



August 8, 2023

Subject: Office of Energy Infrastructure Safety Draft Decision on Pacific Gas and Electric Company's 2023 Executive Compensation Structure Submission

Dear Executive Compensation Stakeholders,

Enclosed is the Office of Energy Infrastructure Safety's (Energy Safety's) draft decision on Pacific Gas and Electric Company's (PG&E's) 2023 Executive Compensation Structure submission (draft decision) for public review and comment.

Electrical corporations are statutorily required (Pub. Util. Code § 8389(e)(4))(Pub. Util. Code § 8389(e)(6)) to have an executive compensation structure that meets specific criteria in order to be eligible for the safety certification process. The executive compensation structure for PG&E meets the statutory criteria, which are intended to promote and incentivize public safety as a priority and to ensure the utility's financial stability. Energy Safety does not set or approve the actual salaries for electrical corporation executives.

All individuals and entities are welcome to submit both opening and reply comments on this draft decision. Reply comments must be strictly limited to addressing the issues raised in opening comments.

Opening comments must be submitted no later than September 7, 2023, 5 p.m. Pacific Time. Reply comments must be submitted no later than September 19, 2023, 5 p.m. Pacific Time.¹

Comments must be submitted to Energy Safety's e-filing system in the 2023 Executive Compensation docket (#2023-EC).² The title of the comments must be in accordance with Section 3.5 of the 2023 Executive Compensation Structure Submission Guidelines.³

If you wish to receive notifications when documents are published to the 2023 Executive Compensation docket, you may subscribe to the Executive Compensation service list here:

<https://energysafety.ca.gov/events-and-meetings/how-to-participate-in-public-events/>.

Sincerely,

A handwritten signature in cursive script that reads "Lucy C. Morgans".

Lucy Morgans

¹ Dates falling on a Saturday, Sunday or holiday as defined in Government Code Section 6700 have been adjusted to the next business day in accordance with Government Code Section 6707.

² Submit comments to the Docket #2023-EC via the Energy Safety e-filing system here:

<https://efiling.energysafety.ca.gov/EFiling/DocketInformation.aspx?docketnumber=2023-EC> (accessed August 2, 2023)

³ 2023 Executive Compensation Structure Submission Guidelines:

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



Lisa Laanisto
Director, Compensation
Pacific Gas and Electric Company
300 Lakeshore
Oakland, CA 94612

Subject: Office of Energy Infrastructure Safety Draft Approval of Pacific Gas and Electric 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 Ms. Laanisto:

Pacific Gas and Electric Company (PG&E) submitted its 2023 Executive Compensation Structure on March 13, 2023.⁴ On March 28, 2023, PG&E issued its first revision⁵ of its Executive Compensation Structure followed by a second revision⁶ on April 24, 2023. This letter sets forth the approval of PG&E's 2023 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that PG&E's submission satisfies the requirements of Public Utilities Code Sections 8389(e)(4) and 8389(e)(6) and the 2023 Executive Compensation Structure Submission Guidelines (2023 Guidelines).⁷

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 PG&E to comply with the requirements of Assigned Commission Ruling Executive Compensation Proposal 9 (ACR 9).⁸ The guidance

⁴ PG&E's 2023 Executive Compensation Structure Submission-Initial Submittal:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53441&shareable=true>

⁵ PG&E's Revised 2023 Executive Compensation Structure Submission:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53562&shareable=true>

⁶ PG&E's Second Revised 2023 Executive Compensation Structure Submission:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53707&shareable=true>

⁷ 2023 Executive Compensation Structure Submission Guidelines:
<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53269&shareable=true>

⁸ Investigation 19-09-016, Assigned Commissioner Ruling and Proposals, February 18, 2020:
<https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M327/K303/327303409.PDF>

letter 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 1054.⁹

Within the framework of Decision 19-04-020¹⁰, the CPUC necessitates PG&E, Southern California Edison (SCE), 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.¹¹

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:¹²

- **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),¹³ and Long-Term Incentives (LTIP)¹⁴ as a proportion of Total Incentive Compensation (TIC)¹⁵ 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.

⁹ 2023 Executive Compensation Structure Submission Guidelines, page 17.

¹⁰ CPUC Decision 19-04-020 (accessed July 26, 2022):

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

¹¹ Final 2023 Executive Compensation Structure Submission Guidelines.

¹² 2023 Executive Compensation Structure Submission Guidelines, Attachment 1, page 21.

¹³ STIP is all incentive-based compensation granted based on a performance period shorter than three years.

¹⁴ LTIP is all incentive-based compensation held or deferred for three or more years.

¹⁵ TIC is the sum of STIP compensation and LTIP compensation.

- **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 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 officer¹⁶ 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)¹⁷ for the appropriate filing year.
- **Section 6: Indirect and Ancillary Compensation:** A list of all indirect and ancillary compensation (excluding SERPs¹⁸) 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 PG&E 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), and the 2023 Guidelines.¹⁹

PG&E's Executive Compensation Structure has three components: 1) Base Salary, 2) Short-Term Incentives, and 3) Long-Term Incentives. These components provide an average of 26 percent of total compensation at the target level for base salary, 19 percent for STIP, and 55 percent for LTIP.

¹⁶ "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.

¹⁷ TC: The sum of Base Salary, STIP, and LTIP compensation.

¹⁸ SERPs: Supplemental Executive Retirement Plans

¹⁹ Per PG&E's April 24, 2023: Request for Approval of 2023 Executive Compensation Structure, Footnote 24, and Page 77. PG&E argues it generally does not have written employment contracts with its executive officers. PG&E nevertheless still provided information relating to Public Utilities Code Section 8389(e)(6) as part of its submittal.

PG&E's Executive Compensation Structure satisfies the principles outlined in Public Utilities Code Section 8389(e)(4). PG&E's Executive Compensation Structure promotes safety as a priority. Consistent with PG&E's 2022 Executive Compensation Structure, 70 percent of STIP and 40 percent of LTIP is safety focused. It is also structured to ensure public safety and utility financial stability. Specifically, 70 percent of STIP supports safety and 25 percent supports financial stability; 40 percent of LTIP supports safety and 35 percent supports financial stability.

In compliance with Section 8389(e)(4), PG&E's performance metrics are measurable and enforceable. For example, PG&E's electric 911 emergency response metric measures the percentage of time that PG&E's personnel are on site within 60 minutes after receiving a 911 call. Many of the STIP metrics are similar to executive compensation metrics approved by the CPUC in Decision 20-05-053.²⁰ Additionally, PG&E explains that in accordance with the Decision, a material portion of executive incentive compensation shall be withheld if PG&E is the ignition source of a catastrophic wildfire. PG&E asserted that, "[i]n the event of a fatality resulting from any fire caused by PG&E equipment, the Wildfire Risk Reduction metric will automatically be zeroed out,"²¹ indicating that PG&E will eliminate short-term incentives in such cases.

PG&E's Executive Compensation Structure promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans. Following commitments in PG&E's WMP, 2023 STIP metrics include both lagging and leading indicators to track progress in mitigating wildfire risks in high fire threat districts (HFTDs) and high fire risk areas (HFRA). Lagging, outcome-based indicators include the Wildfire Risk Reduction metric, which is measured by reportable fire ignitions. Leading indicators include timely completion and quality pass rate targets for asset inspections and vegetation management work in HFTDs and HFRA, such as routine vegetation management and transmission inspections, which help to drive proactive safety measures. Compensation awards are based on objective, measurable, and enforceable performance metrics.

PG&E's Executive Compensation Structure also satisfies the principles outlined in Public Utilities Code Section 8389(e)(6). Strict limits are placed on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics. Accordingly, target incentive compensation is 74 percent on average. There are no guaranteed monetary incentives. LTIP provides a significant portion of compensation, based on the electrical corporation's long-term performance and value. On average, target LTIP accounts for 55 percent of total direct compensation and is granted in Performance Shares which, if earned, become vested after three years. Indirect or ancillary compensation not aligned with shareholder and taxpayer interest is minimized; on average, indirect or ancillary compensation is 2.4 percent of total compensation excluding SERP.

²⁰ Investigation 19-09-016: Order Instituting Investigation on the Commission's Own Motion to Consider the Ratemaking and Other Implications of a Proposed Plan for Resolution of Voluntary Case filed by Pacific Gas and Electric Company, pursuant to Chapter 11 of the Bankruptcy Code, in the United States Bankruptcy Court, Northern District of California, San Francisco Division, In re Pacific Gas and Electric Corporation and Pacific Gas and Electric Company, Case No. 19-30088

²¹ PG&E's 2023 Executive Compensation Structure, page 8.

Stakeholder Comments

On April 12, 2023, the California Public Advocates Office (Cal Advocates) submitted comments on the electrical corporations' Executive Compensation Structure Submissions. Cal Advocates' concerns primarily revolve around the criteria employed by electrical corporations to define "Executive Officers" as well as specific metrics disclosed by PG&E. Cal Advocates noted inconsistencies among the electrical corporations, both in terms of the Executive Officers included in the filings and the redacted information in the public versions of the submissions. They highlighted that PG&E lists five executives, whereas PG&E's website describes 53 officers in positions such as Executive Vice Presidents, Senior Vice Presidents, and Vice Presidents. In addition, Cal Advocates identified two metrics in PG&E's Executive Compensation Structure Submission that they believe could be restructured to better prioritize safety. Cal Advocates believe that the two metrics, Wildfire Reduction and Electric Corrective Maintenance in High Fire Areas, should be restructured to enhance safety measures and improve wildfire prevention and mitigation efforts.

On April 25, 2023, PG&E issued a response to Cal Advocates' comments, asserting that the company complies with AB 1054 and emphasizes the privacy interest of executive officers in their financial information, which should be protected from public disclosure. It contends that Cal Advocates' suggestions for improving two specific performance metrics are inappropriate and beyond Energy Safety's jurisdiction. Regarding the Wildfire Risk Reduction metric, PG&E maintains that it already effectively promotes safety, and implementing the suggested change could result in unforeseeable and unfair outcomes for executives, hinder recruitment, and retention efforts, and potentially undermine the incentive compensation program in promoting safety. Similarly, PG&E argues that the Electric Corrective Maintenance metric sufficiently promotes wildfire safety, negating the need to expand its scope to newly generated tags.

Conclusion

Energy Safety has determined that PG&E's Executive Compensation Structure Submission satisfies the requirements of the 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. PG&E 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