Report on the Results of Operations for
Southern California Edison Company
General Rate Case
Test Year 2018

Human Resources Expenses, Benefits and Other Compensation

San Francisco, California
April 7, 2017
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HUMAN RESOURCES EXPENSES, BENEFITS AND OTHER COMPENSATION

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Office of Ratepayer Advocates (ORA) regarding Southern California Edison Company’s (SCE or Edison) Test Year (TY) 2018 expense forecasts for its Human Resources (HR) expenses, benefits and other compensation.

This exhibit specifically addresses SCE’s expense forecasts associated with the salaries, office supplies and services, and outside services necessary to support the HR department; employee compensation, including SCE’s short-term and long-term incentive plans; recognition programs; employee pension and benefit programs, including 401(k) plan, postretirement benefits, and healthcare and group life insurance plans; miscellaneous benefit programs; and supplemental executive benefit programs.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes ORA’s recommendations pertaining to SCE’s Human Resources expenses:

- ORA recommends the adoption of SCE’s TY forecasts for Human Resources expenses.

The following summarizes ORA’s recommendations pertaining to SCE’s Short-Term and Long-Term Incentives:

- ORA recommends that ratepayers not fund the portion of the Short-Term Incentive Program (STIP) related to SCE’s financial goals.
- ORA recommends that the portion of STIP related to “High Performance Organization,” be shared equally between shareholders and ratepayers.
- ORA recommends that ratepayers not fund SCE’s Long-Term Incentives.

The following summarizes ORA’s recommendations pertaining to SCE’s Recognition Programs:
• ORA recommends that ratepayers not fund SCE’s Recognition Programs.

The following summarizes ORA’s recommendations pertaining to SCE’s benefits:

• ORA recommends the adoption of SCE’s TY forecasts for Pension Costs.
• ORA recommends the adoption of SCE’s TY forecasts for Postretirement Benefits Other than Pension Costs.
• ORA recommends the adoption of SCE’s TY program cost for 401(k) Savings Plan.
• ORA recommends the use of ORA’s escalation rate in the calculation of the TY program cost for Medical Programs.
• ORA recommends the adoption of SCE’s TY program cost for Dental Plans.
• ORA recommends the adoption of SCE’s TY program cost for the Vision Service Plan.
• ORA recommends the adoption of SCE’s TY program cost for Group Life Insurance Plans.
• ORA recommends the adoption of SCE’s TY program costs for Miscellaneous Benefits with the exception of costs related to Awards to Celebrate Excellence (ACE).
• ORA recommends that Executive Benefits be shared equally between shareholders and ratepayers.
Table 15-1 compares ORA’s and SCE’s TY 2018 forecasts of HR expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>ORA Recommended (b)</th>
<th>SCE Proposed(^1) (c)</th>
<th>Amount SCE&gt;ORA (d=c-b)</th>
<th>Percentage SCE&gt;ORA (e=d/b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>$64,950</td>
<td>$64,950</td>
<td>$0</td>
<td>0.00%</td>
</tr>
<tr>
<td>STIP</td>
<td>$70,672</td>
<td>$133,848</td>
<td>$63,176</td>
<td>89.39%</td>
</tr>
<tr>
<td>LTI</td>
<td>$0</td>
<td>$13,726</td>
<td>$13,726</td>
<td>100.00%</td>
</tr>
<tr>
<td>Recognition Programs</td>
<td>$0</td>
<td>$1,456</td>
<td>$1,456</td>
<td>100.00%</td>
</tr>
<tr>
<td>Pensions and Benefits</td>
<td>$344,982</td>
<td>$370,789</td>
<td>$25,807</td>
<td>7.48%</td>
</tr>
<tr>
<td>Total</td>
<td>$480,604</td>
<td>$584,770</td>
<td>$104,166</td>
<td>21.67%</td>
</tr>
</tbody>
</table>

\(^1\) Ex. SCE-6, Vol. 1, p. 1, and Vol. 2, pp. 22, 33, 41 and 42.
III. DISCUSSION / ANALYSIS OF HUMAN RESOURCES EXPENSES (Vol. 1)

SCE states that its Human Resources (HR) Department expenses are related to attracting, developing, motivating and retaining a skilled workforce. According to SCE, HR develops policies and programs for managing the workforce, including employee relations and development programs. SCE states that HR also designs, develops and administers compensation and benefits programs for all active and retired employees.

A. Human Resources Operations and Maintenance Expenses

Human Resources includes four departments: Talent Solutions; Business Partners; Total Rewards and Services; and Strategy and Workforce Insights. Talent Solutions is the department charged with recruitment, testing and assessments, hiring, salary negotiations, diversity outreach and inclusion strategies, training, and succession planning for executive and management levels, among other things. Business Partners works with the individual Operating Units (OU) to implement HR programs and activities within the OU, advises employees on HR-related issues for consistency across the Company, advises on organizational design, and negotiates and implements the Company’s collective bargaining agreements. Total Rewards and Services partners with OU management to evaluate workforce needs, develops and administers the Company’s benefits and compensation, and ensures compliance with various state and Federal laws. Strategy and Workforce Insights manages the Company’s HR-related strategic initiatives, follows and advises on HR-

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4 Ex. SCE-06, Vol. 1, pp. 16-17.
related trends, issues, and opportunities, oversees the HR budget process, and manages the preparation of HR-related GRC and compliance filings.\(^6\)

Table 15-2 summarizes SCE’s request for HR Operations and Maintenance (O&M) Expenses and compares ORA’s recommendation and SCE’s TY requests.

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>SCE 2018</th>
<th>ORA 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERC Account 920</td>
<td>$27,260</td>
<td>$28,196</td>
<td>$25,280</td>
<td>$26,973</td>
<td>$26,124</td>
<td>$24,357</td>
<td>$24,357</td>
</tr>
<tr>
<td>FERC Account 921</td>
<td>$11,635</td>
<td>$7,602</td>
<td>$11,981</td>
<td>$10,434</td>
<td>$8,047</td>
<td>$7,372</td>
<td>$7,372</td>
</tr>
<tr>
<td>FERC Account 923</td>
<td>$9,064</td>
<td>$8,245</td>
<td>$8,890</td>
<td>$12,248</td>
<td>$7,518</td>
<td>$6,954</td>
<td>$6,954</td>
</tr>
<tr>
<td>FERC Account 926</td>
<td>$7,227</td>
<td>$6,725</td>
<td>$7,423</td>
<td>$6,226</td>
<td>$5,913</td>
<td>$5,109</td>
<td>$5,109</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$55,186</td>
<td>$50,768</td>
<td>$53,574</td>
<td>$55,881</td>
<td>$47,602</td>
<td>$43,792</td>
<td>$43,792</td>
</tr>
</tbody>
</table>


The costs of salaries to support the HR department are booked to Federal Regulatory Energy Commission (FERC) Account 920. SCE’s TY request for FERC Account 920 is $24.357 million. Office supplies and other non-labor expenses, such as, meals, travel, and cell phones, and background checks and drug screening for new employees, are booked to FERC Account 921. SCE’s TY request for FERC Account 921 is $7.372 million.\(^7\) Outside services are consultants for a variety of HR-related tasks, including training, audits, employee surveys, compensation analyses, and the GRC total compensation study; these costs are booked to FERC Account 923. SCE’s TY request for FERC Account 923 is $6.954 million.\(^8\) SCE’s HR labor and non-labor costs that are directly related to providing employee pensions and benefits are booked to FERC Account 926. SCE’s TY request for FERC Account 926 is $5.109 million.

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\(^6\) Ex. SCE-06, Vol. 1, pp. 18-19.

\(^7\) Ex. SCE-06, Vol. 1, p. 19.

\(^8\) Ex. SCE-06, Vol. 1, p. 22.
926 is $5.109 million. ORA analyzed the historical expenses and the TY forecasts for SCE’s Human Resources O&M expenses and does not oppose them.

**B. Executive Officers Operations and Maintenance Expenses**

SCE states that cash compensation is an integral part of its executive total compensation package, which also includes long-term incentives, the standard employee benefits, and special executive benefits. Costs included here include some executives shared with Edison International, whose compensation and expenses are allocated to SCE per D.88-01-063. Table 15-3 summarizes SCE’s request for Executive Officers O&M expenses and compares ORA’s recommendation and SCE’s TY requests.

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>SCE 2018</th>
<th>ORA 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERC Account 920</td>
<td>$16,519</td>
<td>$21,338</td>
<td>$16,753</td>
<td>$17,044</td>
<td>$14,456</td>
<td>$17,222</td>
<td>$17,222</td>
</tr>
<tr>
<td>FERC Account 921</td>
<td>$2,959</td>
<td>$2,863</td>
<td>$2,670</td>
<td>$2,705</td>
<td>$2,389</td>
<td>$2,389</td>
<td>$2,389</td>
</tr>
<tr>
<td>FERC Account 923</td>
<td>$1,499</td>
<td>$1,979</td>
<td>$1,553</td>
<td>$1,253</td>
<td>$1,452</td>
<td>$1,547</td>
<td>$1,547</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$20,977</td>
<td>$26,180</td>
<td>$20,976</td>
<td>$21,002</td>
<td>$18,297</td>
<td>$21,158</td>
<td>$21,158</td>
</tr>
</tbody>
</table>


The costs of salaries and incentive bonuses for executive officers, and salaries for their administrative assistants, are booked to FERC Account 920. For forecasting purposes for this GRC, the costs related to incentive bonuses for non-officer executives were transferred to the STIP activity in the organization corresponding to each executive’s activity group. SCE’s TY request for FERC

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9 Ex. SCE-06, Vol. 1, p. 23.
11 Ex. SCE-06, Vol. 1 workpapers, p. 84.
Account 920 is $17.222 million. Office supplies and other non-labor expenses, such as meals, travel, and cell phones, are booked to FERC Account 921. SCE’s TY request for FERC Account 921 is $2.389 million.\textsuperscript{12} Outside services are consultants for a variety of services related to executive compensation and benefits, including the actuarial valuation of executive retirement plans, calculation of executive benefits, and the design of executive benefit and incentive programs; these costs are booked to FERC Account 923. SCE’s TY request for FERC Account 923 is $1.547 million.\textsuperscript{13} ORA analyzed the historical expenses and the TY forecasts for SCE’s Executive Officers O&M expenses and does not oppose them.

\textbf{IV. DISCUSSION / ANALYSIS OF SHORT-TERM INCENTIVES PROGRAMS (Vol. 2)}

SCE’s short-term incentive programs include the Short-Term Incentive Plan (STIP) and the Executive Incentive Compensation Plan (EIC) that SCE says are designed to attract, retain and reward employees by providing bonus opportunities linked to performance.\textsuperscript{14} SCE’s forecasts $133.848 million for STIP, an incentive pay program for most exempt and all non-exempt employees, and for EIC, which covers executives who are not officers (less than 1% of SCE’s employee population).\textsuperscript{15} The corresponding ORA recommendation is $70.672 million.

\textsuperscript{12} Ex. SCE-06, Vol. 1, p. 35.
\textsuperscript{13} Ex. SCE-06, Vol. 1, p. 38.
\textsuperscript{14} Ex. SCE-06, Vol. 2, p. 1.
\textsuperscript{15} Ex. SCE-06, Vol. 2, p. 22.
Table 15-4 summarizes SCE’s request for short term incentive plans and compares ORA’s recommendation and SCE’s TY requests.

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>SCE 2018</th>
<th>ORA 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERC Account 500</td>
<td>$3,931</td>
<td>$10,584</td>
<td>$8,802</td>
<td>$9,287</td>
<td>$6,982</td>
<td>$7,516</td>
<td>$4,134</td>
</tr>
<tr>
<td>FERC Account 588</td>
<td>$51,641</td>
<td>$62,700</td>
<td>$62,022</td>
<td>$71,130</td>
<td>$56,505</td>
<td>$64,905</td>
<td>$34,787</td>
</tr>
<tr>
<td>FERC Account 905</td>
<td>$21,316</td>
<td>$23,238</td>
<td>$19,069</td>
<td>$20,639</td>
<td>$15,305</td>
<td>$17,039</td>
<td>$8,971</td>
</tr>
<tr>
<td>FERC Account 920-921</td>
<td>$57,255</td>
<td>$69,970</td>
<td>$62,588</td>
<td>$66,476</td>
<td>44,221</td>
<td>$44,389</td>
<td>$22,780</td>
</tr>
<tr>
<td>Total</td>
<td>$134,143</td>
<td>$166,492</td>
<td>$152,481</td>
<td>$167,532</td>
<td>$123,013</td>
<td>$133,848</td>
<td>$70,672</td>
</tr>
</tbody>
</table>


A. Overview of SCE’s and ORA’s Positions

SCE’s short-term incentives program, previously known as the Results Sharing Program, has undergone a number of changes in recent years. Through 2014, STIP funding was based on four goals: Company goals; the Company’s O&M budget; OU goals; and each OU’s O&M budget. In 2015, the goals were changed to: O&M budget; OU goals; and safety goals, with safety being just 10% of the total potential payout. In 2016, the goals were again revised with safety goals remaining at 10%. The remaining goals for 2016 STIP payouts are: customer relationships and operational excellence (20%); “Grid of the future,” (20%); “High Performance Organization,” which includes items such as diversifying the leadership...

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pipeline, enhancing the decision-making process, and encouraging employee engagement (10%); and Company financial performance goals (40%).\textsuperscript{18}

SCE used an Itemized Forecasting methodology, in which the 2015 program costs were divided by the 2015 non-capital labor expense to arrive at an expense ratio. This was done for each company division – generation, transmission and distribution, A&G, and customer services – and the costs for STIP for each division are booked to different FERC Accounts. These expense ratios were then applied to SCE’s projected non-capital labor forecasts for 2016 through 2018. The resulting amounts were then further adjusted “to reflect anticipated incremental costs” due to job classification changes.\textsuperscript{19} The incremental STIP is being phased-in by job category: supervisors and managers in 2017; professionals in 2018; technical employees in 2019; and clerical/admin employees in 2020.\textsuperscript{20}

\begin{table}
\centering
\caption{SCE and ORA Proposed Ratepayer Funding Levels}
\begin{tabular}{|l|c|c|c|c|}
\hline
& Proposed Percentages & Proposed Dollar Amounts & & \\
& SCE & ORA & SCE & ORA \textsuperscript{21} \\
\hline
Safety & 10.00\% & 10.00\% & $13,385 & $13,385 \\
\hline
Cust. Relationships/ Oper. Excellence & 20.00\% & 20.00\% & $26,770 & $26,770 \\
\hline
“Grid of the Future” & 20.00\% & 20.00\% & $26,770 & $26,770 \\
\hline
High Performance Organization & 10.00\% & 5.00\% & $13,385 & $6,692 \\
\hline
Financial Goals & 40.00\% & 0.00\% & $53,539 & $0 \\
\hline
Total & 100.00\% & 55.00\% & $133,848 & $73,616 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{18} Ex. SCE-06, Vol. 2, pp. 24-25.
\textsuperscript{19} Ex. SCE-06, Vol. 2, p. 28.
\textsuperscript{20} Ex. SCE-06, Vol. 2 workpapers, p. 60.
\textsuperscript{21} Due to ORA’s labor dollar adjustments, ORA’s final dollar amounts for STIP are slightly different than those calculated here.
ORA recommends that ratepayers fund the portions of STIP associated with safety, customer relationships and operational excellence, and “Grid of the future” because these goals have the ability to benefit ratepayers.

ORA recommends that the portion of STIP related to “High Performance Organization,” be shared equally between shareholders and ratepayers. This is because the specific category goals outlined by SCE – diversifying the leadership pipeline, enhancing the decision-making process, and encouraging employee engagement – do not present a clear ratepayer benefit, and do not appear to be transparent or readily quantifiable. These category goals can equally serve to benefit the company and shareholders.

SCE’s STIP program includes 40% related to financial goals. Incentive criteria tied to financial goals are clearly shareholder oriented. While there is no direct benefit to ratepayers, there is a tangible benefit to shareholders in the form of dividends and higher stock prices. As such, there is no justification to support ratepayer funding of this aspect of the incentive matrix. ORA recommends no ratepayer funding of STIP related to financial goals. This was ORA’s recommendation in the recent PG&E and Sempra GRCs, which were both settled.

This is also consistent with SCE’s last GRC decision, in which the Commission stated, “In recent GRCs, we have adopted reductions to short term incentives to account for payouts that are driven by shareholder benefits rather than ratepayer benefits.” ORA recommends that ratepayers not be required to fund the STIP request related to financial goals.

Based on the policies and adjustments discussed above, ORA recommends a ratepayer funded TY STIP expense of $70.672 million, compared to SCE’s request of $133.8 million.

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23 For PG&E, a final decision has not been voted on by the Commission; the application is A.15-09-001. For Sempra, see D.16-06-054.
24 D.15-11-021, p. 264
V. DISCUSSION / ANALYSIS OF LONG-TERM INCENTIVE PROGRAMS (Vol. 2)

Although SCE’s testimony consistently refers to the employees who benefit from its long-term incentive program (LTIP) as “executives,” SCE’s long-term incentives are paid not only to employees at the company’s Executive level but to all employees at the Director level. SCE forecasts $13.726 million for LTIP expenses, while the corresponding ORA recommendation is zero.

Table 15-5 summarizes SCE’s request for long-term incentive plans and compares ORA’s recommendation and SCE’s TY requests.

Table 15-6  
2011-2015 Recorded / 2018 Forecast  
(in Thousands of 2015 Dollars)

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>SCE 2018</th>
<th>ORA 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERC Account 920-921</td>
<td>$22,468</td>
<td>$20,160</td>
<td>$17,589</td>
<td>$20,329</td>
<td>$16,042</td>
<td>$13,726</td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>$22,468</td>
<td>$20,160</td>
<td>$17,589</td>
<td>$20,329</td>
<td>$16,042</td>
<td>$13,726</td>
<td>$0</td>
</tr>
</tbody>
</table>


A. Overview of SCE’s and ORA’s Positions

SCE states that the LTI program benefits ratepayers, in part, because of better executive-level retention. In response to a data request, SCE provided information on executive-level headcounts from 2009 through 2016, by position, which indicates that this is not the case. After condensing positions that had slightly different titles but appear to be the same job (“VP & Assoc General Counsel” and “VP & Associate General Counsel,” for example) and positions that were apparently promoted (four years of “VP and Chief Information Officer,” and one year of “SVP and Chief Information Officer,” for example) there are only a few dozen positions

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25 SCE response to data request ORA-SCE-012-STA, Q.1.
26 Ex. SCE-06, Vol. 2, p. 34.
which had an incumbent for more than three of those eight years. In fact, less than half of the executive officer positions and less than a third of the non-officer executive positions had an incumbent for four or more of those eight years.\(^{27}\)

Although SCE claims to not track executive vacancies,\(^{28}\) the executive headcounts from year to year show that SCE has had vacancies in many positions in the past eight years. This disputes SCE’s claim that LTI results in better executive retention.

SCE also claims that LTI benefits ratepayers through “lower costs,”\(^{29}\) but this is also not supported by the evidence available. In SCE’s 2012 GRC, the Company had 31 executives who were paid an average of about $470,000, and those executives received benefits that were 70.5% above market.\(^{30}\) In SCE’s 2015 GRC, the Company had 41 executives who were paid an average of about $515,000, and those executives received benefits that were 114.3% above market.\(^{31}\) In this GRC, SCE has 43 executives who are paid an average of about $610,000, and these executives receive benefits at 96.4% above market.\(^{32}\) In just six years, the average base pay for an executive at SCE has increased 30%, and with a 40% increase in executive population at SCE, the total payroll for executives has nearly doubled. This is in addition to executive benefits which are nearly double in value to those of SCE’s market comparators. SCE is not lowering costs by trimming executive salaries or benefits. And while it is true that some employee benefits are calculated on base pay, the supplemental executive benefits (which will be discussed in Section VII.2 below) include incentive pay in their calculations. This disputes SCE’s claim that LTI results in lower costs.

\(^{27}\) SCE response to data request ORA-SCE-171-STA, Q.1, attachment Q.01a, lists a total of 339 positions, which was condensed to 252 non-officer executive positions and 50 executive officer positions. Of those, only 90 positions were filled for four or more (non-consecutive) years, 70 non-officer executives (28%) and 25 executive officers (45%).

\(^{28}\) SCE response to data request ORA-SCE-171-STA, Q.1.

\(^{29}\) Ex. SCE-06, Vol. 2, p. 34.


The Commission has a long history of declining to provide rate recovery for LTI for those companies that request it.\(^{33}\) (PG&E does not request ratepayer funding for LTI.)\(^{34}\) The Commission, in a recent Sempra GRC decision, stated that because stock-based compensation is tied to financial performance over a period of time, “that clearly demonstrates that a premium is being placed on the companies’ financial performance.”\(^{35}\) The most recent Sempra GRC decision, D.16-06-054, was a settlement which included no ratepayer funding for LTI for either company.\(^{36}\)

In SCE’s most recent GRC decision, the commission stated, “SCE has not demonstrated that LTI furthers the provision of safe and reliable service at just and reasonable rates.”\(^{37}\) D.15-11-021 additionally stated:

“In recent decisions, we have held that LTI is not recoverable from ratepayers because LTI does not align executives’ interests with ratepayer interests. SCE’s arguments to the contrary are vague, limited, and unpersuasive… We continue our consistent practice and reject rate recovery of SCE’s LTI program.”\(^{38}\)

SCE has not demonstrated in this filing that anything has changed since then. ORA’s recommendation is that ratepayers continue to not fund SCE’s LTI request.

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\(^{32}\) Ex. SCE-06, Vol. 3, p. 4.

\(^{33}\) D.12-11-051, pp. 451-452; D.13-05-010, pp. 882-884; and D.15-11-021, p. 266.

\(^{34}\) A final decision has not been voted on by the Commission in A.15-09-001; ORA’s discussion of LTI is included in PG&E GRC Ex. ORA-16, p. 9. Also see D.11-05-018, p. 97, which relieves PG&E of the obligation to include LTI in future TCS, as they are not funded by ratepayers.

\(^{35}\) D.13-05-010, p. 884.

\(^{36}\) D.16-06-054, SoCalGas Settlement Motion, SoCalGas Settlement Comparison Exhibit, p. 10, and SDG&E Settlement Motion, SDG&E Settlement Comparison Exhibit, p. 12.

\(^{37}\) D.15-11-021, p. 266.

\(^{38}\) Ibid.
VI. DISCUSSION / ANALYSIS OF RECOGNITION PROGRAMS (Vol. 2)

SCE’s Recognition Programs involve both cash and non-cash awards. Cash awards are given in the form of spot bonuses and SCE states that they are an important tool for recognizing and rewarding employees for exceptional performance and outstanding achievement.\(^{39}\) Non-cash awards are given under the “Awards to Celebrate Excellence” (ACE) recognition program. ACE awards are given as program points to reward employees who contribute to a safe working environment or public safety;\(^{40}\) this is a change from the prior program that rewarded customer service, teamwork and initiative. Other program changes made in 2016 include an expansion of the program so that ACE award nominations are now open to all non-executive employees in all OUs, and awards can be made by any manager (not just an employee’s manager) if the manager witnesses something related to changing the company’s safety culture.\(^{41}\)

SCE has failed to provide the transparency needed to justify ratepayer funding of these programs. SCE states that each OU has “limited budget dollars” to spend on these programs\(^{42}\) but provides no historical expense levels beyond the base year to support this claim, no breakdowns of the costs of the programs by Operating Unit or job category to aid in any analysis, and nothing to justify this expense other than, “everyone else does it.”\(^{43}\)

SCE forecasts $1.456 million for Recognition Program expenses, which is based on 2015 recorded costs of $1.337 million.\(^{44}\) Compared to SCE’s 2015 total

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\(^{41}\) Phone call on March 14, 2017 with Mark Bennett, Michelle Ricard and Rahab Mahsud.

\(^{42}\) Ex. SCE-06, Vol. 2, p. 41 claims that this amount is 0.2% of the labor budget.

\(^{43}\) Ex. SCE-06, Vol. 2 workpapers, Chapter III-VIII, p. 114 shows that 80% of respondents to a WorldAtWork survey said their company provides a budget for recognition programs, and 97% of those companies provide payroll dollars for those programs.

\(^{44}\) Ex. SCE-06, Vol. 2, p. 98, states that individual OUs also record costs associated with the ACE (continued on next page)
company labor of $829.1 million, the cost for these programs in 2015 was
approximately 0.16% of SCE’s labor, which is in line with SCE’s claim of a 0.2%
budget. However, these costs were recorded before the program expansion, so
they should be expected to be lower than SCE’s budget projections into the future.
Since no historical data was provided for comparison, there is no way to know
whether the costs recorded in 2015 are accurate or an anomaly. ORA recommends
no ratepayer funding for SCE’s Recognition Programs. Because most of the costs
for Recognition Programs are spread throughout the company’s OU non-labor costs,
ORA removed the forecast of $1.456 million from Miscellaneous Benefits.

VII. DISCUSSION / ANALYSIS OF PENSION AND BENEFITS
PROGRAMS (Vol. 2)
This section includes all costs related to SCE’s employee pension and benefit
(P&B) programs: pension and postretirement benefits, including contributions to trust
funds; 401(k) savings plan; health plans including medical, dental, and vision
coverage; group life insurance; supplemental executive benefits; and Miscellaneous
Benefits, which include an employee electric service discount, commuter benefits,
education reimbursement, and some costs related to the ACE program.\footnote{Ex. SCE-06, Vol. 2, p. 41.}
SCE forecasts $370.789 million for Pension and Benefits Programs, while the
corresponding ORA forecast is $353.641 million.
SCE is eliminating the Cash Balance retirement plan for new employees hired
on or after December 31, 2017, instead providing a non-elective contribution to the
401(k) accounts of those new employees.\footnote{Ex. SCE-06, Vol. 2, p. 46.} The non-elective 401(k) contribution
will be between 4% and 6% of an employee’s base pay, depending on age, service,
This change is expected to lower the company’s long-term retirement plan obligations. SCE provides all eligible employees with comprehensive medical coverage including preventive care, prescription coverage, and mental health and substance abuse treatment. Employees choose from a variety of health plans, which may vary depending on their location, and which offer a variety of care choices as well as cost-sharing options such as fixed co-payments or co-insurance percentages for health services, and different levels of payroll contributions and/or annual deductibles. Employees who choose the lowest-cost option pay 15% of the premium for themselves and 20% for their dependents; employees who choose other plans pay that amount, plus 100% of the difference between the plan they choose and the lowest-cost plan. SCE also offers three dental plans, all of which provide free preventive care but have different cost-sharing levels for additional services; employees pay 15% of their premium and 20% for dependent coverage. SCE provides group life insurance coverage for all employees for one times their base pay, up to $50,000; additional coverage for the employee and for dependents may be purchased at the employee’s cost. SCE also provides eligible employees with $50,000 in Accidental Death & Dismemberment insurance coverage; additional coverage for the employee and for dependents may be purchased at the employee’s cost. Business Travel Accident Insurance is provided at no cost with coverage equal to two times the employee’s base pay, with maximum levels that vary by employee level.
Most of the benefit program expenses are calculated by multiplying the individual program cost by SCE’s projected headcount.\textsuperscript{53} Because ORA’s labor forecast is lower than SCE’s projection, ORA’s TY recommendations for these programs will be lower than SCE’s.\textsuperscript{54} ORA has reviewed the programs, historical expenses, and projected TY program cost forecasts for SCE’s P&B programs and does not oppose the TY program costs for the following programs:

- Pension ($97.474 million request, subject to two-way balancing account treatment.)
- PBOP ($36.823 million request, subject to two-way balancing account treatment.)
- 401(k) Savings Plan ($79.190 million request.)
- Dental ($15.035 million request, subject to the Medical Programs Balancing Account.)
- Vision ($3.443 million request, subject to the Medical Programs Balancing Account.)
- Group Life ($1.426 million request.)
- Miscellaneous Benefits with the exception of Recognition Programs as discussed in Section VI above.

\textsuperscript{53} Ex. SCE-06, Vol. 2, workpapers pp. 24-25 show the calculations of the program costs for the various benefit programs.

\textsuperscript{54} Ex. ORA-2.
Table 15-7 summarizes SCE’s request for pension and benefits program and compares ORA’s recommendation and SCE’s TY requests.

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>SCE 2018</th>
<th>ORA 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Costs</td>
<td>$94,367</td>
<td>$146,080</td>
<td>$156,245</td>
<td>$122,336</td>
<td>$87,739</td>
<td>$97,474</td>
<td>$97,474</td>
</tr>
<tr>
<td>401(k) Savings</td>
<td>$83,761</td>
<td>$83,709</td>
<td>$75,008</td>
<td>$74,000</td>
<td>$69,808</td>
<td>$79,190</td>
<td>$75,965</td>
</tr>
<tr>
<td>Medical</td>
<td>$124,097</td>
<td>$129,234</td>
<td>$127,359</td>
<td>$100,166</td>
<td>$90,153</td>
<td>$110,719</td>
<td>$101,478</td>
</tr>
<tr>
<td>Dental</td>
<td>$15,111</td>
<td>$15,586</td>
<td>$14,527</td>
<td>$11,230</td>
<td>$12,909</td>
<td>$15,035</td>
<td>$14,452</td>
</tr>
<tr>
<td>Vision</td>
<td>$3,667</td>
<td>$3,575</td>
<td>$3,289</td>
<td>$2,499</td>
<td>$2,873</td>
<td>$3,443</td>
<td>$3,309</td>
</tr>
<tr>
<td>PBOP Costs</td>
<td>$34,520</td>
<td>$50,944</td>
<td>$30,835</td>
<td>$17,449</td>
<td>$22,477</td>
<td>$36,823</td>
<td>$36,823</td>
</tr>
<tr>
<td>Group Life</td>
<td>$1,573</td>
<td>$1,515</td>
<td>$1,556</td>
<td>$1,198</td>
<td>$1,329</td>
<td>$1,426</td>
<td>$1,370</td>
</tr>
<tr>
<td>Misc. Benefits</td>
<td>$7,138</td>
<td>$5,235</td>
<td>$5,170</td>
<td>$5,318</td>
<td>$4,894</td>
<td>$5,592</td>
<td>$3,976</td>
</tr>
<tr>
<td>Exec. Benefits</td>
<td>$18,126</td>
<td>$20,925</td>
<td>$17,144</td>
<td>$14,117</td>
<td>$19,658</td>
<td>$21,087</td>
<td>$10,135</td>
</tr>
<tr>
<td>Total</td>
<td>$382,360</td>
<td>$456,803</td>
<td>$431,133</td>
<td>$348,313</td>
<td>$311,840</td>
<td>$370,789</td>
<td>$344,982</td>
</tr>
</tbody>
</table>


A. Medical Programs Expense

SCE’s medical programs expense was calculated by multiplying the projected number of employees by the projected program cost.\(^{55}\) To calculate the projected program cost, SCE projects a medical escalation rate of 7.0% for 2017 and 2018.\(^{56}\) To determine the reasonableness of the proposed medical escalation rate, ORA consulted several well-regarded sources of healthcare cost statistics. SCE quotes a report from Milliman, Inc. as one of its sources for its proposed 7% increase in healthcare costs. The report quoted was prepared in April 2013.\(^{57}\)

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\(^{55}\) Ex. SCE-06, Vol. 2, p. 68.

\(^{56}\) Ex. SCE-06, Vol. 2, p. 76.

report, produced by Milliman, Inc. in May 2016, projects an average of 4.7% increase in healthcare costs, which is the lowest annual increase since Milliman first measured medical costs in 2001. For California specifically, the California Employer Health Benefits Survey found an average increase of 5.6% in family coverage healthcare premiums for 2016 and the Kaiser Family Foundation’s Medical Expenditure Panel Survey found that California employer-based health insurance premiums averaged 3.45% increase in total family healthcare premiums from 2014 to 2015.60

Because of the Medical Programs Balancing Account, ratepayers fund only SCE’s actual costs to provide this benefit to its employees, but any over-collection is not refunded to ratepayers until the next year.61 ORA recommends using the medical escalation rates of Milliman, California Employer Health Benefits Survey, and Kaiser Family Foundation to forecast this expense. An average of the three insurance premium rate increases discussed above, two of which are specific to California employers, results in ORA’s proposed medical escalation rate of 4.58%. ORA applied this escalation rate to SCE’s projected program cost to arrive at ORA’s forecast of $101.478 million, which is a difference of $9.241 million.

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58 Ex. SCE-06, Vol. 2, p. 72, fn. 88.
60 http://kff.org/other/state-indicator/family-coverage/?dataView=0&activeTab=graph&currentTimeframe=0&startTimeframe=1&selectedDistribitions=total&selectedRows=%7B%22nested%22%3A%7B%22%7B%22california%22%7D%7D%7D%7D&sortModel=%7B%22colId%22%3A%22Location%22,%22sort%22%3A%22asc%22%7D $17,044 to $18,045 = 3.45%
Table 15-8 shows the calculation of ORA’s recommended medical escalation rate.

<table>
<thead>
<tr>
<th>Projected/Actual Increases</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Milliman, Inc. Report</td>
<td>4.70%</td>
</tr>
<tr>
<td>CA Employer Health Survey</td>
<td>5.60%</td>
</tr>
<tr>
<td>Kaiser Family Foundation</td>
<td>3.45%</td>
</tr>
<tr>
<td>Average Increase</td>
<td>4.58%</td>
</tr>
</tbody>
</table>

### B. Supplemental Executive Benefits

SCE offers a non-qualified Executive Retirement Plan that provides benefits to certain highly-paid management employees who are subject to federal compensation and contribution limits in the retirement plans which are offered to all other SCE employees.\(^{62}\) This plan provides benefits to covered employees on the same basis as the retirement plan offered to all other SCE employees, but without any income and contribution limits. There is no pre-funded trust for the Executive Retirement Plan; the recorded expense includes benefit payments.

SCE is making two changes to its Executive Retirement Plan. First, beginning in 2018, the formula for benefit calculations will be changed from 1.75% of final average pay for up to 30 years of service and 1% of final average pay for over 30 years of service; the new benefit calculations will use 1% and 0.5%, respectively. Also beginning in 2018, newly hired executives and those newly promoted into executive positions will no longer participate in the Executive Retirement Plan; these employees will instead receive additional non-elective contributions into their 401(k) accounts, as described on pages 15-16 above and as allowed by law, and into a new Executive Retirement Account (ERA). Deposits into each executive’s ERA will be comprised of 12% of their annual EIC payout, 12% of their base pay that exceeds IRS limitations for deposit into their 401(k) account and interest credits. The

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combination of the ERA benefit and the revised Executive Retirement Plan cannot exceed what the executive would have received under the pre-2018 plan.  

In prior GRCs, ORA has taken the position that ratepayers should not bear the full cost of these supplemental benefits which are in excess of federal limits and which serve to further enhance benefits to already highly-compensated employees. SCE’s executive benefits are 96.4% above market, according to the TCS, clearly indicating that SCE is already providing very generous benefits to its executives.

The Commission has also not required full ratepayer funding for executive benefits for many years, adopting 50% of the executive benefits for ratepayer funding in the last cycle of GRCs for the major utilities and the past three SCE GRCs. In SCE’s 2012 GRC, the Commission specifically noted that 50% was a reasonable amount for ratepayers to bear. In SCE’s most recent TY 2015 GRC, D.15-11-015 stated:

“For Executive Benefits, we follow the precedent of the 2009 and 2012 GRCs, and allow 50% rate recovery of SCE’s forecast. These Executive Benefits are, in part, based on bonuses received by the executives. As discussed above, these bonuses may not be appropriate for rate recovery. Accordingly, benefits based on those bonuses are also not appropriate.”

SCE forecasts $21.09 million for these supplemental executive benefits. In light of this Commission history and precedent, ORA recommends ratepayer funding of 50% for a total TY program expense of $10.135 million.

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64 Ex. SCE-06, Vol. 3, p. 4.
66 D.12-11-051, p. 450.