**Material Accounting Changes Workpaper (TO2023)**

Pursuant to protocol section 3(a)(10), SCE is required to include in the Draft Annual Update a description of any “Material Accounting Changes” included in the Draft Annual Update.

Material Accounting Changes are defined in the protocols as:

“Material Accounting Changes” shall mean any material change that affects SCE’s transmission rates as follows: (i) accounting policies and practices from those in effect for the Prior Year upon which the immediately preceding Annual Update was based, including those resulting from any new or revised accounting guidance from the Financial Accounting Standards Board; or (ii) internal corporate cost allocation policies or practices in effect for the Prior Year upon which the immediately preceding Annual Update was based; or (iii) income tax elections from those in effect for the Prior Year upon which the immediately preceding Annual Update was based; or (iv) cost allocation policies between EIX, SCE, and subsidiaries of either, from those in effect for the Prior Year upon which the immediately preceding Annual Update was based. Additionally, a Material Accounting Change shall also include any: (i) initial implementation of an accounting standard; or (ii) initial implementation of accounting practices for unusual or unconventional items where the Commission has not provided specific accounting direction.

SCE has identified the following Material Accounting Changes implemented post calendar year 2020 that impact the recorded 2021 calendar year expenses and meet the above criteria:

1. Effective January 1, 2021, SCE determined a new accounting treatment would be appropriate based upon its further research into the activities being defined as environmental restoration. Costs representing construction activities are defined by 18 CFR 1.101 Electric Plant Instruction (3) Cost of Construction. Costs incurred to obtain a permit from approving local, state or federal agencies often dictate a variety of required incremental activities that must be performed as a condition to construct a transmission project. These activities qualify for capitalization and should be treated as such even if the activities performed are after the initial in-service date for many years. In the past, SCE determined that these costs would be considered as an expense after one year of a project’s initial in-service date. However, because these costs qualify as capital under the provision noted above, and are an integral part of construction of a transmission project even if they occur well after a year of in-service, they will be treated as capital as of 2021.
2. Beginning January 1, 2021, SCE retroactively excluded the cost-of-removal component of book depreciation expense in its calculation of the annual amortization of excess deferred income tax (“EDIT”) under the average rate assumption method (“ARAM”) in order to comply with private letter ruling 202141001 SCE received on July 15, 2021 which concluded that the inclusion of the cost-of-removal component of book depreciation in the calculation of ARAM is not consistent with the tax normalization requirements of the Internal Revenue Code and related Treasury regulations.
3. In August 2020, the FASB issued an accounting standards update to simplify the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments in this update affect entities that issue convertible instruments indexed to or potentially settled in an entity's own equity. This guidance also simplifies an entity's application of the derivatives scope exception for contracts in its own equity and amends certain aspects of the EPS guidance. SCE has adopted this standard on January 1, 2021 using modified retrospective adoption approach. The adoption of this standard did not have a material impact on SCE's financial position or results of operations.
4. In February 2021, SCE Recovery Funding LLC, a wholly owned special purpose entity (SPE) formed in 2021 for the purpose of issuing, servicing, and making payments on the securitized bonds related to SCE's AB 1054 Excluded Capital Expenditures (Recovery Property), issued $338m of securitized bonds in three tranches and used the proceeds to acquire SCE's right, title and interest in and to non-bypassable rates and other charges to be collected from certain existing and future customers in SCE's service territory until the bonds are paid in full and all financing costs have been recovered. The securitized bonds are secured by the Recovery Property and cash collections from the non-bypassable rates and other charges are the sole source of funds to satisfy the debt obligation. For GAAP reporting purposes, it is consolidated by SCE, where the balance sheet includes a regulatory asset for the Recovery Property of SCE Recovery Funding LLC and also includes the Senior Secured Recovery Bonds of the subsidiary which are both excluded for FERC purposes. For FERC reporting purposes, the investment in SCE Recovery Funding LLC is presented using the equity method.
5. In July 2021, Morongo Transmission LLC paid SCE $400 million for the use of a portion of the West of Devers transmission line transfer capability. Under the agreement with Morongo, SCE will provide Morongo with the use of a portion of the WOD transmission line transfer capability for a period of 30 years. SCE will amortize deferred revenues from the use of the transfer capability over the 30-year term. The depreciation of the transmission line is also amortized over the same period on a straight-line basis. FERC also approved SCE's requested accounting waiver of the Commission's USofA on the use of Account 566 to record the amounts received from Morongo Transmission on a limited basis until December 31, 2021 (Docket Nos. ER21-1280-000 and ER21-1280-001). Starting in 2022, SCE will report the amounts received from Morongo Transmission in the corresponding native accounts consistent with Docket ER22-166.
6. In 2021 under FERC accounting and reporting, SCE began recording vendor discount credits for early payment of invoices to the originating invoice accounting that includes distribution, transmission, and generation operating and maintenance expense accounts as well as in electric plant in service accounts to comply with FERC’s Division of Audits and Accounting audit of SCE’s accounting and reporting (Docket No. FA20-1-000). It found SCE was required to record transactions on its books and records at cost to the utility, meaning recording the purchased item or service at the reduced cost including the discounts in its accounts, per FERC’s accounting requirements. Previously, SCE recorded vendor discount credits to Administrative and General (A&G) account 930.2 Miscellaneous General Expenses. For GAAP accounting and reporting, SCE continues to record the vendor discount credits in its Operating Expense account, resulting in a $9m total net income difference between GAAP and FERC, where GAAP has the $9m credit under general operating expense and FERC has it as a credit under utility plant.
7. In 2021 under FERC accounting and reporting, SCE began recording No-Fault Compromise Settlements in legal proceedings alleging employment discrimination against SCE in FERC Account 426.5 (Other Deductions) to comply with FERC’s Division of Audits and Accounting audit of SCE’s accounting and reporting (Docket No. FA20-1-000). Previously, SCE recorded these expenses for No-Fault Compromise Settlements in Account 925 (Injuries and Damages).
8. SCE has calculated the uncollectibles factor applicable to calendar year 2021 under Schedule 28 of the formula rate utilizing the total 2021 uncollectible amounts. See also “WP Schedule 28 FFU”. This change was necessary due to the dramatic increase in uncollectibles balances since early 2020, and continuing through 2021, as a consequence of the Covid-19 pandemic and its economic impact on SCE customers, as well as CPUC and SCE efforts to limit disconnections for nonpayment during this period. This change affects retail transmission rates but has no effect on wholesale transmission rates.