Material Accounting Changes Workpaper (TO2019)

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 in SCE's (i) accounting policies and practices from those in effect for the Prior 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 Prior Year upon which the immediately preceding Annual Update was based.

There have been two Material Accounting Changes implemented since 2016 that impact the recorded 2017 year:

First, beginning in January 2017, SCE changed its approach in calculating the capitalization rate for its Short Term Incentive Program (STIP) and eligible Executive Incentive Compensation (EIC) expenses from an A&G effort study approach to a wages and salaries based approach to better align the incurrence of the expense associated with STIP/EIC with cost incurrence, as well as to be more comparable to the methodology used by its peer utilities. This resulted in the rate changing from 20% to 39.8%.

Second, as a result of the "Tax Cut and Jobs Act" signed into law by the President on December 22, 2017 that, among other things, reduced the federal corporate income tax rate effective January 1, 2018 to 21% from 35%, SCE reflected its 2017 year-end ADIT balances to incorporate the lower tax rate and also recorded the related excess deferred taxes to FERC Account 254 (Other Regulatory Liabilities).