PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

December 22, 2020

Subject: 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)

This document provides the Wildfire Safety Division's (WSD) guidance to electrical corporations submitting requests for approval of 2021 executive compensation plans as part of the electrical corporation's requirements for receipt of a safety certificate.

Background

Public Utilities Code (Pub. Util. Code) 8389(e)(4) requires that each electrical corporation obtain approval of its executive compensation structure from the California Public Utilities Commission's (CPUC) Wildfire Safety Division (WSD) as a component of receipt of the annual Safety Certification set forth in Pub. Util. Code 8389(e). The relevant portion of the code (Pub. Util. Code 8389(e)(4)) states:

> The electrical corporation has established an executive incentive compensation structure approved by the division and structured to promote safety as a priority and to ensure public safety and 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 Section 451.5.[1] This may including tying 100 percent of incentive compensation to safety performance and denying all incentive compensation in the event the electrical corporation causes a catastrophic wildfire that results in one or more fatalities.

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:

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.

[1] Pub. Util. Code 451.5(c): For purposes of this section, "executive officer" means any person who performs policy making functions and is employed by the public utility subject to the approval of the board of directors, and includes the president, secretary, treasurer, and any vice president in charge of a principal business unit, division, or function of the public utility.

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2020 Executive Compensation Guidance and Review

The WSD's 2020 executive compensation submission guidance[2] directed the electrical corporations to comply with all portions of the relevant Pub. Util. Code and include the following additional 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 of all metrics, including safety metrics, used to calculate incentive compensation, including an explanation of whether safety 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.

Pursuant to its authority under Pub. Util. Code 8389 (e)(6)(B), the WSD reviewed Southern California Edison Company's (SCE) and San Diego Gas & Electric Company's (SDG&E) 2020 submissions and found the executive compensation plans minimally and conditionally satisfied the requirements in Pub. Util. Code 8389(e)(4) and 8389(e)(6). The WSD outlined additional expectations for the two electrical corporations based on its review and input by stakeholders. The following is a compilation of the additional expectations issued to the electrical corporations:

- Compensation structures should more closely align with measurable outcomes for safety improvements that are required for Wildlife Mitigation Plans.
- 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.
- Compensation structures should appropriately weight safety concerns and financial performance.

Pacific Gas and Electric Company (PG&E) 2020 Executive Compensation Review and the Assigned Commissioner Ruling, Proposal 9 (Investigation 19-09-016)

On February 18, 2020, the Commission issued Decision (D.) 20-05-053 (the PG&E bankruptcy decision) that, among many other actions, minimally and conditionally approved PG&E's 2020 executive compensation program. Prior to issuance of the decision, the assigned Commissioner issued an Assigned Commissioner Ruling (ACR) that included Proposal 9 Executive Compensation in Appendix A. In D.20-05-053, the Commission adopted Proposal 9 to inform future PG&E executive compensation submissions, stating, "As a whole, the ACR Executive Compensation Proposal (9) will promote public accountability, independent review, and incentives that further the purposes of AB 1054, and should be adopted." (at page 93).

Proposal 9 states, in relevant part:

The proposals included in PG&E's executive compensation structure should consider both safety incentives and the need to attract and retain highly qualified executives to achieve transformation.

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PG&E's executive compensation plan should include at least the following components. Further, PG&E shall retain a nationally recognized independent consultant to help ensure its executive compensation plans meet the requirements of Assembly Bill 1054.

- Publicly disclosed compensation arrangements for executives;
- Written compensation agreements for executives;
- Guaranteed cash compensation as a percentage of total compensation that does not exceed industry norms.
- Holding or deferring the majority or super-majority of incentive compensation, in form of equity awards, for at least 3 years.
- Basing a significant component of long-term incentive compensation on safety performance, as measured by a relevant subset of by 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.
- Annual review of awards by an independent consultant.
- Annual reporting of awards to the CPUC through a Tier 1 advice letter compliance filing.
- A presumption that a material portion of executive incentive compensation shall be withheld if the PG&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.
- 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&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&E's need to attract and retain highly qualified executive officers.

The WSD's 2021 Executive Compensation Submission Guidance

The WSD provides the following guidance to inform the electrical corporations' 2021 executive compensation submissions:

- In addition to complying with all portions of the relevant Pub. Util. Code, executive compensation submission should include the additional elements set forth in the WSD's 2020 executive compensation guidance as well as the principles articulated in the WSD's approval of the SCE and SDG&E 2020 executive compensation programs.
- As per D.-20-05-053, the Commission has obligated PG&E to comply with the requirements of the ACR Executive Compensation Proposal 9. To the extent possible, PG&E should note in its submission how it is addressing the various additional requirements.
- Other electrical corporations are encouraged to review and consider adopting measures from the ACR Executive Compensation Proposal 9 in the spirit of transparency and furthering the purpose of AB 1054.

Submission of 2021 Executive Compensation Requests

By January 15, 2021, electrical corporations seeking a subsequent Safety Certification for 2021 pursuant to Pub. Util. Code 8389(e) must submit via letter to the Director of the WSD a formal request for approval of the electrical corporation's executive compensation structure at the following email address: wildfiresafetydivision@cpuc.ca.gov. In addition, the electrical corporation must serve its request on the service list of Rulemaking 18-10-007. The Division will post each electrical corporation's proposal letter and supporting documentation to the Division's website at www.cpuc.ca.gov/wsd.

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Comments on 2021 Executive Compensation Submissions

Interested stakeholders may submit comments on the utilities' executive compensation plans by close of business January 29, 2021 to the following email address: wildfiresafetydivision@cpuc.ca.gov. Electrical corporations may submit responses to comments by close of business February 5, 2021 to wildfiresafetydivision@cpuc.ca.gov. Both stakeholder comments and electrical corporation replies must be served on the service list to R.18-10-007. The Division will post all comments and reply comments to the Division's website at the following address: https://www.cpuc.ca.gov/wsd/.

WSD Review

For all electrical corporations seeking a subsequent safety certification in 2021, the Director of the WSD will review each electrical corporation's executive compensation structure for compliance with Pub. Util. Code 8389(e) and the requirements and principles set forth herein and will issue a letter of approval or denial. The WSD may also contact the electrical corporations for additional information or to request changes in advance of approval.

Sincerely,



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