Pacific Gas and Electric Company®

Lisa Laanisto
Director, Compensation

77 Beale Street
San Francisco, CA 94105

July 2, 2021

Ms. Caroline Thomas Jacobs
Director, Office of Energy Infrastructure Safety
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, California 95814

Re: Pacific Gas and Electric Company's Executive Compensation Approval Request Pursuant to Public Utilities Code § 8389(e)(4) and (e)(6)

Dear Ms. Thomas Jacobs:

Pacific Gas and Electric Company ("PG&E") respectfully submits this reply to the June 25, 2021 comments of The Utility Reform Network ("TURN") and the Public Advocates Office ("Cal Advocates") concerning the Wildfire Risk Reduction metric in PG&E's 2021 Short-Term Incentive Plan.

Reply to TURN's Comments

TURN supports using the new Wildfire Risk Reduction metric in place of the prior Reportable Fire Ignitions metric. As TURN notes, the Wildfire Risk Reduction metric closely aligns with public safety by focusing on reportable ignitions that burn at least 100 acres in High Fire Threat Districts ("HFTDs"), rather than all reportable ignitions in HFTDs. As TURN correctly observes, "public safety is most directly impacted by large and catastrophic wildfires, and [the new Wildfire Risk Reduction] metric incentivizes the utility to avoid larger events that are more likely to have associated property damage and loss of life."[1] In short, TURN appears to agree that the Wildfire Risk Reduction metric contributes to PG&E's overall executive compensation program being "structured to promote safety as a priority and to ensure public safety."[2]

TURN nevertheless proposes slightly different performance milestones, but by doing so, misapprehends the question before the Office of Energy Infrastructure Safety ("OEIS"). The question under Assembly Bill ("AB") 1054 is not whether a particular metric or even the entire executive compensation program might be improved; the question is whether the program, on the whole, promotes safety and otherwise meets the requirements of the statute. TURN does not dispute that the Wildfire Risk Reduction metric contributes to PG&E's program satisfying the statutory criteria, with or without the changes TURN proposes.

---

[1] TURN's June 25, 2021 Ltr. to WSD at 1.

[2] Pub. Util. Code § 8389(e)(4).

In any event, there can be no serious question that PG&E has set the milestones so as to "promote safety as a priority and to ensure public safety."[3] PG&E's data indicates that during the six-year period of 2015 through 2020, there were 33 reportable ignitions that burned at least 100 acres in HFTDs, for an average of approximately six per year.[4] PG&E has set the "threshold" and "target" milestones at four and two fires, respectively, which represent a 33.3% and 66.7% improvement, respectively, over this historical average. TURN says that milestones should be set to require "the utility to reach for improvement," and that is exactly what these milestones do.[5]

Reply to Cal Advocates' Comments

Cal Advocates takes the opposite approach from TURN, arguing that OEIS "should require PG&E to continue using its Reportable Fire Ignitions metric."[6] Cal Advocates makes several arguments in support of this contention, each of which is easily addressed.

The "Administrative Convenience" Argument: Cal Advocates first argues that because PG&E initially anticipated continuing to use the Reportable Fire Ignitions metric in 2021, it should be required to do so, apparently without regard to whether the Wildfire Risk Reduction metric more effectively promotes public safety. Cal Advocates appears to be saying that because "[s]takeholders have already reviewed and commented twice on PG&E's executive incentive compensation structure,"[7] PG&E should be precluded from making a change, even if the change is a positive one. To the extent Cal Advocates is arguing that the administrative convenience of stakeholders should take precedence over public safety, PG&E respectfully disagrees.

The "Reasonable Explanation" Argument: Cal Advocates next argues that "PG&E does not provide a reasonable explanation for why it has decided to change the metric in the middle of 2021."[8] But PG&E provided precisely such an explanation in its June 4, 2021 letter to WSD. Specifically, in connection with PG&E's evaluation of the results of an audit of data underlying the prior Reportable Fire Ignitions metric, PG&E determined that switching to the new Wildfire Risk Reduction metric would more effectively promote public safety:

> [T]he former metric encompassed all powerline-involved fire incidents annually reportable to the California Public Utilities Commission per D.14-02-015 within PG&E's High Fire Threat Districts . . . , including otherwise reportable fires that travelled any distance greater than one meter from the ignition point. The former

---

[3] *Id.*

[4] *See* Cal Advocates' June 25, 2021 Ltr. to Wildfire Safety Division ("WSD") at 4 & n.19 (citing PG&E's responses to data requests).

[5] TURN's June 25, 2021 Ltr. to WSD at 2. TURN's letter repeats in summary form the procedural proposals that TURN previously made. PG&E incorporates by reference its prior responses to those proposals. (*See* PG&E's Feb. 5, 2021 Ltr. to WSD at 1-3; PG&E's May 7, 2021 Ltr. to WSD at 5.)

[6] Cal Advocates' June 25, 2021 Ltr. to WSD at 3.

[7] *Id.* at 5.

[8] *Id.* at 4.

47900759.1

metric thus encompassed fires that were immediately extinguished. The new Wildfire Risk Reduction metric, by contrast, encompasses only reportable fires in PG&E's HFTDs that burn at least 100 acres. The new metric thus focuses on the most significant fires; indeed, from 2015 to 2020, approximately 96% of all reportable fires have accounted for just 0.2% of acreage burned, while the remaining approximately 4% have accounted for approximately 99.8% of acreage burned. The new Wildfire Risk Reduction metric therefore promotes a reduction of the number of the most significant fires, and more closely aligns with public safety.[9]

<u>The "Don't Set Performance Milestones in June" Argument</u>: Cal Advocates next argues that "[r]eplacing performance metrics and milestones several months into the year allows the utility to select its performance milestones based on its actual performance to date."[10] Though PG&E agrees that metrics and milestones generally should be established early in the year when feasible,[11] Cal Advocates' argument is fallacious in the present context, for two reasons. First, PG&E adopted the Wildfire Risk Reduction metric and associated performance milestones in early June 2021—at the *beginning* of the 2021 fire season. PG&E thus did not set, and could not possibly have set, the milestones "based on its actual performance to date";[12] the key portion of the performance period is yet to come. Second, PG&E necessarily would have to set ignition-related milestones "several months into [2021]"[13] *regardless* of whether PG&E used the previous Reportable Fire Ignitions metric or instead switched to the Wildfire Risk Reduction metric. This is because, as PG&E previously has explained,[14] it was not feasible to set meaningful 2021 milestones for the Reportable Fire Ignitions metric earlier in the year because 2020 results were still being audited. Because PG&E could only set performance milestones "several months into the year" *regardless* of which metric PG&E elected to use, Cal Advocates' argument is irrelevant.[15]

---

[9] PG&E's June 4, 2021 Ltr. to WSD at 1.

[10] Cal Advocates' June 25, 2021 Ltr. to WSD at 5.

[11] *See* PG&E's Feb. 5, 2021 Ltr. to WSD at 2-3.

[12] Cal Advocates' June 25, 2021 Ltr. to WSD at 4.

[13] *Id.* at 5.

[14] *See* PG&E's Mar. 2, 2021 Ltr. to WSD at 3 n.7; PG&E's June 4, 2021 Ltr. to WSD at 1.

[15] Cal Advocates' June 25, 2021 Ltr. to WSD at 5. In comments that have no place in a submission that is supposed to be confined to the Wildfire Risk Reduction metric described in PG&E's June 4, 2021 Ltr. to WSD, Cal Advocates argues that PG&E's 2021 "target" milestone for the Diablo Canyon Power Plant Reliability and Safety Indicator metric is too lenient because it is "below . . . actual performance in any of the last five years." (*Id.*) As PG&E previously explained, however, this is because "Diablo Canyon Unit 2 has experienced four outages between July 2020 and February 24, 2021, each due or related to malfunctions, such that a 'target' milestone that is at or above historical performance would not realistically be attainable in 2021 and therefore *would not have a meaningful incentive effect*." (PG&E's May 7, 2021 Ltr. to WSD at 2 (emphasis added).) To the extent Cal Advocates is arguing that PG&E

The "Ignitions vs. Acreage" Argument: Cal Advocates also argues that "the Wildfire Risk Reduction metric does not appropriately align with public safety" because the metric consists of a count of *ignitions* rather than a count of *total acreage*.[16] Cal Advocates does not explain what it means by "appropriately," which is not a term that appears in any relevant provision of AB 1054. And Cal Advocates' argument, like TURN's proposal to tweak the performance milestones, fails to appreciate the task facing OEIS: not a general super-intendment of the details of a utility's executive compensation program, but a simple assessment of whether the overall program is "structured to promote safety as a priority and to ensure public safety," and otherwise meets the statutory criteria.[17] Regardless of whether Cal Advocates thinks the metric might be improved by measuring acreage instead of ignitions, there can be no question that the metric promotes public safety.

Further, Cal Advocates' argument evinces a fundamental misunderstanding of incentive compensation. The Wildfire Risk Reduction metric encompasses both ignitions and acreage by measuring the count of ignitions that burn at least 100 acres. Metric performance depends on two types of factors: factors that PG&E may have the ability to influence (*e.g.*, ignitions reduction through system hardening, vegetation management, and other means), and factors that PG&E does not have the ability to influence (weather, wind, topography, etc.). The metric has an *incentive* effect because it depends to a significant degree on factors PG&E may have the ability to influence. If the metric instead focused solely on acreage burned as Cal Advocates seems to advocate, the metric would depend much more heavily on weather, wind, topography, and other factors PG&E does *not* have the ability to influence. The metric thus would lose much of its incentive effect; incentive compensation that depends so heavily on factors outside of the company's control does not tend to incentivize.[18]

---

should set performance milestones that are unattainable in light of the facts on the ground—thereby defeating the purpose of incentive compensation and failing to promote public safety—PG&E disagrees.

[16] *See* Cal Advocates' June 25, 2021 Ltr. to WSD at 8 ("[I]n both 2018 and 2019, PG&E experienced only two ignitions that would fall under its new metric, yet these were two of the three worst years between 2015 and 2020 in terms of total acreage burned. In contrast, in 2016, PG&E experienced 5 ignitions that would fall under this metric, burning a total of approximately 896 acres. Under PG&E's proposed performance milestones, both 2018 and 2019 would have resulted in 100% payout of the executive incentive compensation associated with the Wildfire Risk Reduction metric, while 2016 would have resulted in 0% payout, despite the significantly smaller impact of utility-caused ignitions in that year.") (footnotes omitted).

[17] Pub. Util. Code § 8389(e)(4).

[18] *See* Mar. 13, 2020 Decl. of John Lowe ¶ 7 (Appendix D to PG&E's Post-Hearing Br. and Cmts. on Assigned Commissioner's Proposals in I.19-09-016) ("If incentive compensation or a material portion thereof is perceived as subject to withholding in unpredictable ways, then an executive will likely substantially discount it when assessing the value of an overall compensation package—which could hurt a utility's ability to recruit and retain the talent required to meet its mission of providing safe, reliable, affordable and clean energy to its customers. This observation stems from an executive compensation concept called 'line of sight,' which stresses the importance of an executive being able to see a clear link between the executive's efforts on the job and the achievement of incentive compensation performance metrics . . . . If 'line of sight' is unclear or subject to breakage in ways that are perceived as outside the

The "PSPS" Argument: Cal Advocates argues that the Wildfire Risk Reduction metric "reduc[es] the incentive to address the underlying cause of ignitions" in favor of "potentially incentivizing an over-reliance on PSPS."[19] This is meritless.

The metric consists of a count of qualifying ignitions, and so by definition incentivizes reducing the number of ignitions. The metric thus promotes, for example, asset inspection and repair, system hardening, enhanced vegetation management, and other measures that help prevent fires before they start. Accordingly, Cal Advocates' argument that "PG&E would have no need to reduce the number of ignitions" is untenable, even if one focuses solely on the effect of the metric.[20] When one also considers the many *other* incentives PG&E has to reduce the number of ignitions, the contention is downright frivolous. For example, PG&E must report *all* powerline-related ignitions that travel more than one meter in an HFTD to the California Public Utilities Commission (the "Commission").[21] Further, if PG&E equipment ignites a fire that burns more than 1000 structures, and the ignition resulted from a failure to follow Commission rules or orders or prudent management practices, PG&E can be placed into "Step 2" of an Enhanced Oversight and Enforcement regime.[22] And if PG&E equipment ignites a catastrophic wildfire, then under certain circumstances there can be "[a] presumption that a material portion of executive incentive compensation shall be withheld."[23] The notion that "PG&E would have no need to reduce the number of ignitions" is fanciful.[24]

Moreover, the Wildfire Risk Reduction metric does not promote the use of public safety power shutoffs ("PSPS"), much less *unnecessary* PSPS events as Cal Advocates impliedly theorizes. PG&E uses PSPS as a measure of last resort to reduce the risk of catastrophic fires and to maintain public safety. PG&E determines whether to implement a PSPS event based on specific criteria. PG&E's current criteria can be found beginning on page 978 of PG&E's 2021 Wildfire Mitigation Plan (as revised and provided to the Commission on June 3, 2021).

The "Comparative Analysis" Argument: Finally, Cal Advocates argues that "PG&E's filing [does not] demonstrate how the . . . change [from the Reportable Fire Ignitions metric to the Wildfire Risk Reduction] metric would impact executive compensation or how the Reportable Fire Ignitions metric compares for each of the years with the new[] . . . Wildfire Risk Reduction metric."[25] Of course, AB 1054 does not require such a comparative analysis; it merely tasks OEIS with determining whether the executive compensation structure *as adopted* satisfies the statutory criteria. In any event, PG&E obviously cannot specify at this point how

---

executive's control, then incentive compensation loses its incentive effect and can lose its value as a recruitment/retention tool, and thereby fail to promote the activities it is meant to promote.").

[19] Cal Advocates' June 25, 2021 Ltr. to WSD at 6, 8.

[20] *Id.* at 7.

[21] *See* D.14-02-015.

[22] *See* D.20-05-053, Appendix A, at 3.

[23] *Id.* at 88.

[24] Cal Advocates' June 25, 2021 Ltr. to WSD at 7.

[25] *Id.* at 4.

the Wildfire Risk Reduction metric, or any metric, "will impact executive compensation" for 2021; that can only be ascertained once the performance period is over and actual performance is known.

* * *

PG&E's 2021 executive compensation program satisfies the criteria of AB 1054. PG&E respectfully requests approval of its structure pursuant to Public Utilities Code § 8389(e). If PG&E can provide any additional information that would be helpful to OEIS as it considers PG&E's executive compensation program, please do not hesitate to contact me.

Sincerely,

/s/ Lisa Laanisto

Director, Compensation
San Francisco, California 94105
Lisa.Laanisto@pge.com