

February 11, 2020

Caroline Thomas Jacobs
Director, Wildfire Safety Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94702
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Re: Southern California Edison's Comments on TURN and CEJA Comments on Executive Compensation Structure

Dear Director Thomas Jacobs:

Southern California Edison (SCE) is responding to the correspondence that the Wildfire Safety Division (WSD) received on February 5, 2020 from The Utility Reform Network (TURN) and from the California Environmental Justice Alliance (CEJA). In their correspondence, TURN and CEJA expressed concerns about SCE's executive compensation structure, as summarized in SCE's January 14, 2020 submission (Initial Submission). This letter responds to their concerns and supplements our Initial Submission in separate sections below. As you know, SCE's document was provided prior to the WSD's issuance of its January 17 letter in large part because of the importance of finalizing and communicating corporate goals to executives and other employees early in the year, so that they can help the company achieve its safety, operating, financial, and strategic objectives that benefit our customers and other stakeholders. Accordingly, SCE continues to request that the WSD promptly approve the structures as compliant with Assembly Bill 1054.

I. Pay Mix

As discussed in the Initial Submission, the pay mix for SCE's Executive Officers¹ is aligned with AB 1054. Long-term incentive (LTI) awards are a significant portion of compensation and are based completely on the achievement of objective performance metrics. Annual incentives are a smaller, but also a significant portion of compensation, and are based mostly on the achievement of objective performance metrics. As a result, the primary portion of Executive Officers' target total direct compensation is based on achievement of objective performance metrics, and those metrics prioritize safety and utility financial stability. As of the end of 2019, SCE's Executive Officers had the following mix of pay (shown as a percentage of target total direct compensation):

Position	Base Pay %	Target Annual Incentive Award %	Target Long-Term Incentive Award %
President and CEO	22.2%	16.6%	61.2%
EVP, Operations	37.0%	22.2%	40.7%
SVP and Chief Financial Officer	39.4%	21.7%	39.0%
SVP and General Counsel	39.4%	21.7%	39.0%
SVP, Customer Service	40.2%	20.1%	39.8%
SVP, Strategic Planning & Power Supply	44.4%	22.2%	33.3%
SVP, Transmission & Distribution	38.0%	20.9%	41.1%

¹ See footnote 1 of the Initial Submission for the definition of "Executive Officers."

The SCE Board of Directors' Compensation and Executive Personnel Committee (Compensation Committee) has not yet approved 2020 compensation for Executive Officers. We expect that none of the percentages in the table above will change by more than 3 percentage points for 2020.

II. Proposed 2020 Safety Metrics

The Compensation Committee is scheduled to approve specific annual incentive goals for 2020 at its February 26, 2020 meeting. It has already approved general goals, which were summarized in the Initial Submission, including a 45% weighting for the Safety & Resiliency goal category, a 25% weighting for Financial Performance, a 30% weighting for Operational Excellence & Strategic Advancement,² and an overarching goals framework, with foundational safety and compliance values that allow the Compensation Committee to reduce annual incentive awards by up to 100% based on the outcomes for those values.

The following are the currently proposed targets for representative success measures for the Safety and Resiliency goal category and, where applicable, threshold and maximum metrics as well.³ The worker safety goals in the table are outcome-based. The other goals in the table measure critical safety milestones and activities. However, if safety outcomes do not meet SCE's foundational safety and compliance values, the Compensation Committee has discretion to eliminate up to 100% of the annual incentive award. The Compensation Committee retains discretion to adjust for real-world events in recognition of the fact that every situation cannot be contemplated when annual goals and success measures are developed. This discretion allows the Compensation Committee to move beyond a circumscribed evaluation of goal performance when it is appropriate to reflect real-world developments.

Safety & Resiliency Goal	Representative Success Measures	Threshold	Target	Maximum
1. Worker Safety: Make significant progress toward eliminating serious injuries and fatalities (SIF)	Improve employee EEI SIF Injury Rate: \leq	0.091	0.055	0.020
	Reduce employee DART Injury Rate: \leq	1.05	0.93	0.80
2. Public Safety: Reduce risk of public injuries related to our electric infrastructure	Cover Pressure Relief and Restraint: \geq vault lids	450	500	550
	Vegetation Line Clearing: execute trims within 60 days of planned trim month to ensure compliance with GO 95 requirements \geq	80%	85%	90%
	Miles of Covered Conductor: install \geq	700	1,000	1,300
3. Wildfire Resiliency: Reduce the risk of catastrophic wildfires associated with electric infrastructure by executing our Wildfire Mitigation Plan and programs	Remediate P2 findings from T&D overhead inspections 30 days before due date, subject to further risk assessment ⁽⁴⁾ \geq	50%	65%	80%
	Hazard Tree Removal: perform WMP assessment scope and complete prescribed mitigations in active inventory ⁽⁵⁾ within 180 days of schedule \geq	72%	82%	92%
	Weather stations: install \geq	375	475	575

² Many of the goals in the Operational Excellence & Strategic Advancement goal category, such as system reliability and SONGS goals, also impact safety.

³ The following success measures are also included in the Safety & Resiliency goal category: enhance worker safety programs; improve public awareness of safety around electric lines and equipment; and improve capability of Public Safety Power Shutoffs.

⁴ Includes structures with compliance inspections due in 2020. Remediation of P2 findings for goal measurement exclude those with GO95 exceptions and worker/public safety conditions.

⁵ Active inventory consists of trees that SCE has authority and access to remove.

4. Cybersecurity: Maintain effective controls to prevent and mitigate significant disruptions, data breach or system failure	Cyber tool deployment, % of computers	N/A	97%	N/A
	Mature enterprise-wide phishing program as measured by simulation exercise click rate of ≤	11%	8%	5%

III. Deductions for Safety Performance Since 2015

Although both TURN and CEJA have expressed concern over the Compensation Committee's discretion in determining annual incentive payouts, as the table below shows, the Compensation Committee has been rigorous in evaluating and scoring safety performance, including imposing multiple significant deductions. The target score for each year's annual incentive award is 100. This target score was reduced each year from 2015 through 2018 due to unmet safety, wildfire resiliency, or foundational goals, as explained in the table.

Plan Year	Total Deduction for Executive Officers Due to Unmet Safety, Wildfire Resiliency or Foundational Goals	Summary of Unmet Safety, Wildfire Resiliency and/or Foundational Goals
2019	Performance to be determined by the Compensation Committee at its 2/26/20 meeting	Performance to be determined by the Compensation Committee at its 2/26/20 meeting
2018	Bonus completely eliminated for SCE CEO and for SCE President; ⁶ 20-point deduction for other Executive Officers ⁷	Impact of wildfires on communities within SCE's service territory; fatalities of (i) two contractors and (ii) a private tree trimmer who came in contact with a power line; DART injury rate above target
2017	17-point deduction ⁸	Fatality and a serious injury occurred when members of the public came in contact with downed power wires in separate incidents; DART injury rate above target
2016	10-point deduction	Four worker fatalities; DART injury rate above target
2015	10-point deduction	Employee fatality; DART injury rate above target

IV. Alignment of Long-Term Incentives and Safety Performance

In its February 5 correspondence, TURN takes the position that: "SCE erroneously claims that its Long-Term Incentive Plan provides a strong incentive for risk mitigation and safety improvements." We disagree with this statement. LTI awards make up a large portion of each executive's total compensation and provide a strong incentive to safely manage operations to increase the value of those awards. Wildfires, for example, can result in significant decreases in both stock price and the value of LTI awards. As of the end of 2018, top officers had lost an average of 31% of the value of their stock option grants, 12% of the value of restricted stock units and 48% of the value of performance shares when measured against the original value of those grants, which were awarded over a number of years.

⁶ In light of the impact of wildfires on communities within SCE's service territory, the Compensation Committee decided, in consultation with management and with its full support and agreement, that no annual incentive award would be paid for 2018 to the SCE CEO or the SCE President. This action was not a reflection on the performance of SCE or these officers.

⁷ The 20-point deduction was comprised of: 5-point deduction to Safety portion of Operational & Service Excellence goal category due to DART injury rate; 5-point deduction to overall company modifier due to unmet foundational goal; 10-point deduction to individual performance modifier due to unmet foundational goal.

⁸ The 17-point deduction was comprised of: 7-point deduction to Safety goal category due to DART injury rate; 10-point deduction to individual performance modifier due to unmet foundational goal.

A further example of the impact of safety performance on LTI is to focus solely on the performance shares payout in early 2019. As a result of the impact of the wildfires on the share price, the value of the performance share payout was only 57% of the target, a significant reduction particularly when considered in conjunction with the impacts on the safety components of the annual incentives and the Compensation Committee's decision to eliminate annual incentives for both the SCE CEO and the SCE President. This type of loss provides a strong incentive for risk mitigation and safety improvements and focuses executives' efforts on the long-term interests of the company and its stakeholders. We feel that this long-term view is an imperative, which is why we have continued to offer long-term incentives even though the CPUC has disallowed customer funding of that compensation element.

V. Conclusion

As explained in our Initial Submission and supplemented in this correspondence, we believe SCE's executive compensation structure fully complies with the requirements of AB 1054. As a result, we ask that the WSD not delay its final approval of SCE's executive compensation structure. SCE has demonstrated that it ensures safety through a combination of both output-based metrics as well as more subjective analysis using our Compensation Committee's experience in evaluating company goals for the purpose of promoting safety and ensuring public safety. We have further demonstrated that the Committee plays an active role in this analysis and has continually exercised its discretion over incentive payouts, including completely eliminating bonus payments for the company's top executives for 2018. The executive compensation structure that SCE has adopted relies on multiple forms of total compensation to incentivize executives toward achieving those goals, both in the short- and long-term, which we feel is important to achieving the goals set forth in AB 1054. We urge WSD to take prompt action in this matter and oppose any delay or rejection of the renewal of our current safety certification.

Sincerely,



Carla Peterman

*Senior Vice President, Regulatory Affairs
Southern California Edison Company*