Material Accounting Changes Workpaper (TO2020)

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 three Material Accounting Changes implemented post calendar year 2017 that impact the recorded 2018 year and meet the above criteria:

As approved by FERC in Docket AC19-20, SCE recorded a $4.6 million cumulative effect adjustment to retained earnings as a result of its first quarter 2018 adoption of ASU 2016-01 – Financial Instruments. This reclassification impacted FERC Account 439 – Retained Earnings

On January 1, 2018, SCE implemented the new capitalization policy for net periodic pension costs, ASU 2017-07. FERC has allowed entities to capitalize all components of net periodic benefit costs or elect to capitalize only the service cost component. SCE adopted this FERC guidance effective January 1, 2018 and elected to limit the capitalization of net periodic benefit costs to the service cost component, which resulted in an increase in SCE's 2018 rate base and a decrease in the 2018 transmission revenue requirement.

As disclosed in FERC Form 1, SCE recorded $2.7 billion wildfire-related potential liabilities ($4.7 billion charge net of $2 billion of insurance recoveries) in FERC Account 925 Injuries and Damages.