

DATE ISSUED: October 17, 2003

REPORT NO. 03-210

ATTENTION: Rules, Finance and Intergovernmental Relations Committee  
Agenda of October 22, 2003

SUBJECT: Status of Underground Conversion Program

### SUMMARY

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Issues - Should the City Council 1) Adopt a resolution, per Council Policy 600-08, adopting a revised master plan for undergrounding of overhead utilities? 2) Adopt a resolution, per Council Policy 600-08, approving an allocation of underground conversion projects totaling \$27.5 million? 3) Adopt a resolution approving a revised ramp up plan for projects funded under CPUC Rule 20A?

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Manager's Recommendation - 1) Adopt a resolution, per Council Policy 600-08, adopting a revised master plan for undergrounding of overhead utilities, 2) Adopt a resolution, per Council Policy 600-08, approving an allocation of underground conversion projects totaling \$27.5 million, 3) Adopt a resolution approving a revised ramp up plan for projects funded under CPUC Rule 20A.

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Fiscal Impact - None with this action. Projects on the approved FY 2004 allocation list will be brought before Council individually for public hearings to create Underground Utility Districts and to approve project funding. Projects identified as part of this action would be designed in calendar year 2004 and constructed by SDG&E beginning in the latter half of calendar year 2005.

### 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 a yearly rate equal to 4.5% of gross electric revenues.

Council Policy 600-08 requires that not later than January 31<sup>st</sup> and June 30<sup>th</sup> of each year, City staff shall report to the City Council the status of all allocated underground conversion projects, as well as the status of expenditures and the underground conversion account.

At the first semiannual report to Rules Committee in January 2003, the committee asked staff to report to the Committee and Council the status of the Underground Conversion Program once every three months for 18 months.

Council Policy 600-08 requires the City Manager to bring before the Council a master plan for approval not later than June 30<sup>th</sup> each year, reflecting the complete list of all overhead utilities within the City. In addition, the policy also requires that the City Council will approve an allocation of underground conversion projects each year not later than June 30<sup>th</sup>.

### DISCUSSION

- A. Currently, there are a total of 16 underground conversion projects in construction. Nine are Rule 20A projects and seven are surcharge-funded projects. Since July 28, 2003, seven surcharge-funded projects have begun and another six surcharge projects will begin construction before the end of the current calendar year. The status of all allocated underground conversion projects can be seen in Attachment 1.
- B. The current ramp up plan calls for SDG&E to expend at least \$12.6 million in Rule 20A expenditures in calendar year 2003 and zero surcharge expenditures. Total underground expenditures are currently expected to exceed approximately \$27 million in 2003. Of this, \$12.6 million will be Rule 20A expenditures and a little less than \$15 million in surcharge project expenditures.
- C. As of September 18, 2003, SDG&E has spent approximately \$8,877,516 on CPUC Rule 20A projects within the City of San Diego thus far during the calendar year. In calendar year 2003, SDG&E has committed to expending \$12 million. This is in keeping with the program ramp up plan.
- D. For Fiscal Year 2004 to date, approximately \$202,429 in expenditures have occurred on conversion projects funded with the Undergrounding Surcharge Fund (30100). In addition, approximately \$485,155 in expenditures have occurred to support the conversion program.
- E. To date, the City has received from SDG&E, two payments totaling \$18,000,750 into the Undergrounding Surcharge Fund. The next quarterly installment is expected from SDG&E in November 2003. Current 2003 surcharge revenues for 2003 are expected to be \$38.1 million, an amount that would exceed initial estimates by approximately \$1.6 million.
- F. A clarification in the ramp up plan allocations that resolves the differences between the estimates used in 2001 to calculate the calendar year 2004 Rule 20A allocation and the actual amounts defined in the franchise agreement has resulted in a \$3.5 million reduction, from \$20 million to \$16.5 million, in estimated Rule 20A expenditures for 2004. This discrepancy is largely due to a miscalculation of SDG&E's pass through franchise fees being incorrectly counted as part of SDG&E's gross revenues.

- G. Due to the fact that the surcharge program is ahead of schedule and that undergrounding in total is expected to exceed the original ramp up plan in calendar year 2003 by more than \$9 million, the 20A ramp up plan is being revised to avoid a one year spike in expenditures because the surcharge is ahead of schedule and there is concern over available contractors to perform this work.

The revised ramp up plan would have SDGE spreading \$6.5 million of the calendar year 2004 Rule 20A obligation over three years, with three million in calendar year 2004, three million in calendar year 2005 and 0.5 million in calendar year 2006. This would be in addition to the amount of Rule 20A expenditure obligation required per the franchise agreement. Thus, instead of spending \$16.5 million in 2004 as was in the original ramp up plan and then approximately \$8.9 million in 2005 and \$9.5 million in 2006. With the revised ramp up plan, SDG&E would instead spend approximately \$11.9 million in 2004, \$12.1 million in 2005 and \$9.8 million in 2006. The proposed agreement, to clarify implementation of the ramp up plan, is contained in Attachment 4 for Council consideration.

- H. The Undergrounding Master Plan for Fiscal Year 2004 can be seen in Attachment 2. This includes both Rule 20A and Surcharge Master Plans.

- I. The proposed FY 2004 allocation can be seen in Attachment 3. Council Policy 600-08 requires that the allocation amount for both Surcharge and Rule 20A be adjusted each year to reflect adjustments for actual revenues and expenditures.

For FY 2004 this includes an allocation of approximately \$27.5 million in surcharge-funded projects, the first large scale funding exclusively to underground residential neighborhoods. This is an adjusted increase of approximately \$1 million to previous estimates, largely due to higher than expected revenues.

For FY 2004 Rule 20A allocations, staff is recommending that no new Rule 20A projects be allocated for FY 2004. Due largely to increased estimates for projects which are currently allocated, there is currently sufficient projects on allocated on the Rule 20A list to provide SDG&E with enough projects to meet expenditure obligations through at least the first half of Calendar Year 2006.

- J. The City and SBC held a mediation session with CPUC Commissioner Brown in August 2003 and the City Attorney's Office and SBC Communications continue to hold talks in an attempt to resolve the current dispute that has led to SBC refusing to fully comply with the City of San Diego Underground Program. However, SDG&E has indicated that they have recently begun to receive several joint trench offers from SBC for several surcharge projects which are scheduled to begin soon. The result of this being that while SBC's intentions for fully complying with this program may still be in question, as of now there will only be three projects, (Chatsworth Blvd, Santa Barbara St and Burgener Blvd) which will require double trenching once a resolution is reached.

- K. SBC Communications continues to refuse to perform required archeological monitoring when required by CEQA. As a result, SBC has refused to start two CPUC Rule 20A projects in which trenching has already been completed by SDG&E and Cox Cable.

SDG&E, performing the joint trenching for all other utilities on these projects, agreed

that archeological monitoring is a project cost and had monitoring during their trenching operations. SBC however, refuses to do so.

It should be noted that monitoring is required only when trenching operations will pass through, or be directly adjacent to, a known archeological resource.

In order to not delay these projects any further, the City has agreed to hire an archeological monitor for these projects and to seek cost recovery from SBC as part of its ongoing negotiations. As a result, SBC has committed to starting B and C Streets (from 19<sup>th</sup> to 24<sup>th</sup>) and CCDC Area 3, Phase 1 (from National to Market and 12<sup>th</sup> to I-5) in January 2004.

- L. In accordance with the MOU between SDG&E and the City of San Diego, 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 has hired a Value Engineering Consultant and a study is currently underway. A report on this study is expected in February 2004.

#### ALTERNATIVES

Do not approve this proposal.  
Approve other or modified proposal.

Respectfully submitted,

Frank Belock, Jr.  
Director, Engineering & Capital Projects Dept.

Approved: George I. Loveland  
Sr. Deputy City Manager

Afshin Oskoui  
Deputy Director, Architectural Engineering and Contracts  
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BELOCK/OSKOU/NB

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

- Attachments: 1. Current Status of All Allocated Underground Conversion Projects  
2. FY 2004 Undergrounding Master Plan  
3. FY 2004 Allocation of Underground Conversion Projects  
4. Proposed Modification to the 20-A Ramp Up Plan