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ASSESSMENT
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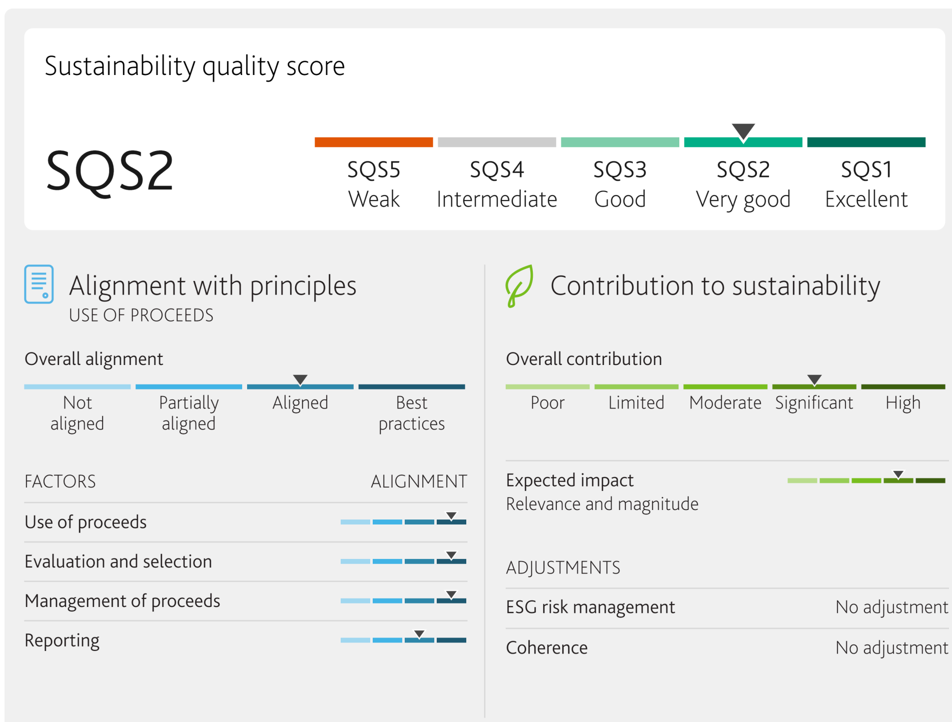
SCE Recovery Funding LLC

Second Party Opinion – SCE Recovery Funding LLC's Series 2023-A Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 sustainability quality score (very good) to SCE Recovery Funding LLC's Senior Secured Recovery Bonds, Series 2023-A. Proceeds from the Series 2023-A issuance will be used to recover wildfire risk mitigation capital expenditures approved via a financing order issued by the California Public Utilities Commission (CPUC) on February 23, 2023. The issuance is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles 2021 (with June 2022 Appendix 1) and demonstrates a significant contribution to sustainability.



Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of SCE Recovery Funding LLC's Series 2023-A issuance, including its alignment with the ICMA's Green Bond Principles (GBP) 2021 (with June 2022 Appendix 1). The Series 2023-A is a use-of-proceeds green bond issuance to recover wildfire risk mitigation capital expenditures approved via a financing order issued by the CPUC.

Our assessment is based on the Series 2023-A issuance, and our opinion reflects our point-in-time assessment of the details contained in the draft bond prospectus and other public and nonpublic information provided by the issuer.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

SCE Recovery Funding LLC is the issuing entity of the bonds and is wholly owned by Southern California Edison Company (SCE), a large, fully regulated investor-owned utility headquartered in Rosemead, California. The issuer is a bankruptcy-remote limited liability company organized under the laws of the State of Delaware as a special-purpose subsidiary of SCE to issue wildfire risk mitigation capital recovery bonds securitized by the recovery property, in accordance with the State of California's Assembly Bill (AB) 1054 legislation passed in 2019, the state's wildfire financing law.

SCE is predominantly a transmission and distribution company that supplies electric energy to 15 million people in central, coastal and southern California. SCE is a wholly owned subsidiary of Edison International. SCE's earnings are regulated by the CPUC and the Federal Energy Regulatory Commission.

The increasing frequency and intensity of wildfires remains a major risk factor for California utilities. California wildfires are likely to become even larger and potentially more destructive because of the effects of climate change, the accumulation of dry and dead vegetation and housing development growth in fire-prone areas. SCE's highly negative credit exposure to physical climate risks reflects these challenges because of the high likelihood of severe weather events impeding business operations. In February 2022, SCE issued a second annual update to its 2020-22 wildfire mitigation plan (WMP), which outlines wildfire mitigation strategies across distribution facilities to reduce wildfire risk incidents.

Strengths

» Well-defined wildfire risk mitigation capital expenditures aiming to address a highly relevant environmental challenge with clear expected benefits

» Structured, detailed and disclosed process for project evaluation and selection, including relevant internal and external expertise

» Full refinancing and clear flow of funds supporting robust and transparent process for management of proceeds

» Relevant and measurable impact indicators for the environmental benefits of the eligible project category

Challenges

» Absence of an independent impact assessment of the environmental benefits and externalities associated with the issuance

» Project capital expenditures to be recovered are for the deployment of eligible assets that were prioritized based on risk models that did not necessarily incorporate advanced climate modeling projections, although SCE has since begun utilizing such projections in their risk modeling used to prioritize wildfire risk mitigation projects

Alignment with principles

The Series 2023-A issuance is aligned with the four core components of the ICMA's Green Bond Principles 2021 (with June 2022 Appendix 1):

- [x] Green Bond Principles (GBP)
- [ ] Social Bond Principles (SBP)
- [ ] Green Loan Principles (GLP)
- [ ] Social Loan Principles (SLP)
- [ ] Sustainability-Linked Bond Principles (SLBP)
- [ ] Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned | Partially aligned | Aligned | Best practices

Clarity of the eligible categories – BEST PRACTICES

SCE has clearly and comprehensively defined and communicated the nature of expenditures, the eligibility and exclusion criteria, and the location of the eligible assets. Net proceeds from the Series 2023-A issuance will be used by the issuer to purchase the recovery property from SCE, who in turn will use the proceeds received from the sale of the property to exclusively repay a $730 million green bridge term loan and associated financing costs, which was used to finance wildfire risk mitigation capital expenditures. The issuance represents SCE's third and final utility cost recovery securitization pursuant to AB 1054 to recover wildfire mitigation capital spending under SCE's 2021 Track 1 and 3 General Rate Case (GRC) (see Appendix 2). The issuance is supported by an irrevocable financing order issued by the CPUC on February 23, 2023.

Eligible assets for recovery are located in SCE's service territory across central, coastal and southern California. The company has also provided detailed information on the specific projects to be recovered, including the types of assets and their technical characteristics and exclusion criteria.

Clarity of the environmental or social objectives – BEST PRACTICES

The environmental objective is climate change adaptation and is clearly defined, relevant and coherent with the eligible assets. The environmental objective is set in line with the recognized objectives under the ICMA's GBP and is likely to contribute positively and advance two UN Sustainable Development Goals (SDGs): Goal 9 – industry, innovation and infrastructure, and Goal 13 — climate action (see Appendix 1).

Clarity of the expected benefits – BEST PRACTICES

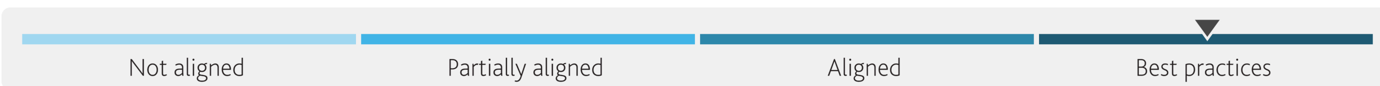
The company has identified clear, measurable and relevant environmental benefits for the eligible assets. The expected benefits include improving the electricity grid network's resiliency to the impacts of climate change and mitigating the likelihood of utility-related wildfires. The eligible assets for recovery are approved by the CPUC and are consistent with SCE's WMP.

The company has committed to reporting these quantitative benefits in its offering documentation. Proceeds from the Series 2023-A issuance will be used in full to recover previously incurred capital spending on eligible assets completed between August 2019 and July 2021.

Best practices identified

- Eligibility criteria are clearly defined for all project categories
- Objectives set are defined, relevant and coherent for all project categories
- Relevant benefits are identified for all project categories
- Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection



Transparency and quality of process for defining eligible projects – BEST PRACTICES
SCE has defined and detailed a clear process for determining eligible assets and has communicated the formalized decision-making process in the bond prospectus. The Series 2023-A securitized bond issuance is authorized by an irrevocable financing order issued by the CPUC pursuant to AB 1054. SCE submitted its third financing order application to request approval for the Series 2023-A issuance to recover its remaining AB 1054 excluded capital expenditures, composed of GRC Track 1 and Track 3 expenditures. The financing order— which outlines the expenses that will be recovered and the mechanisms of the securitized transaction structure — is reviewed, approved and authorized by the CPUC. SCE's financing team, which is composed of relevant internal expertise within the company, provides oversight and approves the bond structuring process.

Environmental and social risk mitigation process – BEST PRACTICES
The company has an established and thorough environmental and social risk mitigation process, including ESG controversy monitoring, identification and corrective measures. Identified risks are included in public documents, including the bond prospectus, application filings with the CPUC and the CPUC's financing order. In addition, SCE's environmental management system (EMS) outlines procedures in place to ensure projects and assets adhere to SCE's environmental requirements and provides details on how it conducts initial and continuous screening and monitoring of material ESG risks. The EMS includes a leadership council responsible for evaluating risks and noncompliance incidents, and commitments to manage environmental and social risks through passive, corrective and preventive measures.

Best practices identified

- The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- The process for project evaluation and selection is traceable
- Material environmental and social risks for most project categories are identified
- Presence of corrective measures to address environmental and social risks across projects
- ESG controversies are monitored

Management of proceeds

Not aligned | Partially aligned | Aligned | Best practices

Allocation and tracking of proceeds – BEST PRACTICES
Proceeds from the Series 2023-A issuance will be immediately allocated on the issuance date for the purchase of the recovery property from SCE. SCE in turn will use the proceeds to immediately repay the remaining balance of a $730 million green bridge term loan due in May 2023, which covered wildfire mitigation capital expenditures incurred between August 2019 to July 2021. SCE has internal controls to ensure that the proceeds received from the sale of the recovery property are matched to the eligible refinanced expenditures. As the servicer, SCE will collect fixed recovery charges approved by the CPUC on customer electricity bills from the recovery property, which are remitted to the bond trustee who will service bond principal and interest payments for the benefit of bondholders.

Management of unallocated proceeds – BEST PRACTICES
As documented in the bond prospectus and through the CPUC's financing order, net proceeds raised from the Series 2023-A issuance will be immediately allocated for the purchase of the recovery property from SCE and for the recovery of eligible wildfire mitigation capital expenditures through the retirement of the bridge term loan. As a result, there is no instance of unallocated proceeds nor the temporary placement of proceeds and investments. Additionally, no divestment is possible because net proceeds will be used to purchase the recovery property from SCE, in accordance with the CPUC's financing order.

Best practices identified

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned	Partially aligned	Aligned	Best practices

Transparency of reporting – ALIGNED

SCE plans to report on the use of proceeds in the bond offering documentation, which will be publicly available on SCE's website until bond maturity. Reporting will include exhaustive allocation as well as clear and relevant impact reporting indicators. SCE will include reporting on general information of the eligible expenditures within the eligible category; the amount allocated to the eligible category; total expenditures that will be refinanced; expected environmental benefits; and the disclosure of any relevant material developments, issues or controversies related to the projects. SCE is an experienced securitized green bond issuer and has a demonstrated history of adhering to their reporting commitments.

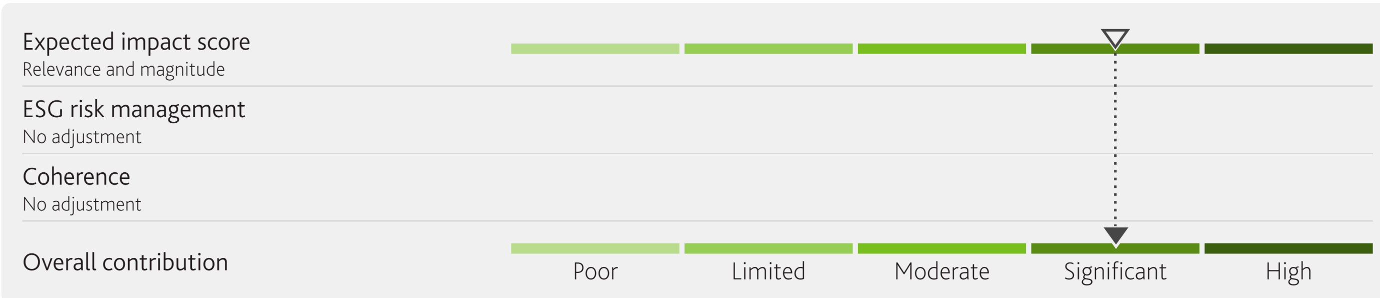
SCE's impact reporting will include clear and relevant indicators to demonstrate the expected environmental benefits, including the number of circuit miles hardened and the number of high fire risk poles replaced. The reporting methodology and assumptions used to report on the environmental benefits of the eligible projects will be described in the offering documentation. SCE has disclosed that, although the allocation reporting will not be verified by an external auditor, the process to determine the eligibility of projects and expenditures has been rigorously reviewed by the CPUC through the financing order and prior regulatory proceedings, and that the funds are immediately and fully allocated for the purchase of the recovery property. The CPUC's regulatory oversight, coupled with the provisions under AB 1054 that govern the utility cost recovery charge securitization process, provides robust tracking and the verification of fund allocation. The verification of the environmental benefits and externalities associated with projects will be performed internally and will not include independent impact assessments.

Best practices identified

- Reporting until full bond maturity or loan payback
- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes.

Contribution to sustainability

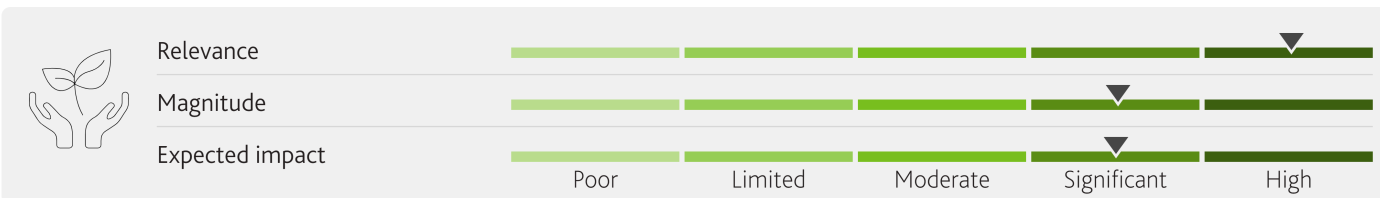
The Series 2023-A bonds demonstrate a significant overall contribution to sustainability.



Expected impact

The expected impact of the eligible category on SCE's environmental objectives is significant. Based on information provided by the company, we expect the proceeds from the Series 2023-A issuance to be used to refinance and recover previously incurred wildfire mitigation capital expenditures, as approved by the CPUC's financing order. A detailed assessment of the project category is provided below.

Climate change adaptation



The climate adaptation wildfire mitigation projects are highly relevant to respond to rising climate change risks in the State of California. Climate stressors such as rising temperatures, intense droughts and changing precipitation create dry vegetation conditions that increase the severity and duration of wildfire events. These stressors create conditions that are more conducive to wildfire ignition, which can increase the wildfire risk to electrical transmission and distribution assets. The adaptation strategies are therefore relevant to strengthen SCE's infrastructure by reducing the risk of ignition from utility infrastructure, particularly in high fire risk areas (HFRA), which cover nearly one-third of SCE's service area.

The projects are likely to demonstrate a significant magnitude because they provide a positive long- and short-term environmental benefit to mitigate and prevent utility-related wildfires. Most of the expenses to be recovered include those related to SCE's covered conductor program. SCE estimates that covered conductors will reduce the risk of ignition by more than 70% compared with non-covered wires, and plans to insulate almost all of its HFRA overhead distribution lines by 2028. Other expenses to be recovered include fire science and advanced modeling, alternative technologies and distribution fault anticipation, which will enable the early detection, mitigation and prevention of utility-sourced wildfire ignitions and minimize the need to implement public safety power shutoff outages.

SCE's adaptation strategies are broadly in line with leading industry practices. The project capital expenses to be recovered under the third securitization offering represent SCE's deployment of initial mitigation elements that prioritize the installation of covered conductors in its grid. The projects are part of SCE's longer-term wildfire risk mitigation strategy that also includes the installation of rapid earth fault current limiters (REFCLs) alongside covered conductors that the company is currently deploying on a risk-weighted basis. The company notes that the combination of REFCL technology and covered conductors offers an effective wildfire risk mitigation strategy that is similar to the efficacy of cable undergrounding, the latter of which represents a minor portion of expenses to be recovered. However, a report [1] from the Office of Energy Infrastructure Safety on SCE's 2022 WMP showed that SCE's climate risk modeling did not previously incorporate future climate change scenarios, indicating that advanced climate modeling projections were not necessarily incorporated in the deployment of eligible assets. We note that SCE has since begun utilizing advanced climate risk modeling in its wildfire risk mitigation project selection strategy.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. SCE has a robust EMS that covers the eligible assets that includes an internal framework of policies, standards and programs, and outlines roles and responsibilities for environmental compliance. The company has comprehensive safety standards, programs and policies designed to mitigate risk to workers, and it reports compliance with Title 8 of the California Code of Regulations and Title 29 of the Code of Federal Regulations. SCE also reports that it has previously filed a wildfire mitigation plan that aims to protect biodiversity, natural habitat and cultural resources across 6,000 acres of US Forest Service lands.

Coherence

We have not applied a negative adjustment for coherence to the expected impact score. The wildfire mitigation projects, which are a part of SCE's WMP, are aligned with the company's broader sustainability strategy and offer solutions to mitigate the effects of increasing wildfire threats on utility infrastructure, assets and operations.

Appendix 1 - Mapping the eligible category to the United Nations' Sustainable Development Goals

The eligible category is likely to contribute to two of the United Nations' (UN) Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 9: Industry, Innovation and Infrastructure	*Climate change adaptation*	9.1: Develop sustainable infrastructure to support economic development and human well-being, focusing on equitable access
GOAL 13: Climate Action	*Climate change adaptation*	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The mapping of the UN's SDGs in this SPO considers the eligible project category and associated sustainability objectives/benefits documented in the issuer's Series 2023-A bonds, as well as resources and guidelines from public institutions, such as the ICMA's SDG Mapping Guidance and the UN's SDG targets and indicators.

Appendix 2 - Summary of the eligible assets to be recovered under Series 2023-A

Eligible Category	Description	Sustainability Objectives	Potential Impact Reporting Metrics
Climate change adaptation	Recovery of expenditures related to minimizing the risk of ignition from utility related infrastructure through adaptive measures which include; - Infrastructure grid hardening (wildfire covered conductor program, undergrounding, fusing mitigation) - Preventive maintenance (vegetation management, increased overhead infrastructure inspectioins and perform necessary remediations) - Improved fire situational awareness (fire science & advanced modeling, HFRA sectionalizing devices) - Investments in technology and process (alternative technologies, distribution fault anticipation, public safety power shutoff protocol support functions) to minimize the frequency and impact of service disruptions	Climate change adaptation	- # of circuit miles hardened - # of high fire risk area poles replaced

Moody's related publications

Second Party Opinion analytical framework:

» Framework to Provide Second Party Opinions on Sustainable Debt, October 2022

Topic page:

» ESG Credit and Sustainable Finance

Endnotes

1 State of California Office of Energy Infrastructure Safety, SCE 2022 WMP Update Final Decision with Cover Letter, July 2022

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