



September 20, 2023

Michael Backstrom
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Subject: Office of Energy Infrastructure Safety Final Decision on Southern California Edison Company's 2023 Executive Compensation Structure Pursuant to Public Utilities Code Section 8389(e)(4) and 8389(e)(6), and 2023 Executive Compensation Structure Submission Guidelines

To Mr. Backstrom:

Southern California Edison Company (SCE) submitted a request for approval of its 2023 Executive Compensation Structure on March 13, 2023.¹ This letter sets forth the approval of SCE's 2023 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that SCE's submission satisfies the requirements of Public Utilities Code Section 8389(e)(4) and 8389(e)(6) and the 2023 Executive Compensation Structure Submission Guidelines (2023 Guidelines).

Background

Public Utilities Code Section 8389(e)(4) requires an electrical corporation's Executive Compensation Structure promote safety as a priority and ensure public safety and utility financial stability. This includes implementing performance metrics, including incentive compensation for all executive officers that are measurable and enforceable. Public Utilities Code section 8389(e)(6)(A) further imposes requirements on any new or amended contracts for executive officers, specifically placing strict limits on guaranteed cash compensation, with a primary portion of their compensation based on objective performance metrics.

California Public Utilities Commission (CPUC) Decision 20-05-053 requires Pacific Gas and Electric Company (PG&E) to comply with the requirements of Assigned Commission Ruling Executive Compensation Proposal 9 (ACR 9).² The guidance letter encourages other electrical corporations, including SCE, to review and consider adopting measures from ACR 9 in the spirit of transparency and furthering the purpose of Assembly Bill 1054.³ If the electrical corporation chooses to do so, this should be listed in section 8 of their Executive Compensation Structure Submission Guidelines.

¹ SCE 2023 Executive Compensation Structure Submission:

<https://efiling.energysafety.ca.gov/efiling/Getfile.aspx?fileid=53442&shareable=true>

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 2023 Executive Compensation Structure Submission Guidelines, page 17.

Within the framework of Decision 19-04-020⁴, the CPUC necessitates SCE, PG&E, Southern California Gas Company (SoCalGas), and San Diego Gas & Electric (SDG&E) —collectively referred to as investor-owned utilities— to annually disclose 26 safety performance metrics (SPMs) to measure the attained safety improvements. The CPUC has also incorporated 10 novel safety performance metrics, while eliminating four and modifying 19 of the existing 26 SPMs for a total of 32 SPMs.

Energy Safety's 2023 Executive Compensation Structure Guidelines

On November 28, 2022, Energy Safety Published the 2023 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.⁵

The 2023 Guidelines set out new and standardized information requirements relating to executive compensation. The Guidelines state that the electrical corporation's 2023 Executive Compensation Structures must include the following:⁶

- **Section 1: Incentive Compensation Components:** Details of the electrical corporation's executive officers who are subject to the executive compensation filing requirements. This should include names, executive titles and functions, the target percentage of Short-Term Incentives (STIP),⁷ and Long-Term Incentives (LTIP)⁸ as a proportion of Total Incentive Compensation (TIC)⁹ for the appropriate 2023 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 these positions are not considered "executive officers" as set forth in Public Utilities Code Section 451.5(c).
- **Section 3: Short-Term Incentive Program:** Details regarding the performance-based components of the Executive Compensation Structure awarded on a performance term of less than three years. This includes 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:** Details regarding the performance-based components of an Executive Compensation Structure on a performance term of three or more years. This includes how

⁴ CPUC Decision 19-04-020 (accessed July 26, 2022):

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M288/K389/288389255.PDF>

⁵ 2023 Executive Compensation Structure Submission Guidelines:

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53269&shareable=true>

⁶ 2023 Executive Compensation Structure Submission Guidelines, Attachment 1, starting on page 21.

⁷ STIP is all incentive-based compensation granted based on a performance period shorter than three years.

⁸ LTIP is all incentive-based compensation held or deferred for three or more years.

⁹ TIC is the sum of STIP compensation and LTIP compensation.

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 officer¹⁰ 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)¹¹ for the appropriate filing year.
- Section 6: Indirect and Ancillary Compensation: A list of all indirect and ancillary compensation (excluding SERPs¹²) provided to executive officers with new or amended contracts. If an electrical corporation offers any form of indirect or ancillary compensation, it must provide the current estimated proportion of Total Compensation for each executive officer.
- 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 contract that receives or is expected to receive direct compensation under a LTIP for the applicable years.
- Section 8: ACR 9 Executive Compensation Proposal: For each element of ACR 9, indicate whether the electrical corporation's Executive Compensation Structure is consistent with ACR 9 and explain how. PG&E must comply with ACR 9's additional requirements, while other electrical corporations are encouraged but not required to do so.

Discussion

Energy Safety finds that the information submitted by SCE in relation to its 2023 Executive Compensation Structure complies with the requirements set forth in Public Utilities Code Section 8389(e)(4) and 8389(e)(6), as well as the 2023 Guidelines. provides more transparency than in prior years by assigning more detailed weightings to its metrics.

Energy Safety reviewed the three elements of SCE's Executive Compensation Structure: 1) Base Salary, 2) Short-Term Incentives, and 3) Long-Term Incentives. On average, SCE executive officer target compensation is 36.6 percent for base salary, 20.8 percent for STIP, and 42.7 percent for LTIP.

SCE's Executive Compensation Structure satisfies the principles outlined in Public Utilities Code Section 8389(e)(4). SCE's Executive Compensation Structure promotes safety as a priority: collectively wildfire resiliency, cybersecurity, and other operational measures to deliver safe, reliable, clean, and affordable energy account for 45 percent of STIP; employee safety accounts for 10 percent of STIP. It is also structured to ensure public safety and utility financial stability through performance metrics. SCE's STIP includes – wildfire and

¹⁰ "Executive officer" is defined in the Public Utilities Code Section 451.5(c) or on page 60 of the 2023 Executive Compensation Structure Submission Guidelines.

¹¹ TC is the sum of Base Salary, STIP, and LTIP compensation.

¹² SERPs: Supplemental Executive Retirement Plans

public safety metrics. The portion of the STIP specifically attributable to public safety accounts for 30 percent of the 2023 weighting. 25 percent of the STIP and 100 percent of the LTIP are based on financial measures. SCE may also want to consider adoption of a specific provision that compensation will be withheld in the event of a catastrophic wildfire.¹³

In compliance with Section 8389(e)(4), SCE's performance metrics are measurable and enforceable. This includes, but is not limited to, CPUC Reportable Ignitions in High Fire Risk Areas (HFRA) associated with SCE equipment, covered conductors in HFRAs, and vegetation line clearing. SCE's Executive Compensation Structure also promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans. 2023 STIP metrics include targets tied to improvements set forth in the WMP, such as Public Safety Power Shutoffs (PSPS). 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 PSPS customer notification is a leading metric at 98 percent. Overhead inspections and remediations in HFRA are another leading metric with a target of 70 percent; this metric is responsible for measuring the completion of all inspections of the riskiest structures as outlined in SCE's Wildfire Mitigation Plan. SCE's Executive Compensation submission 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).

SCE's Executive Compensation Structure also satisfies the principles outlined in Public Utilities Code Section 8389(e)(6).¹⁴ Strict limits are placed on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics: on average incentive compensation is 63 percent of total direct compensation. There are no guaranteed monetary incentives in the compensation structure, as all incentive compensation is performance based. LTIP provides a significant portion of compensation based on the electrical corporation's long-term performance value and is deferred for three years. On average, LTIP compensation accounts for 43 percent of an executive's total direct compensation and equity based. Indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest is largely minimized; indirect and ancillary compensation account for less than 1 percent of executive compensation excluding SERP.

Stakeholder Comments

On April 12, 2023, the California Public Advocates Office of the California Public Utilities Commission (Cal Advocates) submitted comments on the electrical corporations' Executive Compensation Structure submissions for 2023. Cal Advocates' concerns primarily revolve around the criteria employed by electrical corporations to define Executive Officers.

Cal Advocates noted inconsistencies among the utilities, both in terms of the Executive Officers included in the

¹³ This is an element of ACR 9. As noted above, if an electrical corporation chooses to adopt ACR 9 measures, it can list them in section 8 of its Executive Compensation Structure Submission Guidelines.

filings and the redacted information in the public versions of the submissions. Cal Advocates highlighted that SCE lists only six executives, whereas SCE's website describes 33 individuals in leadership positions, encompassing the President, Chief Executive Officer (CEO), Executive Vice Presidents, Senior Vice Presidents, and Vice Presidents.

On April 24, 2023, SCE filed a response to Cal Advocates' comments. In summary, SCE indicated that the public inclusion of names of specific SCE officers, along with their personal information, lacks any public interest and fails to meet the threshold of compelling necessity.

Conclusion

Energy Safety has determined that SCE's Executive Compensation Structure satisfies the requirements of Public Utilities Code Section 8389(e)(4) and 8389(e)(6) and the 2023 Guidelines. The intricacies and dynamic nature of Executive Compensation requirements pertaining to wildfire mitigation and safety necessitate careful consideration. SCE is therefore obligated to annually verify that its implemented Executive Compensation framework aligns with the objectives outlined in the Public Utilities Code Section 8389, with an emphasis on prioritizing safety.

Sincerely,



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