



Carla Peterman
Senior Vice President
Regulatory Affairs

January 14, 2020

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

**Re: Executive Compensation Submission of Southern California Edison
Pursuant to Assembly Bill 1054**

Dear Ms. Thomas Jacobs:

In order to comply with the provisions of Assembly Bill 1054, which require an executive compensation structure approved by the Wildfire Safety Division (WSD), Southern California Edison Company (SCE) submits the following "Overview of Southern California Edison's Executive Compensation Structure." The attached material sets forth details regarding SCE's approach to executive compensation, the structure of such compensation, how compensation is determined, and describes how this program is aligned with the framework required for Wildfire Safety Division approval pursuant to Section 8389(e)(4) of the Public Utilities Code. In order to obtain approval and socialize the annual goals described herein with SCE's employees, SCE requests WSD approval by January 31, 2020. Please feel free to contact me if you should have any questions about these materials.

Sincerely,

A handwritten signature in blue ink that reads "Carla Peterman".

Carla Peterman
Senior Vice President, Regulatory Affairs
Southern California Edison Company

cc: Alice Stebbins, Executive Director

Overview of Southern California Edison (SCE) Executive Compensation Structure

January 14, 2020

Introduction and Overview

SCE's long-standing executive compensation structure is aligned with the framework set forth by AB 1054, which requires a compensation structure that promotes safety as a priority, and which ensures public safety and utility financial stability. The SCE Board of Directors' Compensation and Executive Personnel Committee (Compensation Committee) determines three compensation elements each year that make up total direct compensation for our Executive Officers¹ – base salary, annual incentive awards and long-term incentive awards. Base salary is a fixed amount of income for the year. Annual incentive awards are variable, paid in cash and designed to focus attention on specific safety, operating, financial and strategic objectives that benefit our customers and other stakeholders. Long-term incentive compensation is largely tied to underlying stock performance, promotes a focus on the company's long-term goals and financial health, in alignment with our customers, investors and other stakeholders. In order to recruit and retain qualified executives, the company must provide all three pay elements in alignment with market practice to effectively compete for and retain the talent necessary to run the utility.

The incentive award elements of compensation are a key component of the market-based total compensation package and are not solely intended to reward exemplary performance. This means that a portion of an executive's overall market-based compensation is placed "at risk" and awarded only if important goals and objectives are met.

The structure of SCE's executive incentive compensation prioritizes and focuses on safety outcomes in a variety of ways, including:

- ▶ Potential reduction of annual incentive award payouts if specific, annual company safety and safety-related targets are not achieved.
- ▶ Potential reduction or elimination of annual incentive awards if there are employee or contractor fatalities, serious injuries to the public, significant non-compliance events, data breaches or system failures. For example, in 2015, 2016, 2017, and 2018, the Compensation Committee exercised its authority in this area to reduce annual incentive awards for safety performance, including for the impact of wildfires on SCE's service territory in 2018.
- ▶ A long-term incentive plan structure that provides a significant portion of compensation which is largely in the form of a grant of company stock. The value of this is primarily tied to underlying share price performance and incentivizes executives to adopt a longer-term view of corporate performance in the decisions they make today. The company's share price is linked to our long-term ability to satisfy the needs and expectations of our many stakeholders including customers, communities, regulators and investors. Significantly, over the past several years, the risks associated with wildfires have

¹ The Compensation Committee determines compensation for all executive officers as defined by the SEC (Executive Officers). It also determines compensation for any Senior Vice Presidents who aren't Executive Officers (Other Senior Officers) and reviews certain aspects of compensation for the two Vice Presidents who respectively serve as SCE's Corporate Secretary and Treasurer (SCE's Corporate Secretary also serves as the Corporate Secretary of its parent company). The Board has delegated to the CEO the authority to determine compensation for SCE's Corporate Secretary and Treasurer, who are executive officers for purposes of AB 1054, but not for SEC purposes. This document focuses on the compensation structure for officers whose compensation is determined by the Compensation Committee, but the same structure applies to the Corporate Secretary and Treasurer.

impacted the long-term incentive plan value for executives. These plans provide a strong incentive for executives to take actions which mitigate risk and improve the safety and resiliency of our communities in an enduring manner.

As shown in the “Summary of Alignment with AB 1054” table below and described at greater length in the sections that follow, the long-established structure of SCE’s executive compensation package meets the requirements set forth in Public Utilities Code Section 8389 for evaluation of Investor-Owned Utility compensation structures. SCE’s incentive compensation programs prioritize safety and tie to performance metrics that are objective, measurable and enforceable. Additionally, SCE’s program contains provisions potentially denying all annual incentive compensation in the event “the electrical corporation causes a catastrophic wildfire that results in one or more fatalities,” as outlined in AB 1054. This overall executive compensation plan promotes safety as a priority and ensures public safety and utility financial performance as required by AB 1054.

Summary of Alignment with AB 1054

Element	Form	Alignment with AB 1054
Base Salary	Fixed Pay: Cash	<ul style="list-style-type: none"> SCE places limits on guaranteed cash compensation: the company does not have employment contracts; base salaries comprise less than half of each Executive Officer’s target total direct compensation; SCE does not offer perquisites
Annual Incentive Awards	Variable Pay: Cash	<ul style="list-style-type: none"> Annual incentive awards require achievement of target objectives related to specific initiatives (goal categories) that are assessed through various metrics (success metrics) that promote safety and/or utility financial stability Safety and compliance are also foundational, and the Compensation Committee can reduce or eliminate awards when these foundational goals are not met A significant portion of the success measures that are used to determine the payout is based on meeting performance metrics that are objectively measurable No guaranteed minimum payout, maximum payout is 200% of target; significant “at risk” compensation
Long-Term Incentive Awards	Variable Pay: Equity <ul style="list-style-type: none"> 50% stock options 25% performance shares 25% restricted stock units 	<ul style="list-style-type: none"> Promote utility financial stability by enhancing executives’ focus on the company’s long-term goals 75% of long-term incentive awards are performance-based, with payouts determined by achievement of objective performance metrics No guaranteed minimum payout for stock options or performance shares Restricted stock units are subject to a three-year cliff vesting requirement; performance shares are subject to a three-year performance based-vesting requirement; stock options vest in installments over a four-year period; in addition, stock ownership requirements for officers require significant equity holdings to be maintained and limit sales of stock Long-term and annual incentive awards comprise the majority of Executive Officers’ compensation (e.g., the 2019 target incentive compensation for SCE’s CEO comprised 78% of his target total direct compensation for the year) and the variable nature puts these components “at risk” subject to performance, consistent with AB 1054

Elements of Executive Total Direct Compensation

Addresses AB 1054 considerations through independent oversight of compensation by the Compensation Committee. The Compensation Committee relies on third-party data and has discretion to modify compensation outcomes in the case of unforeseen events.

The Compensation Committee is responsible for reviewing and determining the total compensation paid to Executive Officers. The Committee is comprised of independent board members who have a variety of skills and experiences. No management employees serve on the Compensation Committee. The Compensation Committee annually reviews all components of compensation for Executive Officers (and for Other Senior Officers), including base salary and annual and long-term incentives. The Compensation Committee also reviews significant benefits, including retirement and non-qualified deferred compensation plans.

The Compensation Committee retains an independent compensation consultant, Pay Governance, to assist in evaluating Executive Officer compensation. This assistance includes helping the Compensation Committee identify industry trends and norms for executive compensation, reviewing and identifying appropriate peer group companies and pay surveys and evaluating executive compensation data.

In alignment with best practices, SCE generally targets a competitive range of +/-15% around the market median for each element of total direct compensation offered under our program: base salaries, annual cash incentives and long-term equity-based incentives. In the aggregate, above-median target compensation usually is not needed, except occasionally for individual recruitment and retention purposes and to reward exceptional performers. Below-median target compensation would create retention and recruitment difficulties.

The market median for each position is determined using comparative data from companies in the Philadelphia Utility Index and/or data from pay surveys of utilities, other energy companies or companies in other industries with comparable revenues, based on the availability of sufficient comparative data for the position. The Compensation Committee exercises its judgment in setting each Executive Officer's compensation levels within the competitive range described above and may from time-to-time vary from the competitive range, after considering the Executive Officer's experience, time in position, individual performance, internal equity, retention concerns or other factors it considers relevant.

In addition, the Compensation Committee reviews SCE's goals and success measures as they are developed and throughout the year. These goals and success measures are the foundation for the annual incentive awards discussed below. The Compensation Committee can also exercise discretion to reduce or eliminate entirely annual incentive awards should circumstances warrant.

Base Salary and Employment Contracts

SCE does not have employment contracts or guarantees of base pay, in alignment with AB1054. The company has evaluated employment contracts and concluded there are more negatives than positives to providing contracts. SCE does not offer perquisites or "perks."

Every year, each executive's base salary is evaluated according to his or her position and performance. As described above, for each position, a market base salary range is determined.

We do not have employment contracts and our executives do not have contractual rights to receive fixed base salaries. Some of the downsides of employment contracts include (1) the company's ability to terminate at will for performance would be heavily impacted if there was a

specified term of employment, (2) to the extent contract terms differ from later adopted policies or programs, some which could be more favorable to customers, the company would need to renegotiate the contracts, which may result in a contract of higher value to the executive than the company originally intended, (3) once an employment contract is formalized, the company's ability to change its terms becomes limited even if business or other conditions warrant a change and (4) we have found that in some cases, certain contract provisions are later outlawed which would require a contract renegotiation. Our executive compensation policies, payout information and rationale are provided in detail in the company's annual Proxy Statement.

Annual Incentive Awards

Annual incentive awards are structured to promote safety, and ensure public safety and the financial stability of the utility as outlined in AB 1054. The Safety and Operations Committee of the Board will utilize its relevant safety experience and formally participate in establishing safety and operational goals and success measures to be used for the annual incentive awards, including the weight afforded to various goal categories.

Executives are eligible for annual incentive awards for achieving safety, operational, financial and strategic goals that are established at the beginning of each year and are tied to the key objectives that must be achieved to support our customers and other stakeholders. There are two components that determine the payout of the awards: a company multiplier and an individual performance modifier (IPM). The company multiplier is derived by assessing company performance against goals after the completion of the year and applies to all employees, including executives. The IPM reflects individual performance and is tied to achieving individual goals and contributions.

An annual incentive award target value is set for each executive as a percentage of that executive's base salary based on market data for the position. For Executive Officers and Other Senior Officers, these target values are approved by the Compensation Committee.

Each February, the Compensation Committee assesses company performance against goals for the prior year and establishes the company multiplier payout percentage. The Compensation Committee determines the score achieved for each goal category, depending on the extent to which the goals were unmet, met or exceeded to determine the overall company multiplier. The Compensation Committee considers both what was accomplished and the manner in which it was accomplished. While perfect performance is not the standard, there is significant weight given to the efficacy and prudence of the efforts as well as the absolute outcomes. Based on the judgment of the Committee, this may result in a score that varies from "target" or the initial weight afforded to that category. The company multiplier is used to determine the annual incentive for all employees (including executives) and adjusted by an IPM to account for individual performance. When circumstances warrant reductions in executive pay – rather than the entire employee population – executive IPMs may be further modified. This occurred in 2017 and again in 2018, when deductions of 10-15 points were applied to the IPMs of certain executives in response to the company's safety performance. Discussed in more detail below, certain Executive Officers received no annual incentive payment for 2018 due to the impact of wildfires on our communities.

The minimum annual incentive award payout is \$0. The maximum award is 200% of target, which Pay Governance advises is the most prevalent practice among our peer group companies.

In order to provide an example of SCE's goals, success measures and scoring matrix, we have summarized in the table below the 2020 goals that were presented to the Compensation Committee at its December 2019 meeting and tentatively approved, subject to refinement at its February 2020 meeting. (The Safety and Operations Committee of the Board will also provide a

final review of the safety and resiliency-focused goals at that time.) The goal categories and success measures reflect the importance of safety and wildfire resiliency.

SCE has traditionally used safety and resiliency measures to determine corporate performance, and these measures have evolved over time. For the 2017 performance year, we introduced the concept of foundational goals to emphasize the importance of certain goals, including the avoidance of worker fatalities and serious injuries to the public. At the discretion of the Compensation Committee, if foundational goals are not met, they can reduce or eliminate the entire annual incentive bonus. Our goals further evolved for 2019 with the introduction of wildfire resiliency goals to measure how well the company mitigated wildfire risks consistent with our Wildfire Mitigation Plan (WMP). The specific grid hardening and situational awareness measures in the WMP are based on risk analysis performed to reduce ignitions associated with utility infrastructure. Generally, as we search for additional ways to highlight the importance of safety, we have included additional success measures in the goals. The safety goal was originally measured exclusively by the DART² rate. We then added training metrics to reflect the importance of ongoing training and education as we work to bring our safety culture to new levels.

Our approach to the 2020 corporate goal structure has continued to evolve with increased weighting of our safety and resiliency efforts and the inclusion of an over-arching statement regarding the company's values related to safety and compliance in lieu of a foundational category. We are also now introducing an additional metric – the Serious Injury and Fatality (SIF) rate – to track safety performance that highlights our focus on preventing life-threatening and life-altering events. Further, while safety and resiliency have always been a key component of performance for SCE, we have introduced wildfire safety and resiliency as an additional goals area over the last few years. The WMPs, which are the cornerstone of the work that SCE is doing to harden the grid and reduce the impact of wildfires for our customers, are a critical component of the annual incentive plan. Embedded in the most heavily weighted 2020 category, the focus is on reducing the risk of catastrophic wildfires associated with utility infrastructure. This provides the Compensation Committee the ability to factor in any wildfire impacts to our communities as they review company goals and assess performance.

There is also a strong emphasis on operational and service excellence that supports customer affordability and reliability. The goals also recognize the importance of the regulatory framework and proceedings as well as a need to meet our commitments to effectively deploy the capital that has been authorized by the CPUC. Finally, we have a long-standing commitment to diversity, which has been a part of our corporate goals for many years.

Many success measures are quantitative and often rely on the company's ability to meet targets in various plans or proceedings. Our philosophy is that when an important objective is identified, a robust plan to accomplish that must be established. Once that plan is established, it is critical that the various milestones and activities are completed. Therefore, we often incorporate these milestones or work activities as success measures.

² The Days Away, Restricted, or Transferred (DART) Rate is designed to track any OSHA-recordable workplace injury or illness that results in time away from work, restricted job roles, or an employee's permanent transfer to a new position.

2020 SCE CORPORATE PERFORMANCE SCORING MATRIX

Goal Category	Target Score for Goal Category ⁽¹⁾	Representative Success Measures for Goal Category
Overarching Goals Framework	See footnote ⁽²⁾ below	<ul style="list-style-type: none"> The goals will be achieved while living the Company's values, which includes safety Safety and compliance are foundational and events such as fatalities or significant non-compliance issues can result in meaningful or full elimination of short-term incentive compensation
Safety & Resiliency	45	<ul style="list-style-type: none"> Worker Safety: Make significant progress to reduce serious injuries. Improvements will be measured utilizing metrics such as DART and SIF rates Improvements in work processes will be also be targeted utilizing data-driven assessment of risk associated with various work orders and subcontractor program changes Public Safety: Reduce risk of public injury related to the electric infrastructure Improvements will be measured utilizing metrics such as public awareness of hazards, e.g., wire down Improvements in public safety programs will be measured through execution of vault lid restraints and vegetation line clearing programs Wildfire Resiliency: Reduce the risk of catastrophic wildfires associated with electric infrastructure consistent with the WMP Improvements will be measured utilizing metrics related to covered conductor deployment, overhead inspection program, hazard tree removal, and weather station deployment Process improvements related to Public Safety Power Shutoffs (PSPS) will also be targeted and measure through enhancements related to capabilities including weather modelling and customer outreach Cybersecurity: Maintain effective controls to mitigate and prevent significant disruptions, data breach or system failure Improvements will be measured utilizing metrics such as further deployment of cyber tools and enterprise-wide phishing program click rate
Financial Performance	25	<ul style="list-style-type: none"> Core earnings target Capital Deployment: Execute grid, technology, electrification and other improvements to deliver safe, reliable and affordable energy consistent with CPUC direction San Onofre Nuclear Generating Station (SONGS) Decommissioning: Implement SONGS decommissioning milestones including completion of fuel transfer and issuance of Phase II Notice to Proceed and no severity level I, II or III NRC violations
Operational Excellence & Strategic Advancement⁽³⁾	30	<ul style="list-style-type: none"> Reliability: Achieve targeted reliability for repair outages as measured by System Average Interruption Duration Index (SAIDI) Policy: Advocate for effective wildfire policies and obtain approval of 2020 WMP and Safety Certification, advance 2021 General Rate Case and obtain policy outcomes necessary to support Clean Energy and Electric Pathway in support of California's environmental objectives Customer service: Manage re-platform on-time and on-budget Diversity: Increase diversity of executive and leadership populations Diversity: Diverse Business Enterprise Spend >40%
Total:	100	

⁽¹⁾ The potential score for each goal category (other than Overarching Goals Framework, which is discussed in footnote ⁽²⁾ below) ranges from zero to twice the target score for the goal category. The potential total score is from zero to 200.

⁽²⁾ The Compensation Committee established certain safety and compliance values that it views as "foundational." The Committee can eliminate up to 100% of the annual incentive awards based on the outcomes in this category.

⁽³⁾ Many of the operational goals, such as system reliability and SONGS goals, also impact safety.

We have a rigorous and detailed approach to assessing company performance that informs the annual incentive award. However, as noted above, the Compensation Committee can also exercise judgment and independently adjust the company multiplier or IPMs of executives, as it deems appropriate. As noted earlier, over the past several years, the Compensation Committee has reduced and/or eliminated bonuses on several occasions:

- ▶ **2018 Annual Incentive Awards:** In light of the impact of wildfires on communities within SCE's service territory, the Compensation Committee exercised its discretion and decided, in consultation with management and with its full support and agreement, that no annual incentive award would be paid for 2018 to top Executive Officers (CEO and President). The Compensation Committee's decision was not a reflection on the performance of these executives.
- ▶ **2018 Annual Incentive Awards:** In addition to this elimination of annual incentive awards for certain executives, the Compensation Committee also modified the award for a broader group of executives in order to reinforce the importance of the foundational safety goals. A 5-point deduction was made for all executives. Then management suggested and the Compensation Committee agreed to apply an *additional* 10-point deduction to the IPM for certain SCE officers. The Compensation Committee made this adjustment based on its determination that despite the many accomplishments of management in 2018, foundational safety goals were not met. The Compensation Committee also reduced the score for the safety goal category to 0 points.
- ▶ **2017 Annual Incentive Awards:** The Compensation Committee evaluated a fatality and a serious injury that occurred when members of the public came in contact with downed power wires in separate incidents. In order to reinforce the importance of the public safety foundational goal, the Compensation Committee decided to apply a 10-point deduction to the IPM for certain SCE officers. The Compensation Committee also reduced the score for the safety goal category to 0 points.
- ▶ **2016 Annual Incentive Awards:** The Compensation Committee reduced the score for the safety goal category to 0 points due to four worker fatalities and the company's inability to meet established DART metrics.
- ▶ **2015 Annual Incentive Awards:** The Compensation Committee reduced the score for the safety goal category to 0 points due to an employee fatality and not meeting established DART metrics.

Long-Term Incentive Awards

AB 1054 is designed to promote the financial stability of the utilities in order to ensure efficient capital market access and cost of capital. This is important for affordable customer rates. Long-term incentive awards are tied to the interests of all stakeholders by emphasizing strong long-term performance, of which safety and the resiliency of our operations plays a crucial part, and financial stability of the utility.

All of our long-term incentives (LTI) are awarded as equity instruments reflecting, or valued by reference to, EIX Common Stock. Seventy-five percent (75%) of our long-term equity mix is performance-based: the non-qualified stock options that comprise 50% of each executive's long-term incentive award value; and the performance shares that comprise 25% of the award value. We believe stock options are performance-based because executives will realize value only if the market value of EIX Common Stock appreciates.

Although LTI rewards executives based on the growth of the share price, this by no means implies that this element of executive compensation only benefits shareholders. Customers benefit from our use of LTI in a number of ways, including:

- ▶ SCE's use of LTI helps conserve cash resources. Unlike the fixed cost of base pay and any annual incentive which may be awarded, there is no immediate cash payment to employees for an LTI award due to the multi-year vesting schedule applicable to each form of LTI. Employees who voluntarily leave prior to the full vesting of the LTI award will forfeit all or a substantial portion of the unvested award.
- ▶ As a variable pay component of total compensation, LTI awards do not cause increases in an executive's annual/fixed pension and benefits costs that are a function of base pay.
- ▶ LTI promotes stability of a strong leadership team at SCE as LTI awards and payouts depend on multiple years of continuous employment, strong executive performance and strong SCE financial health.
- ▶ While the ultimate value of a fully vested LTI award for the recipient is a function of the stock price, this price is largely based on the company's successful operations which drives financial health. Those metrics translate directly into SCE's ability to lower borrowing costs and reasonably obtain funds for capital projects and other programs to maintain and modernize SCE's power grid and support reliability of service to customers. LTI advances customer interests by aligning them with the strategic goals and initiatives of the company.

Risk Considerations

Our compensation policies have been designed to discourage inappropriate risk-taking, which further supports stability as emphasized by AB 1054 and helps ensure long-term viability and financial strength needed to effectively execute plans needed to support customer needs and California's policy objectives.

Finally, and as a best practice, our executive compensation policy directs that our total compensation structure should not encourage inappropriate or excessive risk-taking. The Compensation Committee takes risk into consideration when reviewing and approving executive compensation.

As specified in its charter, and with the assistance of its independent compensation consultant and company management, the Compensation Committee regularly reviews the company's compensation programs for executives and for employees generally and has concluded these programs do not create risks reasonably likely to have a material adverse effect on the company.

In concluding that the current executive compensation program does not encourage inappropriate or excessive risk-taking, the Compensation Committee noted the following characteristics that limit risk:

- ▶ Annual incentives are balanced with long-term incentives to lessen the risk that short-term objectives might be pursued to the detriment of long-term value creation;
- ▶ Goals for annual incentive programs are varied (not focused on just one metric), include safety and compliance goals and are subject to Compensation Committee review and discretion as to the ultimate award payment for executives;
- ▶ Long-term incentive awards are subject to a multi-year vesting schedule;
- ▶ Annual incentive and performance share payouts are capped at 200% of target;
- ▶ Stock ownership guidelines require Vice Presidents and more senior officers to own company stock worth one to three times their base salary;
- ▶ All board directors and employees are prohibited from hedging company securities;
- ▶ Executive Officers are prohibited from pledging company securities, as are Vice Presidents and more senior officers who report directly to the Chief Financial Officer;

- ▶ The company has an incentive compensation clawback policy that allows the Compensation Committee or the Board to recoup incentive compensation overpayments in the event of a restatement of company financial statements; and
- ▶ Executive retirement and deferred compensation benefits are unfunded and thus depend in part on the continued solvency of the company.