

Material Accounting Changes Workpaper (TO2026)

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 2023 that impact the recorded 2024 calendar year expenses and meet the above criteria:

1. SCE is making the following disclosure of a Material Accounting Change, which was inadvertently omitted from SCE’s TO2025 Draft Annual Update. In 2023, SCE implemented an accounting change in response to several audit findings by the Federal Energy Regulatory Commission (FERC) regarding the classification of allocated support costs associated with services provided by a parent or affiliated company. Between 2021 and 2022, FERC audits identified misclassifications of various expenses by at least three utility companies, which had recorded these expenses in Account 923, Outside Services Employed. The audits concluded these expenses should have been classified based on the nature of the activity.

To address these findings, SCE proactively revised its accounting policies and procedures in 2023 to ensure that all directly assigned and allocated parent or affiliated company costs are accurately tracked, reviewed, and recorded. This revision ensures that Operations & Maintenance (O&M), Administrative & General (A&G), and nonoperating

expenses are recorded in the appropriate accounts based on the nature of the cost, in compliance with 18 C.F.R. Part 201, General Instruction No. 14 (GI No. 14), Transactions with Associated Companies. The reclassifications resulting from this review affected the A&G Capitalization base because beginning in 2023 applicable costs are recorded to native accounts that may be subject to capitalization, whereas Account 923 is not. This change was necessary to ensure compliance with FERC's accounting regulations and to improve the accuracy of financial reporting.

2. In 2024, SCE changed its method for calculating the long-term debt balance of its AFUDC rate from "Net of Proceeds" (i.e., net of debt-financing expenses) to "Gross of Proceeds." SCE continues to believe that its prior use of the Net of Proceeds method was consistent with Commission policy set forth in Order No. 561 and the Uniform System of Accounts; and that SCE's calculation of the long-term debt component of AFUDC using a Net of Proceeds method was validated in its most recent audit report (FA20-1), which did not identify any accounting error relating to this issue. However, SCE is aware of other recent FERC audit reports that have found that the long-term debt component of AFUDC should be calculated on a Gross Proceeds basis. Therefore, SCE proactively changed its method for calculating the long-term debt component of AFUDC from Net of Proceeds to Gross of Proceeds. This issue remains pending before the Commission in Docket. No. ER25-550, and should the Commission find that the long-term debt component of AFUDC can be calculated using a Net of Proceeds method, then SCE will revert back to this methodology.