

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE



March 24, 2022

Advice Letter 4419-G/6157-E-A

Erik Jacobson
Director, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

SUBJECT: Tier 1 Advice Letter re Executive Compensation.

Dear Mr. Jacobson:

Advice Letter 4419-G/6157-E-A is effective as of March 17, 2022, per resolution E-5187 ordering paragraphs.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete Skala".

Pete Skala
Interim Deputy Executive Director for
Energy & Climate Policy, CPUC
Director for Procurement, Efficiency, and
Electrification, Energy Division, CPUC

April 9, 2021

Advice 4419-G/6157-E

(Pacific Gas and Electric Company ID U 39 M)

Public Utilities Commission of the State of California

Subject: Tier 1 Advice Letter re Executive Compensation

Purpose

The California Public Utilities Commission's (the "Commission") June 1, 2020 Decision Approving the Chapter 11 Reorganization Plan of Pacific Gas and Electric Company ("PG&E") and PG&E Corporation (D.20-05-053) (the "POR Decision") imposes requirements on compensation provided to PG&E executive officers. One such requirement is "[a]nnual reporting of awards to the CPUC through a Tier 1 Advice Letter compliance filing." Pursuant to the Commission's directive, PG&E submits this Tier 1 Advice Letter to report on PG&E's 2020 executive officer compensation awards, and to address how such awards comply with certain requirements of D.20-05-053 and Assembly Bill ("AB") 1054.

Discussion

The following chart summarizes the mix of compensation granted to PG&E's executive officers¹ in July 2020 (following PG&E's emergence from Chapter 11) in the form of salaries, cash incentive awards through PG&E's 2020 Short-Term Incentive Plan ("STIP"), and performance share equity incentive awards granted for 2020 through PG&E Corporation's 2014 Long-Term Incentive Plan ("LTIP"):

¹ As used herein, "executive officer" refers to the individuals who qualify as "executive officers" within the meaning of Public Utilities Code §§ 451.5 and 8389(e)(4). PG&E construes "executive officers" as used in these statutes to refer to utility officers who qualify as "executive officers" under 17 C.F.R. § 240.3b-7 (plus two officers listed in § 451.1 who are not listed in § 240.3b-7, namely, a utility's corporate secretary and treasurer). *Compare* Pub. Util. Code § 451.5 (definition of "executive officer") *with* 17 C.F.R. 240.3b-7 (substantively identical definition, albeit without specifying the secretary and treasurer); *see also* CPUC Resolution E-4963 at 8 (Dec. 13, 2018) (construing the term "officer" in Public Utilities Code § 706 to mean the officers encompassed by § 240.3b-7). Compensation for other officers of PG&E, or for individuals who are officers of only PG&E Corporation, are not described herein.

Executive	Base Salary²	STIP³	LTIP⁴
Chief Executive Officer ⁵	100%	0%	0%
Senior Vice President	27%	19%	53%
Senior Vice President	48%	17%	35%
Senior Vice President	37%	22%	41%
Vice President	38%	18%	44%
Vice President	38%	18%	44%
Senior Director	36%	11%	53%
Average (excluding CEO)	37%	18%	44%

PG&E believes that the foregoing is compliant with AB 1054 and the POR Decision, including requirements that:

² Base salary percentages reflect annualized amounts based on the executive officers' salaries following PG&E's July 1, 2020 emergence from Chapter 11. For any individual who was not in an executive officer position during the entirety of the post-emergence portion of 2020, the base salary percentage reflects an annualized figure based on such individual's salary during the period such individual was an executive officer.

³ STIP percentages reflect target awards pursuant to the 2020 STIP for the 2020 STIP's performance period. Payouts were provided in March 2021, following conclusion of the 2020 performance period and certification of the STIP performance score by the PG&E Corporation Compensation Committee. (For a general discussion of the concept of "target" awards, please see PG&E's prior filings referenced in footnote 2 above.)

⁴ LTIP percentages reflect target award levels pursuant to the 2020 LTIP performance share awards. Unlike the STIP, which has a one-year performance period, the 2020 LTIP performance shares have a three-year performance period. Accordingly, actual payouts pursuant to the 2020 LTIP performance shares will not be determined until after 2020 (*i.e.*, likely in February 2023).

⁵ PG&E's Chief Executive Officer departed PG&E on August 3, 2020, shortly after PG&E's emergence from Chapter 11. In accordance with his departure arrangements, he was not eligible for awards under the 2020 STIP or for 2020 LTIP performance shares. He is not included in the averages in the chart.

- A utility's executive compensation structure must be "based" on a "principle[]" of "[s]trict limits on guaranteed cash compensation, with the primary portion of the executive officers' compensation based on achievement of objective performance metrics."⁶ As shown in the chart, guaranteed cash compensation was a minority of total executive officer compensation, with the primary portion of the executive officers' compensation being "at risk" and granted during 2020 through the STIP and the LTIP. (As explained in PG&E's prior filings, executive officers' 2020 STIP and 2020 LTIP performance share awards were based on achievement of objective performance metrics.)
- A utility's executive officer compensation structure must be "based" on a "principle[]" of "[n]o guaranteed monetary incentives in the compensation structure."⁷ As reflected in the chart, there were no guaranteed monetary incentives for PG&E executive officers; the only cash incentive payments were granted through the STIP, and they were entirely "at risk."⁸
- A utility's executive officer compensation program must be "based" on a "principle[]" of "[a] long-term structure that provides a significant portion of compensation, which may take the form of grants of the electrical corporation's stock, based on the electrical corporation's long-term performance and value," with such "compensation . . . held or deferred for a period of at least three years."⁹ As reflected in the chart, a significant portion of executive officer compensation, ranging from 35% to 53% at target levels, consisted of equity-based performance share awards (with such awards being subject to a three-year hold).
- "[T]he majority or super-majority of incentive compensation, in the form of equity awards" must be held "or deferr[ed] . . . for at least 3 years."¹⁰ As noted, 2020 LTIP performance share equity awards for executive officers are subject to a three-year hold.¹¹

⁶ Pub. Util. Code § 8389(e)(6)(A)(i)(I).

⁷ *Id.* § 8389(e)(6)(A)(i)(II).

⁸ In 2020, PG&E provided limited non-salary cash payments to executive officers, such as modest stipends in lieu of a package of corporate perquisites as described in PG&E's prior filings, and housing reimbursements for an executive officer who incurred certain housing expenses because of his work for PG&E. PG&E does not believe that such payments constitute "guaranteed monetary incentives."

⁹ *Id.* § 8389(e)(6)(iii).

¹⁰ D.20-05-053 at 88.

¹¹ Though PG&E does not read this portion of the POR Decision to require that a majority or super-majority of overall incentive compensation for executive officers be in the form of equity awards, to the extent it can be read that way, PG&E's 2020 awards also would satisfy such a requirement. As indicated by the figures in the chart, 2020 LTIP performance share equity awards at target levels averaged 70.9% of total executive officer incentive compensation

- “Guaranteed cash compensation as a percentage of total compensation [must] not exceed industry norms.”¹² In compliance with the POR Decision’s requirement that there be “[a]nnual review of awards by an independent consultant,”¹³ the Compensation Committee of the PG&E Corporation Board of Directors uses a nationally recognized independent consultant (previously Pay Governance, LLC, and as of January 1, 2021, Meridian Compensation Partners, LLC) to confirm, among other things, that base salaries for all officers—including executive officers—as a percentage of total compensation do not exceed industry norms. PG&E believes that the base salary percentages in the chart are within industry norms.

The POR Decision also imposed the following requirement: “[There shall be a] presumption that a material portion of executive incentive compensation shall be withheld if . . . PG&E is the ignition source of a catastrophic wildfire, unless the Commission determines that it would be inappropriate based on the conduct of the utility.”¹⁴ The Decision clarified who bears responsibility for applying the presumption by adopting what it called a “hybrid” approach: “PG&E . . . make[s] the initial determination as to whether PG&E ha[s] caused a catastrophic event that warrants reduction or elimination of incentive compensation, [and] that . . . decision [is] subject to Commission review and modification.”¹⁵ As PG&E reported in its January 15, 2021 submission to the Wildfire Safety Division, PG&E implemented this requirement on June 25, 2020, when PG&E’s Board of Directors adopted a Policy Statement providing in part: “There shall be a presumption that a material portion of executive incentive compensation shall be withheld if the Utility is the ignition source of a catastrophic wildfire, subject to any decision by the Board that such withholding would be inappropriate based on the conduct of [PG&E]. Any such determination by the Board shall be subject to Commission review and modification.”

Following the September 2020 Zogg Fire, and prior to the California Department of Forestry and Fire Protection’s recent announcement that it determined the cause thereof, in February 2021, the PG&E Corporation Board of Directors’ Compensation Committee considered whether to exercise its discretion to materially reduce officer incentive compensation payouts for the 2020 STIP performance year and the 2018 LTIP performance period ending in December 2020. The Committee considered with management the totality of circumstances over the course of 2020, including but not limited to the possibility that PG&E assets were the ignition source of the Zogg Fire (which resulted in four public fatalities and property damage), PG&E’s overall public and workforce safety (which included five fatalities from PG&E and contractor workforces),

(excluding the Chief Executive Officer) and comprised more than 66% of overall executive officer incentive compensation in every case.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.* at 92.

compliance fines levied against PG&E by regulators, and reports provided to the Board by PG&E's Federal Monitor on PG&E's operational and safety performance. The Committee also consulted with independent compensation consultants and outside counsel to review the range of actions taken by other utilities in comparable circumstances.

Based on the totality of the circumstances and management's recommendation, and after extensive consideration, the Committee determined to exercise its discretion to materially reduce incentive compensation paid to all PG&E officers—both executive and non-executive—for the 2020 STIP performance year and the 2018 LTIP performance period ending in December 2020. Specifically, the Committee applied negative discretion to results of both short- and long-term incentives that resulted in a reduction of incentive compensation, in the form of 2018 LTIP performance share payments and 2020 STIP payments, to executive and non-executive officers for 2020, by an average of 58% from target for those elements of incentives. The Committee achieved this reduction through the following means:

- For the 2018 LTIP awards, 35% of the total LTIP award value granted in 2018 consisted of performance share awards payable based on achievement of performance metrics, with a three-year performance period ending in 2020. For these performance share awards, operational performance and financial results combined to produce a formulaic result on the metrics for the period ending in 2020 of 72% of target. The Committee exercised its discretion to reduce this figure to zero, resulting in no payout for 2018 performance shares.
- Under the 2020 STIP, operational performance and financial results combined to produce a formulaic result on the STIP's performance metrics of 74.6% of target. The Committee exercised its discretion to further reduce 2020 STIP payouts to 65% of target.

At the time the Board elected to exercise this negative discretion, the Board had not made any determination that a presumption of withholding of a material portion of executive officer incentive compensation pursuant to the POR Decision should apply, or that the factual predicates for any such presumption existed. Nevertheless, the Board intended that, to the extent such withholding was required by the POR Decision, such reduction in STIP and LTIP payouts shall satisfy such requirement.

For further information regarding PG&E's 2020 executive officer compensation awards, please refer to pages 39-87 of PG&E and PG&E Corporation's 2021 joint proxy statement.

Protests

*****Due to the COVID-19 pandemic and the shelter at home orders, PG&E is currently unable to receive protests or comments to this advice letter via U.S. mail or fax. Please submit protests or comments to this advice letter to EDTariffUnit@cpuc.ca.gov and PGETariffs@pge.com*****

Anyone wishing to protest this submittal may do so by letter sent via U.S. mail, facsimile or E-mail, no later than April 29, 2021, which is 20 days after the date of this submittal. Protests must be submitted to:

CPUC Energy Division
ED Tariff Unit
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: EDTariffUnit@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest shall also be sent to PG&E either via E-mail or U.S. mail (and by facsimile, if possible) at the address shown below on the same date it is mailed or delivered to the Commission:

Erik Jacobson
Director, Regulatory Relations
c/o Megan Lawson
Pacific Gas and Electric Company
77 Beale Street, Mail Code B13U
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-3582
E-mail: PGETariffs@pge.com

Any person (including individuals, groups, or organizations) may protest or respond to an advice letter (General Order 96-B, Section 7.4). The protest shall contain the following information: specification of the advice letter protested; grounds for the protest; supporting factual information or legal argument; name, telephone number, postal address, and (where appropriate) e-mail address of the protestant; and statement that the protest was sent to the utility no later than the day on which the protest was submitted to the reviewing Industry Division (General Order 96-B, Section 3.11).

Effective Date

Pursuant to General Order (GO) 96-B, Rule 5.1, and D.20-05-053, this advice letter is submitted with a Tier 1 designation. PG&E requests that this Tier 1 advice submittal become effective upon date of submittal, which is April 9, 2021.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for I.19-09-016. Address changes to the General Order 96-B service list should be directed to PG&E at email address PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Send all electronic approvals to PGETariffs@pge.com. Advice letter submittals can also be accessed electronically at: <http://www.pge.com/tariffs/>.

/S/

Erik Jacobson
Director, Regulatory Relations

cc: Service List I.19-09-016



ADVICE LETTER SUMMARY

ENERGY UTILITY



MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.: Pacific Gas and Electric Company (ID U39M)

Utility type:

- ELC GAS WATER
 PLC HEAT

Contact Person: Kimberly Loo

Phone #: (415)973-4587

E-mail: PGETariffs@pge.com

E-mail Disposition Notice to: KELM@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas WATER = Water
 PLC = Pipeline HEAT = Heat

(Date Submitted / Received Stamp by CPUC)

Advice Letter (AL) #: 4419-G/6157-E

Tier Designation: 1

Subject of AL: Tier 1 Advice Letter re Executive Compensation

Keywords (choose from CPUC listing): Compliance

AL Type: Monthly Quarterly Annual One-Time Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #: D.20-05-053

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL:

Confidential treatment requested? Yes No

If yes, specification of confidential information:

Confidential information will be made available to appropriate parties who execute a nondisclosure agreement. Name and contact information to request nondisclosure agreement/ access to confidential information:

Resolution required? Yes No

Requested effective date: 4/9/21

No. of tariff sheets: 0

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

¹Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this submittal, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102
Email: EDTariffUnit@cpuc.ca.gov

Name: Erik Jacobson, c/o Megan Lawson
Title: Director, Regulatory Relations
Utility Name: Pacific Gas and Electric Company
Address: 77 Beale Street, Mail Code B13U
City: San Francisco, CA 94177
State: California Zip: 94177
Telephone (xxx) xxx-xxxx: (415)973-2093
Facsimile (xxx) xxx-xxxx: (415)973-3582
Email: PGETariffs@pge.com

Name:
Title:
Utility Name:
Address:
City:
State: District of Columbia Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:

**PG&E Gas and Electric
Advice Submittal List
General Order 96-B, Section IV**

AT&T
Albion Power Company

Alta Power Group, LLC
Anderson & Poole

Atlas ReFuel
BART

Barkovich & Yap, Inc.
California Cotton Ginners & Growers Assn
California Energy Commission

California Hub for Energy Efficiency
Financing

California Alternative Energy and
Advanced Transportation Financing
Authority
California Public Utilities Commission
Calpine

Cameron-Daniel, P.C.
Casner, Steve
Cenergy Power
Center for Biological Diversity

Chevron Pipeline and Power
City of Palo Alto

City of San Jose
Clean Power Research
Coast Economic Consulting
Commercial Energy
Crossborder Energy
Crown Road Energy, LLC
Davis Wright Tremaine LLP
Day Carter Murphy

Dept of General Services
Don Pickett & Associates, Inc.
Douglass & Liddell

East Bay Community Energy Ellison
Schneider & Harris LLP Energy
Management Service
Engineers and Scientists of California

GenOn Energy, Inc.
Goodin, MacBride, Squeri, Schlotz &
Ritchie

Green Power Institute
Hanna & Morton
ICF

IGS Energy
International Power Technology
Intestate Gas Services, Inc.
Kelly Group
Ken Bohn Consulting
Keyes & Fox LLP
Leviton Manufacturing Co., Inc.

Los Angeles County Integrated
Waste Management Task Force
MRW & Associates
Manatt Phelps Phillips
Marin Energy Authority
McKenzie & Associates

Modesto Irrigation District
NLine Energy, Inc.
NRG Solar

Office of Ratepayer Advocates
OnGrid Solar
Pacific Gas and Electric Company
Peninsula Clean Energy

Pioneer Community Energy

Redwood Coast Energy Authority
Regulatory & Cogeneration Service, Inc.
SCD Energy Solutions
San Diego Gas & Electric Company

SPURR
San Francisco Water Power and Sewer
Sempra Utilities

Sierra Telephone Company, Inc.
Southern California Edison Company
Southern California Gas Company
Spark Energy
Sun Light & Power
Sunshine Design
Tecogen, Inc.
TerraVerde Renewable Partners
Tiger Natural Gas, Inc.

TransCanada
Utility Cost Management
Utility Power Solutions
Water and Energy Consulting Wellhead
Electric Company
Western Manufactured Housing
Communities Association (WMA)
Yep Energy