \$666 million and \$598 million, and unrecognized PBOP costs of \$140 million and \$136 million, respectively. The unrecognized pension and PBOP costs primarily consisted of the cumulative impact of the reduced discount rates on the respective benefit obligations and the cumulative difference between the expected and actual rate of return on plan assets. Of these deferred costs, \$479 million of SCE's pension costs and \$33 million of SCE's PBOP costs are recorded as regulatory assets and is expected to be recovered over the average expected future service of employees.

Edison International's and SCE's pension and PBOP plans are subject to limits established for federal tax deductibility. SCE funds its pension and PBOP plans in accordance with amounts allowed by the CPUC. Executive pension plans have no plan assets.

Effect if Different Assumptions Used. Changes in the estimated costs or timing of pension and other postretirement benefit obligations, or the assumptions and judgments used by management underlying these estimates, could have a material effect on the recorded expenses and liabilities.

The following table summarizes the increase or (decrease) to projected benefit obligation for pension and the accumulated benefit obligation for PBOP if the discount rate were changed while leaving all other assumptions constant:

	Edison International		SCE	
	Increase in discount rate by 1%	Decrease in discount rate by 1%	Increase in discount rate by 1%	Decrease in discount rate by 1%
(in millions)				
Change to projected benefit obligation for pension	\$ (422)	\$ 513	\$ (365)	\$ 444
Change to accumulated benefit obligation for PBOP	(319)	372	(318)	370

A one percentage point increase in the expected rate of return on pension plan assets would decrease Edison International's and SCE's current year expense by \$31 million and \$29 million, respectively, and a one percentage point increase in the expected rate of return on PBOP plan assets would decrease both Edison International's and SCE's current year expense by \$20 million.

The following table summarizes the increase or (decrease) to accumulated benefit obligation and annual aggregate service and interest costs for PBOP if the health care cost trend rate was changed while leaving all other assumptions constant:

	Edison International		SCE	
	Increase in health care cost trend rate by 1%	Decrease in health care cost trend rate by 1%	Increase in health care cost trend rate by 1%	Decrease in health care cost trend rate by 1%
(in millions)				
Change to accumulated benefit obligation for PBOP	\$ 244	\$ (200)	\$ 243	\$ (199)
Change to annual aggregate service and interest costs	11	(9)	11	(9)

Accounting for Contingencies

Nature of Estimates Required. Edison International and SCE record loss contingencies when management determines that the outcome of future events is probable of occurring and when the amount of the loss can be reasonably estimated. Gain contingencies are recognized in the financial statements when they are realized.

Key Assumptions and Approach Used. The determination of a reserve for a loss contingency is based on management judgment and estimates with respect to the likely outcome of the matter, including the analysis of different scenarios. Liabilities are recorded or adjusted when events or circumstances cause these judgments or estimates to change. In assessing whether a loss is a reasonable possibility, Edison International and SCE may consider the following factors, among others: the nature of the litigation, claim or assessment, available information, opinions or views of legal counsel and other advisors, and the experience gained from similar cases. Edison International and SCE provide disclosures for material contingencies when there is a reasonable possibility that a loss or an additional loss may be incurred.

Effect if Different Assumptions Used. Actual amounts realized upon settlement of contingencies may be different than amounts recorded and disclosed and could have a significant impact on the liabilities, revenue and expenses recorded on the consolidated financial statements. For a discussion of contingencies, guarantees and indemnities, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies."

NEW ACCOUNTING GUIDANCE

New accounting guidance is discussed in "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies—New Accounting Guidance."

RISK FACTORS

RISKS RELATING TO EDISON INTERNATIONAL

Edison International's liquidity depends on SCE's ability to pay dividends and tax allocation payments to Edison International, monetization of tax benefits retained by EME, ability to borrow funds, and access to capital markets. Edison International is a holding company and, as such, it has no operations of its own. Edison International's ability to meet its financial obligations, make investments, and to pay dividends on its common stock is primarily dependent on the earnings and cash flows of SCE and its ability to make upstream distributions. Prior to paying dividends to Edison International, SCE has financial and regulatory obligations that must be satisfied, including, among others, debt service and preferred stock dividends. In addition, CPUC holding company rules require that SCE's dividend policy be established by SCE's Board of Directors on the same basis as if SCE were a stand-alone utility company, and that the capital requirements of SCE, as deemed to be necessary to meet SCE's electricity service obligations, shall receive first priority from the Boards of Directors of both Edison International and SCE. SCE may also owe tax-allocation payments to Edison International under applicable tax-allocation agreements. Access to capital markets may be impacted by economic conditions that have an adverse effect on Edison International's liquidity. See "Risks Relating to Southern California Edison Company" below for further discussion.

The Edison International consolidated tax group retains significant net operating loss and tax credit carryforwards. Realization of such tax benefits may be delayed or permanently reduced by future tax legislation that extends bonus depreciation or reduces the current corporate tax rate.

Edison International's business activities are concentrated in one industry and in one region.

Edison International business activities are concentrated in the electricity industry. Its principal subsidiary, SCE, serves customers only in southern and central California. Although Edison International, through Edison Energy Group, is developing competitive businesses that are diversified geographically, these businesses are not material. As a result, Edison International's future performance may be affected by events and economic factors unique to California or by regional regulation or legislation.

Edison International is developing businesses held by Edison Energy Group that may not be successful.

Edison International, through Edison Energy Group, is developing businesses to capitalize on changes in the electricity industry. Edison International intends to invest in companies to develop the capabilities of the Edison Energy Group entities but there can be no assurance that these entities will be profitable.

RISKS RELATING TO SOUTHERN CALIFORNIA EDISON COMPANY

Regulatory Risks

SCE is subject to extensive regulation and the risk of adverse regulatory decisions and changes in applicable regulations or legislation.

SCE operates in a highly regulated environment. SCE's business is subject to extensive federal, state and local energy, environmental and other laws and regulations. Among other things, the CPUC regulates SCE's retail rates and capital structure, and the FERC regulates SCE's wholesale rates. The NRC regulates the decommissioning of San Onofre. The construction, planning, and siting of SCE's power plants and transmission lines in California are also subject to regulation by the CPUC and other local, state and federal agencies.

SCE must periodically apply for licenses and permits from these various regulatory authorities and abide by their respective orders. Should SCE be unsuccessful in obtaining necessary licenses or permits or should these regulatory authorities initiate any investigations or enforcement actions or impose penalties or disallowances on SCE, SCE's business could be materially affected. The process of obtaining licenses and permits from regulatory authorities may be delayed or defeated by opponents and such delay or defeat could have a material effect on SCE's business.

In September 2016, the California Governor signed into law several CPUC reform bills that establish rules governing, among other subjects, communications between the CPUC officials, staff and the regulated utilities. Changes to the rules and processes around ex parte communications could result in delayed decisions, increased investigations, enforcement actions and penalties. In addition, the CPUC or other parties may initiate investigations of past communications between public utilities, including SCE, and CPUC officials and staff that could result in reopening completed proceedings for reconsideration.

In addition, existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to SCE, or its facilities or operations, in a manner that may have a detrimental effect on SCE's business or result in significant additional costs. In addition, regulations adopted via the public initiative or legislative process may apply to SCE, or its facilities or operations, in a manner that may have a detrimental effect on SCE's business or result in significant additional costs.

SCE's financial results depend upon its ability to recover its costs and to earn a reasonable rate of return on capital investments in a timely manner from its customers through regulated rates.

SCE's ongoing financial results depend on its ability to recover its costs from its customers, including the costs of electricity purchased for its customers, through the rates it charges its customers as approved by the CPUC and FERC. SCE's financial results also depend on its ability to earn a reasonable return on capital, including long-term debt and equity. SCE's ability to recover its costs and earn a reasonable rate of return can be affected by many factors, including the time lag between when costs are incurred and when those costs are recovered in customers' rates and differences between the forecast or authorized costs embedded in rates (which are set on a prospective basis) and the amount of actual costs incurred. The CPUC or the FERC may not allow SCE to recover costs on the basis that such costs were not reasonably or prudently incurred or for other reasons. Further, SCE may be required to incur expenses before the relevant regulatory agency approves the recovery of such costs. For example, the recovery of the Tehachapi transmission project costs are subject to FERC approval and the public need for the project is reviewed by the CPUC. SCE filed a petition for modification with the CPUC in January 2017 to update the cost estimate for all elements of segments 4-11 to \$2.7 billion (2016 dollars) from \$2.0 billion (2016 dollars) of CPUC-approved cost findings. For further information, see "Liquidity and Capital Resources—SCE—Capital Investment Plan—Tehachapi" in the MD&A. Changes in laws and regulations or changes in the political and regulatory environment also may have an adverse effect on the SCE's ability to timely recover its costs and earn its authorized rate of return. In addition, SCE may be required to incur costs to comply with new state laws or to implement new state policies before SCE is assured of cost recovery.

SCE's capital investment plan, increasing procurement of renewable power and energy storage, increasing environmental regulations, leveling demand, and the cumulative impact of other public policy requirements, collectively place continuing upward pressure on customer rates. If SCE is unable to obtain a sufficient rate increase or modify its rate design to recover its costs (including an adequate return on capital) in rates in a timely manner, its financial condition and results of operations could be materially affected. For further information on SCE's rate requests, see "Management Overview—Regulatory Proceedings—2018 General Rate Case" and "—FERC Formula Rates" in the MD&A.

SCE's energy procurement activities are subject to regulatory and market risks that could materially affect its financial condition and liquidity.

SCE obtains energy, capacity, environmental credits and ancillary services needed to serve its customers from its own generating plants and through contracts with energy producers and sellers. California law and CPUC decisions allow SCE to recover, through the rates it is allowed to charge its customers, reasonable procurement costs incurred in compliance with an approved procurement plan. Nonetheless, SCE's cash flows remain subject to volatility primarily resulting from changes in commodity prices. For instance, natural gas prices have increased due to the closure of the SoCalGas underground gas storage facility in Aliso Canyon, California. Additionally, significant and prolonged gas use restrictions may adversely impact the reliability of the electric grid if critical generation resources are limited in their operations. For further information, see "Business—SCE—Purchased Power and Fuel Supply." SCE is also subject to the risks of unfavorable or untimely CPUC decisions about the compliance with SCE's procurement plan and the reasonableness of certain procurement-related costs.

SCE may not be able to hedge its risk for commodities on economic terms or fully recover the costs of hedges through the rates it is allowed to charge its customers, which could materially affect SCE's liquidity and results of operations, see "Market Risk Exposures" in the MD&A.

Financing Risks

As a capital intensive company, SCE relies on access to the capital markets. If SCE were unable to access the capital markets or the cost of financing were to substantially increase, its liquidity and operations could be materially affected.

SCE regularly accesses the capital markets to finance its activities and is expected to do so by its regulators as part of its obligation to serve as a regulated utility. SCE's needs for capital for its ongoing infrastructure investment program are substantial. SCE's ability to obtain financing, as well as its ability to refinance debt and make scheduled payments of principal, interest and preferred stock dividends, are dependent on numerous factors, including SCE's levels of indebtedness, maintenance of acceptable credit ratings, financial performance, liquidity and cash flow, and other market conditions. SCE's inability to obtain additional capital from time to time could have a material effect on SCE's liquidity and operations.

Competitive and Market Risks

The electricity industry is undergoing change, including increased competition, technological advancements, and political and regulatory developments

California utilities are experiencing increasing deployment by customers and third parties of DERs, such as solar generation, energy storage, energy efficiency and demand response technologies. This growth will require modernization of the electric distribution grid to, among other things, accommodate two-way flows of electricity and increase the grid's capacity to interconnect DERs. To this end, the CPUC is conducting proceedings to: evaluate changes to the planning and operation of the electric distribution grid in order to prepare for higher penetration of DERs; consider future grid modernization and grid reinforcement investments; evaluate if traditional grid investments can be deferred by DERs, and if feasible, what, if any, compensation to utilities would be appropriate; and clarify the role of the electric distribution grid operator. The outcome of these proceedings is unknown. These changes could materially affect SCE's business model and its financial condition and results of operations. For more information, see "Management Overview—Capital Program—Distribution Grid Development" in the MD&A.

Customer-owned generation and community choice aggregators each reduce the amount of electricity customers purchase from utilities and have the effect of increasing utility rates unless customer rates are designed to allocate the costs of the distribution grid across all customers that benefit from its use. For example, customers in California that generate their own power do not currently pay all transmission and distribution charges and non-bypassable charges, subject to limitations, which result in increased utility rates for those customers who do not own their generation. Such increases influence the public discussion regarding changes in the electric utility business model.

In addition, the FERC has opened transmission development to competition from independent developers, allowing such developers to compete with incumbent utilities for the construction and operation of transmission facilities. For more information, see "Business—SCE—Competition."

Operating Risks

SCE's financial condition and results of operations could be materially affected if it is unable to successfully manage the risks inherent in operating and maintaining its facilities.

SCE's infrastructure is aging and could pose a risk to system reliability. In order to mitigate this risk, SCE is engaged in a significant and ongoing infrastructure investment program. This substantial investment program elevates operational risks and the need for superior execution in SCE's activities. SCE's financial condition and results of operations could be materially affected if it is unable to successfully manage these risks as well as the risks inherent in operating and maintaining its facilities, the operation of which can be hazardous. SCE's inherent operating risks include such matters as the risks of human performance, workforce capabilities, public opposition to infrastructure projects, delays, environmental mitigation costs, difficulty in estimating costs or in recovering costs that are above original estimates, system limitations and degradation, and interruptions in necessary supplies.

Weather-related incidents and other natural disasters could materially affect SCE's financial condition and results of operations.

Weather-related incidents and other natural disasters, including storms, wildfires and earthquakes, can disrupt the generation and transmission of electricity, and can seriously damage the infrastructure necessary to deliver power to SCE's customers. These events can lead to lost revenues and increased expenses, including higher maintenance and repair costs. They can also result in regulatory penalties and disallowances, particularly if SCE encounters difficulties in restoring power to its customers on a timely basis. These occurrences could materially affect SCE's business, financial condition and results of operations, and the inability to restore power to SCE's customers could also materially damage the business reputation of SCE and Edison International.

The generation, transmission and distribution of electricity are dangerous and involve inherent risks of damage to private property and injury to employees and the general public.

Electricity is dangerous for employees and the general public should they come in contact with electrical current or equipment, including through downed power lines or if equipment malfunctions. Injuries and property damage caused by such events can subject SCE to liability that, despite the existence of insurance coverage, can be significant. No assurance can be given that future losses will not exceed the limits of SCE's or its contractors' insurance coverage. The CPUC has increased its focus on public safety with an emphasis on heightened compliance with construction and operating standards and the potential for penalties being imposed on utilities. Additionally, the CPUC has delegated to its staff the authority to issue citations to electric utilities, which can impose fines of up to \$50,000 per violation per day, pursuant to the CPUC's jurisdiction for violations of safety rules found in statutes, regulations, and the CPUC's General Orders. Such penalties and liabilities could be significant and materially affect SCE's liquidity and results of operations.

There are inherent risks associated with owning and decommissioning nuclear power generating facilities and obtaining cost reimbursement, including, among other things, costs exceeding estimates, execution risks, potential harmful effects on the environment and human health and the danger of storage, handling and disposal of radioactive materials. Existing insurance and ratemaking arrangements may not protect SCE fully against losses from a nuclear incident.

SCE expects to fund decommissioning costs with assets that are currently held in nuclear decommissioning trusts. SCE believes that the nuclear decommissioning trusts' assets will be sufficient to pay the estimated costs of decommissioning without further contributions but the costs ultimately incurred could exceed the current estimates. The costs of decommissioning San Onofre are subject to reasonableness reviews by the CPUC. These costs may not be recoverable through regulatory processes or otherwise unless SCE can establish that the costs were reasonably incurred. In addition, SCE faces inherent execution risks including such matters as the risks of human performance, workforce capabilities, public opposition, permitting delays, and governmental approvals.

Despite the fact that San Onofre is being decommissioned, the presence of spent nuclear fuel still poses a potential risk of a nuclear incident. Federal law limits public liability claims from a nuclear incident to the amount of available financial protection, which is currently approximately \$13.4 billion. SCE and other owners of San Onofre and Palo Verde have purchased the maximum private primary insurance available of \$450 million per site. If nuclear incident liability claims were to exceed \$450 million, the remaining amount would be made up from contributions of approximately \$13.0 billion made by all of the nuclear facility owners in the U.S., up to an aggregate total of \$13.4 billion. There is no assurance that the CPUC would allow SCE to recover the required contribution made in the case of one or more nuclear incident claims that exceeded \$450 million. If this public liability limit of \$13.4 billion is insufficient, federal law contemplates that additional funds may be appropriated by Congress. There can be no assurance of SCE's ability to recover uninsured costs in the event the additional federal appropriations are insufficient. For more information on nuclear insurance risk, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies—Contingencies—Nuclear Insurance."

SCE's insurance coverage for wildfires arising from its ordinary operations may not be sufficient.

Edison International has experienced increased costs and difficulties in obtaining insurance coverage for wildfires that could arise from SCE's ordinary operations. Edison International, SCE or its contractors may experience coverage reductions and/or increased wildfire insurance costs in future years. No assurance can be given that future losses will

not exceed the limits of SCE's or its contractors' insurance coverage. Uninsured losses and increases in the cost of insurance may not be recoverable in customer rates. A loss which is not fully insured or cannot be recovered in customer rates could materially affect Edison International's and SCE's financial condition and results of operations. For more information on wildfire insurance risk, see "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies—Contingencies—Wildfire Insurance."

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Cybersecurity and Physical Security Risks

SCE's systems and network infrastructure may be vulnerable to physical and cyber attacks, intrusions or other catastrophic events that could result in their failure or reduced functionality.

Regulators, such as the NERC, and U.S. Government Departments, including the Departments of Defense, Homeland Security and Energy, have noted that threat sources continue to seek to exploit potential vulnerabilities in the U.S. national electric grid and other energy infrastructures and that such attacks and disruptions, both physical and cyber, are becoming increasingly sophisticated and dynamic. As SCE moves from an analog to a digital electric grid, new cyber security risks may arise. An example of such new risks is the installation of "smart" meters in SCE's service territory. This technology may represent a new route for attacks on SCE's information systems. SCE's operations require the continuous availability of critical information technology systems and network infrastructure. SCE's systems have been, and will likely continue to be, subjected to computer attacks of malicious codes, unauthorized access attempts, and other illicit activities, but to date, SCE has not experienced a material cyber security breach. Although SCE actively monitors developments in this area and is involved in various industry groups and government initiatives, no security measures can completely shield such systems and infrastructure from vulnerabilities to cyber attacks, intrusions or other catastrophic events that could result in their failure or reduced functionality. If SCE's information technology systems security measures were to be breached or a critical system failure were to occur without timely recovery, SCE could be unable to fulfill critical business functions such as delivery of electricity to customers and/or sensitive confidential personal and other data could be compromised, which could result in violations of applicable privacy and other laws, financial loss to SCE or to its customers, loss of confidence in SCE's security measures, customer dissatisfaction, and significant litigation exposure, all of which could materially affect SCE's financial condition and results of operations and materially damage the business reputation of Edison International and SCE.

Environmental Risks

SCE is subject to extensive environmental regulations that may involve significant and increasing costs and materially affect SCE.

SCE is subject to extensive environmental regulations and permitting requirements that involve significant and increasing costs and substantial uncertainty. SCE devotes significant resources to environmental monitoring, pollution control equipment, mitigation projects, and emission allowances to comply with existing and anticipated environmental regulatory requirements. Environmental regulations and permitting requirements also affect the cost and timing of transmission and distribution projects. At the state level, the current trend is toward more stringent standards, stricter regulation, higher reductions of GHG emissions, and more expansive application of environmental regulations. The adoption of laws and regulations to implement greenhouse gas controls could materially affect operations of power plants, which could in turn impact electricity markets and SCE's customer rates. SCE may also be exposed to risks arising from past, current or future contamination at its former or existing facilities or with respect to offsite waste disposal sites that have been used in its operations. Current and future California laws and regulations also increase the required amount of energy that must be procured from renewable resources. See "Business—Environmental Regulation of Edison International and Subsidiaries" for further discussion of environmental regulations under which SCE operates.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information responding to this section is included in the MD&A under the heading "Market Risk Exposures."
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of Edison International

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Edison International and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Los Angeles, California
February 21, 2017

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Southern California Edison Company and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 21, 2017

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Consolidated Statements of Income	Edison International		
(in millions, except per-share amounts)	Years ended December 31,		
	2016	2015	2014
Total operating revenue	\$11,869	\$11,524	\$13,413
Purchased power and fuel	4,527	4,266	5,593
Operation and maintenance	2,868	2,990	3,149
Depreciation, decommissioning and amortization	2,007	1,919	1,720
Property and other taxes	354	336	322
Impairment and other charges	21	5	157
Total operating expenses	9,777	9,516	10,941
Operating income	2,092	2,008	2,472
Interest and other income	123	174	147
Interest expense	(581)	(555)	(560)
Other expenses	(44)	(59)	(80)
Income from continuing operations before income taxes	1,590	1,568	1,979
Income tax expense	177	486	443
Income from continuing operations	1,413	1,082	1,536
Income from discontinued operations, net of tax	12	35	185
Net income	1,425	1,117	1,721
Preferred and preference stock dividend requirements of utility	123	113	112
Other noncontrolling interests	(9)	(16)	(3)
Net income attributable to Edison International common shareholders	\$1,311	\$1,020	\$1,612
Amounts attributable to Edison International common shareholders:			
Income from continuing operations, net of tax	\$1,299	\$985	\$1,427
Income from discontinued operations, net of tax	12	35	185
Net income attributable to Edison International common shareholders	\$1,311	\$1,020	\$1,612
Basic earnings per common share attributable to Edison International common shareholders:			
Weighted-average shares of common stock outstanding	326	326	326
Continuing operations	\$3.99	\$3.02	\$4.38
Discontinued operations	0.03	0.11	0.57
Total	\$4.02	\$3.13	\$4.95
Diluted earnings per common share attributable to Edison International common shareholders:			
Weighted-average shares of common stock outstanding, including effect of dilutive securities	330	329	329
Continuing operations	\$3.94	\$2.99	\$4.33
Discontinued operations	0.03	0.11	0.56
Total	\$3.97	\$3.10	\$4.89
Dividends declared per common share	\$1.9825	\$1.7325	\$1.4825

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

Consolidated Statements of Comprehensive Income

Edison International

(in millions)	Years ended December		
	31, 2016	2015	2014
Net income	\$1,425	\$1,117	\$1,721
Other comprehensive income (loss), net of tax:			
Pension and postretirement benefits other than pensions:			
Net gain (loss) arising during the period plus amortization included in net income	2	1	(47)
Prior service cost arising during the period plus amortization included in net income	—	1	—
Other	1	—	2
Other comprehensive income (loss), net of tax	3	2	(45)
Comprehensive income	1,428	1,119	1,676
Less: Comprehensive income attributable to noncontrolling interests	114	97	109
Comprehensive income attributable to Edison International	\$1,314	\$1,022	\$1,567

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

Consolidated Balance Sheets	Edison International	
	December 31,	
(in millions)	2016	2015
ASSETS		
Cash and cash equivalents	\$96	\$161
Receivables, less allowances of \$62 for uncollectible accounts at both dates	714	771
Accrued unbilled revenue	370	565
Inventory	239	267
Derivative assets	73	79
Regulatory assets	350	560
Other current assets	281	251
Total current assets	2,123	2,654
Nuclear decommissioning trusts	4,242	4,331
Other investments	83	203
Total investments	4,325	4,534
Utility property, plant and equipment, less accumulated depreciation and amortization of \$9,000 and \$8,548 at respective dates	36,806	34,945
Nonutility property, plant and equipment, less accumulated depreciation of \$99 and \$85 at respective dates	194	140
Total property, plant and equipment	37,000	35,085
Derivative assets	1	84
Regulatory assets	7,455	7,512
Other long-term assets	415	360
Total long-term assets	7,871	7,956
Total assets	\$51,319	\$50,229

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

Consolidated Balance Sheets	Edison International	
	December 31,	
(in millions, except share amounts)	2016	2015
LIABILITIES AND EQUITY		
Short-term debt	\$1,307	\$695
Current portion of long-term debt	981	295
Accounts payable	1,342	1,310
Accrued taxes	50	72
Customer deposits	269	242
Derivative liabilities	216	218
Regulatory liabilities	756	1,128
Other current liabilities	991	967
Total current liabilities	5,912	4,927
Long-term debt	10,175	10,883
Deferred income taxes and credits	8,327	7,480
Derivative liabilities	941	1,100
Pensions and benefits	1,354	1,759
Asset retirement obligations	2,590	2,764
Regulatory liabilities	5,726	5,676
Other deferred credits and other long-term liabilities	2,102	2,246
Total deferred credits and other liabilities	21,040	21,025
Total liabilities	37,127	36,835
Commitments and contingencies (Note 11)		
Redeemable noncontrolling interest	5	6
Common stock, no par value (800,000,000 shares authorized; 325,811,206 shares issued and outstanding at respective dates)	2,505	2,484
Accumulated other comprehensive loss	(53) (56
Retained earnings	9,544	8,940
Total Edison International's common shareholders' equity	11,996	11,368
Noncontrolling interests – preferred and preference stock of utility	2,191	2,020
Total equity	14,187	13,388
Total liabilities and equity	\$51,319	\$50,229

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

Consolidated Statements of Cash Flows	Edison International		
	Years ended December		
	31,		
(in millions)	2016	2015	2014
Cash flows from operating activities:			
Net income	\$1,425	\$1,117	\$1,721
Less: Income from discontinued operations	12	35	185
Income from continuing operations	1,413	1,082	1,536
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation, decommissioning and amortization	2,098	2,005	1,815
Allowance for equity during construction	(74)	(87)	(65)
Impairment and other charges	—	5	157
Deferred income taxes and investment tax credits	190	449	522
Other	20	(28)	20
Nuclear decommissioning trusts	(179)	(428)	39
EME settlement payments, net of insurance proceeds	(209)	(176)	(225)
Changes in operating assets and liabilities:			
Receivables	52	49	64
Inventory	8	14	(25)
Accounts payable	35	8	14
Prepaid and accrued taxes	(6)	(28)	(100)
Other current assets and liabilities	211	(24)	(103)
Derivative assets and liabilities, net	13	45	(40)
Regulatory assets and liabilities, net	(292)	1,729	(358)
Other noncurrent assets and liabilities	(24)	(106)	(3)
Net cash provided by operating activities	3,256	4,509	3,248
Cash flows from financing activities:			
Long-term debt issued or remarketed, net of discount and issuance costs of \$7, \$17, and \$6 at respective periods	397	1,420	494
Long-term debt matured or repurchased	(220)	(762)	(607)
Preference stock issued, net	294	319	269
Preference stock redeemed	(125)	(325)	—
Short-term debt financing, net	611	(572)	1,079
Dividends to noncontrolling interests	(123)	(116)	(111)
Dividends paid	(626)	(544)	(463)
Other	(113)	(8)	(16)
Net cash provided by (used in) financing activities	95	(588)	645
Cash flows from investing activities:			
Capital expenditures	(3,734)	(4,225)	(3,906)
Proceeds from sale of nuclear decommissioning trust investments	3,212	3,506	2,617
Purchases of nuclear decommissioning trust investments	(3,033)	(3,132)	(2,661)
Life insurance policy loans proceeds	140	—	—
Other	(1)	(41)	43
Net cash used in investing activities	(3,416)	(3,892)	(3,907)
Net (decrease) increase in cash and cash equivalents	(65)	29	(14)
Cash and cash equivalents at beginning of year	161	132	146
Cash and cash equivalents at end of year	\$96	\$161	\$132

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

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Consolidated Statements of Changes in Equity		Edison International				
(in millions)	Equity Attributable to Common Shareholders				Noncontrolling Interests	
	Common Stock	Other Comprehensive Loss	Retained Earnings	Subtotal	Preferred Stock	Total Equity
Balance at December 31, 2013	\$2,403	\$ (13)	\$7,548	\$9,938	\$1,753	\$11,691
Net income	—	—	1,612	1,612	112	1,724
Other comprehensive loss	—	(45)	—	(45)	—	(45)
Common stock dividends declared (\$1.4825 per share)	—	—	(483)	(483)	—	(483)
Dividends and distributions to noncontrolling interests and other	—	—	—	—	(112)	(112)
Stock-based compensation and other	15	—	(104)	(89)	—	(89)
Noncash stock-based compensation and other	27	—	—	27	—	27
Issuance of preference stock	—	—	—	—	269	269
Balance at December 31, 2014	\$2,445	\$ (58)	\$8,573	\$10,960	\$2,022	\$12,982
Net income	—	—	1,020	1,020	113	1,133
Other comprehensive income	—	2	—	2	—	2
Common stock dividends declared (\$1.7325 per share)	—	—	(564)	(564)	—	(564)
Dividends and distributions to noncontrolling interests and other	—	—	—	—	(113)	(113)
Stock-based compensation and other	15	—	(85)	(70)	—	(70)
Noncash stock-based compensation and other	24	—	—	24	—	24
Issuance of preference stock	—	—	—	—	319	319
Redemption of preference stock	—	—	(4)	(4)	(321)	(325)
Balance at December 31, 2015	\$2,484	\$ (56)	\$8,940	\$11,368	\$2,020	\$13,388
Net income	—	—	1,311	1,311	123	1,434
Other comprehensive income	—	3	—	3	—	3
Common stock dividends declared (\$1.9825 per share)	—	—	(646)	(646)	—	(646)
Dividends and distributions to noncontrolling interests and other	—	—	—	—	(123)	(123)
Stock-based compensation and other	(1)	—	(59)	(60)	—	(60)
Noncash stock-based compensation and other	22	—	—	22	—	22
Issuance of preference stock	—	—	—	—	294	294
Redemption of preference stock	—	—	(2)	(2)	(123)	(125)
Balance at December 31, 2016	\$2,505	\$ (53)	\$9,544	\$11,996	\$2,191	\$14,187

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

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Consolidated Statements of Income Southern California Edison Company

(in millions)	Years ended December 31,		
	2016	2015	2014
Operating revenue	\$11,830	\$11,485	\$13,380
Purchased power and fuel	4,527	4,266	5,593
Operation and maintenance	2,737	2,890	3,057
Depreciation, decommissioning and amortization	1,998	1,915	1,720
Property and other taxes	351	334	318
Impairment and other charges	—	—	163
Total operating expenses	9,613	9,405	10,851
Operating income	2,217	2,080	2,529
Interest and other income	123	123	122
Interest expense	(541)	(526)	(533)
Other expenses	(44)	(59)	(79)
Income before income taxes	1,755	1,618	2,039
Income tax expense	256	507	474
Net income	1,499	1,111	1,565
Less: Preferred and preference stock dividend requirements	123	113	112
Net income available for common stock	\$1,376	\$998	\$1,453

Consolidated Statements of Comprehensive Income

(in millions)	Years ended December 31,		
	2016	2015	2014
Net income	\$1,499	\$1,111	\$1,565
Other comprehensive income (loss), net of tax:			
Pension and postretirement benefits other than pensions:			
Net gain (loss) arising during period plus amortization included in net income	1	5	(19)
Prior service cost arising during the period plus amortization included in net income	—	1	—
Other	1	—	2
Other comprehensive income (loss), net of tax	2	6	(17)
Comprehensive income	\$1,501	\$1,117	\$1,548

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

Consolidated Balance Sheets Southern California Edison Company

(in millions)	December 31,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$39	\$26
Receivables, less allowances of \$61 and \$62 for uncollectible accounts at respective dates	699	724
Accrued unbilled revenue	369	564
Inventory	239	256
Derivative assets	73	79
Regulatory assets	350	560
Other current assets	262	234
Total current assets	2,031	2,443
Nuclear decommissioning trusts	4,242	4,331
Other investments	50	168
Total investments	4,292	4,499
Utility property, plant and equipment, less accumulated depreciation of \$9,000 and \$8,548 at respective dates	36,806	34,945
Nonutility property, plant and equipment, less accumulated depreciation of \$89 and \$81 at respective dates	75	73
Total property, plant and equipment	36,881	35,018
Derivative assets	1	84
Regulatory assets	7,455	7,512
Other long-term assets	231	239
Total long-term assets	7,687	7,835
Total assets	\$50,891	\$49,795

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

Consolidated Balance Sheets Southern California Edison Company

	December 31,	
(in millions, except share amounts)	2016	2015
LIABILITIES AND EQUITY		
Short-term debt	\$769	\$49
Current portion of long-term debt	579	79
Accounts payable	1,344	1,299
Accrued taxes	45	46
Customer deposits	269	242
Derivative liabilities	216	218
Regulatory liabilities	756	1,128
Other current liabilities	729	760
Total current liabilities	4,707	3,821
Long-term debt	9,754	10,460
Deferred income taxes and credits	9,886	9,073
Derivative liabilities	941	1,100
Pensions and benefits	896	1,284
Asset retirement obligations	2,586	2,762
Regulatory liabilities	5,726	5,676
Other deferred credits and other long-term liabilities	1,912	1,947
Total deferred credits and other liabilities	21,947	21,842
Total liabilities	36,408	36,123
Commitments and contingencies (Note 11)		
Common stock, no par value (560,000,000 shares authorized; 434,888,104 shares issued and outstanding at each date)	2,168	2,168
Additional paid-in capital	657	652
Accumulated other comprehensive loss	(20)	(22)
Retained earnings	9,433	8,804
Total common shareholder's equity	12,238	11,602
Preferred and preference stock	2,245	2,070
Total equity	14,483	13,672
Total liabilities and equity	\$50,891	\$49,795

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

Consolidated Statements of Cash Flows	Southern California Edison Company		
(in millions)	Years ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	\$1,499	\$1,111	\$1,565
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation, decommissioning and amortization	2,085	1,996	1,810
Allowance for equity during construction	(74)	(87)	(65)
Impairment and other charges	—	—	163
Deferred income taxes and investment tax credits	88	308	462
Other	9	14	11
Nuclear decommissioning trusts	(179)	(428)	39
Changes in operating assets and liabilities:			
Receivables	25	25	64
Inventory	(3)	19	(19)
Accounts payable	45	30	12
Prepaid and accrued taxes	(16)	(16)	129
Other current assets and liabilities	185	(42)	(107)
Derivative assets and liabilities, net	13	45	(40)
Regulatory assets and liabilities, net	(292)	1,729	(358)
Other noncurrent assets and liabilities	138	(80)	(6)
Net cash provided by operating activities	3,523	4,624	3,660
Cash flows from financing activities:			
Long-term debt issued or remarketed, net of discount and issuance costs of \$17 and \$2 for the years ended 2015 and 2014	—	1,413	498
Long-term debt matured or repurchased	(217)	(761)	(607)
Preferred stock issued, net	294	319	269
Preference stock redeemed	(125)	(325)	—
Short-term debt financing, net	719	(619)	490
Dividends paid	(824)	(874)	(489)
Other	(66)	35	20
Net cash (used in) provided by financing activities	(219)	(812)	181
Cash flows from investing activities:			
Capital expenditures	(3,633)	(4,210)	(3,857)
Proceeds from sale of nuclear decommissioning trust investments	3,212	3,506	2,617
Purchases of nuclear decommissioning trust investments	(3,033)	(3,132)	(2,661)
Life insurance policy loans proceeds	140	—	—
Other	23	12	44
Net cash used in investing activities	(3,291)	(3,824)	(3,857)
Net increase (decrease) in cash and cash equivalents	13	(12)	(16)
Cash and cash equivalents, beginning of year	26	38	54
Cash and cash equivalents, end of year	\$39	\$26	\$38

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

Consolidated Statements of Changes in Equity Southern California Edison Company

(in millions)	Equity Attributable to Edison International					
	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Preferred and Preference Stock	Total Equity
Balance at December 31, 2013	\$2,168	\$ 592	\$ (11)	\$7,594	\$ 1,795	\$12,138
Net income	—	—	—	1,565	—	1,565
Other comprehensive loss	—	—	(17)	—	—	(17)
Dividends declared on common stock	—	—	—	(525)	—	(525)
Dividends declared on preferred and preference stock	—	—	—	(112)	—	(112)
Stock-based compensation	—	20	—	(64)	—	(44)
Noncash stock-based compensation	—	12	—	(4)	—	8
Issuance of preference stock	—	(6)	—	—	275	269
Balance at December 31, 2014	\$2,168	\$ 618	\$ (28)	\$8,454	\$ 2,070	\$13,282
Net income	—	—	—	1,111	—	1,111
Other comprehensive income	—	—	6	—	—	6
Dividends declared on common stock	—	—	—	(611)	—	(611)
Dividends declared on preferred and preference stock	—	—	—	(113)	—	(113)
Stock-based compensation	—	23	—	(33)	—	(10)
Noncash stock-based compensation	—	13	—	—	—	13
Issuance of preference stock	—	(6)	—	—	325	319
Redemption of preference stock	—	4	—	(4)	(325)	(325)
Balance at December 31, 2015	\$2,168	\$ 652	\$ (22)	\$8,804	\$ 2,070	\$13,672
Net income	—	—	—	1,499	—	1,499
Other comprehensive income	—	—	2	—	—	2
Dividends declared on common stock	—	—	—	(701)	—	(701)
Dividends declared on preferred and preference stock	—	—	—	(123)	—	(123)
Stock-based compensation	—	—	—	(44)	—	(44)
Noncash stock-based compensation	—	9	—	—	—	9
Issuance of preference stock	—	(6)	—	—	300	294
Redemption of preference stock	—	2	—	(2)	(125)	(125)
Balance at December 31, 2016	\$2,168	\$ 657	\$ (20)	\$9,433	\$ 2,245	\$14,483

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

Edison International is the parent holding company of Southern California Edison Company ("SCE"). SCE is an investor-owned public utility primarily engaged in the business of supplying and delivering electricity to an approximately 50,000 square mile area of southern California. Edison International is also the parent company of Edison Energy Group, a holding company for subsidiaries engaged in pursuing competitive business opportunities across energy services and distributed solar for commercial and industrial customers. Such business activities are currently not material to report as a separate business segment. These combined notes to the consolidated financial statements apply to both Edison International and SCE unless otherwise described. Edison International's consolidated financial statements include the accounts of Edison International, SCE and other wholly owned and controlled subsidiaries. References to Edison International refer to the consolidated group of Edison International and its subsidiaries. References to Edison International Parent and Other refer to Edison International Parent and its nonutility subsidiaries. SCE's consolidated financial statements include the accounts of SCE and its wholly owned and controlled subsidiaries. All intercompany transactions have been eliminated from the consolidated financial statements.

Edison International's and SCE's accounting policies conform to accounting principles generally accepted in the United States of America, including the accounting principles for rate-regulated enterprises, which reflect the ratemaking policies of the California Public Utility Commission ("CPUC") and the Federal Energy Regulatory Commission ("FERC"). SCE applies authoritative guidance for rate-regulated enterprises to the portion of its operations in which regulators set rates at levels intended to recover the estimated costs of providing service, plus a return on net investments in assets, or rate base. Regulators may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of electric utility revenue, these principles require an incurred cost that would otherwise be charged to expense by a non-regulated entity to be capitalized as a regulatory asset if it is probable that the cost is recoverable through future rates; and conversely the principles require recording of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and refundable to customers. SCE assesses, at the end of each reporting period, whether regulatory assets are probable of future recovery. See Note 10 for composition of regulatory assets and liabilities.

The preparation of financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents includes investments in money market funds. Generally, the carrying value of cash equivalents equals the fair value, as these investments have original maturities of three months or less. The cash equivalents were as follows:

	Edison International	SCE
	December 31,	
(in millions)	2016	2015
Money market funds	\$41	\$ 8

Cash is temporarily invested until required for check clearing. Checks issued, but not yet paid by the financial institution, are reclassified from cash to accounts payable at the end of each reporting period as follows:

	Edison International	SCE
	December 31,	
(in millions)	2016	2015
Book balances reclassified to accounts payable	\$138	\$158

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are provided based upon a variety of factors, including historical amounts written-off, current economic conditions and assessment of customer collectability.

Inventory

SCE's inventory is primarily composed of materials, supplies and spare parts, and generally stated at average cost.

Emission Allowances

SCE is allocated greenhouse gas ("GHG") allowances annually which it is then required to sell into quarterly auctions. GHG proceeds from the auctions are recorded as a regulatory liability to be refunded to customers. SCE purchases GHG allowances in quarterly auctions or from counterparties to satisfy its GHG emission compliance obligations and recovers such costs of GHG allowances from customers. GHG allowances held for use are classified as "Other current assets" on the consolidated balance sheets and are stated, similar to an inventory method, at the lower of weighted-average cost or market. SCE had GHG allowances of \$113 million and \$79 million at December 31, 2016 and 2015, respectively. GHG emission obligations were \$95 million and \$86 million at December 31, 2016 and 2015, respectively and are classified as "Other current liabilities" on the consolidated balance sheets.

Property, Plant and Equipment

SCE plant additions, including replacements and betterments, are capitalized. Direct material and labor and indirect costs such as construction overhead, administrative and general costs, pension and benefits, and property taxes are capitalized as part of plant additions. The CPUC authorizes a rate for each of the indirect costs which are allocated to each project based on either labor or total costs.

Estimated useful lives (authorized by the CPUC) and weighted-average useful lives of SCE's property, plant and equipment, are as follows:

	Estimated Useful Lives	Weighted-Average Useful Lives
Generation plant	10 years to 57 years	38 years
Distribution plant	20 years to 60 years	43 years
Transmission plant	40 years to 65 years	53 years
General plant and other	5 years to 60 years	22 years

Depreciation of utility property, plant and equipment is computed on a straight-line, remaining-life basis. Depreciation expense was \$1.52 billion, \$1.42 billion and \$1.33 billion for 2016, 2015 and 2014, respectively. Depreciation expense stated as a percent of average original cost of depreciable utility plant was, on a composite basis, 3.8%, 3.9% and 4.0% for 2016, 2015 and 2014, respectively. Replaced or retired property costs are charged to accumulated depreciation.

Nuclear fuel for the Palo Verde Nuclear Power Plant ("Palo Verde") is recorded as utility plant (nuclear fuel in the fabrication and installation phase is recorded as construction in progress) in accordance with CPUC ratemaking procedures. Nuclear fuel is amortized using the units of production method.

AFUDC represents the estimated cost of debt and equity funds that finance utility-plant construction and is capitalized during certain plant construction. AFUDC is recovered in rates through depreciation expense over the useful life of the related asset. AFUDC equity represents a method to compensate SCE for the estimated cost of equity used to finance utility plant additions and is recorded as part of construction in progress. AFUDC equity was \$74 million, \$87 million and \$65 million in 2016, 2015 and 2014, respectively, and is reflected in "Interest and other income."

AFUDC debt was \$23 million, \$31 million and \$25 million in 2016, 2015 and 2014, respectively and is reflected as a reduction of "Interest expense."

Major Maintenance

Major maintenance costs for SCE's power plant facilities and equipment are expensed as incurred.

Impairment of Long-Lived Assets

Impairments of long-lived assets are evaluated based on a review of estimated future cash flows expected to be generated whenever events or changes in circumstances indicate that the carrying amount of such investments or assets may not be

recoverable. If the carrying amount of a long-lived asset exceeds expected future cash flows, undiscounted and without interest charges, an impairment loss is recognized in the amount of the excess of fair value over the carrying amount. Fair value is determined via market, cost and income based valuation techniques, as appropriate. SCE's impaired assets are recorded as a regulatory asset if it is deemed probable that such amounts will be recovered from customers.

In 2014, the CPUC approved the San Onofre OII Settlement Agreement that SCE had entered into with a number of intervening parties. The San Onofre OII Settlement Agreement had resolved the CPUC's investigation regarding the Steam Generator Replacement Project at San Onofre and the related outages and subsequent shutdown of San Onofre. In 2014, SCE had recorded a pre-tax impairment charge of approximately \$163 million (approximately \$72 million after-tax). Including amounts previously recorded as an impairment charge in 2013, the total impact of the San Onofre OII Settlement Agreement was a pre-tax charge of \$738 million (approximately \$437 million after-tax).

In a December 2016 joint ruling, the Assigned Commissioner and the Assigned ALJ directed SCE to meet and confer with the other parties in the OII to consider changing the terms of the San Onofre OII Settlement Agreement. See Note 11 for further information.

Goodwill

Edison International assesses goodwill through annual goodwill impairment tests, at the reporting unit level, as of October 1st of each year. The fair value of the Edison Energy and SoCore Energy reporting units exceeded their carrying values at the date of the annual impairment analysis. As of December 31, 2016, goodwill is comprised of \$78 million at the Edison Energy reporting unit and \$22 million at the SoCore Energy reporting unit. Edison International will update these tests between annual tests if events occur or circumstances change such that it is more likely than not that the fair value of a reporting unit is below its carrying value.

Nuclear Decommissioning and Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation ("ARO") is recorded in the period in which it is incurred, including a liability for the fair value of a conditional ARO, if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. When an ARO liability is initially recorded, SCE capitalizes the cost by increasing the carrying amount of the related long-lived asset. For each subsequent period, the liability is increased for accretion expense and the capitalized cost is depreciated over the useful life of the related asset.

AROs related to decommissioning of SCE's nuclear power facilities are based on site-specific studies conducted as part of each Nuclear Decommissioning Cost Triennial Proceeding ("NDCTP") conducted before the CPUC. Revisions of an ARO are established for updated site-specific decommissioning cost estimates.

SCE adjusts its nuclear decommissioning obligation into a nuclear-related ARO regulatory asset and also records an ARO regulatory liability as a result of timing differences between the recognition of costs and the recovery of costs through the ratemaking process. For further discussion, see Notes 9 and 10.

SCE has not recorded an asset retirement obligation for assets that are expected to operate indefinitely or where SCE cannot estimate a settlement date (or range of potential settlement dates). As such, ARO liabilities are not recorded for certain retirement activities, including certain hydroelectric facilities.

The following table summarizes the changes in SCE's ARO liability, including San Onofre and Palo Verde:

	December 31,	
(in millions)	2016	2015
Beginning balance	\$2,762	\$2,819
Accretion ¹	157	173
Revisions	(165)	(14)
Liabilities settled	(168)	(216)
Ending balance	\$2,586	\$2,762

¹ An ARO represents the present value of a future obligation. Accretion is an increase in the liability to account for the time value of money resulting from discounting.

The recorded liability to decommission SCE's nuclear power facilities (included in the table above) is \$2.5 billion as of December 31, 2016. In 2016, SCE updated the recorded liability for Palo Verde and San Onofre Unit 1 based on the 2013 decommissioning study performed for Palo Verde and the 2014 study for San Onofre Unit 1. The recorded liability for San Onofre Unit 2 and 3 is based on a 2014 decommissioning study which followed the decision to permanently retire San Onofre. The 2015 NDTCP filing is expected to be updated for San Onofre Units 2 and 3 after onboarding the decommissioning general contractor and the subsequent development of a new decommissioning cost estimate during 2017.

Decommissioning costs, which are recovered through customer rates over the term of each nuclear facility's operating license, are recorded as a component of depreciation expense, with a corresponding credit to the ARO regulatory liability. Amortization of the ARO asset (included within the unamortized nuclear investment) and accretion of the ARO liability are deferred as increases to the ARO regulatory liability account, resulting in no impact on earnings. SCE has collected in rates amounts for the future costs of removal of its nuclear assets, and has placed those amounts in independent trusts. The cost of removal amounts, in excess of amounts collected for assets not legally required to be removed, are classified as regulatory liabilities.

Changes in the estimated costs, timing of decommissioning or the assumptions underlying these estimates could cause material revisions to the estimated total cost to decommission. SCE currently estimates that it will spend approximately \$6.3 billion through 2079 to decommission its nuclear facilities. This estimate is based on SCE's decommissioning cost methodology used for ratemaking purposes, escalated at rates ranging from 1.7% to 7.5% (depending on the cost element) annually. These costs are expected to be funded from independent decommissioning trusts. SCE estimates annual after-tax earnings on the decommissioning funds of 2.4% to 4.1%. Future decommissioning costs related to SCE's nuclear assets are expected to be funded from independent decommissioning trusts. If the assumed return on trust assets is not earned or costs escalate at higher rates, SCE expects that additional funds needed for decommissioning will be recoverable through future rates. See Note 9 for further information.

Due to regulatory recovery of SCE's nuclear decommissioning expense, prudently incurred costs for nuclear decommissioning activities do not affect SCE's earnings. SCE's nuclear decommissioning costs are subject to CPUC review through the triennial regulatory proceeding. SCE's nuclear decommissioning trust investments primarily consist of fixed income and equity investments that are classified as available-for-sale. Due to regulatory mechanisms, earnings and realized gains and losses (including other-than-temporary impairments) have no impact on electric utility revenue. Unrealized gains and losses on decommissioning trust funds increase or decrease the trust assets and the related regulatory asset or liability and have no impact on electric utility revenue or decommissioning expense. SCE reviews each security for other-than-temporary impairment on the last day of each month. If the fair value on the last day of two consecutive months is less than the cost for that security, SCE recognizes a loss for the other-than-temporary impairment. If the fair value is greater or less than the cost for that security at the time of sale, SCE recognizes a related realized gain or loss, respectively.

Deferred Financing Costs

Debt premium, discount and issuance expenses incurred in connection with obtaining financing are deferred and amortized on a straight-line basis. Under CPUC ratemaking procedures, SCE's debt reacquisition expenses are amortized over the remaining life of the reacquired debt or, if refinanced, the life of the new debt. SCE had unamortized losses on reacquired debt of \$184 million and \$201 million at December 31, 2016 and 2015, respectively, reflected as long-term "Regulatory assets" in the consolidated balance sheets. Edison International and SCE had unamortized debt issuance costs of \$10 million and \$7 million at December 31, 2016, respectively, and \$11 million and \$7 million at December 31, 2015, respectively, reflected in "Other long-term assets" on the consolidated balance sheets. In addition, Edison International and SCE had debt issuance costs of \$81 million and \$71 million at December 31, 2016, respectively, and \$81 million and \$77 million at December 31, 2015, respectively, reflected as a reduction of "Long-term debt" on the consolidated balance sheets.

Amortization of deferred financing costs charged to interest expense is as follows:

Edison	SCE
International	
Years ended December 31,	

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(in millions)	2016	2015	2014	2016	2015	2014
Amortization of deferred financing costs charged to interest expense	\$ 31	\$ 33	\$ 36	\$ 27	\$ 28	\$ 32

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Revenue Recognition

Revenue is recognized when electricity is delivered and includes amounts for services rendered but unbilled at the end of each reporting period and reflected in "Operating revenue" on the consolidated statements of income. Rates charged to customers are based on CPUC- and FERC-authorized revenue requirements. CPUC rates are implemented subsequent to final approval.

CPUC rates decouple authorized revenue from the volume of electricity sales. Differences between amounts collected and authorized levels are either collected from or refunded to customers, and therefore, SCE earns revenue equal to amounts authorized. FERC rates also decouple revenue from volume of electricity sales. In November 2013, the FERC approved a formula rate effective January 1, 2012 to determine SCE's FERC transmission revenue requirement, including its construction work in progress ("CWIP") revenue requirement. Under operation of the formula rate, transmission revenue will be updated to actual cost of service annually. Differences between amounts collected and determined under the formula rate are either collected from or refunded to customers, and therefore, SCE earns revenue based on estimates of recorded rate base costs under the FERC formula rate.

SCE bills certain sales and use taxes levied by state or local governments to its customers. Included in these sales and use taxes are franchise fees, which SCE pays to various municipalities (based on contracts with these municipalities) in order to operate within the limits of the municipality. SCE bills these franchise fees to its customers based on a CPUC-authorized rate. These franchise fees, which are required to be paid regardless of SCE's ability to collect from the customer, are accounted for on a gross basis and reflected in electric utility revenue and other operation and maintenance expense. SCE's franchise fees billed to customers and recorded as revenue were \$111 million, \$138 million and \$134 million in 2016, 2015 and 2014, respectively. When SCE acts as an agent, the taxes are accounted for on a net basis. Amounts billed to and collected from customers for these taxes are remitted to the taxing authorities and are not recognized as electric utility revenue.

Power Purchase Agreements

SCE enters into power purchase agreements in the normal course of business. A power purchase agreement may be considered a variable interest in a variable interest entity. Under this classification, the power purchase agreement is evaluated to determine if SCE is the primary beneficiary in the variable interest entity, in which case, such entity would be consolidated. None of SCE's power purchase agreements resulted in consolidation of a variable interest entity at December 31, 2016 and 2015. See Note 3 for further discussion of power purchase agreements that are considered variable interests.

A power purchase agreement may also contain a lease for accounting purposes. This generally occurs when a power purchase agreement (signed or modified after June 30, 2003) designates a specific power plant in which the buyer purchases substantially all of the output and does not otherwise meet a fixed price per unit of output exception. SCE has a number of power purchase agreements that contain leases. SCE's recognition of lease expense conforms to the ratemaking treatment for SCE's recovery of the cost of electricity and is recorded in purchased power. See Note 11 for further discussion of SCE's power purchase agreements, including agreements that are classified as operating and capital leases for accounting purposes.

A power purchase agreement that does not contain a lease may be classified as a derivative subject to a normal purchase and sale exception, in which case the power purchase agreement is classified as an executory contract and accounted for on an accrual basis. SCE purchases power under certain contracts that are not eligible for the normal purchase and sale exception and are recorded as a derivative on the consolidated balance sheets at fair value. Most of SCE's qualifying facilities ("QFs") contracts are not required to be recorded on the consolidated balance sheets because they either do not meet the definition of a derivative or meet the normal purchase and sale exception. See Note 6 for further information on derivative instruments.

Power purchase agreements that do not meet the above classifications are accounted for on an accrual basis.

Derivative Instruments

SCE records derivative instruments on its consolidated balance sheets as either assets or liabilities measured at fair value unless otherwise exempted from derivative treatment as normal purchases or sales. The normal purchases and sales exception requires, among other things, physical delivery in quantities expected to be used or sold over a reasonable period in the normal course of business. Realized gains and losses from SCE's derivative instruments are

expected to be recovered from or refunded to customers through regulatory mechanisms and, therefore, SCE's fair value changes have no impact on purchased-power expense or earnings. SCE does not use hedge accounting for derivative transactions due to regulatory accounting treatment.

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Where SCE's derivative instruments are subject to a master netting agreement and certain criteria are met, SCE presents its derivative assets and liabilities on a net basis on its consolidated balance sheets. In addition, derivative positions are offset against margin and cash collateral deposits. The results of derivative activities are recorded as part of cash flows from operating activities on the consolidated statements of cash flows. See Note 6 for further information on derivative instruments.

Leases

SCE enters into power purchase agreements that may contain leases, as discussed under "Power Purchase Agreements" above. SCE has also entered into a number of agreements to lease property and equipment in the normal course of business. Minimum lease payments under operating leases are levelized (total minimum lease payments divided by the number of years of the lease) and recorded as rent expense over the terms of the leases. Lease payments in excess of the minimum are recorded as rent expense in the year incurred.

Capital leases are reported as long-term obligations on the consolidated balance sheets in "Other deferred credits and other long-term liabilities." As a rate-regulated enterprise, SCE's capital lease amortization expense and interest expense are reflected in "Purchased power and fuel" on the consolidated statements of income.

Stock-Based Compensation

Stock options, performance shares, deferred stock units and restricted stock units have been granted under Edison International's long-term incentive compensation programs. Generally, Edison International does not issue new common stock for settlement of equity awards. Rather, a third party is used to purchase shares from the market and deliver such shares for the settlement of option exercises, performance shares, deferred stock units and restricted stock units. Performance shares awarded in 2014 that are earned are settled half in cash and half in common stock, while the performance shares awarded in 2016 and 2015 that are earned are settled solely in cash. Deferred stock units and restricted stock units are settled in common stock; however, Edison International will substitute cash awards to the extent necessary to pay tax withholding or any government levies.

Stock-based compensation expense is recognized on a straight-line basis over the requisite service period. For awards granted to retirement-eligible participants stock compensation expenses are recognized on a prorated basis over the initial year or over the period between the date of grant and the date the participant first becomes eligible for retirement. Under new accounting guidance adopted in 2016, share-based payments may create a permanent difference between the amount of compensation expense recognized for book and tax purposes. The tax impact of this permanent difference is recognized in earnings in the period it is created.

SCE Dividend Restrictions

The CPUC regulates SCE's capital structure which limits the dividends it may pay Edison International. SCE may make distributions to Edison International as long as the common equity component of SCE's capital structure remains at or above 48% on a 13-month weighted average basis. At December 31, 2016, SCE's 13-month weighted-average common equity component of total capitalization was 50.4% and the maximum additional dividend that SCE could pay to Edison International under this limitation was approximately \$585 million, resulting in a restriction on net assets of approximately \$13.9 billion.

Earnings Per Share

Edison International computes earnings per common 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 performance shares and restricted stock units, which earn dividend equivalents on an equal basis with common shares once the awards are vested. EPS attributable to Edison International common shareholders was computed as follows:

(in millions)	Years ended December 31,		
	2016	2015	2014
Basic earnings per share – continuing operations:			
Income from continuing operations attributable to common shareholders	\$1,299	\$985	\$1,427
Participating securities dividends	—	(1)	(1)
Income from continuing operations available to common shareholders	\$1,299	\$984	\$1,426
Weighted average common shares outstanding	326	326	326
Basic earnings per share – continuing operations	\$3.99	\$3.02	\$4.38
Diluted earnings per share – continuing operations:			
Income from continuing operations attributable to common shareholders	\$1,299	\$985	\$1,427
Participating securities dividends	—	(1)	(1)
Income from continuing operations available to common shareholders	\$1,299	\$984	\$1,426
Income impact of assumed conversions	1	1	1
Income from continuing operations available to common shareholders and assumed conversions	\$1,300	\$985	\$1,427
Weighted average common shares outstanding	326	326	326
Incremental shares from assumed conversions	4	3	3
Adjusted weighted average shares – diluted	330	329	329
Diluted earnings per share – continuing operations	\$3.94	\$2.99	\$4.33

In addition to the participating securities discussed above, Edison International also may award stock options which are payable in common shares and are included in the diluted earnings per share calculation. Stock option awards to purchase 167,795, 2,046,045 and 125,345 shares of common stock for the years ended December 31, 2016, 2015 and 2014, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

Income Taxes

Edison International and SCE estimate their income taxes for each jurisdiction in which they operate. This involves estimating current period tax expense along with assessing temporary differences resulting from differing treatment of items (such as depreciation) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheets. Income tax expense includes the current tax liability from operations and the change in deferred income taxes during the year. Investment tax credits are deferred and amortized to income tax expense over the lives of the properties or the term of the power purchase agreement of the respective project.

Interest income, interest expense and penalties associated with income taxes are reflected in "Income tax expense" on the consolidated statements of income.

Edison International's eligible subsidiaries are included in Edison International's consolidated federal income tax and combined state tax returns. Edison International has tax-allocation and payment agreements with certain of its subsidiaries. Pursuant to an income tax-allocation agreement approved by the CPUC, SCE's tax liability is computed as if it filed its federal and state income tax returns on a separate return basis.

Redeemable Noncontrolling Interest

Redeemable noncontrolling interest represents the portion of equity ownership in an entity that is not attributable to the equity holders of Edison International and which have rights to put their ownership back to a subsidiary of Edison International. Noncontrolling interest is initially recorded at fair value and is subsequently adjusted for income allocated to the noncontrolling interest and any distributions paid to the noncontrolling interest.

Certain solar projects for commercial customers are organized as limited liability companies and have noncontrolling equity investors (referred to as tax equity investors) which are entitled to allocations of earnings, tax attributes and cash flows in accordance with contractual agreements that vary over time. These entities are consolidated for financial reporting purposes but is not subject to income taxes as the taxable income (loss) and investment tax credits are allocated to the respective owners. The total consolidated assets and liabilities of these entities were \$74 million and \$23 million, respectively, at December 31, 2016 and were \$82 million and \$32 million, respectively, at December 31, 2015. Income (loss) of these entities are allocated to the noncontrolling interest based on the hypothetical liquidation at book value ("HLBV") accounting method. The HLBV accounting method is an approach that calculates the change in the claims of each member on the net assets of the investment at the beginning and end of each period. Each member's claim is equal to the amount each party would receive or pay if the net assets of the investment were to liquidate at book value. Under the contract provisions, the tax equity investors' claim on net assets decreases rapidly in early years due to allocation of tax benefits resulting in additional non-operating income allocated to Edison International (\$9 million and \$16 million in 2016 and 2015, respectively).

New Accounting Guidance

Accounting Guidance Adopted

In April 2015, the FASB issued an accounting standards update that requires debt issuance costs to be presented in the balance sheet as a direct reduction from the carrying amount of the related debt liability, consistent with debt discounts. Previously, accounting guidance required these costs to be presented as a deferred charge asset. Edison International and SCE adopted this guidance in the first quarter of 2016. At December 31, 2016, the amount of debt issuance costs that are reflected as a reduction of "Long-term debt" was \$71 million for SCE and \$81 million for Edison International. At December 31, 2015, the amount of debt issuance costs that have been reclassified from "Other long-term assets" to a reduction of "Long-term debt" was \$77 million for SCE and \$81 million for Edison International.

In April 2015, the FASB issued an accounting standards update on fees paid by a customer for software licenses. This new standard provides guidance about whether a cloud computing arrangement includes a software license which may be capitalized in certain circumstances. If a cloud computing arrangement does not include a software license, then the arrangement should be accounted for as a service contract. Edison International and SCE adopted this guidance prospectively, effective January 1, 2016. The adoption of this standard did not have a material impact on Edison International's and SCE's consolidated financial statements.

In May 2015, the FASB issued an accounting standards update which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share or its equivalent as a practical expedient. Edison International and SCE adopted in the fourth quarter of 2016. Certain prior year amounts have been retrospectively adjusted.

In March 2016, the FASB issued an accounting standards update to simplify the accounting for share-based payments. Under this new guidance, the tax effects related to share based payments are recorded through the income statement. Previously, tax benefits in excess of compensation cost ("windfalls") were recorded in equity, and tax deficiencies ("shortfalls") were recorded in equity to the extent of previous windfalls, and then to the income statement. In addition, as part of this new guidance an entity recognizes excess tax benefits regardless of whether the benefit reduces taxes payable in the current period, subject to normal valuation allowance considerations. Edison International and SCE adopted this guidance in the fourth quarter of 2016 using the modified retrospective approach, effective January 1, 2016. As a result, all excess tax benefits resulting from 2016 stock option exercises were reflected in the income statement. Income tax expense for Edison International and SCE was reduced by approximately \$28 million and \$13 million, respectively, for the year ended December 31, 2016. In addition, Edison International and SCE recorded an increase to beginning retained earnings for pre-2016 stock option exercises that had not been previously

recorded in equity (\$42 million and \$6 million for Edison International and SCE, respectively). On a prospective basis, the excess tax benefits are classified as an operating activity along with other income tax cash flows on the statement of cash flows. Accruals of compensation costs are based on the number of awards that are expected to vest. Edison International and SCE made an accounting policy election to continue to estimate the number of awards that are expected to vest rather than account for forfeitures when they occur.

Accounting Guidance Not Yet Adopted

In May 2014, the FASB issued an accounting standards update on revenue recognition including enhanced disclosures and further amended the standard in 2016. Under the new standard, revenue is recognized when (or as) a good or service is transferred to the customer and the customer obtains control of the good or service. This standard will be adopted on January 1, 2018. Edison International and SCE have completed the preliminary phases of their assessment of the impact on the consolidated financial statements and do not believe the adoption of this standard will have a material impact on the results of operations. Edison International and SCE anticipate adopting the standard using the modified retrospective application which means that Edison International and SCE would recognize the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings in 2018. In January 2016, the FASB issued an accounting standards update that amends the guidance on the classification and measurement of financial instruments. The amendments require equity investments (excluding those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income. It also amends certain disclosure requirements associated with the fair value of financial instruments. In addition, the new guidance requires financial assets and financial liabilities to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. Edison International and SCE will adopt this guidance effective January 1, 2018. The adoption of this standard is not expected to have a material impact on Edison International's and SCE's consolidated financial statements.

In February 2016, the FASB issued an accounting standards update related to lease accounting including enhanced disclosures. Under the new standard, a lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified assets for a period of time in exchange for consideration. Lessees will need to recognize leases on the balance sheet as a right-of-use asset and a related lease liability, and classify the leases as either operating or finance. The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. Operating leases will result in straight-line expense while finance leases will result in a higher initial expense pattern due to the interest component. SCE, as a regulated entity, is permitted to continue to have straight-line expense for finance leases, assuming the rate recovery is based upon current payments. Lessees can elect to exclude from the balance sheet short-term contracts one year or less. This guidance is effective January 1, 2019. Early adoption is permitted, but Edison International and SCE do not expect to elect early adoption. The adoption of this standard is expected to increase right-of-use assets and lease liabilities in Edison International's and SCE's consolidated balance sheets. Edison International and SCE are currently evaluating the impact this standard will have on the results of operations and statements of cash flows.

In June 2016, the FASB issued an accounting standards update to amend the guidance on the impairment of financial instruments. The new guidance adds an impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. This guidance applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and loan commitments. This guidance is effective on January 1, 2020. Edison International and SCE are currently evaluating this new guidance.

In August and November 2016, the FASB issued accounting standards updates to amend the guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows to reduce diversity in practice. This guidance addresses eight specific cash flow classification issues, including debt prepayment or extinguishment costs, proceeds from the settlement of corporate-owned life insurance, distributions received from equity method investments and restricted cash. This standard also clarifies the application of the predominance principle where cash receipts and payments have aspects of more than one class of cash flows. The new standard is effective on January 1, 2018. Edison International and SCE are currently evaluating this new guidance.

In January 2017, the FASB issued an accounting standards update to simplify the accounting for goodwill impairment. This accounting standards update changes the procedural steps in applying the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Edison International will apply this guidance to the goodwill impairment test beginning in 2020.

Note 2. Property, Plant and Equipment

SCE's property, plant and equipment included in the consolidated balance sheets is composed of the following:

(in millions)	December 31,	
	2016	2015
Distribution	\$22,332	\$20,871
Transmission	12,549	11,592
Generation	3,376	3,138
General plant and other	4,633	4,543
Accumulated depreciation	(9,000)	(8,548)
	33,890	31,596
Construction work in progress	2,790	3,218
Nuclear fuel, at amortized cost	126	131
Total utility property, plant and equipment	\$36,806	\$34,945

Capitalized Software Costs

SCE capitalizes costs incurred during the application development stage of internal use software projects to property, plant, and equipment. SCE amortizes capitalized software costs ratably over the expected lives of the software, ranging from 5 to 15 years and commencing upon operational use. Capitalized software costs, included in general plant and other above, were \$1.4 billion at both December 31, 2016 and 2015 and accumulated amortization was \$0.8 billion and \$0.9 billion, at December 31, 2016 and 2015, respectively. Amortization expense for capitalized software was \$249 million, \$268 million and \$271 million in 2016, 2015 and 2014, respectively. At December 31, 2016, amortization expense is estimated to be approximately \$243 million annually for 2017 through 2021.

Jointly Owned Utility Projects

SCE owns undivided interests in several generating assets for which each participant provides its own financing. SCE's proportionate share of these assets is reflected in the consolidated balance sheets and included in the above table. SCE's proportionate share of expenses for each project is reflected in the consolidated statements of income. A portion of the investments in Palo Verde generating stations is included in regulatory assets on the consolidated balance sheets. For further information see Note 10.

The following is SCE's investment in each asset as of December 31, 2016:

(in millions)	Plant in Service	Construction Work in Progress	Accumulated Depreciation	Nuclear Fuel (at amortized cost)	Net Book Value	Ownership Interest
Transmission systems:						
Eldorado	\$ 235	\$ 10	\$ 21	\$ —	\$ 224	59%
Pacific Intertie	192	21	80	—	133	50%
Generating station:						
Palo Verde (nuclear)	1,959	62	1,547	126	600	16%
Total	\$ 2,386	\$ 93	\$ 1,648	\$ 126	\$ 957	

In addition, SCE has ownership interests in jointly owned power poles with other companies.

Note 3. Variable Interest Entities

A VIE is defined as a legal entity that meets one of two conditions: (1) the equity owners do not have sufficient equity at risk, or (2) the holders of the equity investment at risk, as a group, 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. A subsidiary of Edison International is the primary beneficiary of entities that own rooftop solar projects (for further information, see Note 1—Redeemable Noncontrolling Interests). Commercial and operating activities are generally the factors that most significantly impact the economic performance of such VIEs. Commercial and operating activities include construction, operation and maintenance, fuel procurement, dispatch and compliance with regulatory and contractual requirements.

Variable Interest in VIEs that are not Consolidated

Power Purchase Contracts

SCE has power purchase agreements ("PPAs") that are classified as variable interests in VIEs, including tolling agreements through which SCE provides the natural gas to fuel the plants and contracts with 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. Since payments for capacity are the primary source of income, the most significant economic activity for these 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 through demonstration of compliance with its CPUC-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 11. As a result, there is no significant potential exposure to loss to SCE from its variable interest in these VIEs. The aggregate contracted capacity dedicated to SCE from these VIE projects was 4,353 MW and 4,062 MW at December 31, 2016 and 2015, respectively, and the amounts that SCE paid to these projects were \$788 million and \$640 million for the years ended December 31, 2016 and 2015, respectively. These amounts are recoverable in customer rates, subject to reasonableness review.

Unconsolidated Trusts of SCE

SCE Trust I, Trust II, Trust III, Trust IV and Trust V were formed in 2012, 2013, 2014, 2015 and 2016 respectively, for the exclusive purpose of issuing the 5.625%, 5.10%, 5.75%, 5.375% and 5.45% trust preference securities, respectively ("trust securities"). The trusts are VIEs. SCE has concluded that it is not the primary beneficiary of these VIEs as it does not have the obligation to absorb the expected losses or the right to receive the expected residual returns of the trusts. SCE Trust I, Trust II, Trust III, Trust IV and Trust V issued to the public trust securities in the face amounts of \$475 million, \$400 million, \$275 million, \$325 million and \$300 million (cumulative, liquidation amounts of \$25 per share), respectively, and \$10,000 of common stock each to SCE. The trusts invested the proceeds of these trust securities in Series F, Series G, Series H, Series J and Series K Preference Stock issued by SCE in the principal amounts of \$475 million, \$400 million, \$275 million, \$325 million and \$300 million (cumulative, \$2,500 per share liquidation values), respectively, which have substantially the same payment terms as the respective trust securities.

The Series F, Series G, Series H, Series J and Series K Preference Stock and the corresponding trust securities do not have a maturity date. Upon any redemption of any shares of the Series F, Series G, Series H, Series J or Series K Preference Stock, a corresponding dollar amount of trust securities will be redeemed by the applicable trust (see Note 12 for further information). The applicable trust will make distributions at the same rate and on the same dates on the applicable series of trust securities if and when the SCE board of directors declares and makes dividend payments on the related Preference Stock. The applicable trust will use any dividends it receives on the related Preference Stock to

make its corresponding distributions on the applicable series of trust securities. If SCE does not make a dividend payment to any of these trusts, SCE would be prohibited from paying dividends on its common stock. SCE has fully and unconditionally guaranteed the payment of the trust securities and trust distributions, if and when SCE pays dividends on the related Preference Stock.

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The Trust I, Trust II, Trust III and Trust IV balance sheets as of December 31, 2016 and 2015 consisted of investments of \$475 million, \$400 million, \$275 million and \$325 million in the Series F, Series G, Series H and Series J Preference Stock respectively, \$475 million, \$400 million, \$275 million and \$325 million of trust securities, respectively and \$10,000 each of common stock. The Trust V balance sheet as of December 31, 2016 consisted of investments of \$300 million in the Series K Preference Stock, \$300 million of trust securities, and \$10,000 of common stock.

The following table provides a summary of the trusts' income statements:

(in millions)	Years ended December 31,				
	Trust I	Trust II	Trust III	Trust IV	Trust V
2016					
Dividend income	\$27	\$20	\$16	\$17	\$13
Dividend distributions	27	20	16	17	13
2015					
Dividend income	\$27	\$20	\$16	\$6	*
Dividend distributions	27	20	16	6	*
2014					
Dividend income	\$27	\$20	\$13	*	*
Dividend distributions	27	20	13	*	*

* Not applicable

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 considers assumptions that market participants would use in pricing the asset or liability, including assumptions about nonperformance risk. As of December 31, 2016 and 2015, nonperformance risk was not material for Edison International and SCE.

Assets and liabilities are categorized into a three-level fair value hierarchy based on valuation inputs used to determine fair value.

Level 1 – The fair value of Edison International's and SCE's Level 1 assets and liabilities is determined using unadjusted quoted prices in active markets that are available at the measurement date for identical assets and liabilities. This level includes exchange-traded equity securities, U.S. treasury securities, mutual funds and money market funds.

Level 2 – Edison International's and SCE's Level 2 assets and liabilities include fixed income securities, primarily consisting of U.S. government and agency bonds, municipal bonds and corporate bonds, and over-the-counter derivatives. The fair value of fixed income securities is determined using a market approach by obtaining quoted prices for similar assets and liabilities in active markets and inputs that are observable, either directly or indirectly, for substantially the full term of the instrument.

The fair value of SCE's over-the-counter derivative contracts is determined using an income approach. SCE uses standard pricing models to determine the net present value of estimated future cash flows. 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 price source that best represents trade activity for each market is used to develop observable forward market prices in determining the fair value of these positions. Broker quotes, prices from exchanges or comparison to executed trades are used to validate and corroborate the primary price 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.

Level 3 – The fair value of SCE's Level 3 assets and liabilities is determined using the income approach through various models and techniques that require significant unobservable inputs. This level includes tolling arrangements and derivative contracts that trade infrequently such as congestion revenue rights ("CRRs"). Edison International

Parent and Other does not have any Level 3 assets and liabilities.

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Assumptions are made in order to value derivative contracts in which observable inputs are not available. Changes in fair value are based on changes to forward market prices, including extrapolation of short-term observable inputs into forecasted prices for illiquid forward periods. In circumstances where fair value cannot be verified with observable market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. Modeling methodologies, inputs and techniques are reviewed and assessed as markets continue to develop and more pricing information becomes available and the fair value is adjusted when it is concluded that a change in inputs or techniques would result in a new valuation that better reflects the fair value of those derivative contracts. See Note 6 for a discussion of fair value of derivative instruments.

SCE

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

(in millions)	December 31, 2016			Netting and Collateral ¹	Total
	Level 1	Level 2	Level 3		
Assets at fair value					
Derivative contracts	\$—	\$6	\$68	\$	—\$74
Other	33	—	—	—	33
Nuclear decommissioning trusts:					
Stocks ²	1,547	—	—	—	1,547
Fixed Income ³	865	1,751	—	—	2,616
Short-term investments, primarily cash equivalents	36	170	—	—	206
Subtotal of nuclear decommissioning trusts ⁴	2,448	1,921	—	—	4,369
Total assets	2,481	1,927	68	—	4,476
Liabilities at fair value					
Derivative contracts	—	—	1,157	—	1,157
Total liabilities	—	—	1,157	—	1,157
Net assets (liabilities)	\$2,481	\$1,927	\$(1,089)	\$	—\$3,319
	December 31, 2015				
(in millions)	December 31, 2015			Netting and Collateral ¹	Total
	Level 1	Level 2	Level 3		
Assets at fair value					
Derivative contracts	\$—	\$—	\$163	\$ —	\$163
Other	28	—	—	—	28
Nuclear decommissioning trusts:					
Stocks ²	1,460	—	—	—	1,460
Fixed Income ³	947	1,776	—	—	2,723
Short-term investments, primarily cash equivalents	91	81	—	—	172
Subtotal of nuclear decommissioning trusts ⁴	2,498	1,857	—	—	4,355
Total assets	2,526	1,857	163	—	4,546
Liabilities at fair value					
Derivative contracts	—	22	1,311	(15)	1,318
Total liabilities	—	22	1,311	(15)	1,318
Net assets (liabilities)	\$2,526	\$1,835	\$(1,148)	\$ 15	\$3,228

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 Approximately 70% of SCE's equity investments were located in the United States at both December 31, 2016 and 2015.

³ Includes corporate bonds, which were diversified and included collateralized mortgage obligations and other asset backed securities of \$79 million and \$111 million at December 31, 2016 and 2015, respectively.

⁴ Excludes net payables of \$127 million and \$24 million at December 31, 2016 and 2015, which consist of interest and dividend receivables as well as receivables and payables related to SCE's pending securities sales and purchases.

Edison International Parent and Other

Edison International Parent and Other assets measured at fair value consisted of money market funds of \$23 million and \$29 million at December 31, 2016 and 2015, respectively, classified as Level 1.

SCE Fair Value of Level 3

The following table sets forth a summary of changes in SCE's fair value of Level 3 net derivative assets and liabilities:

(in millions)	December 31,	
	2016	2015
Fair value of net liabilities at beginning of period	\$(1,148)	\$(902)
Total realized/unrealized gains (losses):		
Included in regulatory assets and liabilities ¹	59	(246)
Fair value of net liabilities at end of period	\$(1,089)	\$(1,148)
Change during the period in unrealized gains and losses related to assets and liabilities held at the end of the period	\$(70)	\$(311)

¹ Due to regulatory mechanisms, SCE's realized and unrealized gains and losses are recorded as regulatory assets and liabilities.

Edison International and SCE recognize 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 any levels during 2016 and 2015.

Valuation Techniques Used to Determine Fair Value

The process of determining fair value is the responsibility of SCE's risk management department, which reports to SCE's chief financial officer. This department obtains observable and unobservable inputs through broker quotes, exchanges and internal valuation techniques that use both standard and proprietary models to determine fair value. Each reporting period, the risk and finance departments collaborate to determine the appropriate fair value methodologies and classifications for each derivative. Inputs are validated for reasonableness by comparison against prior prices, other broker quotes and volatility fluctuation thresholds. Inputs used and valuations are reviewed period-over-period and compared with market conditions to determine reasonableness.

The following table sets forth SCE's valuation techniques and significant unobservable inputs used to determine fair value for significant Level 3 assets and liabilities:

	Fair Value (in millions)		Valuation Technique(s)	Significant Unobservable Input	Range (Weighted Average)
Congestion revenue rights					
December 31, 2016	\$ 67	\$	Market simulation model and auction prices	Load forecast Power prices ¹ Gas prices ²	3,708 MW - 22,840 MW \$3.65 - \$99.58 \$2.51 - \$4.87
December 31, 2015	152	—	Market simulation model and auction prices	Load forecast Power prices ¹ Gas prices ²	6,289 MW - 24,349 MW \$0 - \$110.44 \$1.98 - \$5.72
Tolling					
December 31, 2016	—	1,154	Option model	Volatility of gas prices Volatility of power prices Power prices	15% - 48% (20%) 29% - 71% (40%) \$23.40 - \$51.24 (\$34.70)
December 31, 2015	10	1,297	Option model	Volatility of gas prices Volatility of power prices Power prices	15% - 58% (20%) 26% - 38% (30%) \$24.15 - \$46.93 (\$34.80)

¹ Prices are in dollars per megawatt-hour.

² Prices are in dollars per million British thermal units.

Level 3 Fair Value Sensitivity

Congestion Revenue Rights

For CRRs, where SCE is the buyer, generally increases (decreases) in forecasted load in isolation would result in increases (decreases) to the fair value. In general, an increase (decrease) in electricity and gas prices at illiquid locations tends to result in increases (decreases) to fair value; however, changes in electricity and gas prices in opposite directions may have varying results on fair value.

Tolling Arrangements

The fair values of SCE's tolling arrangements contain intrinsic value and time value. Intrinsic value is the difference between the market price and strike price of the underlying commodity. Time value is made up of several components, including volatility, time to expiration, and interest rates. The option model for tolling arrangements reflects plant specific information such as operating and start-up costs.

For tolling arrangements where SCE is the buyer, increases in volatility of the underlying commodity prices would result in increases to fair value as it represents greater price movement risk. As power and gas prices increase, the fair value of tolling arrangements tends to increase. The valuation of tolling arrangements is also impacted by the correlation between gas and power prices. As the correlation increases, the fair value of tolling arrangements tends to decline.

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.

SCE's investment policies and CPUC requirements place limitations on the types and investment grade ratings of the securities that may be held by the nuclear decommissioning trust funds. These policies restrict the trust funds from holding alternative investments and limit the trust funds' exposures to investments in highly illiquid markets. With respect to equity and fixed income securities, the trustee obtains prices from third-party pricing services which SCE is able to independently

corroborate as described below. The trustee monitors prices supplied by pricing services, including reviewing prices against defined parameters' tolerances and performs research and resolves variances beyond the set parameters. SCE corroborates the fair values of securities by comparison to other market-based price sources obtained by SCE's investment managers. Differences outside established thresholds are followed-up with the trustee and resolved. For each reporting period, SCE reviews the trustee determined fair value hierarchy and overrides the trustee level classification when appropriate.

Fair Value of Debt Recorded at Carrying Value

The carrying value and fair value of Edison International's and SCE's long-term debt (including current portion of long-term debt) are as follows:

(in millions)	December 31, 2016		December 31, 2015	
	Carrying Value ¹	Fair Value	Carrying Value ¹	Fair Value
Edison International	\$11,156	\$12,368	\$11,178	\$12,252
SCE	10,333	11,539	10,539	11,592

¹ Carrying value is net of debt issuance costs.

The fair value of Edison International's and SCE's short-term and long-term debt is classified as Level 2 and 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 of new issue prices and relevant credit information.

The carrying value of Edison International's and SCE's trade receivables and payables, other investments, and short-term debt approximates fair value.

Note 5. Debt and Credit Agreements

Long-Term Debt

The following table summarizes long-term debt (rates and terms are as of December 31, 2016) of Edison International and SCE:

(in millions)	December 31,	
	2016	2015
Edison International Parent and Other:		
Debentures and notes:		
2017 – 2023 (2.95% to 3.75%)	\$800	\$614
Other long-term debt	32	31
Current portion of long-term debt	(402)	(216)
Unamortized debt discount and issuance costs, net	(9)	(6)
Total Edison International Parent and Other	421	423
SCE:		
First and refunding mortgage bonds:		
2017 – 2045 (1.125% to 6.05%)	9,357	9,436
Pollution-control bonds:		
2028 – 2035 (1.375% to 5.0%) ¹	774	909
Debentures and notes:		
2029 – 2053 (5.06% to 6.65%)	307	307
Current portion of long-term debt	(579)	(79)
Unamortized debt discount and issuance costs, net	(105)	(113)
Total SCE	9,754	10,460
Total Edison International	\$10,175	\$10,883

¹ Excludes outstanding bonds that have not been retired and may be remarketed to investors in the future. These bonds have variable rates and are due in 2031 and 2033 at December 31, 2016 and 2031 at December 31, 2015.

Edison International and SCE long-term debt maturities over the next five years are the following:

(in millions)	Edison International	SCE
2017	\$ 981	\$579
2018	482	479
2019	82	79
2020	80	79
2021	580	579

Project Financings

As of December 31, 2016 and 2015, indirect subsidiaries of Edison Energy Group owning solar projects had approximately \$22 million and \$25 million outstanding under a 7-year term financing due in 2022 at a weighted average interest rate of 3.50% and 3.11%. In addition, tax equity investors in these solar projects receive 99% of taxable profits and losses and tax credits of the projects as determined for federal income tax purposes for a six-year period following the completion of the portfolio of projects and receive a priority return of 2% of their investment per year. After the six-year period, the tax equity investor receives 5% of the taxable profits and losses and cash flow. A subsidiary of Edison Energy Group has a call option for a nine-month period following five years after completion of the portfolio of projects to purchase the tax equity investors interest and the tax equity investor has the right to put its ownership interest to such subsidiary in the event that the call option is not exercised.

An indirect subsidiary of Edison Energy Group also entered into a non-recourse debt financing to support equity contributions in certain solar projects through June 30, 2017. The maturity date of the borrowings under this agreement is December 31, 2036. As of December 31, 2016 and 2015, there was \$10 million and \$6 million outstanding under this agreement at a weighted average interest rate of 9%.

Liens and Security Interests

Almost all of SCE's properties are subject to a trust indenture lien. SCE has pledged first and refunding mortgage bonds as collateral for borrowed funds obtained from pollution-control bonds issued by government agencies. SCE has a debt covenant that requires a debt to total capitalization ratio be met. At December 31, 2016, SCE was in compliance with this debt covenant.

All of the properties subject to the Edison Energy Group project financings discussed above are subject to a lien.

Credit Agreements and Short-Term Debt

The following table summarizes the status of the credit facilities at December 31, 2016:

(in millions)	Edison International Parent	SCE
Commitment	\$ 1,250	\$2,750
Outstanding borrowings	(538)	(769)
Outstanding letters of credit	—	(91)
Amount available	\$ 712	\$1,890

SCE and Edison International Parent have multi-year revolving credit facilities of \$2.75 billion and \$1.25 billion, respectively, with both maturing in July 2021. SCE's credit facility is generally used to support commercial paper borrowings and letters of credit issued for procurement-related collateral requirements, balancing account undercollections and for general corporate purposes, including working capital requirements to support operations and capital expenditures. Edison International Parent's credit facility is used to support commercial paper borrowings and for general corporate purposes.

At December 31, 2016, commercial paper supported by SCE's credit facility, net of discount, was \$769 million at a weighted-average interest rate of 0.9%. At December 31, 2016, letters of credit issued under SCE's credit facility aggregated \$91 million and are scheduled to expire in twelve months or less. At December 31, 2015, the outstanding commercial paper, net of discount, was \$49 million at a weighted-average interest rate of 0.51%.

At December 31, 2016, Edison International Parent's outstanding commercial paper, net of discount, was \$538 million at a weighted-average interest rate of 0.97%. This commercial paper was supported by the \$1.25 billion multi-year revolving credit facility. At December 31, 2015, the outstanding commercial paper, net of discount, was \$646 million at a weighted-average interest rate of 0.78%.

Debt Financing Subsequent to December 31, 2016

In January 2017, SCE borrowed \$300 million under a Term Loan Agreement with a variable interest rate, initially set at 1.483%, due in July 2018. The proceeds were used for general corporate purposes.

In January 2017, SCE reissued \$135 million of 2.625% pollution-control bonds with a mandatory purchase date in December 2023. These bonds mature in November 2033. The proceeds were used for general corporate purposes.

Note 6. Derivative Instruments

Derivative financial instruments are used to manage exposure to commodity price risk. These risks are managed in part by entering into forward commodity transactions, including options, swaps and futures. To mitigate credit risk from counterparties in the event of nonperformance, master netting agreements are used whenever possible and counterparties may be required to pledge collateral depending on the creditworthiness of each counterparty and the risk associated with the transaction.

Commodity Price Risk

Commodity price risk represents the potential impact that can be caused by a change in the market value of a particular commodity. SCE's electricity price exposure arises from energy purchased from and sold to wholesale markets as a result of differences between SCE's load requirements and the amount of energy delivered from its generating facilities and power purchase agreements. SCE's natural gas price exposure arises from natural gas purchased for 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.

Credit and Default Risk

Credit and default risk represent the potential impact that can be caused if a counterparty were to default on its contractual obligations and SCE would be exposed to 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 the sales of excess power and realized gains on derivative instruments.

Certain power contracts contain master netting agreements or similar agreements, which generally allow counterparties subject to the agreement to setoff amounts when certain criteria are met, such as in the event of default. The objective of netting is to reduce credit exposure. Additionally, to reduce SCE's risk exposures counterparties may be required to pledge collateral depending on the creditworthiness of each counterparty and the risk associated with the transaction.

Certain power contracts contain a provision that requires SCE to maintain an investment grade 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 post additional collateral to cover derivative liabilities and the related outstanding payables. The net fair value of all derivative liabilities with these credit-risk-related contingent features was \$12 million and \$38 million as of December 31, 2016 and 2015, respectively, for which SCE has posted \$12 million collateral and no collateral to its counterparties at the respective dates for its derivative liabilities and related outstanding payables. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2016, SCE would be required to post \$4 million of additional collateral of which \$4 million is related to outstanding payables that are net of collateral already posted.

Fair Value of Derivative Instruments

SCE presents its derivative assets and liabilities on a net basis on its consolidated balance sheets when subject to master netting agreements or similar agreements. Derivative positions are offset against margin and cash collateral deposits. In addition, SCE has provided collateral in the form of letters of credit. Collateral requirements can vary depending upon the level of unsecured credit extended by counterparties, changes in market prices relative to contractual commitments and other factors. See Note 4 for a discussion of fair value of derivative instruments. The following table summarizes the gross and net fair values of SCE's commodity derivative instruments:

(in millions)	December 31, 2016						
	Derivative Assets			Derivative Liabilities			Net
	Short-Term	Long-Term	Subtotal	Short-Term	Long-Term	Subtotal	
Commodity derivative contracts							
Gross amounts recognized	\$74	\$ 1	\$ 75	\$217	\$ 941	\$1,158	\$ 1,083
Gross amounts offset in consolidated balance sheets	(1)	—	(1)	(1)	—	(1)	—
Cash collateral posted ¹	—	—	—	—	—	—	—
Net amounts presented in the consolidated balance sheets	\$73	\$ 1	\$ 74	\$216	\$ 941	\$1,157	\$ 1,083
	December 31, 2015						
	Derivative Assets			Derivative Liabilities			Net
	Short-Term	Long-Term	Subtotal	Short-Term	Long-Term	Subtotal	
Commodity derivative contracts							
Gross amounts recognized	\$81	\$ 84	\$ 165	\$235	\$ 1,100	\$1,335	\$ 1,170
Gross amounts offset in consolidated balance sheets	(2)	—	(2)	(2)	—	(2)	—
Cash collateral posted ¹	—	—	—	(15)	—	(15)	(15)
Net amounts presented in the consolidated balance sheets	\$79	\$ 84	\$ 163	\$218	\$ 1,100	\$1,318	\$ 1,155

In addition, at December 31, 2016, SCE received \$2 million of collateral that is not offset against derivative assets and is reflected in "Other current liabilities" on the consolidated balance sheets. At December 31, 2015, SCE had posted \$31 million of cash collateral that is not offset against derivative liabilities and is reflected in "Other current assets" on the consolidated balance sheets.

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 purchase power costs recovered from customers. As a result, realized gains and losses do not affect earnings, but may temporarily affect cash flows. Due to expected future recovery from customers, unrealized gains and losses are recorded as regulatory assets and liabilities and therefore also do not affect earnings. The remaining effects of derivative activities and related regulatory offsets are recorded in cash flows from operating activities in the consolidated statements of cash flows.

The following table summarizes the components of SCE's economic hedging activity:

(in millions)	Years ended		
	December 31, 2016	December 31, 2015	December 31, 2014
Realized losses	\$(59)	\$(148)	\$(57)
Unrealized gains (losses)	84	(182)	(147)

Notional Volumes of Derivative Instruments

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

Commodity	Unit of Measure	Economic Hedges	
		December 31, 2016	2015
Electricity options, swaps and forwards	GWh	1,816	6,221
Natural gas options, swaps and forwards	Bcf	36	32
Congestion revenue rights	GWh	93,319	109,740
Tolling arrangements	GWh	61,093	70,663

Note 7. Income Taxes

Current and Deferred Taxes

Edison International's sources of income (loss) before income taxes are:

(in millions)	Years ended December 31,		
	2016	2015	2014
Income from continuing operations before income taxes	\$ 1,590	\$ 1,568	\$ 1,979
Income (loss) from discontinued operations before income taxes	1	15	(525)
Income before income tax	\$ 1,591	\$ 1,583	\$ 1,454

The components of income tax expense (benefit) by location of taxing jurisdiction are:

(in millions)	Edison International SCE					
	Years ended December 31,			Years ended December 31,		
	2016	2015	2014	2016	2015	2014
Current:						
Federal	\$(46)	\$ 18	\$(99)	\$ 75	\$ 72	\$(89)
State	33	19	20	93	127	101
	(13)	37	(79)	168	199	12
Deferred:						
Federal	176	340	454	112	298	476
State	14	109	68	(24)	10	(14)
	190	449	522	88	308	462
Total continuing operations	177	486	443	256	507	474
Discontinued operations ¹	(11)	(21)	(710)	—	—	—
Total	\$ 166	\$ 465	\$(267)	\$ 256	\$ 507	\$ 474

¹ See Note 15 for a discussion of discontinued operations related to EME.

The components of net accumulated deferred income tax liability are:

(in millions)	Edison International		SCE	
	December 31, 2016	2015	2016	2015
Deferred tax assets:				
Property and software related	\$549	\$675	\$548	\$675
Nuclear decommissioning trust assets in excess of nuclear ARO liability	348	360	348	360
Loss and credit carryforwards	1,418	1,388	—	—
Regulatory balancing accounts	15	21	15	21
Pension and PBOPs	300	337	93	154
Other	419	499	408	411
Sub-total	3,049	3,280	1,412	1,621
Less valuation allowance	24	32	—	—
Total	3,025	3,248	1,412	1,621
Deferred tax liabilities:				
Property-related	10,330	9,606	10,330	9,600
Capitalized software costs	237	207	237	207
Regulatory balancing accounts	134	202	134	202
Nuclear decommissioning trust assets	348	360	348	360
PBOPs	13	71	13	71
Other	202	189	148	161
Total	11,264	10,635	11,210	10,601
Accumulated deferred income tax liability, net ¹	\$8,239	\$7,387	\$9,798	\$8,980

¹ Included in deferred income taxes and credits.

Net Operating Loss and Tax Credit Carryforwards

The amounts of net operating loss and tax credit carryforwards (after-tax) are as follows:

(in millions)	Edison International		SCE	
	December 31, 2016			
	Loss	Credit	Loss	Credit
	Carryforwards	Carryforwards	Carryforwards	Carryforwards
Expire between 2017 to 2035	\$1,095	\$ 430	\$ 20	\$ 25
No expiration date	—	69	—	37
Total ¹	\$1,095	\$ 499	\$ 20	\$ 62

¹ Deferred tax assets for net operating loss and tax credit carryforwards are reduced by unrecognized tax benefits of \$176 million and \$82 million for Edison International and SCE, respectively.

Edison International has recorded a valuation allowance of \$24 million for state net operating loss carryforwards estimated to expire unused. In 2016, Edison International determined that \$8 million of the assets subject to a valuation allowance, had no expectation of recovery and were written off.

At December 31, 2015, Edison International and SCE had \$42 million and \$6 million, respectively, of federal net operating loss carryforwards related to the tax benefit on employee stock plans that would be recorded to additional paid-in capital when realized. In March 2016, the FASB issued an accounting standards update to simplify the accounting for share-based payments. As part of this new guidance adopted in 2016, Edison International and SCE recorded an increase to beginning retained earnings for these amounts. Refer to Note 1 for further information. Edison International consolidates for federal income tax purposes, but not for financial accounting purposes, a group of wind projects referred to as Capistrano Wind. The amount of net operating loss and tax credit carryforwards recognized as part of deferred income taxes includes \$242 million and \$210 million related to Capistrano Wind at December 31, 2016 and 2015,

respectively. Under a tax allocation agreement, Edison International has recorded the liability as part of other long-term liabilities related to its obligation to make payments to Capistrano Wind of these tax benefits when realized.

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:

(in millions)	Edison International			SCE		
	Years ended December 31,					
	2016	2015	2014	2016	2015	2014
Income from continuing operations before income taxes	\$1,590	\$1,568	\$1,979	\$1,755	\$1,618	\$2,039
Provision for income tax at federal statutory rate of 35%	556	549	693	614	566	714
Increase in income tax from:						
Items presented with related state income tax, net:						
Regulatory asset write-off ¹	—	382	—	—	382	—
State tax, net of federal benefit	29	5	56	43	34	55
Property-related ²	(362)	(341)	(252)	(362)	(341)	(252)
Change related to uncertain tax positions	(4)	(67)	5	(8)	(94)	12
San Onofre OII settlement	—	—	(23)	—	—	(23)
Share-based compensation ³	(28)	—	—	(13)	—	—
Other	(14)	(42)	(36)	(18)	(40)	(32)
Total income tax expense from continuing operations	\$177	\$486	\$443	\$256	\$507	\$474
Effective tax rate	11.1 %	31.0 %	22.4 %	14.6 %	31.3 %	23.2 %

¹ Includes federal and state.

² Includes incremental repair benefits. See discussion of repair deductions below.

³ Includes state taxes of \$(4) million and \$(1) million for Edison International and SCE, respectively. Refer to Note 1 for further information.

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. Flow-through items reduce current authorized revenue requirements in SCE's rate cases and result in a regulatory asset for recovery of deferred income taxes in future periods. The difference between the authorized amounts as determined in SCE's rate cases, adjusted for balancing and memorandum account activities, and the recorded flow-through items also result in increases or decreases in regulatory assets with a corresponding impact on the effective tax rate to the extent that recorded deferred amounts are expected to be recovered in future rates.

Repair Deductions

Edison International made voluntary elections in 2009 and 2011 to change its tax accounting method for certain tax repair costs incurred on SCE's transmission, distribution and generation assets. Incremental repair deductions represent amounts recognized for regulatory accounting purposes in excess of amounts included in the authorized revenue requirements through the GRC proceedings. Incremental repair deductions for the years 2012 – 2014 resulted in additional income tax benefits of \$133 million in 2014.

As part of the final decision in SCE's 2015 GRC, the CPUC adopted a rate base offset associated with these incremental tax repair deductions during 2012 – 2014. The 2015 rate base offset is \$324 million and amortizes on a straight line basis over 27 years. As a result of the rate base offset included in the final decision, SCE recorded an after tax charge of \$382 million in 2015 to write down the net regulatory asset for recovery of deferred income taxes related to 2012 – 2014 incremental tax repair deductions which is reflected in "Income tax expense" on the consolidated statements of income. The amount of tax repair deductions the CPUC used to establish the rate base offset was based on SCE's forecast of 2012 – 2014 tax repair deductions from the Notice of Intent filed in the 2015 GRC. The amount of tax repair deductions included in the Notice of Intent was less than the actual tax repair deductions SCE reported on its 2012 through 2014 income tax returns. In April 2016,

the CPUC granted SCE's request to reduce SCE's BRRBA by \$234 million in future periods subject to the timing and final outcome of audits that may be conducted by tax authorities. The refunds will result in flowing incremental tax benefits for 2012 – 2014 to customers. SCE refunded \$133 million (\$79 million after-tax) during the second quarter of 2016. SCE did not record a gain or loss from this reduction. Regulatory assets recorded from flow through tax benefits are recovered through SCE's general rate case proceedings.

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 for continuing and discontinued operations:

(in millions)	Edison International SCE					
	December 31,					
	2016	2015	2014	2016	2015	2014
Balance at January 1,	\$529	\$576	\$815	\$353	\$441	\$532
Tax positions taken during the current year:						
Increases	36	54	65	36	48	57
Tax positions taken during a prior year:						
Increases	2	66	1	—	23	—
Decreases ¹	(96)	(165)	(143)	(18)	(159)	(93)
Decreases for settlements during the period ²	—	(2)	(162)	—	—	(55)
Balance at December 31,	\$471	\$529	\$576	\$371	\$353	\$441

Decreases in prior year tax positions for 2016 relate to state tax receivables on various claims. Due to the tax risks associated with these claims, the tax benefits were fully reserved at the time the asset was recorded. During 2016, the Company has determined that it will not recognize these assets so the tax benefit and related tax reserve were written off. Decreases in tax positions for 2015 relate primarily to re-measurement of uncertain tax positions in connection with receipt of the IRS Revenue Agent Report in June 2015. See discussions in Tax Disputes below.

² In the fourth quarter of 2014, Edison International has settled all open tax positions with the IRS for taxable years 2003 through 2006.

As of December 31, 2016 and 2015, if recognized, \$347 million and \$440 million, respectively, of the unrecognized tax benefits would impact Edison International's effective tax rate; and \$243 million and \$256 million, respectively, of the unrecognized tax benefits would impact SCE's effective tax rate.

Tax Disputes

Tax Years 2007 – 2012

Edison International has reached a tentative settlement agreement with the IRS for the 2007 – 2012 tax years. The final agreement, when approved, is not expected to have a material impact on the financial statements.

During 2015, the Company received the IRS Revenue Agent Report for the 2010 – 2012 tax years. Edison International's and SCE's tax reserves were re-measured at that time and \$94 million and \$100 million, respectively, of income tax benefits were recorded in the comparable quarter for the prior year.

Tax years that remain open for examination by the IRS and the California Franchise Tax Board are 2007 – 2015 and 2003 – 2015, respectively.

Accrued Interest and Penalties

The total amount of accrued interest and penalties related to income tax liabilities for continuing and discontinued operations are:

	Edison International Years ended December 31,			
(in millions)	2016	2015	2016	2015
Accrued interest and penalties	\$ 128	\$ 122	\$ 41	\$ 40

The net after-tax interest and penalties recognized in income tax expense for continuing and discontinued operations are:

	Edison International December 31,			
(in millions)	2016	2015	2014	2015
Net after-tax interest and penalties tax benefit	\$ 6	\$ 9	\$ 41	\$ 2
	\$ 14	\$ 16		

Note 8. Compensation and Benefit Plans

Employee Savings Plan

The 401(k) defined contribution savings plan is designed to supplement employees' retirement income. The following employer contributions were made for continuing operations:

	Edison International Years ended	
(in millions)	December 31,	
2016	\$ 69	\$ 68
2015	73	72
2014	71	70

Pension Plans and Postretirement Benefits Other Than Pensions

Pension Plans

Noncontributory defined benefit pension plans (some with cash balance features) cover most employees meeting minimum service requirements. SCE recognizes pension expense for its nonexecutive plan as calculated by the actuarial method used for ratemaking. The expected contributions (all by the employer) for Edison International and SCE are approximately \$136 million and \$85 million, respectively, for the year ending December 31, 2017. Annual contributions made by SCE to most of SCE's pension plans are anticipated to be recovered through CPUC-approved regulatory mechanisms.

The funded position of Edison International's pension is sensitive to changes in market conditions. Changes in overall interest rate levels significantly affect the company's liabilities, while assets held in the various trusts established to fund Edison International's pension are affected by movements in the equity and bond markets. Due to SCE's regulatory recovery treatment, a regulatory asset has been recorded equal to the unfunded status (See Note 10).

Information on pension plan assets and benefit obligations for continuing and discontinued operations is shown below.

(in millions)	Edison International SCE			
	Years ended December 31,			
	2016	2015	2016	2015
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	\$4,374	\$4,517	\$3,878	\$3,999
Service cost	139	142	132	133
Interest cost	171	170	150	150
Actuarial gain	(125)	(149)	(140)	(143)
Benefits paid	(275)	(305)	(229)	(261)
Other	—	(1)	—	—
Projected benefit obligation at end of year	\$4,284	\$4,374	\$3,791	\$3,878
Change in plan assets				
Fair value of plan assets at beginning of year	\$3,298	\$3,454	\$3,080	\$3,217
Actual return on plan assets	262	30	239	27
Employer contributions	103	119	82	97
Benefits paid	(275)	(305)	(229)	(261)
Fair value of plan assets at end of year	\$3,388	\$3,298	\$3,172	\$3,080
Funded status at end of year	\$(896)	\$(1,076)	\$(619)	\$(798)
Amounts recognized in the consolidated balance sheets consist of ¹ :				
Long-term assets	\$2	\$—	\$—	\$—
Current liabilities	(50)	(27)	(4)	(4)
Long-term liabilities	(848)	(1,049)	(615)	(794)
	\$(896)	\$(1,076)	\$(619)	\$(798)
Amounts recognized in accumulated other comprehensive loss consist of:				
Prior service cost	\$(1)	\$—	\$—	\$—
Net loss ¹	93	96	24	27
	\$92	\$96	\$24	\$27
Amounts recognized as a regulatory asset	\$574	\$675	\$574	\$675
Total not yet recognized as expense	\$666	\$771	\$598	\$702
Accumulated benefit obligation at end of year	\$4,138	\$4,200	\$3,683	\$3,744
Pension plans with an accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	\$4,284	\$4,374	\$3,791	\$3,878
Accumulated benefit obligation	4,138	4,200	3,683	3,744
Fair value of plan assets	3,388	3,298	3,172	3,080
Weighted-average assumptions used to determine obligations at end of year:				
Discount rate	3.94	% 4.18	% 3.94	% 4.18 %
Rate of compensation increase	4.00	% 4.00	% 4.00	% 4.00 %

The SCE liability excludes a long-term payable due to Edison International Parent of \$124 million and \$123 million at December 31, 2016 and 2015, respectively, related to certain SCE postretirement benefit obligations transferred ¹ to Edison International Parent. SCE's accumulated other comprehensive loss of \$24 million and \$27 million at December 31, 2016 and 2015, respectively, excludes net loss of \$20 million and \$18 million related to these benefits.

Pension expense components for continuing operations are:

(in millions)	Edison International SCE					
	Years ended December 31,					
	2016	2015	2014	2016	2015	2014
Service cost	\$139	\$142	\$133	\$136	\$139	\$128
Interest cost	172	170	181	156	155	164
Expected return on plan assets	(220)	(233)	(229)	(205)	(217)	(213)
Settlement costs ¹	—	—	45	—	—	42
Curtailement gain	—	—	(4)	—	—	—
Amortization of prior service cost	4	5	5	4	5	5
Amortization of net loss ²	27	40	12	23	35	7
Expense under accounting standards	122	124	143	114	117	133
Regulatory adjustment (deferred)	(21)	(6)	8	(21)	(6)	8
Total expense recognized	\$101	\$118	\$151	\$93	\$111	\$141

¹ Includes the amount of net loss reclassified from other comprehensive loss. The amount reclassified for Edison

International was zero for the both the years ended December 31, 2016 and 2015 and \$3 million for the year ended December 31, 2014.

² Includes the amount of net loss reclassified from other comprehensive loss. The amount reclassified for Edison International and SCE was \$10 million and \$6 million, respectively, for the year ended December 31, 2016. The

amount reclassified for Edison International and SCE was \$14 million and \$8 million, respectively, for the year ended December 31, 2015. The amount reclassified for Edison International and SCE was \$9 million and \$4 million, respectively, for the year ended December 31, 2014.

Under GAAP, a settlement is recorded when lump-sum payments exceed estimated annual service and interest costs. Lump-sum payments to employees retiring in 2014 from the SCE Retirement Plan (primarily due to workforce reductions described below) exceeded the estimated service and interest costs for that year. A settlement requires re-measurement of both the plan pension obligations and plan assets as of the date of the settlement. Re-measurement assumption changes result in actuarial gains and losses which are combined with previous unrecognized gains and losses. After re-measurement, GAAP requires an acceleration of a portion of unrecognized net losses attributable to such lump-sum payments as additional pension expense as reflected in the above table. The additional pension expense related to SCE did not impact net income as such amounts are probable of recovery through future rates. Other changes in pension plan assets and benefit obligations recognized in other comprehensive loss for continuing operations:

(in millions)	Edison International SCE					
	Years ended December 31,					
	2016	2015	2014	2016	2015	2014
Net loss (gain)	\$6	\$7	\$85	\$4	\$(9)	\$37
Amortization of net loss and other	(10)	(15)	(13)	(6)	(9)	(4)
Total recognized in other comprehensive loss	\$(4)	\$(8)	\$72	\$(2)	\$(18)	\$33
Total recognized in expense and other comprehensive loss	\$97	\$110	\$223	\$91	\$93	\$174

In accordance with authoritative guidance on rate-regulated enterprises, SCE records regulatory assets and liabilities instead of charges and credits to other comprehensive income (loss) for the portion of SCE's postretirement benefit plans that are recoverable in utility rates. The estimated pension amounts that will be amortized to expense in 2017 for continuing operations are as follows:

(in millions)	Edison International	SCE
Unrecognized net loss to be amortized ¹	\$ 19	\$ 15
Unrecognized prior service cost to be amortized	3	3

¹ The amount of net loss expected to be reclassified from other comprehensive loss for Edison International's continuing operations and SCE is \$10 million and \$6 million, respectively.

Edison International and SCE used the following weighted-average assumptions to determine pension expense for continuing operations:

	Years ended December 31,		
	2016	2015	2014
Discount rate	4.18%	3.85%	4.50%
Rate of compensation increase	4.00%	4.00%	4.00%
Expected long-term return on plan assets	7.00%	7.00%	7.00%

The following benefit payments, which reflect expected future service, are expected to be paid:

	Edison International	SCE
(in millions)	Years ended December 31,	
2017	\$ 346	\$ 271
2018	332	298
2019	344	300
2020	341	304
2021	341	304
2022 – 2026	1,566	1,396

Postretirement Benefits Other Than Pensions ("PBOP(s)")

Most employees retiring at or after age 55 with at least 10 years of service may be eligible for postretirement medical, dental, vision and life insurance benefits. Eligibility for a company contribution toward the cost of these benefits in retirement depends on a number of factors, including the employee's years of service, age, hire date, and retirement date. Under the terms of the Edison International Welfare Benefit Plan ("PBOP Plan") each participating employer (Edison International or its participating subsidiaries) is responsible for the costs and expenses of all PBOP benefits with respect to its employees and former employees. A participating employer may terminate the PBOP benefits with respect to its employees and former employees, as may SCE (as Plan sponsor), and, accordingly, the participants' PBOP benefits are not vested benefits.

The expected contributions (substantially all of which are expected to be made by SCE) for PBOP benefits are \$21 million for the year ended December 31, 2017. Annual contributions related to SCE employees made to SCE plans are anticipated to be recovered through CPUC-approved regulatory mechanisms and are expected to be, at a minimum, equal to the total annual expense for these plans.

SCE has established three voluntary employee beneficiary associations trusts ("VEBA Trusts") that can only be used to pay for retiree health care benefits of SCE. Once funded into the VEBA Trusts, neither SCE nor Edison International can subsequently terminate benefits and recover remaining amounts in the VEBA Trusts. Participants of the PBOP Plan do not have a beneficial interest in the VEBA Trusts. The VEBA Trust assets are sensitive to changes in market conditions. Changes in overall interest rate levels significantly affect the company's liabilities, while assets held in the various trusts established to

fund Edison International's other postretirement benefits are affected by movements in the equity and bond markets. Due to SCE's regulatory recovery treatment, the unfunded status is offset by a regulatory asset. Information on PBOP Plan assets and benefit obligations is shown below:

(in millions)	Edison International		SCE	
	Years ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Change in benefit obligation				
Benefit obligation at beginning of year	\$2,350	\$2,784	\$2,341	\$2,775
Service cost	35	46	34	46
Interest cost	97	102	97	102
Special termination benefits	2	(2)	2	(2)
Plan Amendments	(6)	—	(6)	—
Actuarial gain	(110)	(500)	(110)	(500)
Plan participants' contributions	19	20	19	20
Benefits paid	(111)	(100)	(111)	(100)
Benefit obligation at end of year	\$2,276	\$2,350	\$2,266	\$2,341
Change in plan assets				
Fair value of plan assets at beginning of year	\$2,036	\$2,086	\$2,036	\$2,086
Actual return on assets	137	6	137	6
Employer contributions	21	24	21	24
Plan participants' contributions	19	20	19	20
Benefits paid	(111)	(100)	(111)	(100)
Fair value of plan assets at end of year	\$2,102	\$2,036	\$2,102	\$2,036
Funded status at end of year	\$(174)	\$(314)	\$(164)	\$(305)
Amounts recognized in the consolidated balance sheets consist of:				
Current liabilities	\$(14)	\$(15)	\$(13)	\$(15)
Long-term liabilities	(160)	(299)	(151)	(290)
	\$(174)	\$(314)	\$(164)	\$(305)
Amounts recognized in accumulated other comprehensive loss consist of:				
Net loss	\$4	\$4	\$—	\$—
Amounts recognized as a regulatory asset	\$136	\$174	\$136	\$174
Total not yet recognized as expense	\$140	\$178	\$136	\$174
Weighted-average assumptions used to determine obligations at end of year:				
Discount rate	4.29	% 4.55	% 4.29	% 4.55
Assumed health care cost trend rates:				
Rate assumed for following year	7.00	% 7.50	% 7.00	% 7.50
Ultimate rate	5.00	% 5.00	% 5.00	% 5.00
Year ultimate rate reached	2022	2022	2022	2022

During 2016 and 2015, the PBOP plan had actuarial gains of \$110 million and \$500 million, respectively. The 2016 actuarial gain is primarily related to \$165 million in experience gain, offsetting by \$95 million loss from a decrease in the discount rate (from 4.55% as of December 31, 2015 to 4.29% as of December 31, 2016), and the adoption of new mortality tables, as discussed below. The 2015 actuarial gain is primarily related to \$300 million in experience gains, \$140 million of income from an increase in the discount rate (from 4.16% at December 31, 2014 to 4.55% as of December 31, 2015) due to higher interest rates, and the adoption of new mortality tables, as discussed below.

In 2016 and 2015, Edison International and SCE adopted new mortality tables that the Society of Actuaries released in October each year that reflect changes in life expectancy. At December 31, 2016 and 2015, this adoption resulted in a change in Edison International's PBOP plans' accumulated postretirement benefit obligation of \$(40) million and \$(62) million, respectively, including \$(40) million and \$(61) million, respectively, for SCE.

PBOP expense components for continuing operations are:

(in millions)	Edison International			SCE		
	Years ended December 31,					
	2016	2015	2014	2016	2015	2014
Service cost	\$35	\$46	\$40	\$34	\$46	\$40
Interest cost	97	102	117	97	102	117
Expected return on plan assets	(112)	(116)	(108)	(112)	(116)	(108)
Special termination benefits ¹	2	1	3	2	1	3
Amortization of prior service credit	(2)	(12)	(36)	(2)	(12)	(35)
Amortization of net loss	—	3	6	—	2	5
Total expense	\$20	\$24	\$22	\$19	\$23	\$22

¹ Due to the reduction in workforce, SCE has incurred costs for extended retiree health care coverage.

In accordance with authoritative guidance on rate-regulated enterprises, SCE records regulatory assets and liabilities instead of charges and credits to other comprehensive income (loss) for the portion of SCE's postretirement benefit plans that are recoverable in utility rates. The estimated PBOP amounts that will be amortized to expense in 2017 for continuing operations are as follows:

	Edison International	SCE
Unrecognized prior service credit to be amortized	\$ (2)	\$(2)

Edison International and SCE used the following weighted-average assumptions to determine PBOP expense for continuing operations:

	Years ended December 31,		
	2016	2015	2014
Discount rate	4.55 %	4.16 %	5.00 %
Expected long-term return on plan assets	5.60 %	5.50 %	5.50 %
Assumed health care cost trend rates:			
Current year	7.50 %	7.75 %	7.75 %
Ultimate rate	5.00 %	5.00 %	5.00 %
Year ultimate rate reached	2022	2021	2020

A one-percentage-point change in assumed health care cost trend rate would have the following effects on continuing operations:

(in millions)	Edison International		SCE	
	One-Percentage-Point Increase	One-Percentage-Point Decrease	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on accumulated benefit obligation as of December 31, 2016	\$ 244	\$ (200)	\$ 243	\$ (199)
Effect on annual aggregate service and interest costs	11	(9)	11	(9)

The following benefit payments are expected to be paid:

	Edison SCE International	
(in millions)	Years ended	
	December	
	31,	
2017	\$ 98	\$ 98
2018	102	102
2019	105	105
2020	109	109
2021	113	112
2022 – 2026	612	609

Plan Assets

Description of Pension and Postretirement Benefits Other than Pensions Investment Strategies

The investment of plan assets is overseen by a fiduciary investment committee. Plan assets are invested using a combination of asset classes, and may have active and passive investment strategies within asset classes. Target allocations for 2016 pension plan assets were 29% for U.S. equities, 17% for non-U.S. equities, 35% for fixed income, 15% for opportunistic and/or alternative investments and 4% for other investments. Target allocations for 2016 PBOP plan assets (except for Represented VEBA which is 85% for fixed income, 10% for opportunistic/private equities, and 5% global equities) are 41% for U.S. equities, 17% for non-U.S. equities, 34% for fixed income, 7% for opportunistic and/or alternative investments, and 1% for other investments. Edison International employs multiple investment management firms. Investment managers within each asset class cover a range of investment styles and approaches. Risk is managed through diversification among multiple asset classes, managers, styles and securities. Plan asset classes and individual manager performances are measured against targets. Edison International also monitors the stability of its investment managers' organizations.

Allowable investment types include:

• **United States Equities:** Common and preferred stocks of large, medium, and small companies which are predominantly United States-based.

• **Non-United States Equities:** Equity securities issued by companies domiciled outside the United States and in depository receipts which represent ownership of securities of non-United States companies.

• **Fixed Income:** Fixed income securities issued or guaranteed by the United States government, non-United States governments, government agencies and instrumentalities including municipal bonds, mortgage backed securities and corporate debt obligations. A portion of the fixed income positions may be held in debt securities that are below investment grade.

• **Opportunistic, Alternative and Other Investments:**

• **Opportunistic:** Investments in short to intermediate term market opportunities. Investments may have fixed income and/or equity characteristics and may be either liquid or illiquid.

• **Alternative:** Limited partnerships that invest in non-publicly traded entities.

• **Other:** Investments diversified among multiple asset classes such as global equity, fixed income currency and commodities markets. Investments are made in liquid instruments within and across markets. The investment returns are expected to approximate the plans' expected investment returns.

Asset class portfolio weights are permitted to range within plus or minus 3%. Where approved by the fiduciary investment committee, futures contracts are used for portfolio rebalancing and to reallocate portfolio cash positions. Where authorized, a few of the plans' investment managers employ limited use of derivatives, including futures contracts, options, options on futures and interest rate swaps in place of direct investment in securities to gain efficient exposure to markets. Derivatives are not used to leverage the plans or any portfolios.

Determination of the Expected Long-Term Rate of Return on Assets

The overall expected long-term rate of return on assets assumption is based on the long-term target asset allocation for plan assets and capital markets return forecasts for asset classes employed. A portion of the PBOP trust asset returns are subject to taxation, so the expected long-term rate of return for these assets is determined on an after-tax basis.

Capital Markets Return Forecasts

SCE's capital markets return forecast methodologies primarily use a combination of historical market data, current market conditions, proprietary forecasting expertise, complex models to develop asset class return forecasts and a building block approach. The forecasts are developed using variables such as real risk-free interest, inflation, and asset class specific risk premiums. For equities, the risk premium is based on an assumed average equity risk premium of 5% over cash. The forecasted return on private equity and opportunistic investments are estimated at a 2% premium above public equity, reflecting a premium for higher volatility and lower liquidity. For fixed income, the risk premium is based off of a comprehensive modeling of credit spreads.

Fair Value of Plan Assets

The PBOP Plan and the Southern California Edison Company Retirement Plan Trust (Master Trust) assets include investments in equity securities, U.S. treasury securities, other fixed-income securities, common/collective funds, mutual funds, other investment entities, foreign exchange and interest rate contracts, and partnership/joint ventures. Equity securities, U.S. treasury securities, mutual and money market funds are classified as Level 1 as fair value is determined by observable, unadjusted quoted market prices in active or highly liquid and transparent markets. The fair value of the underlying investments in equity mutual funds are based on stock-exchange prices. The fair value of the underlying investments in fixed-income mutual funds and other fixed income securities including municipal bonds 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, issuer spreads, bids, offers and relevant credit information. Foreign exchange and interest rate contracts are classified as Level 2 because the values are based on observable prices but are not traded on an exchange. Futures contracts trade on an exchange and therefore are classified as Level 1. Common/collective funds and partnerships are measured at fair value using the net asset value per share ("NAV") and have not been classified in the fair value hierarchy. Other investment entities are valued similarly to common/collective funds and are therefore classified as NAV. The Level 1 registered investment companies are either mutual or money market funds. The remaining funds in this category are readily redeemable and classified as NAV and are discussed further at Note 8 to the pension plan master trust investments table below. Edison International reviews the process/procedures of both the pricing services and the trustee to gain an understanding of the inputs/assumptions and valuation techniques used to price each asset type/class. The trustee and Edison International's validation procedures for pension and PBOP equity and fixed income securities are the same as the nuclear decommissioning trusts. For further discussion see Note 4. The values of Level 1 mutual and money market funds are publicly quoted. The trustees obtain the values of common/collective and other investment funds from the fund managers. The values of partnerships are based on partnership valuation statements updated for cash flows. SCE's investment managers corroborate the trustee fair values.

Pension Plan

The following table sets forth the Master Trust investments for Edison International and SCE that were accounted for at fair value as of December 31, 2016 by asset class and level within the fair value hierarchy:

(in millions)	Level 1	Level 2	Level 3	NAV ¹	Total
U.S. government and agency securities ²	\$ 217	\$ 309	\$ —	—	\$ 526
Corporate stocks ³	720	15	—	—	735
Corporate bonds ⁴	—	725	—	—	725
Common/collective funds ⁵	—	—	—	692	692
Partnerships/joint ventures ⁶	—	—	—	333	333
Other investment entities ⁷	—	—	—	253	253
Registered investment companies ⁸	124	—	—	6	130
Interest-bearing cash	42	—	—	—	42
Other	—	112	—	—	112
Total	\$ 1,103	\$ 1,161	\$ —	—	\$ 3,548
Receivables and payables, net					(160)
Net plan assets available for benefits					\$ 3,388
SCE's share of net plan assets					\$ 3,172

The following table sets forth the Master Trust investments that were accounted for at fair value as of December 31, 2015 by asset class and level within the fair value hierarchy:

(in millions)	Level 1	Level 2	Level 3	NAV ¹	Total
U.S. government and agency securities ²	\$ 127	\$ 298	\$ —	—	\$ 425
Corporate stocks ³	720	16	—	—	736
Corporate bonds ⁴	—	755	—	—	755
Common/collective funds ⁵	—	—	—	640	640
Partnerships/joint ventures ⁶	—	—	—	325	325
Other investment entities ⁷	—	—	—	263	263
Registered investment companies ⁸	117	—	—	4	121
Interest-bearing cash	6	—	—	—	6
Other	1	96	—	—	97
Total	\$ 971	\$ 1,165	\$ —	—	\$ 3,368
Receivables and payables, net					(70)
Net plan assets available for benefits					\$ 3,298
SCE's share of net plan assets					\$ 3,080

These investments are measured at fair value using the net asset value per share practical expedient and have not¹ been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the net plan assets available for benefits.

² Level 1 U.S. government and agency securities are U.S. treasury bonds and notes. Level 2 primarily relates to the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Corporate stocks are diversified. At December 31, 2016 and 2015, respectively, performance for actively managed³ separate accounts is primarily benchmarked against the Russell Indexes (62%) and (59%) and Morgan Stanley Capital International (MSCI) index (38%) and (41%).

Corporate bonds are diversified. At December 31, 2016 and 2015, respectively, this category includes \$76 million⁴ and \$123 million for collateralized mortgage obligations and other asset backed securities of which \$27 million and \$25 million are below investment grade.

At December 31, 2016 and 2015, respectively, the common/collective assets were invested in equity index funds that seek to track performance of the Standard and Poor's (S&P 500) Index (45% and 46%) and Russell 1000 indexes (15% and 14%). At December 31, 2016 and 2015, 15% and 16% of the assets in this category are in index funds which seek to track performance in the MSCI All Country World Index exUS and MSCI Europe, Australasia and Far East (EAFE) Index, respectively. A non-index U.S. equity fund representing 23% and 22% of this category for 2016 and 2015, respectively, is actively managed.

At December 31, 2016 and 2015, respectively, 55% and 51% are invested in private equity funds with investment strategies that include branded consumer products, clean technology and California geographic focus companies, 22% and 20% are invested in publicly traded fixed income securities, 18% and 14% are invested in a broad range of financial assets in all global markets and 4% and 15% of the remaining partnerships are invested in asset backed securities, including distressed mortgages and commercial and residential loans and debt and equity of banks.

Other investment entities were primarily invested in (1) emerging market equity securities, (2) a hedge fund that invests through liquid instruments in a global diversified portfolio of equity, fixed income, interest rate, foreign currency and commodities markets, and (3) domestic mortgage backed securities.

Level 1 of registered investment companies primarily consisted of a global equity mutual fund which seeks to outperform the MSCI World Total Return Index. The funds classified as NAV primarily consisted of a fixed income securities fund.

At December 31, 2016 and 2015, respectively, approximately 69% and 63% of the publicly traded equity investments, including equities in the common/collective funds, were located in the United States.

Postretirement Benefits Other than Pensions

The following table sets forth the VEBA Trust assets for Edison International and SCE that were accounted for at fair value as of December 31, 2016 by asset class and level within the fair value hierarchy:

(in millions)	Level 1	Level 2	Level 3	NAV ¹	Total
U.S. government and agency securities ²	\$ 222	\$ 59	\$ —	—	\$ 281
Corporate stocks ³	230	—	—	—	230
Corporate notes and bonds ⁴	—	877	—	—	877
Common/collective funds ⁵	—	—	—	462	462
Partnerships ⁶	—	—	—	79	79
Registered investment companies ⁷	48	—	—	1	49
Interest bearing cash	48	—	—	—	48
Other ⁸	4	103	—	—	107
Total	\$ 552	\$ 1,039	\$ —	—	\$ 2,133
Receivables and payables, net					(31)
Combined net plan assets available for benefits					\$ 2,102

The following table sets forth the VEBA Trust assets for SCE that were accounted for at fair value as of December 31, 2015 by asset class and level within the fair value hierarchy:

(in millions)	Level 1	Level 2	Level 3	NAV ¹	Total
U.S. government and agency securities ²	\$ 200	\$ 42	\$ —	—	\$ 242
Corporate stocks ³	222	—	—	—	222
Corporate notes and bonds ⁴	—	867	—	—	867
Common/collective funds ⁵	—	—	—	424	424
Partnerships ⁶	—	—	—	93	93
Registered investment companies ⁷	60	—	—	3	63
Interest bearing cash	31	—	—	—	31
Other ⁸	5	113	—	—	118
Total	\$ 518	\$ 1,022	\$ —	—	\$ 2,060
Receivables and payables, net					(24)
Combined net plan assets available for benefits					\$ 2,036

These investments are measured at fair value using the net asset value per share practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the net plan assets available for benefits.

¹ Level 1 U.S. government and agency securities are U.S. treasury bonds and notes. Level 2 primarily relates to the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

² Corporate stock performance for actively managed separate accounts is primarily benchmarked against the Russell Indexes (47%) and the MSCI All Country World Index (53%) for both 2016 and 2015.

³ Corporate notes and bonds are diversified and include approximately \$47 million and \$27 million for commercial collateralized mortgage obligations and other asset backed securities at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, respectively, 39% and 38% of the common/collective assets are invested in a large cap index fund which seeks to track performance of the Russell 1000 index. 39% and 41% of the remaining assets in

⁴ this category are in index funds which seek to track performance in the MSCI All Country World Index Investable Market Index and MSCI Europe, Australasia and Far East (EAFE) Index. 18% and 17% in a non-index U.S. equity fund which is actively managed.

At December 31, 2016 and 2015, respectively, 59% and 56% of the partnerships are invested in private equity and venture capital funds. Investment strategies for these funds include branded consumer products, clean and

⁵ information technology and healthcare. 31% and 21% are invested in a broad range of financial assets in all global markets. 9% and 23% of the remaining partnerships category is invested in asset backed securities including distressed mortgages, distressed companies and commercial and residential loans and debt and equity of banks.

⁶ Level 1 registered investment companies consist of a money market fund.

⁷ Other includes \$76 million and \$97 million of municipal securities at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, respectively, approximately 63% and 71% of the publicly traded equity investments, including equities in the common/collective funds, were located in the United States.

Stock-Based Compensation

Edison International maintains a shareholder approved incentive plan (the 2007 Performance Incentive Plan) that includes stock-based compensation. The maximum number of shares of Edison International's common stock authorized to be issued or transferred pursuant to awards under the 2007 Performance Incentive Plan, as amended, is 66 million shares, plus the number of any shares awarded under Edison International's prior plans that are outstanding as of April 26, 2007, which expire, cancel or terminate without being exercised or shares being issued ("carry-over shares"). As of December 31, 2016, Edison International had approximately 32 million shares remaining available for new award grants under its stock-based compensation plans.

The following table summarizes total expense and tax benefits (expense) associated with stock based compensation:

(in millions)	Edison International		SCE		
	2016	2015	2014	2015	2014
Stock-based compensation expense ¹ :					
Stock options	\$14	\$14	\$16	\$7	\$8
Performance shares	13	7	16	6	4
Restricted stock units	6	7	7	3	4
Other	1	1	1	—	—
Total stock-based compensation expense	\$34	\$29	\$40	\$16	\$16
Income tax benefits related to stock compensation expense	\$41	\$12	\$16	\$20	\$7
Excess tax benefits ²	—	15	15	—	23

¹ Reflected in "Operation and maintenance" on Edison International's and SCE's consolidated statements of income.

Reflected in "Settlements of stock-based compensation, net" in the financing section of Edison International's and SCE's consolidated statements of cash flows, "Common stock" in Edison International's consolidated balance sheets and "Additional paid-in capital" in SCE's consolidated balance sheets. Edison International and SCE adopted the new accounting guidance for shared-based payments, see Note 1 for further information.

Stock Options

Under various plans, Edison International has granted stock options at exercise prices equal to the closing price at the grant date. Prior to 2007, average of the high and low price was used. Edison International may grant stock options and other awards related to, or with a value derived from, its common stock to directors and certain employees.

Options generally expire 10 years after the grant date and vest over a period of four years of continuous service, with expense recognized evenly over the requisite service period, except for awards granted to retirement-eligible participants, as discussed in "Stock-Based Compensation" in Note 1. Additionally, Edison International will substitute cash awards to the extent necessary to pay tax withholding or any government levies.

The fair value for each option granted was determined as of the grant date using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires various assumptions noted in the following table:

	Years ended December 31,		
	2016	2015	2014
Expected terms (in years)	5.9	5.9	6.0
Risk-free interest rate	1.2% – 2.2%	1.6% – 2.1%	1.8% – 2.1%
Expected dividend yield	2.5% – 3.0%	2.6% – 3.2%	2.4% – 2.7%
Weighted-average expected dividend yield	2.9%	2.6%	2.7%
Expected volatility	17.2% – 17.5%	16.4% – 17.0%	17.8% – 19.1%
Weighted-average volatility	17.4%	16.5%	18.9%

The expected term represents the period of time for which the options are expected to be outstanding and is primarily based on historical exercise and post-vesting cancellation experience and stock price history. The risk-free interest rate for periods within the contractual life of the option is based on a zero coupon U.S. Treasury STRIPS (separate trading of registered interest and principal of securities) whose maturity equals the option's expected term on the measurement date. Expected volatility is based on the historical volatility of Edison International's common stock for the length of the option's expected term for 2016. The volatility period used was 71 months, 71 months and 72 months at December 31, 2016, 2015 and 2014, respectively.

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

	Stock options	Exercise Price	Remaining Contractual Term (Years)	Weighted-Average	Aggregate Intrinsic Value (in millions)
Edison International:					
Outstanding at December 31, 2015	12,866,597	\$45.93			
Granted	2,120,009	67.41			
Expired	—	—			
Forfeited	(274,166)	64.02			
Exercised	(3,167,939)	42.93			
Outstanding at December 31, 2016	11,544,501	50.26	6.02		
Vested and expected to vest at December 31, 2016	11,437,110	50.12	5.99		\$ 250
Exercisable at December 31, 2016	7,685,341	\$43.99	4.93		\$ 215
SCE:					
Outstanding at December 31, 2015	5,840,057	\$47.77			
Granted	959,478	67.36			
Expired	—	—			
Forfeited	(120,842)	61.96			
Exercised	(1,705,053)	44.59			
Transfers, net	(246,224)	59.29			
Outstanding at December 31, 2016	4,727,416	51.81	6.24		
Vested and expected to vest at December 31, 2016	4,667,784	51.63	6.21		\$ 95
Exercisable at December 31, 2016	2,782,770	\$44.04	4.84		\$ 78
At December 31, 2016, total unrecognized compensation cost related to stock options and the weighted-average period the cost is expected to be recognized are as follows:					

(in millions)	Edison International	SCE
Unrecognized compensation cost, net of expected forfeitures	\$ 13	\$ 8
Weighted-average period (in years)	2.3	2.3

Supplemental Data on Stock Options

(in millions, except per award amounts)	Edison International		SCE			
	Years ended December 31,					
	2016	2015	2014	2016	2015	2014
Stock options:						
Weighted average grant date fair value per option granted	\$7.38	\$7.54	\$7.26	\$7.50	\$7.53	\$7.34
Fair value of options vested	11	20	17	5	11	9
Cash used to purchase shares to settle options	220	170	300	118	69	181
Cash from participants to exercise stock options	136	113	205	77	45	125
Value of options exercised	84	57	95	41	24	56
Tax benefits from options exercised	34	23	39	17	10	23

Performance Shares

A target number of contingent performance shares were awarded to executives in March 2016, 2015 and 2014 and vest at December 31, 2018, 2017 and 2016, respectively. The vesting of the grants is dependent upon market and financial performance and service conditions as defined in the grants for each of the years. The number of performance shares earned from each year's grants could range from zero to twice the target number (plus additional units credited as dividend equivalents). Performance shares awarded in 2014 that are earned are settled half in cash and half in common stock, while performance shares awarded in 2016 and 2015 that are earned are settled solely in cash. The portion of performance shares that can be settled in cash is classified as a share-based liability award. The fair value of these shares is remeasured at each reporting period, and the related compensation expense is adjusted. The portion of performance shares payable in common stock is classified as a share-based equity award. Compensation expense related to these shares is based on the grant-date fair value, which for each share is determined as the closing price of Edison International common stock on the grant date. However, with respect to the portion of the performance shares payable in common stock that is subject to the financial performance condition defined in the grants, the number of performance shares expected to be earned is subject to revision and updated at each reporting period, with a related adjustment to compensation expense. Performance shares expense is recognized ratably over the requisite service period based on the fair values determined (subject to the adjustments discussed above), except for awards granted to retirement-eligible participants.

The fair value of market condition performance shares is determined using a Monte Carlo simulation valuation model.

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

	Equity Awards		Liability Awards	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Fair Value
Edison International:				
Nonvested at December 31, 2015	57,779	\$ 61.18	165,629	\$ 68.44
Granted	—	—	111,754	
Forfeited	(1,258)	60.83	(13,502)	
Vested ¹	(56,521)	61.18	(56,384)	
Nonvested at December 31, 2016	—	—	207,497	84.30
SCE:				
Nonvested at December 31, 2015	32,463	\$ 62.01	90,393	\$ 68.64
Granted	—	—	50,599	
Forfeited	(1,012)	49.73	(5,751)	
Vested ¹	(29,080)	50.75	(28,963)	
Affiliate transfers, net	(2,371)	72.10	(9,611)	
Nonvested at December 31, 2016	—	—	96,667	84.25

¹ Relates to performance shares that will be paid in 2017 as performance targets were met at December 31, 2016.

Restricted Stock Units

Restricted stock units were awarded to Edison International's and SCE's executives in March 2016, 2015 and 2014 and vest and become payable on January 2, 2019, January 2, 2018 and January 3, 2017, respectively. Each restricted stock unit awarded includes a dividend equivalent feature and is a contractual right to receive one share of Edison International common stock, if vesting requirements are satisfied. The vesting of Edison International's restricted stock units is dependent upon continuous service through the end of the vesting period, except for awards granted to retirement-eligible participants.

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

	Edison International		SCE	
	Restricted Stock Units	Weighted-Average Grant Date Fair Value	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2015	248,143	\$ 57.89	134,375	\$ 58.13
Granted	123,266	67.42	55,800	67.37
Forfeited	(16,435)	63.73	(7,580)	61.45
Vested	(9,579)	52.01	(8,032)	56.53
Affiliate transfers, net	—	—	(13,775)	62.09
Nonvested at December 31, 2016	345,395	61.05	160,788	60.80

The fair value for each restricted stock unit awarded is determined as the closing price of Edison International common stock on the grant date.

Workforce Reductions

SCE continues to focus on productivity improvements to mitigate rate pressure from its capital program, optimize its cost structure and improve operational efficiency. During the year ended December 31, 2016, SCE increased the estimated impact for approved workforce reductions.

The following table provides a summary of changes in the accrued severance liability associated with these reductions:

(in millions)

Balance at January 1, 2016	\$22
Additions	21
Payments	(40)
Balance at December 31, 2016	\$3

Severance costs are included in "Operation and maintenance" on the consolidated income statements.

Note 9. Investments

Nuclear Decommissioning Trusts

Future decommissioning costs related to SCE's nuclear assets are expected to be funded from independent decommissioning trusts.

The following table sets forth amortized cost and fair value of the trust investments (see Note 4 for a discussion of fair value of the trust investments):

(in millions)	Longest Maturity Date	Amortized Cost		Fair Value	
		December 31, 2016	2015	2016	2015
Stocks	—	\$319	\$304	\$1,547	\$1,460
Municipal bonds	2054	659	691	766	840
U.S. government and agency securities	2055	1,131	1,070	1,191	1,128
Corporate bonds	2057	600	708	659	755
Short-term investments and receivables/payables ¹	One-year	75	144	79	148
Total		\$2,784	\$2,917	\$4,242	\$4,331

¹ Short-term investments include \$114 million and \$81 million of repurchase agreements payable by financial institutions which earn interest, are fully secured by U.S. Treasury securities and mature by January 4, 2017 and January 5, 2016 as of December 31, 2016 and 2015, respectively.

Trust fund earnings (based on specific identification) increase the trust fund balance and the ARO regulatory liability. Unrealized holding gains, net of losses, were \$1.5 billion and \$1.4 billion at December 31, 2016 and 2015, respectively.

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

(in millions)	Years ended December		
	31,		
	2016	2015	2014
Balance at beginning of period	\$4,331	\$4,799	\$4,494
Gross realized gains	92	326	197
Gross realized losses	(19)	(26)	(5)
Unrealized gains (losses)	44	(364)	75
Other-than-temporary impairments	(36)	(29)	(14)
Interest, dividends and other	116	115	118
Contributions	—	54	5
Income taxes	(58)	(64)	(62)
Decommissioning disbursements	(224)	(471)	(4)
Administrative expenses and other	(4)	(9)	(5)
Balance at end of period	\$4,242	\$4,331	\$4,799

Trust assets are used to pay income taxes as the Trust files separate income taxes returns from SCE. Deferred tax liabilities related to net unrealized gains at December 31, 2016 were \$348 million. Accordingly, the fair value of Trust assets available to pay future decommissioning costs, net of deferred income taxes, totaled \$3.9 billion at December 31, 2016. Due to regulatory mechanisms, changes in assets of the trusts from income or loss items have no impact on operating revenue or earnings.

Beginning in 2016, funds for decommissioning costs are requested from the nuclear decommissioning trusts one month in advance. Decommissioning disbursements are funded from sales of investments of the nuclear decommissioning trusts.

Acquisitions

On December 31, 2015, Edison Energy acquired three businesses for an aggregate purchase price of approximately \$100 million, of which \$90 million was allocated to goodwill and identifiable intangibles. Under the terms of the acquisition of one of the agreements, the sellers were entitled to additional consideration (earn-out) in the event that certain financial thresholds were achieved. During the second quarter of 2016, Edison Energy entered into an agreement to buy-out this earn-out provision and recorded an after-tax charge of \$13 million. The buy-out was completed, together with modification to employment contracts, in order to align long-term incentive compensation. During 2016, a subsidiary of SoCore Energy agreed to acquire equity interests in solar garden development projects in Minnesota as part of the SunEdison bankruptcy proceedings, subject to certain conditions. The maximum purchase price is \$41.9 million if all projects achieve the required conditions. SoCore Energy would also reimburse SunEdison up to \$8.7 million of project-specific interconnection costs. Not all of the projects are expected to achieve the closing conditions. Through February 1, 2017, SoCore Energy acquired four of these development projects (28 MWdc) for \$10.5 million.

Note 10. Regulatory Assets and Liabilities

Included in SCE's regulatory assets and liabilities are regulatory balancing accounts. CPUC authorized balancing account mechanisms require SCE to refund or recover any differences between forecasted and actual costs. The CPUC has authorized balancing accounts for specified costs or programs such as fuel, purchased-power, demand-side management programs, nuclear decommissioning and public purpose programs. Certain of these balancing accounts include a return on rate base of 7.90% in 2016 and 2015. The CPUC also authorizes the use of a balancing account to recover from or refund to customers differences in revenue resulting from actual and forecasted electricity sales. Amounts included in regulatory assets and liabilities are generally recorded with corresponding offsets to the applicable income statement accounts.

Regulatory Assets

SCE's regulatory assets included on the consolidated balance sheets are:

(in millions)	December 31,	
	2016	2015
Current:		
Regulatory balancing accounts	\$135	\$382
Energy derivatives	150	159
Unamortized investments, net	49	—
Other	16	19
Total current	350	560
Long-term:		
Deferred income taxes, net	4,478	3,757
Pensions and other postretirement benefits	710	849
Energy derivatives	947	1,027
Unamortized investments, net	80	182
San Onofre	857	1,043
Unamortized loss on reacquired debt	184	201
Regulatory balancing accounts	66	36
Environmental remediation	126	129
Other	7	288
Total long-term	7,455	7,512
Total regulatory assets	\$7,805	\$8,072

SCE's regulatory assets related to energy derivatives are primarily an offset to unrealized losses on derivatives. The regulatory asset changes based on fluctuations in the fair market value of the contracts, in which the original contracts expire in 10 to 45 years.

SCE's current and long-term unamortized investments include legacy meters retired as part of the Edison SmartConnect® program. SCE's unamortized investments related to legacy meters are expected to be recovered by 2017 and earned a rate of return of 6.46% in 2016 and 2015.

SCE's regulatory assets related to deferred income taxes represent tax benefits passed through to customers. The CPUC requires SCE to flow through certain deferred income tax benefits to customers by reducing electricity rates, thereby deferring recovery of such amounts to future periods. Based on current regulatory ratemaking and income tax laws, SCE expects to recover its regulatory assets related to deferred income taxes over the life of the assets that give rise to the accumulated deferred income taxes, approximately from 1 to 60 years.

SCE's regulatory assets related to pensions and other post-retirement plans represent the unfunded net loss and prior service costs of the plans (see "Pension Plans and Postretirement Benefits Other than Pensions" discussion in Note 8). This amount is being recovered through rates charged to customers.

SCE's unamortized investments long-term primarily include nuclear assets related to Palo Verde. Nuclear assets related to Palo Verde are expected to be recovered by 2047 and earned a return of 7.90% in 2016 and 2015.

In accordance with the San Onofre OII Settlement Agreement, SCE is authorized to recover in rates its San Onofre regulatory asset, generally over a ten-year period commencing February 1, 2012. Under the San Onofre OII Settlement Agreement (see Note 11), SCE was allowed to earn a rate of return of 2.62% in 2016 and 2015 and is authorized to continue to earn this rate as adjusted during the amortization period thereafter with changes in SCE's authorized return on debt and preferred equity. SCE's regulatory assets related to San Onofre nuclear fuel will earn a return equal to commercial paper rate that the CPUC uses to calculate interest on balancing accounts. In a December 2016 joint ruling, the Assigned Commissioner and the Assigned ALJ directed SCE to meet and confer with the other parties in the OII to consider changing the terms of the San Onofre OII Settlement Agreement. See Note 11 for further information.

SCE's net regulatory asset related to its unamortized loss on reacquired debt will be recovered over the original amortization period of the reacquired debt over periods ranging from 10 to 35 years.

SCE's regulatory assets related to environmental remediation represents a portion of the costs incurred at certain sites that SCE is allowed to recover through customer rates. See "Environmental Remediation" discussed in Note 11.

Regulatory Liabilities

SCE's regulatory liabilities included on the consolidated balance sheets are:

	December 31,	
(in millions)	2016	2015
Current:		
Regulatory		
balancing	\$ 736	\$ 1,106
accounts		
Other	20	22
Total current	756	1,128
Long-term:		
Costs of		
removal	2,847	2,781
Recoveries in		
excess of ARO	1,639	1,502
liabilities		
Regulatory		
balancing	1,180	1,314
accounts		
Other	60	79
Total	5,726	5,676
long-term		
Total		
regulatory	\$ 6,482	\$ 6,804
liabilities		

SCE's regulatory liabilities related to costs of removal represent differences between asset removal costs recorded and amounts collected in rates for those costs.

SCE's regulatory liabilities related to recoveries in excess of ARO liabilities represents the cumulative differences between ARO expenses and amounts collected in rates primarily for the decommissioning of the SCE's nuclear generation facilities. Decommissioning costs recovered through rates are primarily placed in nuclear decommissioning trusts. This regulatory liability also represents the deferral of realized and unrealized gains and losses on the nuclear decommissioning trust investments. See Note 9.

Net Regulatory Balancing Accounts

Balancing account over and under collections represent differences between cash collected in current rates for specified forecasted costs and such costs that are actually incurred. Undercollections are recorded as regulatory balancing account assets. Overcollections are recorded as regulatory balancing account liabilities. With some exceptions, SCE seeks to adjust rates on an annual basis or at other designated times to recover or refund the balances recorded in its balancing accounts. Regulatory balancing accounts that SCE does not expect to collect or refund in the next 12 months are reflected in the long-term section of the consolidated balance sheets. Regulatory balancing accounts do not have the right of offset and are presented gross in the consolidated balance sheets. Under and over collections accrue interest based on a three-month commercial paper rate published by the Federal Reserve.

The following table summarizes the significant components of regulatory balancing accounts included in the above tables of regulatory assets and liabilities:

(in millions)	December 31,	
	2016	2015
Asset (liability)		
Energy resource recovery account	\$(20)	\$(439)
New system generation balancing account	(6)	(171)
Public purpose programs and energy efficiency programs	(992)	(683)
Base revenue requirement balancing account	(426)	(319)
Tax accounting memorandum account and pole loading	(142)	(248)
DOE litigation memorandum account ¹	(122)	—
Greenhouse gas auction revenue	31	(75)
FERC balancing accounts	(69)	74
Other	31	(141)
Liability	\$(1,715)	\$(2,002)

¹ Represents proceeds from the Department of Energy ("DOE") resulting from its failure to meet its obligation to begin accepting spent nuclear fuel from San Onofre. Damages recovered are subject to CPUC review as to how these amounts would be distributed among customers, shareholders, or to offset fuel decommissioning or storage costs. See Note 11 for further discussion.

Note 11. Commitments and Contingencies

Third-Party Power Purchase Agreements

SCE entered into various agreements, which were approved by the CPUC and met critical contract provisions (including completion of major milestones for construction), to purchase power and electric capacity, including: Renewable Energy Contracts – California law requires retail sellers of electricity to comply with a RPS by delivering renewable energy, primarily through power purchase contracts. Renewable energy contracts generally contain escalation clauses requiring increases in payments. As of December 31, 2016, SCE had 119 renewable energy contracts.

QF Power Purchase Agreements – Under the Public Utility Regulatory Policies Act of 1978 ("PURPA"), electric utilities are required, with exceptions, to purchase energy and capacity from independent power producers that are qualifying co-generation facilities and qualifying small power production facilities or QFs. As of December 31, 2016, SCE had 55 QF contracts.

Other Power Purchase Agreements – SCE has entered into 30 other power purchase agreements, including combined heat and power contracts, tolling arrangements and resource adequacy contracts.

At December 31, 2016, the undiscounted future minimum expected payments for the SCE power purchase agreements that have been approved by the CPUC and have completed major milestones for construction were as follows:

(in millions)	Renewable Energy Contracts	QF Power Purchase Agreements	Other Purchase Agreements
2017	\$ 1,516	\$ 187	\$ 769
2018	1,606	148	604
2019	1,704	87	516
2020	1,776	39	472
2021	1,786	16	420
Thereafter	22,811	53	1,258
Total future commitments	\$ 31,199	\$ 530	\$ 4,039

The table above includes contractual obligations for power procurement contracts that met the critical contract provisions as of December 31, 2016 in which the term is over a year when it was executed. Additionally, SCE has signed contracts that have not met the critical contract provisions that would increase contractual obligations by \$53 million in 2017, \$235 million in

2018, \$312 million in 2019, \$554 million in 2020, \$630 million in 2021 and \$9.1 billion thereafter, if all principal provisions are completed.

Costs incurred for power purchase agreements were \$3.3 billion in 2016, \$3.2 billion in 2015 and \$3.8 billion in 2014, which include costs associated with contracts with terms of less than one year.

Many of the power purchase agreements that SCE entered into with independent power producers are accounted for as leases. The following table shows the future minimum lease payments due under the contracts that are treated as operating and capital leases (these amounts are also included in the table above). Due to the inherent uncertainty associated with the reliability of the fuel source, expected purchases from most renewable energy contracts do not meet the definition of a minimum lease payment and have been excluded from the operating and capital lease table below but remain in the table above. The future minimum lease payments for capital leases are discounted to their present value in the table below using SCE's incremental borrowing rate at the inception of the leases. The amount of this discount is shown in the table below as the amount representing interest.

(in millions)	Operating Capital	
	Leases	Leases
2017	\$ 341	\$ 1
2018	237	1
2019	161	1
2020	146	2
2021	142	2
Thereafter	1,355	9
Total future commitments	\$ 2,382	\$ 16
Amount representing executory costs		(7)
Amount representing interest		(2)
Net commitments		\$ 7

Operating lease expense for power purchase agreements was \$1.9 billion in 2016, and \$1.7 billion in both 2015 and 2014 (including contingent rents of \$1.4 billion in 2016, \$1.1 billion in 2015 and \$944 million in 2014). Contingent rents for capital leases were \$109 million in 2016 and less than \$1 million in both 2015 and 2014. The timing of SCE's recognition of the lease expense conforms to ratemaking treatment for SCE's recovery of the cost of electricity and is included in purchased power.

Other Lease Commitments

The following summarizes the estimated minimum future commitments for SCE's non-cancelable other operating leases (excluding SCE's power purchase agreements discussed above):

(in millions)	Operating
	Leases – Other
2017	\$ 52
2018	46
2019	37
2020	28
2021	22
Thereafter	258
Total future commitments	\$ 443

Operating lease expense for other leases (primarily related to vehicles, office space and other equipment) were \$68 million in 2016, \$80 million in 2015 and \$96 million in 2014. Certain leases on office facilities contain escalation clauses requiring annual increases in rent. The rentals payable under these leases may increase by a fixed amount each year, a percentage over base year, or the customer price index.

Other Commitments

The following summarizes the estimated minimum future commitments for SCE's other commitments:

(in millions)	2017	2018	2019	2020	2021	Thereafter	Total
Other contractual obligations	\$156	\$141	\$103	\$98	\$82	\$631	\$1,211

Costs incurred for other commitments were \$141 million in 2016, \$182 million in 2015 and \$90 million in 2014. SCE has fuel supply contracts for Palo Verde which require payment only if the fuel is made available for purchase. SCE also has commitments related to maintaining reliability and expanding SCE's transmission and distribution system. The table above excludes other contractual obligations that have not met the critical contract provisions. As of December 31, 2016, SCE has signed capacity reduction contracts that have not met critical contract provisions and are, therefore, not included in the table above. These contracts would increase the contractual obligations by \$3 million in 2017, \$24 million in 2018, \$94 million in 2019, \$93 million in 2020, \$71 million in 2021, and \$478 million thereafter, if all principal provisions are completed.

The table above does not include asset retirement obligations, which are discussed in Note 1.

Indemnities

Edison International and SCE have various financial and performance guarantees and indemnity agreements which are issued in the normal course of business.

Edison International and SCE have provided 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 and SCE's obligations under these agreements may or may not be limited in terms of time and/or amount, and in some instances Edison International and SCE may have recourse against third parties. Edison International and SCE have not recorded a liability related to these indemnities. The overall maximum amount of the obligations under these indemnifications cannot be reasonably estimated.

SCE has indemnified the City of Redlands, California in connection with Mountainview's California Energy Commission permit 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.

Contingencies

In addition to the matters disclosed in these Notes, Edison International and SCE are 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 and SCE believe the outcome of these other proceedings will not, individually or in the aggregate, materially affect its financial position, results of operations and cash flows.

San Onofre Related Matters

Replacement steam generators were installed at San Onofre in 2010 and 2011. On January 31, 2012, a leak suddenly occurred in one of the heat transfer tubes in San Onofre's Unit 3 steam generators. The Unit was safely taken off-line and subsequent inspections revealed excessive tube wear. Unit 2 was off-line for a planned outage when areas of unexpected tube wear were also discovered. On June 6, 2013, SCE decided to permanently retire Units 2 and 3.

San Onofre CPUC Proceedings

In November 2014, the CPUC approved the San Onofre OII Settlement Agreement, which resolved the CPUC's investigation regarding the steam generator replacement project at San Onofre and the related outages and subsequent shutdown of San Onofre. Subsequently, the San Onofre OII proceeding record was reopened by a joint ruling of the Assigned Commissioner and the Assigned ALJ to consider whether, in light of the Company not reporting certain ex parte communications on a timely basis, the San Onofre OII Settlement Agreement remained reasonable, consistent with the law and in the public interest, which is the standard the CPUC applies in reviewing settlements submitted for approval. In comments filed with the CPUC in July 2016, SCE asserted that the Settlement Agreement continues to meet this standard and therefore should not be disturbed. A number of the parties to the OII, however, have requested that the CPUC either modify the San Onofre OII Settlement Agreement or vacate its previous approval of the settlement and reinstate the OII for further proceedings.

In a December 2016 joint ruling, the Assigned Commissioner and the Assigned ALJ expressed concerns about the extent to which the failure to timely report ex parte communications had impacted the settlement negotiations and directed SCE to meet and confer with the other parties in the OII to consider changing the terms of the San Onofre OII Settlement Agreement. The ruling set out a schedule requiring that at least two meet and confer sessions be held in the first quarter of 2017 and requiring the parties to submit a joint status report to the CPUC by April 28, 2017 if no modifications have been agreed to by some or all of the parties as a result of the meet and confer process. SCE has recorded a regulatory asset to reflect the expected recoveries under the San Onofre OII Settlement Agreement. At December 31, 2016, \$857 million remains to be collected.

Challenges related to the Settlement of San Onofre CPUC Proceedings

A federal lawsuit challenging the CPUC's authority to permit rate recovery of San Onofre costs and an application to the CPUC for rehearing of its decision approving the San Onofre OII Settlement Agreement were filed in November and December 2014, respectively. In April 2015, the federal lawsuit was dismissed with prejudice and the plaintiffs in that case appealed the dismissal to the Ninth Circuit in May 2015. The Ninth Circuit cancelled the oral argument that had been scheduled for February 9, 2017 and ordered the parties to notify the Ninth Circuit of the status of the San Onofre OII by May 1, 2017 and periodically thereafter.

In July 2015, a purported securities class action lawsuit was filed in federal court against Edison International, its then Chief Executive Officer and its then Chief Financial Officer. The complaint was later amended to include SCE's former President as a defendant. The lawsuit alleges that the defendants violated the securities laws by failing to disclose that Edison International had ex parte contacts with CPUC decision-makers regarding the San Onofre OII that were either unreported or more extensive than initially reported. The complaint purports to be filed on behalf of a class of persons who acquired Edison International common stock between March 21, 2014 and June 24, 2015. In September 2016, the Court granted defendants' motion to dismiss the complaint, with an opportunity for plaintiff to amend the complaint. Plaintiff filed an amended complaint and defendants again moved to dismiss the complaint in October 2016.

Also in July 2015, a federal shareholder derivative lawsuit was filed against members of the Edison International Board of Directors for breach of fiduciary duty and other claims. The federal derivative lawsuit is based on similar allegations to the federal class action securities lawsuit and seeks monetary damages, including punitive damages, and various corporate governance reforms. An additional federal shareholder derivative lawsuit making essentially the same allegations was filed in August 2015 and was subsequently consolidated with the July 2015 federal derivative lawsuit. In September 2016, the Court granted defendants' motion to dismiss the complaint, with an opportunity for plaintiff to amend the complaint. Plaintiff did not file an amended complaint by the required date.

In October 2015, a shareholder derivative lawsuit was filed in California state court against members of the Edison International Board of Directors for breach of fiduciary duty and other claims, making similar allegations to those in the federal derivative lawsuits discussed above. The California state court action is currently on hold in light of the pending federal suits discussed above.

In November 2015, a purported securities class action lawsuit was filed in federal court against Edison International, its then Chief Executive Officer and its Treasurer by an Edison International employee, alleging claims under the Employee Retirement Income Security Act ("ERISA"). The complaint purports to be filed on behalf of a class of Edison International employees who were participants in the Edison 401(k) Savings Plan and invested in the Edison International Stock Fund between March 27, 2014 and June 24, 2015. The complaint alleges that defendants breached their fiduciary duties because they knew or should have known that investment in the Edison International Stock Fund was imprudent because the price of Edison International common stock was artificially inflated due to Edison International's alleged failure to disclose certain ex parte communications with CPUC decision-makers related to the San Onofre OII. In July 2016, the federal court granted the defendants' motion to dismiss the lawsuit with an opportunity for the plaintiff to amend her complaint. Plaintiff filed an amended complaint in July 2016 that dismissed Edison International as a named defendant, and the remaining defendants filed a motion to dismiss in August 2016.

Defendants' motion was heard by the court in November 2016 and a decision is pending.

Edison International and SCE cannot predict the outcome of these proceedings.

MHI Claims

SCE is also pursuing claims against Mitsubishi Heavy Industries, Ltd. and a related company ("MHI"), which designed and supplied the replacement steam generators. MHI warranted the replacement steam generators for an initial period of 20 years from acceptance and is contractually obligated to repair or replace defective items with dispatch and to pay specified damages for certain repairs. MHI's stated liability under the purchase agreement is limited to \$138 million and excludes consequential damages, defined to include "the cost of replacement power;" however, limitations in the contract are subject to applicable exceptions both in the contract and under law. SCE has advised MHI that it believes one or more of such exceptions apply and

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that MHI's liability is not limited to \$138 million. MHI has advised SCE that it disagrees. In October 2013, SCE sent MHI a formal request for binding arbitration under the auspices of the International Chamber of Commerce in accordance with the purchase contract seeking damages for all losses. In the request for arbitration, SCE alleges contract and tort claims and seeks at least \$4 billion in damages on behalf of itself and its customers and in its capacity as Operating Agent for San Onofre. MHI has denied any liability and has asserted counterclaims for \$41 million, for which SCE has denied any liability. Each of the other San Onofre owners sued MHI, alleging claims arising from MHI's supplying the faulty steam generators. These litigation claims have been stayed pending the arbitration. The other co-owners (San Diego Gas & Electric and Riverside) have been added as additional claimants in the arbitration. The arbitration is being conducted pursuant to a confidentiality order issued by the arbitration panel. Hearings concluded on April 29, 2016. A decision is expected to be issued in the first quarter of 2017.

SCE, on behalf of itself and the other San Onofre co-owners, has submitted seven invoices to MHI totaling \$149 million for steam generator repair costs incurred through April 30, 2013. MHI paid the first invoice of \$45 million, while reserving its right to challenge it and subsequently rejected a portion of the first invoice and has not paid further invoices, claiming further documentation is required, which SCE disputes. SCE recorded its share of the invoice paid (approximately \$35 million) as a reduction of repair and inspection costs in 2012.

Under the San Onofre OII Settlement Agreement, recoveries from MHI (including amounts paid by MHI under the first invoice), if any, will first be applied to reimburse costs incurred in pursuing such recoveries, including litigation costs. To the extent SCE's share of recoveries from MHI exceed such costs, they will be allocated 50% to customers and 50% to SCE.

The first \$282 million of SCE's customers' portion of such recoveries from MHI will be distributed to customers via a credit to a sub-account of SCE's BRRBA, reducing revenue requirements from customers. Amounts in excess of the first \$282 million distributable to SCE customers will reduce SCE's regulatory asset represented by the unamortized balance of investment in San Onofre base plant, reducing the revenue requirement needed to amortize such investment. The amortization period, however, will be unaffected. Any additional amounts received after the regulatory asset is recovered will be applied to the BRRBA.

The San Onofre OII Settlement Agreement provides the utilities with the discretion to resolve the MHI dispute without CPUC approval, but the utilities are obligated to use their best efforts to inform the CPUC of any settlement or other resolution of these disputes to the extent this is possible without compromising any aspect of the resolution. SCE and SDG&E have also agreed to allow the CPUC to review the documentation of any final resolution of the MHI dispute and the litigation costs incurred in pursuing claims against MHI to ensure they are not exorbitant in relation to the recovery obtained. There is no assurance that there will be any recovery from MHI or that, if there is a recovery, it will equal or exceed the litigation costs incurred to pursue the recovery.

Long Beach Service Interruptions

In July 2015, SCE's customers who are served via the network portion of SCE's electric system in Long Beach, California experienced service interruptions due to multiple underground vault fires and underground cable failures. No personal injuries were reported in connection with these events. SCE expects to incur penalties as a result of these events. Although resolution will be subject to settlement discussions with SED and CPUC review and approval, SCE has recorded a liability for the estimated loss.

Environmental Remediation

SCE 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. SCE 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, operation and maintenance, monitoring and site closure. Unless there is a single probable amount, SCE 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.

At December 31, 2016, SCE's recorded estimated minimum liability to remediate its 19 identified material sites (sites with a liability balance as of December 31, 2016, in which the upper end of the range of the costs is at least \$1

million) was \$128 million, including \$77 million related to San Onofre. In addition to these sites, SCE also has 18 immaterial sites with a liability balance at December 31, 2016 for which the total minimum recorded liability was \$3 million. Of the \$131 million total environmental remediation liability for SCE, \$126 million has been recorded as a regulatory asset. SCE expects to recover \$46 million through an incentive mechanism that allows SCE to recover 90% of its environmental remediation costs at certain sites (SCE may request to include additional sites) and \$80 million through a mechanism that allows SCE to recover 100% of the costs incurred at certain sites through customer rates. SCE's identified sites include several sites for which there is

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a lack of currently available information, including the nature and magnitude of contamination, and the extent, if any, that SCE 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.

The ultimate costs to clean up SCE'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. SCE believes that, due to these uncertainties, it is reasonably possible that cleanup costs at the identified material sites and immaterial sites could exceed its recorded liability by up to \$168 million and \$8 million, respectively. The upper limit of this range of costs was estimated using assumptions least favorable to SCE among a range of reasonably possible outcomes.

SCE expects to clean up and mitigate its identified sites over a period of up to 30 years. Remediation costs for each of the next four years are expected to range from \$8 million to \$20 million. Costs incurred for years ended December 31, 2016, 2015 and 2014 were \$4 million, \$5 million and \$4 million, respectively.

Based upon the CPUC's regulatory treatment of environmental remediation costs incurred at SCE, SCE 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 offsite liability claims for bodily injury and property damage from a nuclear incident to the amount of available financial protection, which is currently approximately \$13.4 billion. As of January 1, 2017, SCE and other owners of San Onofre and Palo Verde have purchased the maximum private primary insurance available (\$450 million) through a Facility Form issued by American Nuclear Insurers ("ANI"). 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.

The ANI Facility Form coverage includes broad liability protection for bodily injury or offsite property damage caused by the nuclear energy hazard at San Onofre, or while in transit to or from San Onofre. The Facility Form, however, includes several exclusions. First, it excludes onsite property damage to the nuclear facility itself and onsite cleanup costs, but as discussed below SCE maintains separate NEIL property damage coverage for such events. Second, tort claims of onsite workers are excluded, but SCE also maintains an ANI Master Worker Form policy that provides coverage for non-licensee workers. This program provides a shared industry aggregate limit of \$450 million. Industry losses covered by this program could reduce limits available to SCE. Third, offsite environmental costs arising out of government orders or directives, including those issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as CERCLA, are excluded, with minor exceptions from clearly identifiable accidents.

Based on its ownership interests, SCE could be required to pay a maximum of approximately \$255 million per nuclear incident. However, it would have to pay no more than approximately \$38 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.

NEIL, a mutual insurance company owned by entities with nuclear facilities, issues nuclear property damage and accidental outage insurance policies. The amount of nuclear property insurance purchased for San Onofre and Palo Verde exceeds the minimum federal requirement of \$1.06 billion. These policies include coverage for decontamination liability. Property damage insurance also covers damages caused by acts of terrorism up to specified limits. Additional outage insurance covers part of replacement power expenses during an accident-related nuclear unit outage. The accidental outage insurance at San Onofre has been canceled as a result of the permanent retirement, but that insurance continues to be in effect at Palo Verde.

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 \$52 million per year. Insurance premiums are charged to operating expense.

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Wildfire Insurance

Severe wildfires in California have given rise to large damage claims against California utilities for fire-related losses alleged to be the result of the failure of electric and other utility equipment. Invoking a California Court of Appeal decision, plaintiffs pursuing these claims have relied on the doctrine of inverse condemnation, which can impose strict liability (including liability for a claimant's attorneys' fees) for property damage. Drought conditions in California have also increased the duration of the wildfire season and the risk of severe wildfire events. SCE has approximately \$1 billion of insurance coverage for wildfire liabilities for the period ending on May 31, 2017. SCE has a self-insured retention of \$10 million per wildfire occurrence. SCE or its contractors may experience coverage reductions and/or increased insurance costs in future years. No assurance can be given that future losses will not exceed the limits of SCE's or its contractors' insurance coverage.

Spent Nuclear Fuel

Under federal law, the 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 has not met its contractual obligation to accept spent nuclear fuel. 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 their current license period.

In June 2010, the United States Court of Federal Claims issued a decision granting SCE and the San Onofre co-owners damages of approximately \$142 million (SCE share \$112 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. SCE received payment from the federal government in the amount of the damage award. In April 2016, SCE, as operating agent, settled a lawsuit on behalf of the San Onofre owners against the DOE for \$162 million, including reimbursement for legal costs (SCE share \$124 million) to compensate for damages caused by the DOE's failure to meet its obligation to begin accepting spent nuclear fuel for the period from January 1, 2006 to December 31, 2013. The settlement also provides for a claim submission/audit process for expenses incurred from 2014 – 2016, where SCE will submit a claim for damages caused by the DOE failure to accept spent nuclear fuel each year, followed by a government audit and payment of the claim. This process will make additional legal action to recover damages incurred in 2014 – 2016 unnecessary. The first such claim covering damages for 2014 – 2015 was filed on September 30, 2016 for approximately \$56 million. In February 2017, the DOE reviewed the 2014 – 2015 claim submission and reduced the original request to approximately \$43 million primarily due to DOE allocation limits. SCE has 30 days to review and accept the DOE's determination. SCE will make the claim submission for 2016 damages in the third quarter of 2017. All damages recovered by SCE are subject to CPUC review as to how these amounts would be distributed among customers, shareholders, or to offset fuel decommissioning or storage costs.

Note 12. Preferred and Preference Stock of Utility

SCE's authorized shares are: \$100 cumulative preferred – 12 million shares, \$25 cumulative preferred – 24 million shares and preference with no par value – 50 million shares. SCE's outstanding shares are not subject to mandatory redemption. There are no dividends in arrears for the preferred or preference shares. Shares of SCE's preferred stock have liquidation and dividend preferences over shares of SCE's common stock and preference stock. All cumulative preferred shares are redeemable. When preferred shares are redeemed, the premiums paid, if any, are charged to common equity. No preferred shares were issued or redeemed in the years ended December 31, 2016, 2015 and 2014. There is no sinking fund requirement for redemptions or repurchases of preferred shares.

Shares of SCE's preference stock rank junior to all of the preferred stock and senior to all common stock. Shares of SCE's preference stock are not convertible into shares of any other class or series of SCE's capital stock or any other security. There is no sinking fund requirement for redemptions or repurchases of preference shares.

Preferred stock and preference stock is:

(in millions, except shares and per-share amounts)	Shares Outstanding	Redemption Price	December 31,	
			2016	2015
Cumulative preferred stock				
\$25 par value:				
4.08% Series	650,000	\$ 25.50	\$16	\$16
4.24% Series	1,200,000	25.80	30	30
4.32% Series	1,653,429	28.75	41	41
4.78% Series	1,296,769	25.80	33	33
Preference stock				
No par value:				
6.50% Series D (cumulative)	1,250,000	100.00	—	125
6.25% Series E (cumulative)	350,000	1,000.00	350	350
5.625% Series F (cumulative)	190,004	2,500.00	475	475
5.10% Series G (cumulative)	160,004	2,500.00	400	400
5.75% Series H (cumulative)	110,004	2,500.00	275	275
5.375% Series J (cumulative)	130,004	2,500.00	325	325
5.45% Series K (cumulative)	120,004	2,500.00	300	—
SCE's preferred and preference stock			2,245	2,070
Less issuance costs			(54)	(50)
Edison International's preferred and preference stock of utility			\$2,191	\$2,020

Shares of Series E preference stock issued in 2012 may be redeemed at par, in whole or in part, on or after February 1, 2022. Shares of Series F, G, H, J and K preference stock, issued in 2012, 2013, 2014, 2015 and 2016, respectively, may be redeemed at par, in whole, but not in part, at any time prior to June 15, 2017, March 15, 2018, March 15, 2024, September 15, 2025 and March 15, 2026, respectively, if certain changes in tax or investment company laws occur. On or after June 15, 2017, March 15, 2018, March 15, 2024, September 15, 2025 and March 15, 2026, SCE may redeem the Series F, G, H, J and K shares, respectively, at par, in whole or in part. For shares of Series H, J and K preference stock, distributions will accrue and be payable at a floating rate from and including March 15, 2024, September 15, 2025 and March 15, 2026, respectively. Shares of Series F, G, H, J and K preference stock were issued to SCE Trust I, SCE Trust II, SCE Trust III, SCE Trust IV and SCE Trust V, respectively, special purpose entities formed to issue trust securities as discussed in Note 3. The proceeds from the sale of the shares of Series K were used to redeem \$125 million of the Company's Series D preference stock and for general corporate purposes. Preference shares are not subject to mandatory redemption.

At December 31, 2016, declared dividends related to SCE's preferred and preference stock were \$12 million.

Note 13. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss, net of tax, consist of:

(in millions)	Edison International		SCE	
	Years ended December 31,			
	2016	2015	2016	2015
Beginning balance	\$(56)	\$(58)	\$(22)	\$(28)
Pension and PBOP – net gain (loss):				
Other comprehensive (loss) income before reclassifications	(4)	(8)	(2)	1
Reclassified from accumulated other comprehensive loss ¹	6	10	3	5
Other	1	—	1	—
Change	3	2	2	6
Ending balance	\$(53)	\$(56)	\$(20)	\$(22)

1

These items are included in the computation of net periodic pension and PBOP expense. See Note 8 for additional information.

Note 14. Interest and Other Income and Other Expenses

Interest and other income and other expenses are as follows:

(in millions)	Years ended		
	December 31,		
	2016	2015	2014
SCE interest and other income:			
Equity allowance for funds used during construction	\$74	\$87	\$65
Increase in cash surrender value of life insurance policies and life insurance benefits	39	26	36
Interest income	3	4	5
Other	7	6	16
Total SCE interest and other income	123	123	122
Other income of Edison International Parent and Other ¹	—	51	25
Total Edison International interest and other income	\$123	\$174	\$147
SCE other expenses:			
Civic, political and related activities and donations	\$(32)	\$(35)	\$(35)
Other	(12)	(24)	(44)
Total SCE other expenses	(44)	(59)	(79)
Other expense of Edison International Parent and Other	—	—	(1)
Total Edison International other expenses	\$(44)	\$(59)	\$(80)

¹ Reflects Edison Capital's income related to the sale of affordable housing projects for the year ended December 31, 2015.

Note 15. Discontinued Operations

EME Chapter 11 Bankruptcy

In December 2012, EME and certain of its wholly-owned subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of Illinois, Eastern Division. The Amended Plan of Reorganization, including the EME Settlement Agreement, was completed on April 1, 2014 with the sale of substantially all of EME's assets to NRG Energy, Inc. and the transactions called for in the EME Settlement Agreement, including an initial cash payment to the Reorganization Trust of \$225 million in April 2014. In August 2014, Edison International entered into an amendment of the EME Settlement Agreement that finalized the remaining matters related to the EME Settlement including setting the amount of the two installment payments. Edison International made an installment payment of \$204 million in September 2015 and made the remaining \$214 million payment in September 2016.

Income from discontinued operations, net of tax, was \$12 million (pre-tax income of \$1 million), \$35 million (pre-tax income of \$15 million) and \$185 million (pre-tax loss of \$525 million) for the years ended December 31, 2016, 2015 and 2014, respectively. The 2016 and 2015 income was primarily related to the resolution of tax issues related to EME. The 2015 income also included insurance recoveries. Results from discontinued operations in 2014 consisted of a pre-tax loss of \$525 million primarily related to liabilities assumed in connection with the EME Settlement Agreement, including the payments to the Reorganization Trust discussed above, and income tax benefits of \$710 million related to the EME net operating loss and other credit carryforwards.

Note 16. Supplemental Cash Flows Information

Supplemental cash flows information for continuing operations is:

(in millions)	Edison International		SCE			
	2016	2015	2014	2016	2015	2014
	Years ended December 31,					
Cash payments (receipts) for interest and taxes:						
Interest, net of amounts capitalized	\$504	\$512	\$504	\$475	\$478	\$487
Tax payments (refunds), net	18	1	32	78	144	(88)
Non-cash financing and investing activities:						
Dividends declared but not paid:						
Common stock	\$177	\$156	\$136	\$—	\$—	\$147
Preferred and preference stock	12	14	18	12	14	18
Details of debt exchange:						
Pollution-control bonds redeemed (2.875%)	—	(203)	—	—	(203)	—
Pollution-control bonds issued (1.875%)	—	203	—	—	203	—
Notes issued under EME Settlement Agreement	\$—					