

### **Material Accounting Changes Workpaper (TO2022)**

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 2019 that impact the recorded 2020 year and meet the above criteria:

On January 1, 2020, SCE adopted a FASB accounting standard to capitalize certain system implementation costs associated with cloud computing arrangements following the model used for internally developed software. For FERC accounting purposes these implementation costs will be accounted for as utility plant in FERC account 101 Electric Plant in Service and the depreciation will be recorded to FERC account 403 Depreciation Expense. The adoption of this guidance did not have a material impact on SCE's financial position or result of operations in 2020. The adoption of this guidance may have a material impact on SCE's financial position or result of operations in the future as a result of implementation compared to application of previous guidance.

On January 1, 2020, SCE adopted a FASB accounting standard that changes the method of measuring credit losses from an incurred loss basis to a current expected credit loss basis from financial instruments and other commitments. SCE adopted this guidance using the prospective adoption approach to available-for-sale debt securities and the modified

retrospective approach to all other financial assets, with no cumulative-effect adjustment to Retained Earnings FERC account 439 recorded. The adoption of this guidance did not have a material impact on SCE's financial position or result of operations. Expenses during 2020 increased as a result of assessment of future events on uncollectible accounts receivable. Had this accounting standard not been implemented, expense would have increased at a later point based on historical data.

On April 1, 2020, SCE adopted a FASB accounting standard prospectively that provides elective relief involving contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. SCE has not utilized any of the expedients therefore there is no impact on adoption of the guidance.

On July 30<sup>th</sup>, 2020, FERC approved SCE's request to use a special AFUDC rate for wildfire risk mitigation investments, which are not eligible to earn a return on equity and are intended to be financed entirely with debt under AB 1054, and exclude short-term debt specifically issued to finance CWIP related to wildfire risk mitigation investments from the calculation of the AFUDC rate for non-wildfire risk mitigation CWIP.

SCE has calculated the uncollectibles factor applicable to calendar year 2020 under Schedule 28 of the formula rate utilizing the total 2020 uncollectible amounts as reported in CPUC Advice Letter 4377-E-A, filed January 11, 2021, and approved by the CPUC on January 25, 2021. See also "WP Schedule 28 FFU". This change was necessary due to the dramatic increase in uncollectibles balances since early 2020 as a consequence of the Covid-19 pandemic and its economic impact on SCE customers, as well as CPUC and SCE efforts to limit disconnections for nonpayment during this period. This change affects retail transmission rates but has no effect on wholesale transmission rates.