



August 8, 2023

Subject: Office of Energy Infrastructure Safety Draft Decision on San Diego 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 San Diego Gas and Electric Company's (SDG&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 SDG&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>



Laura Fulton, Senior Counsel
San Diego Gas & Electric Company
8330 Century Park Court, CP32F
San Diego, CA 92123-1548

Subject: Office of Energy Infrastructure Safety Draft Approval of San Diego 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. Fulton:

San Diego Gas & Electric Company (SDG&E) submitted a request for approval of its 2023 Executive Compensation Structure on March 13, 2023.⁴ On March 24, 2023, SDG&E submitted a revised Executive Compensation Submission.⁵ This letter sets forth the approval of SDG&E's 2023 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that SDG&E's submission satisfies the requirements of Public Utilities Code Section 8389(e)(4) and 8389(e)(6) and the 2023 Executive Compensation Structure Submission Guidelines (2023 Guidelines).

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 Pacific Gas and Electric Company (PG&E) to comply with the requirements of Assigned Commission Ruling Executive Compensation Proposal 9 (ACR 9).⁶ The guidance letter encourages other electrical corporations, including SDG&E, to review and consider adopting measures from ACR 9 in the spirit of transparency and furthering the purpose of Assembly Bill 1054.⁷ If the electrical corporation chooses to do so, this should be listed in section 8 of its Executive Compensation Structure Submission Guidelines.

⁴ SDG&E 2023 Executive Compensation Structure Submission:

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53440&shareable=true>

⁵ SDG&E 2023 Revised Executive Compensation Structure Submission:

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53485&shareable=true>

⁶ Investigation 19-09-016, Assigned Commissioner Ruling and Proposals, February 18, 2020:

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

⁷ 2023 Executive Compensation Structure Submission Guidelines, page 17.

Within the framework of Decision 19-04-020⁸, the CPUC necessitates SDG&E, 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.⁹

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:¹⁰

- **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),¹¹ and Long-Term Incentives (LTIP)¹² as a proportion of Total Incentive Compensation (TIC)¹³ 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.
- **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

⁸ CPUC Decision 19-04-020 (accessed July 26, 2022):

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

⁹ 2023 Executive Compensation Structure Submission Guidelines:

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

¹⁰ 2023 Executive Compensation Structure Submission Guidelines, Attachment 1, page 21.

¹¹ STIP is all incentive-based compensation granted based on a performance period shorter than three years.

¹² LTIP is all incentive-based compensation held or deferred for three or more years.

¹³ TIC is the sum of STIP compensation and LTIP compensation.

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 officer¹⁴ 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)¹⁵ for the appropriate filing year.
- Section 6: Indirect and Ancillary Compensation: A list of all indirect and ancillary compensation (excluding SERPs¹⁶) 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 SDG&E in relation to its 2023 Executive Compensation Structure complies with the requirements set forth in Public Utilities Code Section 8389(e)(4) and (6), and the 2023 Guidelines.

Energy Safety reviewed the three components of SDG&E's Executive Compensation Structure: 1) Base Salary, 2) Short-Term Incentives and 3) Long-Term Incentives. These compensation components provide an average of 34 percent of total direct compensation at the target level for base salary, with 27 percent for STIP, and 100 percent for LTIP.

SDG&E's Executive Compensation Structure satisfies the principles outlined in Public Utilities Code Section 8389(e)(4). SDG&E's Executive Compensation Structure promotes safety as a priority: 53 percent of 2023 target STIP is safety focused with 20 percent wildfire safety and 33 percent on other safety measures. It is also structured to ensure public safety and financial stability through performance metrics (e.g., STIP metrics are

¹⁴ "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.

¹⁵ TC: The sum of Base Salary, STIP, and LTIP compensation.

¹⁶ SERPs: Supplemental Executive Retirement Plans

35 percent public safety related, 20 percent wildfire related and 27 percent financial related; LTIP metrics are solely financial).

In compliance with Section 8389(e)(4), SDG&E's performance metrics are measurable and enforceable. This includes, but is not limited to, SDG&E's lost time incident rate and the average time it takes for SDG&E staff to respond to a gas emergency. For the 2023 Submission, SDG&E added alternative metrics to capture Public Safety Power Shutoff (PSPS) preparedness for power restoration after a PSPS in the event SDG&E does not initiate a de-energization event. Prior to 2023, SDG&E did not have an alternate calculation methodology for this scenario. SDG&E's Executive Compensation Structure also promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans (WMPs). 2023 STIP metrics include targets tied to the total number of miles hardened through WMP initiatives, vegetation contacts in the high fire threat district (HFTD), PSPS average circuit restoration time, and electric overhead fault rate during elevated fire potential. In addition, compensation awards are based on objective, measurable, and enforceable performance metrics. These track impacts on drivers of ignition probability and safety outcome metrics that measure leading and lagging indicators of wildfire risk and consequences of wildfire mitigation work. For example, leading indicators include overhead system miles, underground system hardening, and covered conductor programs, whereas wildfire risk events and vegetation contacts in HFDT are lagging, outcome-based metrics. Improvement is possible regarding safety outcome metrics that measure leading and lagging indicators of wildfire risk reduction. SDG&E may also want to consider adoption of a specific provision that compensation will be withheld in the event of a catastrophic wildfire.¹⁷SDG&E's Executive Compensation Submission promotes safety as a priority and works to ensure public safety and utility financial stability with performance metrics, including incentive compensation based on meeting performance metrics that are measurable and enforceable, for all executive officers as required by Public Utilities Code Section 8389(e)(4).

SDG&E's Executive Compensation Structure also satisfies the principles outlined in Public Utilities Code Section 8389(e)(6).¹⁸ Strict limits are placed on guaranteed cash compensation, with the primary position of the executive officers' compensation based on achievement of objective performance metrics: on average, target incentive compensation is 66 percent of total direct compensation. There are no guaranteed monetary incentives in the compensation structure, as all incentive compensation is performance based. LTIP provides a significant portion of compensation based on the electrical corporation's long-term performance value and is deferred for three years. On average, LTIP compensation accounts for 48 percent of an executive's 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 2 to 7 percent of executive compensation excluding SERP.

Stakeholder Comments

On April 12, 2023, the California Public Advocates Office of the California Public Utilities Commission (Cal Advocates) submitted comments on the electrical corporations' Executive Compensation Structure

¹⁷ This is an element of ACR 9. As noted above, if an electrical corporation chooses to adopt ACR 9 measures, it can list them in section 8 of its Executive Compensation Structure Submission Guidelines.

¹⁸ SDG&E provides that it is compliant with Section 8389(e)(6) by not having new or amended contracts with its executive officers and by structuring its Executive Compensation Structure to meet the objectives of the statute.

Submissions. Cal Advocates' concerns primarily revolve around the criteria employed by electrical corporations to define Executive Officers. 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 SDG&E lists six executives, whereas SDG&E's website describes 20 individuals in leadership positions, encompassing the Chief Officers), Senior Vice Presidents, and Vice Presidents.

On April 24, 2023, SDG&E filed a response to the Cal Advocates comments. In summary, SDG&E indicated that publicly disclosing the names, titles, and compensation percentage of utility executives is unnecessary as executives are paid by shareholders, not ratepayers, and emphasizes that the right to privacy outweighs the claimed public interest.

Conclusion

Energy Safety finds that SDG&E's Executive Compensation Structure satisfies the requirements of 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. SDG&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