**Material Accounting Changes Workpaper (TO2021)**

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 5 Material Accounting Changes implemented post calendar year 2018 that impact the recorded 2019 year and meet the above criteria:

On January 1, 2019, SCE adopted accounting standards updates issued by the Financial Accounting Standard Board (FASB) that require lessees to recognize a lease on the balance sheet as a right-of-use (ROU) asset and related lease liability and classify the lease as either operating or finance. Adoption of this standard increased ROU assets and lease liabilities on the consolidated balance sheets by $956 million and $951 million, respectively, as of January 1, 2019 for SCE. The standard did not materially impact the consolidated statements of income. SCE uses FERC account 101.1 Property under Capital Leases to track ROU asset, and FERC accounts 243 and 227 Obligations under Capital Leases-current and noncurrent to track short-term and long-term lease liabilities, respectively.

On January 1, 2019, SCE adopted a FASB accounting standard update to provide entities an election to reclassify stranded tax effects resulting from “Tax Cut and Jobs Act” signed into law on December 22, 2017 (Tax Reform) from accumulated other comprehensive income to retained earnings. Stranded tax effects originated in December 2017 when deferred taxes were re-measured at the lower federal corporate tax rate with the impact included in operating income, while the tax effects of items within accumulated other comprehensive income were not similarly adjusted. SCE reclassified stranded tax effects of $5 million from FERC account 219 Accumulated Other Comprehensive Loss to FERC account 439 Retained Earnings.

SCE accounted for the contributions to the State of California’s Wildfire Insurance Fund similarly to prepaid insurance. As of December 31, 2019, SCE has a $2.8 billion long-term asset and a $323 million current asset reflected as Miscellaneous Deferred Debits in FERC account 186 and Miscellaneous Current and Accrued Assets in FERC account 174, respectively, for the initial $2.4 billion contribution made during the third quarter of 2019 and the present value of annual contributions SCE committed to make to the Wildfire Insurance Fund. As of December 31, 2019, a long-term liability of $785 million has been reflected in FERC account 253 Other Deferred Credits for the present value of unpaid contribution amounts. A period of 10 years is being used to amortize the asset. All expenses related to the contributions are being reflected in FERC account 401 Operation Expenses in SCE’s statement of income.

In May 2019, the California Public Utilities Commission (“CPUC”) approved a final decision in SCE’s 2018 general rate case (GRC) proceeding. Although the GRC is a recurring event, the unprecedented delay in CPUC approval of SCE’s 2018 GRC caused a cross-year true-up. The revenue requirements for 2018 are retroactive to January 1, 2018, resulting in the recording of prior-period true-up impacts in 2019. Among other things, the Administrative & General (A&G) and Pension & Benefit (P&B) capitalization rates were updated from 20% to 24.05%, and from 39.8% to 45.5%, respectively.  Also, the Short-Term Incentive Plan (STIP/NOIC) and Executive Incentive Compensation (EIC/OEIC) capitalization rates were changed from the A&G rate to the P&B rate. These changes led to true-up adjustments of 2018 O&M expenses recorded in 2019. The 2018 GRC decision also refined the calculations for the return of excess accumulated deferred income taxes to customers, which resulted in incremental income tax benefits true-up in 2019.