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December 20, 2022

Re: Continuing Coordination on Federal Funding Opportunities in the Infrastructure Investment and Jobs Act of 2021

Dear President Reynolds:

Thank you for the opportunity to provide an update on San Diego Gas & Electric Company's (SDG&E) progress on funding opportunities under the Infrastructure Investment and Jobs Act of 2021 (IIJA). On December 16, 2022, SDG&E submitted a concept paper to the Department of Energy (DOE) for the Grid Resilience Innovative Partnership (GRIP) program proposing a project, Tribal Strategic Grid Hardening (Project) that would accelerate resilience for Tribal nations that SDG&E serves—specifically, undergrounding 104 miles of power lines and installing 10 miles of covered conductor within 13 Tribal regions located in the High Fire Threat District (HFTD). We believe that the Project aligns with DOE's requirements and with California safety and reliability goals, to the direct benefit of a community of concern.

SDG&E is actively considering the pursuit of additional IIJA funding. We are closely monitoring DOE's issuance of new Funding Opportunity Announcements (FOAs) and filing deadlines. We continue to refine our project ideas as we learn more about each funding opportunity. We will keep you informed of our ongoing work to obtain funding that will help build important energy infrastructure at a reduced cost to our customers.

SDG&E also very much appreciates your request for our comments on how the CPUC could address key issues related to IIJA federal funding. Timely resolution of these issues is critical to our ability to maximize the chance for California utility customers to benefit from federal funds. Our thoughts on the six issues listed in your letter are summarized below. My team and I would be happy to sit down with you and your staff to discuss our thoughts in more detail.

- Match-Funding or cost-sharing requirements

DOE will require award recipients to match any IIJA federal funding, although the percentage match may vary. As part of the application process, DOE will require adequate assurance from an applicant that it is financially and legally able to make the matching contribution. SDG&E can demonstrate its financial ability through our strong credit rating, borrowing capacity and other financial resources. However, to provide

similar assurance of our legal ability to match federal funding, there must be a process in place that will allow SDG&E to recover its match amount from ratepayers, including standard cost-of-service ratemaking elements (i.e., O&M, taxes, depreciation, and return).

The timing of DOE funding opportunities is unlikely to coincide with the normal General Rate Case (GRC) cycle; nor will there be enough time to follow the standard process for submitting projects for CPUC review and approval. Indeed, the GRIP FOA was issued by DOE on November 18, 2022, two of the GRIP program concept papers are due on December 16, 2022, and the applications for these two programs will be due on March 17 and April 6, 2023. To address these timing concerns, we recommend the CPUC issue an order directing us to file an advice letter seeking the establishment of a memorandum account prior to submitting any application to the DOE for IIJA funding. The advice letter will include a project description and as many details as are available at the time of DOE submission, as well as a proposal for future disposition of the memorandum account (i.e., how the final balance would be collected in rates). Approval to include any balance in rates, however, would be subject to a reasonableness review prior to rate recovery. Such review would be limited to a determination of whether costs were reasonably incurred and accounted for, but not whether it was prudent to pursue the project in the first place. Objections to the prudence of projects would be considered as part of the advice letter process.

- Treatment of Tax liability for federal funding awarded

Grants or awards of federal funding will be taxable for both federal and state income tax purposes, unless a specific statutory or administrative exception applies that exempts the grant/award from taxation. There are no such exceptions that currently apply to DOE grants available under the IIJA. Accordingly, under current law, IIJA grants will be taxable to SDG&E for federal and state income tax purposes.

The memorandum account described above would be used to track, and to recover or refund these taxes, including a return on the deferred income taxes.

- Ensuring that each proposed project is competitive in the DOE application process

SDG&E is committed to aligning our objectives with state policy and tailoring our projects to the requirements of specific funding opportunities. Additionally, we have focused our efforts on projects that have a significant impact on a community of concern and in an area where we have substantial expertise. An efficient CPUC approval process for the establishment of the memorandum account will demonstrate the CPUC's support of our applications. We expect the competition for IIJA funds will be intense, but given California's innovative track record and leadership in clean, reliable energy, SDG&E is confident that we will be a strong competitor.

- Tracking and oversight of awarded funding to ensure reductions in costs to utility customers

The above-described memorandum account process is an ideal way to ensure that federal funding reduces the costs of energy infrastructure projects to SDG&E customers. Federal funds received from DOE would be accounted for in the memorandum account, including SDG&E's matching contribution, as would all the related costs of the project.

- Any other regulatory issues necessary to support the IOUs' abilities to apply for federal funding

In light of the timing issues, regulatory lag is the main concern. The memorandum account process described above will pave a regulatory path toward allowing California's IOUs a fair chance to compete for DOE funding. However, delay in approving the required memorandum accounts could lead to missed opportunities. Accordingly, SDG&E respectfully requests that the proposed memorandum accounts be considered on an expedited basis.

- Ensuring the project applications are in alignment with California state goals

SDG&E will only submit IIJA funding applications for projects that enhance our ability to provide safe, clean, and reliable energy to our customers. Given the scope of projects like Tribal Strategic Grid Hardening, the CPUC will have the opportunity to review and approve these projects through proceedings such as the GRC. The cost to our customers of these projects will be reduced by approximately the percentage of the project that is funded by federal dollars (adjusted for any cost of the taxes owed on the grant and the additional costs incurred by SDG&E to comply with federal funding regulations). For projects that have not yet been approved by the CPUC in another proceeding, the advice letter requesting establishment of the memorandum account will give the CPUC the opportunity to determine on an expedited basis whether the project aligns with California's goals.

- Provide details about projects proposed for each grant and loan, including the cost range for each project.

SDG&E continues to research the grants that are being released by the federal government and we are continuing to evaluate projects that would comply with each of these opportunities. At this time, we have some very early concepts for several FOAs that will open in 2023. As they develop, we are happy to provide the details.

Our primary focus has been on the Grid Resilience Grant within the GRIP program under BIL section 40101(c) since the details were released in late November. On

December 16, SDG&E submitted a concept paper for the Project GRIP program, Topic Area 1: 40101(c) Grid Resilience Grants. The focus of this grant opportunity is for “activities that reduce the likelihood and consequence of impacts to the electric grid due to extreme weather, wildfire, and natural disaster. The statutory language requires prioritization of projects that will generate the greatest regional or community benefit (whether rural or urban) in reducing the likelihood and consequences of disruptive events.” The Project satisfies all of these criteria. Accelerating the undergrounding of our lines on Tribal lands in the HFTD will help mitigate wildfire disasters and create community benefit by protecting these vulnerable communities from such “disruptive events.”

The FOA for this grant also stresses that applicants “align proposed grid resilience and grid hardening investments with broader State, Tribal, or regional resilience or energy security plans.” The Project aligns with state, regional, and Tribal interests by maximizing community benefits and reducing the risk of wildfire on and adjacent to reservations. Wildfire mitigation is a state priority, as seen by legislature passed in 2018 to increase oversight of utility efforts to reduce utility-related wildfires. In areas where we underground the lines, the wildfire risk associated with utility infrastructure is significantly reduced, as is the need to shut off power for public safety during extreme heat events. Undergrounding on Tribal lands will provide resiliency to Tribal critical facilities, so Tribes can continue to provide resources to their communities and reduce the possibility of lost lives and damage to property.

To apply for this grant, the project must also “be supplemental to existing hardening efforts of applicants for any given year.” As part of our current wildfire mitigation efforts, SDG&E focuses on undergrounding our lines in the HFTD. This program will leverage this existing work and efficiencies to accelerate the undergrounding on Tribal lands.

The Project addresses the following three requirements set forth in the FOA:

- hardening of power lines, facilities, substations, of other systems,
- undergrounding of electrical equipment, and
- replacement of old overhead conductors and underground cables.

In addition, the FOA requires that we have meaningful engagement with labor and that we consult with Tribal Nations. The Project focuses on Tribal lands and SDG&E will be including Tribal Nations in our process if we receive the grant. We will also be utilizing our labor unions to assist us with the construction work.

Finally, because this undergrounding work is already in our Wildfire Mitigation Plan, any grant funding received would allow SDG&E to accelerate the implementation of planned work. Through this funding, SDG&E could accelerate 104 miles of undergrounding and 10 miles of covered conductor within 13 Tribal regions. In addition to mitigating wildfire

risks in the Tribal regions, another direct benefit is increased resiliency, which will enable Tribes to keep their businesses and government operations running in support of economic development and will create a resilient system for clean energy investments, like EV infrastructure and batteries. Lastly, receiving IJA funding to focus on accelerated resiliency and risk reduction in Tribal regions will have the supplemental benefit of freeing up resources to allow SDG&E to accelerate wildfire mitigation work in other regions. Subject to change as we continue to refine the Project, SDG&E could request up to the maximum \$100 million award size allowed under the GRIP FOA if approved by DOE to move on to the application phase.

- Identify any applicable CPUC, California Energy Commission (CEC), or other programs that may provide match funding for the project(s) identified.

SDG&E is narrowing project scopes as FOAs are released. Based on the projects, we will continue to evaluate potential opportunities to secure match funding, such as may be made available through the Electric Program Investment Charge (EPIC) or other programs. More details are needed on both the proposed projects, as well as the potentially available opportunities for match funding, to determine whether SDG&E's projects are within scope.

- Explain how the proposed project(s) maps to existing state priorities, including electric and gas customer rate and bill reductions, safety improvements, reliability enhancements and greenhouse gas emission reductions.

The safety of the communities we serve is of the highest priority for SDG&E. The scope of SDG&E's 40101(c) Project very clearly aligns with the priorities of our state and local governments. The undergrounding of electric utility infrastructure and installation of covered conductor, as proposed in the Project, are consistent with wildfire mitigation best practices that are already being implemented in our service area and across the state. Not only does wildfire mitigation reduce the risk of a significant increase in greenhouse gas (GHG), but it also works to protect communities and enhance reliability.

At the state level, following the devastating wildfires in 2017, the California Legislature passed several bills in 2018 increasing oversight of utility efforts to reduce utility-related wildfires. SDG&E continues to work closely with the Office of Energy Infrastructure Safety (OEIS) as reflected in its annual WMP updates.

At the regional level, wildfire mitigation and fire safety are community endeavors. Thus, SDG&E works with regional stakeholders in public safety, academia, the community, and the private sector to collaborate on safety efforts and promote community outreach. SDG&E has continued its culture of engagement with the communities who live in the HFTD through Wildfire Safety Fairs and community meetings. Outreach and collaboration with community safety partners led to the development of a robust communications and camera network to assist fire agencies serving the HFTD areas. Among the many stakeholder collaboration activities, SDG&E established a Wildfire

Safety Community Advisory Council (WSCAC) comprised of leaders from the following groups in the San Diego region: public safety partners, communications and water service providers, local and Tribal government officials, business groups and non-profits, Access and Functional Needs and vulnerable communities, and academic organizations. These meetings are held quarterly and are highly regarded as an effective means to discuss wildfire issues and receive input from WSCAC members on relevant emerging community issues on wildfire safety and preparedness. SDG&E also partners with regional stakeholders in public safety, academia, and the private sector to collaborate on safety efforts and promote community outreach.

Wildfire mitigation work promotes safety, electric reliability, and GHG emissions reductions. Toxic air pollution and GHG emissions from fires imperil public health and erase the State's significant progress towards reducing GHG emissions. In 2020 alone, these fires took place in the middle of a deadly pandemic and heatwave, and on the heels of a prolonged drought. By hardening our infrastructure through use of undergrounding and covered conductors, SDG&E is creating a more resilient system and reducing the risk of wildfires. The reduced wildfire risk can also lessen the likelihood of grid interruptions, such as Public Safety Power Shutoffs. With lower risk of wildfire, the Project would also support an improved ability to reduce the overall scale of greenhouse gas emissions associated with wildfires.

SDG&E has existing wildfire mitigation and strategic undergrounding plans that include covered conductor and undergrounding projects to reduce the catastrophic impacts of wildfires across its service territory. However, as a regulated utility, there is a balance between how much investment can be made in any given year while still maintaining affordable rates for our customers. As such, SDG&E's current plans spread out the covered conductor and undergrounding work (including within Tribal regions) over the next ten years. Through this funding, SDG&E could accelerate 104 miles of undergrounding and 10 miles of covered conductor within 13 Tribal regions. In addition to mitigating wildfire risks in the Tribal regions, another direct benefit is increased resiliency, which will enable Tribes to keep their businesses and government operations running in support of economic development and will create a resilient system for clean energy investments, like EV infrastructure and batteries. Lastly, receiving IIJA funding to focus on accelerated resiliency and risk reduction in Tribal regions will have the supplemental benefit of freeing up resources to allow SDG&E to accelerate wildfire mitigation work in other regions.

- Explain if the project is related to existing CPUC-authorized funding or cost recovery requests and whether the project has already been CPUC-approved. If funding has not yet been approved, explain how the project contributes to cost reductions for ratepayers.

The cost of implementing SDG&E's WMP work, above the amounts authorized in prior GRC approvals, has been collected in a Wildfire Mitigation Plan Memorandum Account.

The scope of work proposed in the concept paper covers 2024-2027 and is currently requested in the pending 2024 GRC proceeding. With respect to the proposed 40101(c) Project, SDG&E has existing wildfire mitigation and strategic undergrounding plans that include covered conductor and undergrounding projects to reduce the catastrophic impacts of wildfires across its service territory. However, as a regulated utility, there is a balance between how much investment can be made in any given year while still maintaining affordable rates for our customers. As such, SDG&E's current plans spread out the covered conductor and undergrounding work (including within Tribal regions) over the next ten years. As mentioned above, through this funding, SDG&E could accelerate 104 miles of undergrounding and 10 miles of covered conductor within 13 Tribal regions. Receiving IIJA funding to focus on accelerated resiliency and risk reduction in Tribal regions will have the supplemental benefit of freeing up resources to allow SDG&E to accelerate wildfire mitigation work in other regions.

As SDG&E assesses opportunities to pursue other IIJA/BIL funding areas, we are committed to ensuring that any projects we pursue enhance our ability to provide safe, clean and reliable energy to our customers. SDG&E is very mindful of the significant opportunity that the IIJA/BIL grants provide for reducing overall costs borne by our customers.

- Identify if any proposed projects are in state-designated disadvantaged communities or on Tribal lands.

SDG&E's 40101(c) Project is specifically designed to support 13 of the 17 tribal communities within the SDG&E service area. Nine of the 13 Tribes in SDG&E territory are located within a Justice40 region, thus ensuring that a large portion of these investments will directly benefit disadvantaged communities. Every Tribe served by SDG&E is located in the HFTD. Wildfire preparedness is always top of mind for Tribes, including executing fire hardening projects, installing back-up generators, and being trained on SDG&E's wildfire customer tools. The Project is targeted at reducing wildfire risk and improving resilience in these communities. Specifically, SDG&E is proposing to underground 104 miles of power lines and installing 10 miles of covered conductor within 13 Tribal regions.

Land within the boundaries of Federally Recognized Tribes is generally designated as disadvantaged communities, consistent with the Council on Environmental Quality's Action Plan for Consultation and Coordination with Tribal Nations, President Biden's Memorandum on Tribal Consultation and Strengthening Nation-to-Nation Consultation, and Executive Order 13175 on Consultation and Coordination With Indian Tribal Governments.

As SDG&E assesses opportunities to pursue other IIJA/BIL funding areas, we are committed to supporting our customers who live in tribal communities and disadvantaged communities.

- Explain the coordination and outreach that has already been done with other stakeholders on these projects.

SDG&E has a long and successful history of working with the Tribes in its service territory, which it has strengthened with the creation of its Tribal Relations team. For example, SDG&E is working closely with Tribal leaders, supporting several initiatives including building microgrids, electrifying their reservations and undergrounding their electrical cables and equipment to improve resilience and reduce the wildfire risk as all the Tribes are in the HFTD. SDG&E has a proven track record of leading and supporting resiliency projects on Tribal land including meeting with Tribes to support undergrounding projects. These meetings include receiving Tribal input at the earliest planning stages to understand Tribal environmental and cultural concerns. SDG&E has successfully energized underground projects on Tribal land after years of engagement and briefings.

- Meeting regularly with Campo to support their undergrounding project slated for 2024.
- Supporting La Posta and Manzanita with their undergrounding project slated for 2024 and plan to introduce this project at their next council meeting.

These efforts are in addition to similar previous engagements with tribes on deployment of resilience projects. Below are several representative project examples:

- Supporting the Rincon tribe with their Multi-Storage Microgrid Project, currently in development and accelerating the undergrounding project on their land with most of the Rincon undergrounding construction complete.
- Supporting the Viejas tribe with their microgrid and long-duration energy storage project; and currently looking to start construction of their Undergrounding project in 2024.
- Supporting Ewiiapaayp and Inaja Cosmit on electrifying their reservations. Inaja Cosmit is not currently supported by SDG&E infrastructure.
- Supporting Santa Ysabel tribe in building a microgrid; their undergrounding project is currently in design phase.
- Supporting San Pasqual on a microgrid project to provide resilient energy supplies for their government center with project expansions planned. Their undergrounding project is also getting close to the construction phase which will occur in 2023 and is therefore excluded from the scope of SDG&E's proposed 40101(c)Project.

In addition, implementation of the 40101(c) Project will require coordination with equipment vendors. SDG&E is in regular communication with such vendors, as wildfire mitigation work is part of the company's ongoing business operations. SDG&E's workforce is comprised of internal electric crews working under an agreement with

International Brotherhood of Electrical Workers (IBEW) Local 465 and SDG&E's contractor crews are with the IBEW Local 47. To-date all covered conductor and undergrounding electrical construction work has been performed by IBEW Local 465 and Local 47. The electrical conduit work has been performed by or overseen by IBEW Local 465 and Local 47. Going forward, all construction work required for the Project will be performed in the same manner.

SDG&E looks forward to working with the CPUC to find solutions to some of the open issues addressed above. We believe that the Project would provide a beneficial impact to our Tribal communities as well as accelerating resiliency and risk reduction in Tribal regions that have the supplemental benefit of freeing up resources to allow SDG&E to accelerate wildfire mitigation work in other regions.

As we learn more about other FOAs, we will be happy to provide more information about future projects.

In the meantime, please let me know if we can answer additional questions or provide more information.

Sincerely,



Bruce Folkman
President & CFO
San Diego Gas & Electric