



OFFICE OF ENERGY INFRASTRUCTURE SAFETY

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Caroline Thomas Jacobs, Director

July 28, 2022

Michael Backstrom
Vice President, Regulatory Affairs
Southern California Edison
8631 Rush Street
Rosemead, CA 91770

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

To Mr. Backstrom:

Southern California Edison Company (SCE) submitted a request for approval of its 2022 Executive Compensation Structure on March 14, 2022.¹ This letter sets forth the approval of SCE’s 2022 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that SCE’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 SCE 2022 Executive Compensation Structure Submission:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=52169&shareable=true>.

(ACR) Executive Compensation Proposal 9.² The guidance letter encourages other electrical corporations, including SCE, 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 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 Pub. Util. Code § 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 Pub. Util. Code § 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 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 SCE in relation to its 2022 Executive Compensation Structure complies with the requirements set forth in the 2022 Guidelines 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 and Public Utilities Code section 8389(e)(4).⁸

Energy Safety reviewed the three elements of SCE's Executive Compensation Structure: 1) base salary, 2) annual incentive awards, and 3) long-term incentive awards. On average, SCE executive officer target compensation is 37% for base salary, 21% for STIP, and 42% for LTIP.

SCE's Executive Compensation Structure satisfies the principles outlined in Public Utilities Code section 8389(e)(4). SCE's executive compensation is structured to promote safety as a priority: collectively wildfire resiliency, cybersecurity, the quality of inspected facilities and executing the capital plan spend account for 45% of STIP; employee safety accounts for 10% of STIP. It is also structured to ensure public safety and utility financial stability through performance metrics. SCE's STIP includes six wildfire and public safety metrics. The portion of the STIP specifically attributable to public safety cannot be determined but is less than 45%.⁹ 25% of the STIP and 100% of the LTIP are based on financial measures.

⁸ Per page 50 of SCE's March 14, 2022, submittal, SCE reports having no new or amended contracts for executive officers. SCE 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.

⁹ SCE groups public safety and wildfire resilience, cyber security, and operational improvements into one category with a maximum weighting of 45%. Separate weightings for each of these subcomponents are not provided and must be provided in future submissions.

In compliance with section 8389(e)(4), SCE's performance metrics are measurable and enforceable. This includes, but is not limited to, the employee days away, restricted or transferred (DART) injury rate, covered conductor miles, and CPUC reportable ignitions in the high fire risk area (HFRA). However, Energy Safety notes that some metrics put forward by SCE are activity-based, which are qualitative in nature.¹⁰

Consistent with the 2022 Guidelines, SCE's executive compensation structure also promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans. 2022 STIP metrics include targets tied to improvements set forth in the WMP, such as covered conductor miles, overhead inspections and remediations in HFRA (percent remediated 30 days or before compliance due date), and vegetation line clearing (percent completed within planned schedule on a cumulative basis).

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, SCE's target for overhead inspections and remediations in HFRA is a leading metric that measures the completion of all inspections of the riskiest structures as outlined in its 2022 Wildfire Mitigation Plan. This metric also measures the percentage of all priority two findings due in 2022 in HFRA remediated 30 days or more before a given compliance date. An example lagging, outcome-based metric is the number of ignitions within SCE's HFRA associated with SCE equipment and meeting CPUC reportable ignition criteria.

Stakeholder Comments

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

Conclusion

Energy Safety finds that SCE'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 SCE 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.

¹⁰ SCE's activity-based metrics include an enhanced worker safety program and customer service re-platform.

Sincerely,

A handwritten signature in black ink that reads "Lucy C Morgans". The signature is written in a cursive, flowing style.

Lucy Morgans
Program Manager, Safety Policy Division
Office of Energy Infrastructure Safety