



Paul Marconi
President, Treasurer, and Secretary
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Subject: Decision on Bear Valley Electric Service Company Inc.'s 2024 Executive Compensation Structure

Mr. Marconi,

Bear Valley Electric Service Company, Inc. (BVES) submitted its 2024 Executive Compensation Structure on April 12, 2024.¹ This letter sets forth the approval of BVES's 2024 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) determines that BVES'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 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 BVES 2024 Executive Compensation Structure Submission:

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=56477&shareable=true>

² 2024 Executive Compensation Structure Submission Guidelines:

<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 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").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 BVES 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 BVES's executive officers as designated by Public Utilities Code 451.5(c) are subject to the submitted executive officer incentive compensation structure. BVES asserts that it has one executive officer who fulfills the duties of the corporation's President, Treasurer, and Secretary.

BVES's Executive Compensation Structure has four Base Salary, Quarterly-Term Incentive Program (QTIP), Short-Term Incentive Program (STIP), and Long-Term Incentive Program (LTIP). For 2024 BVES's listed executive officer, the Base Salary component target performance level compensation is 49.5 percent of total compensation, the QTIP component target performance level compensation is 5.7 percent, the STIP component target performance level compensation is 25.6 percent, and the LTIP component target performance level compensation is 19.2 percent.

BVES's Executive Compensation Structure satisfies the requirements outlined in Public Utilities Code Section 8389(e)(4). BVES's Executive Compensation Structure supports the principles of promoting safety as a priority and ensuring public safety, with 100 percent of the QTIP metric relying on safety measures, including 50 percent weighted to wildfire safety measures and 50 percent weighted to other safety measures. 53 percent of the STIP metric relies on safety measures including 24 percent weighted to wildfire safety measures and 29 percent weighted to other safety measures.

The STIP and LTIP target metrics are also structured to ensure utility financial stability. Specifically, 16 percent of the STIP supports financial stability and 100 percent of LTIP supports wildfire-related financial goal based on Wildfire Mitigation Plan (WMP) capital expenditures, measured at the end of the three-year performance period.

In compliance with Public Utilities Code Section 8389(e)(4), BVES has provided documentation that its incentive compensation structure includes performance metrics that are measurable and enforceable. BVES states that a material portion of executive incentive compensation will be withheld if BVES is the ignition source of a catastrophic wildfire that results in a fatality. BVES asserted "In the event the Corporation causes a catastrophic wildfire that results in one or more fatalities due to negligent operations and/or facilities that are not compliant with state and/or other applicable standards, the STIP will not be paid to the Executive. If such an event is under investigation by state authorities, the STIP will be held until the formal results of the investigation are made available"⁸

BVES'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. BVES's 2024 QTIP

⁸ BVES's 2024 Executive Compensation Structure, page 22.

and STIP metrics include both lagging and leading indicators to track progress in mitigating wildfire risks and consequences of wildfire mitigation work. Lagging, outcome-based QTIP indicators include Fire Incidents, which is measured by the number of Reportable Fire Incidents as defined in CPUC Decision 14-02-015 Appendix C.⁹ Leading, outcome-based STIP indicators include the Wildfire Transmission and Distribution (T&D) System Hardening: Covered Wire Program, which is measured by in circuit miles.

BVES's Executive Compensation Structure also satisfies the requirements outlined in Public Utilities Code Section 8389(e)(6). BVES's Executive Compensation Structure places strict limits on guaranteed cash compensation, with the primary portion of the executive officer's compensation based on achievement of objective performance metrics. Accordingly, total target incentive compensation is 50.5 percent of total direct compensation. QTIP accounts for 5.7 percent and STIP accounts for 25.6 percent of total direct compensation. There are no guaranteed monetary incentives in the compensation structure.

BVES's LTIP provides a significant portion of executive compensation. Target LTIP compensation accounts for 19.2 percent of total direct compensation, is deferred for three years, and is based on a single financial performance-based metric.¹⁰ Indirect or ancillary compensation that is not aligned with shareholder and taxpayer interest is largely minimized at 2.8 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 BVES'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. 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, BVES 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.

⁹ CPUC Decision 14-02-015 (accessed October 1, 2024):

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M087/K892/87892306.PDF>

¹⁰ BVES is not a publicly traded company and does not issue stock; all short-term and long-term incentives are paid in cash.

Sincerely,



Suzie Rose
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Office of Energy Infrastructure Safety

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