SOUTHERN CALIFORNIA EDISON®
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VP Regulatory Policy

05/07/2021

Caroline Thomas Jacobs, Director
Wildfire Safety Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

SUBJECT: Southern California Edison Company's Reply to Comments on 2021 Executive Compensation Submissions

Director Thomas Jacobs,

Pursuant to your December 22, 2020 letter, Southern California Edison Company (SCE) submitted its 2021 Executive Compensation Structure approval request on January 15, 2021 (Initial Submission). On February 5, 2021, SCE supplemented that submission with its reply (February 5 Reply) to comments from the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) and The Utility Reform Network (TURN). On March 1, 2021, SCE supplemented its submission (together with the February 5 Reply, the Supplemental Submissions) by providing its final 2021 annual incentive goals and metrics as approved by the SCE Board of Directors' Compensation and Executive Personnel Committee (Compensation Committee) on February 24, 2021. Cal Advocates and TURN separately submitted additional comments on April 30, 2021. SCE hereby submits its reply in response to those comments.

INTRODUCTION

As SCE explained in the Initial and Supplemental Submissions, SCE's 2021 executive compensation structure fully complies with the requirements of Pub. Util. Code Section 8389(e) and Wildfire Safety Division (WSD) guidance. The aspects of SCE's executive compensation structure that Cal Advocates and TURN have questioned are actually strengths of SCE's program. The independent Compensation Committee has repeatedly demonstrated that it exercises its discretionary authority to emphasize the foundational role of safety and compliance, including eliminating annual incentive awards for 2018 to certain executive officers in light of the impact of wildfires on communities in SCE's service area. SCE uses both qualitative and quantitative success measures to contribute to safety because there are important safety goals that advance more quickly when included in corporate goals, for which quantitative metrics are not well-suited (e.g., the data or definition for the safety goal needs additional tracking to confirm that it has sufficient accuracy and predictability to establish appropriate minimum, target, and aspirational performance levels).

REVIEW PROCESS

Nearly a year ago, on July 2, 2020, SCE met with the WSD in anticipation of a stakeholder workshop and provided SCE's 2021 corporate goal timeline. In accordance with that timeline, SCE established and communicated its final 2021 annual incentive goals in February 2021 to set expectations and incent the intended performance for the year. SCE's philosophy is to use the same goals for all employees—executives and non-executives—and to communicate those goals at the same time to all employees so that the entire company works together to achieve the company's goals. It is now too late to make major changes to 2021 goals without the changes being counterproductive. SCE's workforce should be allowed to remain focused on meeting the important safety and resiliency and other goals for 2021 that were approved and rolled out in February.

SCE respectfully requests that the WSD approve SCE's 2021 executive compensation structure without further delay. In addition, SCE recommends that the WSD provide for a collaborative process to occur this summer with respect to the 2022 executive compensation program, so that SCE has enough time to receive and evaluate input in determining its 2022 goals. As SCE's 2021 corporate goal timeline reflected, SCE's Board of Directors or its committees review and approve preliminary goals for the following year during the October to December timeframe, so that preliminary goals (with placeholders for quantitative metrics) can be communicated to employees in January.

MAINTENANCE GOALS

Cal Advocates recommends, on pages 2 and 11 of its April 30, 2021 comments, that the WSD require SCE to modify its Vegetation Line Clearing success measure. This recommendation is based on Cal Advocates' misunderstanding of the success measure, which is actually a maintenance goal set by SCE and not a goal that measures compliance. General Order 95 does not specify a timeframe for trimming vegetation.[1] Instead, SCE on its own establishes an aggressive trimming schedule, with the understanding from experience that numerous trims will be significantly delayed due to customer refusals or permitting issues. The target for the success measure—that 85% of trims are on-time with respect to SCE's schedule—reflects the reality of these delays caused by factors external to SCE (e.g. permitting and access issues) and incentivizes operational performance that meets compliance and risk reduction objectives.

Cal Advocates' April 30, 2021 comments also focus on SCE's Hazard Tree Management Program/Drought Relief success measure, which is another maintenance goal based on an aggressive schedule established by SCE. As SCE explained in its response to Question 10 of Cal Advocates' April 9, 2021 data request, the minimum, target, and aspirational performance levels for the success measure (85%, 90%, and 95%, respectively) are based on a bottom-up analysis that accounts for multiple

[1] General Order 95, Section III, Rule 35 Vegetation Management.

variables that impact performance.[2] The minimum value of 85% was set because the bottom-up analysis indicated a roughly 80% likelihood to achieve the performance level. The target value of 90% was set because the bottom-up analysis indicated a roughly 50% likelihood to achieve the performance level. The aspirational value of 95% was set because the bottom-up analysis indicated a roughly 20% likelihood to achieve the performance level.

PERFORMANCE LEVELS FOR QUANTITATIVE SAFETY & RESILIENCY METRICS

Cal Advocates recommends that the WSD require SCE to explain how it derived the minimum, target, and aspirational performance levels for quantitative metrics in the Safety & Resiliency goal category. The explanation that SCE provided in response to Question 10 of Cal Advocates' April 9, 2021 data request also applies to the other quantitative metrics. A separate bottom-up analysis was performed for each Safety & Resiliency success measure for which SCE established minimum, target, and aspirational performance levels. Based on the bottom-up analysis, those levels were set so that the expected likelihood to achieve the performance level was roughly 80%, 50%, and 20%, respectively.

ACTIVITY-BASED, QUALITATIVE SAFETY & RESILIENCY SUCCESS MEASURES

Cal Advocates recommends that the WSD require SCE to provide measurable targets for the activity-based, qualitative success measures in the Safety & Resiliency goal category. WSD should reject that request. Pub. Util. Code Section 8389(e) does not require that SCE's safety annual incentive goals be based solely on meeting quantitative performance metrics. Instead, the relevant requirement is that the safety portion of SCE's annual incentive program include quantitative performance metrics, which it does. Most of the success measures in the Safety & Resiliency goal category are based on meeting quantitative performance metrics. What is more important is that, as explained in our Initial and Supplemental Submissions and responses to data requests regarding our 2021 executive compensation structure (collectively, 2021 SCE Submission), all the success measures in the goal category contribute to safety and resiliency.

CONCLUSION

For the reasons discussed in the 2021 SCE Submission and supplemented in this correspondence, we believe SCE's 2021 executive compensation structure fully complies with the requirements of Pub. Util. Code Section 8389(e) and the WSD's guidance. We urge the WSD to promptly approve SCE's 2021 executive compensation structure.

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[2] The bottom-up analysis for the Hazard Tree Management Program included: assessment volume (number of trees inspected and assessed); prescription volume (recommended actions based on the assessment); approval rates (portion of owners giving us permission to perform the work defined by the prescription); crew availability; and crew productivity.

SCE appreciates the opportunity to submit its reply to stakeholder comments. If you have any questions, or require additional information, please contact me at michael.backstrom@sce.com.

Sincerely,

//s//
Michael A. Backstrom
Vice President, Regulatory Policy
Southern California Edison

cc: Service List for R.18-10-007
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