



September 20, 2023

Paul Marconi
President, Treasurer, and Secretary
Bear Valley Electric Service, Inc.
P.O. Box 9028
San Dimas, CA 91773-9028

Subject: Office of Energy Infrastructure Safety Final Decision on Bear Valley Electric Service Company Inc.'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

Dear Mr. Marconi,

Bear Valley Electric Service Company Inc. (BVES) submitted a request for approval of its 2023 Executive Compensation Structure on March 13, 2023.¹ On May 23, 2023, BVES submitted an Errata² to address an error on Table 4g.1 in the "Actual % of TIC at Vesting Date" column. This letter sets forth the approval of BVES's 2023 Executive Compensation Structure. The Office of Energy Infrastructure Safety (Energy Safety) finds that BVES'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).³ The guidance letter encourages other electrical corporations, including BVES, to review and consider adopting measures from ACR 9 in the spirit of transparency and furthering the purpose of Assembly Bill 1054.⁴

¹BVES 2023 Executive Compensation Structure Submission:

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53439&shareable=true>

² BVES Errata to 2023 Executive Compensation Structure Submission:

<https://efiling.energysafety.ca.gov/eFiling/Getfile.aspx?fileid=53936&shareable=true>

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>

⁴ 2023 Executive Compensation Structure Submission Guidelines, page 17.

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.⁵

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:⁶

- **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),⁷ and Long-Term Incentives (LTIP)⁸ as a proportion of Total Incentive Compensation (TIC)⁹ 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 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 officer¹⁰ with new or amended contracts, electrical corporations must provide the executive title and function, the executive name,

⁵ 2023 Executive Compensation Structure Submission Guidelines:

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

⁶ 2023 Executive Compensation Structure Submission Guidelines, Attachment 1, page 21.

⁷ STIP is all incentive-based compensation granted based on a performance period shorter than three years.

⁸ LTIP is all incentive-based compensation held or deferred for three or more years.

⁹ TIC is the sum of STIP compensation and LTIP compensation.

¹⁰ "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.

the target percentage of Base Salary, STIP, LTIP, and Indirect and Ancillary Compensation as a proportion of Total Compensation (TC)¹¹ for the appropriate filing year.

- **Section 6: Indirect and Ancillary Compensation:** A list of all indirect and ancillary compensation (excluding SERPs¹²) 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 BVES 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.

BVES describes the three key components of its Executive Compensation Structure: 1) Base Salary, 2) Short-Term Incentives and 3) Long-Term Incentives. The percentage of total compensation at the targeted level of performance for these three components are 49.5 percent for base salary, 25.5 percent for STIP, and 19.2 percent for LTIP.

BVES's Executive Compensation Structure satisfies the principles outlined in Public Utilities Code Section 8389(e)(4). BVES's Executive Compensation Structure promotes safety as a priority: safety-related metrics of the STIP comprise 53 percent of an executive's STIP bonus. It is also structured to ensure public safety and utility financial stability through performance metrics. The STIP is awarded on a yearly basis and includes multiple safety-related metrics, including wildfire safety metrics targeting system hardening and vegetation management that, combined, are weighted at 31.5 percent of the 2023 target STIP compensation. Financial metrics account for 16 percent of short-term incentives. The long-term incentive is a 100 percent wildfire-

¹¹ TC: The sum of Base Salary, STIP, and LTIP compensation.

¹² SERPs: Supplemental Executive Retirement Plans

related financial goal based on WMP capital expenditures, measured at the end of the three-year performance period.¹³

In compliance with Section 8389(e)(4), BVES's performance metrics are measurable and enforceable. For example, in the case of a reportable ignition in any quarter, the BVES executive will not receive half of the possible bonus for that quarter. Consistent with the 2023 Guidelines, BVES's Executive Compensation Structure promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans (WMP). 2023 STIP metrics include targets tied to improvements set forth in the WMP, such as the Covered Wire Program and Vegetation Management Quality Control metrics, which are focused on reducing the probability of ignition primarily by replacing high voltage bare wire with covered wire to minimize the risk of contact with the lines that cause ignition. 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, BVES increased the target for vegetation management quality control checks to be performed from 88-132 in 2022 to ≥ 140 checks in 2023 to help track impacts on ignition probability drivers. Reportable fire incidents serve as a measure of the effectiveness of reducing ignitions, while Vegetation Management Quality Control provides an indicator of the quality of vegetation-related mitigation efforts. BVES indicates that it will eliminate short-term incentives in the event of a catastrophic wildfire.¹⁴ Its Executive Compensation Structure provides that "in the event BVES causes a catastrophic wildfire that results in one or more fatalities due to the negligent operations and/or facilities that are not compliant with state and/or other applicable standards, the executive will receive no STIP bonus whatsoever."¹⁵

BVES's Executive Compensation Structure also satisfies the principles outlined in Public Utilities Code Section 8389(e)(6).¹⁶ Strict limits are placed on guaranteed cash compensation, with the primary position of the executive officers' compensation based on achievement of objective performance metrics: target incentive compensation is 50.5 percent of total direct compensation, excluding indirect or ancillary compensation. There are no guaranteed monetary incentives in the compensation structure, as all incentive compensation is performance based. LTIP is deferred for three years and is based on a single financial performance-based metric (i.e., achievement of its wildfire mitigation project capital spending as established in its wildfire mitigation plan).¹⁷ Indirect or ancillary compensation that is not aligned with shareholder and taxpayer

¹³ The BVES executive receives the minimum payout for spending levels at 85 percent of the authorized budget, target payout at 92.5 percent, and the maximum at 100 percent of the authorized budget. See BVES 2023 Executive Compensation Structure Submission, Table 4d.1.

¹⁴ 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.

¹⁵ BVES 2023 Executive Compensation Structure Submission, page 7.

¹⁶ BVES argues that it is compliant with Section 8389(e)(6) by not having new or amended contracts with executive officers and structuring its Executive Compensation Structure to meet the objectives of the statute. Due to its unique background as a former division of Golden State Water Company, its small size compared to larger IOUs, BVES states that it has greater difficulty achieving cost-effective compensation while meeting the statutory requirements. See BVES 2023 Executive Compensation Structure Submission, page 8.

¹⁷ BVES is not a publicly traded company and does not issue stock; all short-term and long-term incentives are paid in cash.

interest is largely minimized since indirect and ancillary compensation account for 2.7 percent of executive compensation excluding SERP.

Stakeholder Comments

No stakeholder submitted comments specifically regarding BVES's 2023 Executive Compensation Structure.

Conclusion

Energy Safety finds that BVES's Executive Compensation Structure satisfies the requirements of the Public Utilities Code Section 8389(e)(4) and (6) and the 2023 Guidelines. The intricacies and dynamic nature of Executive compensation requirements pertaining to wildfire mitigation and safety necessitate careful consideration. BVES must ensure its adopted Executive Compensation Structure 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