



**Pacific Gas and
Electric Company.**



**PG&E - ESC Local 20
Joint STIP Committee Report
2010**

The members of the Joint Non-Productive Time Subcommittee as identified below jointly prepared this report.

<u>Company</u>	<u>ESC Local 20</u>
Jeff Delaney, Principal Negotiator Mary King, Principal Negotiator Tully Forrester, Manager, Compensation Programs	Joshua Sperry, Senior Union Representative John Mader, Distribution Engineer and President of ESC Local 20 Bob Goff, Sr. Nuclear Licensing Engineer at DCP Kent Rogers, Sr. Project Manager at DCP Ed Cheslak, Sr. Consulting Scientist in Land & Environmental Management Brian Tonegato, Senior Project Manager in Project Services Cathy Ly, Project Engineer in Hydro Generation.

The PG&E-ESC Local 20 STIP committee met on three occasions:

- May 10, 2010
- May 27, 2010
- June 22, 2010

Committee Findings

1. Benchmark Data

The company looked at Utilities from the Western Utilities Association and also from external consultants that PG&E uses for market data. The committee found that companies do all kinds of different things in the market. Some have profit sharing, some have incentive plans with an individual component like PG&E, and some have incentive plans with team-based metrics. There is no one model that dominates the market, according to the information reviewed by the committee.

2. Individual Performance Ratings

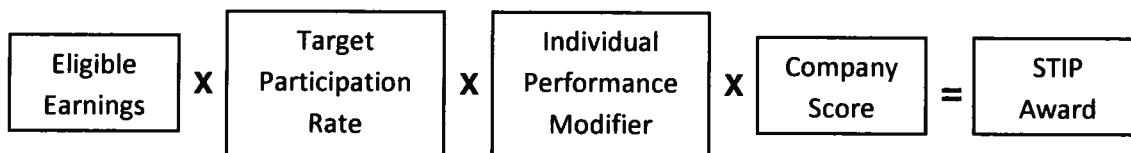
The committee reviewed the STIP program and how it operates, specifically how it is connected to the Performance Management Program (PMP). For STIP eligible ESC-represented

employees, an individual’s PMP rating determines his/her STIP Individual Performance Modifier according to the table below.

Goal Rating

	Below Target	Target	Exceeds Target
Role Model	85%	110%	125%
Successful	75%	100%	110%
Developing	0	75%	85%

The Individual Performance Modifier is one component of the STIP award calculation along with Eligible Earnings, Target Participation Rate, and Company Score, as illustrated below.



For 2009, 23% of ESC employees were in the Upper L (with Individual Performance Modifiers of 110% or 125%), 72% in the middle box (100%), and 5% in the Bottom L. One committee member summarized this by saying that 95% of ESC represented employees in PMP already perform at or above expectations. It is rare that employees are rated in the top left or bottom right boxes (the 85% boxes).

3. No Forced Ranking

“Forced ranking” refers to a past PG&E practice where employees were essentially “graded on a curve” – i.e. if one employee received a top rating, the rating of another employee would be reduced to compensate. The committee clearly agreed that, for union personnel, there are no forced rankings in the PMP and STIP system. All performance ratings are individual. Everyone in a given department could get 125%, or zero. Annual funding of STIP does not impact department budgets.

4. Zero STIP/“Bottom Left Box”

The committee reviewed the procedure for an employee to receive a zero STIP, that is, to be placed in the bottom left box of the ratings table. The union committee members stated that during bargaining over this provision, the company negotiator stated that an employee “would have to be on their last legs” in order to get a zero STIP.

A zero STIP indicates that an employee would be developmental in his/her competencies and not meet his/her established goals. Employees who receive that year-end evaluation, during the term of the current collective bargaining agreement, will have that evaluation reviewed by the Senior Vice President of Human Resources to ensure a proper evaluation. Part of the information reviewed by the SVP HR will be the mid-year performance appraisal and feedback from the supervisor, including the specific requirement for improvement.

The committee highlighted the importance of good communication between supervisor and employee over work performance. The Union members expressed their belief that it is not fair to reduce an employee's STIP without first notifying the employee of specific performance problems and providing an opportunity to improve. The supervisor needs to be specific with the employee regarding the areas where performance is deficient and improvement is needed. If an employee receives a satisfactory mid-year review, the supervisor should not give a negative year-end review without advance notification.

Management stated its intent to train supervisors in this area, and to make every effort to ensure that supervisors provide employees with advance notification of work performance problems, and to provide improvement plans. The Union reiterated its position that it is not permissible to penalize an employee for work performance without advance notification, sufficient time to improve, and an improvement plan. While management agreed that this was a good management practice and is a goal of the Performance Management Program, Management stated its position that it reserves the right to issue negative year-end reviews without advance notification in extraordinary circumstances.

There was not agreement over whether a grievance challenging the validity of a negative year-end review without any previous warnings about work performance would be upheld in arbitration.

5. STIP Related to Performance

The committee was not able to find any quantitative information showing that employees who get STIP perform better than employees who do not. Two committee members who are PG&E employees who used to receive STIP and now are paid entirely in base pay, one Distribution Engineer and one Project Manager, reported their experience that they feel morale is better in their work groups without STIP. This evidence is clearly anecdotal. Barring any more thorough research, the claim that STIP motivates employees to perform better cannot be evaluated.

Joint Recommendations

1. Training

The committee agreed that supervisors need continued training on the PMP process. The management committee members asked ESC to provide the Union's view on Performance Management for inclusion in the training. This information will help supervisors better understand the union perspective.

ESC Recommendations

1. Compensation

ESC recommends a 1.7% pension multiplier for ESC represented employees who are in STIP. This would equalize the economic impact on employees who lost this multiplier.

2. Performance Management

If an employee receives a negative review, they have the right to submit a rebuttal. ESC will not grieve performance reviews in and of themselves, but the union can grieve negative impacts on employees based on performance reviews: e.g. reduced STIP, denied PWI, denied promotion, discipline.

If a supervisor is going to award a STIP Individual Performance Modifier below 100%:

1. Employee must be put on notice that STIP will be affected, and
2. The supervisor must identify the specific performance problem(s), and
3. There must be an effort on the part of management to correct the specific performance problem in the review period.

There must be just cause for a reason to reduce STIP.

If an employee receives a positive mid-year review (center box or Upper L), then the supervisor cannot give a Bottom L review at end of year without notifying the employee as above.

An employee can also grieve a 100% STIP Individual Performance Modifier if they feel they deserved more than 100%. In this case, the burden of proof is on the employee, whereas in a case of STIP below 100% the burden of proof is on the company.

3. Individual Metrics

ESC supports a team STIP program with team-based metrics instead of the current individual performance ratings. One way to do this would be to calculate the average of all the percentages of all employees below a certain manager (Supervisor, Manager or Director), and all employees in that work group receive that payment percentage. Another way is to use the Director's (or Manager's) score on the department goals for the whole department.

4. STIP Score

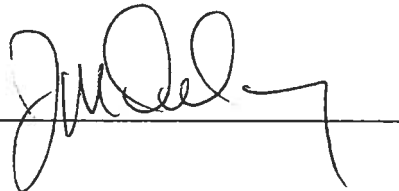
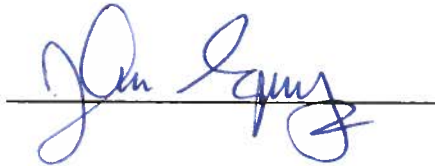
ESC thinks that the STIP score for union-represented employees should not have a component that is based upon the premier survey responses.

For the Company:

For ESC Local 20:

Jeff Delaney

Joshua Sperry

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Date:

1/20/11

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