Christopher M. Lyons
Managing Attorney
San Diego Gas & Electric Company
8330 Century Park Court, CP32D
San Diego, CA 92123
Tel: 858-654-1559
Fax: 619-699-5027
clyons@sdge.com

February 5, 2021

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

Re: SDG&E's Response to the Comments on Its 2021 Executive Compensation Submission

Dear Director Jacobs,

In accordance with the procedures set forth in your December 22, 2020 Guidance Document, San Diego Gas & Electric Company ("SDG&E") submitted documentation of its compliance with the executive compensation provisions of Public Utilities Code § 8389(e) via a letter dated January 15, 2021 ("January 15 Submission"). On January 29, 2021, two parties submitted comments on SDG&E's January 15 Submission – the Public Advocates Office of the California Public Utilities Commission ("Public Advocates Office") and The Utility Reform Network ("TURN"). As discussed in this response, neither the Public Advocates Office nor TURN present any valid basis for altering or, per TURN's more extreme argument, rejecting SDG&E's 2021 executive compensation structure. SDG&E thus requests that the Wildfire Safety Division ("WSD") find that the January 15 Submission meets the requirements of Public Utilities Code § 8389(e).

RESPONSE TO PUBLIC ADVOCATES OFFICE'S COMMENTS

The Public Advocates Office submitted both general recommendations, as well as recommendations specific to each of the large investor-owned utilities ("IOU"). The Public Advocates Office's general recommendations to WSD include (1) retain a consultant to report on compensation best practices; (2) require IOUs to provide historical data underlying their targets; and (3) assess whether the utilities' proposed metrics incentivize utilities to de-energize only when warranted by weather conditions and utility asset conditions.[1] SDG&E does not oppose the Public Advocates Office's recommendation that WSD retain a consultant. With respect to requiring IOUs to provide historical data underlying their targets, SDG&E does not necessarily oppose this recommendation, but SDG&E also does not see the benefit of providing this information.

[1] Public Advocates Office Comments, pp. 4-5.

Per Public Utilities Code § 8389, WSD's authority to review IOU executive compensation began in 2020, and the effectiveness of targets or metrics should be assessed going forward from that point in time. Lastly, the Public Advocates Office's recommendation to require metrics that incentivize de-energization only when warranted seems unnecessary, and it is not clear from their comments what such metric would look like. As the Public Advocates Office notes, SDG&E already has performance metrics related to de-energization. And SDG&E already initiates de-energization events only when warranted by weather conditions and utility asset conditions. SDG&E would, however, consider a specific metric proposed by the Public Advocates Office in the future.

In its more utility-specific comments, the Public Advocates Office recommends that WSD (1) direct SDG&E to consider expanding its "Average Days for Tier 3 Level 1 Corrections" to encompass High-Fire Threat District (HFTD) Tier 2; and (2) 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.[2] SDG&E deems it appropriate to specify HFTD Tier 3 for its Level 1 corrections metric because that is the area with the highest risk. The SAIDI metric does, as the Public Advocates Office suggests, have a reliability component, but it also relates to safety – SAIDI generally represents unplanned and unannounced outages – which can create an even greater impact to customers than a PSPS outage which is communicated as a risk many hours before the occurrence enabling customers to prepare. Ultimately, however, SDG&E does not strongly dispute the Public Advocates Office's specific comments and would be willing to consider them in the future.

<u>RESPONSE TO TURN COMMENTS</u>

Like the Public Advocates Office, TURN raises both general concerns and concerns specific to each IOU. TURN's overarching general concern focuses upon the WSD's process for stakeholder comments, discovery and participation in the 2021 executive compensation review is insufficient. In particular, TURN faults WSD for not initiating a more elaborate stakeholder input and review process. In that regard, TURN asserts that "there is no compelling reason that stakeholder review is required to occur on the accelerated timeframe" established by WSD.[3]

SDG&E strongly opposes TURN's suggestion that WSD review of the 2021 executive compensation submissions should be delayed or held in abeyance while further stakeholder processes are developed. TURN fails to recognize that SDG&E (and the other IOUs) have annual processes for developing and obtaining management and Board of Directors' approval of annual executive compensation structures. For instance, as noted in SDG&E's January 15 Submission, its Board of Directors is set to review and approve SDG&E's 2021 executive incentive compensation plan on February 11, 2021,

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[2] Public Advocates Office Comments, pp. 9-10.
[3] *See, e.g.*, TURN Comments, p. 6.

similar to the timeframe that was in place in 2020 (and years prior). Delaying SDG&E's executive incentive compensation plan approval while further stakeholder procedures are developed would mean that the plan would not be in effect throughout 2021, and SDG&E would not have the time to take the steps, perform the work or otherwise act in a way that can be measured for purposes of evaluating performance relative to executive compensation plan metrics. Delaying implementation of safety metrics, for instance, would not promote safety outcomes. Accordingly, to the extent WSD deems that further procedures are appropriate, even though the statute does not require such further procedures, SDG&E recommends that those procedures apply to 2022 IOU executive compensation structures.

TURN also fails to provide any substantive basis for rejecting SDG&E's January 15 submission. First, TURN cites SDG&E's statement that the "results for the 2020 Executive Compensation Plan have not been finalized"[4] as grounds for its criticism that "SDG&E only provides a look at historical numbers"[5] in its January 15 submission. TURN omits, however, to provide context for SDG&E's statement. The "results for 2020" that SDG&E lacked solely concerned examples in which performance goals were not met and executive compensation was thus withheld or reduced.[6] The requirement to provide such examples is not a statutory requirement; rather it derives from WSD's January 17, 2020 guidance. But in any event, SDG&E did provide five years worth of data of such instances (2014-19), and the fact that 2020 data was not available for inclusion in the January 15 Submission does not justify rejecting SDG&E's entire executive incentive compensation structure.

SDG&E's January 15 Submission also did not include the metrics (minimum, target, maximum) upon which its executive incentive compensation goals will be assessed. SDG&E noted that these metrics will be provided following Board approval on February 11, 2021.[7] But this is not a deficiency on SDG&E's part, nor does it justify rejection of the entire executive incentive compensation structure. Rather, it results from the timing and review process that WSD has utilized.

TURN also complains about the fact that SDG&E's Board of Directors has discretion in determining executives' individual safety performance and claims that SDG&E did not "provide information on the guidance for, or limits of this discretion."[8] But SDG&E's performance goal definitions did in fact provide such guidance or limits, specifying that

> The Individual Safety Performance Component is determined by the officer's contribution to:
> • championing safety culture;

[4] January 15 Submission, p. 8.
[5] TURN Comments, p. 8.
[6] January 15 Submission, p. 8.
[7] *Id.*, p. 7.
[8] TURN Comments, p. 8.

• contribution to safety initiatives;
• achievement of Safety Barometer Survey action planning;
• contribution to key safety programs including: Executive Safety Council, Employee Safety Congress, Contractor Safety Congress, Employee Safety Committees.[9]

Further, it is fully appropriate for a Board of Directors to exercise discretion over the safety performance of individual executive officers since not every action or inaction related to safety performance can be predicted in advance.

Next, TURN takes issue with the fact that SDG&E's safety goals include a combination of both input-based (*e.g.*, leading indicators) and output-based (e.g., lagging indicators).[10] SDG&E submits that such a combination appropriately incentivizes different kinds of safety actions or outcomes. Nothing in the statute or WSD's guidance requires a particular mix, or that one type of indicator be exclusively used.

Lastly, TURN criticizes the fact that SDG&E's executive compensation structure includes long-term incentive awards that are granted in the form of Sempra Energy Company stock.[11] After making this observation, TURN argues that "stock prices are not directly linked to safety performance" and that SDG&E is paying "significant incentives using a tool that fails to adequately prioritize company safety."[12] TURN provides no basis for these factual assertions, but the performance of California IOU stock prices following significant safety events – such as the 2017 and 2018 wildfires – as well as PG&E's 2019 bankruptcy, would seem to suggest the opposite is true.

Accordingly, SDG&E requests that WSD find that the January 15 Submission complies with the requirements of Public Utilities Code § 8389(e). Please contact me if you have questions regarding this response.

Respectfully submitted,

/s/ Christopher M. Lyons
Attorney for San Diego Gas & Electric Company

cc: R.18-10-007 Service List

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9 *See* January 15 Submission, Appendix I, p. 6.
10 TURN Comments, p. 9.
11 *Id*.
12 *Id*.