

## **Material Accounting Changes Workpaper (TO10)**

Pursuant to protocol section 3(a)(10) and Section 3.2 of the Offer of Settlement (ER11-3697), 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 in SCE’s (i) accounting policies and practices from those in effect for the Rate Year upon which the immediately preceding Annual Update was based, or (ii) internal corporate cost allocation policies or practices from those policies and/or practices in effect for the Rate Year upon which the immediately preceding Annual Update was based.

There have been two Material Accounting Changes implemented since 2013 that impact the recorded 2014 year. First, due to various corporate re-organizations, certain business unit financial support personnel have been transferred from the business unit (including T&D), and have been centralized into various A&G functions. As a result, the expense associated with such personnel which in 2013 was reflected in the business unit's operation and maintenance expense now is reflected as A&G expense. Note: the accounting for former PPBU functions has not been modified pursuant to Section 3.2 of the Formula Settlement.

Second, SCE implemented a revised methodology in 2014 to allocate T&D divisional overheads expenses. The new methodology simplifies the way such expenses clear to operation and maintenance expense and capital expense by reducing the number of allocation pools and simplifying the allocation formulas, while updating the causation-driven support costs to align with work being supported. This simplification facilitated additional system automation in SAP.