

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298



June 30, 2020

Dan Skopec  
San Diego Gas & Electric Company  
8330 Century Park Court  
San Diego, CA 92123-1548

**SUBJECT: Wildfire Safety Division Action Approving San Diego Gas & Electric Company's  
2020 Executive Compensation Program Pursuant to Public Utilities Code §§  
8389(e)(4) and (e)(6)**

Dear Mr. Skopec:

This action approves San Diego Gas & Electric Company's (SDG&E) current executive compensation program as one component of the process for qualifying the utility for a 2020 Safety Certification. The Wildfire Safety Division (WSD) finds that SDG&E's executive compensation program minimally and conditionally satisfies the requirements of Pub. Util. Code §8389 (e)(4) and §8389(e)(6). The WSD will initiate a stakeholder process to further develop its executive compensation review criteria for use in 2021 executive compensation evaluations shortly after issuance of this action.<sup>1</sup>

On January 17, 2020, the WSD notified SDG&E that Public Utilities Code (Pub. Util. Code) §8389 (e)(4) requires that each electrical corporation demonstrates that its executive compensation structure promotes safety as a priority and ensures utility financial stability with performance metrics, including incentive compensation based on meeting performance metrics that are measurable and enforceable, for all executive officers, as defined in Pub. Util. Code §451.5. The WSD directed SDG&E to submit a formal request for approval of its executive compensation program to the WSD by January 27, 2020.

Pub. Util. Code §8389(e)(6)(A) further requires the following:

The electrical corporation has established a compensation structure for any new or amended contracts for executive officers, as defined in §451.5, that is based on the following principles:

<sup>1</sup> Because of the accelerated timing of Pacific Gas & Electric's (PG&E) Chapter 11 bankruptcy reorganization, the consideration of PG&E's executive compensation structures was addressed in Order Instituting Investigation 19-09-016. In Decision (D) 20-05-053, the Commission similarly found that PG&E's executive compensation plan minimally and conditionally satisfied the requirements but that further proceedings are necessary to refine future submittals.



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June 30, 2020

Page 2

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1. Strict limits on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics;
2. No guaranteed monetary incentives in the compensation structure;
3. It satisfies the compensation principles identified in §8389(e)(4);
4. A long-term structure that provides a significant portion of compensation, which may take the form of grants of the electrical corporation's stock, based on the electrical corporation's long-term performance and value. This compensation shall be held or deferred for a period of at least three years.
5. Minimization or elimination of indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest in the electrical corporation.

In addition to complying with all portions of the relevant Pub. Util. Code, the WSD required SDG&E to submit the following information:

- An explanation of executive compensation components, including base pay, annual bonus/incentive information, and long-term incentive pay, including percentages of overall compensation for each component;
- A description all metrics, including safety metrics, used to calculate incentive compensation, including an explanation of safety whether metrics are outcome or input based (e.g. number of ignitions versus number of miles of distribution lines inspected);
- A breakdown of the percentage of executive compensation based on safety metrics versus other metrics, e.g. financial performance;
- A description of how safety performance is calculated for incentive compensation; and,
- Examples of incentive compensation reduced or withheld in the last 5 years as a result of failure to meet safety metrics.

On January 27, 2020, SDG&E submitted its executive compensation structure for approval and explained how its structure complies with Pub. Util. Code § 8389(e)(4) and §8389 (e)(6).

On February 5, 2020, the California Environmental Justice Alliance (CEJA) and The Utility Reform Network (TURN) submitted comments on the utility program. On February 11, 2020, SDG&E subsequently responded to the comments, asserting that there was nothing in them necessitating rejection or modification of its executive compensation structure. On June 20, 2020, SDG&E responded to a data request from the WSD seeking information on targets for each component of its safety criteria.

Pursuant to its authority under Pub. Util. Code § 8389(e)(6)(B), the WSD has taken all of these submittals into consideration for its review of SDG&E's program, with particular regard to



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June 30, 2020

Page 3

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adherence to §8389(e)(4) and § 8389(e)(6), and the safety implications and financial stability of the compensation structures.

**Discussion:**

SDG&E provided an explanation of its executive compensation components, which includes base pay, variable pay, and long-term incentives. Under the variable pay plan, SDG&E explained that a substantial portion of executive pay is at-risk, that is, it is subject to the achievements of the plan's performance measures. Each year, the Safety Committee of the Board of Directors and the full Board review and approve the leadership team's proposed variable pay goals. SDG&E provided a description of metrics, including safety metrics, used to calculate incentive compensation. When variable pay performance goals are not met, variable pay is reduced or withheld. A greater portion of pay is tied to SDG&E's performance at higher levels of responsibility, which is granted under the Sempra Energy Long Term Incentive Plan in the form of performance-based restricted stock units and service-based restricted stock units.

Criticisms offered by CEJA and TURN were detailed, with an overarching critique that the utility's executive compensation program does not sufficiently place a priority on safety or ensure public safety. Financial performance metrics plays too large of a role and SDG&E's incentive goals are subjective and cannot be measured or enforced.

The WSD finds that these comments have merit, in particular SDG&E's reliance on program targets and variance across all utilities in the weighting of safety criteria versus financial performance as components of executive compensation structures. In the future, the WSD expects there to be a greater emphasis on compensation awards criteria directly tied to safety, based on enforceable metrics that measure safety outcomes.

The WSD further expects that utility executive compensation structures more closely align with measurable outcomes for safety improvements that are required for Wildfire Mitigation Plans (WMPs). Components of SDG&E's compensation awards evaluation rely on program targets rather than safety outcome targets. For example, SDG&E lists Overhead System Hardening (miles) and Underground System Hardening (miles) as performance metrics, without a clear nexus to actual wildfire safety mitigation outcomes.

The Commission has previously found that the effectiveness of wildfire mitigation activities contained in electrical corporations' WMPs could not be determined through the use of such program targets.<sup>2</sup> The WSD refined 2020 submission requirements to emphasize *progress*

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<sup>2</sup> In D.19-05-036, Findings of Fact and Conclusions of Law 4 & 5, pg. 40.



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**SUBJECT: Wildfire Safety Division Action Approving San Diego Gas & Electric Company's  
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June 30, 2020

Page 4

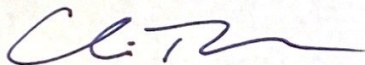
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*metrics* that track impacts on drivers of ignition probability, and *outcome metrics* that measure leading and lagging indicators of wildfire risk and consequences of wildfire mitigation work.<sup>3</sup>

The requirements set forth in the statute for the structure of an executive compensation program are detailed and complex, and more work needs to be done on aligning utility executive compensation metrics to those used in WMPs. Developing a robust executive compensation structure necessitates a more thorough public process than is currently achievable given the time constraints for approving the 2020 executive compensation programs.

Therefore, the WSD finds that SDG&E's executive compensation program minimally and conditionally satisfies the requirements of Pub. Util. Code §8389(e)(4) and § 8389(e)(6). The WSD will provide additional guidance in the form of a Staff Proposal and a schedule for a public input and review of the Staff Proposal to inform SDG&E's, and all other utilities', 2021 executive compensation structure structures. SDG&E will be expected to conform future executive compensation structures to the metrics and structure ultimately adopted by the WSD through the stakeholder process.

Sincerely,



Caroline Thomas Jacobs  
Director, Wildfire Safety Division  
California Public Utilities Commission

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<sup>3</sup> See WSD-002 Guidance Resolution on 2020 Wildfire Mitigation Plans, Pg. 12. Approved June 11, 2020.