



Laura Fulton, Senior Counsel
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Subject: Decision on San Diego Gas & Electric Company’s 2024 Executive Compensation Structure

Ms. Fulton:

San Diego Gas & Electric Company (SDG&E) submitted its 2024 Executive Compensation Structure on April 12, 2024.¹ This letter sets forth the approval of SDG&E’s 2024 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) determines that SDG&E’s 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).²

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.

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

¹ SDG&E 2024 Executive Compensation Structure Submission:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56481&shareable=true>
² 2024 Executive Compensation Structure Guidelines, December 12, 2023:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56042&shareable=true>

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).³ 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 1054.⁴

Within the framework of Decision 19-04-020,⁵ the CPUC requires PG&E, Southern California Edison (SCE), Southern California Gas Company (SoCalGas), and 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").⁶ 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.⁷

Discussion

Energy Safety has determined that the documentation submitted by SDG&E 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.

³ Investigation 19-09-016, Assigned Commissioner Ruling and Proposals, February 18, 2020:

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

⁴2024 Executive Compensation Structure Submission Guidelines, December 12, 2023:

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

⁵ CPUC Decision 19-04-020 (accessed July 26, 2022):

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

⁶ 2024 Executive Compensation Structure Submission Guidelines

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

⁷ 2024 Executive Compensation Structure Submission Guidelines Attachments

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

Each of SDG&E's executive officers as designated by Public Utilities Code 451.5(c) are subject to the submitted executive officer incentive compensation structure. SDG&E asserts that it has five executive positions: 1. Chief Executive Officer (CEO), 2. President and Chief Financial Officer (CFO), 3. Chief Operating Officer, 4. Vice President (VP), Controller and Chief Accounting Officer, 5. Senior Vice President (SVP) and General Counsel.

SDG&E's Executive Compensation Structure has three components: Base Salary, Short-Term Incentives Program (STIP), and Long-Term Incentives Program (LTIP). For 2024, across all five of SDG&E's listed executive officers, the Base Salary component target level compensation ranges from 25 percent to 43 percent of total compensation, the STIP component target level compensation ranges from 18 percent to 21 percent, and the LTIP component target level compensation ranges from 37 percent to 55 percent.

SDG&E's Executive Compensation Structure satisfies the requirements outlined in Public Utilities Code Section 8389(e)(4). SDG&E's Executive Compensation Structure supports the principles of promoting safety as a priority and ensuring public safety, with 53 percent of STIP relying on safety measures, including 20 percent weighted to wildfire safety measures and 33 percent weighted to other safety measures.

The STIP and LTIP target metrics are also structured to ensure utility financial stability. Specifically, 27 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), SDG&E has provided documentation that its incentive compensation structure includes performance metrics that are measurable and enforceable. SDG&E states that a material portion of executive incentive compensation may be withheld if SDG&E is the ignition source of a catastrophic wildfire. SDG&E asserts, "The Board of Directors has discretion to reduce or eliminate an annual incentive award in the event of a significant lapse in safety or compliance, including if SDG&E is the ignition source of a catastrophic wildfire. Consistent with Public Utilities Code Section 8389(e)(4), "this may include tying 100 percent of incentive compensation to safety performance and denying all incentive compensation in the event the electrical corporation causes a catastrophic wildfire that results in one or more fatalities.""⁸

SDG&E'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. SDG&E's 2024 STIP metrics include both lagging and leading indicators of wildfire risk and consequences of wildfire mitigation work in the high fire threat district (HFTD). Lagging,

⁸ SDG&E's 2024 Executive Compensation Structure, page 80.

outcome-based indicators include Vegetation Contacts in HFTD, which is measured by the number of outages or ignitions on the primary voltage system caused by vegetation contacts in the HFTD annually during periods of elevated or extreme fire potential. Leading indicators include Public Safety Power Shut Offs (PSPS) Average Circuit Restoration Time, which is measured by the average hours for power restoration after each PSPS de-energization event.

SDG&E's Executive Compensation Structure also satisfies the requirements outlined in Public Utilities Code Section 8389(e)(6). SDG&E'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 55 percent to 76 percent of total direct compensation. There are no guaranteed monetary incentives in the compensation structure, as all incentive compensation is performance based.

SDG&E'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 37 percent to 55 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; between zero percent to two percent of total 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 SDG&E's Executive Compensation Structure Submission satisfies the requirements of the Public Utilities Code Section 8389(e)(4) and 8389(e)(6) and the 2024 Guidelines. While SDG&E's Executive Compensation Structure Submission satisfies these requirements, Energy Safety recommends SDG&E evaluate the adoption of a provision to withhold compensation in the event SDG&E is the ignition source of a catastrophic wildfire, rather than deferring to the discretion of its Board of Directors. The intricacies and dynamic nature of Executive Compensation requirements pertaining to wildfire mitigation and safety necessitate careful consideration. Before applying for an annual safety certification, SDG&E 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.

October 4, 2024

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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