

## 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."

**Description of the "discrete cost of service item" incurred in 2020 and not expected to recur in the Rate Year:**

In September of 2020 SCE reserved an additional reserve expense related to the "Thomas/Woolsey/Montecito" events of \$1.297 billion.

**Impact on the TO2022 Base TRR and calculation of the Cost Adjustment:**

<u>Line</u>		<u>Amount</u>	<u>Calculation</u>
1	<b>1) Direct Impact through A&amp;G Expense: See Note 1</b>		
2			
3	A&G Expense Accrual	\$1,297,000,000	
4	Transmission Wages and Salaries Allocation Factor:	6.9804%	
5	Direct A&G Impact	\$90,535,788	Line 3 * Line 4
6			
7	<b>2) Unfunded Reserve Impact on the Base TRR: See Note 2</b>		
8	Unfunded Reserve	-\$1,297,000,000	Negative of amount on Line 1
9	Transmission Wages and Salaries Allocation Factor:	6.9804%	
10	Capital Carrying Charge	9.3437%	Schedule 2, Line 16
11	Unfunded Reserve Impact	-\$8,459,392	Line 8 * Line 9 * Line 10
12			
13	<b>3) Cash Working Capital Impact on the Base TRR: See Note 3</b>		
14	A&G Expense Accrual	\$1,297,000,000	Amount on Line 1
15	Transmission Wages and Salaries Allocation Factor:	6.9804%	
16	ISO Transmission A&G Expenses relating to Accrual	\$90,535,788	Line 14 * Line 15
17	Impact on Cash Working Capital component of Rate Base	\$11,316,974	Line 16 * 1/8
18	Capital Carrying Charge	9.3437%	Schedule 2, Line 16
19	Cash Working Capital Impact	\$1,057,424	Line 17 * Line 18
20			
21	<b>4) Calculation of the Cost Adjustment: See Note 4</b>		
22	Total Impact on the Base TRR of the 2020 Wildfire Reserve Increase	\$83,133,820	Line 5 + Line 11 + Line 19
23	Cost Adjustment for TO2022 Annual Update	<b>-\$83,133,820</b>	Negative of Line 22

**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
- 4) The Cost Adjustment is the negative of the cost impact on the Base TRR for expenses incurred in the Prior Year.