

January 15, 2021

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

**SUBJECT:** 2021 Executive Compensation Submission of Southern California Edison  
Pursuant to Assembly Bill 1054

Dear Director Thomas Jacobs:

In response to your December 22, 2020 letter, Southern California Edison Company (SCE) hereby submits its 2021 Executive Compensation Structure approval request.

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 §8389(e) of the Public Utilities Code, the Wildfire Safety Division's 2020 Guidance and the majority of elements in Assigned Commissioner's Ruling, Proposal 9 for Pacific Gas and Electric Company.

Please feel free to contact me if you should have any questions or require additional information.

Sincerely,

//s//

Carla Peterman  
Senior Vice President, Strategy and Regulatory Affairs  
Southern California Edison

cc: Rachel Peterson, Executive Director  
R-18-10-007  
WildfireSafetyDivision@cpuc.ca.gov

# Southern California Edison (SCE) Executive Compensation Structure and Compliance with Wildfire Safety Division's Guidance Issued Dec. 22, 2020 on Submission of Executive Compensation Approval Requests

January 15, 2021

## I. Overview of SCE's Executive Compensation Structure

SCE's executive compensation structure promotes safety as a priority, helps ensure public safety and utility financial stability, and otherwise meets (i) the requirements set forth in Public Utilities Code (Pub. Util. Code) Sections 8389(e)(4) and 8389(e)(6), (ii) the Wildfire Safety Division's (WSD) guidance issued in 2020 for its executive compensation review (WSD Guidance), and (iii) the majority of elements in Assigned Commissioner Ruling, Proposal 9 for Pacific Gas and Electric Company (PG&E).

The SCE Board of Directors' Compensation and Executive Personnel Committee (Compensation Committee) determines three compensation elements each year that constitute Total Direct Compensation for our Executive Officers<sup>1</sup> – base salary, annual incentive awards and long-term incentive awards. Base salary is a fixed rate of income for the year. Annual incentive awards are the variable portion of market-based cash compensation and are designed to focus attention on specific safety, operational, 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. To effectively recruit and retain qualified executives to run the utility, the company aligns with market practice for all three pay elements.

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

- ▶ Reduction of annual incentive award payouts if specific safety and safety-related targets are not achieved. For 2021, SCE is increasing the focus on safety outcomes by:
  - Increasing the target weighting of the Safety & Resiliency goal category from 45% to 50%;
  - Adding CPUC-reportable ignitions and Public Safety Power Shutoff (PSPS) average customer restoration time as outcome-based metrics; and
  - Adding safety & resiliency capabilities and contractor management as new goals to drive advancement of work execution.
- ▶ SCE's annual incentive award program provides that safety and compliance are foundational, and significant lapses can result in the Compensation Committee reducing or eliminating annual incentive compensation for the year. The Compensation Committee has exercised its authority in this area multiple times to reduce annual incentive awards for safety performance, including eliminating annual incentive awards for 2018 for certain Executive Officers in light of the impact of wildfires on SCE's service area. In the event "the electrical corporation causes a catastrophic wildfire that results in one or more fatalities," the Compensation Committee can, as outlined in Pub. Util. Code §8389(e), deny all annual incentive compensation.

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<sup>1</sup> The Compensation Committee determines compensation for all officers who are executive officers under Rule 3b-7 of the Securities Exchange Act of 1934 (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 Pub. Util. Code §8389(e), but not for purposes of SEC Rule 3b-7. 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.

- ▶ The value of the long-term incentive awards, with their multiple-year vesting periods, is primarily tied to long-term share price performance and incentivizes executives to adopt a longer-term view of corporate performance in the decisions they make today, such as emphasizing safety and safety culture. The company’s share price is linked to SCE’s 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 impacted the long-term incentive plan value for executives. The awards provide a strong incentive for executives to take actions that mitigate risk and improve the safety and resiliency of our communities in an enduring manner.

## II. Compliance with Pub. Util. Code § 8389(e) and the WSD Guidance

The following table provides an overview of how the three elements of SCE’s Total Direct Compensation meet the requirements set forth in Pub. Util. Code §8389(e).

<b>Element of Total Direct Compensation</b>	<b>Form</b>	<b>Alignment with Pub. Util. Code §8389(e)</b>
<b>Base Salary</b>	Fixed Pay: Cash	<ul style="list-style-type: none"> <li>• SCE does not have employment contracts or guarantees of cash compensation; base salaries comprise less than half of each Executive Officer’s target Total Direct Compensation (see the “Pay Mix for Executive Officers” below for the specific percentages); SCE does not offer perquisites</li> </ul>
<b>Annual Incentive Awards</b>	Variable Pay: Cash	<ul style="list-style-type: none"> <li>• 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</li> <li>• Safety and compliance are also foundational, and the Compensation Committee can reduce or eliminate awards if there are significant lapses in safety or compliance, regardless of the company’s performance in the specific safety and compliance metrics established at the beginning of a goal year</li> <li>• A significant portion of the success measures that are used to determine the payout is based on meeting performance metrics that are objectively measurable</li> <li>• No guaranteed minimum payout, maximum payout is 200% of target; significant “at risk” compensation</li> </ul>
<b>Long-Term Incentive Awards</b>	Variable Pay: Equity <ul style="list-style-type: none"> <li>• 50% stock options</li> <li>• 25% performance shares</li> <li>• 25% restricted stock units</li> </ul>	<ul style="list-style-type: none"> <li>• Promote utility financial stability by enhancing executives’ focus on the company’s long-term goals</li> <li>• 75% of long-term incentive awards are performance-based, with payouts determined by achievement of objective outcome-based performance metrics</li> <li>• No guaranteed minimum payout for stock options or performance shares</li> <li>• 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</li> <li>• Long-term and annual incentive awards comprise the majority of Executive Officers’ compensation and the variable nature puts these components “at risk” subject to performance</li> </ul>

#### **a. Role of Compensation Committee**

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 significant experience and qualifications and bring a variety of perspectives to the Compensation Committee's deliberations. No officers or other employees serve on the Compensation Committee.

The Compensation Committee retains an independent compensation consultant, Pay Governance, to assist in evaluating Executive Officer compensation, including industry trends and best practices.

In alignment with best practices, the Compensation Committee 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 incentive awards and long-term incentives awards. Above-median compensation usually is not needed, but the +15% end of the range provides flexibility when it is needed for individual recruitment of specialized skills, retention purposes, or to reward exceptional performers. Below-median compensation usually is avoided because it can create retention and recruitment difficulties, but the -15% end of the range provides flexibility for newly promoted executives or other circumstances where below-median compensation is appropriate for a time. The Compensation Committee exercises its judgment in setting each Executive Officer's compensation levels.

#### **b. Base Salary and Employment Contracts**

***SCE does not have employment contracts or guarantees of base pay. The company has evaluated employment contracts and concluded there are more downsides than benefits to providing contracts. SCE also does not offer perquisites or "perks."***

The Compensation Committee evaluates Executive Officers' base salaries every year according to their position and performance.

SCE's Executive Officers do not have employment contracts and do not have contractual rights to receive fixed base salaries. Employment contracts benefit the executive more than the company. Some of the downsides of employment contracts include:

- ▶ The company's ability to terminate at will for performance would be heavily impacted if there was a specified term of employment;
- ▶ The company's ability to change the terms of employment for an executive under contract is limited even if business or other conditions warrant a change;
- ▶ To the extent contract terms differ from later-adopted policies or programs, the company may need to renegotiate the contract, which could result in a contract of higher value to the executive than the company originally intended; and
- ▶ If a contract provision is subsequently prohibited by a change in the law, that may also require a contract renegotiation or otherwise result in a contract of higher value to the executive than intended.

### c. Annual Incentive Awards

***Annual incentive awards are structured to promote safety and help ensure public safety and the financial stability of the utility as outlined in Pub. Util. Code §8389 (e). The Safety and Operations Committee of the Board applies its relevant safety experience and formally participates 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.***

There are two components that determine the payout of SCE's annual incentive awards: a company multiplier and an individual performance modifier (IPM). The company multiplier is determined by assessing company performance against goals and applies to all employees, including Executive Officers. The IPM is a modifier for exempt employees, including Executive Officers, and reflects their individual performance.

Annual incentive awards are placed "at risk" and are paid out to the extent important goals and objectives are met or exceeded. In accordance with market practice, poor company performance results in reduced or no payouts, target performance results in target payouts, and exemplary performance is rewarded with above-target payouts. 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 peers.

When circumstances warrant reductions in pay for executives – rather than for the entire employee population – IPMs or the company multiplier for certain executives may be further modified. This occurred for 2017, 2018 and 2019 annual incentives, when additional deductions of 10 or more points were applied for Executive Officers and certain other executives in response to the company's safety performance. Certain Executive Officers received no annual incentive payment for 2018 in light of the impact of wildfires on our communities.

The process of determining the company multiplier starts at the beginning of each year when the incentive award goals are established. These goals focus executives' attention on the foundational importance of safety, compliance, and SCE's values, and the three goal categories of Safety & Resiliency, Financial Performance and Operational Excellence & Strategic Advancement.

The proposed 2021 goals (see pages 6-7 below) convey SCE's emphasis on safety by weighting Safety & Resiliency as 50% of the target award and by also including safety as a foundational goal that can result, and has resulted in some prior years, in a reduction or elimination of the annual award if there is a significant lapse in safety. Financial Performance is given half the weighting of Safety & Resiliency—25% of the target award. The Operational Excellence & Strategic Advancement goal category is also weighted at 25%, and includes success measures that impact safety, such as system reliability and SONGS goals, as well as success measures that impact financial performance.

Under each goal category, the company provides executives with representative success measures so they understand what is meant by the overarching goal category. The success measures are labeled as "representative" to reflect that the Compensation Committee has discretion to adjust for real-world events. Every situation cannot be contemplated when annual goals and success measures are developed. We want executives to react in a dynamic manner to new issues as they arise, particularly in terms of safety.

When the goals are established, the subcomponents that comprise goal categories are not assigned specific weights. Allocating small percentages to numerous subcomponents would mask the importance of the overarching goal categories. For example, the most important and heavily weighted category is Safety & Resiliency, which includes wildfire mitigation. Providing a weighting breakdown of subcomponents at the beginning of the year might obscure the critical importance of *all* the representative success measures within the category. They are *all* necessary in our effort to increase the safety and resiliency of our communities and our workers. We want executives, and all employees, to be focused on achieving the main objectives and all

the success measures, and not make tradeoffs due to small weighting differences between subcomponents.

At the Compensation Committee meeting in February following the end of the goal year, the Compensation Committee assesses all the representative success measures that were approved at the beginning of the goal year, as well as other important activities and developments during the year. The Compensation Committee evaluates the relative importance of the various success measures and scores the subcategories, depending on the extent to which the goals were unmet, met or exceeded, to establish the company multiplier payout percentage. In the scoring process, 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 Compensation Committee, this may result in a score that varies from “target” or the initial weight afforded to that category. The Compensation Committee can exercise discretion to reduce or eliminate entirely annual incentive awards should circumstances warrant.

**d. Summary of Proposed 2021 Annual Incentive Goals and Metrics**

The WSD Guidance requires a description of all metrics used to calculate incentive compensation. The following two pages summarize SCE’s 2021 goals, success measures, and scoring matrix that were tentatively approved by the Compensation Committee at its December 2020 meeting. Metrics for the success measures are in the process of being updated to reflect year-end data, so the summary on pages 6 and 7 uses “x,” “y,” and “z” as placeholders that represent the minimum, target, and aspirational levels for these metrics. SCE’s final 2021 goals, including final metrics, will be approved by the Compensation Committee at its February 24, 2021 meeting. On or about March 1, SCE will supplement its submission to the WSD by providing the final 2021 goals and metrics.

In addition to the Compensation Committee, the Safety and Operations Committee of the Board has been closely involved in the development of the 2021 safety and other operational goals and metrics. It reviewed and provided guidance on draft goals and metrics at its October and December 2020 meetings, and will conduct another review before the Compensation Committee finalizes goals on February 24.

Goal Category	Target Score for Goal Category <sup>(1)</sup>	Representative Success Measures for Goal Category
<b>Overarching Goals Framework</b>	See footnote <sup>(2)</sup> below	<ul style="list-style-type: none"> <li>• The goals will be achieved while living the Company’s values, which include safety</li> <li>• 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</li> <li>• Worker Safety: Make significant progress toward eliminating serious injuries and fatalities (SIF)                         <ul style="list-style-type: none"> <li>○ Reduce EEI SIF Injury Rate: <math>\leq x, y, z</math></li> <li>○ Reduce Employee DART Injury Rate: <math>\leq x, y, z</math></li> <li>○ Enhance worker safety programs (e.g., risk-based, corrective actions, hazard-based observations)</li> </ul> </li> <li>• Public Safety: Reduce risk of public injuries related to our electric infrastructure                         <ul style="list-style-type: none"> <li>○ Improve public awareness of safety around electric lines and equipment as measured by awareness survey results and key outreach activities performed</li> <li>○ Overhead Conductor Program: install <math>\geq x, y, z</math> circuit miles</li> <li>○ Vegetation Line Clearing: execute <math>\geq x\%, y\%, z\%</math> of trims on time in compliance with GO 95</li> </ul> </li> <li>• Wildfire Resiliency: Reduce risk of catastrophic wildfires associated with electric infrastructure by executing our Wildfire Mitigation Plan (WMP) and programs                         <ul style="list-style-type: none"> <li>○ CPUC reportable ignitions in High Fire Risk Areas (HFRA): <math>\leq x, y, z</math></li> <li>○ Public Safety Power Shutoffs (PSPS): achieve average customer restoration time <math>\leq x, y, z</math> hours</li> <li>○ Covered Conductor: install <math>\geq x, y, z</math> circuit miles</li> <li>○ Overhead Inspections: complete ground and aerial HFRA inspection scope and remediate <math>\geq x\%, y\%, z\%</math> of P2 findings 30 days before compliance due date<sup>(3)</sup></li> <li>○ Hazard Tree &amp; Drought Relief: perform WMP assessment scope and complete <math>\geq x\%, y\%, z\%</math> of prescribed mitigations in active inventory<sup>(4)</sup> within 180 days of schedule</li> </ul> </li> <li>• Cybersecurity: Maintain effective controls to prevent and mitigate significant disruptions, data breach or system failure                         <ul style="list-style-type: none"> <li>○ Execute cybersecurity improvements to mitigate risk of compromise, including key tools deployed on <math>x\%</math> of desktops/laptops and <math>y\%</math> servers</li> <li>○ Mature enterprise-wide phishing program as measured by simulation exercise click rate of <math>\leq x\%, y\%, z\%</math></li> </ul> </li> <li>• Safety and Resiliency Capabilities: Advance foundational capabilities in operations                         <ul style="list-style-type: none"> <li>○ Electric Asset Data: Improve pole and wire data quality and enhance information governance</li> <li>○ Critical Business Records: Complete risk analysis of records types and implement management plans for high-risk records</li> <li>○ Field and Work Management Tools: Advance inspection and vegetation management applications, and build digital work order system</li> </ul> </li> <li>• Contractor Management: Strengthen contractor management to improve safety and quality performance                         <ul style="list-style-type: none"> <li>○ Implement Contractor Management Plan: Increase safety and quality integration in procurement, clarity of performance triggers, and efficacy of corrective action mechanisms</li> </ul> </li> </ul>
<b>Safety &amp; Resiliency</b>	50	
<b>Financial Performance</b>	25	<ul style="list-style-type: none"> <li>• Achieve SCE core earnings target</li> </ul>
<b>Operational Excellence &amp; Strategic Advancement</b>	25	<ul style="list-style-type: none"> <li>• Reliability: Achieve targeted reliability for repair outages as measured by System Average Interruption Duration Index (SAIDI). Achieve SAIDI, Repair: <math>\leq x, y, z</math> minutes</li> <li>• Capital Deployment: Execute grid, technology, electrification, and other improvements to deliver safe, reliable, clean, and affordable energy for customers.                         <ul style="list-style-type: none"> <li>○ Achieve CPUC and FERC jurisdictional capital improvement plan execution, consistent with CPUC direction</li> </ul> </li> </ul>

- Policy Outcomes: Shape California legislative and regulatory policies to align with SCE's strategy
  - Advocate for effective implementation of wildfire policies and obtain Wildfire Mitigation Plan approval and annual Safety Certification.
  - Advocate for prudent cost recovery and affordability decisions that secure funding to meet company and customer needs.
  - Obtain policy outcomes necessary to support Edison's Clean Power & Electrification Pathway/Pathway 2045 in support of California's environmental objectives
- Diversity, Equity and Inclusion: Improve diversity in our employees and supplier base and drive inclusion
  - Implement a comprehensive Diversity, Equity and Inclusion (DEI) Plan
  - Achieve Diverse Business Enterprise (DBE) spend  $\geq$  x%, y%, z%
- Customer Service Re-Platform (CSRP): Achieve go-live by end of Q2 2021 and post implementation stabilization by end of Q4 2021 while maintaining project spend
- San Onofre Nuclear Generating Station (SONGS) Decommissioning: Safely and effectively oversee contractors to complete Decommissioning and Dismantlement critical path activities

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**Total: 100**

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- (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) Includes structures with compliance inspections due in 2021. 2021 P1 findings will be remediated within the compliance timeframes. Remediation of P2 findings for goal measurement exclude those with GO95 exceptions and worker/public safety conditions.
- (4) Active inventory consists of trees that SCE has authority and access to remove (excludes customer refusals, environmental restrictions, etc.).

**e. Importance of a Combination of Activity-based and Outcome-based Metrics**

The WSD Guidance provides that 2021 compensation structures should more closely align with measurable outcomes for safety improvements that are required for Wildfire Mitigation Plans (WMP). As indicated in the Overview on page 1, SCE's changes for its 2021 goals include the following:

- ▶ SCE's proposed 2021 goals provide a 50% weighting for the Safety & Resiliency goal category, which is a 5-percentage point increase in weighting compared to the 2020 goals;
- ▶ Two new outcome-based goals are being included as 2021 wildfire resiliency goals: CPUC reportable ignitions in High Fire Risk Areas (HFRA) and PSPS average restoration time;
- ▶ SCE has added Safety and Resiliency Capabilities as a new goal to enable further risk reduction through improved data and records, performance and quality management, process management and digital enablement; and
- ▶ SCE has added a goal related to contractor management to improve SCE's ability to manage the overall quality of contractors' work from both a safety and performance perspective.

SCE continues to believe that a combination of activity-based and outcome-based metrics is essential to an effective annual incentive program. As an example, the activities identified in SCE's WMP have been approved as reasonable to reduce the risk of catastrophic wildfires. Thus, it is important to align annual incentives to the activities that will result in the effective execution of the WMP.

SCE is including outcome-based metrics in its goals only to the extent that the metrics can be consistently measured and are appropriate for demonstrating the impact of SCE's actions. For example, ignition data is a lagging indicator that represents outcomes SCE desires to reduce and, over a period of several years, could be used to assess the effectiveness of SCE's wildfire

mitigation strategies and programs in reducing wildfires. Factors to consider with the ignitions metric:

- ▶ Given the accelerated implementation of our wildfire mitigation strategies and programs, we expect to see a reduction in the number of ignitions associated with our equipment in HFRAs; and
- ▶ Given the volatility of ignitions from year to year that are heavily influenced by factors beyond SCE's control, such as weather, this indicator may not show year-to-year improvements but would be expected to show longer-run decreases over multi-year rolling averages.

f. **Descriptions of Proposed 2021 Success Measures and Metrics, and How They Contribute to Safety**

The WSD Guidance requests a description of how safety performance is calculated for incentive compensation and an explanation of whether safety metrics are outcome or input based (e.g., number of ignitions versus number of miles of distribution lines inspected). The WSD Guidance also provides that compensation awards should be based on objective, measurable and enforceable progress metrics that track impacts on drivers of ignition probability and safety outcome metrics that measure leading and lagging indicators of wildfire risk and consequences of wildfire mitigation work. This section addresses those aspects of the WSD Guidance. The March 1 supplemental submission will provide additional details.

While the connection to safety is apparent for the Safety & Resiliency category, SCE believes that the Operational Excellence & Strategic Advancement category also reinforces a culture that encompasses diverse perspectives and objectives that promote safety. The combination of these goals allows SCE to continuously incorporate best practices and pursue critical policy outcomes – which ultimately reinforces the work that is accomplished around safety, resiliency, and pursuit of healthy communities.

**Safety & Resiliency Goal—Worker Safety:** Over the past few years, SCE has focused on transforming its safety culture to nurture a mindset of caring for the well-being of the people we work with and the customers we serve along with a focus on the quantitative safety metrics. When employees and contractors have the training, tools, and work processes to work safely, it means the quality of their work is better, they are able to show up for work and perform their assigned duties well, and can complete the work that is needed to serve our customers in a timely manner. Wildfire mitigation activities comprise a significant portion of SCE's work currently, and worker safety directly translates to high quality and timely implementation of these initiatives.

With this background as the context for its work, SCE uses the following performance metrics for the Worker Safety success measure:

- **EEI SIF Rate (outcome-based metric)** - Edison Electric Institute (EEI) serious injury and fatality (SIF) rate measures the number of serious injuries and fatalities normalized by the actual hours worked. The definition of SIFs by EEI is standardized, which enables direct comparison and benchmarking with peer utilities that participate in EEI's survey. Reductions in the EEI SIF Rate contribute to improved employee safety through reductions in serious injuries and fatalities.
- **DART Injury Rate (outcome-based metric)** – Days Away, Restrictions, and Transfers (DART) injury rate is a measurement to describe the number of recordable injuries and illnesses per 100 full-time employees that resulted in days away from work, restricted work activity, and/or job transfer. DART is also a standardized metric that enables comparison with other companies. Reductions in the DART rate contribute to improved

safety through reductions in injuries and illnesses that impact an employee's ability to perform their job.

- **Enhance Worker Safety Programs (input/activity-based metric)** – measures efforts to implement safety mitigations using a risk-based program that systematically and proactively prioritizes, assess, and reduces safety risks using a variety of approaches. Milestones within this metric are expected to improve worker safety through reduced injuries and fatalities associated with safety risks prioritized by this program.

**Safety & Resiliency Goal—Public Safety:** SCE's infrastructure is located throughout our communities and the public is often physically close to our infrastructure and work sites. Equipment or structure failure or lack of proper precautions at work sites can lead to public injuries. Reducing the risk of injuries to the public is an integral part of delivering safe and reliable service. Public awareness and education regarding the hazards around electrical infrastructure, such as what to do or not do when someone sees a wire down or taking appropriate precautions when working in close proximity to overhead lines, is a key component of keeping the public safe. In addition, based on safety risk analysis, SCE has identified that overhead conductor failures represent a key risk for potential public injury associated with utility infrastructure. Failure of overhead lines can lead to energized wire-down conditions, which can be partly mitigated by replacing smaller conductor prone to failure under fault conditions and vegetation clearing.

With this background as the context for its work, SCE uses the following performance metrics within the Public Safety success measure:

- **Improve public awareness of safety around electric lines and equipment as measured by awareness survey results and key outreach activities performed (input/activity-based metric)** – metric measures efforts to increase awareness for how to stay safe around electricity and electric equipment among the general public, property owners with trees near power lines, and at-risk workers (e.g., tree workers). Improvements in public awareness are expected to improve public safety through reduced injuries or fatalities associated with individuals coming into contact with energized power lines and equipment.
- **Overhead Conductor Program (input/activity-based metric)** – metric measures the quantity of overhead distribution conductor replaced that is susceptible to wire-down events during fault conditions. This program improves public safety by mitigating the public's contact with downed overhead lines. Small conductors that are more prone to failure due to fatigue from cumulative mechanical stress and/or damage from electrical faults they have experienced during their service life are replaced. The scope of the Overhead Conductor Program spans all of SCE's distribution grid, including areas within and outside of SCE's HFRA. Conductor replaced within SCE's HFRA utilize covered conductor versus bare conductor (see Covered Conductor below).
- **Vegetation Line Clearing (input/activity-based metric)** – metric measures the timely completion of planned trimming of vegetation near power lines across SCE's service area. The timely completion of vegetation trimming is expected to improve both public safety and provide wildfire mitigation by reducing the likelihood of contact between vegetation and energized power lines, which can lead to downed wires that are energized and/or the release of energy that can lead to ignitions.

**Safety & Resiliency Goal—Wildfire Resiliency:** This success measure addresses a key public safety risk. It encompasses deployment of SCE's WMP, which includes infrastructure hardening, vegetation management, and detailed inspections and remediations. SCE's WMP also emphasizes targeted use of Public Safety Power Shutoff and focuses on continuing improvement of this effective tool and of efforts to mitigate customer impacts.

With this background as the context for its work, SCE uses the following performance metrics for the Wildfire Resiliency success measure:

- **CPUC Reportable Ignitions in High Fire Risk Areas (outcome-based metric)** – See discussion on pages 7-8.
- **Public Safety Power Shutoff (outcome-based metric)** – metric measures the average time taken to safely restore a circuit de-energized by a Public Safety Power Shutoff after the high-risk fire weather conditions have subsided. Minimizing the restoration time following a PSPS event improves public safety by reducing the duration of customer power outages.
- **Covered Conductor (input/activity-based metric)** – metric measures the quantity of covered conductor installed within SCE’s HFRA under the Wildfire Covered Conductor Program as well as other programs that install covered conductor in HFRA (see Overhead Conductor Program above). The installation of covered conductor improves public safety by mitigating ignitions that might result from faults associated with overhead lines with bare conductor. Covered conductor also improves public safety by mitigating the public’s contact with downed energized overhead lines. Small conductors that are more prone to failure due to fatigue from cumulative mechanical stress and/or damage from electrical faults they have experienced during their service life are also replaced. Additionally, the conductor’s covering offers improved safety protection for the public in the limited cases of high impedance faults, as tests and studies have demonstrated that incidental contacts with energized conductor that is covered do not result in injuries.
- **Overhead Inspections and Remediations (input/activity-based metric)** – metric measures the completion of ground- and aerial-based inspections of overhead infrastructure in SCE’s HFRA as well as the remediation of associated findings. This activity improves wildfire resiliency and public safety by identifying and remediating conditions that could lead to ignitions or equipment failure that could result in the public’s contact with energized equipment.
- **Hazard Tree and Drought Relief Removal (input/activity-based metric)** – metric measures the completion of the assessment and the timely remediation of trees identified for removal through SCE’s Hazard Tree Management Program and Drought Relief Initiative that are within the utility strike zone (e.g., trees taller than they are closer) of overhead lines in HFRA. This activity improves wildfire resiliency and public safety by identifying and remediating trees that could fall into overhead lines and lead to ignitions or other conditions that could result in the public’s contact with energized equipment.

**Safety & Resiliency Goal—Cybersecurity:** It is imperative to maintain effective control of the grid and mitigate the possibility for bad actors to cause disruptions and unsafe situations. Given the increasing number and sophistication of cyberattacks, cybersecurity is a key component of providing safe service to our customers. Cybersecurity also aims to prevent data breaches which might put confidential information about our customers in malicious hands and expose them to unsafe situations.

With this background as the context for its work, SCE uses the following performance metrics for the Cybersecurity success measure:

- **Execute Cybersecurity Improvements (input/activity-based metric)** – metric measures the execution of cybersecurity improvements to mitigate risk of compromise of SCE systems. This activity is expected to improve public safety by ensuring cyber threats do not compromise the reliable delivery of electricity to SCE’s customers.

- **Mature Enterprise Wide Phishing Program (input/activity-based metric)** – metric measures the click rate of workers that have been sent a simulated email phish. This activity is expected to improve public safety by continuing a focus on employee training and attentiveness to cyber threats, thus ensuring cyber threats do not compromise the reliable delivery of electricity to SCE’s customers.

**Safety & Resiliency Goal—Safety and Resiliency Capabilities (input/activity-based metric):** This success measure addresses the advancement of foundational capabilities in operations to support improvements in safety and resiliency. Having robust systems in place to maintain the quality of electric asset data and business records supports SCE’s ability to utilize accurate information for operational activities and safety mitigations. Errors in these types of data and records can lead to sub-optimal targeting of activities intended to mitigate public and worker safety risks. Additionally, having the right tools to inspect and perform work on SCE’s infrastructure can improve the timeliness, accuracy, and speed of deployment of activities that improve public safety.

With this background as the context for its work, SCE uses the following performance metrics for the Safety and Resiliency Capabilities success measure:

- **Electric Asset Data (input/activity-based metric)** – metric measures efforts to improve data quality associated with SCE’s poles and wires. Inaccurate or incomplete data can cause errors that can create public safety risks. For instance, if two poles have duplicate identification tag numbers, the incorrect one could be inadvertently be inspected or repaired, which could result in the other pole failing and creating a public safety risk. This activity is expected to improve public safety by mitigating those types of scenarios by improving asset data quality.
- **Critical Business Records (input/activity-based metric)** – metric measures efforts to improve the management of Critical Business Records by completing a risk analysis of various record types and implementing management plans used to manage the quality of high-risk records. SCE defines its Critical Business Records as those that, if mismanaged, has the potential for a significant negative impact associated with, among others, public or worker safety. Improving SCE’s capability to manage these records is thereby expected to improve public and worker safety.
- **Field and Work Management Tools (input/activity-based metric)** – metric measures efforts to advance digital tools used for inspections and vegetation management field activities to increase efficiency, simplify workflows, drive work quality, and improve information captured. These tools are expected to improve public safety by increasing the quality of inspections and vegetation management activities, which, as discussed previously, mitigate risks associated with wildfires and wire-down events. Improvements in information captured can improve the robustness of data that could improve targeting of mitigations. Increases in efficiency can enable SCE to speed the deployment of mitigations, which can result in reduction of public safety risks sooner.

**Safety & Resiliency Goal—Contractor Management (input/activity-based metric):** measures efforts to improve contractor safety oversight and accountability, increasing collaboration with contractors and subcontractors to improve safety culture and more effectively manage risk. Activities within this metric focus on strengthening contractor management controls (e.g., clearer performance thresholds/triggers for corrective actions), embedding additional quality control reviews within contractor work, and advancing training and certification verification at the worker level.. Improvements across these areas are expected to increase

worker safety through reduced serious injuries and fatalities with SCE contractors and subcontractors.

**Operational Excellence & Strategy Goal—Reliability (outcome-based metric):** Reliability and safety go hand in hand. For example, helping assure reliable service means safe operations of medical equipment at homes and hospitals, and public safety related items such as traffic signals and street lighting. In addition, reliability means fewer outages, and outages can lead to ignitions or other public safety hazards. This metric measures System Average Interruption Duration Index (SAIDI).

**Operational Excellence & Strategy Goal—Capital Deployment (input/activity-based metric):** This goal is associated with implementing our overall plan to maintain and update our grid to serve our customers. A significant portion of the capital deployment plan is associated with wildfire mitigation and resiliency and other safety related work. In addition, reliability programs such as infrastructure replacement, load growth, preventive and breakdown maintenance, and safety are inextricably associated with reliability given the importance of electricity in our customer's lives at home, at work and in public places.

**Operational Excellence & Strategy Goal—Policy (input/activity-based metric):** This goal is associated with pursuit of policies that best position SCE to mitigate the risk of wildfires, as well as pursue associated operations that enhance customer reliability, safe operations, and accomplishment of the State's climate goals. The subcomponents of this goal address implementation of wildfire policies (including WMP and Safety Certification), as well as support for SCE's General Rate Case, and Clean Energy and Electrification Pathway. Each of these is addressed briefly below.

- First, support for coordinated and informed wildfire policies directly helps develop and support WMP programs necessary to perform the activities which will mitigate the risk of wildfires. Given the State's focus on wildfire issues, policies need to be coordinated across agencies and jurisdictions in order to effectively move goals forward. Additionally, wildfire-related policy work includes receiving cost recovery authorization so that SCE can deploy capital and resources to get necessary work done for wildfire resilience, safety, reliability and other activities, while doing so in an affordable manner. The funding authorization also enables us to undertake key safety activities such as training and customer outreach.
- Second, similar to the Capital Deployment objective, a well-supported General Rate Case (with a heavy focus on wildfire mitigation and infrastructure reliability) and securing approval of cost recovery for wildfire objectives in Wildfire Expense Memorandum Account (WEMA) and Catastrophic Event Memorandum Account (CEMA) are critical to the ongoing effort to enhance public safety and reduce the risk of ignition that could result in catastrophic wildfires.
- Third, SCE has a keen focus on wildfire mitigation and in the near-term has made choices, as outlined in SCE's General Rate Case application, to focus resources on the implementation of its WMP. However, the longer-term objective of reducing greenhouse gas emissions is critical in order to mitigate in a more permanent manner the impacts of climate change which drive catastrophic wildfires. Further, the clean energy future that is embedded in state legislation and is a cornerstone to the company's efforts, improves the overall health and well-being of our communities. Thus, the success measure related to clean energy policy aligns with a safety focus.

**Operational Excellence & Strategy Goal—Diversity, Equity & Inclusion:**

The focus of this goal is to continue to improve diversity of our workforce and supplier base and drive inclusion. The subcomponents of this goal involve implementation of a comprehensive Diversity, Equity and Inclusion (DEI) Plan.

- **Diversity, Equity and Inclusion (DEI) Plan(input/activity-based metric):** This goal pursues different viewpoints and skills that help identify issues and new solutions in all aspects of our business, including how we approach worker safety, public safety and electrical infrastructure safety. It also provides that SCE will do its part in the community through programs such as helping diverse businesses, philanthropy, and inclusive hiring. This goal consists of the ten internal and external actions listed on pages 15 and 18 of the company’s August 2020 Diversity, Equity and Inclusion report, which is available at the following link:  
[https://energized.edison.com/gallery/get\\_file/?file\\_id=5f4541ce2cfac21437a9ff80&ir=1&file\\_ext=.pdf](https://energized.edison.com/gallery/get_file/?file_id=5f4541ce2cfac21437a9ff80&ir=1&file_ext=.pdf)
- **Diverse Business Enterprise (outcome-based metric)** – This component of the goal focuses on managing our supplier spend to achieve forecast diverse business enterprise levels.

**Operational Excellence & Strategy Goal—Customer Service Re-platform (input/activity-based metric):** This goal is not tied to safety, but it is important for providing good service to SCE’s customers. The goal focus is on timely completion of CSRP implementation and stabilization milestones in line with plan and within budget.

**Operational Excellence & Strategy Goal—San Onofre Nuclear Generation Station (SONGS) Decommissioning (input/activity-based metric):** This goal contributes to worker safety by ensuring the ongoing decommissioning is performed in a safe and effective manner.

**g. Annual Incentive Award Deductions for Safety Performance Since 2016**

The WSD Guidance requires examples of incentive compensation reduced or withheld in the last 5 years as a result of failure to meet safety metrics. The table below meets this requirement by summarizing SCE’s annual incentive award deductions for safety performance since 2016.

Plan Year	Total Deduction for Executive Officers Due to Unmet Safety, Wildfire Resiliency, and/or Foundational Goals	Summary of Unmet Safety, Wildfire Resiliency, and/or Foundational Goals
2020	To be determined at February 24, 2021 Compensation Committee meeting	To be determined at February 24, 2021 Compensation Committee meeting
2019	14-point deduction <sup>2</sup>	Three contractor fatalities; transformer failure that seriously burned a member of the public; Days Away, Restrictions, and Transfers (DART) injury rate worse than target
2018	Annual incentive <i>completely eliminated</i> for SCE CEO and for SCE President; <sup>3</sup> 20-point deduction for other Executive Officers <sup>4</sup>	Impact of wildfires on communities within SCE's service territory; fatalities of (i) two contractors and (ii) a private tree trimmer who came in contact with a power line; DART injury rate worse than target
2017	17-point deduction <sup>5</sup>	Fatality and a serious injury occurred when members of the public came in contact with downed power wires in separate incidents; DART injury rate worse than target
2016	10-point deduction <sup>6</sup>	Four worker fatalities; DART injury rate worse than target

#### h. Long-Term Incentive Awards

***Pub. Util. Code §8389(e) reflects the importance of promoting utility financial stability, which is needed to ensure efficient capital market access and cost of capital, and for affordable customer rates. The company's long-term incentive awards are tied to the interests of all stakeholders by emphasizing strong long-term financial stability and performance.***

The WSD Guidance requests an explanation of long-term incentive pay, a description of all incentive metrics, and weighting of safety concerns and financial performance. This section addresses those aspects of the WSD Guidance.

All of the company's long-term incentives (LTI) are awarded as equity instruments reflecting, or valued by reference to, EIX Common Stock. Seventy-five percent (75%) of the long-term equity mix is tied to outcome-based performance metrics: 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. Stock options are performance-based because executives will realize value only if the market value of EIX Common Stock appreciates after the options are granted. Performance shares use two metrics, with each metric weighted 50%: relative total shareholder return of EIX Common Stock over a three-year performance period compared to

<sup>2</sup> The 14-point deduction was comprised of: 10-point deduction to company modifier due to unmet foundational goals; Safety portion of Operational & Service Excellence goal category was scored 4 points below target due to DART injury rate.

<sup>3</sup> In light of the impact of wildfires on communities within SCE's service area, the Compensation Committee decided, in consultation with management and with its full support and agreement, that no annual incentive award would be paid for 2018 to the SCE CEO or the SCE President. This action was not a reflection on the performance of SCE or these officers.

<sup>4</sup> The 20-point deduction was comprised of: 5-point deduction to Safety portion of Operational & Service Excellence goal category due to DART injury rate; 5-point deduction to overall company modifier due to unmet foundational goal; 10-point deduction to individual performance modifier due to unmet foundational goal.

<sup>5</sup> The 17-point deduction was comprised of: 7-point deduction to Safety goal category due to DART injury rate; 10-point deduction to individual performance modifier due to unmet foundational goal.

<sup>6</sup> The target score for the Safety goal category was 10 points. The worker fatalities and the DART injury rate were independent bases to score zero points for the category (i.e., either by itself would have resulted in a score of zero).

other companies in the Philadelphia Utility Index; and three-year average annual core earnings per share, measured against target levels.

The remaining 25% of LTI is awarded as restricted stock units subject to a three-year cliff vesting requirement. Performance shares are subject to a three-year performance based-vesting requirement. Stock options vest in approximately equal installments over a period of four years. The company also has an LTI holding requirement. Executive Officers must continue to hold shares obtained from LTI to the extent necessary to meet the stock ownership requirement of up to three-times base salary, depending on the Executive Officer's position.

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:

- ▶ 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.
- ▶ 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.

In addition, although the company's LTI awards have a 100% weighting for financial and stock performance, the LTI awards also provide a strong incentive to safely manage operations to increase the value of those awards. Wildfires, for example, can result in significant decreases in both stock price and the value of LTI awards. For example, as of the end of 2018, after the Thomas and Woolsey fires, top officers had lost an average of 31% of the value of their stock option grants, 12% of the value of restricted stock units and 48% of the value of performance shares when measured against the original value of those grants awarded over a number of years. The performance share payout in early 2020 provides another example of the impact of safety performance on LTI. As a result of the impact of the wildfires on the share price, the value of the performance share payout was only 62.3% of the target, a significant reduction particularly when considered in conjunction with the impacts on the safety components of the annual incentives and the Compensation Committee's decision to eliminate annual incentives for both the SCE CEO and the SCE President. This type of loss provides a strong incentive for risk mitigation and safety improvements and focuses executives' efforts on the long-term interests of the company and its stakeholders. We feel that this long-term view is an imperative, which is why we have continued to offer long-term incentives even though the CPUC has traditionally disallowed customer funding of that compensation element.

#### **i. Pay Mix for Executive Officers**

The WSD Guidance requests that SCE provide for each component of executive compensation—base pay, annual incentives, and long-term incentives—that component's percentage of overall compensation. SCE will not have that information for 2021 compensation until the Compensation Committee determine the 2021 pay mix for each Executive Officer at its

February 24, 2021 meeting. The table below sets forth the annualized pay mix that was in effect at year-end 2020.

Position	% of Target 2020 Total Direct Compensation*		
	Base Pay	Target Annual Incentive Award	Target Long-Term Incentive Award
President and CEO	23.42%	17.56%	59.02%
EVP, Operations	35.59%	21.35%	43.06%
SVP and Chief Financial Officer	40.82%	22.45%	36.73%
SVP and General Counsel	40.00%	22.00%	38.00%
SVP, Customer Service	43.01%	21.51%	35.48%
SVP, Transmission & Distribution	39.25%	21.59%	39.16%

\* The percentages shown are for SCE's Executive Officers as of December 2020 and reflect their compensation at that time on an annualized basis.

**j. Risk Considerations**

***SCE's compensation policies have been designed to discourage inappropriate risk-taking, which further supports stability as emphasized by Pub. Util. Code §8389(e) and helps ensure long-term viability and financial strength needed to effectively execute plans needed to support customer needs and California's policy objectives.***

SCE's executive compensation policy directs that our total compensation structure should not encourage inappropriate or excessive risk-taking. The Compensation Committee (which as noted above is comprised solely of independent Board members) takes risk into consideration when reviewing and approving executive compensation.

In concluding that the current executive compensation program does not encourage inappropriate or excessive risk-taking, the Compensation Committee notes 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 up to three times their base salary and prohibit sales of company

stock acquired from long-term incentive awards if the required ownership level has not been achieved;

- ▶ All Board members 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.

### III. Review of Assigned Commissioner Ruling, Proposal 9

The WSD has encouraged SCE to review and consider adopting the executive compensation requirements that apply to PG&E pursuant to the final decision approving PG&E’s reorganization plan (D.20-05-053), which obligated PG&E to comply with the requirements proposed in Assigned Commission Ruling Executive Compensation Proposal 9 (ACR-9). SCE has reviewed these executive compensation requirements for PG&E. As explained in the table below, most of the ACR-9 requirements substantially track SCE’s executive compensation program. To the extent that SCE’s executive compensation program differs from the ACR-9 requirements for PG&E, the features of SCE’s program reflect the judgment of SCE’s independent Compensation Committee, with input from the Compensation Committee’s independent compensation consultant. The Compensation Committee’s exercise of judgment was made in the long-term interests of SCE and its stakeholders, promotes safety as a priority, and helps ensure public safety and utility financial stability.

ACR-9 Requirement for PG&E	SCE Comment
Publicly disclosed compensation arrangements for executives.	As part of its annual report pursuant to General Order No. 77-M, SCE publicly discloses compensation for executives with base salaries of at least \$250,000.
Written compensation agreements for executives.	As explained above in the “Base Salary and Employment Contracts” section, SCE does not have employment contracts because they benefit the executive more than the company or its stakeholders.
Guaranteed cash compensation as a percentage of total compensation that does not exceed industry norms.	SCE does not provide guaranteed cash compensation. As explained above in the “Role of Compensation Committee” section, SCE executives’ base salaries are reviewed each year and are generally within a competitive range of +/-15% around the market median for the position, which aligns with best practices according to Pay Governance, the independent compensation consultant for the Compensation Committee.

<p>Holding or deferring the majority or super-majority of incentive compensation, in form of equity awards, for at least 3 years.</p>	<p>SCE’s long-term incentive program is aligned with this concept. Our 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; and stock ownership requirements for officers require significant equity holdings to be maintained and limit sales of stock.</p>
<p>Basing a significant component of long-term incentive compensation on safety performance, as measured by a relevant subset of by [sic] the Safety and Operational Metrics to be developed, as well as customer satisfaction, engagement, and welfare. The remaining portion may be based on financial performance or other considerations.</p>	<p>As discussed in “Long-Term Incentive Awards” above, the financial performance metrics the company uses for its long-term incentives focus executives on the long-term interests of the company and its stakeholders, including risk mitigation, safety improvements, and customer interests.</p>
<p>Annual review of awards by an independent consultant.</p>	<p>Pay Governance reviews the annual awards granted to Executive Officers and Other Senior Officers.</p>
<p>Annual reporting of awards to the CPUC through a Tier 1 Advice Letter compliance filing.</p>	<p>As part of its annual report pursuant to General Order No. 77-M, SCE publicly discloses compensation for executives with base salaries of at least \$250,000, including awards to those executives.</p>
<p>A presumption that a material portion of executive incentive compensation shall be withheld if PG&amp;E is the ignition source of a catastrophic wildfire, unless the Commission determines that it would be inappropriate based on the conduct of the utility.</p>	<p>The Compensation Committee has discretion to reduce or eliminate an annual incentive award in the event of a significant lapse in safety or compliance, including if SCE is the ignition source of a catastrophic wildfire. The Compensation Committee exercised this discretion to eliminate bonuses for 2018 for certain Executive Officers in light of the impact of wildfires on SCE’s service area. SCE does not believe it would be prudent for the company to implement the presumption that is required for PG&amp;E because (i) the Compensation Committee has proven that it will materially reduce Executive Officer compensation when advisable and (ii) implementing such a presumption would unnecessarily make positions at SCE less attractive for recruitment purposes, especially when compared to compensation packages from the companies and industries where we recruit (including utilities other than PG&amp;E and Sempra’s utilities).</p>

<p>Executive officer compensation policies will include provisions that allow for restrictions, limitations, and cancellations of severance payments in the event of any felony criminal conviction related to public health and safety or financial misconduct by the reorganized PG&amp;E, for executive officers serving at the time of the underlying conduct that led to the conviction. Implementation of this policy should take into account PG&amp;E's need to attract and retain highly qualified executive officers.</p>	<p>The company's executive severance plan allows the company to cancel severance benefits and require repayment of severance payments already made, in the event of malfeasance by an executive during employment that constitutes "Cause" as defined in the plan and that the company learns about after entering into a severance agreement with the executive. The company also has a clawback policy that allows recoupment of excess incentive compensation from certain senior executives if the company restates its financial statements. SCE does not believe it would be prudent for the company to implement the severance provisions from ACR-9 because (i) the Compensation Committee has implemented clawback provisions where it believes advisable and (ii) implementing these severance provisions would unnecessarily make positions at SCE less attractive for recruitment purposes, especially when compared to compensation packages from the companies and industries where we recruit (including utilities other than PG&amp;E and Sempra's utilities).</p>
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