

SOUTHERN CALIFORNIA EDISON COMPANY
Schedule 1 - Cost Adjustment

Cost Adjustment provision in the Formula Rate Protocols (Section 1, Introduction):

"Additionally, SCE shall include a Cost Adjustment in the Base TRR for the upcoming Rate Year in the event that a discrete cost of service item (e.g., individual O&M expense, tax expense, or revenue credit) incurred anytime between the beginning of the Prior Year and the September 30 immediately preceding the Annual Update filing (i.e., a 21 month window) is a one-time item that will not recur in such Rate Year. Individual items shall not be aggregated for purpose of determining a discrete cost of service item. The discrete cost of service item must amount to at least 3% of the Base TRR in such Annual Update filing in order for a Cost Adjustment to be included as a component of the Base TRR."

Note: Pursuant to parts a and b of Section 1, if the "discrete cost of service item" occurred in the Prior Year, the Cost Adjustment is "an amount with the same magnitude but of the opposite sign as the discrete cost of service item". If the item occurred between January 1 and September 30 of the year in which the Annual Update is made, then the Cost Adjustment is "an amount with the same magnitude and the same sign as the discrete cost of service item".

Description of the "discrete cost of service items" incurred in 2021 and not expected to recur in the Rate Year:

1) In September of 2021 SCE reserved an additional expense related to the "Thomas/Woolsey/Montecito" events of \$1.090 billion.

Three percent threshold calculation (pursuant to the protocols, each discrete cost of service item must "amount to at least 3% of the Base TRR".)

<u>Line</u>	Components of the TO2023 Base TRR other than the Cost Adjustment	<u>Amount</u>	<u>Calculation/Source</u>
1	Prior Year TRR	\$1,229,512,803	Schedule 1, Line 82
2	Incremental Forecast Period TRR	\$97,701,592	Schedule 1, Line 83
3	True Up Adjustment	\$51,223,865	Schedule 1, Line 84
4	TO2023 Base TRR not including any Cost Adjustment	\$1,378,438,260	Line 1 + Line 2 + Line 3
5	Protocol threshold percent for each discrete item	3%	Protocols
6	Three Percent Threshold	\$41,353,148	Line 4 * Line 5

Impact on the TO2023 Base TRR and calculation of the Cost Adjustment:

Item #1: "Thomas/Woolsey/Montecito" events occurring in 2021

<u>Line</u>		<u>Amount</u>	<u>Calculation</u>
7	1) Direct Impact through A&G Expense: See Note 1		
8			
9	A&G Expense Accrual in 2021	\$1,090,000,000	
10	Transmission Wages and Salaries Allocation Factor:	6.2175%	Schedule 27, Line 9
11	Direct A&G Impact	\$67,770,750	Line 9 * Line 10
12			
13	2) Unfunded Reserve Impact on the Base TRR: See Note 2		
14	Unfunded Reserve	\$1,090,000,000	Amount on Line 9
15	Transmission Wages and Salaries Allocation Factor:	6.2175%	Schedule 27, Line 9
16	Capital Carrying Charge	9.0958%	Schedule 2, Line 16
17	Unfunded Reserve Impact	-\$6,164,292	Negative of Line 14 * Line 15 * Line 16
18			
19	3) Cash Working Capital Impact on the Base TRR: See Note 3		
20	A&G Expense Accrual	\$1,090,000,000	Amount on Line 9
21	Transmission Wages and Salaries Allocation Factor:	6.2175%	Schedule 27, Line 9
22	ISO Transmission A&G Expenses relating to Accrual	\$67,770,750	Line 11
23	Impact on Cash Working Capital component of Rate Base	\$8,471,344	Line 22 * 1/8
24	Capital Carrying Charge	9.0958%	Schedule 2, Line 16
25	Cash Working Capital Impact	\$770,536	Line 23 * Line 24
26			
27	4) Calculation of the Cost Adjustment: See Note 4		
28	Total Impact on the Base TRR of the 2021 Wildfire Reserve Increase	\$62,376,995	Line 11 + Line 17 + Line 25
29	Cost Adjustment	-\$62,376,995	Negative of Line 28 (see Note 4)
30	Item #1 threshold met?	YES	ABS(Line 29) > Line 6 ?

Notes:

- 1) The A&G expense impact on the Base TRR is the amount of the reserve times the Transmission Wages and Salaries Allocation Factor.
- 2) The Unfunded Reserve impact on the Base TRR is through its impact on total Rate Base. It is calculated as the product of the amount of the reserve times the T W&S Allocation Factor times the capital carrying charge.
- 3) The Cash Working Capital impact on the Base TRR is through its impact on total Rate Base. It is calculated as the product of the Capital Carrying Charge and the Impact on Cash Working Capital component of Rate Base
- 4) The Cost Adjustment is the opposite sign as the cost impact on the Base TRR for expenses incurred in the Prior Year per Protocols.