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Via Electronic Mail

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Subject: Comments of the Public Advocates Office on Electric Utilities' Executive Compensation Plans for 2021

INTRODUCTION

Pursuant to the Rules of Practice and Procedure of the California Public Utilities Commission (Commission) and the Wildfire Safety Division's (WSD) guidance,[1] the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) submits these comments on the requests submitted by electrical corporations[2] for approval of their executive compensation plans for 2021.

Cal Advocates provides the following comments to assist the WSD in its statutory requirement under Public Utilities Code Section 8389(e)(4) to see that the utilities' executive incentive compensation structures "promote safety as a priority," while relying on "performance metrics that are measurable and enforceable."[3] To this end, Cal Advocates recommends that the WSD:

[1] *Wildfire Safety Division Guidance on Submission of Executive Compensation Approval Requests by Electrical Corporations Pursuant to Public Utilities Code 8389(e)(4) and 8389(e)(6),* December 22, 2020.

[2] Many of the Public Utilities Code requirements relating to wildfires apply to "electrical corporations." *See e.g.*, Public Utilities Code Section 8386. Hereinafter, these comments will use the more common terms "electric utilities" and "utilities" and the phrase "electrical corporations" interchangeably to refer to the entities that must comply with the wildfire safety provisions of the Public Utilities Code.

[3] Public Utilities Code Section 8389(e)(4).

A) Retain a consultant to report on compensation best practices.

B) Require investor-owned utilities (IOUs) to provide historical data underlying their targets.

C) Assess whether the utilities' proposed metrics incentivize utilities to de-energize only when warranted by weather conditions and utility asset conditions.

D) Require the Pacific Gas and Electric Company (PG&E) to clarify how the weighted index of reportable ignitions is calculated.

E) Require PG&E to reevaluate the system hardening goals in its Long-Term Incentive Plan to eliminate possible perverse incentives.

F) Provide an opportunity for parties to comment on PG&E's and Southern California Edison Company's (SCE) complete executive compensation plans.

G) Direct SCE to consider inclusion of a metric on its de-energization event customer notification success rate, similar to that of as San Diego Gas & Electric Company (SDG&E).

H) Direct SDG&E to consider expanding its "Average Days for Tier 3 Level 1 Corrections" to encompass High-Fire Threat District (HFTD) Tier 2.

I) Require SDG&E to categorize its System Average Interruption Duration Index (SAIDI) as a reliability rather than a safety metric if it excludes the duration of de-energization events.

J) Direct Bear Valley Electric Service, Inc. (Bear Valley) to include performance metrics that promote safety.[4]

For purposes of these comments, Cal Advocates clarifies its use of terms. A **metric** or **performance metric** (used interchangeably here) is a quantitative measure that is used to track a specific type of activity or performance.[5] A **target** is not a metric, but rather a level

[4] Capital projects refer to projects or capital assets that are part of an IOU's rate base and for which the IOU can earn a rate-of-return profit.

[5] For example, the number of wildfire ignitions per year is a possible metric. The total customer-hours of de-energization events per year is also a possible metric.

that one aims to achieve on a metric.[6] A target can also be described as a goal.[7]

BACKGROUND

Public Utilities Code Section 8389 directs the WSD to issue safety certifications to electric utilities that meet certain requirements. The purpose of safety certifications is to ensure that each electrical corporation demonstrates a commitment to safety throughout its organization[8] and especially with respect to wildfire risks.[9]

Public Utilities Code Section 8389(e)(4) requires electric utilities to establish and seek the WSD's approval of "an executive incentive compensation structure … structured to promote safety as a priority," while relying on "performance metrics that are measurable and enforceable." On December 22, 2020, the WSD issued guidance to electric utilities and stakeholders regarding requests for approval of the utilities' 2021 executive compensation plans.

On January 15, 2021, Bear Valley, PG&E, SDG&E, and SCE submitted their requests for approval.[10] The WSD's guidance permits stakeholders to submit comments by January 29, 2021.[11]

Cal Advocates has reviewed and analyzed the utilities' executive compensation submissions to the best of its ability within the limited time allowed for public comments. However, it is important to note that the two weeks afforded for development of these comments did not permit time for Cal Advocates to conduct discovery related to the IOUs' 2021 executive compensation submissions or to conduct broader research. Our comments,

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[6] For example, a utility might set a target of zero wildfire ignitions (in this case, the number of ignitions is the metric; zero is the target). Some IOUs provide three targets for each metric: a minimum, a goal, and a maximum. If performance is worse than the minimum level, no incentive compensation is awarded for that particular metric. If performance meets or exceeds the maximum level, executives receive the maximum possible incentive compensation for that particular metric.

[7] PG&E uses the term "milestone" synonymously. PG&E's Submission, pp. 3-4, Appendix A, and Appendix B.

[8] Public Utilities Code Sections 8389(e)(1) through 8389(e)(7).

[9] Public Utilities Code Sections 8389(e)(1) and 8389(e)(7).

[10] Neither PacifiCorp nor Liberty Utilities has submitted a request to WSD for approval of its 2021 executive compensation plan.

[11] *Wildfire Safety Division Guidance on Submission of Executive Compensation Approval Requests by Electrical Corporations Pursuant to Public Utilities Code 8389(e)(4) and 8389(e)(6),* December 22, 2020, p. 4.

therefore, are based on a review of the utility submissions for 2020[12] and 2021, and the representations and assertions contained therein.

DISCUSSION

A. The WSD should retain a consultant to report on compensation best practices.

In addition to considering stakeholder comments, the Wildfire Safety Division should retain an expert consultant to report on compensation best practices, and make recommendations for effectively structuring compensation incentives to promote safety.

There are a number of questions regarding the structure of the compensation plans which should be addressed in context. For example, it may be appropriate for performance measures to vary based on the responsibilities of individual executives.

Further, it would be useful to review each performance metric and the relative weightings of each performance metric in the executive compensation plans, by comparison to overall executive compensation best practices. A consultant could analyze and report on compensation best practices in similarly situated utilities and other industries where safety is a major concern (such as energy production and heavy manufacturing).

Each electrical corporation has taken its own individual approach to developing performance metrics to be included in their proposed compensation standards, and the weighting of those performance metrics in determining total compensation. However, some approaches may not be as effective as others.

For example, many of the aspects of the utility compensation plans are weighted at one to two percent of the total score. Having numerous performance metrics with low weight and minimal impact on an executive's final pay may not result in the same level of executive focus as having a few higher-level performance metrics which represent a more substantial portion of the overall weighting. Presented with a metric that represents a small fraction of incentive compensation (and an even smaller fraction of total compensation), it is reasonable to expect that the executive will dedicate a small fraction of her or his attention to that goal. Where an executive is presented with numerous metrics, it is reasonable to expect that the executive will choose to focus attention on the handful of metrics that carry the greatest weight.

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[12] Cal Advocates' review used the IOUs' 2020 executive compensation plans as a reference for the 2021 executive compensation plans.

B. The WSD should require IOUs to provide historical data underlying their targets.

None of the IOUs have provided historical data to justify the targets for each metric included in their compensation plans.[13] Setting targets appropriately is integral to ultimately adopting a compensation plan structure which is effective at promoting safety. If targets are set too low, they may foster complacency, rather than promote incremental executive action to improve safety outcomes. The burden should be on the utilities to show, through historical data, that targets are set at an appropriate level.

C. The WSD should assess whether the utilities' proposed metrics incentivize utilities to de-energize only when warranted by weather conditions and utility asset conditions.

The Commission has stated that de-energization should be "a measure of last resort" in preventing wildfires.[14] Voluntary de-energization events executed by the electric utilities are a tool that utilities choose to use to mitigate the risk of wildfires. However, the utility's choice to de-energize places risks on Californians and as such must be used prudently and as a last resort.

The utilities' proposed metrics fall short of this, and at most, the de-energization-related performance metrics are geared towards limiting the negative impact of de-energization rather than assuring that de-energization is used only when warranted by weather conditions and the condition of the asset.[15, 16, 17] An executive compensation plan lacking such metrics means there is no financial motivation for the company's executives to limit the use of de-energization in the short term or the long term.

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[13] SCE's Submission and PG&E's Submission do not provide targets for each metric and no historical data to support the targets. While SDG&E identifies both the metrics and targets, it does not provide historical data. See, SDG&E's submission, pp. 7-8.

[14] D.19-05-042, pp. 69 and A1.

[15] PG&E has a metric Public Safety Power Shutoff Notification Accuracy that measure "the percentage of PSPS-affected customers who receive notifications prior to a PSPS outage." See, *Pacific Gas and Electric Company's Executive Compensation Approval Request Pursuant to Public Utilities Code § 8389(e)(4) and (e)(6)* (PG&E's Submission), January 15, 2021, pp. 10-11.

[16] SCE has a metric Public Safety Power Shutoffs: achieve average customer restoration time. See, *2021 Executive Compensation Submission of Southern California Edison Company Pursuant to Assembly Bill 1054* (SCE's Submission), January 15, 2021, p. 6.

[17] Bear Valley has no metrics related to de-energization. "For the purpose of this calculation, precautionary outages ordered by management as fire prevention measures are excluded" in the CAIDI and SAIDI calculations. See, *Bear Valley Electric Service Inc. Overview of Executive Compensation Plan in Compliance with Public Utilities Code Section 8389(e)* (Bear Valley's Submission), January 15, 2021, pp. 12, 13, and 15.

For example, SDG&E's Incentive Compensation Plan Elements includes two performance metrics related to de-energization: Wildfire Safety Communications and PSPS Average Circuit Restoration Time (hours from "Okay to patrol").[18] These two performance metrics could encourage executives to limit the negative impact of de-energization based on adequate advance notice of a de-energization event and restoration of power after a de-energization event.

However, these performance metrics do not discourage the company's use of de-energization to begin with. Consequently, SDG&E's metrics provide no pressure on the company to reduce its reliance on de-energization.

Similarly, PG&E includes a metric measuring the number of reportable fire ignitions. This metric supports an essential and critical goal of reducing reportable fires, but it could also encourage the company to use de-energization more liberally in order to avoid all possible fire ignitions. The metric on ignitions should be balanced with a performance metric that discourages the use of de-energization (e.g., the total customer-hours of de-energization).

Overall, none of the utilities have adopted metrics that address the frequency or magnitude of de-energization events. Consequently, there is no financial pressure on electric utilities to avoid excessive reliance on de-energization events to mitigate wildfire risks.

As de-energization is required to be a measure of last resort,[19] the WSD should require the IOUs to adopt metrics that help curtail the deployment of de-energization as part of the 2021 executive compensation plans.

D. The WSD should require PG&E to clarify how the weighted index of reportable ignitions is calculated.

PG&E has not adequately explained how reportable fire ignitions are included as a factor in its Short-Term Incentive Plan. PG&E states that the ignitions metric uses "a weighted index approach that gives greater weight to ignitions caused by conditions over which PG&E has greater potential control (e.g., ignitions arising from equipment failure)."[20] It describes this as an improvement over the "simple count of ignitions" used in 2020. The metric is weighted 40 percent to ignitions caused by "equipment and animals," 40 percent to ignitions caused by

[18] SDG&E has two metrics that measure the customer notification success rate 24 to 48 hours in advance of de-energization events (Wildfire Safety Communications) and the time the company took to restore the power after the end of the weather event (PSPS Average Circuit Restoration Time (Hours) from "Okay to patrol"). See, *San Diego Gas & Electric Company's Documentation of Compliance with Executive Compensation Provisions of Public Utilities Code § 8389(e) and Wildfire Safety Division Guidance* (SDG&E's Submission), January 15, 2021, p. 5, Appendix 1, pp. 1-2.

[19] D.19-05-042, pp. 69 and A1.

[20] PG&E's Submission, p. 5.

"vegetation," and 20 percent to "other" ignitions.[21]

The WSD should require PG&E to demonstrate that PG&E's weighting is based on evidence. PG&E should be required to provide more information on how the weightings were developed, how ignitions are assigned to a category, whether different types of ignitions carry different risks of starting a catastrophic wildfire, and how the proposed 2021 ignitions metric is an improvement over the 2020 metric. The WSD should also require PG&E to provide evidence that the assigned weights in fact correspond with PG&E's degree of "potential control" over causal factors.

E. The WSD should require PG&E to reevaluate the system hardening goals in its Long-Term Incentive Plan to eliminate possible perverse incentives.

It is worth noting that the federal district court found that PG&E's vegetation management program was geared more toward meeting targets than reducing wildfire risk.[22] Accordingly, the incentive structure proposed by PG&E for system hardening work could create perverse incentives and encourage system hardening work that is poorly targeted to reducing fire risk. The incentives may encourage more expensive and unnecessary mitigations regardless of actual circuit risk or the effectiveness of the mitigations.

PG&E proposes that 80 percent of system hardening miles must be "high-risk miles," defined as "(i) top 20% of approved risk model buy down curve; (ii) fire rebuild miles; and (iii) PSPS mitigation miles."[23] There are two main problems with PG&E's approach. First, PG&E's approach treats fire rebuild miles interchangeably with other system hardening and de-energization mitigation work. This creates an incentive whereby PG&E executives could be rewarded for performing fire rebuild work in the wake of a fire rather than system hardening work. Because fire rebuild work is treated interchangeably with other system hardening work, fire rebuild work could offset the incentive for system hardening work that targets higher risk circuits, which would serve as a disincentive for necessary system hardening.

Second, and most problematically, PG&E requires that at least 5 percent (and preferably, 15 percent) of the system hardening project portfolio consist of undergrounding or line removal work.[24] This 5-15 percent is not targeted at high-risk circuits based on risk modeling or any

[21] PG&E's Submission, p. A-1.

[22] *See* Order Re Monitor Letter, N.D. Cal. 3:14-cr-00175-WHA, Doc. No. 1247 at 1 (noting the Federal Monitor's finding that PG&E completed its 2019 enhanced vegetation management work in low-risk portions of its high-fire threat districts in order to meet its 2019 EVM targets, instead of prioritizing wildfire risk reduction according to its risk model); *see also* N.D. Cal. 3:14-cr-00175-WHA, Doc. No. 1247-1 at 2.

[23] PG&E's Submission, p. B-1.

[24] PG&E's Submission, p. B-1.

other prioritization scheme.[25, 26] PG&E's approach encourages undergrounding to meet the quota even in circumstances where far less expensive system hardening efforts would effectively mitigate fire risk on a circuit. Further, PG&E's proposal does not specifically exclude aesthetic undergrounding work performed under Rule 20, so PG&E's executives could receive bonuses under this metric for work not performed to reduce wildfire risk.[27]

PG&E's system hardening metrics are unacceptable and fail to prioritize risk by targeting the highest-risk geographical areas with effective mitigations. As such, PG&E's metrics do not comply with Public Utilities Code Section 8389(e)(4). The WSD should require PG&E to reevaluate the system hardening goals to focus PG&E's attention on the most critical safety risks facing the company, as required by law.

F. The WSD should provide an opportunity for parties to comment on PG&E's and SCE's complete executive compensation plans.

The compensation plans submitted by PG&E and SCE on January 15, 2021 lack key details regarding final targets and cannot be effectively assessed at this time. Specifically, PG&E identifies the individual metrics that make up its incentive compensation plan but notes that "The 2021 milestones for both the STIP [Short-Term Incentive Plan] and the LTIP [Long-Term Incentive Plan] are still under development, in part because setting appropriate milestones typically requires evaluating performance results from the prior performance period (which only recently ended on December 31, 2020)."[28]

Similarly, SCE's incentive plan groups metrics into three categories but does not provide any detail on the relative weightings of the component metrics which make up these high-level categories. SCE also has not finalized the individual performance targets, and uses placeholder values for minimum, target, and aspirational goals. SCE states that its "final 2021 goals, including final metrics, will be approved by the Compensation Committee at its February 24, 2021 meeting," and that SCE will provide final 2021 goals and metrics "on or about March 1."[29]

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[25] PG&E's Long-Term Incentive Program requires that these undergrounding miles occur in High Fire-Threat Districts but does not require any prioritization within the HFTD. HFTD areas encompass 30,600 miles of PG&E overhead circuits, or 31 percent of PG&E's overhead lines. Some of these circuits carry dramatically higher wildfire risk than others.

[26] PG&E's Submission, p. B-1: "At least 5% of the completed system hardening project portfolio over the three-year reporting period must be undergrounding or line removal work (with 10% and 15% required to achieve 'target' and 'maximum' milestones, respectively)."

[27] See PG&E Electric Rule 20, Replacement of Overhead With Underground Electric Facilities. Rules 20A, 20B, and 20C govern the replacement of existing overhead electric facilities with underground electric facilities.

[28] PG&E's Submission, p. 3.

[29] SCE's Submission, p. 5.

Because PG&E and SCE's executive compensation plans are incomplete, stakeholder or public review cannot be completed until the utilities submit complete plans. Without knowing whether PG&E and SCE will adopt appropriate targets for their safety metrics, it is not possible to accurately assess whether their respective executive compensation plans will promote safety.

Consistent with the Commission's fundamental duty to ensure due process in its reviews, the WSD should provide parties an opportunity to comment on PG&E and SCE's plans when they have been finished and submitted. However, such comments should not coincide with parties' review of wildfire mitigation plans due to the strain on staffing resources during this period. Therefore, comments on PG&E and SCE's executive compensation plans should be due no sooner than May 5, 2021, two weeks after the final set of comments on wildfire mitigation plans.

G. The WSD should direct SCE to consider inclusion of a metric on its de-energization event customer notification success rate, similar to that of SDG&E.

SCE has no performance metric that measures its customer notification success rate for customers subject to de-energization. In contrast, SDG&E has such a metric,[30] and that metric could promote a successful notification campaign whenever the company deploys de-energization. Indeed, SDG&E's performance was exemplary compared to SCE in terms of notifying customers in advance of its late 2019 de-energization events.[31]

A notification performance metric would incentivize SCE to provide customers advance notice of de-energization events. Accordingly, Cal Advocates recommends that the WSD direct SCE to consider inclusion of a performance metric that measures the success rate of its advance notification of de-energization events to customers.

H. The WSD should direct SDG&E to consider expanding its "Average Days for Tier 3 Level 1 Corrections" metric to encompass HFTD Tier 2.

Cal Advocates recommends that WSD direct SDG&E to consider including Tier 2 Level 1 Corrections for the metric "Average Days for Tier 3 Level 1 Corrections."[32] Level 1 Corrections are urgent maintenance issues. Such issues need to be addressed promptly in all HFTD areas,[33] not only HFTD Tier 3 areas. While Tier 3 areas have the highest risk, a failure to promptly remedy a Level 1 Correction in any HFTD area could result in

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[30] SDG&E's Submission, p. 5, Appendix 1, pp. 1-2.

[31] Comments of the Public Advocates Office to the Order Instituting Investigation 19-11-013, October 16, 2020, pp. 13 and 17.

[32] SDG&E's Submission, p. 5.

[33] High-Fire Threat Districts are comprised of both Tier 2 and Tier 3 land areas.

catastrophic and wholly avoidable damages.

I. The WSD should require SDG&E to categorize its System Average Interruption Duration Index (SAIDI) as a reliability rather than a safety metric if it excludes the duration of de-energization events.

SAIDI is one of SDG&E's performance metrics. SDG&E defines this as "the cumulative outage time (minutes) experienced by the average SDG&E electric customer in a year."[34] SDG&E stated that SAIDI (at least for its 2020 SAIDI metric) does not include the duration of de-energization events.[35] SAIDI is a standard reliability metric for the utility industry. However, it is not intended to measure safety. In fact, safety enhancements such as disabling reclosers in HFTD areas during the fire season typically lead to a degradation of SAIDI.

Unless it encompasses de-energization events, SAIDI does not measure the performance of safety programs. Given this, the SAIDI performance metric should be characterized as a reliability rather than a safety metric, for the sake of accuracy.

J. The WSD should direct Bear Valley to include performance metrics that promote safety.

The purpose of the executive compensation plans is to "promote safety as a priority."[36] While capital-based infrastructure upgrades may be instrumental to the utilities' efforts in preventing wildfires, the utilities should keep the focus squarely on safety outcomes. Only a few of Bear Valley's performance metrics in the Safety Category are outcome-based (e.g., fire incidents, SAIDI, and Customer Average Interruption Duration Index (CAIDI)),[37] while 32% of Bear Valley's Short-Term Incentive Plan are capital-focused.[38]

A set of metrics that emphasizes building capital infrastructure, with few outcome-based metrics, will not likely yield the most effective strategies for safety and wildfire prevention. Metrics that promote capital construction can encourage a utility to pursue system hardening measures wherever they are feasible, without regard to where the risk is greatest. Such metrics can encourage a utility to pursue slow, expensive, and potentially ineffective measures in the place of measures that expeditiously reduce risk.

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[34] SDG&E's Submission, Appendix 1, p. 3.

[35] Through discovery, Cal Advocates asked SDG&E if such "cumulative outage time" captures the duration of de-energization events as well, for SDG&E's SAIDI metric in 2020. See, SDG&E's response to data request CalPA-SDG&E-SafetyCert 2021-01, Question 5.

[36] Public Utilities Code Section 8389(e)(4).

[37] If the SAIDI and CAIDI metrics exclude the duration and the number of de-energization events that customers experienced, then these metrics should count as reliability rather than safety metrics.

[38] These performance metrics measure the progress in its Electric Fuse Program, Current Limiting Fuse Program, Covered Wire Program, Evacuation Route Hardening as part of the company's Wildfire T&D System Hardening effort. See, Bear Valley's Submission, p. 12.

The WSD should direct Bear Valley to evaluate its executive compensation plan so that Bear Valley includes more emphasis on safety outcomes, in compliance with Public Utilities Code Section 8389(e)(4).

CONCLUSION

Cal Advocates respectfully requests that the Wildfire Safety Division adopt the recommendations discussed herein.

Sincerely,

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