

Material Accounting Changes Workpaper (TO2027)

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 2024 that impact the recorded 2025 calendar year expenses and meet the above criteria:

1. The Commission issued Order No. 898 on June 29, 2023, to be effective January 1, 2025. Relevant to SCE’s Formula Rate, Order No. 898 amended the USofA to create new accounts for computer hardware, software, and communication equipment within existing functions that do not already include them, and makes corresponding changes to FERC Form No. 1. SCE amended its Formula Rate in FERC Docket No. ER26-538 to properly integrate these accounting changes into SCE’s Formula Rate calculations.
2. In 2025, per Docket No. AC25-51-000, FERC approved SCE’s request to modify its Allowance for Funds Used During Construction (AFUDC) rate to exclude short-term debt that is related to non-operating energy procurement hedging activities that require SCE to post or hold collateral. Additionally, SCE received approval to exclude certain short-term debt related to financing for wildfire self-insurance purposes, where these funds are held by a separate legal entity which limits the general availability of such funds.

3. Effective for the 2025 base year (TO2027), federal tax law revisions permit expanded use of qualified PBOP trust assets to fund certain retiree medical benefit costs. Section 420 of the Internal Revenue Code, as amended by the SECURE 2.0 Act, allows transfers of surplus pension assets into retiree medical accounts at lower funding thresholds (110% plan funding), subject to specified conditions. In addition, subsequent IRS guidance clarified the circumstances under which a pension plan's retiree medical sub-account (401(h)) may pay health benefits for employees who have reached retirement eligibility but continue working. As a result, and following SCE's first-time implementation of this tax treatment in 2025, SCE may utilize existing PBOP trust funds to pay eligible retiree medical expenses, including certain costs incurred prior to formal retirement, rather than collecting those costs in current rates, provided all applicable IRS requirements are satisfied. See also SCE's most recent PBOPs filing under FERC Docket ER26-1945.
4. SCE's federal income tax accounting method for research and experimental (R&E) expenditures changed effective for tax years beginning after December 31, 2024, to comply with Section 70302 of Pub. L. 119-21, the One Big Beautiful Bill Act (OBBBA). The OBBBA added new IRC Section 174A, which reinstates immediate expensing of domestic R&E expenditures, including software development costs, while foreign R&E expenditures continue to be capitalized and amortized over 15 years under amended IRC Section 174. Under Section 174A, taxpayers may alternatively elect to capitalize and amortize domestic R&E expenditures over a period of not less than 60 months.