



February 5, 2020

VIA ELECTRONIC MAIL

Wildfire Safety Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Wildfiresafetydivision@cpuc.ca.gov

Re: CEJA's Comments on SCE's and SDG&E's Proposed Executive Compensation Structures

Dear Wildfire Safety Division:

The California Environmental Justice Alliance (CEJA) writes to express our concerns related to Southern California Edison's ("SCE's") and San Diego Gas & Electric's ("SDG&E's") proposed executive compensation structures. As described below, we are concerned that SCE's and SDG&E's proposed structures do not meet the requirements of the Public Utilities Code.

OVERVIEW OF REQUIREMENTS

Public Utilities Code Section 8389 requires that electrical corporations' annual Safety Certification demonstrate that:

The electrical corporation has established an executive incentive compensation structure approved by the division and structured to promote safety as a priority and to ensure public safety and utility financial stability with performance metrics, including incentive compensation based on meeting performance metrics that are measurable and enforceable, for all executive officers, as defined in Section 451.5. This may include tying 100 percent of incentive compensation to safety performance and denying all incentive compensation in the event the electrical corporation causes a catastrophic wildfire that results in one or more fatalities.

In addition, the Code requires that:

The electrical corporation has established a compensation structure for any new or amended contracts for executive officers, as defined in Section 451.5, that is based on the following principles:

- (i) (I) Strict limits on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics.
- (II) No guaranteed monetary incentives in the compensation structure.
- (ii) It satisfies the compensation principles identified in paragraph (4).
- (iii) A long-term structure that provides a significant portion of compensation, which may take the form of grants of the electrical corporation's stock, based on the electrical corporation's long-term performance and value. This compensation shall be held or deferred for a period of at least three years.
- (iv) Minimization or elimination of indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest in the electrical corporation.

As this language demonstrates, the Legislature had a strong interest in ensuring that executive pay is tied directly to safety performance, by stating that the structure "may include tying 100 percent of incentive compensation to safety performance and denying all incentive compensation in the event the electrical corporation causes a catastrophic wildfire that results in one or more fatalities." The example demonstrates how seriously the Legislature intends utilities to restructure their incentive pay to prioritize safety.

DISCUSSION OF SCE'S PLAN

SCE plan fails to meet the requirements of the Code for several reasons. Initially, SCE's plan fails to show how the incentive structure "promotes safety" and "ensures public safety." Rather than deny any compensation if certain events, such as a catastrophic wildfire occur, SCE merely has a committee balance a number of factors to determine the amount of the incentive. As SCE describes, the committee can "exercise judgment and independently adjust" the incentives.¹ This type of unclear decision-making process is unlikely to result in the type of safety prioritization intended under Assembly Bill ("AB") 1054. Rather under this structure, an SCE executive could potentially receive high incentives even though the company failed to meet necessary safety metrics. Even SCE admits that the reduction or elimination of annual incentives is only a "[p]otential" if there are fatalities, serious injuries, or significant non-compliance.² This type of vague process for deciding executive incentives is unacceptable. It fails to provide the Wildfire Safety Division and community members with the necessary assurance that public safety will be prioritized.

In addition, although SCE states that it provides more money for incentives than base pay, the breakdown between those categories is not specified. We request that SCE provide a chart, similar to SDG&E,³ that shows the percentage breakdown between the different salary components. We further request that SCE provide a table showing when executive pay has been withheld, similar to the table provided by SDG&E,⁴ to demonstrate whether the committee is actually withholding pay.

¹ SCE January 14, 2020 Executive Compensation Letter, p. 7.

² SCE January 14, 2020 Executive Compensation Letter, p. 1.

³ See SDG&E January 27, 2020 Executive Compensation Letter, p. 2.

⁴ See SDG&E January 27, 2020 Executive Compensation Letter, p. 5.

Moreover, SCE does not include the type of “measurable and enforceable” metrics that AB 1054 requires. Rather, SCE’s plan includes vague metrics such as “[r]educe risk of public injury” and “[r]educe risk of catastrophic wildfire.” It is unclear how metrics such as these would be measured and how they could be enforced to result in a reduction of executive incentives. SCE’s plan needs to be revised to include objective measurable metrics that are transparent to both the Wildfire Safety Division and community members.

Furthermore, compounding the problems above, SCE ties 55% of the evaluation of its executives to metrics that are not related to safety and resiliency. AB 1054 clearly requires a prioritization of safety and public safety over non-safety related metrics. SCE’s plan fails to achieve this.

DISCUSSION OF SDG&E’s PLAN

Although we believe that SDG&E’s plan is a better reflection of the requirements of AB 1054, we are still concerned that SDG&E’s plan does not truly prioritize safety. Of SDG&E’s variable pay elements, only 10% are wildfire focused elements, and these elements are largely based on completing hardening measures, not on assessing whether the harm that results from wildfires is reduced. These type of “check-the-box” elements will not ensure that safety is prioritized. Rather it will only ensure that projects are completed, which is not the same as protecting the public from catastrophic wildfires or other events that compromise safety. Importantly, the Code requires that the compensation structure include “performance metrics,” which suggests that the actual performance in situations should be measured, not just project completions. We request that the elements of pay be developed to be more consistent with the metrics that the Wildfire Safety Division has developed for the Wildfire Mitigation Plans to ensure that executives are being evaluated for the performance of measures, not merely whether measures have been completed.

Moreover, although SDG&E provides a table showing where executive pay has been reduced, the table⁵ only implicates such a small percentage of the total amount of variable pay elements that it is unclear whether the remaining elements underwent a rigorous evaluation, and whether the pay is truly evaluated to ensure that public safety is prioritized. As such, we request that utilities provide a more complete evaluation showing how all the metrics have been applied to utility pay in recent years to provide assurance that safety is being prioritized.

Further, SDG&E fails to describe what happens with relation to the variable pay in the event of a catastrophic wildfire. AB 1054 suggests that all of the incentive compensation could be completely denied in such an instance. The Wildfire Safety Division should include a requirement that denies either all or the majority of all incentive pay if there is a catastrophic wildfire.

⁵ See SDG&E January 27, 2020 Executive Compensation Letter, p. 5.

CONCLUSION

For the reasons describe above, CEJA recommends that the Wildfire Safety Division require SCE and SDG&E to modify their executive compensation structures to meet the core purpose and language of the statute. Thank you for consideration of these comments.

Sincerely,

/s/ Shana Lazerow

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cc: Service List for R.18-10-007