



Michael Backstrom
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Subject: Decision on Southern California Edison Company’s 2024 Executive Compensation Structure

Mr. Backstrom:

Southern California Edison Company (SCE) submitted its 2024 Executive Compensation Structure on April 12, 2024.¹ On April 26, 2024, SCE submitted a revised Executive Compensation request.² This letter sets forth the approval of SCE’s 2024 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) determines that SCE’s revised submission satisfies the requirements of Public Utilities Code sections 8389(e)(4) and 8389(e)(6) and the 2024 Executive Compensation Structure Submission Guidelines (2024 Guidelines).³

Background

Energy Safety’s executive compensation approval indicates that an electrical corporation has an executive incentive compensation structure that meets statutory criteria. Having an approved executive incentive compensation structure is one of several requirements necessary to obtain a safety certification from Energy Safety under Public Utilities Code section 8389(e). The safety certification is designed to encourage electrical corporations to invest in safety and improve safety culture to limit wildfire risks and reduce costs by granting the electrical corporation certain advantages in cost recovery proceedings following a catastrophic wildfire. Energy Safety does not set or approve salaries for the electrical corporations’ executives.

¹ SCE 2024 Executive Compensation Structure Submission:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56485&shareable=true>

² SCE Revised 2024 Executive Compensation Structure Submission:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56555&shareable=true>

³ 2024 Executive Compensation Structure Guidelines:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56042&shareable=true>

Public Utilities Code section 8389(e)(4) requires that 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 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 (PG&E) to comply with the requirements of Assigned Commissioner's Ruling Executive Compensation Proposal 9 (ACR 9).⁴ Energy Safety's 2024 Executive Compensation Structure Submission Guidelines encourages other electrical corporations to review and consider adopting the measures from ACR 9 in the spirit of transparency and furthering the purpose of Assembly Bill 1054.⁵

Within the framework of Decision 19-04-020⁶, the CPUC requires PG&E, SCE, Southern California Gas Company (SoCalGas), and San Diego Gas & Electric (SDG&E) to annually disclose safety performance metrics to measure the safety improvements.

Energy Safety's 2024 Executive Compensation Structure Submission Guidelines

On December 8, 2023, Energy Safety published the 2024 Executive Compensation Structure Submission Guidelines ("2024 Guidelines").⁷ The 2024 Guidelines set out requirements relating to executive compensation stating that the electrical corporation's 2024 Executive Compensation Structure must include specified sections that indicate the incentive compensation components, executive officer exclusion rationale, short-term incentive program components, long-term incentive program components, fixed versus incentive compensation, indirect and ancillary compensation, long-term incentive program new or amended contracts, and ACR 9 executive compensation proposals.⁸

⁴ Investigation 19-09-016, Assigned Commissioner Ruling and Proposals, February 18, 2020:

<https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M327/K303/327303409.PDF>

⁵ 2024 Executive Compensation Structure Submission Guidelines, December 12, 2023:

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56042&shareable=true>, pages 1 and 2

⁶ CPUC Decision 19-04-020 (accessed July 26, 2022):

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

⁷ 2024 Executive Compensation Structure Submission Guidelines

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56042&shareable=true>

⁸ 2024 Executive Compensation Structure Submission Guidelines Attachments

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56043&shareable=true>

Discussion

Energy Safety has determined that the documentation submitted by SCE in relation to its 2024 Executive Compensation Structure meets the requirements set forth in Public Utilities Code Section 8389(e)(4) and 8389(e)(6)(A), and in the 2024 Guidelines.

Each of SCE's executive officers as designated by Public Utilities Code 451.5(c) are subject to the submitted executive officer incentive compensation structure. SCE asserts that it has six executive positions: 1. President and Chief Executive Officer, 2. Executive Vice President and Chief Operating Officer, 3. Senior Vice President (SVP) and Chief Financial Officer, 4. SVP and General Counsel, 5. SVP and Chief Customer Officer, and 6. SVP, Transmission and Distribution.

SCE's Executive Compensation Structure has three components: Base Salary, Short-Term Incentives Program (STIP), and Long-Term Incentives Program (LTIP). For 2024, across all six of SCE's listed executive officers, the Base Salary component target level compensation ranges from 22.5 percent to 40 percent of total compensation, the STIP component target level compensation ranges from 19.1 percent to 22 percent, and the LTIP component target level compensation ranges from 38 percent to 58.4 percent.

SCE's Executive Compensation Structure satisfies the requirements outlined in Public Utilities Code Section 8389(e)(4). SCE's Executive Compensation Structure supports the principles of promoting safety as a priority and ensuring public safety. Wildfire resiliency and other operational measures to deliver safe, reliable, clean, and affordable energy account for 50 percent of the 2024 STIP, with 30 percent specifically attributable to wildfire mitigation and 20 percent attributable to other safety measures (including operational safety measures).

The STIP and LTIP target metrics are also structured to ensure utility financial stability. Specifically, 25 percent of the STIP supports financial stability and 100 percent of the LTIP supports financial stability.

In compliance with Public Utilities Code Section 8389(e)(4), SCE has provided documentation that its incentive compensation structure includes performance metrics that are measurable and enforceable. SCE states that a material portion of executive incentive compensation may be withheld if SCE is the ignition source of a catastrophic wildfire. SCE asserts, "The Compensation Committee has discretion to reduce or eliminate an annual incentive award in the event of a significant lapse in safety or compliance, including if SCE is the ignition source of a catastrophic wildfire."⁹

⁹ SCE's 2024 Executive Compensation Structure, page 84.

SCE's Executive Compensation awards are based on objective, measurable, and enforceable performance metrics. The Executive Compensation Structure promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans. SCE's 2024 STIP metrics include both lagging and leading indicators of wildfire risks and consequences of wildfire mitigation work in the high fire risk areas (HFRA). Lagging, outcome-based indicators include CPUC Reportable Ignitions in HFRA, which is measured by the total number of reportable fire ignitions associated with SCE equipment within SCE's HFRA. Leading indicators include overhead inspection and remediation of the riskiest structures in SCE's HTFA.

SCE's Executive Compensation Structure also satisfies the requirements outlined in Public Utilities Code Section 8389(e)(6). SCE's Executive Compensation Structure places strict limits on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics. Accordingly, total target incentive compensation is 57.1 percent to 80.4 percent of total direct compensation. There are no guaranteed monetary incentives in the compensation structure, as all incentive compensation is performance based.

SCE's LTIP provides a significant portion of executive compensation based on the electrical corporation's long-term performance value and is deferred for three years. Target LTIP compensation accounts for 38 percent to 58.4 percent of total direct compensation and is 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 one percent of executive compensation excluding Supplemental Executive Retirement Plans (SERPs).

Stakeholder Comments

No parties filed opening or reply comments during the comment period.

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 2024 Guidelines. While SCE's Executive Compensation Structure Submission satisfies these requirements, Energy Safety recommends SCE evaluate the adoption of a provision to withhold compensation in the event SCE is the ignition source of a catastrophic wildfire, rather than deferring to the discretion of the compensation committee. The intricacies and dynamic nature of Executive Compensation requirements pertaining to wildfire mitigation and safety necessitate careful consideration. Before applying for an annual safety

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certification, SCE must 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,

A handwritten signature in black ink, appearing to read 'Suzie', with a stylized flourish at the end.

Suzie Rose
Program Manager, Electrical Safety Policy Division
Office of Energy Infrastructure Safety