

BEFORE THE PUBLIC UTILITIES COMMISSION OF  
THE STATE OF CALIFORNIA



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Application of San Diego Gas & Electric  
Company (U902E) for Approval of Palomar  
Decarbonization Demonstration Project.

Application 25-12-009  
(Filed December 16, 2025)

PROTEST OF THE UTILITY REFORM NETWORK



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## PROTEST OF THE UTILITY REFORM NETWORK

Pursuant to Rule 2.6 of the Commission Rules of Practice and Procedure, The Utility Reform Network (TURN) hereby submits this protest to the application of San Diego Gas & Electric (SDG&E) for approval of the Palomar Decarbonization Demonstration Project.<sup>1</sup>

**I. BECAUSE THE PROJECT IS UNMODIFIED FROM THE ONE PREVIOUSLY REJECTED BY THE COMMISSION, AND FAILS TO SATISFY THE ADDITIONAL REQUIREMENTS OF DECISION 24-12-074, THE APPLICATION SHOULD BE DISMISSED**

In its 2024 General Rate Case (GRC)(A.22-05-015), SDG&E sought approval for the Palomar Hydrogen Pilot Program. TURN and several other parties strongly opposed authorizing any ratepayer expenditures for this project. Specifically, TURN noted the following objections in its opening brief:<sup>2</sup>

- The miniscule amount of hydrogen to be produced onsite, which would satisfy no more than two percent of the blending needs (by volume) for one Palomar gas turbine running eight hours per day, cannot meaningfully contribute to the decarbonization of the Palomar plant.
- SDG&E failed to demonstrate that there are any unique lessons to be learned from this project that could not be otherwise obtained by monitoring developments across the industry. The installed electrolyzers are off-the-shelf plug-and-play prefabricated units that do not involve any new technology development. Moreover, SDG&E admitted having no knowledge of work performed by other utilities that are studying hydrogen blending at their generating facilities.

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<sup>1</sup> Since the application was first noticed in the Commission's January 6, 2026 Daily Calendar, this protest is timely filed.

<sup>2</sup> TURN opening brief, A.22-05-015, pages 176-185.

- The project would produce hydrogen primarily from fossil fuels including natural gas burned at the Palomar Energy Center. Onsite solar generation production is expected to supply only 7% of the electricity needed to operate the electrolyzer at full capacity. SDG&E did not demonstrate the ability to scale the onsite solar generation to generate more hydrogen. Moreover, SDG&E's proposal to procure unbundled Renewable Energy Credits (RECs) to create "renewable" hydrogen is fundamentally at odds with state policy including the emissions accounting framework under the Integrated Resource Planning program and the Power Source Disclosure Program.
- SDG&E failed to identify any realistic pathway for scaling up green hydrogen production for utilization at its own gas-fired generating units to meet long-term decarbonization targets. Unless SDG&E extends the retirement dates for its existing gas-fired plants and commits to make significant new capital investments at these facilities, they are not candidates for using any meaningful quantities of hydrogen fuel.
- SDG&E failed to affirmatively disclose the shareholder incentives it expects to receive from receiving the federal Investment Tax Credit (ITC) for the utility-owned solar project at Palomar. Because the utility is required to normalize this credit, the value is divided between shareholders and ratepayers. TURN noted that a third-party owned solar project would have been able to fully monetize the ITC and pass the value through to ratepayers in the form of lower pricing.

In D.24-12-074, the Commission rejected ratepayer recovery of Palomar hydrogen pilot program costs.<sup>3</sup> Specifically, the Commission rejected SDG&E's argument that the project offered "impactful learnings", noted the lack of

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<sup>3</sup> D.24-12-074, pages 404-406.

information about whether expansion of hydrogen production would be possible due to space limitations, and found that the “pilot may be the project itself.”<sup>4</sup> The Commission agreed with TURN that

SDG&E’s pilot may not provide meaningful data for deciding whether onsite hydrogen production is the best approach for fuel blending at its gas plants, as we will have nothing to compare it with. It is unclear whether SDG&E can compare its proposed pilot and other approaches, especially if the pilot is deploying “prepackaged, skid-mounted” electrolyzer units. Furthermore, we are not persuaded by SDG&E’s claim that its pilots would be “more effective” than participating in an Electric Power Research Institute (EPRI) initiative, which would cost \$500,000/year compared to millions in capital cost proposed by SDG&E.<sup>5</sup>

The Commission also agreed with TURN’s view that “generating hydrogen using solar energy and electricity from the grid does not fully account for the environmental impact of emissions when solar energy is unavailable.”<sup>6</sup> The Commission specifically endorsed TURN’s argument that the purchase of unbundled RECs will not result in “green” hydrogen.<sup>7</sup>

Although the Decision denies cost recovery for the project, the Commission explained that “SDG&E may pursue building the hydrogen system at the Palomar Energy Center as a stand-alone application with more robust information, leveraging public funding sources and lowering ratepayer costs.”<sup>8</sup> In particular, the Decision urges SDG&E to evaluate

creative solutions, such as leveraging public-private investments or federal funding...a triad partnership, which can include private investments from businesses interested in promoting and testing their technology, may provide a more reasonable and cost-effective approach for ratepayers. SDG&E should reconsider this proposal with a fresh perspective to take advantage of private institutions that want to test their

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<sup>4</sup> D.24-12-074, page 405.

<sup>5</sup> D.24-12-074, page 405.

<sup>6</sup> D.24-12-074, page 406.

<sup>7</sup> D.24-12-074, page 406.

<sup>8</sup> D.24-12-074, page 404

technology and other public funding sources to help reduce costs to ratepayers. A public-private partnership or an additional funding stream may help move these capital-intensive pilot projects forward.<sup>9</sup>

Despite this directive, SDG&E now asks the Commission to approve an unmodified version of its original project without leveraging any material incremental public funding or demonstrating private support and offers minimal additional justification for expenditures occurring during the pendency of its last GRC. As a result, SDG&E's application fails to satisfy the direction provided in D.24-12-074 and should be summarily dismissed. TURN offers five primary reasons that justify this outcome.

First, SDG&E failed to satisfy the requirement to leverage public funding sources. Despite the directive in D.24-12-074, SDG&E does not identify any new public funding that will reduce costs for ratepayers. The federal tax credits referenced in SDG&E's testimony were previously identified and litigated in the 2024 GRC. In its GRC rebuttal testimony, SDG&E referenced the tax provisions of the 2022 Inflation Reduction Act applicable to the Hydrogen Project, noting that "the federal 2022 IRA provides generous tax credits for clean hydrogen production."<sup>10</sup> TURN's GRC testimony and briefs noted concerns about SDG&E's refusal to fully monetize the solar Investment Tax Credit for ratepayers by insisting on utility ownership rather than third-party contracting. SDG&E's reliance on these tax credits, which are used by every renewable energy and hydrogen project developer, does not satisfy the requirement to leverage public funding sources. The Commission considered the availability of these exact tax credits in D.24-12-074 and found them insufficient to justify approval of the project.

The only additional source of "public" funding identified in this application is a small (and not specifically quantified) portion of an \$840,000 grant from the

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<sup>9</sup> D.24-12-074, page 406

<sup>10</sup> Ex. SDG&E-215, A.22-05-015, page FV-25. See also pages FV-17, FV-20, FV-73, FV-94.

California Energy Commission (CEC) used to “add a hydrogen export panel to the Project” that can be used to fill external tanks.<sup>11</sup> The primary benefit of this addition to the project would be to support a separate mobile nanogrid that was the primary recipient of the CEC grant. The nanogrid is not within the scope of the current application. Since SDG&E has not demonstrated any reduction in ratepayer costs for the core project attributable to new “public” funding, the Commission should reject the argument that the CEC grant satisfies the requirements of D.24-12-074.

Second, SDG&E has not partnered with private or public entities as envisioned in D.24-12-074. SDG&E’s testimony acknowledges this element of D.24-12-074 but offers nothing responsive to the Commission’s direction.<sup>12</sup> The project will not include any private investments from businesses, does not incorporate the “triad partnership” described in D.24-12-074, and does not involve any partnerships with a public entity. The Commission should find that SDG&E has not pursued “creative solutions” that “take advantage of private institutions that want to test their technology and other public funding sources to help reduce costs to ratepayers.”<sup>13</sup> SDG&E’s failure to even explore such options justifies a dismissal of the application.

Third, SDG&E did not lower ratepayer costs for the project. SDG&E has not identified any ratepayer cost savings that were not included in its GRC testimony. The capital costs of the project appear to be the same as the forecast presented in A.22-05-015.<sup>14</sup> In addition, SDG&E has not identified or included any operating costs relating to the purchase of additional electricity to run the Hydrogen project or the additional tradable environmental attributes referenced

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<sup>11</sup> Ex. SDG&E-1, page AB-32.

<sup>12</sup> Ex. SDG&E-1, page AB-28.

<sup>13</sup> D.24-12-074, page 406

<sup>14</sup> Ex. SDG&E-2, page PK\_KC-23; SDG&E response to TURN data request 1, Q2a (shows total capital costs of \$17.4 million in A.22-05-015 and in A.25-12-009).

in its testimony.<sup>15</sup> SDG&E's failure to present any new mechanism for lowering ratepayer costs fails to address a key concern identified in D.24-12-074.

Fourth, SDG&E has not provided any information to suggest that the "pilot" project could or will be scaled up in the future. In D.24-12-047, the Commission expressed concern that the "pilot may be the project itself."<sup>16</sup> SDG&E's application and testimony offer no indication that there is any pathway for either a future expansion of the project or an increased use of hydrogen at Palomar. In testimony, SDG&E indicated that it "would be possible" to increase the amount of hydrogen blended at Palomar.<sup>17</sup> But in response to a TURN data request, SDG&E stated that it does not expect to increase hydrogen production over the life of the project.<sup>18</sup> SDG&E refused to provide any estimate of the work or costs required to accommodate greater utilization of hydrogen at Palomar, noting that "SDG&E does not have this information readily available."<sup>19</sup> SDG&E similarly refused to provide any timeline for consideration of expanded use of hydrogen at Palomar or identify any Commission proceeding where such work would be proposed.<sup>20</sup> Finally, SDG&E insists that the additional of the hydrogen project is not expected to change the existing assumption that Palomar is retired in mid-2036, suggesting that there is no likelihood of new investments in the plant to accommodate increased hydrogen usage.<sup>21</sup> Based on these responses, the Commission should conclude that SDG&E does not intend to increase hydrogen

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<sup>15</sup> Ex. SDG&E-2, page PK\_KC-6; SDG&E response to TURN Data Request 1, Q30(a)(If the hydrogen project requires more electricity than is produced by the onsite solar system, "the cost of that will be added to the O&M costs".)

<sup>16</sup> D.24-12-074, page 405.

<sup>17</sup> Ex. SDG&E-2, page PK\_KC-10.

<sup>18</sup> SDG&E response to TURN Data Request 1, Q28(f).

<sup>19</sup> SDG&E response to TURN Data Request 1, Q6 ("SDG&E does not have this information readily available. To accurately estimate the costs for each blend of these blend percentages, an engineering study would need to be performed that considers all of the components in the power plant and their compatibility for that specific blend percentage.")

<sup>20</sup> SDG&E response to TURN Data Request 1, Q7.

<sup>21</sup> SDG&E response to TURN Data Request 1, Q10.

production or hydrogen blending at Palomar over the lifetime of the facility. As a result, the pilot cannot be expected to lead to a scaled up project over time

Fifth, SDG&E failed to demonstrate that the hydrogen project would be more effective than participating in collaborative research efforts. In D.24-12-074, the Commission explained “we are not persuaded” that the proposed project will be “more effective” than participating in a \$500,000 per year hydrogen initiative offered by the Electric Power Research Institute (EPRI).<sup>22</sup> SDG&E fails to explain in its current application how the exact same project that was rejected in the GRC on this basis now represents a “more effective” and less costly approach than participating in collaborative research through EPRI or other industry groups.

The failure of SDG&E to address these five issues in the application is fatal to its current application. SDG&E instead seeks a generic “do over” in the hopes that the Commission can be persuaded to approve the same project, with the same costs and features, that was rejected in its 2024 GRC. The Commission should conclude that SDG&E failed to comply with the requirements for reconsideration laid out in D.24-12-074 and dismiss the application on this basis. The Commission has previously dismissed applications on the basis of insufficiency after considering protests but before testimony, hearings and briefing.<sup>23</sup> Allowing this application to proceed would waste the time and resources of Commission staff, parties that are already overtaxed participating in a variety of Commission proceedings, and utility staff that should be focused on innovative ways to lower customer rates rather than trying to force ratepayers to cover the costs of a vanity project previously rejected by the Commission.

## **II. SCOPE OF ISSUES AND TURN’S EXPECTED PARTICIPATION**

In the event the Commission allows the application to proceed notwithstanding SDG&E’s failure to address the considerations identified in D.24-12-074, TURN

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<sup>22</sup> D.24-12-074, page 405.

<sup>23</sup> For example, *see* D.22-09-010.

intends to explore and address a series of issues relating to the overall reasonableness of the Hydrogen project. These concerns include, but are not limited to, the following:

- The project would provide very limited value to SDG&E ratepayers. SDG&E has not demonstrated the benefits of installing a “prepackaged, skid-mounted” system at Palomar that will displace virtually none of the fuel used to power the generating units and is intended to provide a tiny quantity of fuel for generator cooling and for two hydrogen-powered cars purchased by SDG&E. Absent a demonstration of concrete and enduring value, there is no justification for ratepayers bankrolling this expenditure.
- The miniscule amount of hydrogen blending anticipated at Palomar may not be able to scale to higher percentages without large new capital costs for turbine retrofits and additional storage.<sup>24</sup> While SDG&E points to blending up to 2% of Palomar fuel with hydrogen by volume, the amount of hydrogen fuel by heat content is approximately 0.6%.<sup>25</sup> SDG&E refuses to identify the scope, magnitude and timing of any costs needed to increase this percentage.<sup>26</sup> Additionally, SDG&E has not identified how this Project, or a successor project, can be used to cost-effectively offset a meaningful portion of natural gas across its fleet of gas-fired generation scheduled to retire over the next decade.
- The Hydrogen project appears to be massively underutilized compared to its total production capacity, driving up the cost of hydrogen produced at the site in comparison to alternatives. In the GRC, SDG&E’s data showed that onsite solar generation production is expected to supply only 7% of

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<sup>24</sup> Ex. SDG&E-2, page PK\_KC-10.

<sup>25</sup> SDG&E response to TURN Data Request 1, Q27(b)

<sup>26</sup> SDG&E response to TURN Data Request 1, Q6

the electricity needed to operate the electrolyzer at full capacity. This massive underutilization would occur if SDG&E acts consistent with its claim to limit hydrogen production to the amounts that can be produced with electricity generated at the onsite solar project.<sup>27</sup> SDG&E has not provided an accounting for the costs of onsite hydrogen production compared to alternatives.

- Despite the fact that the Project has been operational since the end of 2023, SDG&E provides no data on actual operations or performance. The lack of such data frustrates any review of SDG&E's future projections or of the reasonableness of the operation of the Project since it came online.
- SDG&E assumes the Project will operate until 2036 but forecasts no capital additions occurring after 2025. It is not clear whether SDG&E asserts that no future capital additions will be required after 2025 or intends to present these costs in a future proceeding. Absent a forecast of future capital additions, the Commission cannot evaluate the reasonableness of the project.
- SDG&E seeks a two-way balancing account for all costs relating to the Project, an approach designed to limit (or eliminate) risks to shareholders if costs increase or the Project does not operate properly over time. SDG&E further proposes that there would be no reasonableness review of all recorded costs associated with the hydrogen project.<sup>28</sup> This mechanism would invite overspending, eliminate typical checks and balances, and cripple efforts to hold SDG&E accountable for poor operational performance.

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<sup>27</sup> SDG&E response to TURN Data Request 1, Q30(a) ("SDG&E anticipates consuming less electricity than what is produced by the onsite solar system at PEC.")

<sup>28</sup> SDG&E response to TURN Data Request 1, Q34(b) ("SDG&E is not proposing an after-the-fact reasonableness review of the costs tracked in the H2BA.")

- SDG&E has not indicated any mechanism for passing the benefits of federal tax credits to its customers including the energy storage credit that was subject to flow-through treatment. These tax credits were claimed in Sempra's 2023 corporate tax return.<sup>29</sup> SDG&E's testimony does not identify any specific proposal that would allow ratepayers to benefit from these credits and there is no offset to the proposed revenue requirements reflecting these values. SDG&E further refused to provide any details on the timing and amounts of tax credits that would be provided to ratepayers in response to a TURN data request.<sup>30</sup>
  
- SDG&E's refusal to contract with a third party for the development and ownership of onsite solar generation reduces the value for the federal investment tax credit to ratepayers. Third-party ownership would allow the full value of the federal investment tax credit to be passed through to ratepayers through a power purchase agreement. By contrast, utility ownership splits the value of the credit between shareholders and ratepayers due to tax normalization requirements. The Commission should find that SDG&E's insistence on utility ownership unreasonably harmed ratepayers and unfairly enriched its shareholders.
  
- SDG&E's cost forecast omits any reference to the costs of electricity needed to operate the entire hydrogen project while also noting that additional Renewable Energy Credits (and energy) or Energy Attribute Credits may be needed from other sources.<sup>31</sup> This omission makes it impossible to evaluate the total costs of the project to ratepayers.

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<sup>29</sup> Ex. SDG&E-5, page LS-5.

<sup>30</sup> SDG&E response to TURN Data Request 1, Q17

<sup>31</sup> Ex. SDG&E-2, page PK\_KC-6; SDG&E response to TURN Data Request 1, Q21.

- SDG&E’s calculation of the value of the Renewable Energy Credits produced by its onsite solar facility is highly inflated and does not represent the expected value of production from the facility. The one-year Market Price Benchmark values cited in testimony are not consistent with either the cost premium paid by SDG&E for renewable energy purchases under long-term contracts or the pricing of renewable energy sales from its portfolio to other load serving entities.
  
- SDG&E fails to demonstrate that it will be able to make legitimate Greenhouse Gas or renewable energy claims for onsite hydrogen production due to the use of tradable credits that cannot be used to make electric sector greenhouse gas claims, or renewable energy claims, in California. For example, SDG&E acknowledged purchasing unbundled Renewable Energy Credits (RECs) from a behind the meter solar project to support electrolyzer operations.<sup>32</sup> SDG&E also states that it may purchase “Energy Attribute Certificates” (EACs) to make environmental claims relating to hydrogen production.<sup>33</sup> EACs can be sourced on an unbundled basis from facilities not considered renewable or zero carbon under California law and located outside the Western region. For retail product disclosure, all environmental claims must be consistent with the requirements of the California Energy Commission’s Power Source Disclosure Program.<sup>34</sup> SDG&E has not explained its anticipated basis for making compliant Greenhouse Gas claims under state law.
  
- SDG&E’s analysis of carbon reductions assumes that absent the Project the PEC will use “grey” hydrogen. SDG&E provides no information about the costs of importing “green” hydrogen to support generator cooling and

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<sup>32</sup> SDG&E response to TURN Data Request 1, Q22.

<sup>33</sup> SDG&E response to TURN Data Request 1, Q21(a).

<sup>34</sup> Cal. Pub. Util. Code §398.4(k)(3).

vehicle fueling via trucks. Additionally, SDG&E has not demonstrated that onsite production results in materially greater emissions reductions.

If the Commission allows this application to proceed, TURN intends to review, and may address in testimony and briefs, these issues along with others that arise during the course of TURN's review of the testimony, workpapers and responses to data requests. TURN has already served SDG&E with two data requests. TURN expects to participate by conducting discovery, preparing testimony, attending evidentiary hearings, and filing briefs. TURN believes that hearings may be necessary given the contested issues of fact presented by the initial application.

### **III. PROPOSED SCHEDULE**

The schedule proposed by SDG&E may not provide enough time for TURN to complete discovery and prepare responsive testimony. Additionally, the Commission should ensure that parties have at least 3 weeks between the submission of rebuttal testimony and evidentiary hearings in order to allow for at least two rounds of discovery. Discovery on rebuttal testimony is typically the most important opportunity for intervenors to test a variety of new facts introduced by the application for the first time in rebuttal testimony. With respect to opening briefs, the Commission should not set the deadline prior to 3-4 weeks after hearings conclude.

TURN notes that this schedule may need to be altered depending upon the responsiveness of SDG&E to data requests. As a general matter, TURN is willing to work with SDG&E and other active parties on the development of a schedule that accommodates all relevant interests.

Respectfully submitted,

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