BEAR VALLEY ELECTRIC SERVICE, INC.
OVERVIEW OF EXECUTIVE COMPENSATION PLAN
IN COMPLIANCE WITH PUBLIC UTILITIES CODE SECTION 8389(e)

January 15, 2021

I. OVERVIEW OF BVES EXECUTIVE COMPENSATION PLAN

Bear Valley Electric Service, Inc. ("BVES" or "Bear Valley") has developed an executive compensation plan ("Plan") that is designed to reflect Bear Valley's unique corporate circumstances, retain and recruit highly-competent, motivated executives, incentivize those executives to promote safety as a priority, and ensure public safety and utility financial stability with executive performance metrics.

The executive compensation structure for BVES has three components: Base Salary, Short Term Incentive Pay ("STIP"), and Long Term Incentive Pay ("LTIP"). The sum of these three components comprises the executive's total direct compensation ("TDC"), which is the most comprehensive measure of compensation. This three-tier structure is similar to the structure for Bear Valley's affiliate company, Golden State Water Company ("GSWC"), as well as the structure for the large electric investor-owned utilities ("IOUs"). Each of the three components of TDC is briefly described below.

A. Base Pay. Base Pay or Base Salary, is the cash compensation that is paid to BVES executives in bi-weekly pay checks throughout the year.

B. Short Term Incentive Pay. STIP payments are cash payments that are awarded and paid once each year. Payment of the STIP is contingent upon successful achievement of specified performance metrics. The performance metrics in the STIP, which are established at the time the Plan is adopted, are measured on an annual basis. The STIP is awarded on a forward-looking basis, and becomes payable one year later, contingent upon determination of the successful achievement of the performance metrics. If the STIP performance metrics are not achieved, the STIP award will be reduced before payment or eliminated entirely.

C. Long Term Incentive Pay. The LTIP are cash payments that are awarded in one year and payable three years later based on achievement of performance metrics. The performance metrics in the LTIP are measured over a long-term (three-year) time frame. LTIP performance awards are granted once a year. The significant difference between the STIP and the LTIP is the time period between the award date and the payment date of the award. Whereas the STIP payments are payable one year after the award date, the LTIP payments are payable three years after the award date, contingent upon successful achievement of the specified three-year performance metrics. Similar to the STIP, the LTIP can be reduced or eliminated before payment if the performance metric is not achieved.

D. Overall TDC Allocation. For 2021, the overall percentage allocation of TDC among the three components of the executive compensation plan at Target performance level is set forth below:

Compensation Component	Percent of Total Compensation At Target Performance Level
Base Pay (non-objective)	66.7%
Total Non-Objective	66.7%
STIP (Objective)	23.3%
LTIP (Objective)	10.0%
Total Objective	33.3%

II. UNIQUE CIRCUMSTANCES REGARDING BVES EXECUTIVE COMPENSATION PLAN.

Before describing how Bear Valley's Plan meets all applicable statutory requirements for an executive compensation plan to be approved by the Wildfire Safety Division ("WSD"), it is important to put into context why Bear Valley's Plan differs in some respects from the plans of the three largest electric IOUs in California.

A. BVES Background. For decades, BVES was not a separate, corporate entity. It was a division of GSWC, a Commission-jurisdictional water corporation. In terms of its relative size within GSWC, BVES represented approximately 11% of GSWC's revenues and 9% of GSWC's customer base. In D.19-12-039, the Commission authorized GSWC's request to implement a corporate reorganization plan that would result in GSWC transferring the assets of its electric service division to a newly formed affiliate: BVES Inc. On July 1, 2020, GSWC completed the transfer at which time BVES and GSWC became separate wholly-owned subsidiaries of American States Water ("AWR"). The newly formed corporation of BVES constituted the same assets, revenues, customers and obligations as it did as a division of GSWC.

Operationally, the reorganization did not have an impact on BVES. BVES maintains the same staff and operational responsibilities as those that existed prior to the reorganization.

BVES management staffing was not changed by the reorganization, although there were some changes in titles and responsibilities. Prior to the reorganization, the BVES division of

GSWC was under the supervision of a Director-level position,[1] with that individual reporting directly to the President and CEO of AWR. After the reorganization, the BVES Division Director position was upgraded to President/Treasurer/Secretary of BVES. In addition to the title change, the BVES President assumed additional management responsibilities. The BVES President reports directly to the President and CEO of AWR.

Prior to the July 2020 reorganization, BVES did not have any executive positions, and did not therefore have an executive compensation plan. The Plan represents BVES' initial, full-year executive compensation plan submitted to WSD for approval. The BVES President is currently the only position covered by this executive compensation plan.

B. BVES Is the Smallest IOU to Request a Safety Certificate. BVES believes it is one of, if not the smallest, vertically integrated electric IOU in California. It currently has only 45 employees and approximately 24,500 customers. In comparison, Southern California Edison Company has approximately 12,700 employees, with over 5 million customers. Relatively speaking, BVES has approximately 0.4% of Edison's workforce and approximately 0.5% of its customer base.

BVES is the only small electric IOU in the state to apply for a Safety Certificate under the provisions of Section 8389.[2] Accordingly, BVES is the only small electric utility in the state that must seek approval of the WSD for its executive compensation plan under the provisions of Section 8389. The provision in Section 8389 requiring the primary portion of executive TDC to be based upon achieving objective performance metrics is extremely difficult for a smaller utility to comply with and would be detrimental to BVES and its customers if imposed on BVES. In order to attract and retain competent executives that are incentivized to provide safe, reliable and cost-effective service to its customers, BVES must have an executive compensation package that is structured and sized competitively with similarly-sized utilities.

BVES recognizes that there is, and should be, a very substantial difference in TDC paid to top executives of very large IOUs as compared to BVES executives. With compensation packages that have much higher TDC targets, executives of the large IOUs may still receive a very substantial dollar amount of compensation in base salary while having a compensation package that allocates the primary portion of TDC to achieving objective performance metrics. For example, a compensation package totaling $1,000,000 of TDC can provide an executive with a very attractive base salary of approximately $500,000 and still be compliant with Section 8389. In contrast, if the overall TDC is in the range of $350,000, then the requirements in Section 8389 would limit the base salary to no more than $175,000. Bear Valley believes that such a relatively modest base salary would not allow BVES to retain and recruit highly-competent, motivated utility executives for the benefit of BVES and its customers.

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[1] In the GSWC organization, a Director level position is one step below a Vice President level position.

[2] All statutory references are to the California Public Utilities Code, except as otherwise provided.

In short, the provision in Section 8389 that a primary portion of TDC should be performance-based makes no corporate sense for a very small utility like BVES. In order to keep executive compensation for Bear Valley competitive with market conditions, and to retain and recruit highly-competent utility executives, it is critical that BVES provide for a larger share of TDC as base salary as compared to performance-based compensation.

C. Existing Salary Considerations. The BVES President was previously the Director of the BVES division of GSWC. At the time of his promotion to President of BVES, he was granted a modest (5%) increase in Base Salary. The Director's Base Salary, even before the modest promotion-related 5% increase, significantly exceeded 50% of the TDC being proposed with the current executive compensation plan.

If AWR's management were required to limit the BVES President Base Salary to an amount representing less than 50% of TDC, then either the BVES Director would be forced to accept a very large reduction in Base Salary to coincide with the promotion to President, or the TDC dollar target for the new President would need to be increased significantly to accommodate the Director's existing salary. Neither of these results make any corporate sense or would work to the benefit of BVES or its customers.

Imposing a reduction in Base Salary in conjunction with a title promotion, especially a promotion to President, is unworkable, particularly where the Base Salary would be below that which a competent, motivated executive would accept (*i.e.*, below market conditions). Such a reduction would adversely affect Bear Valley's ability to retain and attract competent executives. Similarly, increasing the TDC to a level that could be nearly twice as much as the current BVES President Base Salary also makes no corporate sense. BVES believes that the resulting TDC would be excessive and undermine Bear Valley's overall management pay structure to the detriment of BVES and its customers.

D. BVES Is Within the Corporate Family of American States Water Company. BVES was a division of GSWC for decades before becoming a separate, stand-alone affiliate subsidiary of AWR last year. The creation of the BVES subsidiary and the establishment of the BVES President position resulted in the need for an executive compensation plan for BVES. To avoid the potential to adversely affect the executive compensation structure within GSWC, the structure and size of Bear Valley's Plan should be consistent with GSWC's long-standing executive compensation structure. Both are corporate affiliates of AWR and both are Commission-regulated utilities. To avoid the potential of severely disrupting the existing management compensation structure within both affiliates, with potential adverse consequences to their customers and stockholders, it is crucial that the executive management compensation size and structure in both affiliates be consistent and equitable.

BVES believes it has developed the subject Plan to be competitive in the marketplace, consistent with GSWC's long-standing executive compensation structure, and compliant with all applicable statutory requirements of Section 8389. BVES requests that the Plan be approved, as generally described below.

III. COMPLIANCE WITH PUBLIC UTILITIES CODE SECTION 8389(e).

California Public Utilities Code Sections 8389(e)(4) and 8389(e)(6) provide the applicable statutory requirements for an executive compensation plan that is one of the requirements of a utility obtaining an annual safety certification. Compliance with the applicable statutory provisions are addressed below.

A. Public Utilities Code Section 8389(e)(4). This statutory code provides, in relevant part, that an executive compensation plan must be structured to promote safety as a priority and to ensure public safety and utility financial stability with performance metrics that are measurable and enforceable. The Plan meets those requirements.

1. The Plan Promotes Safety as a Priority. Section 8389(e)(4) provides, in relevant part, that an executive incentive compensation plan must be "structured to promote safety as a priority." Bear Valley's Plan achieves that statutory goal by substantially weighting its STIP towards objective safety metrics. Set forth in the Table 1 of Appendix A, attached hereto, are the STIP performance metrics targets. Table 1 also sets forth the corresponding STIP payout percentages for achieving a performance metric at the Target level.

As set forth in Table 1 of Appendix A, there are 15 performance metrics with respect to the STIP. Of those 15 performance metrics, 12 are safety-related performance metrics. This clearly evidences that not only does the Plan promote safety as a priority, it makes clear that safety is the top priority of the Plan.

In addition to the sheer number of safety-related performance metrics in the STIP, the payout percentages also reflect the Plan's promotion of safety as a priority. At the Target level of performance, the 12 safety-related metrics comprise 76% of an executive's STIP bonus. The non-safety performance metrics comprise a modest 24% of an executive's STIP bonus. It is clear that the Plan incentivizes Bear Valley executives to promote and achieve important safety programs and objectives as required by Section 8389(e)(4).

2. The Plan Ensures Public Safety. Section 8389(e)(4) provides, in relevant part, that an executive incentive compensation plan must be structured "to ensure public safety." Bear Valley's Plan achieves that statutory goal by substantially weighting its STIP towards objective safety metrics, many of which directly relate to helping to ensure public safety.

Under the STIP, the Wildfire T&D System Hardening programs of Electronic Fuse replacements, Current Limiting Fuse replacements, Covered Wire replacements and Evacuation Route Hardening all have the objective of ensuring public safety. In addition, to achieve the Target level for Fire Incidents under the STIP, there must be no reportable fire incident events as defined in D.14-02-015. That performance metric clearly has public safety as the objective.

The STIP also requires a significant degree of vegetation management quality control checks being performed by BVES supervisors, managers and executives. In addition, the performance metrics of SAIDI (System Average Interruption Duration Index) and CAIDI (the summation of restoration time for each sustained interruption even over the year divided by the Customer Average Interruption Duration Index number of interrupted customers for each sustained interruption event during the reporting period) help to ensure public safety by providing customers and public safety personnel and equipment with high degrees of reliable electrical service. All of these safety-related STIP performance metrics help to ensure public safety.

In addition to the substantial number of safety-related performance metrics in the STIP that directly relate to public safety, the payout percentages of those performance metrics also reflect the Plan's objective to ensure public safety. At the Target level of performance, the eight public safety-related metrics comprise 54% of an executive's STIP bonus. It is clear that the Plan incentivizes Bear Valley executives to ensure public safety as required by Section 8389(e)(4).

3. *The Plan Ensures Utility Financial Stability.* Section 8389(e)(4) requires an executive compensation plan that ensures the utility's financial stability. The Plan satisfies this statutory by having a financial performance metric in both the STIP and the LTIP.

The STIP includes a performance metric of EBITDA. This STIP performance metric tracks earnings of BVES before adjustments for interest, taxes, depreciation and amortization to incentivize BVES executives to achieve specified levels of EBITDA as adopted in the 2021 Bear Valley Operating Budget approved by the Board of Directors. This metric is the single-largest performance metric in the STIP, comprising 15% of the executive's STIP bonus at Target level. The STIP also includes a performance metric to minimize the number of accounting/financial deficiencies under the Sarbanes-Oxley Act of 2002. This metric is designed to enhance the financial transparency and integrity of BVES in the financial markets, to the benefit of BVES and its customers. It comprises 3% of the executive's STIP bonus at Target level.

The LTIP is comprised of a single performance metric which tracks the level of expenditures on capital projects that mitigate the risks of wildfires as compared to the associated budget for these projects adopted by the Board of Directors. The capital projects in the LTIP are comprised of projects proposed in the BVES 2020 Wildfire Mitigation Plan ("WMP"), which has been reviewed and approved by the WSD.

The LTIP performance metric is equal parts a safety metric and a financial stability metric. Capital projects in the BVES WMP are designed to mitigate wildfire risk. These projects will also promote financial stability because they reduce the risk of devastating financial losses due to catastrophic wildfires, and promote continuity of BVES operations.

In sum, the Plan includes performance metrics in both the STIP and the LTIP that incentivize Bear Valley's executives to ensure the financial stability of BVES.

4. *The Plan Utilizes Performance Metrics that Are Measurable and Enforceable*. Section 8389(e)(4) requires an executive plan to include performance metrics that are "measurable and enforceable." As set forth in Tables 1 and 2 of Appendix A, all of the

Plan's performance metrics are measurable and enforceable with respect to both the STIP and the LTIP.

B. Public Utilities Code Section 8389(e)(6)(A). This statutory code requires electrical corporations that have new or amended contracts for executive officers to base their executive plans on certain principles. ***Bear Valley has no new or amended contracts for its executive officers. Therefore, BVES is not statutorily required to adopt the principles set forth in Section 8389(e)(6)(A).*** Nevertheless, Bear Valley's Plan satisfies many of the principles set forth in Section 8389(e)(6)(A), as described below.

1. The Plan Incorporates Strict Limits on Guaranteed Cash Compensation. Section 8389(e)(6)(A)(i)(I) requires a compensation structure that contains strict limits on guaranteed cash compensation. Other than Base Salary, no BVES executive is entitled to any guaranteed cash compensation.

2. A Significant Portion of Executive Compensation Is Based on Achievement of Objective Performance Metrics. Section 8389(e)(6)(A)(i)(I) requires that corporations with new or amended contracts for executive officers have a compensation structure with a primary portion of the executive officer's compensation based on achievement of objective performance metrics. *Having no executive contracts, BVES is not required to structure its executive compensation plan in that manner*. Although a significant portion of BVES' executive compensation is based on achievement of objective performance metrics, due to the factors describe in Section II above, it would be counterproductive and adverse to the best interests of BVES, GSWC and their respective customers for BVES to structure its executive compensation so that the primary portion is based upon objective performance metrics.

The Plan allocates an executive's total compensation as 66.7% Base Pay, with 33.3% based on achievement of objective performance metrics (*i.e.,* the STIP and LTIP). This allocation achieves the goal of providing BVES with an executive compensation package that is likely to result in the retention of the existing BVES management team, the ability to recruit highly-competent and motivated executives in the future, when necessary, and no disruption to the long-standing executive compensation structure of GSWC and its existing management team. It also complies with the requirements of Section 8389(e)(4) which are statutorily applicable to BVES.

3. No Guaranteed Monetary Incentives in Plan. Section 8389(e)(6)(A)(i)(II) requires a compensation structure that contains no guaranteed money incentives for executives. Bear Valley's Plan meets this requirement, having no guaranteed money incentives in its executive compensation structure.

4. Plan Satisfies the Compensation Principles Identified in Section 8389(e)(4). Section 8389(e)(6)(A)(ii) requires a compensation plan to comply with the compensation principles identified in Section 8389(e)(4). The Plan satisfies those principles, as set forth in Section III.A above.

<u>5.</u> *Long-Term Incentive Plan Is Based Upon BVES' Long-Term Performance and Value.* Section 8389(e)(6)(A)(iii) requires a long-term compensation structure that provides a significant portion of compensation based upon the corporation's long-term performance and value. This compensation component must be held or deferred for period of at least three years.

The LTIP provides 10% of Bear Valley's executives' overall compensation, which is a significant portion of overall compensation. The performance metric of the LTIP tracks the level of investments in capital projects that mitigate the risks of wildfires as compared to the associated budget adopted by the Board of Directors. Investing in capital projects that mitigate wildfire risk promote financial stability because they reduce the risk of devastating financial losses due to catastrophic wildfires and promote continuity of BVES operations, both of which are important components of Bear Valley's long-term financial performance and value. The Plan provides that any bonus payment under the LTIP shall be deferred for period of three years.

IV. ADDITIONAL SUBMISSION INFORMATION.

In addition to the statutory requirements, WSD requested that each utility include additional information in its submittal requesting approval of its executive compensation plan.

A. <u>Explanation of Compensation Components</u>. As stated above, Bear Valley's executive compensation structure has three components: Base Pay, Short-Term Incentive Plan, and Long-Term Incentive Plan. Base Pay constitutes 66.7% of the executive's total compensation, with STIP constituting 23.3% (at Target performance level) and LTIP constituting 10% at (Target performance level) of the executive's total compensation. Combined, STIP and LTIP consist of 50% of an executive's Base Pay.

B. <u>Description of All Metrics</u>. The performance metrics used to calculate the incentive compensation under the STIP and LTIP are set forth in Appendix A and described in the summary of the Plan.

The safety metrics used to calculate the STIP include both input (*i.e.* targets) and output (*i.e.,* results) metrics. The STIP input safety metrics (Wildfire T&D System Hardening – Electronic Fuse Program, Current Limiting Fuse Program, Covered Wire Program and Evacuation Route Hardening Program; Safety Training; Job Hazard Analysis; and Vegetation Management QC) at Target level comprise 50% of the STIP bonus. The STIP output safety metrics (Fire Incidents; SAIDI; CAIDI; Employee Safety – Employee Electric Contacts; and Safety-Recordable Work Incidents) at Target level comprise 26% of the STIP bonus. Combined, the safety metrics at the Target level comprise a total of 76% of the STIP bonus.

The non-safety metrics (Supplier Diversity Utilization; SOX Deficiencies; and EBITDA) at Target level comprise 24% of the STIP bonus.

The LTIP has a single, output metric of investments in wildfire mitigation capital projects, which at the Target level comprises 100% of the LTIP bonus.

C. Executive Compensation Allocation Between Safety Metrics and Other Metrics. Combined, the safety metrics at the Target level comprise a total of 76% of the STIP bonus (or 17.7% of total compensation), with non-safety metrics comprising 24% of the STIP bonus. Although the LTIP metric is a financial/monetary metric of the amount invested in wildfire mitigation projects, BVES believes that all wildfire mitigation projects are designed to reduce the risk of wildfires and, therefore, are safety related. Combining the safety metrics in the STIP at the Target Level and the LTIP at Target level, the resulting performance-based bonus comprises 27.7% of an executive's total compensation.

D. How Safety Performance Is Calculated for Incentive Compensation. As set forth in Table 1 of Appendix A, the safety performance metrics in the STIP are both input (*i.e.,* targets) and outputs (*i.e.,* results). All are objective and measurable. For example, for the Electronic Fuse Program and Current Limiting Program of the Wildfire T&D System Hardening safety metrics, the measure of success is the number of fuses replaced. Similarly, for the Covered Wire Program, it is the number of miles of circuits that covered wires have been installed.

E. Examples of Reduction or Withholding of Incentive Compensation Due To Failure to Meet Safety Metrics. WSD requests examples of incentive compensation being reduced or withheld in the last five years as a result of the failure of executives to meet safety metrics. No such examples exist. As described above, BVES as a separate corporate entity did not exist until July 1, 2020. A 2020 partial-year executive compensation plan for BVES was adopted and approved by the BVES Board of Directors. The performance results of BVES executives in meeting the 2020 plan performance metrics have not been submitted to, or approved by, the Board of Directors as of the date of this filing.

F. Compensation Plan Aligns With Measurable Outcomes for Safety Improvements Required by WMP. The Plan aligns with a number of measurable outcomes for safety improvements in Bear Valley's approved WMP.

For example, the WMP includes a conventional fuse replacement program to reduce the potential for igniting a wildfire. The conventional fuses are to be replaced with either current limiting (non-expulsion) fuses or electronic fuses. One of the Plan's safety performance metrics (Wildfire T&D System Hardening: Current Limiting Fuse Programs) is the number of conventional fuses replaced in 2021 with current limiting (non-expulsion) fuses. A second Plan safety performance metric (Wildfire T&D System Hardening: Electronic Fuse Program) is the number of conventional fuses replaced in 2021 with electronic fuses.

The WMP includes a pilot program to harden the electric infrastructure along evacuation routes out of Bear Valley's service territory in the event of a wildfire and a follow-on project to harden the evacuation routes. The Plan contains a safety performance metric (Wildfire T&D System Hardening: Evacuation Route Hardening) to measure the number of poles in 2021that are "hardened" along an evacuation route.

The WMP also includes a program to replace bare conductor wires with covered conductors. The Plan contains a safety performance metric (Wildfire T&D System Hardening: Covered Wire Program) to measure the number of circuit miles of covered conductor wires installed in 2021.

The overall objective of Bear Valley's WMP is to reduce and ultimately eliminate the risk of Bear Valley's electric infrastructure causing a wildfire. The Plan contains a safety performance metric (Fire Incidents) which measures the number of fire ignitions caused by BVES as defined in D.14-02-015. In addition, the Plan provides that in the event BVES causes a catastrophic wildfire that results in one or more fatalities due to the negligent operations and/or facilities that are not compliant with statute and/or other applicable standards, the executive will receive no STIP bonus whatsoever.

G. <u>Compensation Awards Are Based Upon Objective, Measurable and Enforceable Progress Metrics</u>. The safety performance metrics in the STIP set forth in Table 1 of Appendix A are objective, measurable and enforceable metrics. For example, for the Electronic Fuse Program and Current Limiting Fuse Program of the Wildfire T&D System Hardening safety metrics, the measure of success is the number of fuses replaced in 2021. Similarly, for the Covered Wire Program, it is the number of miles of circuits that covered wires have been installed in 2021. For the Evacuation Route Hardening performance metric, it is the number of poles that have been "hardened." The remaining STIP and LTIP performance metrics are similarly objective, measurable and enforceable.

H. <u>Compensation Plan Appropriately Weights Safety Concerns and Financial Performance</u>. The Plan substantially weights performance compensation in favor of safety concerns when compared to financial performance, which reflects Bear Valley's priorities.

As compared to the total STIP bonus, the safety metrics at the Target level comprise a total of 76% of the STIP bonus (or approximately 17.7% of total compensation), with financial metric of EBITDA and SOX Deficiencies comprising 18% of the STIP bonus (or approximately 4.2% of total compensation). The LTIP metric is a combined financial/safety metric of the amount invested in wildfire mitigation projects, and at Target level comprises 100% of LTIP, and comprises 10% of an executive's total compensation.

BVES believes the weighting of safety concerns should be substantially greater than financial performance in an executive incentive compensation plan. The Plan reflects that weighting.

V. **CONCLUSION**.

As summarized above, Bear Valley's Plan fully complies with all provisions of Section 8389(e)(4). Although the Plan is not required to comply with the provisions of Section 8389(e)(6) because Bear Valley has no employment contracts, the Plan nevertheless satisfies most of those statutory provisions.

Bear Valley is unique in terms of its size, corporate history, and corporate affiliation with a large, Commission-regulated water utility. Due to all of these factors, the provisions in Section 8389(e)(6) (which are *not* applicable to BVES because it has no employment contracts) requiring the primary portion of TDC to achieving objective performance metrics makes no corporate sense and would not work to the benefit of BVES, GSWC or its respective customers. In order to keep executive compensation for Bear Valley competitive with market conditions, retain and recruit highly-competent utilities executives, and not disrupt the long-standing executive compensation structure of GSWC, it is critical that BVES be allowed to provide its executives with a larger portion of TDC as Base Salary as compared to achieving objective performance metrics.

BVES believes that it has developed a Plan that complies with the statutory provisions of Sections 8389(e)(4), makes sense from a corporate executive compensation perspective, and is in the best interests of BVES and GSWC and their respective customers. BVES respectfully requests that WSD approve the Plan without conditions.

ATTACHMENT A

PERFORMANCE METRICS AND PAYOUT PERCENTAGES

TABLE 1

STIP PERFORMANCE METRICS AND PAYOUT PERCENTAGES

Category	Performance Metrics	Target	Payout Percentage at Target
Safety	Wildfire T&D System Hardening: Electronic Fuse Program	≥ 275 fuses	8
	Wildfire T&D System Hardening: Current Limiting Fuse Program	≥ 550	8
	Wildfire T&D System Hardening: Covered Wire Program	≥ 12.9 circuit miles	8
	Wildfire T&D System Hardening: Evacuation Route Hardening	≥ 375 poles hardened	8
	Fire Incidents	0	4
	SAIDI	≤ 50 minutes	6
	CAIDI	≤ 90 minutes	6
	Safety Training	90% Completion Rate	6
	Employee Safety: Employee Electric Contacts	= 0 (No contacts)	4
	Safety-Recordable Work Incidents	≤ 1	6
	Job Hazard Analysis	≤ 60	6
	Vegetation Management QC	≤ 60	6
Stakeholder Support	Supplier Diversity Utilization	> 21.5%	6
Internal Controls	SOX Deficiencies	No MWs, No SDs & No CDs	3
Financial	EBITDA	100% of Budget	15
		Total	100

TABLE 2

LTIP PERFORMANCE METRICS FOR OBJECTIVE BONUSES AND PAYOUT PERCENTAGES

Category	Performance Metrics	Target	Payout Percentage at Target
Financial	Cumulative CAPEX for Wildfire Mitigation Projects	92.5% of authorized Budget	100

Definitions of Certain Performance Metrics.

"EBITDA" means the earnings of the Corporation for 2021 before interest, taxes (federal and state income taxes), depreciation and amortization, in each case as determined in accordance with generally accepted accounting principles.

"Budget" or **"Budgeted"** means, in the case of Adjusted EBITDA for the Corporation, the projected Adjusted EBITDA for 2021 as set forth in the Operating Budget.

"CAIDI" means the summation of restoration time for each sustained interruption event over the year divided by the number of interrupted customers for each sustained interruption event during the reporting period. Customer Average Interruption Duration Index (CAIDI) provides the average outage duration that any given customer would experience. CAIDI can also be viewed as the average restoration time. CAIDI is measured in units of time, often minutes. CAIDI is calculated in accordance with Standard No. 1366 published by the Institute of Electrical and Electronics Engineers, and is summarized as the summation for the year of all restoration time for each sustained interruption event over the year divided by the number of interrupted customers for each sustained interruption event during the reporting period. A sustained interruption event is defined as customers interrupted for more than 5 minutes. For the purpose of this calculation, precautionary outages ordered by management as fire prevention measures are excluded in the CAIDI calculation. However, if the CPUC determines that such precautionary outage was unjustified, the CAIDI from the outage will be included.

"Cumulative CAPEX for Wildfire Mitigation Projects" means the cumulative CAPEX budget for the Performance Period for the following wildfire mitigation projects: Pole Loading Program (remaining balance as of January 1, 2021), Tree Attachment Removal Program (remaining balance as of January 1, 2021), Grid Automation Project (remaining balance as of January 1, 2021), Radford Line Project (remaining balance as of January 1, 2021), Reliability of Fawnskin Circuits Project, Covered Wire Project for 34 kV and 4 kV systems, and Evacuation Route Hardening Project.

"Employee Safety: Employee Electric Contacts" means the number of work-related electrical contacts with high voltage system live conductors resulting in shock to the Corporation's employee. Per California Code of Regulations, Title 8, Section 2700 (Cal-OSHA) a high-voltage system is the associated electrical conductors and equipment operating at or intended to operate at a sustained voltage of more than 600 volts between conductors.

“Executive” means, with respect to this Corporation, an executive officer as defined in Section 451.1 of the California Public Utilities Code.

“Fire Incidents” means the number of reportable fire incidents as defined in D14-02-015 Appendix C: Fire Incident Data Collection Plan, in which the CPUC directed that a reportable fire incident event is any event where utility facilities are associated with the following conditions: (a) a self-propagating fire of material other than electrical and/or communication facilities, (b) the resulting fire traveled greater than one linear meter from the ignition point, and (c) the utility has knowledge that the fire occurred. Ignition Point is the location, excluding the Corporation’s facilities, where a rapid, exothermic reaction was initiated that propagated and caused the material involved to undergo change, producing temperatures greatly in excess of ambient temperature.

“Job Hazard Analysis” means the number of Job Hazard Analyses (JHAs) performed during 2021. At December 31, 2021, the total JHAs performed for the purpose of the payout determination will be reduced if the percentage of JHAs performed by Supervisors, Managers, and Executives (sum total) is less than 15% of the total JHAs performed. If reduced, the calculated JHAs performed will be equal to the number of JHAs performed by Supervisors, Managers and Executives divided by 0.15.

“**Objective Bonus**” means a bonus based on the degree of achievement of the Performance Targets for the Business Criteria.

“**Operating Budget**” means the Corporation’s operating budget for 2021 as adopted by the Board, as adjusted for adjustments required to be made under Section 5.4 of this Plan.

“**Payout Percentage**” means the percentage of the Executive’s Target Objective Bonus that is payable based on the degree of satisfaction of a Performance Target Metric.

“**Performance Metrics**” means the Business Criteria measures.

“Performance Period” means the period beginning January 1, 2021 and ending December 31, 2021 for the STIP with respect to the following Business Criteria: Adjusted EBITDA, CAIDI, Employee Safety: Employee Electric Contracts, Fire Incidents, SAIDI, Safety Training, Safety Recordable Work Incidents, Supplier Diversity-Utilization; SOX Deficiencies, Job Hazard Analysis, Vegetation Management QC, Wildfire T&D System Hardening: Covered Wire Program, Wildfire T&D System Hardening: Electronic Fuse Program, Wildfire T&D System Hardening: Current Limiting Fuse Program, and Wildfire T&D System Hardening: Evacuation Route Hardening; and means the period beginning January 1, 2021 and ending December 31, 2023 for the LTIP with respect to the following Business Criteria: Cumulative CAPEX.

"**Performance Target**" means a specific goal established by the Board for the Performance Period with respect to each of the Business Criteria.

"Plan" means this 2021 Executive Incentive Compensation Plan.

"Safety-Recordable Work Incidents" means the number of work-related injuries and illnesses as reported on the OSHA Form 300 for the Corporation's electric operations other than work-related injuries and illnesses related to the Coronavirus (COVID-19).

"Safety Training" means the percent completion rate of required safety training for all of the Corporation's employees as required by the state, local government, and Corporation during the Performance Period.

"SAIDI" means the sum of customer minutes interrupted over the year divided by the total number of customers served. SAIDI is calculated in accordance with Standard No. 1366 published by the Institute of Electrical and Electronics Engineers, and is summarized as the sum for the year of all customers interrupted for more than 5 minutes, times the number of minutes they experienced an interruption, divided by the total number of customers. For the purpose of this calculation, precautionary outages ordered by management as fire prevention measures are excluded in the SAIDI calculation. However, if the CPUC determines that such precautionary outage was unjustified, the SAIDI from the outage will be included.

"**SOX**" means the Sarbanes-Oxley Act of 2002.

"SOX Deficiencies" means the number of "control deficiencies" (each a "**CD**"), "significant deficiencies" (each an "**SD**") and "material weaknesses" (each a "**MW**") reported for the Corporation in the independent auditor's report for 2021 pursuant to Section 404 of SOX.

"Supplier Diversity-Utilization" means the percentage reported by the Corporation to the CPUC annually by March 1 in its General Order 156 Compliance Filing. The percentage is calculated by taking the Corporation's total procurement dollars for the reporting period with CPUC qualified women-owned, minority-owned, disabled veteran-owned, and lesbian, gay, bisexual and transgender-owned business enterprises divided by the Corporation's total procurement dollars (net of exclusions allowed under the General Order 156 Compliance Filing for the reporting period, such as payments for purchased water, purchased power, pump taxes, income taxes, franchise fees, and postage).

"**Target Objective Bonus**" means the amount of the Executive's Objective Bonus determined by the Board that would be payable if each of the Performance Targets were met at the targeted level.

"Vegetation Management QC" means the number of Vegetation Management Quality Control (QC) checks performed during 2021. At December 31, 2021, the total QCs performed for the purpose of the payout determination of the Executive's Objective Bonus will be reduced if the percentage of QCs performed by Supervisors, Managers, and Executives (sum total) is less than

15% of the total QCs performed. If reduced, the calculated QCs performed will be equal to the number of QCs performed by Supervisors, Managers and Executives divided by 0.15.