

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Application of San Diego Gas & Electric Company (U 902 M) for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2016

Application No. 14-11-003  
(Filed November 14, 2014)

Application of Southern California Gas Company (U904 G) for Authority to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2016.

Application No. 14-11-004  
(Filed November 14, 2014)

**MUSSEY GRADE ROAD ALLIANCE REPLY TO SDG&E RESPONSE TO THE MUSSEY GRADE ROAD ALLIANCE INTERVENOR COMPENSATION CLAIM**

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## 1. INTRODUCTION AND BACKGROUND

Pursuant to Rule 17.4(h) of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission the Mussey Grade Road Alliance (MGRA or Alliance) files this reply to SDG&E's filing<sup>1</sup> in response to MGRA's Intervenor Compensation Request.<sup>2</sup>

## 2. DISCUSSION OF SDG&E CLAIMS

SDG&E's response to the MGRA Compensation Request concerns itself specifically with language used by the Alliance in Section III.A.a, Intervenor's Claim of Cost Reasonableness. SDG&E's goal in its response does not challenge MGRA's compensation claim but rather seeks to change language that it believes misrepresents the record of the proceeding.<sup>3</sup>

The section in question is intended to briefly summarize MGRA's involvement in the Decision's regarding SDG&E's Incentive Compensation Plan (ICP), an issue that was discussed at some length in our filings, in SDG&E's filings, and in the Commission's Final Decision.<sup>4</sup> D.16-06-054 supported MGRA's position regarding the ICP, as we demonstrate in our Compensation Claim on pages 5 and 6.<sup>5</sup>

SDG&E's issues with our characterization of our contribution can be summarized as follows:

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<sup>1</sup> A.14-11-003,004; RESPONSE OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902M) TO THE INTERVENOR COMPENSATION CLAIM OF MUSSEY GRADE ROAD ALLIANCE; September 13, 2016. (SDG&E Response).

<sup>2</sup> A.14-11-003,004; INTERVENOR COMPENSATION CLAIM OF THE MUSSEY GRADE ROAD ALLIANCE AND DECISION ON INTERVENOR COMPENSATION CLAIM OF THE MUSSEY GRADE ROAD ALLIANCE; August 16, 2016. (MGRA Claim).

<sup>3</sup> SDG&E Response; p. 4.

<sup>4</sup> D.16-06-054; pp. 146-156; 296-297; 317-318.

<sup>5</sup> From D.16-06-054, 149: "We agree with MGRA that SDG&E should be prevented from compensating its employees, managers, and executives from variable compensation that is based on a recovery of monies from ratepayers for the wildfire costs that are being litigated before the Commission in A.15-09-010. This type of financial incentive encourages SDG&E to aggressively pursue recovery of uninsured losses from its ratepayers, which can create the perverse incentive of minimizing safety-focused incentives while benefitting employees and management by shifting the costs of unsafe incidents onto ratepayers and being rewarded for doing so..."

- SDG&E takes issue with the claim that MGRA’s contribution results in a \$22.7 million savings to ratepayers.<sup>6</sup>
- SDG&E claims that MGRA’s characterization of the ICP’s incentive plan as impacting employee bonuses is incorrect.<sup>7</sup>
- SDG&E implies that MGRA has claimed that it has already influenced the outcome of A.15-09-010 (WEMA) through GRC participation.<sup>8</sup>

There is merit to SDG&E’s first claim. In our effort to simplify the ICP issues by characterizing it simply as a bonus, MGRA has inadvertently introduced a factual error by characterizing \$22.7 million of the \$37.9 million in employee compensation potentially at risk as ratepayer savings. In fact this number is subsumed into the \$379 million at play in WEMA. Either SDG&E prevails and ratepayers will pay \$379 to cover SDG&E wildfire losses or SDG&E fails to prevail and SDG&E takes the losses. Under SDG&E’s original plan up to \$37.9 million could have been subtracted from its employees’ compensation baseline in the event it fails to prevail in WEMA. According to D.16-06-054, SDG&E is prevented from implementing this clause, which means that all losses in the event that it fails to prevail in WEMA will be borne by shareholders. In either case, ratepayers fund 60% of SDG&E’s ICP program, and the amount they will pay towards wildfire litigation losses depends only upon the WEMA outcome.

SDG&E’s second claim is that “earnings adjustments under the ICP plan do not equal dollar-for-dollar payouts to employees, and the WEMA Adjustment provided no potential for an upside “bonus,” at 10% or any other amount.”<sup>9</sup> As previously explained, the ICP does not represent an “upside bonus”, and MGRA makes no mention of “upside”. SDG&E attempts to confuse the issue, as it has done throughout the proceeding, by emphasizing that there is no “upside bonus” in place while pointedly ignoring the fact that employee bonuses would have been *cut* in the event SDG&E failed to prevail in WEMA under its original ICP.<sup>10</sup> We do not believe SDG&E’s second argument has significant merit.

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<sup>6</sup> SDG&E Response; p. 2.

<sup>7</sup> Id. p. 3.

<sup>8</sup> Id. p. 4.

<sup>9</sup> Id. p. 3.

<sup>10</sup> See MGRA’s discussion of this issue in “Mussey Grade Road Alliance Response to the Motion of San Diego Gas and Electric Company and Southern California Gas Company’s Expedited Motion to Strike Portions of the Mussey Grade Road Alliance’s Brief and Comments”; October 26, 2015; pp. 4-5.

Regarding SDG&E's final argument, we do not believe that the language used by MGRA implies that actions we have taken in this GRC have already materially influenced the outcome of the WEMA proceeding or the \$379 million of potential ratepayer losses currently at play. As SDG&E notes, that proceeding is currently underway and will be evaluated on its merits. However, by eliminating an incentive that would punish employees unless they prevail in WEMA *regardless of the merit of the SDG&E's claim* MGRA has provided a ratepayer benefit that exceeds the cost of its participation in this segment of the GRC.

Finally we note that a significant contribution by MGRA noted in D.16-06-054 is the public safety implications of eliminating SDG&E's wildfire litigation incentive.<sup>11</sup> MGRA did not mention this issue in our reasonableness arguments, but easily could have included this as well.

### 3. POTENTIAL RESOLUTION

We note that nothing in the SDG&E Response challenges the contributions made by MGRA on the ICP or other issues or the reasonableness of MGRA's compensation claim. SDG&E requests that MGRA be instructed to refile with corrected language or that the Commission strike or disregard the disputed language.

Should MGRA be instructed to refile, we would make the following alterations to the language:

**Current:**

*“Regarding the wildfire component of the ICP, MGRA's work that has been accepted by the Commission requires that no bonuses paid out by SDG&E may be based on the results of wildfire litigation. These bonuses were set at 10%, and the amount litigated in the WEMA proceeding is \$379 million. 60% of SDG&E's ICP is funded by ratepayers, so the avoided cost to ratepayers would be \$22.7 million. This greatly exceeds the projected costs of MGRA participation. Additionally, the Commission's requirement to remove this component of the ICP reduces the incentive for SDG&E employees to litigate a result in the WEMA proceeding that would be unfair to ratepayers, and thereby avoid \$379 million in additional costs.”*

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<sup>11</sup> See MGRA Compensation Claim, pp. 5-6.

**Potential Revision:**

*Regarding the wildfire component of the ICP, MGRA's work that has been accepted by the Commission requires that no ~~bonuses paid out~~ **incentive** by SDG&E may be based on the results of wildfire litigation. ~~These bonuses were~~ **In SDG&E's proposed ICP, the incentive baseline was set at up to 10% of potential losses,** and the amount litigated in the WEMA proceeding is \$379 million, **placing up to \$37.9 million of employee compensation at risk depending on WEMA outcome.** 60% of SDG&E's ICP is funded by ratepayers, so the avoided cost to ratepayers would be \$22.7 million. ~~This greatly exceeds the projected costs of MGRA participation. Additionally,~~ **The** Commission's requirement to remove this component of the ICP reduces the incentive for SDG&E employees to litigate a result in the WEMA proceeding that would be unfair to ratepayers, and thereby **potentially** avoid \$379 million in additional costs. **This would greatly exceed the projected costs of MGRA participation.***

We would request that the Commission take notice of this issue in its evaluation of the Alliance's Compensation Request. If required, MGRA will refile its claim with corrections similar to those given above. We do not believe that these corrections substantially affect the merit of our compensation claim in any way, but might help to clarify the record. Should re-filing be necessary, we would appreciate direction from the Commission regarding appropriate procedures and deadlines.

Respectfully submitted this 27<sup>th</sup> day of September, 2016,

By: /S/ **Diane Conklin**

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