



**EDISON**  
INTERNATIONAL®

**EIX 2<sup>ND</sup> QUARTER 2006 FINANCIAL RESULTS**

**AUGUST 8, 2006 CONFERENCE ID – 10900**

**HOSTED BY: JOHN BRYSON**

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*Operator: At this time it is my pleasure to introduce your host, John Bryson, Chairman and CEO of Edison International. Thank you, and go ahead Mr. Bryson.*

**John Bryson:** Thank you and good morning to all of you. We appreciate your joining us today. We will follow the usual format. Most of you know it from the past. We will provide opening comments then respond to your questions. And we'll begin now with the forward-looking statement advisory.

**Barbara Matthews:** During this call we will make forward-looking statements about the financial outlook for Edison International and its subsidiaries and about other future events. Additional forward-looking information may be available on our website at [www.edisoninvestor.com](http://www.edisoninvestor.com). We believe these statements and this information to be reasonable and well-founded. However, actual results could differ materially from current expectations. We have set forth important factors that could cause different results in Edison International's 2005 Form 10-K and its second quarter 2006 Form 10-Q filed today. We encourage you to read these reports carefully.

**John Bryson:** All right. Thank you, Barbara. First, the financial results. Many of you will have seen these. Edison International's earnings for the second quarter of 2006 were 54 cents per common share. That compares to 61 cents in 2005. So down seven cents, and that seven cents is primarily due to non-core items. Core earnings were 55 cents per share in the second quarter of 2006. That is up one cent for the same period last year.

The one cent increase is primarily the net result of an eight cent core earnings improvement at Edison Mission Energy. As you know that's our competitive power generation business. So up eight cents on a core basis, and that in turn was partially offset on a quarter-over-quarter comparison basis by the gains recorded in 2005 from an Edison Capital infrastructure fund investment.

Tom McDaniel will take you through the earnings performance in greater detail in a minute. I thought it might be helpful for this to start with comment on a number of events that most of you have followed, some of you have asked about, things that would effect our business now and in the future.

Let me start with the extraordinary heat wave, July 13 through July 27, in the western region. You know about that. Here are a few facts on how it affects us. First, no surprise that set a new record system peak. A specific number there is 22,889 MW, July 25th. That peak, and here's key things, that peak was 4.4% higher than the previous record set a year ago, set in 2005, and then, significantly, 10.2% higher than in 2004. So in just two years the peak demand has grown by close, for example, this is an analogy, to the total generating capacity of our largest generating station, the San Onofre nuclear plant. So for planning purposes, as you can see, we're facing a challenging situation.

Let me comment on the heat first and our performance through it and how the investments we've been making – most of you know that we have doubled the rate of capital investment in the system in the last year as compared with the years prior to 2004. So during those extreme heat conditions, 0.2% of our 700,000 transformers failed. We don't like to have those failures at all. No one does. But that failure rate, under the extreme conditions that we faced -- which we assess as more challenging than the one-in-ten conditions that we planned for -- that failure rate was relatively low under those circumstances. And that relatively low rate was primarily the result of this very substantial increased rate of capital investment Southern California Edison has been making in our distribution system since 2004.

That was one case, but the fact is that we are continuing, and have for some time, to experience very high customer growth rates on the system, and then the majority of that customer growth is located in the hotter areas, the hotter inland areas of our service territory, particularly San Bernardino and Riverside counties. And those are among the fastest growing large counties in the United States. You put these factors together -- high customer growth, location of that growth, and the fact that much of what has been being built in those counties is bigger than in the past and involves more electricity requirements, more air conditioning. You put all that together and we have faced, but we expect to continue to face, demanding situations with stress on our

distribution system, and we also need additional bulk power generation built over the next year, two years, three years.

So put it all together, clearly our grid -- our power grid -- will continue to need the high levels of investment in the future that we've been talking about. As I think most of you know, in May the California Public Utilities Commission reached a decision in our General Rate Case, called the 2006 Rate Case. Most of what we asked for by way of capital investment for the distribution system was granted in that case. Not all, but most. So the Commission has been concerned about the reliability, stress, in light of the growth on our system. They've been supportive. That decision was extraordinarily important. Obviously, it is validated vividly by the experience of the heat storm that we were through in July.

That's the distribution side. That will require continuing investment, we expect, for a substantial time in the future.

But then the next question is; What about bulk power generation? And there was sufficient bulk power generation during the heat storm. That doesn't make any of us complacent at all. Given the growth on the system, additional power generation will be required. Two weeks ago, California Public Utilities Commission approved our proposal at Southern California Edison to go out and offer power purchase contracts of up to 10 years in duration, or up to 1,500 megawatts of new power supplies. That will be done through an auction process.

And here's something that some of you have followed, that's very important to us. It's important to get the bulk power generation. It's also important for our customers that the PUC authorized us in this auction process, in this award, to allocate the costs of that procurement, and the benefits of it, broadly across benefiting customers. So beyond our service territory. And that key step allows us to protect our customers so that they don't bear costs that other load serving entities in the region that may benefit avoid.

One last comment on this request for offers that Southern California Edison is putting out for new generation. We have said to you in the past, we will follow through now, that our Edison Mission Group team has been working to assist California over the past two years. They have identified and are working to develop two 500-megawatt natural gas fired peakers that would be available in Southern California. EMG intends to bid in this competitive auction process with

these projects. No way to know who will be selected. It will be a strictly competitive bid. Edison Mission Group will make its way strictly on the competitive merits of its projects.

All right, three other brief comments on significant recent developments at Southern California Edison, and then I'll go on to the Edison Mission Group.

But first, we were granted a rate increase, this was the third this year. The rates in general this year have been driven up significantly by natural gas prices that need to flow through the system. But with regard to this third increase, which is about a 2% increase on average across our customers, we've concluded that putting it into place on August 1<sup>st</sup> would not be as good for our customers as deferring it into the fall. So with the heat storm, with relatively high summer bills, we thought customers would better deal with the rate increase if it came into the fall. So we asked for the deferral. That's been granted by the Executive Director of the California Public Utilities Commission. So that will happen later.

Then the Mojave coal-fired power plant, that was terminated in operation on December 31<sup>st</sup>. We had worked to find a path to extend the potential benefits of that plant, generation that had value. But, as some of you have followed us closely will know, we terminated that effort last month. We will put no further money into that project and we're working with the three other plant co-owners to find a plant for the future that would involve either the sell of the plant or decommissioning of it.

And then finally, our advanced meter initiative, many of you have asked about that. The news that we have for you now is we believe that it will be possible to accelerate by one year the timeframe for implementing and installing that advanced metering infrastructure, the new AMI program. That's a new technology that will employ -- it will be -- it will assist, we believe, both our customers and system reliability. We'll be filing later this year with the PUC for support of the necessary initial capital investment. And we foresee, if that all goes to plan, and we see no reason why it shouldn't, that the meter installation would begin in 2008.

All right, a few words on matters of significance to the Edison Mission Group.

Heat storms haven't been limited to the west, as you know. Record temperatures, high demands have hit the Midwest and East Coast over the last couple of weeks. Clearly, that experience is causing people, decision-makers, in those regions, as in California, to look harder at what may be

needed to ensure reliable generation supply over the next several years. And we are pleased in a couple of areas that we're looking hard, we've been supportive of a forward-looking capacity market for PJM. It appears that progress may be made on that front. That would help recognize the value of existing capacity and would facilitate, in our judgment, construction of new generation. We are also hopeful that the Illinois full requirements auction that is scheduled for September this year will proceed as planned. And for us, an important benefit of that auction is that it will provide increased liquidity in that important market for us.

And then, a couple of comments on our growth strategy at Edison Mission Group.

Last month, we made some additional new purchase commitments. Those are for wind turbines, an additional 290 megawatts, that will help meet our 2006/2007 wind energy development pipeline. We have a total of outstanding turbine commitments, 538 megawatts, and a significant pipeline of projects to utilize the turbines.

And then finally, our Carson Hydrogen Project, that's the project that would use waste refinery material, pet coke, and turn it -- gas fire, turn it into hydrogen. And then use the hydrogen, in turn, to drive turbines for a 500-megawatt power project here in the Los Angeles Basin. That's a strongly supported project in California. Obviously it has important environmental benefits and would be an important model for how to take products, coal-like products or coal itself, and turn it into a clean source of energy across the country and hopefully more broadly. But in any event, that's a key demonstration project that remains in an early development stage. What we have now done is go forth with BP to the Department of Energy to seek investment tax credits that are enabled under the Energy Policy Act of 2005. And what we're pleased about, notable for our state, California isn't notable this way, very broad bipartisan support from the Governor, Governor Schwarzenegger, and 46 members of the California Congressional Delegation. So that has a ways to go, but that's an important step.

All right. Those are my comments. I'll turn now to Tom McDaniel to take you in greater detail through the financial results from the past quarter.

**Tom McDaniel:** Okay. Thank you, John. Good morning everybody. Today, my remarks will cover our 2006 second quarter and year-to-date performance compared to last year. I will then

provide an update on operations and hedging programs at our Midwest Generation and Homer City plants and wrap up with comments on earnings guidance.

There are three supplemental charts attached to our press release that I will refer to throughout my comments. Charts 1 and 2 reconcile our core, or operating earnings, which exclude discontinued operations and other non-core items, to reported GAAP earnings for the quarter, that's in Chart 1, and year-to-date periods for Chart 2. Chart 3 includes key operating and hedge information on MEHC's merchant fleet.

Also, this morning, I'll note that we filed our second quarter 10-Qs, which provide you additional detailed information on the company.

Now referring to Chart 1, we reported consolidated EIX earnings of \$177 million, or \$0.54 per share in the second quarter of 2006. That compares to \$201 million, or \$0.61 per share, during the same period last year.

I'll first cover core earnings, core earnings which exclude income from discontinued operations and other non-core items. These core earnings were \$180 million, or \$0.55 per share, for the second quarter of 2006, compared to \$176 million, or \$0.54 per share, for the same quarter last year, a one-cent per share increase. Southern California Edison was down one cent per share; while Edison Mission Group was up two cents; and the EIX parent company was flat.

Now, I will cover each company's core earnings in more detail.

SCE's core earnings for the second quarter of 2006 were \$153 million, or \$0.47 per share; compared to \$157 million, or \$0.48 per share, for the same period in 2005. This change reflects the impact from recorded higher net revenue of \$0.03 per share from recognition of the 2006 General Rate Case decision in the second quarter. The CPUC approved the GRC decision in May and allowed SCE to record the impact of the decision back to early January. Also, SCE's new Mountainview power plant contributed earnings of \$0.02 per share. These increases were offset by higher taxes of \$0.06 per share, associated with the resolution of an outstanding tax issue with the IRS back in 2005.

EMG's core earnings were \$32 million, or \$0.10 per share, during the second quarter of 2006 compared to \$25 million, or \$0.08 per share; a two-cent increase over the same period in 2005.

As part of EMG, MEHC's core earnings were up \$0.08 per share on a quarter-over-quarter basis, primarily due to higher wholesale energy margins and estimated insurance recovery for the Homer City Unit 3 transformer outage, that's \$0.06 per share. \$0.02 of that is associated with the insurance recovery. Also, higher wholesale energy margins at Midwest Generation, mainly driven by higher energy prices, that's \$0.02 per share, and higher net interest income of \$0.03 per share. These increases were partially offset by higher taxes of \$0.04 per share.

Also, as part of EMG, Edison Capital's core earnings were down \$0.06 per share for the second quarter of 2006 compared to the same period last year, primarily due to mark-to-market gains recorded during the second quarter of 2005 from the Emerging Europe Infrastructure Fund.

Turning to non-core items, and I'll focus just on 2006. Non-core items represented a net loss of one penny per share in the second quarter, and were composed of two items. First, SCE recorded a positive adjustment of \$81 million, or \$0.25 per share, from the resolution of an outstanding issue involving a portion of revenue collected during 2001 through 2003 related to state income taxes. Second, MEHC recorded a loss of \$84 million, or \$0.26 per share, the majority of which relates to the early extinguishment of debt and costs associated with that, in connection with the debt refinancings that we completed during the second quarter of 2006.

Now, I'll discuss our year-to-date results, and please refer to Chart 2 in the earnings press release. Again, I'll discuss core earnings first, followed by non-core items.

EIX year-to-date core earnings for 2006 were \$364 million, or \$1.10 per share, compared to \$386 million, or \$1.19 per share, recorded in the same period last year. SCE was down \$0.04 per share, EMG down \$0.05 cents per share. The EIX parent company was flat.

I'll cover the core earnings first.

SCE's year-to-date core earnings were \$274 million, or \$0.84 per share, 4 cents below the same period last year, as earnings from the new Mountainview plant, \$0.05 per share, were more than offset by lower net revenue of \$0.02 per share and higher income tax expense for the year -- year-to-date. You may recall that at the end of the first quarter net revenue was down \$0.05 per share, and with the implementation of the 2006 GRC decision, we were able to make up \$0.03 per share of net revenue in the second quarter. Due to the seasonality of SCE's sales, as well as rate design approved in the General Rate Case, SCE's base rate revenue will be higher in the

third quarter compared to the other three quarters. Turning to EMG, core earnings were \$105 million, or \$0.32 per share, during the first half of 2006 compared to \$117 million, or \$0.37 per share, for the same period in 2005.

Again, as part of EMG, MEHC's increase in core earnings of \$0.11 per share was primarily due to higher wholesale energy margins at Midwest Generation, contributing \$0.08, higher corporate net interest income, contributing \$0.07, and higher trading income at EMMT, \$0.02 per share. These increases were partially offset by higher tax expense of \$0.04 and the impact of the Homer City outage during the first part of the year of \$0.03 per share. I'd like to point out that Homer City was down \$0.08 per share at the end of the first quarter and we were able to pick up \$0.03 per share due to higher wholesale energy prices in the second quarter and the return to service of Homer City Unit 3, in addition to the \$0.02 per share that we received from the insurance proceeds.

Due to higher electric demand during the summer months, primarily from warmer weather, and revenue generated from MEHC's merchant plants and its California projects, the third quarter has historically been a higher earnings period for EME than the other months.

Also as part of EMG, Edison Capital's decrease in core earnings of \$0.16 per share was primarily due to the 2005 gains from its Emerging Europe Infrastructure Fund investments.

Non-core items through the first half of the year contributed a positive \$0.22 per share. SCE had a positive impact of \$0.25 cents per share, again as a result of the resolution of the outstanding state tax related items, while MEHC's non-core items totaled a loss of \$0.03 per share, which was comprised of the early extinguishment of debt costs, as I mentioned earlier, which were partially offset by the receipt of proceeds from MEHC's Lakeland project in the UK.

In summary, EIX consolidated reported earnings were \$435 million, or \$1.32 per share, for the first half of 2006, compared to \$403 million, or \$1.23 per share, during the same period last year, an increase of \$0.09 per share.

Now referring to Chart 3, let me add some supplemental comments about the performance of Midwest Generation and Homer City:

The gross margin at Midwest Generation and Homer City increased in the second quarter of 2006, due to higher average energy prices. At Midwest Generation, our average energy price was \$47.63 /MWh during the second quarter, which was up 13.9% from \$41.83/MWh during the second quarter of 2005. At Homer City, the average energy price was \$50.02 /MWh during the second quarter of 2006, which was up 16.5% from the \$42.93/MWh recorded during the second quarter of 2005. As we have indicated in the past, we focus on gross margin and recognize generation will vary from period to period based on a variety of factors, some of which are weather, demand, unit availability and dispatch by PJM. Our average energy prices for the first six months of 2006 are also higher than for the same period last year.

With respect to plant operations, our availability and forced outage rates improved over last year, except for the outage at Homer City Unit 3 related to the transformer failure. Homer City Unit 3 came back on-line on May 5<sup>th</sup>, thus the outage impacted both first and second quarter generation totals for Homer City. In addition, some of you may have seen reports last Friday that two units at Homer City, that's Units 1 and 3, went off-line with minor equipment problems. Repairs are underway and both units are expected to be back on-line tomorrow.

Chart 3 also shows our hedge program at June 30, 2006. This information is substantially the same as the hedge position set forth in our June 29<sup>th</sup> investor presentation and call. Since June 30, we have entered into a new bilateral contract to sell 500 MW of on-peak generation for 2007 through 2009, that's approximately 2 TWh's per year. This contract was an important milestone for us as it is the first significant hedge contract we have entered into that does not require support -- credit support -- or margining or other collateral requirements associated with the hedge.

Final comment on our cash position; Cash and short-term investments at EMG stood at \$1.95 billion as of June 30. We have about \$800 million in available credit lines. Margin and collateral deposits and other credit support for energy contracts were \$343 million at June 30.

Lastly, with respect to earnings guidance, on June 29<sup>th</sup> we provided our earnings guidance for 2006 and 2007. This guidance was based on assumptions set out in the guidance materials, including generation volume assumptions for our merchant coal fleet and forward power prices at May 31<sup>st</sup>. We indicated that earnings at MEHC will vary as realized prices and generation volumes differ from those assumptions. We are not at this time updating our earnings guidance;

however, we can make the following comments on more recent information that may impact MEHC earnings. First, power prices have been volatile in recent weeks with the severe heat experienced across the country. Through this period forward prices moved up significantly and fell off more recently as the heat has abated. Forward prices are now somewhat above the May 31 forwards which, if realized, would be a positive for us. Also, the performance of our trading operation has been above that included in the June 29 guidance. Since we are now in the middle of the important summer generating season and power prices may remain volatile, and generation may vary based on weather and other factors, we will not update our guidance until the release of our third quarter earnings which will reflect our performance through the full summer period.

That concludes my comments and now we are ready for questions.

**Tom McDaniel:** Operator, we're ready for questions.

*Operator: The first question comes from the line of Steven Rountos with Talon Capital Management. Go ahead, please.*

**Steven Rountos:** Hi, everyone.

**Tom McDaniel:** Hello.

**Steven Rountos:** I wanted to ask you about Southern Cal Edison. And it sounded like the third quarter -- the second quarter was a little bit behind your internal plan, but that the third quarter is going to be a little bit ahead based on what you see. So the net-net, you're leaving your guidance range unchanged.

**Tom McDaniel:** Well, let me be -- we're not updating our guidance at this point in time. But what we did indicate is that our revenues will vary quarter to quarter based on rate design and the impact of the summer. So we would naturally expect to see the third quarter higher. And when we set out annual guidance, it really takes into consideration the fact that our revenues will vary quarter to quarter, as rates are put into effect.

**Steven Rountos:** I guess I was just surprised to see, given the rate case is retroactive to January 1<sup>st</sup>, that your earnings were kind of flattish at Southern Cal.

**Tom McDaniel:** We don't recover all of that in the quarter. It's spread out over the balance of the year, and with a greater influence in the third quarter based on rate design.

**Steven Rountos:** Okay. So it is kind of right to say that third quarter will be a little bit higher, as will the fourth quarter, to make up some of the deferral that you have already -- that you're booking?

**Tom McDaniel:** Yeah. Let me have Tom Noonan, CFO of SCE, add additional flavor.

**Tom Noonan:** Yeah, right now when you look at the base rate increase, about a third of our base rate increase is recovered in the third quarter and about 55% of our base rate increase is recovered in the third and fourth quarters. So the first and second quarter -- basically of the increase we receive, we only receive about 45% of it.

**Steven Rountos:** And that's on a -- you are booking that to earnings, or is that on a cash basis?

**Tom Noonan:** That's on an earnings basis. In other words, the revenues are accrued. The cash is collected differently, but the revenues are accrued based on 45% in the first two quarters and 55% in the third and fourth quarters.

**Steven Rountos:** Okay. Thank you. Then, can you give us a little more color on the 500 megawatt hedged? What's the delivery point, or delivery points? How does it split up '07, '08, '09? Is it fixed price?

**John Bryson:** Yeah, that's a bilateral contract we've entered into, so we can't give you any details on the pricing of that. But it is 500 megawatts in each year at Ni-Hub of on-peak.

**Steven Rountos:** Okay. My last quick question was actually on PJM. What are you seeing, or what have you been seeing, during the heat wave with the basis differentials? And -- yes, that's really it.

**Tom McDaniel:** Let me ask Jim Scilacci to comment on that.

**Jim Scilacci:** Tom, we entered into a hedge, a basis hedge, earlier in the year, as people remember, and that extends until midway through 2007. So from our hedge position, that's

mostly covered. But as far as spot sales, I don't have information in terms of how that hedge -- excuse me, the basis hedge has been day to day through the third quarter.

**Steven Rountos:** But based on your hedge, you're pretty well covered?

**Jim Scilacci:** Yes.

**Steven Rountos:** Okay. Thanks.

**Tom McDaniel:** Yeah, the basis hedge essentially covered the hedge position for Homer City.

**Steven Rountos:** Great.

*Operator: The next question comes from the line of Dan Eggers with Credit Suisse. Go ahead, please.*

**Dan Eggers:** Hi, good morning.

**John Bryson:** Good morning.

**Dan Eggers:** I was wondering if you guys could give a little more color on fuel costs at Mission? It looks like both for Homer and for MEHC fuel costs were up quite a bit year-over-year, and probably ahead of trend. I guess, just a little color there, please.

**Tom McDaniel:** Yeah, the fuel costs that are indicated in Table 3, that's both fuel and emissions. So it is not, it is not fuel only, but those costs are really in line with our expectations.

**Dan Eggers:** Shouldn't the emissions cost balance between Mission and Homer, so if they were up at Homer, they should be up at Mission, do you guys swap credits between the two?

**Jim Scilacci:** Tom, do you want me to jump in?

**Tom McDaniel:** Yeah, why don't you answer that?

**Jim Scilacci:** Okay. As it works out, Midwest Gen is long emissions credit and Homer City is short. So you'll see transactions between the two companies at market values. And Homer City will also go into the market and purchase additional emissions credits as required and will pay market price for those. Part of what you're seeing in the fuel costs line, too, is the impact of coal,

what it's made up of, how much SO<sub>2</sub> is in the coal. And so we are seeing lower SO<sub>2</sub> coal delivered to us at Homer City than what we had been expecting. And so that affects the fuel costs periodically for the units.

So there's a number of things that go on and the SO<sub>2</sub> content is one of the most important things. And additionally, at Homer City, we've had some additional new contracts that have come on since 2005, which are slightly higher costs than we had previously experienced. So that's why you see a little pressure on the fuel cost component at Homer City.

**Dan Eggers:** So when we look at the rest of the year on, I guess, going forward, we should be assuming that, you know, Homer's fuel costs are in the \$24-ish per megawatt hour cost range versus the \$19 – \$20 range we saw before?

**Jim Scilacci:** It will be higher, and we'll pick that up as we go into the third quarter and talk about the overall results. So, I can't comment on the specific number.

**Dan Eggers:** But that's not a bad operating assumption?

**Jim Scilacci:** I can't comment on the actual number, but the trend is higher because of the way that SO<sub>2</sub> has been working and the higher cost contracts.

**Dan Eggers:** I guess the next question is, you know, a month later do you guys have any interest in sharing more about Project Decathlon targets for savings, where those are coming from, that sort of thing?

**Jim Scilacci:** Tom, do you want me to take that?

**Tom McDaniel:** Yeah, go ahead, Jim.

**Jim Scilacci:** Project Decathlon is a multifaceted look at various aspects of the business. It's looking to improve and lower EFOR forced outages. It's looking at a number of initiatives to get at some of the cost components associated with Midwest Gen and Homer City. It will be incorporated in our goals that we set forth in terms of guidance. The impact of Project Decathlon and -- we'll discuss those things going forward in terms of how we're hitting our targets relative to what we've established for the program.

**Dan Eggers:** Are you going to share any of those targets at some point?

**Jim Scilacci:** As of yet, it has not yet been determined. But it will be incorporated in our guidance numbers, in terms of what we would like to do in terms of hitting our earnings estimates.

**Dan Eggers:** Okay. Thank you.

*Operator: The next question comes from the line of Paul Fremont with Jefferies & Company. Go ahead, please.*

**Paul Fremont:** Thank you. Just some clarification. Your guidance with -- or your previous guidance -- with respect to trading was \$0.10 for the year. You've had \$0.08 in the first quarter, you're doing \$7 million better in the second quarter. How much are you year-to-date in terms of trading cents per share?

**Tom McDaniel:** Yeah, if you look at year-to-date for EMMT it is at \$0.10.

**Paul Fremont:** Okay. So you are already at your previous guidance level. If anything, the volatility should be significantly better this summer because of the hot weather. Is that a fair way to sort of look at the summer impact on trading results?

**Tom McDaniel:** Yeah, what I've indicated is that our performance at EMMT is better than what we had incorporated into the guidance. And that's another way of saying that the volatility that's been experienced in the last month has been of benefit to EMMT.

**Paul Fremont:** Okay, and then the last sort of clarification, going back to SCE. Your expectation on the year is not materially different now than what it was during the June meeting for SCE for 2006 as a whole. Would that be a fair characterization?

**Tom McDaniel:** Well, Paul, as I mentioned, we are -- we're not updating guidance, but ...

**Paul Fremont:** I'm just talking drivers, basic business, nothing significant has changed in terms of expectation, or has something significant happened?

**Tom McDaniel:** Nothing significant has happened.

**Paul Fremont:** Okay. Thank you very much.

**Tom McDaniel:** Okay, Paul.

***Operator:** The next question comes from the line of Paul Patterson with Glenrock Associates. Go ahead, please.*

**Paul Patterson:** Good morning.

**Tom McDaniel:** Hi, Paul.

**Paul Patterson:** Just a little clarification on a few things. \$0.02 of insurance proceeds, for what outage was that? Could you just remind me what --?

**Tom McDaniel:** That was the Homer City Unit 3, and we have business interruption insurance to cover outages that extend over a period of time. That lasts more than -- well, a short or minor outage.

**Paul Patterson:** Okay. When was the outage?

**Tom McDaniel:** That was the first quarter of 2006, extending into the second quarter.

**Paul Patterson:** Okay, and how long was that?

**Tom McDaniel:** It was from the end of January through May 5<sup>th</sup>.

**Paul Patterson:** Okay, and then you had another outage recently, is that right?

**Tom McDaniel:** Well, yeah, we have periodic forced outages. And the units went down last Friday, two of the three units went down last Friday for minor equipment problems. Those are being repaired as we speak, and the units are expected to go back online on Wednesday.

**Paul Patterson:** So year-to-date, even though you got this insurance benefit, you had the offset from the operational problem the first quarter. So, it pretty much evens out. Is that the right way to think about it?

**Tom McDaniel:** Well, it doesn't totally even out, ...

**Paul Patterson:** Sure.

**Tom McDaniel:** ... and that's why I've mentioned that generation is down at Homer City because of that outage. We get partial recovery through the insurance proceeds. And then we've adjusted outage schedules to be able to accelerate some of the work that we had planned to do later in the year, so we could minimize the impact of that outage.

**Paul Patterson:** Okay, and then I heard, and I apologize for not hearing clearly enough, but there was a \$0.06 impact associated with tax in 2005, I believe in core earnings. Is that correct, at SCE?

**Tom McDaniel:** Yeah, we resolved a number of issues dating back to the '94 – '96 audit period, with the IRS, that had a favorable impact on taxes last year. But on a year to year comparison, looks like we have a higher effective tax rate this year.

**Paul Patterson:** Okay. So the core earnings that we're looking at basically is sort of a normalized tax situation. We're not going to see -- there's nothing that we should back out of this quarter other than what you did in the non-core earnings part, the large item. That was, I think, \$0.27, is that right?

**Tom McDaniel:** That's right.

**Paul Patterson:** Okay, and then in terms of Edison Capital, I know it's difficult to predict. But anything you can sort of give us an idea or a flavor for, what might be happening in the next few quarters there?

**Tom McDaniel:** Well, I think, as we mentioned, Edison Capital is now a static portfolio. And so, we expect those investments to continue to perform. And one thing of note is we have transferred the wind energy projects out of Edison Capital and into EME as part of our comprehensive wind development program. And so, that is one impact associated with Edison Capital on an ongoing basis.

**Paul Patterson:** So on an ongoing basis, we shouldn't expect any monetizations or gains or anything like that going on, it should pretty much be steady state?

**Tom McDaniel:** We still have investments in three infrastructure funds that are in the process of -- they are really in the final period in which we would be looking to exit -- the investments within those funds would be exited. And so, there is some volatility associated with the timing of when those investments are exited, associated with these investment funds.

**Paul Patterson:** And so that could add to the certain steady state of earnings that we've been seeing.

**Tom McDaniel:** It could add or subtract.

**Paul Patterson:** Or subtract.

**Tom McDaniel:** And one of the things that we have been -- you know, a year-over-year comparison is the -- are the significant benefit we got out of European Infrastructure Fund in the first quarter of 2005 and in -- the first and second quarter of 2005 has made comparisons for Edison Capital year-over-year look quite different.

**Paul Patterson:** Okay. Thanks a lot.

*Operator: The next question comes from the line of John Kiani with Deutsche Bank. Go ahead, please.*

**John Kiani:** Good morning.

**Tom McDaniel:** Hi, John.

**John Kiani:** Can you update us on the progress and provide a little more color on the Sun Valley and Walnut Creek gas-fired projects in Southern California?

**John Bryson:** I don't -- this is John Bryson, and anybody else can add. But I indicated that -- we've indicated those projects will bid into the Southern California Edison RFO. That process will be done in a strictly competitive mode. Whether they'll be selected or not, none of us knows. And so I don't think there's a lot more to be said about them. They are in the Los Angeles Basin. The peaking loads in Southern California are going up. Whether others are bidding to do something similar, I don't know. So, we'll have to see what the competitive result of the auction is.

**John Kiani:** Got it. And then, what are you seeing in forward PRB pricing trends as you look to contract the unhedged portion of Midwest Gen in '08 and beyond?

**Tom McDaniel:** Well, the PRB pricing -- forward prices have been dropping, which is a good thing for us. And as we evaluate our hedging program, we will certainly take a look at the degree with which we have hedged our forward power with respect to the percentage of coal that we've already hedged, PRB coal. As you know, we're roughly 33% hedged on the commodity for PRB coal out through 2009. And to the extent that we expand our hedging, then we will be looking very carefully at matching that up with the coal commodity.

**John Kiani:** Thank you.

*Operator: The next question comes from the line of David Grumhaus with Copia Capital. Go ahead, please.*

**David Grumhaus:** Good morning. I just wanted to go back a little bit to Dan Eggers' question, understanding the fuel costs a little bit better. You know, on the analyst call at the end of June, you talked about fuel costs of about emissions of \$18.50 for the year at Homer City and \$13 for Midwest Gen. Homer City is obviously trending about \$24. Is that all emissions, that \$550, or has that -- you know, you talked a little bit about maybe some SO<sub>2</sub> differences in the coal? But is that \$18.50 still a good number for fuel costs without emissions?

**Ted Craver:** Tom, this is Ted. I'll take it. Yes, the numbers that we've been giving you show that we're really, for all intents and purposes, fully hedged for '06 and '07. And so those prices are locked in. Where you see the variation is there are provisions in some of the contracts in the eastern coal, the ones that affect Homer City, that allow them to deliver lower sulfur coal, and in effect, capture some of the SO<sub>2</sub> emissions price in that lower coal. So nominally, the price goes up, but for us, in terms of cash flow, it really just shifts where it shows up. So instead of paying SO<sub>2</sub> credit prices, we're paying for it in the coal by receiving lower sulphur coal, so it's really just a shifting of where the expense is. The contract price hasn't changed, and all of this is fully hedged for '06 and '07.

**David Grumhaus:** But it's still in your margin number, right?

**Ted Craver:** Yes.

**David Grumhaus:** It's still in your fuel cost number, the SO<sub>2</sub> credits that you got?

**Ted Craver:** Yes. All of our -- there's no change in the contract prices, which is the way I understood your question.

**David Grumhaus:** Okay.

**Ted Craver:** And all of those have been locked down for '06 and 07.

**David Grumhaus:** Okay, but --

**Ted Craver:** It's just a matter of whether it shows up in fuel or it shows up in emissions costs, but it's really -- it all still relates to the SO<sub>2</sub> emissions cost.

**David Grumhaus:** But when you -- I guess, in your release, when you give us that average cost of fuel, that includes all the emissions, right?

**Ted Craver:** Yes.

**David Grumhaus:** Whether it's a credit or a cost?

**Ted Craver:** Yes.

**David Grumhaus:** Okay, and so then at -- ?

**Ted Craver:** You also get -- You also get some little timing things between when we actually do the transactions between Midwest Gen and Homer City. So you can end up with little anomalies quarter-to-quarter.

**David Grumhaus:** And Midwest Gen, you seem to be running -- you know, your emissions seem like they are running about flat, so there's no pick up there from filling the excess credits?

**Ted Craver:** Again, some of this may just be timing of when the actual transactions are taking place inner-company.

**David Grumhaus:** Okay. So we may see some movement quarter-to-quarter on that?

**Ted Craver:** Yes.

**David Grumhaus:** Okay. Thank you.

**Ted Craver:** You're welcome.

*Operator: The next question comes from the line of Michael Goldenberg with Luminus Management. Go ahead, please.*

**Michael Goldenberg:** Good morning guys. I just wanted to ask a question. I don't know if you've discussed this. But the current outage at Homer City, how long do you expect it to last and can you just give us more picture about what exactly happened there?

**Tom McDaniel:** Well, I mentioned that we expect both of the units to be back online on –

**Jim Scilacci:** Tomorrow.

**Tom McDaniel:** Tomorrow. Actually, tomorrow or the next day, but it's a very short outage. We've had, I think it was two pump failures that, on each of the -- pump failure on each of the units that's under repair right now, and some minor boiler work.

**Michael Goldenberg:** And these are -- you would consider these one-off then, not a sign of some sort of longer term problems at Homer City?

**Ted Craver:** Yeah, this is Ted. These are just standard things we -- every month we have some number of either tube leaks or an ID fan failure or a pump failure or a pulverizer failure, and these are just standard operating things that happen in a coal plant. You tend to have a few more of these things during the summer because you're running the units so hard. But it's just normal stuff, nothing really to get excited about one way or the other.

**Michael Goldenberg:** Understood. Thank you very much.

*Operator: The next question comes from the line of Ashar Khan with S.A.C. Capital Advisors. Go ahead, please.*

**Tom McDaniel:** Hi, Ashar.

**Ashar Khan:** Tom, can you just -- I was just trying to get -- I know you mentioned the bilateral contract, the 500 megawatts. But can we assume that it's in the similar line to what you had

mentioned, like, you know, 66 for 2008 average energy price, you know, in those ranges? Is it similar to assume that, or no? I'm just trying to get a sense.

**Tom McDaniel:** Well, as I mentioned, that ... it's a bilateral contract, and the specific pricing terms are confidential. I can't disclose that.

**Ashar Khan:** Okay.

**Ted Craver:** But it was done at market.

**Ashar Khan:** It was done at market.

**Ted Craver:** Right.

**Ashar Khan:** Okay, and then secondly, is that -- how many terawatt hours can you say that 500 kind of translates into?

**Tom McDaniel:** I said 2 terawatt hours.

**Ashar Khan:** 2 terawatt hours. Thank you. Sorry, I missed that. I appreciate it. Thank you.

*Operator: The next question comes from the line of Brian Taddeo with Bank of New York. Go ahead, please.*

**Brian Taddeo:** Good morning. Couple things. First, kind of housekeeping. Of the \$343 million of collateral deposits you had mentioned, how much of that is in cash for self use?

**Tom McDaniel:** I think essentially all of that. I think there's a \$7 million line of credit that's incorporated in that, so about \$335 million.

**Brian Taddeo:** Okay. Secondly, then, given your comments on this new contract of not having to post collateral, and you always consider that as one of your main sources of cash and why you keep such a large cash balance. Is there any change in your view now as to what you might use some of that significant cash balance? More debt reduction, more investment? Any color there?

**Tom McDaniel:** Well, we still have a significant number of other hedges. We view this as quite a positive development in terms of additional hedging, to take the pressure off the need to post

collateral. The reason that we have collateral posted is because we have the cash. And really the longer-term intention is to utilize that for, again, further debt reduction and to support our investment program. And specifically, in the near term, around our wind and renewable energy development program, and then in the later stages on the thermal projects that we have under development.

**Brian Taddeo:** Okay, but you would consider this, say -- it's a first step in a trend, I guess, as you sign new contracts? Or are your expectations that of these new contracts you'll be signing from this point forward will not have this collateral requirement as well?

**Tom McDaniel:** Well, we hope it's a trend. We have one established and we hope that kind of the competitive forces in the marketplace will provide us with additional opportunities.

**Brian Taddeo:** Okay, and then one last thing, if you could just give a little market color. I know you talked about PJM capacity markets. Can you just give some of your thoughts with the potential for capacity markets in California? You know, the potential, maybe, benefit for EMG or costs to Southern Edison of what you're seeing, or any expectations with the future capacity market there?

**John Bryson:** This is John Bryson. I can comment. Any of us can. But yes, California proposes -- we are advocating -- California proposes is looking hard at capacity markets, California Public Utilities Commission has, but that's a way off.

**Brian Taddeo:** You're maybe talking 2010, '11? I'm just trying to get your thoughts as how far out in the future you think this might be?

**John Bryson:** I'll see if anybody has an estimate, but, you know, the debate continues. The work's at an active but still fairly early stage. I don't know that an estimate is going to add much. Anybody want to add anything? No. We just can't give you a good estimate.

**Brian Taddeo:** Okay. Thank you very much.

*Operator: The next question comes from the line of Leslie Rich with Columbia Management. Go ahead, please.*

**Leslie Rich:** In light of all the wind investments that you're making, either that you already have in operation or have in development, what do you see as your effective tax rate for this year and next?

**Tom McDaniel:** Effective tax rate?

**Leslie Rich:** Yes.

**Tom McDaniel:** I don't really have that number in front of me. In the bulk of the projects that we have under development, and that will go in service, are really scheduled to go online in 2007. So the existing portfolio that we have, except for the addition of the San Juan project, which was at the end of last year, is essentially the same as the level of wind projects that we had in 2005.

**Leslie Rich:** Okay. So all else being equal, one could expect the tax rate in '07 to be lower than '06? Although you're not giving '07 guidance, I know.

**Tom McDaniel:** Well, it depends on how good a year we have across the board. Let me put it this way. From the perspective as; Do we have ample tax capacity to be able to monetize the production tax credits associated with our wind portfolio? The answer to that is, yes.

**Leslie Rich:** Okay. Thank you.

*Operator: The next question comes from the line of Paul Fremont with Jefferies & Company. Go ahead, please.*

**Paul Fremont:** Thank you. Just a quick question on, I guess, covenants and credit agreements. Most of the cash, obviously, that you talked about is at the EME level. If you were to characterize which credit agreements might have covenant restrictions on the transfer of cash from the EME level to the Edison International level, which credit agreements potentially constitute sort of the principle obstacle towards the transfer of cash up to the Holding Company?

**Tom McDaniel:** Jim, do you want to take that?

**Jim Scilacci:** Yeah, Tom, it's not -- it's the MEHC 13.5% notes are really the restrictive financing that moderates the cash that flows up from EME to MEHC and up. And it has to do

with the interest coverage ratio, I believe. And that's fully disclosed. You can see it there, what the levels are. But I think the limitation now, we are above the minimum limit, so if we wanted to send money up to EIX, we could. The calculation is such that it would probably be no more than a couple hundred million that's possible to go up.

**Paul Fremont:** Thank you.

**Tom McDaniel:** Okay. If there are no further questions, we will conclude the call. We want to thank everybody for joining in and listening and we certainly appreciate your questions.