

DATE ISSUED: June 26, 2003

REPORT NO. 03-139

ATTENTION: Rules, Finance and Intergovernmental Relations Committee  
Docket of

SUBJECT: Status of Underground Conversion Program

### SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE OR THE CITY COUNCIL.

### BACKGROUND

On January 28, 2002, the City Council approved ordinances relative to the SDG&E franchise. A provision of these actions provided that SDG&E would implement an electric surcharge and agree to other actions to provide funding and necessary mechanisms to ensure undergrounding of utility lines occur at an annual rate equal to 4.5% of gross electric revenues.

Council Policy 600-08 requires City staff to report the status of all Underground Conversion Projects expenditures. At the first semiannual report to Rules Committee (Committee) in February 2003, the Committee asked staff to report quarterly, rather than semiannually.

### DISCUSSION

#### 1. **Summary Points**

- A. As of May 21, 2003, SDG&E has spent approximately \$4,810,864 on Rule 20A projects within the City. In calendar year 2003, SDG&E has committed to expending \$12 M. This is in keeping with the Program ramp up plan.
- B. On May 27<sup>th</sup>, the City received the first quarterly deposit from SDG&E into the Undergrounding Surcharge Fund in the amount of \$8,654,495.44. The next quarterly installment is expected from SDG&E in August 2003.
- C. To date no construction expenditures have occurred on conversion projects funded with the Undergrounding Surcharge Fund (Surcharge Program).
- D. SBC Communications (SBC) continues to refuse to perform any design or construction work on Surcharge Program Projects. Staff recommends moving forward on all Surcharge Program projects (Surcharge Projects).
- E. SBC has also refused to perform required archeological monitoring on two Rule 20A projects in which trenching has already been completed by SDG&E and Cox Cable. CPUC Tariff 32, which governs SBC undergrounding activities states, "the utility will at its expense replace its existing aerial facilities with underground facilities."

Archeological monitoring is required when trenching operations will pass

through, or be directly adjacent to, a known archeological resource. SDG&E has agreed that archeological monitoring is a project cost and has provided for monitoring during their trenching operations. However, SBC refuses to do so.

- F. In accordance with the MOU between SDG&E and the City, SDG&E agreed to provide information and assistance to either the City or a City consultant, for a value engineering study to assess SDG&E's construction and project management practices. The City is currently in negotiations with such a consultant and will seek City Council approval within 60 days.

2. **Status of all allocated underground conversion projects**

The attachment provides the status of each allocated Underground Conversion Project.

3. **Undergrounding Surcharge (Fund 30100)**

On December 19<sup>th</sup>, 2002, the California Public Utilities Commission (CPUC) approved revisions to the Underground Conversion Program in the City as proposed by the City and SDG&E.

Part of the proposed program was for the creation of an Undergrounding Surcharge Fund; which would consist of fees paid by SDG&E to the City in an amount equal to 3.53% of gross electric receipts.

The estimated annual revenue for the Surcharge Program is \$34 million. On May 27<sup>th</sup>, the City received its first deposit in the amount of \$8,654,495.44 into Undergrounding Surcharge Fund 30100.

To date no construction expenditures have occurred on conversion projects funded with the Undergrounding Surcharge Fund because SBC has refused to participate in the Surcharge Program.

#### 4. **Surcharge Program Projects**

SBC continues to refuse to perform any design or construction work on the Surcharge Program projects.

The costs associated with having SBC underground with a second trench after all other utilities have completed trenching, will be less than the cost of continuing to delay the implementation of the Surcharge Program, for the following reasons:

- A. The start date of the Surcharge Program has already been delayed 60 days. SDG&E reports that contractors who work for SDG&E have bought equipment and hired upwards of 14 crews in anticipation of this work. Failure to authorize this work in an economically feasible time period may cause these resources to be shifted elsewhere.

Further, once the Surcharge Program does produce the anticipated workload, contractors will be wary of committing resources as quickly due to past experience. Thus, it is possible that there would be a rising number of projects and fewer contractors to bid on these projects. This would result in the City paying a premium for this work.

- B. Surcharge dollars are being collected from the City ratepayers, but are not being spent for construction of Surcharge Projects. Currently, the fund has \$8.5M and will have roughly \$26M by the end of the calendar year. The account will continue to grow at a rate just under \$3M per month.

For these reasons staff recommends moving forward expeditiously with Surcharge Projects. The first two Surcharge Projects have already been pushed back from a May start to a July start. Staff recommends starting these projects without SBC in the joint trench.

#### 5. **Value Engineering Study of SDG&E's Practices**

In accordance with the MOU between SDG&E and the City, SDG&E agreed to provide information and assistance to either the City or a City consultant, for a value engineering study to assess SDG&E's construction and project management practices. These studies can be performed not more than once per year, and any information gathered may not be applied retroactively to projects.

In that regard, consultant interviews have taken place and a consultant contract for Council consideration is expected within 60 days. Working in partnership with SDG&E, the value engineering study would identify ways in which the underground conversion process can be streamlined in terms of both time and cost of projects.

The study would include, but not be limited to: project costs, policies, guidelines and methods of procedure for design practices, project management practices, construction practices and cost accounting practices.

6. **Undergrounding Projects of Note:**

A. Roadway Repair

Under the new Underground Conversion Program, roadway surfaces will either be slurry sealed or resurfaced at the conclusion of the undergrounding. This would be paid for with Surcharge Funds for both Rule 20A as well as Surcharge Projects.

For example, using Surcharge Funds, the City Council recently approved a contract change order for Street Division's annual maintenance contract that will provide for the resurfacing and/or slurry seal of Zion Ave, 30<sup>th</sup> Street and La Jolla Scenic South Underground Conversion Projects.

B. Scripps Lake Drive Coordination

In early 2004, SDG&E's transmission department was planning to install an additional 69Kv circuit on the poles along Scripps Lake Drive. The existing 69Kv circuits were scheduled to be undergrounded in late 2004 or early 2005. This means that the Underground Program would have had to underground an additional circuit not budgeted when the project was created.

In addition, the Water Department is performing a multi-phased capital improvement project on Scripps Lake Drive. The Water Department was going to have to spend \$500,000 to relocate power poles out of the way of their project in 2004. By accelerating the project now, the Water Department will save \$500,000 and SDG&E's transmission department will bear some of the cost of this project, thus reducing its cost instead of increasing it.

Scripps Lake Drive, in District Five, was accelerated a year and will begin construction near the end of 2003.

Respectfully submitted,

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Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment: Status of allocated underground conversion projects