

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



January 17, 2020

Michael Lewis  
Sr. Vice President of Electric Operations  
Pacific Gas & Electric  
Mail Code: B32  
P. O. Box 77000  
San Francisco, CA 94177

**SUBJECT: Executive Compensation**

Dear Mr. Lewis:

Public Utilities Code (Pub. Util. Code) §8389 (e)(4) requires that each electrical corporation obtain approval of its executive compensation structure from the Commission's Wildfire Safety Division as a component of receipt of the annual Safety Certification set forth in Pub. Util. Code § 8389(e). The relevant portion of the code states (Pub. Util. Code §8389(e)(4):

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 [Pub. Util. Code] Section 451.5.<sup>1</sup> 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.

Pub. Util. Code §8389(e)(6)(A) further requires the following:

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:

1. Strict limits on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics;

<sup>1</sup> Pub. Util. Code § 451.5(c) states: For purposes of this section, "executive officer" means any person who performs policy making functions and is employed by the public utility subject to the approval of the board of directors, and includes the president, secretary, treasurer, and any vice president in charge of a principle business unit division, or function of the public utility.

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2. No guaranteed monetary incentives in the compensation structure;
3. It satisfies the compensation principles identified in §8389(e)(4);
4. 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.
5. Minimization or elimination of indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest in the electrical corporation.

**By January 27, 2020**, electrical corporations seeking a subsequent Safety Certification<sup>2</sup> for 2020 pursuant to Pub. Util. Code §8389(e), with the exception of Pacific Gas and Electric Company (PG&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 at the following email address: [wildfiresafetydivision@cpuc.ca.gov](mailto:wildfiresafetydivision@cpuc.ca.gov). The Division will post each utility's proposal letter and supporting documentation to the Commission's website.

**By January 31, 2020**,<sup>3</sup> PG&E must include in its testimony in Investigation (I.) 19-09-016 a formal request for approval of its executive compensation structure, pursuant to Pub. Util. Code §§8389(e) and 3292 (B)(1)(C). PG&E's executive compensation structure for its 2020 safety certification is within the scope of I.19-09-016<sup>4</sup> and must be considered within and according to the standards of evaluation set in that proceeding.

In addition to complying with all portions of the relevant Pub. Util. Code, requests should include the following information:

- An explanation of executive compensation components, including base pay, annual bonus/incentive information, and long-term incentive pay, including percentages of overall compensation for each component;
- A description all metrics, including safety metrics, used to calculate incentive compensation, including an explanation of safety whether metrics are outcome or input based (e.g. number of ignitions versus number of miles of distribution lines inspected);
- A breakdown of the percentage of executive compensation based on safety metrics versus other metrics, e.g. financial performance;
- A description of how safety performance is calculated for incentive compensation; and,

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<sup>2</sup> Initial safety certifications do not require approval of executive compensation structures (See Pub. Util. Code § 8389(F)(1)).

<sup>3</sup> Pursuant to written ruling on January 16, 2020, Administrative Law Judge Peter Allen granted an extension of time for PG&E and other parties to file testimony in I.19-09-016 from January 22, 2020 to January 31, 2020.

<sup>4</sup> Assigned Commissioner's Scoping Memo and Ruling, Section 4.7, November 14, 2019.

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- Examples of incentive compensation reduced or withheld in the last 5 years as a result of failure to meet safety metrics.

### **Comments**

Interested persons or entities may submit comments on the utilities' executive compensation plans by close of business February 5, 2020 to the following email address: [wildfiresafetydivision@cpuc.ca.gov](mailto:wildfiresafetydivision@cpuc.ca.gov). Utilities may submit responses to comments by close of business February 11, 2020 to [wildfiresafetydivision@cpuc.ca.gov](mailto:wildfiresafetydivision@cpuc.ca.gov). The Division will post all comments and reply comments to the Commission's website at the following address: <https://www.cpuc.ca.gov/wsd/>.

### **Review**

With the exception of PG&E's request, which will be reviewed in I.19-06-016, for all other electrical corporations seeking a subsequent safety certification in 2020, the Director of the Wildfire Safety Division will review each electrical corporation's executive compensation structure for compliance with Pub. Util. Code § 8389(e) and will issue a letter of approval or denial. The Wildfire Safety Division may also contact the electrical corporation for additional information or to request changes in advance of approval.

Sincerely,



Caroline Thomas Jacobs  
Director, Wildfire Safety Division  
California Public Utilities Commission