EDISON INTERNATIONAL
Form 10-Q
May 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

o 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	SOUTHERN CALIFORNIA EDISON COMPANY
2244 Walnut Grove Avenue	2244 Walnut Grove Avenue
(P.O. Box 976)	(P.O. Box 800)
Rosemead, California 91770	Rosemead, California 91770
(Address of principal executive offices)	(Address of principal executive offices)
(626) 302-2222	(626) 302-1212
(Registrant's telephone number, including area code)	(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Edison International Yes þ No o Southern California Edison Company Yes þ No o

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

Edison International Yes þ No o Southern California Edison Company Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-12 of the Exchange Act. (Check One):

Edison International	Large Accelerated Filer þ	Accelerated Filer ¨	Non-accelerated Filer ¨	Smaller Reporting Company ¨

Southern California Edison Company	Large Accelerated Filer ¨	Accelerated Filer ¨	Non-accelerated Filer þ	Smaller Reporting Company ¨

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 þ Southern California Edison Company Yes ¨ No þ

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

Common Stock outstanding as of April 28, 2016:

Edison International	325,811,206 shares
Southern California Edison Company	434,888,104 shares

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This is a combined Form 10-Q 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
2015 Form 10-K	Edison International's and SCE's combined Annual Report on Form 10-K for the year-ended December 31, 2015
ALJ	administrative law judge
APS	Arizona Public Service Company
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
CAA	Clean Air Act
CAISO	California Independent System Operator
CARB	California Air Resources Board
Competitive Businesses	businesses focused on providing energy services, including distributed generation and/or storage, to commercial and industrial customers; engaging in competitive transmission opportunities; and exploring distributed water treatment and recycling.
CPUC	California Public Utilities Commission
CRRs	congestion revenue rights
DOE	U.S. Department of Energy
Edison Energy	Edison Energy, LLC, a wholly-owned subsidiary of Edison Energy Group and one of the Competitive Businesses
Edison Energy Group	Edison Energy Group, Inc., the holding company for the Competitive Businesses
EME	Edison Mission Energy
EME Settlement Agreement	Settlement Agreement entered into by Edison International, EME, and the Consenting Noteholders in February 2014
EMG	Edison Mission Group Inc.
EPS	earnings per share
ERRA	energy resource recovery account
FERC	Federal Energy Regulatory Commission
Four Corners	coal fueled electric generating facility located in Farmington, New Mexico in which SCE held a 48% ownership interest
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 to be filed with the SEC in connection with Edison International's and SCE's Annual Shareholders' Meeting to be held on April 28, 2016
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations in this report
MHI	Mitsubishi Heavy Industries, Ltd. and a related company
Moody's	Moody's Investors Service
MW	megawatts
MWh	megawatt-hours
NAAQS	national ambient air quality standards

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	large pressurized water nuclear electric generating facility located near Phoenix, Arizona in which SCE holds a 15.8% ownership interest
PBOP(s)	postretirement benefits other than pension(s)
PG&E	Pacific Gas & Electric Company
QF(s)	qualifying facility(ies)
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 SCE, The Utility Reform Network, the CPUC's Office of Ratepayer Advocates and SDG&E, which was later joined by the Coalition of California Utility Employees and Friends of the Earth, (together, the "Settling Parties"), 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
TURN	The Utility Reform Network
US EPA	U.S. Environmental Protection Agency
VIE(s)	variable interest entity(ies)

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect Edison International's 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 statement that does 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 of plans, are intended to identify forward-looking statements. Such statements necessarily involve risks and uncertainties that could cause actual results to differ materially from those anticipated. Some of the risks, uncertainties and other important factors that could cause results to differ from those currently expected, or that otherwise could impact Edison International 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 regulatory assets related to San Onofre;
- 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, and delays in regulatory actions;
- ability of Edison International or SCE to borrow funds and access the capital markets on reasonable terms;
- possible customer bypass or departure due to 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 transmission and distribution infrastructure replacement and expansion projects, 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 retirement and decommissioning of nuclear generating facilities;
- physical security of SCE's critical assets and personnel and the cybersecurity of SCE's critical information technology systems for grid control, and business and customer data;
- ability of Edison International to develop its Competitive Businesses, 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 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 CAISO, WECC, NERC, and 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;

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- 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.

Additional information about risks and uncertainties, including more detail about the factors described in this report, is contained throughout this MD&A and in Edison International's and SCE's combined 2015 Form 10-K, including the "Risk Factors" section. Readers are urged to read this entire report, including the information incorporated by reference, as well as the 2015 Form 10-K, and carefully consider the risks, 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. Additionally, 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.

The MD&A for the three months ended March 31, 2016 discusses material changes in the consolidated financial condition, results of operations and other developments of Edison International and SCE since December 31, 2015, and as compared to the three months ended March 31, 2015. This discussion presumes that the reader has read or has access to Edison International's and SCE's MD&A for the calendar year 2015 (the "year-ended 2015 MD&A"), which was included in the 2015 Form 10-K.

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.

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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 subsidiaries that are engaged in competitive businesses focused on providing energy services to commercial and industrial customers, including distributed resources, engaging in transmission opportunities, and exploring distributed water treatment and recycling (the "Competitive Businesses"). 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 report relates to both filers.

	Three months ended March 31,		
(in millions)	2016	2015	Change
Net income (loss) attributable to Edison International			
Continuing operations			
SCE	$287	$305	$ (18)
Edison International Parent and Other	(17)	(6)	(11)
Discontinued operations	1	—	1
Edison International	271	299	(28)
Less: Non-core items			
SCE	—	—	—
Edison International Parent and Other	2	5	(3)
Discontinued operations	1	—	1
Total non-core items	3	5	(2)
Core earnings (losses)			
SCE	287	305	(18)
Edison International Parent and Other	(19)	(11)	(8)
Edison International	$268	$294	$ (26)

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 income or loss from discontinued operations, income resulting from allocation of losses to tax equity investors under the hypothetical liquidation at book value ("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.
SCE's core earnings for the three months ended March 31, 2016 decreased by $18 million primarily due to the timing of revenue recognized in 2015 due to the delay in receiving the 2015 GRC decision, higher operation and maintenance costs and lower incremental income tax benefits.
During the first quarter of 2015, pending the outcome of the 2015 GRC decision, SCE recognized GRC-related revenue largely based on the 2014 authorized revenue requirement. During 2015, SCE recorded an estimated revenue refund to customers of $451 million to reflect the final decision in the 2015 GRC. The estimated amount of the refund

to customers attributable to the first quarter of 2015 but recorded subsequently in 2015 was approximately $35 million ($21 million after-tax). See "Results of Operations" for further information.

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Edison International Parent and Other core losses for the three months ended March 31, 2016 increased by $8 million primarily due to higher development and operating costs at Edison Energy Group and subsidiaries and income in the first quarter of 2015 from Edison Capital's investments in affordable housing projects.

Consolidated non-core items included income of $2 million and $5 million for the three months ended March 31, 2016 and 2015, respectively, related to losses allocated to tax equity investors under the HLBV accounting method. Edison International reflected in core earnings the operating results of the solar rooftop 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 the 2015 Form 10-K, "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies."

Capital Program

Total capital expenditures (including accruals) were $729 million and $825 million for the first three months of 2016 and 2015, respectively. SCE projects that 2016 capital expenditures will be approximately $4 billion. Actual capital spending may be affected by: changes in regulatory, environmental and engineering design requirements; permitting and project delays; cost and availability of labor, equipment and materials; and other factors. SCE will file its 2018 GRC application in September 2016, which will include a forecast of capital expenditures and rate base for 2018 – 2020. For further information regarding the capital program see the year-ended 2015 MD&A, "Management Overview—Capital Program."

RESULTS OF OPERATIONS

Southern California Edison Company

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 revenue 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.

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

Three months ended March 31, 2016 versus March 31, 2015

(in millions)	Three months ended March 31, 2016			Three months ended March 31, 2015		
	Earning Activities	Cost-Recovery Activities	Total Consolidated	Earning Activities	Cost-Recovery Activities	Total Consolidated
Operating revenue	$1,522	$ 913	$ 2,435	$1,563	$ 945	$ 2,508
Purchased power and fuel	—	794	794	—	786	786
Operation and maintenance	484	119	603	462	159	621
Depreciation, decommissioning and amortization	475	—	475	463	—	463
Property and other taxes	91	—	91	88	—	88
Total operating expenses	1,050	913	1,963	1,013	945	1,958
Operating income	472	—	472	550	—	550
Interest expense	(131)	—	(131)	(136)	—	(136)
Other income and expenses	26	—	26	26	—	26
Income before income taxes	367	—	367	440	—	440
Income tax expense	50	—	50	107	—	107
Net income	317	—	317	333	—	333
Preferred and preference stock dividend requirements	30	—	30	28	—	28
Net income available for common stock	$287	$ —	$ 287	$305	$ —	$ 305
Core earnings[1]			$ 287			$ 305
Non-core earnings			—			—
Total SCE GAAP earnings			$ 287			$ 305

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

Earning Activities

SCE's results of operations for the three months ended March 31, 2016 included an increase in revenue of approximately $46 million from the escalation mechanism set forth in the final 2015 GRC decision. The annual escalation increase implemented in customer rates for 2016 was $203 million. SCE's results of operations for the three months ended March 31, 2015 were largely based on 2014 authorized base revenue requirements included in customer rates.

During 2015, SCE recorded an estimated revenue refund to customers of $451 million to reflect the final decision in the 2015 GRC. The estimated amount of the refund to customers attributable to the first quarter of 2015 but recorded subsequently in 2015 was approximately $35 million ($21 million after-tax).

Earning activities were primarily affected by the following:

- Lower operating revenue of $41 million primarily due to the following:
  - A decrease in revenue of approximately $74 million for tax benefits recognized through the tax accounting memorandum account ("TAMA") and the pole loading balancing account (offset in income taxes as discussed below) in the first quarter of 2016.
  - An increase in CPUC revenue of approximately $11 million primarily due to the implementation of the 2015 GRC decision. During the first quarter of 2016, SCE increased authorized revenue based on the escalation mechanism set forth in the 2015 GRC decision. This increase was partially offset by the timing of finalizing the 2015 GRC decision discussed above.
  - An increase in FERC-related revenue of $13 million primarily due to higher depreciation expense.
- Higher operation and maintenance expense of $22 million primarily due to transmission and distribution costs for storm-related activities and inspection costs, and higher severance costs.
- Higher depreciation, decommissioning and amortization expense of $12 million due to an increase in depreciation primarily related to transmission and distribution investments.

- Lower income taxes of $57 million primarily due to the following:
- Lower pre-tax income in 2016, as discussed above.
- Higher income tax benefits in 2016 primarily related to $43 million of repair deductions (offset in revenue above) for TAMA and pole loading balancing accounts partially offset by lower tax benefits on other property-related items in 2016.

Cost-Recovery Activities

Cost-recovery activities were primarily affected by the following:

- Lower operation and maintenance expense of $40 million primarily due to lower transmission access charges and lower benefit costs.

Supplemental Operating Revenue Information

SCE's retail billed and unbilled revenue (excluding wholesale sales and balancing account overcollections/undercollections) was $2.4 billion and $2.6 billion for the three months ended March 31, 2016 and 2015, respectively. Retail billed and unbilled revenue for the three months ended March 31, 2016 were lower compared to the same period last year primarily due to a rate decrease of $137 million and sales volume decrease of $55 million. The decrease in rates was primarily due to implementations of the 2016 ERRA rate decrease and the 2015 GRC decision in January 2016. The decrease in sales volume was due to lower load requirements related to cooler weather experienced in 2016 compared to the same period in prior year.

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" in the 2015 Form 10-K).

Income Taxes

SCE's income tax provision decreased by $57 million during the first quarter of 2016 compared to the same period in 2015.

The effective tax rates were 13.6% and 24.3% for the three months ended March 31, 2016 and 2015, respectively. The effective tax rate decrease was primarily due to higher income tax benefits related to repair deductions, mainly due to flow-through income tax benefits recorded through balancing accounts as discussed above.

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 "Liquidity and Capital Resources—SCE—Regulatory Proceedings—Tax Repair Deductions and Memorandum Account" below for more information.

Edison International Parent and Other

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

Income from Continuing Operations

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

	Three months ended March 31,	
(in millions)	2016	2015
Edison Energy Group and subsidiaries	$(6)	$2
Edison Mission Group and subsidiaries	—	3
Corporate expenses and Other[1]	(11)	(11)
Total Edison International Parent and Other	$(17)	$(6)

1 Includes interest expense (pre-tax) of $8 million and $7 million for the three months ended March 31, 2016 and 2015, respectively.

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The loss from continuing operations of Edison International Parent and Other increased $11 million for the three months ended March 31, 2016 compared to the same period in 2015 primarily due to:

- Higher development and operating costs and lower income allocated under the HLBV accounting method at Edison Energy Group and subsidiaries for the three months ended March 31, 2016 compared with the same period in prior year. The results during the first quarter of 2016 also include the three businesses acquired by Edison Energy in December 2015. Revenue of Edison Energy Group for the three months ended March 31, 2016 and 2015, were $6 million and $3 million, respectively. For further information, see the 2015 Form 10-K, "Notes to Consolidated Financial Statements—Note 1. Summary of Significant Accounting Policies" and "Management Overview—Highlights of Operating Results."
- A decrease in income from Edison Mission Group and subsidiaries of $3 million for the three months ended March 31, 2016 primarily due to income related to affordable housing projects in the first quarter of 2015. In December 2015, EMG's subsidiary, Edison Capital completed the sale of its remaining affordable housing investments portfolio which represents the exit from this business activity.

LIQUIDITY AND CAPITAL RESOURCES

Southern California Edison Company

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 and dividend payments to Edison International, and the outcome of tax and regulatory matters.

SCE expects to fund its 2016 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 liquidity requirements.

Available Liquidity

At March 31, 2016, SCE had approximately $2.56 billion available under its $2.75 billion multi-year revolving credit facility. In March 2016, SCE issued $300 million of preference stock. For further details, see "Notes to Consolidated Financial Statements—Note 5. Debt and Credit Agreements" and "—Note 12. Preferred and Preference Stock of SCE" for further discussion).

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

Regulatory Proceedings

Cost of Capital

As discussed in the year-ended 2015 MD&A, SCE and the other Joint Investor-Owned Utilities submitted a petition to the CPUC in connection with their request for a one-year extension of the due date for the filing of the next cost of capital applications. A final decision approving the Joint Investor-Owned Utilities' petition was approved on February 25, 2016. As extended, the Joint Investor-Owned Utilities must file their next cost of capital applications by April 20, 2017 instead of April 20, 2016. SCE's authorized rate of return and capital structure for CPUC-related activities will remain unchanged through December 31, 2017. See "Business—SCE—Overview of Ratemaking Process—CPUC" in the 2015 Form 10-K for details on SCE's cost of capital and authorized rates of return.

Energy Efficiency Incentive Mechanism

In March 2016, ORA and TURN filed a joint proposal requesting that the CPUC recalculate SCE's 2006 – 2008 incentive awards and order SCE to refund $39.9 million to its customers. SCE disputes the assertion that SCE should be at risk to repay previously awarded incentives. SCE cannot predict the outcome of this proceeding. See "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies—Energy Efficiency Incentive Mechanism" for more information.

Tax Repair Deductions and Memorandum Account

Previously, SCE recognized earnings and a regulatory asset for deferred income taxes related to 2012 – 2014 tax repair deductions. As a result of the CPUC's rate base offset in the 2015 GRC decision, SCE wrote down this regulatory asset in full during 2015. The after-tax charge was 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 Base Revenue Requirement Balancing Account by $234 million during 2016 through 2020 subject to the outcome of audits that may be conducted by tax authorities. The refunds result in flowing incremental tax benefits for 2012 – 2014 to customers through 2020, beginning in the second quarter of 2016. SCE does not expect to 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.

Capital Investment Plan – Major Transmission Projects

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.

West of Devers

In April 2016, the CPUC issued a proposed decision to approve the project as recommended by SCE. An alternative project with a modified scope had been considered as part of required environmental impact reviews as discussed in the year-ended 2015 MD&A. The CPUC is expected to issue a final decision on the project in the second quarter of 2016.

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 March 31, 2016, SCE's 13-month weighted-average common equity component of total capitalization was 50.2% and the maximum additional dividend, that SCE could pay to Edison International under this limitation was approximately $516 million, resulting in a restriction on net assets of approximately $13.4 billion.

In the first quarter of 2016, SCE declared and paid a dividend to Edison International of $170 million. Future dividend amounts and timing of distributions are dependent on a number of factors including the level of capital expenditures, operating cash flows and earnings.

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 March 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 have been required as of March 31, 2016.

(in millions)	
Collateral posted as of March 31, 2016[1]	$131
Incremental collateral requirements for power procurement contracts resulting from a potential downgrade of SCE's credit rating to below investment grade	26
Incremental collateral requirements for power procurement contracts resulting from adverse market price movement[2]	14
Posted and potential collateral requirements	$171

1 Net collateral provided to counterparties and other brokers consisted of $11 million of cash which was offset against net derivative liabilities on the consolidated balance sheets, $25 million of cash reflected in "Other current assets" on the consolidated balance sheets and $95 million in letters of credit and surety bonds.

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

Edison International Parent and Other

Edison International Parent and Other's liquidity and its ability to pay operating expenses and dividends to common shareholders are dependent on dividends from SCE, realization of tax benefits and access to bank and capital markets. At March 31, 2016, Edison International Parent had $988 million available under its $1.25 billion multi-year revolving credit facility. In March 2016, Edison International issued $400 million of senior notes. For further details, see "Notes to Consolidated Financial Statements—Note 5. Debt and Credit Agreements."

Edison International may 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.

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 March 31, 2016, Edison International Parent's consolidated debt to total capitalization ratio was 0.47 to 1.

In August 2014, Edison International entered into an amendment of the EME Settlement Agreement that finalized the remaining matters related to the EME Settlement. Edison International is obligated to make the final payment of $214 million on September 30, 2016. Edison International has net operating loss and tax credit carryforwards retained by EME which are available to offset future consolidated taxable income or tax liabilities. 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 through 2022). The timing of realization of these tax benefits may be further delayed in the event of future extensions of bonus depreciation and the value of the net operating loss carryforwards could be permanently reduced in the event that tax reform decreases the current corporate tax rate.

Historical Cash Flows

Southern California Edison Company

(in millions)	Three months ended March 31, 2016	2015
Net cash provided by operating activities	$882	$966
Net cash (used in) provided by financing activities	(55)	320
Net cash used in investing activities	(832)	(1,288)
Net decrease in cash and cash equivalents	$(5)	$(2)

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 the three months ended March 31, 2016 and 2015.

(in millions)	Three months ended March 31, 2016	2015	Change in cash flows 2016/2015
Net income	$317	$333	
Non-cash items[1]	537	532	
Subtotal	$854	$865	$ (11)
Changes in cash flow resulting from working capital[2]	(35)	(99)	64
Derivative assets and liabilities, net	5	(10)	15
Regulatory assets and liabilities, net	119	193	(74)
Other noncurrent assets and liabilities, net[3]	(61)	17	(78)
Net cash provided by operating activities	$882	$966	$ (84)

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 were impacted by the following:

- Net cash used for working capital was $35 million and $99 million during the three months ended March 31, 2016 and 2015, respectively. The cash outflow for each period was primarily related to the timing of disbursements, including payments for payroll, payroll-related costs and income taxes. In addition, net cash for working capital during the first quarter of 2016 was benefited by the timing of receipts from customers. During the first three months of the 2016 and 2015, SCE had net tax payments of $11 million and $32 million, respectively. In addition, SCE had severance payments of $15 million and $23 million during the first quarters of 2016 and 2015, respectively.
- Net cash provided by regulatory assets and liabilities, including changes in over (under) collections of balancing accounts. 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. During the first three months of 2016 and 2015, cash flows were impacted by the following principal balancing accounts:
- ERRA overcollections for fuel and purchased power decreased $75 million during the first three months of 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. ERRA undercollections for fuel and purchased power decreased $345 million in the first three months of 2015 primarily due to lower power and gas prices experienced in 2015.
- The base rate revenue balancing account ("BRRBA") tracks differences between amounts authorized by the CPUC in the GRC proceedings and amounts billed to customers. BRRBA overcollections decreased $85 million in the first three months of 2016 primarily due to the implementation of the 2015 GRC decision in January 2016 and lower

electricity

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sales than forecasted in rates from warmer weather experienced in 2016. BRRBA undercollections increased $72 million in the first three months of 2015 primarily due to reduced customer sales from warmer weather during the first quarter of 2015.

- The public purpose and energy efficiency programs track the differences between amounts authorized by the CPUC and amounts incurred to fund programs established by the CPUC. Overcollections increased by $134 million during the first quarter of 2016 due to higher funding and lower spending for these programs. Overcollections decreased by $23 million during the first three months of 2015 due to increased spending for these programs.
- The 2015 GRC decision established the TAMA. As a result of this memorandum account, together with a balancing account for pole loading expenditures, any differences between the authorized tax repair deductions and actual tax repair deductions will be adjusted through customer rates. Overcollections increased by $30 million during the first three months of 2016 due to higher tax repair deductions than forecasted in rates.
- Timing of greenhouse gas auction revenue and climate credit refunds to customers. Overcollections increased by $81 million compared to $36 million for the first three months of 2016 and 2015, respectively.
- Cash flows (used in) provided by other noncurrent assets and liabilities were $(61) million and $17 million in the first three months of 2016 and 2015, 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 $41 million and $32 million for the three months ended March 31, 2016 and 2015, respectively (such costs were recorded as a reduction of SCE's asset retirement obligation).

Net Cash (Used in) Provided by Financing Activities

The following table summarizes cash (used in) provided by financing activities for the three months ended March 31, 2016 and 2015. 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 SCE."

	Three months ended March 31,	
(in millions)	2016	2015
Issuances of first and refunding mortgage bonds, net	$—	$1,287
Long-term debt matured or repurchased	(40)	(419)
Issuances of preference stock, net	294	—
Redemptions of preference stock	(125)	—
Short-term debt financing, net	52	(370)
Payments of common stock dividends to Edison International	(170)	(147)
Payments of preferred and preference stock dividends	(35)	(34)
Other	(31)	3
Net cash (used in) provided by financing activities	$(55)	$320

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 $950 million and $1.3 billion for the three months ended March 31, 2016 and 2015, respectively, primarily related to transmission, distribution and generation investments. Net proceeds (purchases) of nuclear decommissioning trust investments were $106 million and $(36) million for the three months ended March 31, 2016 and 2015, respectively. The 2016 net proceeds from sale of nuclear decommissioning trust investments was due to disbursements less net earnings during the period. The 2015 net purchase of nuclear decommissioning trust investments was due to net earnings during the period.

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)	Three months ended March 31, 2016	2015
Net cash (used in) provided by operating activities: Nuclear decommissioning trusts	$(106)	$ 29
Net cash flow from investing activities: Proceeds from sale of investments	793	1,026
Purchases of investments	(687)	(1,062)
Net cash impact	$—	$ (7)

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.

In future periods, decommissioning costs of San Onofre will increase significantly. Such amounts will continue to be reflected as a decrease in SCE net cash provided by operating activities and will be funded from sales of investments of the nuclear decommissioning trusts once approved by the CPUC. Decommissioning costs incurred prior to CPUC approval will be funded by SCE and are reflected as cash flow used by operating activities. 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)	Three months ended March 31, 2016	2015
Net cash used in operating activities	$(29)	$(2)
Net cash provided by (used in) financing activities	12	(7)
Net cash used in investing activities	(2)	(6)
Net decrease in cash and cash equivalents	$(19)	$(15)

Net Cash Used in Operating Activities

Net cash used in operating activities increased $27 million for the first three months of 2016 compared to 2015 due to the timing of payments and receipts relating to interest, operating costs and income taxes.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by (used in) financing activities were as follows:

(in millions)	Three months ended March 31, 2016	2015
Dividends paid to Edison International common shareholders	$(156)	$(136)
Dividends received from SCE	170	147
Payment for stock-based compensation	(38)	(94)
Receipt from stock option exercises	22	54
Long-term debt issuance, net	397	—
Short-term debt financing, net	(384)	15

Other	1	7
Net cash provided by (used in) financing activities	$12	$(7)

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Contingencies

SCE has contingencies related to San Onofre Related Matters, Energy Efficiency Incentive Mechanism, 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

As of March 31, 2016, SCE had identified 19 material sites for remediation and recorded an estimated minimum liability of $133 million. SCE expects to recover 90% of its remediation costs at certain sites. See "Notes to Consolidated Financial Statements—Note 11. Commitments and Contingencies" for further discussion.

MARKET RISK EXPOSURES

Edison International's and SCE's primary market risks are described in the 2015 Form 10-K. 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 4. Fair Value Measurements" and "—Note 6. Derivative Instruments."

Commodity Price Risk

The fair value of outstanding derivative instruments used to mitigate exposure to commodity price risk was a net liability of $1.2 billion at both March 31, 2016 and December 31, 2015. For further discussion of fair value measurements and the fair value hierarchy, see "Notes to Consolidated Financial Statements—Note 4. Fair Value Measurements" and "— Note 6. Derivative Instruments."

Credit Risk

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

	March 31, 2016		
(in millions)	Exposure[2]	Collateral	Net Exposure
S&P Credit Rating[1]			
A or higher	$136	$ —	$ 136
Not rated	8	(12)	—
Total	$144	$ (12)	$ 136

1 SCE assigns a credit rating based on the lower of a counterparty's S&P or Moody's rating. For ease of reference, the above table uses the S&P classifications to summarize risk, but reflects the lower of the two credit ratings.

2 Exposure excludes amounts related to contracts classified as normal purchases and sales and non-derivative contractual commitments that are not recorded on the consolidated balance sheets, except for any related net accounts receivable.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

For a complete discussion on Edison International's and SCE's critical accounting policies, see "Critical Accounting Estimates and Policies" in the year-ended 2015 MD&A.

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

The risk factors appearing in the 2015 Form 10-K under the headings set forth below are supplemented and updated as follows:

RISKS RELATING TO SOUTHERN CALIFORNIA EDISON COMPANY

Regulatory Risks

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 may increase due to the leak at 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. In April 2016, a joint action plan authored by staff of the CPUC, California Energy Commission, CAISO and Los Angeles Department of Water and Power concluded that the unavailability of the gas storage facility could result in electric reliability being at risk for outages in the summer of 2016 and possibly later in 2016 and in early 2017. 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information responding to this section is included in the MD&A under the heading "Market Risk Exposures" and is incorporated herein by reference.

FINANCIAL STATEMENTS

Consolidated Statements of Income

	Edison International	
	Three months ended March 31,	
(in millions, except per-share amounts, unaudited)	2016	2015
Total operating revenue	$2,440	$2,512
Purchased power and fuel	794	786
Operation and maintenance	629	636
Depreciation, decommissioning and amortization	477	463
Property and other taxes	92	89
Total operating expenses	1,992	1,974
Operating income	448	538
Interest and other income	31	39
Interest expense	(140)	(143)
Other expenses	(6)	(10)
Income from continuing operations before income taxes	333	424
Income tax expense	38	106
Income from continuing operations	295	318
Income from discontinued operations, net of tax	1	—
Net income	296	318
Preferred and preference stock dividend requirements of SCE	30	28
Other noncontrolling interests	(5)	(9)
Net income attributable to Edison International common shareholders	$271	$299
Amounts attributable to Edison International common shareholders:		
Income from continuing operations, net of tax	$270	$299
Income from discontinued operations, net of tax	1	—
Net income attributable to Edison International common shareholders	$271	$299
Basic earnings per common share attributable to Edison International common shareholders:		
Weighted-average shares of common stock outstanding	326	326
Continuing operations	$0.83	$0.92
Total	$0.83	$0.92
Diluted earnings per common share attributable to Edison International common shareholders:		
Weighted-average shares of common stock outstanding, including effect of dilutive securities	328	329
Continuing operations	$0.82	$0.91
Total	$0.82	$0.91
Dividends declared per common share	$0.4800	$0.4175

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

Consolidated Statements of Comprehensive Income	Edison International	
	Three months ended March 31,	
(in millions, unaudited)	2016	2015
Net income	$ 296	$ 318
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)
Other comprehensive income (loss), net of tax	2	(1)
Comprehensive income	298	317
Less: Comprehensive income attributable to noncontrolling interests	25	19
Comprehensive income attributable to Edison International	$ 273	$ 298

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

Consolidated Balance Sheets	Edison International	
(in millions, unaudited)	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$137	$ 161
Receivables, less allowances of $59 and $62 for uncollectible accounts at respective dates	649	771
Accrued unbilled revenue	512	565
Inventory	268	267
Derivative assets	65	79
Regulatory assets	538	560
Other current assets	258	251
Total current assets	2,427	2,654
Nuclear decommissioning trusts	4,290	4,331
Other investments	208	203
Total investments	4,498	4,534
Utility property, plant and equipment, less accumulated depreciation and amortization of $8,751 and $8,548 at respective dates	35,323	34,945
Nonutility property, plant and equipment, less accumulated depreciation of $88 and $85 at respective dates	141	140
Total property, plant and equipment	35,464	35,085
Derivative assets	78	84
Regulatory assets	7,628	7,512
Other long-term assets	364	360
Total long-term assets	8,070	7,956
Total assets	$50,459	$ 50,229

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

Consolidated Balance Sheets	Edison International	
(in millions, except share amounts, unaudited)	March 31, 2016	December 31, 2015
LIABILITIES AND EQUITY		
Short-term debt	$363	$ 695
Current portion of long-term debt	295	295
Accounts payable	938	1,310
Accrued taxes	139	72
Customer deposits	253	242
Derivative liabilities	232	218
Regulatory liabilities	1,157	1,128
Other current liabilities	856	967
Total current liabilities	4,233	4,927
Long-term debt	11,243	10,883
Deferred income taxes and credits	7,699	7,480
Derivative liabilities	1,136	1,100
Pensions and benefits	1,771	1,759
Asset retirement obligations	2,597	2,764
Regulatory liabilities	5,920	5,676
Other deferred credits and other long-term liabilities	2,225	2,246
Total deferred credits and other liabilities	21,348	21,025
Total liabilities	36,824	36,835
Commitments and contingencies (Note 11)		
Redeemable noncontrolling interest	4	6
Common stock, no par value (800,000,000 shares authorized; 325,811,206 shares issued and outstanding at respective dates)	2,491	2,484
Accumulated other comprehensive loss	(54)	(56)
Retained earnings	9,002	8,940
Total Edison International's common shareholders' equity	11,439	11,368
Noncontrolling interests – preferred and preference stock of SCE	2,192	2,020
Total equity	13,631	13,388
Total liabilities and equity	$50,459	$ 50,229

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

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Consolidated Statements of Cash Flows	Edison International	
	Three months ended March 31,	
(in millions, unaudited)	2016	2015
Cash flows from operating activities:		
Net income	$296	$318
Less: Income from discontinued operations	1	—
Income from continuing operations	295	318
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, decommissioning and amortization	499	485
Allowance for equity during construction	(22)	(21)
Deferred income taxes and investment tax credits	35	72
Other	5	5
Nuclear decommissioning trusts	(106)	29
Changes in operating assets and liabilities:		
Receivables	117	31
Inventory	(1)	(10)
Accounts payable	(184)	63
Prepaid and accrued taxes	66	38
Other current assets and liabilities	(43)	(229)
Derivative assets and liabilities, net	5	(10)
Regulatory assets and liabilities, net	119	193
Other noncurrent assets and liabilities	68	—
Net cash provided by operating activities	853	964
Cash flows from financing activities:		
Long-term debt issued, net of discount and issuance costs of $3 and $13 for respective periods	397	1,287
Long-term debt matured	(40)	(419)
Preference stock issued, net	294	—
Preference stock redeemed	(125)	—
Short-term debt financing, net	(332)	(355)
Dividends to noncontrolling interests	(35)	(34)
Dividends paid	(156)	(136)
Other	(46)	(30)
Net cash (used in) provided by financing activities	(43)	313
Cash flows from investing activities:		
Capital expenditures	(951)	(1,268)
Proceeds from sale of nuclear decommissioning trust investments	793	1,026
Purchases of nuclear decommissioning trust investments	(687)	(1,062)
Other	11	10
Net cash used in investing activities	(834)	(1,294)
Net decrease in cash and cash equivalents	(24)	(17)
Cash and cash equivalents at beginning of period	161	132
Cash and cash equivalents at end of period	$137	$115

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

Consolidated Statements of Income

Southern California Edison Company

(in millions, unaudited)	Three months ended March 31, 2016	2015
Operating revenue	$2,435	$2,508
Purchased power and fuel	794	786
Operation and maintenance	603	621
Depreciation, decommissioning and amortization	475	463
Property and other taxes	91	88
Total operating expenses	1,963	1,958
Operating income	472	550
Interest and other income	31	33
Interest expense	(131)	(136)
Other expenses	(5)	(7)
Income before income taxes	367	440
Income tax expense	50	107
Net income	317	333
Less: Preferred and preference stock dividend requirements	30	28
Net income available for common stock	$287	$305

Consolidated Statements of Comprehensive Income

(in millions, unaudited)	Three months ended March 31, 2016	2015
Net income	$317	$333
Other comprehensive income, net of tax:		
Pension and postretirement benefits other than pensions:		
Amortization of net loss included in net income	1	1
Other comprehensive income, net of tax	1	1
Comprehensive income	$318	$334

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

Consolidated Balance Sheets Southern California Edison Company

(in millions, unaudited)	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 21	$ 26
Receivables, less allowances of $59 and $62 for uncollectible accounts at respective dates	624	724
Accrued unbilled revenue	511	564
Inventory	251	256
Derivative assets	65	79
Regulatory assets	538	560
Other current assets	233	234
Total current assets	2,243	2,443
Nuclear decommissioning trusts	4,290	4,331
Other investments	173	168
Total investments	4,463	4,499
Utility property, plant and equipment, less accumulated depreciation and amortization of $8,751 and $8,548 at respective dates	35,323	34,945
Nonutility property, plant and equipment, less accumulated depreciation of $83 and $81 at respective dates	73	73
Total property, plant and equipment	35,396	35,018
Derivative assets	78	84
Regulatory assets	7,628	7,512
Other long-term assets	239	239
Total long-term assets	7,945	7,835
Total assets	$ 50,047	$ 49,795

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

Consolidated Balance Sheets Southern California Edison Company

(in millions, except share amounts, unaudited)	March 31, 2016	December 31, 2015
LIABILITIES AND EQUITY		
Short-term debt	$ 101	$ 49
Current portion of long-term debt	79	79
Accounts payable	935	1,299
Accrued taxes	105	46
Customer deposits	253	242
Derivative liabilities	232	218
Regulatory liabilities	1,157	1,128
Other current liabilities	662	760
Total current liabilities	3,524	3,821
Long-term debt	10,422	10,460
Deferred income taxes and credits	9,297	9,073
Derivative liabilities	1,134	1,100
Pensions and benefits	1,292	1,284
Asset retirement obligations	2,595	2,762
Regulatory liabilities	5,920	5,676
Other deferred credits and other long-term liabilities	1,934	1,947
Total deferred credits and other liabilities	22,172	21,842
Total liabilities	36,118	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	653	652
Accumulated other comprehensive loss	(21)	(22)
Retained earnings	8,884	8,804
Total common shareholder's equity	11,684	11,602
Preferred and preference stock	2,245	2,070
Total equity	13,929	13,672
Total liabilities and equity	$ 50,047	$ 49,795

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

Consolidated Statements of Cash Flows Southern California Edison Company

	Three months ended March 31,	
(in millions, unaudited)	2016	2015
Cash flows from operating activities:		
Net income	$317	$333
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, decommissioning and amortization	496	483
Allowance for equity during construction	(22)	(21)
Deferred income taxes and investment tax credits	60	67
Other	3	3
Nuclear decommissioning trusts	(106)	29
Changes in operating assets and liabilities:		
Receivables	100	18
Inventory	5	(7)
Accounts payable	(175)	52
Prepaid and accrued taxes	60	43
Other current assets and liabilities	(25)	(205)
Derivative assets and liabilities, net	5	(10)
Regulatory assets and liabilities, net	119	193
Other noncurrent assets and liabilities	45	(12)
Net cash provided by operating activities	882	966
Cash flows from financing activities:		
Long-term debt issued, net of discount and issuance costs of $13 for the three months ended March 31, 2015	—	1,287
Long-term debt matured	(40)	(419)
Preference stock issued, net	294	—
Preference stock redeemed	(125)	—
Short-term debt financing, net	52	(370)
Dividends paid	(205)	(181)
Other	(31)	3
Net cash (used in) provided by financing activities	(55)	320
Cash flows from investing activities:		
Capital expenditures	(950)	(1,266)
Proceeds from sale of nuclear decommissioning trust investments	793	1,026
Purchases of nuclear decommissioning trust investments	(687)	(1,062)
Other	12	14
Net cash used in investing activities	(832)	(1,288)
Net decrease in cash and cash equivalents	(5)	(2)
Cash and cash equivalents, beginning of period	26	38
Cash and cash equivalents, end of period	$21	$36

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
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 company that holds interests in subsidiaries that are engaged in competitive businesses focused on providing energy services to commercial and industrial customers, including distributed resources, engaging in competitive transmission opportunities, and exploring distributed water treatment and recycling. Such competitive 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 significant accounting policies were described in Note 1 of "Notes to Consolidated Financial Statements" included in the 2015 Form 10-K. This quarterly report should be read in conjunction with the financial statements and notes included in the 2015 Form 10-K.
In the opinion of management, all adjustments, consisting of recurring accruals, have been made that are necessary to fairly state the consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America for the periods covered by this quarterly report on Form 10-Q. The results of operations for the three-month period ended March 31, 2016 are not necessarily indicative of the operating results for the full year.
The December 31, 2015 financial statement data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Certain prior year amounts have been reclassified for consistency with the current period presentation.
Cash Equivalents
Cash equivalents included 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	
(in millions)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Money market funds	$ 36	$ 37	$ 7	$ 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	
(in millions)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Book balances reclassified to accounts payable	$ 102	$ 162	$ 102	$ 158

Inventory
Inventory is primarily composed of materials, supplies and spare parts, and stated at the lower of cost or market, cost being determined by the average cost method.

Revenue Recognition

Operating revenue is recognized when electricity is delivered and includes amounts for services rendered but unbilled at the
end of each reporting period. During the first quarter of 2015, SCE recognized revenue from CPUC activities largely based on 2014 authorized base revenue requirements included in customer rates. In the fourth quarter of 2015, SCE implemented its 2015 GRC decision which allowed SCE to recover its revenue requirement retroactive to January 1, 2015.

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:

	Three months ended March 31,	
(in millions, except per-share amounts)	2016	2015
Basic earnings per share – continuing operations:		
Income from continuing operations attributable to common shareholders	$270	$299
Participating securities dividends	—	—
Income from continuing operations available to common shareholders	$270	$299
Weighted average common shares outstanding	326	326
Basic earnings per share – continuing operations	$0.83	$0.92
Diluted earnings per share – continuing operations:		
Income from continuing operations available to common shareholders	$270	$299
Income impact of assumed conversions	—	—
Income from continuing operations available to common shareholders and assumed conversions	$270	$299
Weighted average common shares outstanding	326	326
Incremental shares from assumed conversions	2	3
Adjusted weighted average shares – diluted	328	329
Diluted earnings per share – continuing operations	$0.82	$0.91

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 2,023,787 and 79,394 shares of common stock for the three months ended March 31, 2016 and 2015, respectively, were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the awards was greater than the average market price of the common shares during the respective periods and, therefore, the effect would have been antidilutive.

New Accounting Guidance

Accounting Guidance Adopted

On April 7, 2015, the FASB issued an accounting standards update that requires debt issuance costs to be presented in the balance sheet as a direct deduction 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 March 31, 2016, the amount of debt issuance costs that are reflected as a deduction of "Long-term debt" was $76 million for SCE and $83 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 deduction of "Long-term debt" was $77 million for SCE and $81 million for Edison International.

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On April 15, 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.

Accounting Guidance Not Yet Adopted

On May 28, 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. On July 9, 2015, the FASB approved a one-year deferral, updating the effective date to January 1, 2018. Edison International and SCE are currently evaluating this new guidance and cannot determine the impact of this standard at this time. Edison International and SCE anticipates adopting the standard using the modified retrospective application which means that we would recognize the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings in 2018.

On January 5, 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.

On February 25, 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 classify leases with a term of more than one year as either operating or finance leases and will need to recognize a right-of-use asset and a lease liability. 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 front-loaded expense pattern. This guidance is effective January 1, 2019 but early adoption is permitted. Edison International and SCE are currently evaluating this new guidance and cannot determine the impact of this standard at this time.

On March 30, 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 will be recorded through the income statement. Currently, tax benefits in excess of compensation cost ("windfalls") are recorded in equity, and tax deficiencies ("shortfalls") are recorded in equity to the extent of previous windfalls, and then to the income statement. This guidance is effective January 1, 2017 but early adoption is permitted. The new standard also revised reporting on the statement of cash flows. Edison International and SCE are currently evaluating this new guidance.

Note 2. Consolidated Statements of Changes in Equity

The following table provides Edison International's changes in equity for the three months ended March 31, 2016:

(in millions, except per-share amounts)	Equity Attributable to Common Shareholders Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Subtotal	Noncontrolling Interests Preferred and Preference Stock	Total Equity
Balance at December 31, 2015	$2,484	$ (56)	$8,940	$11,368	$ 2,020	$13,388
Net income	—	—	271	271	30	301
Other comprehensive income	—	2	—	2	—	2
Common stock dividends declared ($0.48 per share)	—	—	(156)	(156)	—	(156)
Dividends to noncontrolling interests	—	—	—	—	(30)	(30)
Stock-based compensation	1	—	(50)	(49)	—	(49)
Non-cash stock-based compensation	6	—	—	6	—	6
Issuance of preference stock	—	—	—	—	294	294
Redemption of preference stock	—	—	(3)	(3)	(122)	(125)
Balance at March 31, 2016	$2,491	$ (54)	$9,002	$11,439	$ 2,192	$13,631

The following table provides Edison International's changes in equity for the three months ended March 31, 2015:

(in millions, except per-share amounts)	Equity Attributable to Common Shareholders Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Subtotal	Noncontrolling Interests Preferred and Preference Stock	Total Equity
Balance at December 31, 2014	$2,445	$ (58)	$8,573	$10,960	$ 2,022	$12,982
Net income	—	—	299	299	28	327
Other comprehensive loss	—	(1)	—	(1)	—	(1)
Common stock dividends declared ($0.4175 per share)	—	—	(136)	(136)	—	(136)
Dividends to noncontrolling interests	—	—	—	—	(28)	(28)
Stock-based compensation	9	—	(61)	(52)	—	(52)
Non-cash stock-based compensation	6	—	—	6	—	6
Balance at March 31, 2015	$2,460	$ (59)	$8,675	$11,076	$ 2,022	$13,098

The following table provides SCE's changes in equity for the three months ended March 31, 2016:

(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, 2015	$2,168	$ 652	$ (22)	$ 8,804	$ 2,070	$ 13,672
Net income	—	—	—	317	—	317
Other comprehensive income	—	—	1	—	—	1
Dividends declared on common stock	—	—	—	(170)	—	(170)
Dividends declared on preferred and preference stock	—	—	—	(30)	—	(30)
Stock-based compensation	—	1	—	(34)	—	(33)
Non-cash stock-based compensation	—	3	—	—	—	3
Issuance of preference stock	—	(6)	—	—	300	294
Redemption of preference stock	—	3	—	(3)	(125)	(125)
Balance at March 31, 2016	$2,168	$ 653	$ (21)	$ 8,884	$ 2,245	$ 13,929

The following table provides SCE's changes in equity for the three months ended March 31, 2015:

(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, 2014	$2,168	$ 618	$ (28)	$ 8,454	$ 2,070	$ 13,282
Net income	—	—	—	333	—	333
Other comprehensive income	—	—	1	—	—	1
Dividends declared on common stock	—	—	—	(147)	—	(147)
Dividends declared on preferred and preference stock	—	—	—	(28)	—	(28)
Stock-based compensation	—	9	—	(22)	—	(13)
Non-cash stock-based compensation	—	4	—	—	—	4
Balance at March 31, 2015	$2,168	$ 631	$ (27)	$ 8,590	$ 2,070	$ 13,432

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 an entity that owns rooftop solar projects. 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 qualifying facilities ("QFs") that contain variable pricing provisions based on the price of natural gas. SCE has concluded that it is not the primary beneficiary of these VIEs since it does not control the commercial and operating activities of these entities. 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 of the 2015 Form 10-K. 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 4,383 MW and 4,125 MW at March 31, 2016 and 2015, respectively, and the amounts that SCE paid to these projects were $127 million and $103 million for the three months ended March 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 respectively, (cumulative, liquidation amounts of $25 per share) 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 when and if 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.

The Trust I, Trust II, Trust III and Trust IV balance sheets as of March 31, 2016 and December 31, 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 March 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)	Three months ended March 31, Trust I	Trust II	Trust III	Trust IV	Trust V
2016					
Dividend income	$7	$ 5	$ 4	$ 4	$ 1
Dividend distributions	7	5	4	4	1
2015					
Dividend income	$7	$ 5	$ 4	*	*
Dividend distributions	7	5	4	*	*

* 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 March 31, 2016 and December 31, 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 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 over-the-counter options, tolling arrangements and derivative contracts that trade infrequently such as congestion revenue rights ("CRRs") and long-term power agreements. Edison International Parent and Other does not have any Level 3 assets and liabilities.

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:

	March 31, 2016				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral[1]	Total
Assets at fair value					
Derivative contracts	$—	$—	$143	$ —	$143
Other	28	—	—	—	28
Nuclear decommissioning trusts:					
Stocks[2]	1,464	—	—	—	1,464
Fixed Income[3]	907	1,810	—	—	2,717
Short-term investments, primarily cash equivalents	69	48	—	—	117
Subtotal of nuclear decommissioning trusts[4]	2,440	1,858	—	—	4,298
Total assets	2,468	1,858	143	—	4,469
Liabilities at fair value					
Derivative contracts	—	21	1,356	(11)	1,366
Total liabilities	—	21	1,356	(11)	1,366
Net assets (liabilities)	$2,468	$1,837	$(1,213)	$ 11	$3,103

	December 31, 2015				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral[1]	Total
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					