

Risk Assessment Mitigation Phase
Risk Mitigation Plan
Supplemental Information Regarding
Safety Culture, Organization and
Compensation
(RAMP – C)

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Supplemental Information Regarding Safety Culture, Organization and Compensation

1 Background

This chapter provides supplemental information regarding SDG&E's and SoCalGas' organizational structures and culture as they relate to safety, as required by D.16-08-018.¹ In addition to describing top risks and proposed mitigations in each of the individual risk assessment mitigation plan (RAMP) chapters of this filing, the Commission has instructed the utilities to include specific discussion in this filing regarding the following:

- Safety culture and organizational structure;
- Compensation policies related to safety.
- Executive and senior management engagement in the risk assessment, prioritization, mitigation, and budgeting process; and
- Utility board engagement and oversight over safety performance and expenditures.

This chapter addresses each of the above topics in turn below.

2 Safety Organizational Structure and Culture

Safety, reliability and security risk mitigation is incorporated into SDG&E's and SoCalGas' organizational structures, strategic governance and policies, day-to-day operations and resource allocation processes. SoCalGas' and SDG&E's safety organizational structures are described in detail within each utility's Employee, Contractor and Public Safety Events chapters included in this RAMP filing.

SoCalGas and SDG&E's test year (TY) 2016 GRC witness testimony also demonstrated the utilities' strong organizational structure as it relates to safety, as well as their strong commitment to improvement and development through ERM integration.² Bret Lane (now-Chief Operations Officer and President, SoCalGas), Scott Drury (now-President, SDG&E), and Caroline Winn (now-Chief Operations Officer, SDG&E) described how the utilities view safety as a three-pronged effort that requires vigilant attention to (1) employee safety, (2) customer/public safety, and (3) the safety of the utilities' gas and electric delivery systems. This focus is driven by the utilities' strong safety culture and is summarized in their Commitment to Safety statements, which is endorsed by the entire SoCalGas and SDG&E senior management team:

[SoCalGas and SDG&E's] longstanding commitment to safety focuses on three primary areas--employee safety, customer safety and public safety. This safety

¹ See D.16-08-018 at 140-42.

² Ex. 02 (SDG&E/Drury/Winn) at 8-9; Ex. 1 (SoCalGas/Lane) at 8-9.

focus is embedded in what we do and is the foundation for who we are--from initial employee training, to the installation, operation and maintenance of our utility infrastructure, and to our commitment to provide safe and reliable service to our customers.

As Ms. Winn and Messrs. Lane, Drury, Schneider and Geier testified, SoCalGas and SDG&E's investments to manage safety and security risk of our infrastructure and services have had a direct impact on our safety and reliability performance. Evaluations and measures by independent third parties show that SoCalGas' and SDG&E's safety results compare favorably to those of peer utilities and companies. The results of recent safety surveys conducted by the National Safety Council indicate SoCalGas is in the 94th percentile and SDG&E is in the 85th percentile for safety culture.³ The safety culture has led to improved Occupational Safety and Health Administration (OSHA) results. Over the past sixteen years the OSHA recordable incident rate⁴ at SoCalGas has improved from 8.0 in the mid-1990s to 3.8 in 2015. At SDG&E, there has been a similar improvement trend, with the rate declining from 8.6 to 1.91 in 2015.

Diana Day, Vice President, Enterprise Risk Management at SoCalGas and SDG&E, also provided TY 2016 GRC testimony describing how the utilities have developed their safety culture via structures, roles and processes at all levels to address risks associated with our operations and facilities, as well as the companies' trajectories for developing and improving an ERM organization for both utilities. Ms. Day described the commitments SDG&E and SoCalGas made to reiterate their evolving risk management vision through their TY 2016 GRC request, including the request for funding to build and refine an ERM program that integrates risk with asset and investment management through governance structures, competencies and tools. The utilities' planned program included Ms. Day's newly created shared executive role, as well as two additional director positions and nine full-time equivalents. At this time, the utilities have developed an ERM organization with all of the positions forecasted in the last GRC, as well as taken steps to instill risk-informed decision making throughout the utilities. Regarding the utilities' safety culture, Ms. Day testified:

Risk management at SoCalGas and SDG&E occurs at multiple levels. As mentioned previously, our utilities exhibit consistent attention to safety and security in everyday operations. One of our stated core values is, "Treat safety as way of life."⁵ At all levels within SoCalGas and SDG&E, we pay significant attention to the development of structures, roles and processes to address the risks associated with our operations and facilities.

Both SoCalGas and SDG&E have undertaken a thoughtful and measured approach to the adoption of structures and processes to further the development of a risk-aware culture. Both SDG&E and SoCalGas have developed risk registries, which identify

³ National Safety Council Safety Barometer Results Report 2016, SoCalGas and SDG&E.

⁴ Of non-fatal work-related injuries and illnesses.

⁵ Sempra Energy Governance Statement of Corporate Values, *available at* www.sempra.com.

and prioritize top risks within each organization. Each utility has implemented an investment management process that is used to prioritize investments that address risk mitigation actions. SDG&E formalized its approach to ERM by establishing a comprehensive risk management policy and guidelines, with defined, substantive roles and responsibilities established throughout the organization and transparent repeatable processes to support assessment of risk-reduction impact of projects.⁶

Ms. Day's GRC testimony identified other SDG&E and SoCalGas executives supporting safety-related policy testimony in the utilities' TY 2016 GRC request, including David Geier, Vice President of Electric Transmission and System Engineering for SDG&E and Douglas Schneider, now-Vice President of System Integrity and Asset Management for SDG&E and SoCalGas. Mr. Geier and Mr. Schneider presented risk policy testimony describing SoCalGas and SDG&E's long-established strong operational safety culture, as well as the utilities' continued commitment to developing ERM through targeted programs and initiatives. Together with Ms. Day, Mr. Geier and Mr. Schneider provided an overview of SDG&E's strong safety culture and commitment to further developing processes and programs designed to manage safety risks and to promote system reliability, and described the utilities' well-developed safety culture, founded on proven employee-based programs, safety training programs and education of workforce. These programs are detailed in each utility's Employee, Contractor and Public Safety Events chapters included in this RAMP filing, as noted above, and include initiatives such as:

- Environmental & Safety Compliance Management Program (ESCMP), an environmental, health and safety management system to plan, set priorities, inspect, educate, train, and monitor the effectiveness of environmental, health and safety activities in accordance with the internationally accepted standard, ISO 14001.
- Behavior Based Safety (BBS) Programs use a proactive approach to safety and health management, focusing on principles that recognize at-risk behaviors as a frequent cause of both minor and serious injuries. BBS is intended to reduce the occurrence of at-risk behaviors by modifying an individual's actions and/or behaviors through observation, feedback and positive interventions aimed at developing safe work habits.
- In addition, each utility holds regular safety meetings at many levels, including Executive Safety Council meetings, which have been in place for well over a decade, and annual Contractor Safety Summits, which have included hundreds of participants, representatives from other California utilities and the Safety Enforcement Division of the CPUC.

3 Executive and Senior Management Engagement

SoCalGas and SDG&E's TY 2016 GRC witness testimony also demonstrated executive and senior management's engagement in the risk assessment, prioritization, mitigation and budgeting processes.

⁶ Ex. 13 (SDG&E/Day) at 4.

Ms. Day described the commitments SDG&E and SoCalGas made to their evolving risk management vision through their TY 2016 GRC request, including the creation of Ms. Day's new executive role at both utilities and the utilities' plans to develop the shared ERM organization. Mr. Geier and Mr. Schneider also testified to SoCalGas and SDG&E's continued commitment to the growth and development of existing risk management processes into a more fully integrated ERM governance structure.

SDG&E described its process for incorporating safety and security risk into its electric operations investment portfolio in the TY 2016 risk policy testimony of David Geier, as follows:

The approach SDG&E uses to address risk is a combination of bottom-up and top-down identification and management of risks, involving both capital projects and operations and maintenance (O&M) programs....

The capital decision methodology is a bottom-up process that begins with engineers and project managers using their experience and, in some cases, historic asset life and failure data, to identify which projects should be considered for capital funding. In the early stages of planning, alternative risk mitigation solutions will be considered. As the subject matter experts converge on a preferred approach ... to mitigate a particular risk, alternatives will progressively be set aside and further study expenses will not be made on them.... The project managers then review their proposals with their functional director.

The portfolio of electric distribution capital projects is categorized as follows: Mandated, Safety & Risk Management, Reliability/Improvements, New Business, Capacity/Expansion, Franchise, Materials, Equipment/Tools/Miscellaneous, Overhead Pools, and Transmission/FERC Driven Project. The projects within these categories are prioritized, and the list of prioritized projects is then reviewed by our internal Capital Budget Committee, where individual projects are challenged to ensure they meet a reasonableness review for risk mitigation and compliance. Changes can and are made in the Capital Committee before the proposed budget is presented to the Executive Finance Committee (EFC)....

The O&M decision methodology is closely linked to the capital decision methodology, because the O&M component of any given capital project follows as a necessity to completing the project.... The large majority of O&M activities are driven by compliance activities; and ... are enhanced by SDG&E's strong commitment to public and employee safety and maintaining a safety culture.... Funding for these activities also undergoes a rigorous challenge and review at the Operating Budget Committee and EFC sessions....

From time to time risks and requirements may emerge during the fiscal year.... In situations where risks and requirements emerge outside of SDG&E's

traditional investment planning cycle, SDG&E management will re-prioritize work to ensure risk mitigation and compliance.⁷

SoCalGas described its capital planning process for incorporating its gas operations investment portfolio in the TY 2016 GRC testimony of Garry G. Yee, as follows:

Generally, early during the third quarter of the year, SCG begins the capital planning process leading to organizational budgets. For non-balanced base capital, SCG Executive Finance Committee (“EFC”) establishes a total annual capital expenditure target consistent with our authorized GRC funding for that period. From this total allocation, funding is prioritized based on continuous input from operations.

- Step 1 - Initial capital allocations begin with inputs from Functional Capital Committees (“FCCs”) that are organized by the nature and type of capital investment or function: Gas Operations, Customer Services, Information Technology, and Facilities/Environmental/Other. These teams of managers and subject matter experts perform a high level assessment of the capital requirements for serving customers to ensure that infrastructure is maintained and developed to provide safe, reliable service with the highest risk mitigation at the lowest attainable cost. Each FCC elicits broad input for developing each function’s capital plan, and formulates a prioritized grouping of annual spending requirements.
- Step 2 - The capital requirements as identified by the FCCs are provided to the Capital Planning Committee (“CPC”), a cross-functional team of Directors representing each operational area with capital requests. The CPC reviews the FCC submissions, cross-prioritizes projects among the FCCs and establishes a final ranking for proposed capital work. Projects determined to address safety, compliance or reliability issues receive the highest priority for funding.
- Step 3 - The CPC presents its recommendations for capital spending consistent within each functional area and consistent with the overall funding target to the EFC, which reviews the recommendations and either approves the proposed capital funding allocations or requests changes.

Once the capital allocations are approved, the individual operating organization is chartered to manage its respective capital needs within the allotted capital. The real-time prioritization of work within the context of the budget allocations is completed by the front-line and project managers on an ongoing and continuous basis. Regulatory compliance deadlines, customer scheduling requirements, and overall infrastructure condition are all factors taken into consideration as work elements are prioritized. Before starting a project or making any commitments, the project manager must secure specific project approval signatures in accordance with SCG’s

⁷ Ex. 21 SDG&E (Geier/Schneider) at 7-9 (internal footnotes omitted).

Internal Order process and the Sempra Energy Utilities' approval and commitment policy.⁸

Senior executives are now involved in at least three executive risk sessions each year to review top risks identified for the utilities, ranking and prioritization of the risks, and funding for the mitigations.

4 Compensation

SDG&E and SoCalGas' variable pay plans, commonly referred to as the Incentive Compensation Plans ("ICP"), motivates employees to meet or exceed important goals, including safety goals, by placing a portion of employee compensation at risk and subject to achievement of the plan's performance measures. As described in Debbie Robinson's TY 2016 GRC testimony, variable pay plans have been a part of SoCalGas' total compensation strategy since 1997, and SDG&E's since 1988.⁹ Safety goals in the SoCalGas and SDG&E ICP plans promote employee and contractor safety through performance measures tied to a safe working environment. They also promote public safety through operational goals designed to support safe operations. Both the executive and non-executive ICP plans include safety-related performance measures.

Regarding executive compensation, thirty-five percent of the total 2016 ICP for SoCalGas and SDG&E executives is tied to safety-related performance measures. These measures include:

SDG&E:

- Employee and contractor safety measures focusing on a safe work environment
- Public-safety related operational measures focused on providing a safe and reliable system, such as:
 - Pipeline Safety Enhancement Program (PSEP)
 - Distribution system integrity
 - Reliability and major electric safety projects

SoCalGas:

- Employee and contractor safety measures focusing on a safe work environment
- Public-safety related operational measures focused on providing a safe and reliable system, such as:
 - Pipeline Safety Enhancement Program (PSEP)
 - Distribution system integrity
 - Storage Integrity Management program (SIMP)
 - Advance meter installation (AMI)

⁸ Ex. 298 (SoCalGas/Yee) at 2-3.

⁹ Exs. 191 (SoCalGas/Robinson) and 193 (SDG&E/Robinson) at 6-7.

For both utilities, the employee and contractor safety measures are based on safety performance throughout the year. However, the SDG&E and SoCalGas boards of directors may reduce or eliminate any payout for these safety measures in the event to a work-related fatality or serious injury. For example, in 2015, SDG&E achieved a record-low number of recordable injuries and performance exceeded the level required for a maximum payout. However, the SDG&E board of directors reduced the payout for SDG&E's employee safety measure to zero due to a work-related fatality.

Ms. Robinson also described SoCalGas' and SDG&E's employee wellness programs, designed to improve employee health and productivity.¹⁰ Wellness programs promote healthy lifestyle changes and illness prevention, facilitate early detection and management of illness and disease, and help ensure that employees diagnosed with health conditions receive optimal and effective treatment. SDG&E and SoCalGas partner with health care providers and non-profit agencies to offer classes and educational materials to promote healthy behaviors to prevent illness. Current programs include safety stand down events and health fairs, gym membership fitness subsidy, worksite fitness programs, weight management, stress management, and smoking cessation. Linking wellness programs to employee safety programs through participation in safety stand down events is designed to further reinforce a focus on healthy behaviors and prevention of illnesses and injuries. These programs are also described in the Employee, Contractor and Public Safety Events chapters included in this RAMP filing.

5 Governance

The SoCalGas and SDG&E boards of directors determine the safety-related performance measures to be included in each year's ICP and review and approve the actual performance results. Each SoCalGas and SDG&E board meeting begins with a safety briefing. The briefings include a review of year-to-date safety performance as well as discussion of current safety topics. As noted above, the boards may exercise negative discretion to reduce or eliminate any payout for employee and/or contractor safety measures in the event of a work-related fatality or serious injury.

The Sempra Energy board of directors has developed an integrated risk management framework to assess, prioritize, manage and monitor risks across the company's operations. Sempra's full board has ultimate responsibility for risk oversight under this framework. Consistent with this approach, our corporate governance guidelines provide that the specific functions of the Board of Directors include assessing and monitoring risks and risk management strategies.

The Sempra Energy board believes that risk stretches far beyond any one committee. As a result, the board has diversified its risk oversight responsibilities across its membership, housing categories of risk oversight within board committees by topic. Any risk oversight that does not fall within a particular committee remains with the full board.

The Environmental, Health, Safety and Technology Committee of the Sempra Energy board of directors is responsible for:

¹⁰ Exs. 191 (SoCalGas/Robinson) and 193 (SDG&E/Robinson) at 24-25.

- Assisting the company's Board of Directors in overseeing the company's programs and performance related to environmental, health, safety and technology matters.
- Reviewing environmental, health and safety laws, regulations and developments at the global, national, regional and local level and evaluating ways to address these matters as part of the company's business strategy and operations.
- Reviewing cybersecurity programs and issues.
- Reviewing and evaluating technology developments that advance the company's overall business strategy.

The Compensation Committee of the Sempra Energy board of directors determines the safety measures that are included in the ICP for senior Sempra Energy corporate officers.