Docket:	:	A.12-11-009
Exhibit Number	:	DRA-15
Commissioner	:	Florio
ALJ	:	Pulsifer
Witness	:	Godfrey

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for Pacific Gas and Electric Company General Rate Case Test Year 2014

Human Resources Expenses Part 2 of 2

San Francisco, California
May 3, 2013

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HUMAN RESOURCES EXPENSES

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding Pacific Gas and Electric Company's (PG&E) forecasts of Human Resources expenses for Test Year (TY) 2014.

This exhibit specifically addresses PG&E's expense forecasts associated with the Short-Term Incentive Plan (STIP) for the PG&E Utility Company (recorded in Federal Energy Regulatory Commission (FERC) Uniform System of Account 920) and PG&E Corporation (recorded in FERC Account 923).

All other Human Resources expenses are addressed in Exhibit DRA-14 (Human Resources Expenses, Part 1 of 2) and Labor Escalation is addressed in Exhibit DRA-4 (Cost Escalation).

II. SUMMARY OF RECOMMENDATIONS

PG&E's utilized its 2011 STIP at Target of $100.057 million as the basis for calculating its 2014 STIP forecast of $130.206 million for the Company[1], and utilized its STIP at Target of $0.309 million to calculate PG&E Corporation's share of $0.107 million.[2] DRA recommends that Ratepayers be allocated no more than 35% of its forecast of PG&E's STIP costs since 30% of the STIP costs exclusively benefit shareholders and the other 70% of the costs should be shared equally between ratepayers and shareholders.

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[1] It is DRA's understanding that PG&E's TY 2014 forecast of $130.206 million assumes that the Commission will authorize PG&E all of the staffing increases the Company is requesting. DRA's recommendations for the various staffing increases are addressed in DRA's individual exhibits. In this DRA exhibit, DRA's use of the Company's $130.206 million forecast is a conservative approach since it is not adjusted for DRA adjustments to PG&E staffing increases.

[2] Ex. PG&E-8 workpapers p. WP 5-4.

The following summarizes DRA's recommendations:

- DRA's estimate of $45.572 million for PG&E's STIP costs should be adopted. DRA's estimate of $45.572 million is $84.634 million lower than PG&E's Test Year estimate of $130.206 million.
- DRA's estimate of $37,000 for PG&E's Corporation STIP costs should be adopted. DRA's estimate of $37,000 is $70,000 lower than PG&E's Test Year estimate of $107,000.

Table 15-1 compares DRA's and PG&E's TY2014 forecasts of Human Resources STIP expenses addressed in this exhibit:

Table 15-1
Human Resources Expenses for TY2014
Short-Term Incentive Plan
(In Thousands of Dollars)

Description (a)	PG&E Proposed[3] (b)	DRA Recommended (c)	Amount PG&E>DRA (d=b-c)	Percentage PG&E>DRA (e=d/c)
Short-Term Incentive Plan				
920 – PG&E Company	$130,206	$45,572	$84,634	185.71%
923 – PG&E Corporation	$107	$37	$70	189.19%
Total	$130,313	$45,609	$84,704	185.72%

III. GENERAL OVERVIEW

PG&E requests $130.206 million for its annual variable incentive pay plan STIP for the Company and $107,000 for PG&E Corporation for the Test Year.[4] PG&E implemented its annual incentive plan for its officers and other senior leaders in 1983 and called the program the Performance Incentive Plan (PIP). In 1987, PG&E included all non-bargaining unit employees in PIP. In 2006, PG&E changed the name of the program from PIP to Short-Term Incentive Plan (STIP) and changed

[3] Ex. PG&E-8, p. 5-1.

[4] Ex. PG&E-8, p. 5-1.

the make-up of the program to reflect a single set of performance measures that applied to the Corporation and the Company's Lines of Business (LOB).[5]

The Compensation Committee of the PG&E Corporation Board of Directors establishes its STIP program each calendar year (Plan Year).[6] PG&E's STIP score ranges from 0.0 to 2.0 (for its minimum to maximum STIP Payout).[7] PG&E's Test Year 2014 STIP is based on a combination of business operational measures weighted 70% and earnings from operations or financial measures weighted 30% as shown in Table 15-2 below.[8]

Table 15-2
PG&E's Short-Term Incentive Plan Measures Utilized for Test Year 2014

PG&E's Operational and Financial Measures	Weight of Measures
Safety (Public 24% and Employee 16%)	40%
Customer Satisfaction	30%
Earnings From Operations	30%

PG&E states, "The company score is a multiplier that the Company applies to all individual awards. If the overall company score is 0.000, then no one receives an incentive award and the total STIP payout for that year is $0.00",[9] despite the performance on the business performance measures. An example of PG&E's company score being recorded as $0.00 for some employees was during PG&E's

[5] PG&E's response to DRA Master Data Request Chapter 8, Q. 2.

[6] Ex. PG&E-8, p. 5-2.

[7] Ex. PG&E-8, p. 5-6.

[8] Ex. PG&E-8, p. 5-4.

[9] PG&E's response to DRA's Master Data Request, Chapter 8, Q. 6.

Plan Year 2010. PG&E's Board of Directors[10] awarded zero STIP to officers of the company even though PG&E collected in rates authorized funding for its STIP.[11] PG&E calculates STIP by using its employees' eligible earnings during the plan year, employee's target participation rate, employee's individual performance modifier,[12] and PG&E's STIP performance score.[13]

A. PG&E's Request

PG&E seeks $130.206 million in its STIP for the Company and $107,000 for PG&E Corporation and requests that its forecast Target STIP Payout be funded entirely by ratepayers.[14] This forecast includes an adjustment of $15.9 million for additional employees PG&E proposes to hire and a reduction of $231,000 for PG&E Corporation employees.[15] PG&E's forecast does not include "recovery of STIP for officers of the Company or PG&E Corporation".[16]

In 2012, PG&E changed the makeup of its STIP measures. PG&E states that it "significantly increased the focus on safety and customer focus metrics (including reliability), which together account for 70 percent of its STIP performance

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[10] PG&E states its "Committee (and with respect to awards for certain officers, the respective Board of Directors of PG&E Corporation or the Utility) has discretion to reduce or eliminate the amount of final STIP awards notwithstanding the achievement of the specified STIP goals". PG&E's response to DRA's Master Data Request Chapter 8.

[11] PG&E's response to DRA's Master Data Request Chapter 8, Q.7.

[12] PG&E states that "Beginning with the 2011 plan year, individual performance ratings do not impact the total Company STIP payout". Supervisors are required to allocate individual awards within the budgeted, or target, amount for their group. Total actual STIP payout varies from total target STIP payout based only on the company performance on its STIP performance measures (i.e. the Company Score)". PG&E's response to DRA Master Data Request, Chapter 8 Q.12.

[13] Ex. PG&E-8 Ch. 5, pp. 5-6 and 5-7.

[14] Ex. PG&E-8, Ch. 5, p. 5-5.

[15] Ex. PG&E-8, Ch. 5, p. 5-8.

measures".[17] PG&E also reduced its Earnings From Operations (EFO) metric in 2012, from 50 percent down to a measure of 30 percent of the STIP to "allow for further emphasis on the Company's public safety and service reliability priorities".[18] Prior to making the adjustments, PG&E calculated its 2014 STIP forecasts for the Company and PG&E Corporation totaling $130.313 million by escalating its 2011 STIP Target Payout of $100.057 million for the Company (the escalated amount for the Company is $114.3 million) and $309,000 for the Corporation (the escalated amount for PG&E Corporation is $337,000).[19]

B. Authorized vs. Recorded Expenses

In its decision resolving PG&E's 2011 General Rate Case (GRC), the Commission ordered the utility to provide periodic compliance filings showing authorized and recorded expenses and capital expenditures, by Major Work Category (MWC), for electric distribution, electric generation, and gas distribution.[20]

DRA requested information on PG&E's authorized STIP for the Company and for PG&E Corporation. PG&E provided documentation showing its Target STIP Payout and its Actual STIP Payout for Non-Officers combined with PG&E Corporation for the years 2003 through 2012. PG&E states:

(continued from previous page)
[16] Ex. PG&E-8, Ch. 5, p. 5-1.

[17] Ex. PG&E-8 Ch. 5, p. 5-3.

[18] Ex. PG&E-8 Ch. 5, p. 5-4.

[19] Ex. PG&E-8 Chapter 5, p. 5-8. Although PG&E's 2011 STIP Target Payout for the Company was $100.057 million, PG&E only paid out $60.673 million in STIP to its employees for its Plan Year 2011. PG&E Corporation's 2011 STIP Target Payout was $309,000, however, PG&E paid out $189,000 in STIP to its employees for its Plan Year 2011 (Ex. PG&E-8, Workpapers, p. WP 5-1 and WP 5-4.

[20] *Decision on Pacific Gas and Electric Company Test Year 2011 General Rate Increase* Request ((2011) Decision (D.) 11-05-018, *mimeo*., Ordering Paragraph 42, at pp. 98-99.

"The Commission did not authorize a specific amount for PG&E's STIP for 2003 through 2011. For each of PG&E's 2003, 2007 and 2011 GRCs, the Commission adopted settlement agreements in which the parties agreed to a total amount of Administrative and General costs to be included in the revenue requirement".[21]

Table 15-3 below shows PG&E's Target STIP Payout (budget) and its Actual STIP Payout for Plan Years 2003-2012.

Table 15-3
PG&E's Target and Actual Short-Term Incentive Plan Payouts for Non-Officers for 2003-2012[22]

Plan Year[23] (a)	Target STIP Payout ($ millions) (b)	Actual STIP Payout ($ millions) (c)	Amount Target STIP>Actual STIP (d)=b-c
2003	$54.0	$89.2	($35.2)
2004	$55.8	$74.4	($18.6)
2005	$58.3	$78.7	($20.4)
2006	$60.7	$85.3	($24.6)
2007	$76.6	$94.5	($17.9)
2008	$81.1	$99.1	($18.0)
2009	$88.9	$148.3	($59.4)
2010	$91.9	$81.2	$10.7
2011	$100.3	$60.8	$39.5
2012	$109.2	$149.7	($40.5)

With the exception of 2010 and 2011, PG&E's Actual STIP Payouts exceeded the Target levels, often by substantial amounts. The Target levels are clearly not a cap.

[21] DRA-PG&E-230-TLG Q. 1-a.

[22] DRA-PG&E-230-TLG Q.1.

[23] PG&E's STIP payout to employees is in the following year of the Plan Year (i.e., 2012 STIP Plan Year payout was in March 2013).

IV. DISCUSSION / ANALYSIS OF SHORT-TERM INCENTIVE PLAN

PG&E forecasts $130.206 million for its Short-Term Incentive Plan (STIP) costs for the Company for Test Year 2014 recorded in FERC Account 920. PG&E's forecast of $130.206 million is an increase of $69.533 million or 114.60% over 2011 recorded adjusted expenses of $60.673 million. PG&E forecasts $107,000 for its STIP costs for PG&E Corporation recorded in FERC Account 923. PG&E is not requesting recovery of STIP for officers of the Company or PG&E Corporation during the Test Year.[24]

PG&E's STIP is an annual variable pay plan or cash incentive program primarily for its management employees (i.e., executive officers, senior leaders, managers, and supervisors), professionals and non-bargaining unit employees.[25] PG&E states, "STIP is tied to company and individual performance. Thus, award payments are never guaranteed".[26] Tables 15-4 and 15-5 below shows PG&E's Target STIP Payout and its Actual STIP Cost for 2007-2012 and 2014[27] forecast.

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[24] Ex. PG&E-8, p. 5-1.

[25] PG&E's response to DRA's Master Data Request, Chapter 8, Q.s 2 and 3. In 2008 some of PG&E's professional employees that were eligible to participate in STIP voted to join the ESC and IBEW bargaining units but were allowed to maintain their eligibility to receive STIP awards.

[26] Ex. PG&E-8 workpapers, p. WP 5-21.

[27] PG&E's 2014 STIP forecast does not include funding for officers.

Table 15-4
2007-2012 Recorded Data and 2014 Forecast for PG&E's Non-Officer STIP Awards
(in Thousands of Dollars)

	Description	2007	2008	2009	2010	2011	2012[28]	2014
PG&E Company	Target STIP[29] Payout	$76,667	$81,127	$88,918	$91,969	$100,057	$109,270	--
	Actual STIP Payout	$90,320	$98,310	$147,365	$80,828	$60,673	$149,452	--
	Forecasted STIP	--	--	--	--	--	$114,620	$130,206
PG&E Corporation	Target STIP Payout	--	--	--	--	$309	--	--
	Actual STIP Payout	$4,184	$827	$980	$450	$189	$257	--
	Forecasted STIP	--	--	--	--	--	$101	$107

Source: 2007-2011 Target STIP Payout data from PG&E's response to DEF-001-TLG, Q.1. 2007-2011 Actual STIP Payout data from ExPG&E-8 workpapers p. WP 5-2. 2012 forecasted data from Exhibit PG&E-8 workpapers p. WP 5-2. 2012 Actual STIP Payout data from Supplemental response to DRA-PG&E-219-TLG Q.1-c.

Table 15-5
2007-2012 Recorded Data for PG&E's Officer STIP Awards
(in Thousands of Dollars)

	Description	2007	2008	2009	2010	2011	2012
PG&E Company	Target STIP Payout	$3130	$3,839	$4,080	$4,079	$4,851	--
	Actual STIP Payout	$3,609	$4,405	$6,724	$0	$2,966	$10,697
PG&E Corporation	Target STIP Payout	$3,054	$3,007	$3,012	$3,168	$2,907	--
	Actual STIP Payout	$3,756	$3,660	$4,964	$0	$1,290	$3,757

Source: 2007-2011 Target STIP Payout data from PG&E's response to DEF-001-TLG, Q.1. 2007-2011 Actual STIP Payout data from ExPG&E-8 workpapers p. WP 5-2. 2012 Actual STIP Payout data from Supplemental response to DRA-PG&E-219-TLG Q.1-c.

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[28] PG&E's 2012 Target STIP Payout includes Non-Officer PG&E Company and PG&E Corporation employees. PG&E did not separate 2012 STIP Target by PG&E Company and PG&E Corporation in its response. (DRA-PG&E-230-TLG Q.1).

[29] PG&E's 2007-2011 Target STIP Payout includes Non-Officer PG&E Company and PG&E Corporation employees. PG&E did not separate 2007-2011 Target STIP Payout by PG&E Company and PG&E Corporation in its response. (DRA-PG&E-230-TLG Q. 1).

A. Overview of DRA's Analysis

DRA conducted its analysis by reviewing PG&E's response to DRA's Master Data Request regarding PG&E's STIP, PG&E's testimony, and workpapers. DRA also issued data requests and analyzed the responses.

B. DRA's Analysis of PG&E's STIP Request

DRA opposes PG&E's Test Year request of $130.206 million for its Company STIP and $107,000 for PG&E Corporation STIP. DRA recommends $45.572 million for PG&E Company STIP and $37,000 for PG&E Corporation STIP. DRA's estimate removes 30% of PG&E's forecast measure for Financial/ EFO that does not benefit ratepayers and therefore should be funded entirely by PG&E's shareholders.[30] DRA's STIP estimate includes equal sharing of the forecast STIP costs between ratepayers and shareholders for measures relating to Safety (Public Safety weighted 24% and Employee Safety weighted 16%) and Customer Satisfaction which provides benefits to both.

PG&E states that its "EFO provides a measure that allows investors to compare the underlying financial performance of the business from one period to another, exclusive of items ('items impacting comparability') that management believes do not reflect the normal course of operations".[31] An example of an item that impacted PG&E's EFO comparability was expenses incurred to recover from PG&E's San Bruno accident.[32] Table 15-6, below, shows DRA's proposed weightings on PG&E's STIP measures for ratepayers and shareholders.

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[30] PG&E's 2011 Target STIP Payout was $100.366 million. PG&E's Actual STIP Payout for 2011 was $60.862 million. PG&E did not meet its 2011 Earnings From Operations target that was weighted 50% of STIP. PG&E states "Results are attributable to higher emergency response costs, lower gas transmission revenue, and higher litigation and regulatory matters costs. PG&E Corporation lowered guidance for earnings from operations to the range of $3.45 to 3.60 per share for 2011. Despite the change in guidance, the EFO target was not changed". (DRA-PG&E-219-TLG Q. 1).

[31] DRA-PG&E-219-TLG Q. 2.

[32] PG&E's response to DRA-PG&E-219-TLG Q.2.

Table 15-6
DRA's Proposed Weightings on PG&E's Measures included in STIP

PG&E's Operational and Financial Measures	Ratepayers	Shareholders
Customer Satisfaction	15%	15%
Safety (Public and Employee safety)	20%	20%
Earnings From Operations	0%	30%
Total	**35%**	**65%**

PG&E's STIP includes measures that benefit both ratepayers and shareholders. However, PG&E is inappropriately requesting that its ratepayers fund 100% of its Target STIP costs. Regarding PG&E's weighting increase in its STIP Safety measure, now weighted at 40%, which measures both public and employee safety related to its operations, PG&E states "[t]his change signals to employees, customers, and investors that public safety is a primary focus of PG&E's leadership team and Board of Directors".[33] An increased focus on public safety most certainly benefits shareholders who will not see their dividends reduced or suspended as a result of disasters like San Bruno. But while PG&E acknowledges that its STIP measures benefit its shareholders, PG&E does not calculate and assign STIP costs for these benefits to its shareholders. Likewise, these are benefits to PG&E Corporation associated with high customer satisfaction. DRA asked PG&E about STIP measurement criteria and incentive results and benefits to shareholders:

> Provide information on the (a) measurement criteria selected by the utility and (b) incentive results. Show how (a) and (b) benefit shareholders.

PG&E's response:

> The interests of shareholders and customers are not mutually exclusive; to the contrary, they are often closely aligned. As described in Answer 4 above, STIP benefits customers by encouraging employees to improve customer service, be more productive and cost-

[33] Ex. PG&E-8, p. 5-4.

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> effective, and focus on reliability and public safety. Shareholders benefit from the Company's good performance in those areas as well. Similarly, both shareholders and customers benefit from the company's general financial strength and from its ability to attract capital necessary for infrastructure investment.[34]

As shown in Table 15-6, above, PG&E's EFO is weighted 30% of the STIP payout. PG&E states that its EFO measures PG&E Corporation's earning power from ongoing core operations and that this measure supports its goal of rewarding its shareholders with a focus to deliver on budget, on plan, and on purpose.[35] Since the main objective and beneficiary of PG&E's EFO goal, that is weighted 30% of the STIP award, is to reward shareholders and relates to earnings per share from operations, PG&E's shareholders should fund this measure at 100%.

PG&E utilized its 2011 STIP at Target of $100.057 million as the basis for calculating its 2014 STIP forecast of $130.206 million for the Company and utilized its STIP at Target of $0.309 million to calculate PG&E Corporation STIP of $0.107 million.[36] PG&E's 2011 recorded expenses for Actual STIP Payout was $60.673 million. This is a decrease from PG&E's 2011 Target STIP of $39.384 million or 64.91% less. For PG&E's Plan Year 2010, PG&E paid out less than its Target STIP.

DRA requested additional information from PG&E on its STIP forecast in DRA-PG&E-data request-219-TLG Q. 3:

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[34] PG&E's response to DRA's Master Data Request, Chapter 8, Q. 5.

[35] DRA-PG&E-219-TLG Q. 2.

[36] Ex. PG&E-8 workpapers p. WP 5-4.

Referring to page 5-8, PG&E states "the most reliable and consistent method for projecting STIP costs is to use the Total Target STIP Payout". PG&E's 2011 Utility STIP at Target was $100.057 million and its 2011 recorded adjusted Utility STIP was $60.673 million. This is a decrease in PG&E's Target STIP payout of $39.384 million or 64.91%. PG&E's recorded adjusted expenses for Utility Company STIP increased by $49.055 million or 49.90% between 2008 and 2009 from $98.310 million in 2008 to $147.365 million in 2009. PG&E's recorded adjusted expenses for Utility Company STIP decreased by $66.537 million or 82.32% between 2009 and 2010 from $147.365 million in 2009 to $80.828 million in 2010. PG&E's recorded adjusted Utility Company STIP decreased further by $20.155 million or 33.22% between 2010 and 2011 from $80.828 million in 2010 to $60.673 million in 2011. Based on the above historical fluctuations in PG&E's actual Utility STIP payouts, provide the documentation that explains in detail and demonstrates how PG&E's management determined that "the most reliable and consistent method for projecting STIP costs is to use the Total Target STIP Payout" when PGE has not paid out its calculated Target STIP payout in the last three years (2009-2011).[37]

PG&E's response:

PG&E considered two potential methods for forecasting STIP. One method is to forecast based on the average of actual STIP payout over a period of three to five years. The second method is to forecast based on the Total Target STIP Payout for a given year. PG&E does not forecast using an average actual payout because, as noted in Question 2 of this data request, past performance is not necessarily indicative of how the Company will perform in future years. In addition, actual historical data does not account for changes to STIP metrics that can occur from year to year. Target STIP is used internally for budgeting and financial planning purposes. It is worth noting that the difference between these two approaches would have a relatively small impact on the forecast presented in this GRC. Using Target STIP as the forecast method is the same as assuming that the Company Score is 1.000. The actual average of the Company Score is 1.040 from 2009-2011 (three year average) and 1.098 from 2007-2011 (five year average). Using the Target STIP method as PG&E has done resulted in a lower forecast than using either a three or five year average.

[37] DRA-PG&E- 219-TLG Q. 3.

PG&E's response does not justify its forecast of $130.312 million ($130.206 for the Company and $0.107 million for PG&E Corporation) or demonstrate that "the most reliable and consistent method for projecting STIP costs is to use the Total Target STIP Payout". PG&E admits in its response above that its "Target STIP is used internally for budgeting and financial planning purposes". In this case, the Target STIP should not be used as a reliable method to forecast STIP costs in the GRC. PG&E's STIP is mostly an executive and management award program. PG&E states that an "incentive program like STIP is a typical component of a company's compensation package and is an expected component of the total pay package for attracting new employees, particularly professional and managerial employees".[38]

PG&E states further that its "STIP program is an important aspect of the total compensation package it offers employees" and that "a significant benefit of a variable pay component to compensation is its ability to align employee motivations with important Company objectives and customer interests".[39] Table 15-7, below, shows the number of PG&E employees that are eligible to participate in STIP, the end of the year employee headcount and the percentage of employees that can participate in STIP compared to its total headcount for the years 2003-2012.[40]

Table 15-7
PG&E's Eligible STIP Participants Compared to Total Employee Headcount

Plan Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
STIP Recipients	7,171	7,102	7,243	7,228	7,718	7,459	7,634	7,692	8,814	9,088
Year end PG&E Headcount	22,887	22,136	22,204	22,366	23,083	22,669	21,945	21,863	22,511	23,337
%Receiving STIP	31%	32%	33%	32%	33%	33%	35%	35%	36%	39%

[38] Ex. PG&E-8 Chapter 5, p.5-2.

[39] Ex. PG&E-8 Chapter 5, p. 5-3.

[40] DRA-PG&E-230-TLG Q.1-c.

As shown in Table 15-7, above, for the past ten years (2003-2012), approximately 66% of PG&E's total employee population has been sufficiently motivated to align their interests with company objectives and customer interests without being eligible to participate in PG&E's discretionary STIP. Therefore, STIP is not "an important aspect of the total compensation package" for the majority of PG&E's employees who do not participate in the awards program yet perform the majority of the critical functions necessary to provide gas and electric service. It is unreasonable to assign ratepayers with funding 100% of PG&E's discretionary STIP costs that benefit 34% of PG&E's employee population, comprising of mostly executives and managers.

In its Decision on PG&E's TY 1999 GRC with regards to PG&E's Performance Incentive Plan (PIP) payout (currently known as STIP), the Commission stated the following:

> *We find no compelling evidence for a change in our current practice of allowing 50% recovery of targeted incentives from ratepayers.* As we have held, shareholders and ratepayers alike benefit from the good performance that incentive programs such as PIP seek to encourage. We continue to believe that equal sharing of cost is fair, and that it provides appropriate incentives to the utility to perform in ways that benefit ratepayers and shareholders alike. Moreover, since the actual payout is less than the target payout in any year when employees do not perform well enough to earn targeted payouts, there is an unacceptable risk of overcollection of costs in the test year if we allow the inclusion of 100% of the targeted payout in rates. Continuing our policy of allowing 50% of targeted payouts mitigates this concern. Although PG&E paid out just 72.5% of its target payout during the five years ending with 1996, it paid out nearly 100% of targeted costs over a ten year period. This affirms PG&E's contention that it is reasonable to base estimated payouts on an expected PIP score of 1.0. Accordingly, while we adopt Enron's proposal for equal sharing of PIP expenses, we provide that PG&E is entitled to recover 50% of its estimated payout of $26.5 million, which reflects a PIP performance score of 1.0.[41]

[41] *Application of Pacific Gas and Electric Company* (2000) D.00-02-046, mimeo, p. 259 (emphasis added).

In its Decision on SCE's TY 2012 GRC, with regards to executive short-term incentive plans, the Commission stated:

> DRA and TURN are not wholly mistaken about SCE's goals and other EIC criteria. It is inherent in the nature of a regulated, investor-owned utility that shareholders and ratepayers will not always have identical interests and goals. For example, SCE investors may well be focused on expanding sales, robust capital investment, and minimizing disallowances to rate recovery, while in the current economy SCE's ratepayers may prioritize low-income programs, exclusions from rate recovery, less expensive fixes rather than capital replacement, and so forth. Accordingly, the Commission finds reasonable and adopts $15.029 million for TY2012, reflecting TURN's recommendation that SCE may recover 50% of its forecast costs for the executive officers' share of the EIC program. In our decision today, we are not recommending reduced compensation for executive officers. We are merely assigning certain costs to shareholders based on what is just and reasonable to assign to ratepayers. The TCS did not specify or differentiate between ratepayer and shareholder funding for either comparator company compensation or SCE compensation.[42]

During the last ten years (2003-2012), PG&E's Actual STIP Payout has exceeded its Target STIP Payout for eight of those years (2003-2009 and 2012), and for two of the years (2010-2011) PG&E's Actual STIP Payout was less than its Target STIP Payout. For the years 2003-2009 and 2012, PG&E's Actual STIP Score (STIP Payout Score) has exceeded the score of 1.0, which means that PG&E, its employees, and business units have exceeded operating objectives during this time period. In evaluating the data presented by PG&E, there was no detailed information regarding what in fact contributed to the actual payout exceeding the target other than variations in STIP participants and associated income.[43]

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[42] *Decision on Test Year 2012 General Rate Case for Southern California Edison Company* (2012) D.12-11-051, p. 450.

[43] DRA-PG&E-219-TLG Q.2-a-c.

Table 15-8 shows PG&E's STIP for 2003-2012.

Table 15-8
PG&E's Short-Term Incentive Plan Payouts for Non-Officers for 2003-2012[44]

Plan Year[45]	Target STIP Payout ($millions)	Actual STIP Payout ($millions)	Actual[46] STIP Score	Payout as % of Potential Maximum	Potential Maximum Payout (Target x 2) ($millions)
2003	$54.0	$89.2	1.647	82.7%	$108.0
2004	$55.8	$74.4	1.342	66.7%	$111.7
2005	$58.3	$78.7	1.341	65.5%	$116.6
2006	$60.7	$85.3	1.354	70.3%	$121.4
2007	$76.6	$94.5	1.191	61.6%	$153.3
2008	$81.1	$99.1	1.178	61.1%	$162.2
2009	$88.9	$148.3	1.648	83.4%	$177.8
2010	$91.9	$81.2	0.864	44.2%	$183.9
2011	$100.3	$60.8	0.607	30.3%	$200.7
2012	$109.2	$149.7	1.372	68.5%	$218.5

PG&E did not provide any detail that specifically demonstrated the additional work in excess of the normal, on-going and routine responsibilities that caused PG&E's Actual STIP Payouts to exceed its Target STIP Payout for eight years (2003-2009 and 2012). The years in which PG&E's Actual STIP Payout exceeded its relatively high Target STIP Payout, coincide with years in which PG&E appears to have deferred maintenance on several critical gas and electric projects resulting in poor customer safety and reliability events (i.e., San Bruno explosion, recordkeeping and document management deficiencies). DRA requested additional information from PG&E on its STIP increases during the historical period:

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[44] DRA-PG&E-230-TLG Q.1.

[45] PG&E's STIP payout to employees is in the following year of the Plan Year (i.e. 2012 STIP Plan year payout was in March 2013).

[46] PG&E's Actual STIP Payout Score for 2003-2005 was provided in PG&E's 2011 GRC in its response to DRA-145-TLG question 4-b supplemental, DRA-145-TLG question 4-b original response and DRA-132-TLG Q.1 supplemental. Data for years 2006-2012 provided in DRA-PG&E-230-TLG Q.1.

Referring to page WP 5-1, PG&E's recorded adjusted expenses for Utility Company STIP increased by $49.055 million or 49.90% between 2008 and 2009 from $98.310 million in 2008 to $147.365 million in 2009. PG&E's recorded adjusted expenses for Utility Company STIP decreased by $66.537 million or 82.32% between 2009 and 2010 from $147.365 million in 2009 to $80.828 million in 2010. PG&E's recorded adjusted Utility Company STIP decreased further by $20.155 million or 33.22% between 2010 and 2011 from $80.828 million in 2010 to $60.673 million in 2011.

Provide the documentation that explains in detail and demonstrates the specific reason(s) why PG&E's management paid out $147.365 million or 49.90% more in Utility Company STIP payments to employees in 2009 over 2008 recorded adjusted expenses of $98.310 million. Provide all supporting documentation to substantiate the increase in STIP payments.

Provide the documentation that explains in detail and demonstrates the specific reason(s) why PG&E's management paid out $80.828 million or 82.32% less in Utility Company STIP payments to employees in 2010 over- 2009 recorded adjusted expenses of $147.365 million. Provide all supporting documentation to substantiate the decrease in STIP payments.

Provide the documentation that explains in detail and demonstrates the specific reason(s) why PG&E's management paid out $60.673 million or 33.22% less in Utility Company STIP payments to employees in 2011 over 2010 recorded adjusted expenses of $80.828 million. Provide all supporting documentation to substantiate the decrease in STIP payments.[47]

PG&E's response:

As described in the STIP testimony in Exhibit 8 Chapter 5, the STIP Company Score determines the Actual STIP Payout amount each year. The STIP Company Score varies from one year to another based on the company's performance compared to metrics established at the beginning of each year. Below are the STIP Company Scores from 2008 through 2012.

[47] DRA-PG&E-219-TLG Q.1-a-c.

STIP Plan Year	Paid In	STIP Company Score
2008	2009	1.178
2009	2010	1.648
2010	2011	0.864
2011	2012	0.607
2012	2013	1.372

In addition to changes in the STIP Company Score, there are inflationary factors that impact STIP payments, such as salary growth and headcount growth (see Workpapers W-4).
The difference in STIP payout between 2008 and 2009 is due primarily to the difference in the Company Score of 1.178 for 2008 and 1.648 for 2009. Details of the 2008 STIP Company Score are included in attachment GRC2014-Phl_DR_DRA_219-Q02Atch01. Details of the 2009 STIP Company Score are included in attachment GRC2014-Phl_DR_DRA_219-Q02Atch02.

The difference in STIP payout between 2009 and 2010 is due primarily to the difference in the Company Score of 1.648 for 2009 and 0.864 for 2010. Details of the 2009 STIP Company Score are included in attachment GRC2014-Phl_DR_DRA_219-Q02Atch02. Details of the 2010 STIP Company Score are included in attachment GRC2014-Phl_DR_DRA_219-Q02Atch03.

The difference in STIP payout between 2010 and 2011 is due primarily to the difference in the Company Score of 0.864 for 2010 and 0.607 for 2011. Details of the 2010 STIP Company Score are included in attachment GRC2014-Phl_DR_DRA_219-Q02Atch03. Details of the 2011 STIP Company Score are included in attachment GRC2014-Phl_DR_DRA_219-Q02Atch04.

As shown in Table 15-8 above, PG&E's Target STIP and Actual STIP payout levels have also increased significantly since 2003. PG&E's Target STIP increased by 102.31% between 2003 and 2012 or approximately 10.23% per year. PG&E's Actual STIP Payout increased by 67.65% between 2003 and 2012 or approximately 6.76% a year. Between 2007 and 2012 (six years), PG&E's Actual STIP Payout increased by 58.42% or approximately 9.74% a year. The above annual compounded increases are above any consumer or labor price escalation rate for this same period.

Therefore, limiting the ratepayer-funded amount assures that ratepayers are not responsible for these significant expense increases related to PG&E's discretionary STIP costs which have transpired over the past ten years. DRA recommends that the Commission adopt its STIP estimate of $45.572 million for PG&E Company and $37,000 for PG&E Corporation for the Test Year.