

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 2022 and not expected to recur in the Rate Year:

- 1) In 2022 SCE reserved an additional expense related to the "Thomas/Woolsey/Montecito" events of \$1.296 billion.
The \$1.296 billion 2022 amount is composed of \$416 million in the first quarter and \$880 million in the third quarter.

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>	<u>Components of the TO2024 Base TRR other than the Cost Adjustment</u>	<u>Amount</u>	<u>Calculation/Source</u>
1	Prior Year TRR	\$1,276,123,159	Schedule 1, Line 82
2	Incremental Forecast Period TRR	\$65,627,903	Schedule 1, Line 83
3	True Up Adjustment	-\$133,413,459	Schedule 1, Line 84
4	O&M Services Formula Revenue	-\$12,394,780	Schedule 1, Line 84a
5	TO2024 Base TRR not including any Cost Adjustment	\$1,195,942,823	Line 1 + Line 2 + Line 3 + Line 4
6	Protocol threshold percent for each discrete item	3%	Protocols
7	Three Percent Threshold	\$35,878,285	Line 5 * Line 6

Impact on the TO2024 Base TRR and calculation of the Cost Adjustment:

Item #1: "Thomas/Woolsey/Montecito" events occurring in 2022

<u>Line</u>		<u>Amount</u>	<u>Calculation</u>
8	1) Direct Impact through A&G Expense: See Note 1		
9			
10	A&G Expense Accrual in 2022	\$1,296,000,000	
11	Transmission Wages and Salaries Allocation Factor:	5.9843%	Schedule 27, Line 9
12	Direct A&G Impact	\$77,555,895	Line 10 * Line 11
13			
14	2) Unfunded Reserve Impact on the Base TRR: See Note 2		
15	Unfunded Reserve	\$1,296,000,000	Amount on Line 10
16	Transmission Wages and Salaries Allocation Factor:	5.9843%	Line 11
17	Capital Carrying Charge	9.0088%	Schedule 2, Line 16
18	Unfunded Reserve Impact	-\$6,986,894	Negative of Line 15 * Line 16 * Line 17
19			
20	3) Cash Working Capital Impact on the Base TRR: See Note 3		
21	A&G Expense Accrual	\$1,296,000,000	Amount on Line 10
22	Transmission Wages and Salaries Allocation Factor:	5.9843%	Line 11
23	ISO Transmission A&G Expenses relating to Accrual	\$77,555,895	Line 12
24	Impact on Cash Working Capital component of Rate Base	\$9,694,487	Line 23 * 1/8
25	Capital Carrying Charge	9.0088%	Line 17
26	Cash Working Capital Impact	\$873,362	Line 24 * Line 25
27			
28	4) Calculation of the Cost Adjustment for Item #1: See Note 4		
29	Total Impact on the Base TRR of the 2022 Wildfire Reserve Increase	\$71,442,363	Line 12 + Line 18 + Line 26
30	Item #1 Cost Adjustment	-\$71,442,363	Negative of Line 28 (see Note 4)
31	Item #1 threshold met?	YES	ABS(Line 30) > Line 6 ?

Total Cost Adjustment for TO2024:

	<u>Amount</u>	<u>Calculation</u>
32 Item #1 Cost Adjustment	-\$71,442,363	Line 30
33 Total Cost Adjustment for TO2024:	-\$71,442,363	Line 32

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.
- 5) The Cost Adjustment is the same sign as the cost impact on the Base TRR for expenses incurred in the Current Year per Protocols.