



OFFICE OF ENERGY INFRASTRUCTURE SAFETY

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Caroline Thomas Jacobs, Director

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Laura Fulton, Senior Counsel
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Subject: Office of Energy Infrastructure Safety Approval of San Diego Gas & 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. Fulton:

San Diego Gas & Electric Company (SDG&E) submitted a request for approval of its 2022 Executive Compensation Structure on March 14, 2022.¹ This letter sets forth the approval of SDG&E's 2022 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that SDG&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 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 Pacific Gas and Electric Company (PG&E) to comply with the requirements of Assigned Commission Ruling

¹ SDG&E 2022 Executive Compensation Structure Submission:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52179&shareable=true>.

(ACR) Executive Compensation Proposal 9.² The guidance letter encourages other electrical corporations, including SDG&E, 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 1054.³

Energy Safety's 2022 Executive Compensation Structure Guidelines

On February 14, 2022, Energy Safety published the 2022 Executive Compensation Structure Guidelines. This document provides direction to electrical corporations submitting executive compensation structures for approval as part of the electrical corporation's request for receipt of a safety certification.⁴

The 2022 Guidelines set out new and standardized information requirements associated with the electrical corporation's 2022 executive compensation submissions, including the following.⁵

- **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)⁶ and Long-Term Incentives (LTIP)⁷ 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 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.

² Investigation 19-09-016, Assigned Commissioner Ruling and Proposals, February 18, 2020: <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M327/K303/327303409.PDF>.

³ 2022 Executive Compensation Structure Submission Guidelines, page 8.

⁴ 2022 Executive Compensation Structure Submission Guidelines: <https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52036&shareable=true>.

⁵ 2022 Executive Compensation Structure Submission Guidelines, Attachment 1 Required Information Template.

⁶ STIP is annual incentive compensation.

⁷ LTIP is incentive compensation held or deferred for a period of at least three years.

- 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 schedule 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 SDG&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).⁸

Energy Safety reviewed the three components of SDG&E's Executive Compensation Structure: 1) base salary, 2) STIP, and 3) LTIP. These compensation components provide an average of 34 percent of total compensation at the target level for base salary, 18.5 percent for STIP and 47.5 percent for LTIP.

SDG&E's Executive Compensation Structure satisfies the principles outlined in Public Utilities Code section 8389(e)(4). SDG&E's executive compensation is structured to promote safety as a priority: STIP is safety focused with 20 percent wildfire safety and 33 percent on other safety matters. It is also structured to ensure public safety and financial stability through performance metrics (e.g., STIP metrics are 15 percent public safety related, 20 percent wildfire related and 28 percent financial related; LTIP metrics are solely financial).

In compliance with section 8389(e)(4), SDG&E's performance metrics are measurable and enforceable. This includes, but is not limited to, SDG&E's annual average phishing report rate,

⁸ Per page 44 of SDG&E's March 14th submission, SDG&E reports having no new or amended contracts for executive officers. SDG&E nevertheless still provided information relating to Public Utilities Code section 3889 (e)(6) as part of its submittal. Energy Safety appreciates the additional transparency provided by section 3889(e)(6) information.

lost time incident rate, and the average time it takes for SDG&E staff to respond to a priority one gas emergency.

Consistent with the 2022 Guidelines, SDG&E's executive compensation structure also promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans (WMPs). 2022 STIP metrics include targets tied to the total number of miles hardened through WMP initiatives, vegetation contacts in the high fire threat district (HFTD), public safety power shutoff average circuit restoration time, and electric overhead fault rate during elevated fire potential. 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, leading metrics include overhead system miles and underground system hardening miles, whereas wildfire risk events and vegetation contacts in HFTD are lagging, outcome-based metrics.

Stakeholder Comments

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

Conclusion

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



Lucy Morgans
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Office of Energy Infrastructure Safety