



**OFFICE OF ENERGY INFRASTRUCTURE SAFETY**

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Caroline Thomas Jacobs, Director

July 28, 2022

Lisa Laanisto  
Director, Compensation  
Pacific Gas and Electric Company  
77 Beale Street  
San Francisco, CA 94105

**Subject: Office of Energy Infrastructure Safety Approval of Pacific Gas and Electric Company’s 2022 Executive Compensation Structure Pursuant to Public Utilities Code Section 8389(e)(4) and 2022 Executive Compensation Structure Submission Guidelines**

To Ms. Laanisto:

Pacific Gas and Electric Company (PG&E) submitted a request for approval of its 2022 Executive Compensation Structure on March 14, 2022.<sup>1</sup> On March 17, 2022, PG&E issued Revision 1<sup>2</sup> to its Executive Compensation Structure followed by Revision 2 on May 2, 2022.<sup>3</sup> This letter sets forth the approval of PG&E’s 2022 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that PG&E’s Executive Compensation Structure satisfies the requirements of Public Utilities Code section 8389(e)(4) and was submitted in accordance with the 2022 Executive Compensation Structure Submission Guidelines (2022 Guidelines).

**Background**

Public Utilities Code section 8389(e)(4) requires an electrical corporation’s executive compensation structure be approved by Energy Safety 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

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<sup>1</sup> PG&E’s 2022 Executive Compensation Structure Submission— Initial Submittal:  
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52168&shareable=true>.

<sup>2</sup> PG&E’s 2022 Executive Compensation Structure Submission – First Revision:  
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52186&shareable=true>.  
PG&E resubmitted to update Table 2.1, Table 3a.2, and a typographical error.

<sup>3</sup> PG&E’s 2022 Executive Compensation Structure Submission – Second Revision:  
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52396&shareable=true>.  
PG&E resubmitted after determining that its cover letter and the accompanying executive compensation submission contained data errors.

and enforceable, for all executive officers..." Public Utilities Code section 8389(e)(6)(A) further imposes requirements regarding an electrical corporation's "compensation structure for any new or amended contracts for executive officers..." including strict limits on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics.

California Public Utilities Commission (CPUC) Decision (D.) 20-05-053 requires PG&E to comply with the requirements of Assigned Commission Ruling (ACR) Executive Compensation Proposal 9.<sup>4</sup> The guidance letter encourages other electrical corporations to review and consider adopting the measures from ACR Executive Compensation Proposal 9 in the spirit of transparency and furthering the purpose of Assembly Bill 1054.<sup>5</sup>

### **Energy Safety's 2022 Executive Compensation Structure Guidelines**

On February 14, 2022, Energy Safety published the 2022 Guidelines. This document provides direction to electrical corporations submitting executive compensation structures for approval as part of the electrical corporation's request for a safety certification.<sup>6</sup>

The 2022 Guidelines set out new and standardized information requirements associated with the electrical corporation's 2022 executive compensation submissions, including the following:<sup>7</sup>

- **Section 1 Incentive Compensation Components:** Details of the electrical corporation's executive officers subject to the executive compensation filing requirements, including names, executive titles and functions, the target percentage of Short-Term Incentives (STIP)<sup>8</sup> and Long-Term Incentives (LTIP)<sup>9</sup> as a proportion of Total Incentive Compensation (TIC) for the appropriate 2022 filing year.
- **Section 2 Executive Officer Exclusion Rationale:** Details of all the positions of the highest three tiers of the executives or officers of the electrical corporation that do not fit within the definition of "executive officers" as defined in Public Utilities Code section 451.5(c). For those positions, electrical corporations must provide a simple explanation regarding why the executives holding those positions are not considered "executive officers" as set forth in Public Utilities Code section 451.5(c).
- **Section 3 Short-Term Incentive Program (STIP):** Details regarding the performance-based components of the executive compensation structure, how that structure is

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<sup>4</sup> Investigation 19-09-016, Assigned Commissioner Ruling and Proposals, February 18, 2020: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M327/K303/327303409.PDF>.

<sup>5</sup> 2022 Executive Compensation Structure Submission Guidelines, page 8.

<sup>6</sup> 2022 Executive Compensation Guidelines: <https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52036&shareable=true>,

<sup>7</sup> 2022 Executive Compensation Structure Submission Guidelines, Attachment 1 Required Information Template.

<sup>8</sup> STIP is annual incentive compensation.

<sup>9</sup> LTIP is incentive compensation held or deferred for a period of at least three years.

promoting safety, how effective metrics are in changing safety and financial outcomes, and how adjustments to metrics are tied to performance.

- Section 4 Long-Term Incentive Program (LTIP): Details regarding the performance-based components of an executive compensation structure, how that structure is promoting safety, how effective metrics are in changing safety and financial outcomes, and how adjustments to metrics are tied to performance.
- Section 5 Fixed versus Incentive Compensation: For each executive officer with new or amended contracts, electrical corporations must provide the executive title and function, the executive name, the target percentage of Base Salary, STIP, LTIP, and Indirect and Ancillary Compensation as a proportion of Total Compensation (TC) for the appropriate filing year.
- Section 6 Indirect or Ancillary Compensation: A list of all indirect and ancillary compensation provided to executive officers with new or amended contracts.
- Section 7 LTIP Regarding New or Amended Contracts: Electrical corporations must provide names, titles/functions, grant dates, vesting schedules and estimated award percentages of TC for each executive officer with any new or amended contracts that receives or is expected to receive direct compensation under a LTIP for the applicable years.

## Discussion

Energy Safety finds that the information submitted by PG&E in relation to its 2022 Executive Compensation Structure complies with the requirements set forth in the 2022 Guidelines and is 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 required by Public Utilities Code section 8389(e)(4).<sup>10</sup>

PG&E's Executive Compensation Structure has three components: 1) base salary, 2) STIP, and 3) LTIP. These components provide an average of 26 percent of total compensation at the target level for base salary, 19 percent for STIP and 55 percent for LTIP.

PG&E's Executive Compensation Structure satisfies the principles outlined in Public Utilities Code section 8389(e)(4). PG&E's executive compensation is structured to promote safety as a priority: 70% of STIP and 40% of LTIP is safety focused. It is also structured to ensure public

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<sup>10</sup> Per PG&E's May 2, 2022, submission, page 4, PG&E generally does not have written employment contracts with its executive officers and interprets contracts to refer to the written shareholder approved LTIP and Board approved STIP. PG&E nevertheless still provided information relating to Public Utilities Code section 8389(e)(6) as part of its submittal. Energy Safety appreciates the additional transparency provided by section 8389(e)(6) information.

safety and utility financial stability. Specifically, 60% of STIP supports public safety and 25% supports financial stability; 40% of LTIP supports public safety and 30% supports financial stability.

In compliance with section 8389(e)(4), PG&E's performance metrics are measurable and enforceable. For example, PG&E's electric 911 emergency response metric measures the percentage of time that PG&E's personnel are on site within 60 minutes after receiving a 911 call. Many of the STIP metrics are similar, if not identical, to executive compensation metrics approved by the CPUC in Decision 20-05-053.<sup>11</sup> PG&E explains that in accordance with the Decision a material portion of executive incentive compensation shall be withheld if PG&E is the ignition source of a catastrophic wildfire.<sup>12</sup>

Consistent with the 2022 Guidelines,<sup>13</sup> PG&E's executive compensation structure promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans. Following commitments in PG&E's WMP, 2022 STIP metrics include timely completion and quality pass rate targets for asset inspections and vegetation management work in high fire threat districts (HFTDs). In addition, compensation awards are based on objective, measurable, and enforceable performance metrics. These 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. For example, PG&E's wildfire risk reduction metric counts the number of ignitions that result in  $\geq 100$  acres in PG&E's HFTDs and are reportable to the CPUC per D.14-02-015. This is a lagging, outcome-based indicator. Quality pass rate metrics, such as the percentage of distribution inspections performed in HFTDs that pass the field quality verification reviews and contain no critical defects, are both leading and lagging, outcome-based indicators.

### **Stakeholder comments**

No stakeholder submitted comments regarding PG&E's 2022 Executive Compensation Structure.

### **Conclusion**

Energy Safety finds that PG&E's Executive Compensation Submission satisfies the requirements of Public Utilities Code section 8389(e)(4) and was submitted in accordance with the 2022 Guidelines. Executive compensation requirements related to wildfire mitigation and safety are

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<sup>11</sup> Investigation 19-09-016: Order Instituting Investigation on the Commission's Own Motion to Consider the Ratemaking and Other Implications of a Proposed Plan for Resolution of Voluntary Case filed by Pacific Gas and Electric Company, pursuant to Chapter 11 of the Bankruptcy Code, in the United States Bankruptcy Court, Northern District of California, San Francisco Division, In re Pacific Gas and Electric Corporation and Pacific Gas and Electric Company, Case No. 19-30088.

<sup>12</sup> PG&E May 2, 2022, letter page 7.

<sup>13</sup> 2022 Executive Compensation Structure Submission Guidelines, page 8.

complex and evolving. Each year PG&E must ensure its adopted executive compensation structure reflects the goal of Public Utilities Code section 8389, promoting safety as a priority. Energy Safety is developing 2023 Executive Compensation Guidelines and anticipates holding a public workshop related to that effort in the third quarter of 2022.

Sincerely,

A handwritten signature in black ink that reads "Lucy C Morgans". The signature is written in a cursive style with a large, prominent "L" and "M".

Lucy Morgans

Program Manager, Electric Safety Policy Division

Office of Energy Infrastructure Safety