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)

OPENING BRIEF OF THE UTILITY REFORM NETWORK

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OPENING BRIEF OF THE UTILITY REFORM NETWORK

Pursuant to Rule 13.12 of the Commission's Rules of Practice and Procedure and the May 28, 2026 Assigned Commissioner's Scoping Memo and Ruling, The Utility Reform Network (TURN) hereby submits this opening brief.[1] TURN urges the Commission to reject San Diego Gas & Electric Company's (SDG&E) request to recover the capital and operating costs of the Palomar Decarbonization Demonstration Project (PDDP) at its Palomar Energy Center (PEC) that the Commission previously rejected in D.24-12-074.

I. SUMMARY OF RECOMMENDATIONS

TURN offers recommendations in this opening brief for the Commission to take the following actions:

- Reject SDG&E's application in its entirety and deny the recovery of all costs for the PDDP in customer rates.

- Find that SDG&E failed to address the direction provided in D.24-12-074, seek additional outside funding or partnerships, demonstrate that the project can be scaled up in the future, show that collaborative research would not be more cost-effective, or make any material changes to the PDDP that would improve its value to ratepayers.

- Find that the PDDP is uneconomic because the cost of hydrogen would be exorbitant and far more costly than alternative sources.

- Find that SDG&E acted unreasonably by failing to explore more cost-effective alternatives to PDDP for supplying renewable hydrogen to PEC.

[1] On November 12, the Commission notified all parties via its website that, per Rule 1.2, the deadline for all filings due on November 12 would be extended to November 13 "to account for the Microsoft outage."

• Find that the PDDP cannot be expected to support hydrogen blending at PEC beyond a *de minimis* level for a very small number of hours per year.

• Rely on SDG&E's representation that the PDDP will operate until 2036 for purposes of calculating the cost of hydrogen from the facility and decline to assume operations beyond that date. If the Commission instead assumes a longer operational timeframe as part of a decision approving the PDDP, SDG&E should be directed to extend the depreciation schedules for PDDP and PEC to match the extended timeframe.

• Regardless of whether the PDDP is approved, find that SDG&E's decision to own the solar generation facility at PEC was unreasonable, that the costs were imprudently incurred, and that no costs for the facility are eligible for rate recovery due to the extraordinary costs of the facility compared to alternatives.

• Find that PDDP will not yield material environmental value since the hydrogen it produces is not considered renewable under state law and will not further the state's clean energy or environmental policy goals.

• Reject SDG&E's contention that the Commission should consider potential future hydrogen projects to justify the approval of PDDP.

• If the PDDP is approved, prohibit SDG&E from conducting supplemental electricity procurement for the project. If the Commission does not prohibit such procurement, SDG&E should be required to seek advance approval for any electricity procurement to supply PDDP.

• Reject the proposal to recover PDDP costs through a two-way balancing account as both unreasonable and inconsistent with the requirements of SB 1098. Require any cost recovery for PDDP, if permitted, to occur through the General Rate Case. If the balancing account is adopted, the Commission should require it

to be one-way and incorporate a reduced rate of return for capital consistent with SB 1098.

• Permanently bar recovery of $2,310 in costs for the procurement of unbundled Renewable Energy Credits to support PDDP operations that SDG&E impermissibly recorded to hydrogen department O&M. Pursuant to AB 2065, the Commission should also impose a shareholder penalty of the same amount.

TURN provides support for each of these recommendations in the following sections.

II. SDG&E FAILED TO SATISFY THE REQUIREMENTS OF D.24-12-074

The Commission should reject the PDDP because SDG&E failed to satisfy the requirements laid out by the Commission as a precondition for reconsideration of its rate recovery request. In its 2024 General Rate Case (GRC)(A.22-05-015), SDG&E sought approval for the PDDP. TURN and other intervenors opposed that request. In D.24-12-074, the Commission agreed with intervenors' critiques and rejected ratepayer recovery of PDDP costs.[2]

Although D.24-12-074 denied cost recovery for the PDDP, the Commission explained that "SDG&E may pursue building the hydrogen system at the Palomar Energy Center (PEC) as a stand-alone application with more robust information, leveraging public funding sources and lowering ratepayer costs."[3] The Decision further identifies a series of issues that SDG&E must addressed in any future application. SDG&E's current application ignores the directives and concerns.

SDG&E now seeks rate recovery of the same costs for the same project that was rejected in D.24-12-074. This request for a "do over" should be denied given the absence of any material changes in the project's scope or costs, and SDG&E's failure to attract any additional external funding from the public or private sectors. TURN urges the

[2] D.24-12-074, pages 404-406.
[3] D.24-12-074, page 404

Commission to find that SDG&E failed to satisfy the requirements of D.24-12-074 and that this failure justifies rejecting the entire application.[4]

SDG&E asks the Commission to approve an unmodified version of its original project and offers minimal additional justification for expenditures incurred 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 denied. TURN addresses each of the Commission's directives, and SDG&E's responses, in the following sections.

A. SDG&E failed to leverage any public-private investments, new federal funding, or partnerships

In D.24-12-074, the Commission directed 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 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.[5]

In this application, SDG&E does not identify any new public funding that will reduce costs for ratepayers, has not secured (or attempted to secure) any private investments, and has not demonstrated any efforts to enter into public-private partnerships. SDG&E's abject failure to even attempt to address the Commission's direction in D.24-12-074 should disqualify the PDDP from ratepayer recovery.

1. No new public or federal funding has been identified in this application

SDG&E does not identify any new "federal funding" (referenced in D.24-12-074) that will reduce ratepayer costs for PDDP. Instead, SDG&E argues that the federal tax credits previously identified in its GRC application, which the Commission considered

[4] TURN protest, pages 2-7; Ex. TURN-1, pages 15-20.
[5] D.24-12-074, page 406

in rejecting the project, demonstrate "meaningful cost reductions" that satisfy this concern.[6] Specifically, SDG&E points to its monetization of the federal Investment Tax Credits (ITCs) for the solar facility and the hydrogen production facility, noting that they reduce project costs by "approximately 25 percent".[7]

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 Inflation Reduction Act of 2022 (IRA) applicable to the PDDP, noting that "the federal 2022 IRA provides generous tax credits for clean hydrogen production."[8] SDG&E claimed the tax credits in 2023 during the pendency of its last GRC and well before the Commission issued its decision rejecting the PDDP.[9] SDG&E's utilization of these tax credits, which are routinely claimed by every renewable energy and hydrogen project developer, does not satisfy the requirement to leverage public funding sources.[10] Had SDG&E not claimed these federal tax credits, its conduct would have been presumptively imprudent. The Commission should therefore reject SDG&E's assertion that its use of the same federal tax credits identified in its prior GRC constitutes incremental savings or new public funding as contemplated in D.24-12-074.

In Section III(D) of this brief, TURN identifies concerns with SDG&E's insistence on utility ownership of the PDDP solar generating facility. One of TURN's concerns relates to the fact that federal law requires utilities to normalize the value of the investment tax credit for solar facilities that the utility directly owns. This requirement does not apply to facilities owned by third parties that sell electricity to utilities under contract. SDG&E's refusal to consider third-party ownership effectively deprives ratepayers of a portion of the value of the relevant federal tax credit. The Commission should recognize that SDG&E's insistence on utility ownership of the solar facility raised the cost of the PDDP to ratepayers.

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[6] Ex. SDG&E-6, page 5
[7] Ex. SDG&E-6, page 5
[8] Ex. TURN-1, page 19.
[9] Ex. SDG&E-6, page 12.
[10] Ex. TURN-1, page 19.

SDG&E further asserts that it received $200,000 in "indirect funding" through the Electric Program Investment Charge (EPIC) program for "an export panel that is not included within SDG&E's application."[11] The grant provides funds for SDG&E to construct a separate mobile nanogrid and does not reduce the costs of the PDDP. SDG&E provides no details about the mobile nanogrid including any costs it seeks to recover from ratepayers. Since the mobile nanogrid is not within the scope of this proceeding, the Commission cannot rely on the grant to find that SDG&E pursued public funding to reduce the costs of the PDDP to ratepayers.

2. *SDG&E made no efforts to partner with private or public entities*

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.[12] The PDDP 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 private or 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."[13] SDG&E's failure to find partners, or even to explore options, fails the test laid out by the Commission and justifies rejecting the application.

B. <u>SDG&E failed to lower ratepayer costs for the Project</u>

Despite the directives in D.24-12-074, SDG&E took no actions to lower ratepayer costs for the PDDP and has not identified any ratepayer cost savings that were not included in its GRC testimony. The capital costs of the PDDP are the same as the forecast presented in A.22-05-015.[14] With respect to operating costs, SDG&E notes that its 2024

[11] Ex. SDG&E-6, page 6.
[12] Ex. SDG&E-1, page AB-28.
[13] D.24-12-074, page 406
[14] Ex. SDG&E-2, page PK_KC-23; Ex. TURN-2, 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).

actual spending was "$25,067 higher than the GRC 2024 estimate."[15] Under SDG&E's ratemaking proposal, future Operations and Maintenance (O&M) costs would be automatically recovered without any reasonableness review regardless of the level of spending. 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.

SDG&E has not identified or included any operating costs relating to the purchase of additional electricity to run the PDDP or to acquire the additional tradable environmental attributes referenced in its testimony.[16] Given the disclosures in SDG&E's rebuttal testimony regarding the end of any environmental constraints on electricity used for PDDP after 2028, the Commission does not have adequate information to assess the expected future costs of operations at PDDP.[17]

SDG&E argues that registering the PDDP with the Western Renewable Energy Generation Information System (WREGIS) represents a new cost reduction that will benefit ratepayers by allowing Renewable Energy Credits (RECs) to be created from the onsite solar project.[18] Had the project not been registered in WREGIS, SDG&E claims it would have been forced to buy duplicative renewable energy to support the operation of the PDDP electrolyzer.[19] These claims of "savings" should be rejected as outlandish and contrary to longstanding Commission policy.

As explained in TURN's testimony, every renewable generation project used to support clean energy or retail product claims must be registered in WREGIS to certify and track the associated RECs.[20] Since 2010, the Commission has required the three large investor-owned utilities to include WREGIS registration in the standard terms and conditions

[15] Ex. SDG&E-6, page 4, footnote 6.
[16] Ex. SDG&E-2, page PK_KC-6; Ex. TURN-2, 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".)
[17] Ex. SDG&E-6, pages 11-13.
[18] Ex. SDG&E-6, page 6.
[19] Ex. SDG&E-1, pages AB-31 to AB-32.
[20] Ex. TURN-1, pages 18-19.

applicable to contracts with renewable resources.[21] It would be imprudent for SDG&E to invest in a solar project for the purpose of powering PDDP and not register it in WREGIS. Notably, SDG&E's rebuttal testimony did not respond to TURN's critiques of the WREGIS cost savings claim.

Moreover, SDG&E's testimony in its last GRC assumed that the onsite solar would be used to power the electrolyzer without any need to procure duplicative renewable energy.[22] No costs for duplicative renewable energy purchases were identified in the GRC application. SDG&E's current claim that WREGIS registration represents incremental savings is false, contrary to standard practice, and should be given no weight in evaluating the reasonableness of this application.

C. SDG&E failed to demonstrate that the Project can be scaled up at any point in the future

In D.24-12-074, the Commission expressed concern that the "pilot may be the project itself."[23] SDG&E's application and testimony validate this concern by offering no indication that there is any pathway for either a future expansion of the PDDP or an increased use of hydrogen at PEC. SDG&E's inability to demonstrate a pathway for increased hydrogen production at PEC demonstrates that the limited pilot is the end-state project. The Commission should reject the application on this basis.

While SDG&E's testimony indicates that it "would be possible" to increase the amount of hydrogen blended at PEC,[24] SDG&E's response to a TURN data request states that there is no expectation that hydrogen production will increase over the life of the PDDP.[25] SDG&E refused to provide any estimate of the work or costs required to accommodate greater utilization of hydrogen at PEC, noting that "SDG&E does not

[21] D.10-03-021, Ordering Paragraph 35.
[22] Ex. TURN-1, page 19.
[23] D.24-12-074, page 405.
[24] Ex. SDG&E-2, page PK_KC-10.
[25] Ex. TURN-2, SDG&E response to TURN Data Request 1, Q28(f).

have this information readily available."[26] SDG&E similarly refused to provide any timeline for consideration of expanded use of hydrogen at PEC or to identify any Commission proceeding where such work would be proposed.[27] Based on these responses, the Commission should conclude that SDG&E does not intend to increase hydrogen production or hydrogen blending at PEC over the lifetime of the facility. As a result, the pilot cannot be expected to lead to a scaled-up project over time. TURN addresses the inability of the PDDP to scale its production in much greater detail in Section III(B) of this brief.

D. SDG&E failed to demonstrate that the Project would be more cost-effective than participating in collaborative research efforts

In D.24-12-074, the Commission found SDG&E failed to demonstrate that the PDDP would be preferable to participation in a collaborative research initiative offered by the Electric Power Research Institute (EPRI).[28] The Commission specifically 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.[29]

SDG&E's application and direct testimony do not reference this portion of D.24-12-074 and provide no information responsive to the Commission's concern. SDG&E fails to explain 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

[26] Ex. TURN-2, SDG&E response to TURN Data Request 1, Q6
[27] Ex. TURN-2, SDG&E response to TURN Data Request 1, Q7.
[28] D.24-12-074, page 405.
[29] D.24-12-074, page 405.

collaborative research through EPRI or other industry groups. The Commission should find the application to be deficient on this basis alone.

In rebuttal testimony, SDG&E offers a brief response to TURN's testimony on this point. SDG&E claims that it cannot gain relevant learnings by reviewing information or materials involving the use or integration of hydrogen at facilities it does not own.[30] SDG&E does not present any evidence for its claim that the only method of gaining relevant information is owning and operating an electrolyzer. The sum total of SDG&E's showing on this point is a single sentence.[31] The Commission should demand far more than bare assertions given the amount of ratepayer money involved.

SDG&E's claim that it cannot learn from the experience of others is particularly problematic given that the PDDP involves a prepackaged, skid-mounted electrolyzer that is widely available.[32] PEC itself is a standard gas-fired power plant similar to many others in the United States. The lack of any unique characteristics at the plant or the PDDP undermines SDG&E's claim that it cannot gain relevant information from the experiences of others.

III. THE PROJECT IS UNECONOMIC AND OFFERS NO VALUE TO SDG&E RATEPAYERS

A. The cost of hydrogen produced by the project is excessive compared to alternatives

TURN used the data provided by SDG&E to calculate the cost of hydrogen from the PDDP and then compared it to the cost of alternative sources of green hydrogen that are likely to be available in the coming years. SDG&E offered no similar calculations in its testimony or workpapers. TURN's analysis shows that PDDP costs are exorbitant and

[30] Ex. SDG&E-6, page 20.
[31] Ex. SDG&E-6, page 20, line 17 through page 21, line 2.
[32] Ex. TURN-1, page 15.

cannot be justified by any learnings SDG&E claims will result from the PDDP.[33] The Commission should reject the project on this basis.

TURN's cost analysis considers the annual revenue requirements for PDDP forecasted by SDG&E that include both capital recovery and O&M expenses through 2036.[34] TURN's analysis uses SDG&E's extremely optimistic assumption that the project (including the electrolyzer and solar facility) will not require any capital additions over the course of its operating life.[35] TURN compares these costs against two projections of hydrogen production volumes – an 8,000 kg/year forecast consistent with SDG&E's projections and the actual 2025 PDDP production volume of 4,279 kg.[36] As explained in Section III(B) of this brief, SDG&E's forecast is not credible because it assumes onsite solar production significantly higher than recorded values. SDG&E's rebuttal testimony did not respond to TURN's extensive critiques of the inflated production forecast. TURN calculated a levelized cost of green hydrogen ranging from $362.25 per kg ($2024) using SDG&E's inflated production assumptions to $643.71 per kg ($2024) using actual 2025 PDDP production levels.[37]

Despite these exorbitant costs for hydrogen from PDDP, SDG&E admits that it never examined studies evaluating green hydrogen costs before it committed to PDDP.[38] SDG&E claims that it is aware of only one alternative source of green hydrogen from a facility located in Fresno that would cost $58/kg delivered to PEC.[39] Compared to the cost of green hydrogen from PDDP, this value is approximately 84% less than the cost using SDG&E's inflated production levels and 91% less than the cost using actual 2025

[33] If the primary "learnings" relate to the blending of hydrogen with natural gas for use in the Palomar turbine, there are significantly less expensive methods SDG&E could have pursued for gaining hands-on experience.
[34] Ex. TURN-1, page 29.
[35] Ex. TURN-1, page 49.
[36] Ex. TURN-1, pages 29-31.
[37] Ex. TURN-1, pages 30-31.
[38] Ex. TURN-1, page 32; Ex. TURN-2, SDG&E response to TURN Data Request 4, Q4.
[39] Ex. TURN-1, page 32; Ex. TURN-2, SDG&E response to TURN Data Request 4, Q5.

production. In other words, PDDP hydrogen is expected to cost roughly 6 to 11 times more than the single alternative option identified by SDG&E.

In response to a TURN data request, SDG&E asserts that the $58/kg cost is actually higher than the cost of hydrogen from the PDDP. In offering this claim, SDG&E compares 30 years of hydrogen deliveries from an external source at $58/kg to the total forecasted costs of operating the PDDP for 10 years.[40] SDG&E does not explain this timing mismatch, which assumes 20 additional years of costs for external supplies. SDG&E's improper comparison also assumes no reduction in pricing of external hydrogen supplies over the entire period. The comparison of 30 years of external supply costs with 10 years of PDDP costs renders the analysis irrelevant and misleading. TURN's testimony highlighted the fundamental problems with SDG&E's claims, none of which were addressed in SDG&E's rebuttal testimony.

Unlike SDG&E, TURN reviewed options for alternative supplies of green hydrogen and surveyed market research showing current and future pricing and availability. TURN's research noted the following:

- A green hydrogen project announced in 2023 and under development in Lancaster, CA (150 miles from PEC) that is expected to produce 21,000 tons per year of green hydrogen using onsite solar.[41]
- A 2024 study by the Brattle Group estimating levelized green hydrogen production costs in 2023 for a California producer of $4.61 per kg without federal tax credits and $2.24 per kg with them.[42]
- An estimate of levelized green hydrogen costs of between $4.50 and $6.50 per kg in Texas.[43]

[40] Ex. TURN-1, page 33; Ex. TURN-2, SDG&E response to TURN Data Request 4, Q5.
[41] Ex. TURN-1, page 33.
[42] Ex. TURN-1, pages 34-35.
[43] Ex. TURN-1, pages 35-36.

In rebuttal testimony, SDG&E argues that TURN did not provide comprehensive details regarding delivery terms, pricing, and other contractual elements for alternatives.[44] This critique is misguided because TURN does not bear the burden of demonstrating that SDG&E's actions were unreasonable.[45] This burden of proof rests squarely with SDG&E. SDG&E is obligated to show that it investigated and considered alternatives, analyzed the cost-effectiveness of its choices and made a prudent choice that maximizes value, and lowers costs for its customers.[46] When compared to the costs TURN identified through market research, PDDP hydrogen costs are nearly two orders of magnitude higher. SDG&E's failure to consider alternative options is unreasonable in light of the extreme costs it proposes to assign to its customers for PDDP.

In rebuttal testimony, SDG&E critiques TURN's analysis by arguing that it inappropriately includes within PDDP the costs of "balance-of-plant equipment needed to receive, handle, store, compress, blend, and safely use that hydrogen at the facility".[47] SDG&E asserts that these additional "balance-of-plant" costs would be necessary for hydrogen produced onsite or delivered from an external source. TURN served SDG&E with a data request seeking information on the amount of incremental costs attributable to new "balance-of-plant equipment". In response, SDG&E acknowledged that preexisting equipment at PEC used for deliveries of hydrogen before PDDP began operating was "subsequently integrated with the Project's onsite production, storage and piping systems."[48] This response demonstrates that a portion of the needed "balance-of-plant" equipment was already onsite and not included in PDDP costs. When asked to identify the incremental "balance-of-plant" equipment installed as part of PDDP and referenced in rebuttal testimony, SDG&E refused to provide the information and claimed that it cannot "reliably allocate a portion of the capital costs to

[44] Ex. SDG&E-6, page 26.
[45] *See, e.g.,* D.09-03-025, page 8; D.06-05-016, page 7; D.01-10-031, pages 8-9.
[46] D.18-07-025, pages 3-6.
[47] Ex. SDG&E-6, page 25.
[48] Ex. TURN-4, SDG&E response to TURN Data Request 5, Q8(b).

the requested balance-of-plant equipment".[49] SDG&E's refusal to identify these costs, in light of its admission that existing equipment was reused, demonstrates the hollowness of its criticism of TURN's analysis.

SDG&E additionally claims that externally delivered hydrogen would cost $470,000 (assuming $58 per kg and 8,103 kg of hydrogen) which amounts to $4.7 million over 10 years.[50] SDG&E asserts that this cost "exceeds the direct capital cost of the electrolyzer and the estimated ten-year operation and maintenance expenses combined, demonstrating that onsite production can provide a cost-effective alternative to delivered hydrogen."[51] SDG&E does not provide specific values for its comparison, cite any data or reference any materials in the record to support this claim.

There are four problems with SDG&E's "analysis". First, the assumption that PDDP will produce 8,103 kg per year is unsupported in light of actual 2025 production volumes (4,279 kg). At 2025 volumes, the cost of external hydrogen (even assuming $58 per kg) would be $248,182 per year or $2.48 million over 10 years. Second, SDG&E does not consider the potential for lower-cost options for delivered hydrogen through 2036 despite the availability of new supplies and declining costs.

Third, SDG&E's comparison appears limited to a very small subset of PDDP capital costs ("direct capital costs of the electrolyzer") that cannot be linked to any record evidence and do not reflect the revenue requirement impacts. The total "direct" capital cost for PDDP is $17.49 million and the associated revenue requirements amount to $31.1 million through 2036.[52] The "H2 Vendor Package" portion of PDDP is $6.14 million and the Solar System Package is $1.63 million.[53] These costs do not include $8.24 million in engineering, construction, and other service costs that are part of the PDDP

[49] Ex. TURN-4, SDG&E response to TURN Data Request 5, Q8(c).
[50] Ex. SDG&E-6, page 27.
[51] Ex. SDG&E-6, page 27.
[52] Ex. TURN-1, page 8.
[53] Ex. TURN-1, page 8, Figure 3.

capital cost breakdown.[54] SDG&E's assertion that the Commission should limit its evaluation to the costs of the electrolyzer ignores every other element of PDDP capital and does not consider the revenue requirement impacts of capital recovery. Moreover, SDG&E refused to provide any disaggregation of the PDDP electrolyzer costs to isolate "balance-of-plant" equipment in response to TURN data requests, claiming that the project was procured as an "integrated system" which prevents separately identifying discrete costs for individual components.[55] Despite this refusal, SDG&E claims it can disaggregate some of the costs (without providing any details) to support generic claims of cost savings. The Commission should reject SDG&E's self-serving and contradictory arguments along with this flawed "analysis".

Finally, SDG&E forecasts O&M costs of $0.2 million per year (or $2 million over 10 years).[56] Adding this cost to the bare minimum PDDP capital costs (including the solar system, installation, engineering and construction costs) easily eclipses even the inflated forecast of delivered hydrogen costs cited in SDG&E's rebuttal testimony. SDG&E's failure to provide any accounting for their math highlights the problematic nature of its "analysis".

The Commission should find that TURN's transparent and documented analysis demonstrates that the PDDP is 6 to 11 times more expensive than the only alternative SDG&E identified, and far more expensive than other alternatives that SDG&E refused to evaluate. SDG&E's refusal to provide a similar cost-effectiveness or cost-benefit analysis justifies reliance on TURN's calculations. The Commission should also conclude that SDG&E unreasonably failed to explore options other than PDDP. Based on these flaws, the Commission should reject the PDDP as uneconomic and unreasonable given its massively higher costs compared to alternatives.

[54] Ex. TURN-1, page 8, Figure 3.
[55] Ex. TURN-4, SDG&E response to TURN Data Request 5, Q8(c).
[56] Ex. TURN-1, page 7, Table 2; Ex. SDG&E-2, page PK_KC-24.

B. The Project will not support hydrogen blending at Palomar beyond a *de minimis* level

SDG&E's testimony suggests that PDDP would support the transition to using significant amounts of hydrogen at existing and new generating facilities typically fueled by natural gas.[57] SDG&E's application states that the Commission should expect the PDDP to result in hydrogen blending at levels exceeding 2% "with additional storage and modest modifications."[58] SDG&E's rebuttal testimony suggests that PEC could accommodate "up to 30 percent with equipment upgrades and manufacturer-supported modifications."[59] Despite these claims, the Project presented in this application cannot accomplish these goals.

SDG&E offers no pathway to scale hydrogen production beyond a tiny fraction of total fuel usage at the facility and there is no likelihood that blending can occur at rates above 5% during the remainder of the plant's operations. SDG&E admits that it has never operated PEC beyond a 2% blending level and acknowledges that the applicable facility permit limits operations to 2% hydrogen by volume.[60] Although PEC can theoretically accommodate a 5% blend, increasing the blending level beyond 5% would require unspecified modifications to PEC including retrofitting the combustion turbine and installing a larger hydrogen storage tank.[61] Despite the claims offered in its testimony, SDG&E refused to provide TURN with a complete list of capital investments needed to increase hydrogen blending beyond 5% by volume and claimed not to have studied the potential costs.[62] The cost forecast provided in this application does not include any amounts for the future capital additions that would be necessary to expand hydrogen blending above 5%. Moreover, SDG&E's most recently filed GRC (covering the years 2027-2031) does not include any request for additional capital or O&M costs to

[57] Ex. SDG&E-1, page AB-18, 23, 26,
[58] SDG&E Application, page 6.
[59] Ex. SDG&E-6, page 8.
[60] Ex. TURN-4, SDG&E response to TURN Data Request 5, Q5.
[61] Ex. TURN-1, page 26; Ex. TURN-2, SDG&E response to TURN Data Request 1, Q27(a).
[62] Ex. TURN-1, pages 26-27; Ex. TURN-2, SDG&E response to TURN Data Request 1, Q6.

increase hydrogen utilization at PEC.[63] Given that SDG&E continues to assume that PEC will retire in 2036, and refuses to modify this assumption, the Commission should recognize that there is no pathway to achieve blending at levels beyond 5% at PEC.

TURN's testimony highlights the minuscule level of hydrogen production at PDDP, the tiny number of hours for which the fuel can support blending at any level, and the likelihood that these low levels will continue through the end of the project's life under the assumptions provided in SDG&E's application and direct testimony.[64] These factors, combined with the absence of any viable plan to modify PEC to accommodate more than 5% hydrogen blending by volume, justify rejecting SDG&E's application.

With respect to the amount of fuel produced by PDDP, the Commission should find that the amounts are *de minimis* and cannot support a meaningful transition to hydrogen utilization at PEC. SDG&E argues that it is reasonable to assume that the PDDP can produce 8,100 kg of hydrogen per year using the onsite solar generation.[65] This production level assumes onsite solar generation of 410 MWh/year.[66] In 2025, solar generation was only 298 MWh.[67] Since SDG&E asserts that no capital additions to the solar facility are anticipated, it is difficult to understand how future generation could be significantly higher than recent experience.[68]

Actual hydrogen production at PDDP in 2025 was 4,279 kg which was only 53% of SDG&E's assumed hydrogen production level of 8,100 kg per year.[69] SDG&E does not explain how it intends to achieve the 8,100 kg annual production level using only onsite solar power, which it must use through 2028 to retain the federal investment tax

[63] Ex. TURN-1, page 27.
[64] Ex. TURN-1, pages 12-14.
[65] Ex. SDG&E-6, page 27; Ex. TURN-2, SDG&E response to TURN Data Request 4, Q9.
[66] Ex. TURN-1, page 13.
[67] Ex. TURN-1, page 13, Table 1.
[68] Ex. TURN-1, page 11; Ex. TURN-2, SDG&E response to TURN Data Request 1, Q15(e), SDG&E response to TURN Data Request 2, Q3.
[69] Ex. TURN-1, page 13; 2024 production was only 1,743 kg (Ex. TURN-2, SDG&E response to TURN Data Request 1, Q4(e).

credit.[70] SDG&E also does not identify any specific plans to procure electricity from offsite generation to support higher onsite hydrogen production. Although TURN's testimony identifies the gap between SDG&E's assumed production levels and actual recorded data, and notes the infeasibility of achieving the higher levels envisioned by SDG&E, SDG&E failed to provide any rebuttal testimony addressing this issue.[71] The Commission should take note of SDG&E's failure to address TURN's critiques.

Regardless of whether the Commission accepts SDG&E's inflated production assumptions or relies on recent recorded data, the Commission must recognize that the amount of hydrogen produced by PDDP would support blending for an extremely small number of hours. Under SDG&E's inflated production assumptions, PDDP could provide sufficient hydrogen to allow 5% blending for 50 hours per year in one PEC turbine (with zero hydrogen used in the second turbine).[72] Assuming a continuation of recent production levels, PDDP hydrogen could be blended in one of the two PEC turbines at 2% (by volume) for 66 hours of plant operations (representing 3.1% of PEC's full load annual operating hours) and at 5% (by volume) for approximately 26 hours of plant operations (representing 1.2% of PEC's full load annual operating hours).[73] These levels are not material and do not contribute to any meaningful lessons about the use of significant quantities of hydrogen to displace natural gas at PEC or other facilities.

Additionally, these blending values are misleading because they identify the percentage by volume rather than the percentage by energy content. Because hydrogen has a far lower energy content per unit of volume than natural gas, blending at 5% by volume would displace only 1.83% of natural gas (by heat content).[74] This means that, even under assumptions most favorable to SDG&E's case (inflated production levels), PDDP could be expected to displace no more than 1.83% of natural gas (by heat content) in one

[70] Ex. TURN-4, SDG&E Response to TURN Data Request 5, Q1(a).
[71] Ex. TURN-1, pages 12-14.
[72] Ex. TURN-1, page 14; Ex. TURN-2, SDG&E Response to TURN Data Request 4, Q9.
[73] Ex. TURN-1, page 22, footnote 46 (26 hours of runtime at 5% blending / 2095 average full load equivalent hours of operations)
[74] Ex. TURN-1, page 23.

turbine (out of two at PEC) for up to 50 hours of plant operations annually. This level of natural gas displacement is barely measurable.

Given the low level of expected production at PDDP, and the absence of any forecast of future costs for modifying PEC to accept a higher hydrogen blend, it would be unreasonable for the Commission to assume that this project can produce valuable learnings that will accelerate the transition from natural gas to renewable hydrogen. Moreover, the costs of hydrogen from PDDP are exorbitant in comparison to alternative sources, making it hard to envision this approach being economic or viable. Given the extreme cost of the project relative to its benefits, the Commission should reject the application and decline to force ratepayers to absorb the costs of this endeavor.

C. The project should only be assumed to operate until 2036

For purposes of analyzing the costs and benefits of the PDDP, the Commission should adopt SDG&E's assumption that the PDDP will operate only until 2036.[75] The electrolyzer and solar facility at PDDP are expected to operate only until the PEC retires which is scheduled in 2036.[76] In response to a TURN data request, SDG&E insisted that the development of the PDDP does not change the retirement date assumption for PEC.[77] Consistent with this assumption, SDG&E forecasts rate recovery of all PDDP costs through 2036.[78]

The planned retirement of PDDP in 2036 is a significant driver of the high cost of hydrogen over the project life due to the short amortization period for capital costs. If SDG&E asks the Commission to assume that the PDDP will continue operations past 2036 for purposes of approving its application, the Commission should require SDG&E to make immediate changes to the depreciation schedules for both PDDP and PEC to reflect this new assumption. TURN witness Monsen explained that "it would be

[75] Ex. TURN-1, page 10; Ex. TURN-2; SDG&E Response to TURN Data Request 1, Q11.
[76] Ex. TURN-1, pages 10, 28.
[77] Ex. TURN-2, SDG&E response to TURN Data Request 1, Q10.
[78] Ex. TURN-1, pages 10-11.

unreasonable for SDG&E to simultaneously assume a longer operational life for one or more of these assets while accelerating collections from ratepayers based on an earlier projected retirement date."[79]

D. The solar project costs are extraordinarily high relative to alternatives and should be disallowed from rate recovery

SDG&E decided to develop a utility-owned solar generation facility at the PEC site as part of the PDDP. This decision was not a necessary element of the project since SDG&E could have entered into wholesale contracts for renewable energy to power the electrolyzer. SDG&E's decision to develop and own an onsite solar generator resulted in substantial excess costs that are not justified. Regardless of whether the entire PDDP project is found to be unreasonable, the Commission should find the solar generation facility unreasonable and prohibit its costs from being recovered from ratepayers.

SDG&E constructed a 274 kW solar generating facility at PEC as part of the PDDP. According to SDG&E's capital cost breakdown, the unloaded cost of the solar project was $1.63 million, which results in an installed cost of $6.40 per watt after applying SDG&E's loaders.[80] SDG&E expects the facility to produce 410 MWh per year even though recorded output was 349 MWh in 2024 and 298 MWh in 2025.[81] TURN modeled the cost of electricity from the facility based on the fully loaded capital revenue requirement (no O&M costs were included), SDG&E's assumed future annual generation (which is 27% above the 2024-2025 average recorded data), and an operational life that ends in 2036 when PDDP and PEC retire.[82] Using these assumptions, TURN calculates a levelized cost of power of $547.6 per MWh over the

[79] Ex. TURN-1, page 28.
[80] Ex. TURN-1, page 39.
[81] Ex. TURN-1, page 13 (footnote 24), 38-39.
[82] Ex. TURN-1, page 38; Ex. TURN-2, SDG&E response to TURN Data Request 1, Q15(g). (SDG&E admits that the solar facility is only assumed to operate until the retirement of PEC in 2036).

project life.[83] With a less generous forecast of future production, and some share of O&M costs assigned to the facility, the levelized cost would rise even higher.

Under any method of comparison, the PDDP solar facility is extraordinarily expensive compared to any other solar benchmark. TURN's testimony noted that the $6.40 per watt installed cost is 75% higher than the average installed cost of $3.65 per watt for behind-the-meter non-residential solar projects greater than 10 kW located in the SDG&E area in 2023 (the same year the PDDP solar project was commissioned).[84] The PDDP solar facility was nearly three times as expensive as the $2.23 per watt for "distributed solar" assumed by the Commission in the 2022-2023 Integrated Resource Planning process.[85]

A comparison of energy production costs is even more stark. The levelized cost of energy from PDDP is forecast to be $547.6 per MWh (using assumptions generous to SDG&E). The levelized cost of "distributed solar" used in the 2022-2023 Integrated Resource Planning process was $78 per MWh.[86] In 2023, SDG&E reported entering into a new 15-year wholesale contract for California-based solar power at favorable pricing that highlights the excessive costs of the PDDP solar project.[87] The Commission's RPS cost reports show that investor-owned utilities contracted for new large-scale solar projects at average prices of $68/MWh in 2022, $42/MWh in 2023, $63/MWh in 2024, and $59/MWh in 2025.[88] Although SDG&E had access to solar power at these prices, it deliberately chose to spend approximately ten times the market price for its Palomar solar project.

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[83] Ex. TURN-1, page 39. TURN's approach is consistent with SDG&E's proposal to depreciate the facility under a schedule that permits full recovery of all capital costs by 2036.
[84] Ex. TURN-1, page 39.
[85] Ex. TURN-1, page 39.
[86] Ex. TURN-1, page 40.
[87] Ex. TURN-1C, page 40; Ex. TURN-3C, SDG&E Response to TURN Data Request 2, Q10 attachments. TURN does not reproduce the price in this brief to avoid the need for separate confidential and public versions.
[88] Ex. TURN-1, page 40.

Despite the extraordinary costs of the PDDP solar project, SDG&E refused to solicit bids for third-party ownership.[89] As explained in TURN's testimony, this decision was presumptively unreasonable given the availability of renewable energy at a small fraction of the cost from third parties. In addition, third parties have the ability to flow through the immediate benefits of the federal Investment Tax Credit (ITC) to lower the price of contracted power.[90] Ownership of the same project by SDG&E subjects the ITC to normalization which stretches out the value of the credit over many years and reduces the effective benefits to customers. TURN noted that SDG&E shareholders benefit from ITC normalization by being able to use the amounts not passed through to ratepayers to support borrowing for capital projects or operating cash.[91] In rebuttal testimony, SDG&E argues that it is required to normalize the ITC for utility-owned solar projects and would commit a violation by providing any other treatment.[92] TURN does not dispute this fact and instead argues that SDG&E should have pursued third-party ownership to maximize the value of the ITC to its ratepayers.

Although TURN provided this analysis and the related arguments against the cost-effectiveness of the onsite solar generator, SDG&E did not offer any response to TURN's cost comparisons in rebuttal testimony. The Commission should therefore find that the solar project is not cost-effective, that SDG&E was aware of far less expensive alternatives at the time it decided to pursue the project, and that SDG&E's insistence on owning an onsite solar project was imprudent. Accordingly, the costs of the solar facility should not be recovered in rates.

[89] Ex. TURN-1, page 41.
[90] Ex. TURN-1, page 42.
[91] Ex. TURN-1, pages 42-43.
[92] Ex. SDG&E-6, page 14.

IV. SINCE THE PROJECT WILL NOT PRODUCE RENEWABLE HYDROGEN UNDER STATE LAW, THERE IS MINIMAL ENVIRONMENTAL VALUE TO ITS OPERATIONS AND NO JUSTIFICATION FOR SCALING UP PRODUCTION

The Scoping Memo asks parties to address whether the PDDP is designed to produce information that is "needed to evaluate whether renewable hydrogen can contribute to California's clean energy resource strategy?"[93] SDG&E repeatedly argues that PDDP produces "renewable, electrolytic hydrogen" that supports the achievement of state resource planning and decarbonization goals.[94] Based on the evidence presented in this case, the Commission should find that PDDP hydrogen is not "renewable" under state law and will therefore not satisfy the stated objective of the PDDP. Additionally, the Commission should find that higher levels of production at PDDP will not assist with the achievement of the state's environmental goals. Finally, the Commission should find that SDG&E's conflicting, shifting and ambiguous explanations regarding potential plans for procuring supplemental renewable electricity for the electrolyzer raise serious concerns about future ratepayer costs that are unlikely to yield incremental environmental benefits. If the Commission does approve the PDDP, it should decline to authorize supplemental electricity procurement. At a minimum, SDG&E should be required to submit any future plans for electricity procurement from offsite resources for advance review and approval.

SDG&E argues that the PDDP produces eligible renewable hydrogen based on the Commission's finding in D.22-12-057 that interim eligibility for injections into a common carrier pipeline is established when the process results in a lifecycle Greenhouse Gas emissions rate of "not greater than 4 kilograms of CO2e per kilogram of hydrogen produced and does not use fossil fuel as either a feedstock or production energy source."[95] The Commission clarified that this interim definition only applies "to

[93] Assigned Commissioner's Scoping Memo and Ruling, May 28, 2026, Issue 1, page 4
[94] SDG&E application, pages 3, 7, 8, 10; Ex. SDG&E-1, page AB-3
[95] Ex. SDG&E-1, page AB-8; D.22-12-057, page 48.

the pilot programs directed through this decision."[96] Since SDG&E is not proposing to use hydrogen produced at PDDP for any pipeline blending project referenced in D.22-12-057, the eligibility definition adopted in that decision is not relevant to this application.

The relevant eligibility definition for "renewable hydrogen" that applies to PDDP can be found in newly enacted legislation. SB 1350 (McNerney, 2026) establishes new requirements for hydrogen converted into electricity in a turbine to classify the electricity as renewable and eligible under the RPS program.[97] Four of the new requirements are relevant to the PDDP.

First, the facility's turbine must have the capacity to blend at least 20 percent renewable hydrogen by volume.[98] PEC's permit does not allow it to accept a blend of more than 2% hydrogen and the plant cannot physically accommodate more than 5% hydrogen by volume.[99] SDG&E affirms in rebuttal testimony that it has "no plans" to upgrade the turbine at PEC to accept a higher blending level.[100] Therefore, PDDP is presumptively ineligible to create renewable hydrogen that complies with SB 1350 and the electricity produced at PEC with the hydrogen will not be characterized as renewable.

Second, no unbundled RECs may be procured to support the hydrogen production process.[101] SDG&E procured unbundled RECs from a local behind-the-meter solar facility to support the operation of PDDP in 2023.[102] SDG&E has refused to rule out procuring unbundled RECs in the future to support PDDP operations and, as noted below, asserts that its procurement strategy would not be subject to up-front review by

[96] D.22-12-057, page 48.
[97] Because SB 1350 was an urgency measure, the requirements became effective on June 29, 2026.
[98] Cal. Pub. Resources Code §25741(1)(B)(iii)
[99] Ex. TURN-4, SDG&E Response to TURN Data Request 5, Q5.
[100] Ex. SDG&E-6, page 18.
[101] Cal. Pub. Resources Code §25741(1)(B)(vi)
[102] Ex. TURN-2, SDG&E Response to TURN Data Request 4, Q7(d); Ex. TURN-2, SDG&E Response to TURN Data Request 1, Q22(a). The RECs were purchased in 2024 but applied retroactively by SDG&E to 2023 operations.

the Commission.[103] Apart from the requirements of SB 1350, the Commission specifically endorsed TURN's argument in SDG&E's last GRC that the purchase of unbundled RECs will not result in "green" hydrogen.[104] The Commission should also take note of the fact that unbundled RECs carry no clean energy or greenhouse gas value under the Power Source Disclosure Program, the Integrated Resource Planning process, or the Cap-and-Trade Program.[105]

Third, the operator of any electrolytic hydrogen production facility must demonstrate, beginning on January 1, 2030, "hourly matching of hydrogen production with renewable energy generation".[106] TURN addressed the hourly matching requirements under the Hydrogen Production Facility Investment Tax Credit in its direct testimony.[107] In rebuttal testimony, SDG&E explains that this tax credit applies the hourly matching requirements beginning in 2030 which falls outside the five-year recapture period for the Project.[108] Although the federal tax credit obligations may end in 2028, the state law obligations commence in 2030 and continue indefinitely. SDG&E would therefore be required to procure renewable energy that is matched hourly with electrolyzer production to meet this condition. As explained in TURN's testimony, SDG&E has not engaged in hourly matching to date and the electrolyzer has consumed far more or less electricity than onsite solar production in every month of recorded data.[109]

Fourth, the hydrogen manufacturing process may not "result in resource shuffling, as independently determined by the commission based on regional impacts of hydrogen

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[103] Ex. TURN-4, SDG&E Response to TURN Data Request 5, Q5.
[104] D.24-12-074, page 406.
[105] Ex. TURN-1, pages 11-12.
[106] Cal. Pub. Resources Code §25741(1)(B)(vi)
[107] Ex. TURN-1, pages 44-47.
[108] Ex. SDG&E-6, page 13; Ex. TURN-4, SDG&E Response to TURN Data Request 5, Q1(a)("The recapture period for the Palomar facility begins the first year after the Project was placed in service and ends five years later, (i.e., 2024-2028). Therefore, the recapture rules do not apply to the Palomar facility after 2028")
[109] Ex. TURN-1, page 25 (Table 3), 47.

production on zero-carbon generation, local air pollution, and fossil fuel generation."[110] Since this requirement has not yet been implemented by the Energy Commission, it is not possible to assess the specific nature of future compliance obligations. However, the reference to "resource shuffling" suggests that SDG&E may be required to demonstrate that any procurement supplying the PDDP comes from newly constructed (incremental) renewable resources.

In rebuttal testimony, SDG&E acknowledges that the PDDP does not satisfy the requirements of SB 1350.[111] SDG&E instead suggests that it may make a future proposal for a different hydrogen project that would meet the SB 1350 requirements and provide new capacity as part of the Integrated Resource Planning (IRP) process.[112] SDG&E implies that it may seek to repower PEC in the future.[113] Since that proposal is not before the Commission in this case, and no relevant details have been disclosed, the Commission should decline to approve rate recovery of the PDDP on this basis. It is impossible to know whether a future PEC repower would be cost-effective or environmentally beneficial, and whether it would serve the interests of SDG&E's ratepayers.

Since PDDP hydrogen will not be considered renewable under state law, and the PDDP will already allow SDG&E to test blending at the maximum 5% level (assuming future PEC permit modifications), there is no rationale for increasing production at the facility through supplemental electricity purchases to augment onsite solar production. SDG&E's position on this issue has changed throughout the proceeding. SDG&E originally asserted that it intended to limit production at PDDP to the amount that can be supported with electricity produced by its onsite solar facility.[114] In rebuttal

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[110] Cal. Pub. Resources Code §25741(1)(B)(v). The use of "Commission" in this section refers to the California Energy Commission.
[111] Ex. SDG&E-6, page 18. SDG&E only references the 20% blending capability requirement and does not address any of the other elements of SB 1350.
[112] Ex. SDG&E-6, page 18.
[113] Ex. SDG&E-6, page 18, footnote 63
[114] Ex. TURN-1, page 11; Ex. TURN-2, SDG&E response to TURN Data Request 1, Q4(b), SDG&E response to TURN Data Request 1, Q30, SDG&E response to TURN Data Request 1, Q31

testimony, SDG&E suggests (for the first time) that limiting hydrogen production to electricity supplied by onsite solar is a "conservative scenario" that serves as a floor on expected future production levels.[115] In response to a TURN data request on the statements in its rebuttal testimony, SDG&E states that it "may not limit hydrogen production" to the amount that can be supported through onsite solar generation.[116] SDG&E declines to explain how it will decide whether to procure supplemental electricity or where any plan would be shared with the Commission.[117] The only review SDG&E identifies would occur in the Energy Resource Recovery Account compliance proceeding "where it would be subject to a compliance review (not a reasonableness review)."[118] At a minimum, this approach to reasonableness review and cost recovery, which would appear to allow SDG&E to unilaterally decide what to procure for the PDDP, should be rejected by the Commission.

If the Commission approves the PDDP over TURN's objections, it should decline to authorize any supplemental electricity procurement for the PDDP. There is no justification for spending additional money on wholesale electricity procurement given that PDDP cannot produce RPS-eligible hydrogen. SDG&E has not demonstrated any ratepayer value, or additional learnings, that would be obtained through increasing production at the project. Since the electricity will be assigned greenhouse gas emissions under the IRP process and Power Source Disclosure Program, additional production will not serve to advance the achievement of any identified environmental goal. It is therefore unclear what purpose increased production would serve.

(SDG&E anticipates the Project would consume less electricity than what is produced by the onsite solar system at PEC), SDG&E response to TURN Data Request 4, Q7(d).

[115] Ex. SDG&E-6, page 27.

[116] Ex. TURN-4, SDG&E Response to TURN Data Request 5, Q3.

[117] Ex. TURN-4, SDG&E Response to TURN Data Request 5, Q3(b).

[118] Ex. TURN-4, SDG&E Response to TURN Data Request 5, Q3(c).

V. RATEMAKING ISSUES

A. SDG&E's request for a two-way balancing account should be rejected

SDG&E proposes to recover PDDP costs through a two-way balancing account (Hydrogen 2 Balancing Account or H2BA) that would include capital costs (including depreciation, return and taxes), operations and maintenance expenses, "incremental overhead", and wholesale electric market sales and purchases.[119] In response to a TURN data request, SDG&E acknowledged that future costs relating to project modifications and treated as O&M would be recovered through this account.[120] TURN opposes the use of a two-way balancing account for this purpose. If the Commission approves the PDDP, any cost recovery should occur through the GRC process rather than through a new balancing account.[121]

Given the uncertainty surrounding the future operation of the PDDP created by SDG&E's conflicting and shifting explanations over the course of this proceeding, the Commission should retain a regular process for conducting advance review of SDG&E's proposals regarding PDDP operations and costs. The approval of SDG&E's balancing account would appear to provide blanket approval for any costs relating to the broad categories outlined in this application. Under SDG&E's proposal, the Commission would be unable to review the reasonableness of actual costs incurred even if recorded values far exceed the forecasts presented in this proceeding. This blanket authorization is a recipe for overspending, would unreasonably remove oversight, and should be rejected.

The availability of a balancing account is especially problematic because SDG&E has not forecast any capital additions at PDDP (including the solar facility) through the remainder of its life.[122] TURN is skeptical that the project will require zero dollars of capital over the next decade. SDG&E's proposal to use a balancing account to recover

[119] Ex. SDG&E-4, page ED-1.
[120] Ex. TURN-4, SDG&E response to TURN Data Request 5, Q4(d)
[121] Ex. TURN-1, page 50.
[122] Ex. TURN-2, SDG&E Response to TURN Data Request 2, Q3.

all capital costs could provide blanket authorization to recover capital additions in rates without any Commission review.

SDG&E's proposal is objectionable in light of newly enacted statutory provisions applicable to utility proposals for balancing accounts. In late August of 2026, the Legislature passed SB 1098 (Pérez) and the Governor signed the bill into law on September 30, 2026. The bill establishes new requirements for the approval and use of balancing and memorandum accounts. Specifically, the new law does the following:

- Establishes that "it is the policy of the State of California that the regularly scheduled general rate case process is the preferred and primary method of establishing authorized revenue requirements for electrical corporations and gas corporations because it promotes greater oversight, transparency, and protection for ratepayers."[123]
- Allows the Commission to authorize a balancing account "only when necessary to address costs that cannot reasonably be anticipated in the general rate case process. The commission shall make a written finding explaining why that account is necessary, why the relevant costs are outside of the utility's control, and why those relevant costs cannot be adequately anticipated."[124]
- For any balancing account authorized for a "specific activity or program", requires the Commission to transition to "forecast-based ratemaking as sufficient historical data becomes available to support that approach."[125]
- Requires the Commission to consider "cost-sharing mechanisms" for costs above authorized amounts.[126]
- Requires the Commission to consider "a rate of return that is lower than the authorized rate of return for…capital costs above authorized amounts recovered through the balancing account".[127]

[123] Cal. Pub. Util. Code §457(b)(*effective January 1, 2027*).
[124] Cal. Pub. Util. Code §457(c)(1)(*effective January 1, 2027*).
[125] Cal. Pub. Util. Code §457(c)(2)(*effective January 1, 2027*).
[126] Cal. Pub. Util. Code §457(c)(3)(A)(*effective January 1, 2027*).

These new statutory requirements justify the rejection of the H2BA. There is no basis to find that PDDP costs cannot be reasonably forecast in the GRC or to permanently exempt them from forecast-based ratemaking. If the Commission is inclined to adopt the H2BA notwithstanding the Legislature's direction to minimize the use of balancing accounts, the H2BA should include a cost-sharing mechanism in the form of a one-way balancing account that assigns excess costs to SDG&E shareholders. Additionally, the Commission should adopt a lower rate of return for capital costs recovered through the H2BA consistent with SB 1098. The Commission can avoid the need to apply the requirements in SB 1098 by simply rejecting the creation of any balancing account for the costs at issue in this application.

B. SDG&E should be directed to remove the cost of purchased unbundled RECs from O&M costs charged to ratepayers

SDG&E acknowledged, in response to a TURN data request, that it incurred $2,310 for unbundled RECs purchased in 2024 and that these costs were impermissibly recorded to hydrogen department O&M. [128] Once TURN probed the treatment of these costs, SDG&E pledged to "make the necessary accounting adjustment" to remove these costs from that account and only recover them through the PDDP if the project is approved.[129] TURN noted this mistake in prepared testimony and urged the Commission to consider penalties.[130]

Since the submission of TURN's testimony, the Legislature passed AB 2065 (Petrie-Norris) which the Governor signed on September 30, 2026. AB 2065 requires the Commission to disallow the recovery of any prohibited costs and to impose penalties if a utility records to a "regulator-approved financial account" any costs that are "categorically excluded from ratepayer recovery by a statute, commission decision, or

[127] Cal. Pub. Util. Code §457(c)(3)(B)(*effective January 1, 2027*).
[128] Ex. TURN-2, SDG&E response to TURN Data Request 2, Q6(a).
[129] Ex. TURN-2, SDG&E response to TURN Data Request 2, Q6(a).
[130] Ex. TURN-1, page 12.

commission rule."[131] SDG&E admits having recorded improper procurement costs to a regulator-approved financial account and has not made remedied this error as of the date of submission of this brief.[132] These costs were not authorized for this treatment since the Commission rejected the PDDP in D.24-12-074. The improper recording of these costs was uncovered only in response to discovery in this proceeding, which prevents the utility from seeking an exemption from any penalty liability under AB 2065.[133]

The fact that SDG&E recorded these costs to a ratemaking account despite the Commission's refusal to approve PDDP in the GRC indicates bad faith and justifies financial penalties. Had TURN not probed this specific issue in discovery, the Commission would never have been notified of this incorrect treatment. The fact that SDG&E is now offering to cure the violation does not relieve it of a financial penalty under AB 2065.

Under AB 2065, instances of prohibited cost recovery are subject to two financial consequences for the utility. First, the costs may not be recovered from ratepayers.[134] Second, the utility is subject to a mandatory shareholder penalty equal to at least the amount of the prohibited costs recorded to a ratepayer-funded account.[135] TURN therefore recommends that the Commission permanently bar SDG&E from recovering the $2,310 in rates and assess a $2,310 penalty on SDG&E shareholders.

VI. CONCLUSION

For the reasons described in the prior sections, TURN urges the Commission deny SDG&E's application and adopt its recommendations in this opening brief.

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[131] Cal. Pub. Util. Code §748.4(b)(effective January 1, 2027).
[132] The provisions of AB 2065 take effect on January 1, 2027. SDG&E claims it will not remedy the error until the Commission approves the PDDP sometime in 2027, which means that the provisions of AB 2065 presumptively apply to the recording of these "prohibited costs".
[133] Cal. Pub. Util. Code §748.4(c)(2)(A)(iii).
[134] Cal. Pub. Util. Code §748.4(c)(1).
[135] Cal. Pub. Util. Code §748.4(c)(2)(B).

Respectfully submitted,

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