



**OFFICE OF ENERGY INFRASTRUCTURE SAFETY**

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Caroline Thomas Jacobs, Director

July 28, 2022

Paul Marconi  
President, Treasurer and Secretary  
Bear Valley Electric Service, Inc.  
P.O. Box 9028  
San Dimas, CA 91773-9028

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

To Mr. Marconi:

Bear Valley Electric Service Company Inc. (BVES) submitted a request for approval of its 2022 Executive Compensation Structure on March 14, 2022.<sup>1</sup> This letter sets forth the approval of BVES’s 2022 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that BVES’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

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<sup>1</sup> BVES 2022 Executive Compensation Structure Submission:  
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52166&shareable=true>.

(ACR) Executive Compensation Proposal 9.<sup>2</sup> The guidance letter encourages other electrical corporations, including BVES, 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>3</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>4</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>5</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>6</sup> and Long-Term Incentives (LTIP)<sup>7</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 Payment (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 Payment (LTIP):** Details regarding the performance-based components of an executive compensation structure, how that structure is promoting

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<sup>2</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>3</sup> 2022 Executive Compensation Structure Submission Guidelines, page 8.

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

<sup>5</sup> 2022 Executive Compensation Structure Submission Guidelines, Attachment 1 Required Information Template.

<sup>6</sup> STIP is annual incentive compensation.

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

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 BVES 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>8</sup>

BVES describes the four components of its Executive Compensation Structure: 1) base salary, 2) Quarterly Term Incentive Plan (QTIP), 3) STIP, and 4) LTIP. The percentage of total compensation at the targeted level of performance for these four components are 49.5 percent for base salary, 5.7 percent for QTIP, 25.5 percent for STIP and 19.2 percent for LTIP.

BVES's Executive Compensation structure satisfies the principles outlined in Public Utilities Code section 8389(e)(4). BVES's executive compensation is structured to promote safety as a priority: safety accounts for 61.6% of short-term incentives. It is also structured to ensure public safety and utility financial stability through performance metrics. The QTIP is awarded on a quarterly basis and consists of two equally weighted safety metrics: fire incidents and employee electrical contacts. The STIP is awarded on a yearly basis and includes multiple safety-related metrics, including three wildfire safety metrics targeting system hardening that, combined, are

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<sup>8</sup> Per page 3 of BVES's March 14, 2022, submittal, BVES reports having no new or amended contracts for executive officers. BVES 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.

weighted at over 30 percent. Financial metrics account for 13.1% of short-term incentives. The long-term incentive is a 100% wildfire-related financial measure based on WMP capital expenditures.<sup>9</sup>

In compliance with section 8389(e)(4), BVES's performance metrics are measurable and enforceable. This includes, but is not limited to, the safety training completion rate for BVES's workforce verified by its learning and development specialist and the number of completed covered wire program circuit miles verified by its engineering group.

Consistent with the 2022 Guidelines, BVES's executive compensation structure also promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans (WMP). 2022 STIP metrics include targets tied to improvements set forth in the WMP, such as the number of poles hardened to reach BVES's evacuation route hardening goal. 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, BVES sets a target of  $\leq 60$  vegetation management quality control checks to be performed during 2022 to help track impacts on ignition probability drivers. In addition, reportable fire incidents measure the success of efforts to reduce ignitions and system hardening metrics measure mitigation program progress.

As explained in BVES's 2022 Executive Compensation Structure submission, all executive incentive compensation will be withheld if BVES is the ignition source of a catastrophic wildfire.

### **Stakeholder Comments**

No stakeholder comments were submitted regarding BVES's 2022 Executive Compensation Structure.

### **Conclusion**

Energy Safety finds that BVES'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 BVES 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.

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<sup>9</sup> The BVES executive receives the minimum payout for spending levels at 85% of the authorized budget, target payout at 92.5%, and the maximum at 100% of the authorized budget. See BVES's March 14, 2022, Submittal, Table 4d.1.

Sincerely,

*Lucy C Morgans*

Lucy Morgans

Program Manager, Safety Policy Division

Office of Energy Infrastructure Safety