

**SOUTHERN CALIFORNIA EDISON COMPANY**  
**Schedule 1 - Cost Adjustment**

**Cost Adjustment provision in the Formula Rate Protocols (Section 1, Introduction):**

"Additionally, SCE shall include a Cost Adjustment in the Base TRR for the upcoming Rate Year in the event that a discrete cost of service item (e.g., individual O&M expense, tax expense, or revenue credit) incurred anytime between the beginning of the Prior Year and the September 30 immediately preceding the Annual Update filing (i.e., a 21 month window) is a one-time item that will not recur in such Rate Year. Individual items shall not be aggregated for purpose of determining a discrete cost of service item. The discrete cost of service item must amount to at least 3% of the Base TRR in such Annual Update filing in order for a Cost Adjustment to be included as a component of the Base TRR."

**Note:** Pursuant to parts a and b of Section 1, if the "discrete cost of service item" occurred in the Prior Year, the Cost Adjustment is "an amount with the same magnitude but of the opposite sign as the discrete cost of service item". If the item occurred between January 1 and September 30 of the year in which the Annual Update is made, then the Cost Adjustment is "an amount with the same magnitude and the same sign as the discrete cost of service item".

**Description of the "discrete cost of service items" incurred in 2021 and not expected to recur in the Rate Year:**

- 1) In September of 2021 SCE reserved an additional expense related to the "Thomas/Woolsey/Montecito" events of \$1.090 billion.

**Three percent threshold calculation (pursuant to the protocols, each discrete cost of service item must "amount to at least 3% of the Base TRR".)**

| <u>Line</u> | Components of the TO2023 Base TRR other than the Cost Adjustment | <u>Amount</u>       | <u>Calculation/Source</u> |
|-------------|------------------------------------------------------------------|---------------------|---------------------------|
| 1           | Prior Year TRR                                                   | \$1,229,512,803     | Schedule 1, Line 82       |
| 2           | Incremental Forecast Period TRR                                  | \$97,701,592        | Schedule 1, Line 83       |
| 3           | True Up Adjustment                                               | \$51,223,865        | Schedule 1, Line 84       |
| 4           | TO2023 Base TRR not including any Cost Adjustment                | \$1,378,438,260     | Line 1 + Line 2 + Line 3  |
| 5           | Protocol threshold percent for each discrete item                | 3%                  | Protocols                 |
| 6           | Three Percent Threshold                                          | <b>\$41,353,148</b> | Line 4 * Line 5           |

**Impact on the TO2023 Base TRR and calculation of the Cost Adjustment:**

**Item #1: "Thomas/Woolsey/Montecito" events occurring in 2021**

| <u>Line</u> |                                                                    | <u>Amount</u>        | <u>Calculation</u>                      |
|-------------|--------------------------------------------------------------------|----------------------|-----------------------------------------|
| 7           | 1) Direct Impact through A&G Expense: See Note 1                   |                      |                                         |
| 8           |                                                                    | <u>Amount</u>        | <u>Calculation</u>                      |
| 9           | A&G Expense Accrual in 2021                                        | \$1,090,000,000      |                                         |
| 10          | Transmission Wages and Salaries Allocation Factor:                 | 6.2175%              | Schedule 27, Line 9                     |
| 11          | Direct A&G Impact                                                  | \$67,770,750         | Line 9 * Line 10                        |
| 12          |                                                                    |                      |                                         |
| 13          | 2) Unfunded Reserve Impact on the Base TRR: See Note 2             | <u>Amount</u>        | <u>Calculation</u>                      |
| 14          | Unfunded Reserve                                                   | \$1,090,000,000      | Amount on Line 9                        |
| 15          | Transmission Wages and Salaries Allocation Factor:                 | 6.2175%              | Schedule 27, Line 9                     |
| 16          | Capital Carrying Charge                                            | 9.0958%              | Schedule 2, Line 16                     |
| 17          | Unfunded Reserve Impact                                            | -\$6,164,292         | Negative of Line 14 * Line 15 * Line 16 |
| 18          |                                                                    |                      |                                         |
| 19          | 3) Cash Working Capital Impact on the Base TRR: See Note 3         | <u>Amount</u>        | <u>Calculation</u>                      |
| 20          | A&G Expense Accrual                                                | \$1,090,000,000      | Amount on Line 9                        |
| 21          | Transmission Wages and Salaries Allocation Factor:                 | 6.2175%              | Schedule 27, Line 9                     |
| 22          | ISO Transmission A&G Expenses relating to Accrual                  | \$67,770,750         | Line 11                                 |
| 23          | Impact on Cash Working Capital component of Rate Base              | \$8,471,344          | Line 22 * 1/8                           |
| 24          | Capital Carrying Charge                                            | 9.0958%              | Schedule 2, Line 16                     |
| 25          | Cash Working Capital Impact                                        | \$770,536            | Line 23 * Line 24                       |
| 26          |                                                                    |                      |                                         |
| 27          | 4) Calculation of the Cost Adjustment: See Note 4                  | <u>Amount</u>        | <u>Calculation</u>                      |
| 28          | Total Impact on the Base TRR of the 2021 Wildfire Reserve Increase | \$62,376,995         | Line 11 + Line 17 + Line 25             |
| 29          | Cost Adjustment                                                    | <b>-\$62,376,995</b> | Negative of Line 28 (see Note 4)        |
| 30          | Item #1 threshold met?                                             | <b>YES</b>           | ABS(Line 29) > Line 6 ?                 |

**Notes:**

- 1) The A&G expense impact on the Base TRR is the amount of the reserve times the Transmission Wages and Salaries Allocation Factor.
- 2) The Unfunded Reserve impact on the Base TRR is through its impact on total Rate Base. It is calculated as the product of the amount of the reserve times the T W&S Allocation Factor times the capital carrying charge.
- 3) The Cash Working Capital impact on the Base TRR is through its impact on total Rate Base. It is calculated as the product of the Capital Carrying Charge and the Impact on Cash Working Capital component of Rate Base
- 4) The Cost Adjustment is the opposite sign as the cost impact on the Base TRR for expenses incurred in the Prior Year per Protocols.