Questions from FCRC Member Corey Albright

- Audit Finding #2 – Limited City Input on SDG&E Undergrounding Construction MSA
    - Since SDG&E disputes the issue, was this primarily based on staff input to the auditor regarding a lack of City involvement?
    - SDG&E asserted that they provided documentation to support their position and that the City ultimately signed off.
    - Can it be confirmed whether this was simply an initial difference of opinion that was later resolved, or is there a more substantive compliance issue still at play?

The Undergrounding MOU required the City and SDG&E to "collaborate" on the creation of MSA evaluation matrices so that all evaluations were performed in a fair and even-handed manner. Consistent with the MOU's stated order of considerations at Section 9.2.5, and consistent with company general approach to its relationship with its partners, SDG&E's desire was to prioritize "safety record" over price. The City's staff disagreed and the parties collaborated – again consistent with Section 9.2.5. Ultimately, and after extensive collaboration, SDG&E agreed to lower the weighting of "safety" and escalated the scoring of price in the MSA scoring matrix, but the changes were not to the degree City staff had desired.

SDG&E believes the collaboration, which actually resulted in changes from the originally-proposed weighting, met both the intent and the plain language of the Undergrounding MOU.

- Audit Finding #3 – Noncompliance with Section 6 of the Administrative MOU
    - During the presentation, it was noted that both parties agreed to an alternate solution. Was this alternative approach formally incorporated into a later version of the Administrative MOU? In other words, is SDG&E considered to be in compliance today?

Yes, SDG&E is considered to be in compliance on this issue today based on a mutually agreed to approach. During the first audit period, SDG&E processed all projects that would otherwise qualify as Category 1 Low Impact as Category 2 Medium and High Impact projects. As a result, Category 1 projects were held to a higher level of scrutiny that was originally anticipated. Since then, SDG&E and the City have met, conferred, and revised the Administrative MOU to identify an alternative approach which is currently being utilized and is operating effectively.

- For each ECA initiative, what level of financial and resource investment is SDG&E committing?

A document outlining basic funding sources has been provided along with these responses. A complete list of cost estimates is currently being developed for the ECA Implementation plan, which must be completed 120 days after the passage of the revised ECA.

- How does SDG&E distinguish between ratepayer-funded, grant-funded, and shareholder-funded investments?

California's regulated utilities like SDG&E are required to submit a general rate case application with the California Public Utilities Commission (CPUC) every four years to satisfy their responsibility to provide clean, safe and reliable energy services to customers as well as to justify the rates paid by its customers. A General Rate Case (GRC) covers a variety of costs such as day-to-day operations and maintenance, infrastructure projects and upgrades, vehicle fleet for crews to respond to customer service requests, a skilled labor force and equipment such as wires, pipes, poles, transformers, substations and more. This is the mechanism by which SDG&E gets approval to use ratepayer funds. SDG&E cannot use ratepayer funds without CPUC approval.

Additionally, and pursuant to the Franchise Agreements, SDG&E has agreed that specified expenditures such as the franchise Bid Amounts ($70,000,000 + $10,000,000) or Climate Equity Fund payments ($20,000,000) will be paid with shareholder funds. Additionally, in the Environmental Cooperation Agreement, SDG&E has agreed to utilize shareholder funds to pay $1,000,000 per year to the Solar Equity Program for each year of the electric franchise's ten-year primary term.

- Can the FCRC see a breakdown so that we understand who is bearing the cost of each program?

A document detailing the funding sources for the ECA has been provided along with these responses.

- What mechanisms are in place to ensure unused funds (e.g., Solar Equity Program carry-over) are transparently reported and reapplied as promised?

SDG&E funds the Solar Equity Program which is facilitated through the Center for Sustainable Energy (CSE). Payments of shareholder dollars are made to CSE annually in the amount of $1,000,000. CSE manages those program funds pursuant to an agreement with SDG&E. The funding obligation for the Solar Equity Program is for each year of the electric franchise's ten-year primary term.

- The presentation noted we are in year 3 of SDG&E's $1,000,000 annual shareholder-funded solar equity program. I'd like to clarify:
  - The slide showed 74 projects completed. Does this total cover all three years since program inception, or just the current year?
  - The distribution of projects appears disproportionate by council district. What explains this imbalance, and what steps are being taken to ensure a more equitable distribution across the City?

Since its inception, the program has seen 74 completed projects to date. The Solar Equity program was never meant to be evenly spread throughout Council Districts but is intended to serve those individuals that meet the income qualifications. That means that certain districts, which may have more income-qualifying customers, may see a higher concentration of projects.

- Can the Committee receive a transparent report detailing how funds were spent, including distribution by district, number of homes served, and cost per project?

The Center for Sustainable Energy (CSE), who facilitates the program, publishes factsheets, handbooks, and annual reports which are available on the program website, sdsolarequity.org.

Questions from FCRC Chair Cody Hooven

1. Can SDG&E revise the content of their last presentation to clarify what activities are a direct result of and additive because of the Franchise Agreement, Undergrounding MOU, and ECA? And can they also clarify the funding sources for each specific action (ratepayer funds, shareholder funds, etc.)?

All items in the ECA, whether or not they are part of SDG&E's business outside of the ECA, have been made contractual obligations to the City simply by their inclusion in the ECA. SDG&E is now contractually bound to complete these obligations, even if business priorities change. In addition, the following ECA items contain obligations that are a direct result of and additive because of the agreements with the City:

6.c. Municipal Energy Strategy
6.d. Support Electrification Throughout the City
6.e. Finalize & Refresh Central Dashboard for Energy Management
6.f. Affordable Housing
7.a. Equity-Focused Solar Expansion
7.e. Energization
7.g. Cooperation on Distributed Energy and Load Management Projects
7.h. Support and Expand Clean Transportation Efforts
8.a. Expand Green Waste Recycling
9.a. Enhanced Tree Planting
9.c. Increase Safety and Resiliency through Energy Intelligence
9.d. Facilitate the Development and Implementation of Virtual City Emergency Operations Center (EOC)
9.f. Develop Resiliency Review
10.b. State & Federal Grants
11.a. Legislative Action and Regulatory Action
11.b. Public Power Feasibility Study
11.c. Rate Transparency
11.d. City Council Committee Presentations
11.e. Supporting Municipal Staff & Operations
11.f. Compliance Review Committee

Finally, as a direct result of and additive because of the Franchise Agreement, Undergrounding MOU, and ECA, the City receives the following financial benefits:

- **3% of SDG&E's gross receipts** in a preceding calendar year (as opposed to 2%)
  - This has amounted in:
    - $70,812,755 in 2021
    - $91,360,355 in 2022
    - $105,615,812 in 2023
    - $88,383,302 in 2024
- **$70,000,000 in Electric Bid payments** with interest on an annual basis of 3.38%
- **$10,000,000 in Gas Bid payments** with interest on an annual basis of 3.38%
- **Undergrounding Surcharge fees**
  - This has amounted in:
    - $68,846,398 in 2021
    - $87,322,300 in 2022
    - $98,671,283 in 2023
    - $87,001,567 in 2024
- **$20,000,000 to the City's General Fund** for the City to use to further the City's Climate Action and Climate Equity goals
- **$10,000,000 for the Solar Equity Program**, to be facilitated by the Center for Sustainable Energy

2. Would SDG&E be open to revisiting the timeline for renegotiation of these agreements in order to correct the misalignment between those agreement schedules and the timing of the public input, including this committee and one avenue for public input? As everyone seems to agree in the committee meetings, the timing is not ideal and does not allow for timely public input into these agreements; rather public input is considered much later when it's not very impactful and the agreements are already in place.

Yes, SDG&E is open to revisiting the timeline for renegotiation of these agreements. However, we want to acknowledge that re-negotiating the ECA is a labor-intensive process that required multiple staff from SDG&E, City General Services, the Mayor's office, and City Attorney's office, weekly meetings over six months, and many levels of review. Therefore, we would like to allow time for the current iteration to be fully implemented and experienced by the City and SDG&E before we reopen it again.

The renegotiation took place after the prior FCRC report and Crowe audit and took their considerations into view already. We also acknowledge that there are many opportunities for public input in a variety of settings, as SDG&E presents publicly on the status of the obligations under the Franchise frequently. A list of public meetings can be found to the response to question 4.c. below.

3. From their presentation, it sounded like SDG&E is working collaboratively with SDCP. Are the two organizations in alignment on SDG&E's proposal to discontinue energy efficiency programs? Are there any other relevant areas that the two organizations are not in alignment? Please also identify what actions in the ECA and other agreements would be impacted if the proposal is approved as proposed.

SDG&E is working collaboratively with SDCP. We have drafted and negotiated a Joint Cooperation Memo and meet with them multiple times a month, as they seek to launch their programs. However, we are not in alignment on our proposal to discontinue our energy efficiency programs. For clarity, SDG&E is seeking to withdraw from *regional* energy efficiency program *administration* – we are not trying to discontinue our obligation to be their fiscal agent, but they have interpreted our proposal this way, and their Protest to our Application reply brief was in opposition to our proposal. Our request to discontinue our energy efficiency programs is to ensure that there is not redundancy of programs since both SDREN and the state will have EE programs. We have also found that our programs, which were designed years ago are not cost effective.

There would be no impact to ECA items if the proposal is approved as proposed. ECA 7.c. has to do with working with SDREN to prevent program overlap, which is also what we aim to do with this proposal; ECA 7.f. commits SDG&E to working with the City, SDCP and SDREN on energy assistance in communities of concern and to identify the potential for collaboration on behalf of low-income customers in Communities of Concern.

4. Several members of the public called in with questions – please include those as part of these questions, too. The topics were:
    a. Contradictions between SDG&E's states support for rooftop solar and their opposition in regulatory proceedings
    b. How is SDG&E supporting an SB1221 neighborhood decarbonization pilot?
    c. Lack of public input into the process of establishing and renegotiating these agreements
    d. Lack of actionable and measurable items in the ECA
    e. Request for a 3rd party perspective presentation on the franchise compliance items (i.e., not SDG&E and not the City)

SDG&E is a strong proponent of rooftop solar. We stand by the benefits of lowering GHG, lowering electric bills, and generating your own electricity, and we offer resources to customers considering rooftop solar. Solar customers also rely on infrastructure to draw electricity from the grid and send electricity back to the grid throughout the day to balance their usage with intermittent solar production. Additionally, they need grid support to meet energy needs at night, during cloudy days or when solar panels are not generating power. Finally, solar customers are using the grid to sell excess energy back to the grid. On average, customers that do not have solar are paying $420 a year more on their bill to cover the grid costs, despite the fact that solar customers use the grid too. The fixed costs to run the grid, including for customer service and costs to update and maintain the electric grid, should be shared among all customers utilizing the grid, not just those who have not adopted solar.

SDG&E is actively participating in the CPUC's processes related to SB1221 and looks forward to working with the Commission and stakeholders to establish the SB 1221 Neighborhood Decarbonization Zone Pilot Program in an efficient and effective manner that provides an opportunity to gather important data and lessons learned that will inform the integration of these opportunities into long-term gas planning policy.

We are awaiting guidance from the CPUC on the Priority Neighborhood Decarbonization Zones program so we understand the criteria and limitations that are established in association with Public Util. Code section (PUC) 663 implementation. This approach will enable SB 1221 stakeholders to more meaningfully determine whether such additional geographic limitations are required and how they may best be applied in furtherance of the overall objectives of SB 1221.

SDG&E has appeared before the Compliance Review Committee, City Council Environment Committee, and the full City Council frequently throughout the life of these agreements with the stated purpose of speaking on the status of the obligations under these agreements. These meetings have been publicly noticed, and public participation has been welcomed.

Compliance Review Committee
January 18, 2023
February 13, 2023
April 19, 2023
May 31, 2023
July 6, 2023
July 24, 2023
August 29, 2023
November 2, 2023
March 22, 2024
May 9, 2024
June 3, 2024
March 6, 2025
April 10, 2025
May 7, 2025
June 4, 2025
July 2, 2025
August 13, 2025

Environment Committee
January 20, 2022
March 17, 2022
May 26, 2022

June 23, 2022
October 13, 2022
January 19, 2023
June 22, 2023
November 9, 2023
May 23, 2024
June 20, 2024 (Audit report and CRC report)
July 18, 2024
October 10, 2024
February 13, 2025

Full Council
December 7, 2021
October 18, 2022
December 5, 2023
December 9, 2024

Climate Advisory Board
March 4, 2025

SDG&E is proud of the newly negotiated Energy Cooperation Agreement and does not agree that the Agreement lacks actionable and measurable items. The purpose of the Agreement is for both parties to cooperate, and the measurabl items per ECA commitment listed below represent metrics that show our cooperation and collaboration:

6.a. Energy Benchmarking
- Did SDG&E provide information and assistance?
- Did SDG&E provide Energy Star Portfolio Manager assistance?

6.b. Building Performance Standards
- Did the City request data?
- Did SDG&E provide data?

6.c. Municipal Energy Strategy
- Did the City request data?
- Did SDG&E provide:
  - Historical energy consumption data for specified municipal facilities
  - Administer energy audits
  - Identify appropriate energy efficiency measures or incentives
- Did the City provide necessary information on scope and nature of modifications?
- Did SDG&E analyze existing electric infrastructure and capacity constraints
- Did the City request load analyses?
- Did SDG&E provide load analyses?
- Did SDG&E determine any capacity expansions are necessary?
- Did SDG&E provide estimates related to scope and timeline for distribution infrastructure?

6.d. Support Electrification throughout the City

Did the City and SDG&E meet 4 times per year?

6.e. Finalize & Refresh Central Dashboard for Energy Management

Did SDG&E provide the dashboard on a weekly basis, or the cadence at which the City prefers?

6.f. Affordable Housing

Has SDG&E pursued operational enhancements?

Has SDG&E worked toward the CPUC's energization timelines?

Has the City shared with SDG&E which projects are in the Affordable Housing Permit Now Program?

Have the City and SDG&E named their representatives?

Have the representatives communicated about projects?

6.g Encourage Diversity in the Clean Energy Workforce

Has SDG&E aided workforce development programs?

Has SDG&E supported programs for existing workers in the energy field?

7.a. Equity Focused Solar Expansion

Has SDG&E made an annual payment of $1,000,000 to a nonprofit?

7.b. San Diego Community Power

Has SDG&E followed the CCA Code of Conduct?

Has SDG&E provided SDCP grid services?

Has SDG&E provided SDCP customer information in accordance with Tariff Rule 27?

Has SDG&E maintained a dedicated team to interface with CCAs?

7.c. Cooperate and Collaborate with SDREN

Has SDG&E worked cooperatively with the City, SDCP and third party implementers?

Has SDG&E worked cooperatively with SDREN to support the launch of EE programming through 2025?

Has SDG&E made efforts to avoid program overlap?

Has SDG&E participated in regular meetings and workshops with SDREN?

7.d. Microgrid Development

Has the City requested assistance on microgrid projects?

Has SDG&E cooperated with the City and SDCP on those projects?

Has SDG&E shared expertise relating to facility and community-level microgrids?

Has a mutually agreed upon project been identified?

Has SDG&E submitted an application seeking approval?

Has the City made reasonable efforts to support such applications?

7.e. Energization

Has SDG&E provided biannual reports?

7.f. Energy Assistance within Communities of Concern

Has SDG&E worked with the City, SDCP and SDREN to continue outreach to low-income and hard-to-reach residential customers?

Has SDREN or SDCP requested to meet to identify collaboration opportunities?

7g. Cooperation on Distributed Energy and Load Management Projects

Have SDG&E and the City met twice a year?

Have SDG&E and the City explored any pilot projects?

If so, has SDG&E made reasonable efforts to support the City in obtaining third-party funding, incentives, and ancillary services compensation?

Has the City support any related applications at the CPUC or applicable agencies?

7.h. Support and Expand Clean Transportation Efforts

Has the City requested analysis of electric vehicle infrastructure for City projects?

Did SDG&E provide point-in-time circuit capacity?

Did a project move beyond planning?

Did the City and SDG&E enter into a standard agreement for work on a project?

Did SDG&E provide project-level load analyses of electrical load expansions and necessary utility-side infrastructure to support expansions?

Did SDG&E support City efforts to participate in EV charging utility programs and financial incentives?

Did SDG&E help identify additional opportunities to offset costs of new infrastructure?

Did SDG&E support the EV Charging Program?

Did SDG&E consider new pilot programs for EV programs in the City?

Did the City and SDG&E allocate costs for pilots based on applicable tariffs?

8.a. Expand Green Waste Recycling

Did the City or SDG&E identify a new vendor?

Did SDG&E and the City investigate opportunities to utilize diverted waste?

9.a. Enhanced Tree Planting

Did SDG&E support the City's tree planting efforts?

Did SDG&E identify additional tree planting locations, assist with species ides, and provide technical support?

Did SDG&E support the planting of 2,500 trees in the ten years following the Effective date?

9.b. Wildfire Safety

Did SDG&E continue to develop and refine its nation leading weather network?

Did SDG&E provide fire-fighting air resources?

Did SDG&E investigate deployment of weather stations and other technologies to further inform SDG&E's fire risk index?

Did SDG&E monitor canyons where fires may be more likely to ignite and spread quickly?

Was information shared with City and County fire departments?

Did SDG&E meet CPUC requirements for wildfire mitigation, like brush management?

9.c. Increase Safety and Resiliency through Energy Intelligence

Did SDG&E share intelligence and data to identify areas where undergrounding may be most beneficial for wildfire mitigation?

9.d. Facilitate the Development and Implementation of a Virtual City EOC

Did SDG&E demonstrate how to use Microsoft Teams as a virtual EOC?

9.e. Wildfire Outreach

Did SDG&E get invited to attend public meetings to discuss wildfire management and best practices?

9.f. Develop Resiliency Review

Did SDG&E and the City collaborate to share data and review resiliency of the City's existing infrastructure?

10.a. GHG Reduction Analysis

Did the City and SDG&E identify and study areas where electrification can be accelerated?

10.b. State and Federal Grants

Did the City and SDG&E research available grants?

11.a. Legislative and Regulatory Action

Did SDG&E provide a monthly list of Applications filed with the CPUC?

Did SDG&E provide a monthly list of Proceedings opened by the CPUC that involve SDG&E?

Did SDG&E offer to meet with the City's legislative or governmental affairs team twice a year?

11.b. Public Power Feasibility Study

Did SDG&E cooperate and respond to the City and its consultants on Phase II of the study?

Did SDG&E request meetings with the City or consultants, and did the City facilitate those meetings?

11.c. Rate Transparency

Did an SDG&E executive offer to present to City Council on current and forecasted electric rates once a year?

Did it include associated impacts to unbundled residential electric bills?

Did it include actions taken and plans to limit costs for customers?

11.d. City Council Committee Presentations

Did SDG&E offer to present once a year to the appropriate committee on:

Undergrounding with the City's transportation department; status of projects; 20SD fund collections

Supporting Customer Equity; status update on distribution of Public Purpose Funds, including enrollment in CARE, FERA, LIHEAP, energy efficiency, lighting programs, demand reports and others

Supporting Customer Equity; SDG&E support for CAP goals through major energy projects, regulated public purpose programs, and status of the ECA

11.e. Supporting Municipal Staff & Operations

Did an SDG&E officer offer to meet four times a year with the City's COO or designee?

Did SDG&E and the City discuss infrastructure projects, coordination on facility movement and relocation, municipal energy bills, account issues, and other topics of mutual concern?

Did the City submit a memo to the appropriate Council Committee providing an overview of quarterly meetings?

11.f. Compliance Review Committee

Did the CRC request an SDG&E presentation?

Did SDG&E present once a year?

12. Legal and Regulatory Environment

Did SDG&E and the City operate within a legal and regulatory framework?

Are all parties' efforts consistent with these laws and regulations?

The Compliance Review Committee does receive a third-party perspective on franchise compliance items in the form of a presentation from Crowe LLP, the City's third-party independent auditor. Crowe presented to the present committee members of the FCRC on July 2, 2025. Additionally, the FCRC serves as another third-party reviewer when the body issues its report alongside the audit report, which is formally and publicly presented to City Council. This occurred on June 20, 2024 for the previous iteration of the FCRC. This FCRC will have the same opportunity. Finally, all meetings with Crowe and the FCRC are open to the public and allow public comment.

5. Would the staff put all the agreements on one timeline, along with the timeline of this committee and the audit? I have only found those in different places, but it would be helpful to show all together.

This item is directed at the City.

6. To increase our efforts to make this process transparent and inclusive, would it be possible to set up a system to collect emails from interested parties and proactively push out FCRC committee notifications, like how the Climate Advisory Board, Planning Committees, and other advisory groups at the City do?

This item is directed at the City.

7. Please make the collective questions received by the FCRC members part of the public record and available on the City's website.

This item is directed at the City.

Questions from FCRC Member Matt Brennan

1. **Use of Ratepayer Funding to Finance ECA Activities (Slide 7):** Slide 7 of SDG&E's presentation indicates that *"Funding sources for [the Energy Cooperation Agreement] may include: Ratepayer funding pursuant to approval from the California Public Utilities Commission"*. How much of SDG&E's ECA-related activities are being financed through charges to ratepayers, and under what CPUC approvals? Why should the utility's franchise obligations under the ECA be funded by ratepayers rather than shareholder funds, and what steps has SDG&E taken to ensure that customers are not paying for what are essentially contractual commitments to the City?

Please see a funding breakdown provided. The use of ratepayer funding for certain ECA obligations was agreed upon and acknowledged by the City during the Franchise negotiations. These initiatives are important to the City and to the Climate Action Plan (CAP), and SDG&E is committed to supporting the City in reaching CAP goals. As the question acknowledges, the

CPUC permits SDG&E the ability to use ratepayer funds through General Rate Case proceedings. Details of the General Rate Case can be found on SDG&E's website.

2. **Clean Energy Collaboration vs. Opposition to Rooftop Solar and Affordability Measures:** SDG&E's presentation emphasizes collaborative efforts toward clean energy (e.g. stating that since 2021 SDG&E has implemented projects to further the City's 100% clean energy goal). Yet at the same time, SDG&E has actively lobbied against distributed solar and affordability initiatives. For example, SDG&E, pushed for sweeping changes to net metering policies by proposing high fixed monthly charges and reduced net metering credits. Likewise, SDG&E has supported initiatives such as high mandatory fixed charges on bills that would seem to disproportionately impact low-income and low-usage households already struggling with some of the highest electricity rates in the nation. How does SDG&E reconcile this apparent contradiction? Additionally, what percentage of SDG&E's electricity currently comes from renewables, how has that percentage changed over time, and what specific plans are in place to increase it going forward? Can you also provide data on the percentage of SDG&E's overall energy supply used for heating, appliances, and other end uses that has shifted from gas to electrification, and how that trend has changed over time?

   Finally, SDG&E often describes Liquid Natural Gas (LNG) and Hydrogen as "clean energy," yet climate experts and environmental justice communities widely reject this framing. LNG (which I understand is sometimes fracked methane gas) and hydrogen both create significant greenhouse gas emissions and pollution throughout their life cycle. How does SDG&E justify labeling these fuels as "clean," and more importantly, what concrete steps are being taken to reduce reliance on LNG and Hydrogen, given that they remain fossil-fuel based and polluting sources of energy? Additionally, what percentage of the fuels SDG&E currently uses, and anticipates using in the future, are LNG, and what percentage are hydrogen sources not produced from water?

A majority of the questions fall outside the scope of responsibilities of the Franchise Compliance Review Committee, which is to provide a recommendation to the City Council based on compliance with the Franchise and the Energy Cooperation Agreement (P. 17 of the Electric Franchise Agreement). However, we will provide information to better inform the committee.

SDG&E supports solar, as stated above, as well as in our Path to Net Zero Report, which highlights the need for a significant increase in solar generation. Additionally, as stated above, on average, customers that do not have solar are paying $420 a year more on their bill to cover the grid costs, despite the fact that solar customers use the grid too. The fixed costs to run the grid, including for customer service and costs to update and maintain the electric grid, should be shared among all customers utilizing the grid, not just those who have not adopted solar.

The Base Services Charge is a result of AB 205, which required each investor owned utility in California to implement this new rate design.   AB 205 requires that the average low-income customers realize bill savings without making any changes to their usage. That was why the CPUC designed the discounted fixed charge of $6 for CARE customers, so low-income customers would benefit from this rate reform. The Base Services Charge also lowers the volumetric rate to encourage electrification and allows for more bill predictability, which will help customers with budget planning.

As a reminder, about 95% of SDG&E customers within the City of San Diego receive power that was procured by SDCP, not SDG&E. Our renewable portfolio is publicly available through the Power Content Label. See links to the Power Content Label for 2021, 2022, and 2023. 2024 data will be available later this year. SDG&E achieved a 53% Renewables Portfolio Standard in Compliance Period 4 (2021-2024), exceeding the 38% RPS compliance requirement that was set by the CPUC. While these compliance requirements continue to increase over time, SDG&E is well-positioned to meet the higher requirements due to our proactive procurement of renewables.

SDG&E does not track or collect data on end use of energy; that is customer-side data to which SDG&E is not necessarily privy. However, there are several programs that support the conversion of natural gas/propane to electrification, particularly for the highest gas consuming appliances, i.e., water heating and space heating. The biggest program is the CA Technology and Equipment for Clean Heating (TECH) Initiative that is administered by the CPUC and initially funded by climate credits and then CA's budget and the federal Inflation Reduction Act. Since its inception in December 2021, TECH has funded the installation of 9,453 heat pump technologies in San Diego. In addition to the TECH incentive, SDG&E's energy efficiency programs, including the Statewide Golden California rebates, have installed 1,752 units since 2022. In total since 2021, 11,205 gas water heaters and units have been converted from gas to electric.

The Commission has other initiatives within its Building Decarbonization proceeding that encourages electrification, such as the elimination or reduction of certain gas line extension discounts; the availability of discounts for electric service line upsizing to qualified under-resourced customers pursuing electrification of their home or small businesses; and new programmatic approaches to building decarbonization, including voluntary zonal building decarbonization pilots.

SDG&E is not aware of any recent publications or statements in the last five years or more where the company has described LNG as clean. If you have specific examples of this that you can share, SDG&E would be happy to review and respond.

SDG&E manages one LNG satellite facility in the remote town of Borrego Springs, CA. The satellite facility was installed in 1968 to service a remote mobile home park due to the absence of a nearby pipeline. For over fifty years, customers have benefited from the facility for the affordable, safe, and reliable service of gas for heat, hot water, and community amenities. SDG&E will not expand its LNG operations in Borrego beyond the existing customer base served by the facility. Additionally, SDG&E does not anticipate installing any new LNG systems in the future. SDG&E does not offer LNG service to any customers applying for service after Jan 1, 1984 (Borrego being the only facility receiving LNG since that time). Please note that Borrego is outside the City of San Diego and the Franchise Agreement does not apply.

Regarding the percentage of LNG served by our system, we can use 2023 as a representative year. In 2023, SDG&E served ~8,690 decatherms (Dth) to customers connected to the Borrego LNG system. For all other customers in 2023, SDG&E served ~95 million Dth of natural gas (in gaseous form) across its system. Therefore LNG delivery makes up less than 0.01% of total gas served.

SDG&E considers hydrogen to be a clean fuel when it is produced in such a way as to meet the US Federal definition of “clean hydrogen.” As stated on our website:

> “Currently, most of the hydrogen used today comes from natural gas as a feedstock that undergoes a chemical process called Steam Methane Reformation (SMR). This hydrogen production process releases carbon dioxide (CO2) as a byproduct.
>
> However, hydrogen can also be produced through other “clean” pathways, for example using water as a feedstock. A process called electrolysis uses electricity to split water (H2O) into pure oxygen and hydrogen. When clean electricity (such as solar or wind) is used, the process can be completely carbon-free.”

SDG&E currently has two active projects that use clean hydrogen to support reliable electricity service on our equipment. Both projects use hydrogen produced via electrolysis of water, where the power to run the electrolyzer is supplied by solar energy. Therefore, 100% of SDG&E hydrogen projects use hydrogen produced from water.

SDG&E does not procure hydrogen for customers nor inject hydrogen into the gas it serves to our customers. Rules established by the California Public Utilities Commission (CPUC) define the acceptable concentrations of various constituents of natural gas; for hydrogen, 0.1% by volume is the acceptable concentration level. In December 2022, the CPUC required SDG&E, along with three other California utilities, to submit projects to study blending renewable hydrogen into the natural gas system. If approved by the CPUC, the project will study the impact of hydrogen-blended natural gas (up to 20% by volume) on infrastructure materials commonly used in the natural gas distribution system. The SDG&E project is completely isolated and closed loop and no customers will be directly impacted. SDG&E submitted its application for the project in March 2024 and the proceeding is still underway.

3. **Gaps in Building Decarbonization and SB-1221 Participation:** The ECA implementation plan includes support for building electrification. For instance, assisting City efforts to adopt zero-emission building standards and reach codes. However, beyond municipal buildings, there appear to be gaps in SDG&E's initiatives to decarbonize the broader building stock, and it's unclear how SDG&E is participating in California's SB-1221 pilot program for neighborhood decarbonization. Is SDG&E actively engaging in SB-1221's voluntary pilot program. For example, by identifying potential gas pipeline zones in its service territory that could be transitioned to all-electric service, and collaborating with the City or community groups to propose pilot decarbonization projects?

   My understanding is that SDG&E has been using reach codes to gauge interest in potential SB-1221 pilot projects, which severely limits eligibility since only a few communities have successfully implemented these ordinances. SDG&E does not appear to be conducting broader community outreach to identify interest, unlike PG&E, which has engaged communities more directly. Why is SDG&E relying on reach codes as a filter rather than working with communities that are interested but have not been able to adopt reach codes—especially given that IOU involvement has been a barrier in some of these cases?

See SDG&E's previous response regarding SB 1221. PUC Section 662(a)(3) requires SDG&E to identify supportive governments, and in R. 24-09-012 SDG&E provided the suggestion that one way to identify supportive governments might be to use reach codes as a likely indicator of support. This is not to limit eligibility or serve as a filter, mainly to serve as one tool of many to identify supportive governments. Furthermore, SDG&E is in favor of keeping the criteria broad.

PG&E has already run pilot projects based on processes that pre-date SB 1221 and have therefore had the opportunity to engage earlier than other Investor Owned Utilities.

4. **Community Impact of ECA Programs vs. SDG&E's Lobbying and Rate Policies:** SDG&E highlights various community-oriented programs under the ECA. For example, planting 2,046 trees toward a 10-year goal and hosting electric vehicle education events in underserved neighborhoods as benefits of the franchise agreement. While these initiatives have merit, their impact may be small compared to the broader negative impacts of SDG&E's high rates and policy stances. How do the tangible benefits of these ECA programs (in terms of GHG reductions, community resilience, or customer savings) compare against SDG&E's concurrent actions, such as raising electricity rates, and lobbying to curtail rooftop solar incentives?

To clarify, SDG&E's commitment is to plant 2,500 trees in a 10-year period. To date, we have planted 2,046. This and other ECA commitments were brought to SDG&E as City priorities to achieve CAP goals. The City's CAP establishes a goal of net zero GHG emissions by 2035, committing San Diego to an accelerated trajectory for greenhouse gas reductions. Each ECA item is aligned to a particular section of the CAP in order to help the City in this endeavor.

5. **Rate Setting and Overcharging – Response to Audit Findings:** A recent State Auditor review of CPUC regulatory outcomes found that SDG&E has exceeded its authorized rate of return in 9 of the last 10 years, in some cases by up to 1.5 percentage points – which in 2021 alone meant about $29 million in profit beyond what regulators had deemed reasonable. How does SDG&E explain this pattern of earning higher profits at the expense of ratepayers? If these excess profits were allowed under CPUC mechanisms, does SDG&E nonetheless acknowledge a responsibility to San Diegan's to avoid such windfalls in the future? What specific steps will SDG&E take to ensure that no overearning will occur in the future? And what steps is SDG&E taking to refund the money that it overearned according to the State Auditor?

This question falls outside the scope of responsibilities of the Franchise Compliance Review Committee, which is to provide a recommendation to the City Council based on compliance with the Franchise and the Energy Cooperation Agreement (P. 17 of the Electric Franchise Agreement). However, SDG&E did make a statement on this issue to City Council during our 2023 Rates Presentation.

During that meeting, SDG&E emphasized that the state audit report laid out what our authorized rate of return is, and what our actual rate of return is over the same period of time. That authorized rate of return is only for what the State Commission governs; we also have a portion of our business that is governed by the Federal Electric Reliability Commission – our transmission assets – and that rate of return is higher than what the State authorizes. What the report shows as our authorized rate of return is only the State amount, and what is shown as our actual rate of return is actually a blending of the two rates. That accounts for a portion of the difference, which is not an apples-to-apples comparison.

The State Commission sets the State rate of return in a public proceeding. That rate is important for the financial health of a utility because in order to make investments in infrastructure, wildfire safety, reliability, etc., SDG&E needs to be able to attract investors in order to make those investments. This is why the Commission grants SDG&E the opportunity to earn that authorized rate. To the extent SDG&E operates the business in a more cost effective manner, the company could have a higher authorized return, and those efficiencies are then built into the next general rate case to benefit customers.

Finally, SDG&E did not over earn the return in 2024. In a recent filing with the CPUC, SDG&E significantly under the authorized amount.

6. **Finally, what steps (if any) will SDG&E plan to take to address the State Auditor's finding? Will any of the following remedies be implemented and if so which?:**
   1. Develop stricter internal controls and provide reports for the committee review.

2. Adjust future rate cases to more accurately forecast costs.
3. Issue customer refunds.
4. Use excess profits to invest in community projects, for example:
   - ○ Solar generating kiosks in community parks and public housing
   - ○ Roof top solar on city owned buildings.
   - ○ Invest in energy efficiency projects in residential buildings.
   - ○ Other projects as recommended by the public.

Please see above.