

Material Accounting Changes Workpaper (TO2024)

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 2021 that impact the recorded 2022 calendar year expenses and meet the above criteria:

1. On October 27th, 2022, as part of Docket No. AC22-214, FERC approved SCE’s request to modify its existing AFUDC rate calculation to exclude certain long-term debt incurred in response to certain wildfire events. SCE has obtained specific long-term debt to finance wildfire claims that exceed expected insurance proceeds, rather than to finance construction and therefore has excluded the debt from the AFUDC rate calculation.
2. SCE’s federal income tax accounting method for software development expenditures changed in 2022 to comply with Section 13206 of Pub. L. 115-97, the Tax Cuts and Jobs Act (“TCJA”). Section 13206(b)(3) of the TCJA generally required that “specified research or experimental expenditures” be capitalized and deducted ratably beginning with the midpoint of the year incurred. Section 13206(b)(6) included expenditures for the development of software within the definition of specified research or experimental expenditures. These changes are now codified in the Internal Revenue Code at Section 174, which, as amended, requires that software development costs be capitalized and

amortized over 5 years, if the development occurred in the United States, and 15 years if costs relate to foreign development.

3. Starting in 2022, SCE began reporting the amounts received from Morongo Transmission in the corresponding native accounts consistent with Docket ER22-166. In 2021 FERC approved SCE's requested accounting waiver of the Commission's USofA on the use of Account 566 to record the amounts received from Morongo Transmission on a limited basis until December 31, 2021 (Docket Nos. ER21-1280-000 and ER21-1280-001).
4. SCE has calculated the uncollectibles factor applicable to calendar year 2022 under Schedule 28 of the formula rate utilizing the total 2022 uncollectible amounts. See also "WP Schedule 28 FFU". This change was necessary due to the dramatic increase in uncollectibles balances since early 2020, and continuing through 2022, 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.