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January 27, 2020

**VIA EMAIL**

Ms. Caroline Thomas Jacobs  
Wildfire Safety Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Re: San Diego Gas & Electric Company's Documentation of Compliance with Executive Compensation Provisions of Public Utilities Code § 8389(e)

Dear Ms. Jacobs,

In your January 17, 2020, you directed that “[b]y January 27, 2020, electrical corporations seeking a subsequent Safety Certification for 2020 pursuant to Pub. Util. Code § 8389(e) ... must submit via letter to the Director of the Wildfire Safety Division a formal request for approval of the electrical corporation’s executive compensation structure.” In response to your letter, enclosed is a description of San Diego Gas & Electric Company’s executive compensation structure and an explanation of how that structure complies with the principles established in Public Utilities Code § 8389(e).

Please contact me if you have any questions or concerns regarding this request.

Respectfully submitted,

A handwritten signature in blue ink that reads "Dan Skopec". The signature is written in a cursive, flowing style.

Enclosure

**SAN DIEGO GAS & ELECTRIC COMPANY'S  
EXECUTIVE COMPENSATION STRUCTURE AND COMPLIANCE  
WITH PUBLIC UTILITIES CODE SECTION 8389(e)**

**January 27, 2020**

**I. OVERVIEW OF SDG&E'S EXECUTIVE COMPENSATION STRUCTURE**

SDG&E uses a comprehensive, market-based approach to executive compensation. The compensation and benefits for SDG&E executives are designed to attract, motivate and retain high-performing executives. SDG&E benchmarks its total compensation to market to ensure its competitiveness. SDG&E's executive compensation structure is intended to focus executives on SDG&E's key priorities, the most important of which is safety. Safety is a core value of SDG&E, and thus compensation metrics and key performance indicators are used to drive improved safety performance, as discussed below.

The primary components of SDG&E's executive officer compensation are Base Pay, Variable Pay, and long-term incentives under Sempra Energy's Long-term Incentive Plan.

Base Pay, or base salary, is structured to be competitive, internally equitable and cost effective. While SDG&E emphasizes performance-based compensation via Variable Pay and Long-term Incentives, base salaries remain an essential and standard part of compensation for attracting and retaining executives.

Variable Pay, (sometimes referred to as the "Incentive Compensation Plan" or "ICP"), is an essential component of a competitive total compensation package because it creates focus on and accountability for desired results, improves performance, and facilitates ideas and operational improvements. Variable Pay plans are a prevalent market practice. Under SDG&E's Variable Pay plan, a portion of employee compensation is placed at risk, as further discussed below. The Variable Pay plan – at threshold, target, and maximum company performance – are expressed as a percentage of each executive officer's base salary.

Long-term Incentives are another integral component of a competitive compensation program for key management and executive employees. Consistent with the external labor market, SDG&E's compensation philosophy ties a greater portion of pay to company performance at higher levels of responsibility. Long-term incentive awards are granted under the Sempra Energy Long Term Incentive Plan, in the form of performance-based restricted stock units and service-based restricted stock units. Awards consist of three components: (1) performance-based restricted stock units based on Sempra Energy's total shareholder return relative to the utilities in the S&P 500 Utilities index and the S&P 500 index (with performance against each index measured separately) over a three-year period; (2) performance-based restricted stock units based on Sempra Energy's Earnings Per Share growth over a three-year period; and (3) service-based restricted stock units that vest ratably over three years.

For 2020, the percentage allocation of executive compensation among these three components is as follows:

<b>Executive Officer</b>	<b>Base Pay %</b>	<b>Target Variable Pay (ICP) %</b>	<b>Target Annual Long-term Incentive Plan Award %<sup>1</sup></b>
Chairman & CEO	28%	19%	53%
President	28%	19%	53%
COO	31%	19%	50%
CFO	37%	19%	44%
VP, General Counsel & Chief Risk Officer	44%	20%	36%

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<sup>1</sup> LTIP targets represent 2020 annual LTIP awards and do not include special LTIP awards.

## **II. DOCUMENTATION OF COMPLIANCE WITH PUBLIC UTILITIES CODE §§ 8389(e)(4) AND (e)(6)**

Assembly Bill 1054 (2019) added Section 8389(e)(4) and Section 8389(e)(6) to the Public Utilities Code. These provisions concern an electrical corporation's executive incentive compensation structure, and principles of executive compensation, respectively. An electrical corporation's demonstration of compliance with these statutory provisions is among the requirements necessary for obtaining an annual safety certification. Compliance with each statutory provision is discussed in turn.

### **A. Public Utilities Code § 8389(e)(4)**

SDG&E's executive incentive compensation structure complies with Public Utilities Code § 8389(3)(4), which requires that the structure "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."

The SDG&E compensation component that comprises "executive incentive compensation" is Variable Pay. SDG&E's Variable Pay has been a longstanding part of SDG&E's total compensation strategy. Through Variable Pay, a substantial portion of executive pay is at-risk, subject to the achievement of the plan's performance measures, motivating employees to meet or exceed important safety, customer service, supplier diversity, reliability and financial goals.

Each year, the leadership team at SDG&E submits proposed Variable Pay goals to the Safety Committee of the Board of Directors, as well as the full Board, for review and approval. The 2020 Variable Pay plan has been reviewed by both the Safety Committee and the full Board.

Safety measures or goals are an important focus of the SDG&E's Variable Pay, as reflected in the numerous goals falling under the categories public and employee safety. These measures are designed to incent employees and executives to meet specified safety targets. According to the National Safety Council Center's Campbell Institute of environmental, health and safety excellence, organizations are best served with a combination of leading and lagging indicators (outcomes).<sup>2</sup>

The following table provides additional detail about the framework of SDG&E's Variable Pay Plan, including safety measures.

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<sup>2</sup> See, e.g., Campbell Institute, "A Practical Guide to Leading Indicators: Metrics, Case Studies and Strategies," p. 2 (2019).

<b>SDG&amp;E VARIABLE PAY ELEMENTS</b>	<b>EXECUTIVE WEIGHTING 2020</b>
<b>OPERATING GOALS</b>	<b>65%</b>
EMPLOYEE & PUBLIC SAFETY OPERATIONS	59%
<u>System and Customer Safety</u>	
<u>Fire and Public Safety</u>	
Fire Hardening: Wood-to-steel pole replacements	3%
Overhead System Hardening (miles)	2%
Underground System Hardening (miles)	2%
Wildfire Safety Communications	3%
<u>Gas Safety</u>	
Distribution Integrity Management Program - Miles of Vintage Mains & Services Replaced	4%
Damage Prevention (Damages per USA ticket rate)	3%
Mobile Home Park Retrofit Program (spaces with To-the-Meter Installed)	2%
P1 Gas Response Time (Minutes)	2%
PSEP Line 1600	2%
<u>Electric Safety</u>	
System Average Interruption Duration Index (SAIDI)	3%
Substation Breaker Replacement (units)	3%
Tee Replacement Program (locations)	3%
<u>Employee Safety</u>	
Zero employee electric contacts	3%
Lost Time Incident (LTI) Rate	4%
Controllable Motor Vehicle Incidents (CMVI)	4%
Environmental Safety Compliance and Management Plan (ESCAMP) Findings Mediated	3%
Field Observations	3%
<u>Executive Individual Safety Performance</u>	10%
CUSTOMER SERVICE & STAKEHOLDERS	6%
SDG&E Listens Survey (Voice of the Customer)	3%
Supplier Diversity	2%
Envision: Complete User Acceptance Testing	1%
<b>FINANCIAL GOALS</b>	<b>30%</b>
SRE Earnings	15%
SDG&E Earnings	15%
<b>INDIVIDUAL PERFORMANCE</b>	<b>5%</b>
<b>TOTAL</b>	<b>100%</b>

The definitions of the 2020 safety goals in this table are set forth in Appendix 1 hereto. These safety goals include a combination of both input-based and output-based measures.

In years in which performance goals (including safety goals) are not met, Variable Pay is reduced or withheld. Below is a summary of instances in which performance for safety measures was below the target performance goals under the 2014 through 2018 plans.<sup>3</sup>

Safety Performance Measure	Plan Year	Weighting (% of Company Component)	Performance Goals			Actual Performance	Payout as a % of Target	Performance Result
			Minimum	Target	Maximum			
Lost Time Incident Rate	2018	5.0%	0.73		0.53	0.71	20%	Between minimum and target
System Average Interruption Index	2018	2.5%	67	64	61	72	0	Below minimum - no payout
System Average Interruption Index	2016	5.0%	64	62	60	72.24	0	Below minimum - no payout
OSHA Recordable Rate	2015	8.0%	2.60		2.20	1.91*	0	Negative discretion - no payout
System Average Interruption Index	2014	5.0%	68	63	58	64.6	68%	Between minimum and target

\*Although OSHA Recordable Rate was at 1.91, a level that would have resulted in a maximum payout, the payout was reduced to zero due to an employee death.

## B. Public Utilities Code § 8389(e)(6)

SDG&E's executive compensation structure also complies with Public Utilities Code § 8389(e)(6). Set forth below are the compensation principles of Section 8389(e)(6) (in italics), followed by a description of SDG&E's compliance with those 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.*

<sup>3</sup> The results for the 2019 Executive Compensation Plan have not yet been finalized.

As reflected in the table on p. 2, above, Base Pay comprises less than 50% of the total targeted annual compensation for SDG&E executives in 2020. The primary portion of that compensation is based on achievement of objective performance metrics through Variable Pay, and the Long-term Incentive Plan.

*(II) No guaranteed monetary incentives in the compensation structure.*

There are no guaranteed monetary incentives in SDG&E's executive compensation structure.

*(ii) It satisfies the compensation principles identified in paragraph (4).*

SDG&E's executive incentive compensation satisfies the compensation principles identified in Section 8389(e)(4), as discussed above.

*(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.*

As described above, through the Long-term Incentive Plan, SDG&E provides a significant portion of executive compensation in the form of grants of Sempra Energy stock<sup>4</sup> based on long-term performance and value.

*(iv) Minimization or elimination of indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest in the electrical corporation.*

SDG&E is not aware of indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest in the electrical corporation.

In sum, SDG&E respectfully submits that the Wildfire Safety Division should find that SDG&E's executive compensation structure meets the principles set forth in Public Utilities Code §§ 8389(e)(4) and (e)(6).

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<sup>4</sup> SDG&E is wholly owned by Sempra Energy and does not have publicly traded stock

## APPENDIX 1

### SDG&E 2020 ICP PERFORMANCE GOAL DEFINITIONS

1. **Fire Hardening: Wood-to-Steel Pole Replacements** – The goal of this program is to replace wood poles with steel poles to reduce fire risk. SDG&E has the following systematic programs for changing out wood to steel poles:
  - a. Fire Risk Mitigation (FiRM); Wood to Steel Transmission Pole Change Outs; Pole Risk Mitigation Engineering (PRiME); Cleveland National Forest Project (CNF); Corrective Maintenance Program (CMP) – When wood poles in the Fire Threat Zone (FTZ) need to be replaced, they will be replaced with steel. This goal will be tracked by the project managers in the above programs and verified on the quarterly GIS reports.
2. **Overhead System Hardening (miles)** - The goal of this program is to mitigate the risk of wildfire and minimize the impact of PSPS by hardening the distribution system to known local wind conditions, reducing the risk of equipment failure in high wind. Additionally, the FiRM program installs high tensile strength conductors that are less likely to fail than the aged small wire that exists today. This goal will be tracked by the project managers in the following programs and verified on the quarterly GIS reports. Fire Risk Mitigation (FiRM), Pole Risk Mitigation Engineering (PRiME); Cleveland National Forest Project (CNF); Corrective Maintenance Program (CMP).
3. **Underground System Hardening (miles)** - The objective of undergrounding distribution circuits in strategic locations allow SDG&E to dramatically reduce SDG&E equipment as an ignition source. Removing the possibility of the overhead conductors failing, poles from failing and vegetation contacting SDG&E equipment, reduces possibilities of ignition. This program has the added benefit of reducing the need for PSPS as a mitigation under extreme weather conditions, potentially eliminating PSPS impacts for some customers. This goal will be tracked by the project managers in the following programs and verified on the quarterly GIS reports.
4. **Wildfire Safety Communications** – Measures the percentage of fire safety messages confirmed as received by customers that are sent prior to a Public Safety Power Shut-Off event. The delivery of this message notifying customers of a loss of power generally occurs 24-48 hours before a circuit or portion of a circuit is deenergized.
5. **Distribution System Integrity Management Program - Miles Vintage Replacement** – Miles of pre-1986 plastic pipe mains and services replaced or abandoned.
6. **Damage Prevention** – The metric “Damages per 1,000 Tickets” consists of the number of damages that cause a gas leak to SDG&E’s below ground facilities and the total number of received USA Ticket transmittals. This is a standard industry metric for measuring operator performance for damage prevention. To calculate this metric, the number of damages is normalized by the number of USA tickets and multiplied by 1,000 to obtain the number of damages per 1,000 tickets. Normalizing by ticket counts factors in the year-to-year variation in construction and excavation activities that have a direct influence on damages. This



allows for measurable year-to-year performance, allowing this metric to be used as an indicator for success of risk reduction activities.

- 7. Mobile Home Park Retrofit Program - Mobile Home Spaces with To-the-Meter (TTM) Installed** – The total number of MHP spaces with completed To-the-Meter (TTM) construction in 2020. This includes the installation and pressurization of gas main and service lines for gas only parks, and installation of electric conduit to each individual MHP space service point including the installation of electric meter pedestals when both systems converted to utility service. The MHP program is awaiting issuance of its proposed decision related to establishment of the permanent MHP program. The program space count for 2020 includes all of the remaining and approved parks for the bridge program.
- 8. P1 Gas Response Time** – The Priority 1 gas emergency response time is the average time it takes either Customer Service Field or Gas Operations to respond to a Priority 1 gas emergency. Targets are based on a three-year average of response times adjusted for anomalies including area odors.
- 9. PSEP Line 1600** – Pipeline Safety Enhancement Plan is a pipeline replacement project. The 2020 ICP target takes into consideration the efforts related to this plan in 2020.
- 10. System Average Interruption Duration Index (SAIDI)** – SDG&E’s System Average Interruption Duration Index (SAIDI) is the cumulative outage time (minutes) experienced by the average SDG&E electric customer in a year. Reduce the cumulative outage time experienced by the average electric customer (SAIDI). (+/- 3 minutes).
- 11. Substation Breaker Replacement (units)** - The goal of this program is to replace aging substation distribution breakers with new modernized breakers to improve reliability and reduce the impact of outages on customers. The internal budgets that fund the replacement of distribution breakers are Distribution Obsolete Equipment, Poway 69kV/12kV Substation rebuild, Rancho Santa Fe Fire Hardening and other targeted substation projects).
- 12. Tee Replacement Program (units)** – The goal of this program is to replace deteriorated and at-risk tees on the underground distribution system to improve reliability and reduce the impact of outages on customers. The internal budgets that fund the replacement of Tees are the proactive Tee Modernization Program and underground CMP inspection program.
- 13. Zero Employee Electric Contacts** – Zero employee electric contacts - No employee makes a direct electrical contact with any part of their body that results in a disfigurement, dismemberment, or extended hospitalization requiring substantial medical treatment.
- 14. Lost Time Incident (LTI) Rate** – LTI - The Lost Time Incident Rate is expressed as the number of OSHA Recordable Injuries or Illnesses resulting in Days Away from Work, per 100 full-time employees. This measure is calculated using the number of Lost-time Incidents x 200,000 divided by the Total Hours Worked.

- 15. Controllable Motor Vehicle Incidents (CMVI)** – CMVI - Minimum performance, 53; maximum performance, 33 or fewer. Motor vehicle incident records in the electronic Safety Information Management System will document controllability.
- 16. ESCMP Corrective Action** – ESCMP Corrective Action – Percent of Corrective Actions documented in the Safety Information Management System and scheduled for completion in calendar year 2020 that are completed by December 31, 2020.
- 17. Field Observations** – The Company has developed a leading indicator safety metric which counts the number of documented observations to front line operational employees. An observation is defined as a visit to an employee or crew work site in which work is observed and documented, with at minimum the date of observation and notes on the observation.  
Note: BBS processes includes observations from front line employees who may also work in an office environment.
- 18. Executive Individual Safety Performance** – The SDG&E Board of Directors has discretion in determining this portion of an officer’s ICP award based upon the Board’s assessment of an individual officer’s demonstration of commitment to safety excellence. The Individual Safety Performance Component is determined by the officer’s contribution to:
- championing safety culture;
  - contribution to safety initiatives;
  - achievement of Safety Barometer Survey action planning;
  - contribution to key safety programs including: Executive Safety Council, Employee Safety Congress, Contractor Safety Congress, Employee Safety Committees.