



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: April 25, 2008 REPORT NO: 08-069  
ATTENTION: Council President and City Council  
SUBJECT: Status of Underground Conversion Program  
REFERENCE: Council Policy 600-08, Underground Conversion of Utility Lines by  
Utility Company

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS NECESSARY ON THE PART  
OF THE COUNCIL

**BACKGROUND**

Since 1967, underground conversions in the State have generally been performed under California Public Utility Commission (CPUC) Rule 20. Rule 20 has three parts: A, B and C. Under Part A, undergrounding is paid for and performed by the local electric utility, San Diego Gas & Electric (SDG&E). SDG&E is then reimbursed for CPUC approved expenses as part of their periodic electricity ratemaking case. Thus, cost recovery for SDG&E is embedded within the electricity rates that they charge to all customers within their service territory. As such, SDG&E must budget and expend funds in advance. Parts B and C provide for undergrounding funded through entities other than SDG&E ratepayers, such as governmental agencies or private entities. Because Part A is the preferred and most used portion of Rule 20, the undergrounding program is often referred to as the "20-A Program".

AT&T (formerly SBC) has a similar tariff, Rule 32, that essentially mirrors Rule 20 and states that whenever an electric utility converts under Rule 20, then AT&T must convert under Rule 32. Under Rule 32, AT&T is not reimbursed through phone rates. Cable companies have no state tariffs and are required to underground, at their own cost, per their local franchises.

The CPUC rules govern how and for what underground funds are spent; and what types of utility lines can be undergrounded. While the rules cite specific criteria, generally speaking, to qualify for Rule 20A, a street, road or right of way must meet a "general public benefit" criteria, such as a heavy volume of vehicular or pedestrian traffic, to be considered for undergrounding under Rule 20-A. Thus, most residential streets do not qualify, as such undergrounding would not benefit the general public, only those who live there.

SDG&E's current franchise agreement, signed in 1970, contained a provision addressing how much money SDG&E would budget each year to spend on Rule 20-A underground conversion projects within the City of San Diego (City). This provision required SDG&E to budget ½ % of its gross revenues each year beginning in 1969; and to increase this budget by ½ % per year until they reached a maximum of 4.5%. The franchise was a 50-year franchise with a re-opener for terms for the final twenty years.

From 1970 until the re-opener in 2000, there were four (4) resolutions passed by the City Council (1980, 1984, 1986, 1995) to reduce the undergrounding requirement of SDG&E. Two of these reductions were due to concerns about the financial impacts the undergrounding program was having on the City budget and private property owners; two of the reductions were part of larger settlements to resolve disputes between the City and SDG&E unrelated to undergrounding.

Historically, Rule 20A undergrounding projects not only cost SDG&E monies in advance of any cost recovery, there are also costs to other parties as well. The City has costs related to conversion of overhead streetlights and traffic signals and management of the program. Additionally, constituents who live within an underground conversion project incur a private cost to convert their private services as required by Ordinance when an Underground Utility District is created by the City Council.

Prior to 2003, although there was a CPUC-approved reimbursement program paid with 20A funds to help offset costs to property owners, it was a fixed reimbursement that did not always ensure 100% reimbursement. Also, the property owner was required to pay in advance in order to be reimbursed once they had completed work on their property. Finally, the reimbursement program was not always available, and for many years, property owners were not reimbursed.

In January 2002, the City Council and SDG&E agreed to terms for the final 20 years of SDG&E's Franchise Agreement. The City overhauled its City Policies and Undergrounding Ordinances as follows:

1. Restored undergrounding to a rate equal to 4.5% of SDG&E's gross revenues through an increase in franchise fees expressly dedicated for undergrounding on the electric portion of San Diego residents' SDG&E bills;
2. Provided undergrounding for residential areas that do not meet Rule 20A criteria;
3. Eliminated the cost burden on the City and private property owners;
4. Provided the City with greater oversight of SDG&E's practices; and
5. Provided City oversight for all undergrounding funds.

While the 20A Program remained intact for major roads, the electric surcharge is used for residential areas that do not meet Rule 20A criteria (commonly referred to as the "Surcharge Program"). At that time, the Surcharge Program envisioned a complete undergrounding of all residential areas within 25 years, more than quadrupling the pace of undergrounding within the City.

In 2003, the City agreed to terms with Cox Cable and Time Warner Cable that secured their participation in the surcharge program. Unfortunately, the City and AT&T initially did not reach agreement on AT&T's required participation in the Surcharge Program. A settlement agreement mediated by CPUC Commissioner Geoffrey Brown was approved by the City Council in December 2004, securing AT&T's participation in the Surcharge Program upon approval of a cost recovery application, which was subsequently approved by the CPUC in December 2006.

Because the City's proposed Surcharge Program with SDG&E contradicted CPUC rules concerning undergrounding, the City and SDG&E sought CPUC approval of the Surcharge Program. In December 2002, the CPUC approved a deviation from its own rules and tariffs for SDG&E and AT&T, in order that the program and the surcharge could be implemented.

Under the Surcharge Program, the ratepayer stills pays the electric utility for undergrounding. However, the fee is not embedded in electricity rates, but as a surcharge shown on the monthly bill as part of the franchise fee differential. SDG&E then passes these funds on to the City with the quarterly remittance of franchise fees.

Thus, the City is no longer restricted as to which types of streets, alleys or overhead lines can be undergrounded. Per the Memorandum of Understanding dated December 11, 2001 with SDG&E and subsequently approved by the CPUC (Resolution E-3788) and City Council Policy 600-08, the funds are used solely for approved undergrounding expenses, including property owner costs and City incurred costs of undergrounding. The City has the option to hire outside contractors to perform any and all aspects of this work, along with greater authority to monitor reported expenses to ensure funds are spent as efficiently as possible.

Today, approximately 1,200 miles of overhead utility lines need to be undergrounded. The City currently spends approximately \$53 million per year to place overhead systems underground. Currently, it is estimated that all major and collector streets will be completed in about 20 years under the Rule 20A program and nearly all residential areas will be completed in approximately 53 years at an approximate City cost of \$2.87 billion dollars. This estimate does not include AT&T, Time Warner or Cox Cable costs.

Council Policy 600-08 requires that no later than March 31<sup>st</sup> and October 31<sup>st</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 the Undergrounding Surcharge Fund 30100.

## **SUMMARY**

### **A. Status of Active Allocated Projects**

#### **Active Projects**

As of February 29, 2008, there were 22 underground conversion projects in construction, encompassing approximately 36.0 miles, 3,300 customers and an estimated construction cost of approximately \$91.6 million. Nine of these projects are Rule 20-A funded, and 13 projects are Surcharge-funded.

We estimate that construction will start in 2008 for 11 projects (seven surcharge and four Rule 20-A), encompassing approximately 24.0 miles and 2,679 customers at total estimated construction costs of \$55.7 million.

### **Project Completions**

In calendar year 2007, seven surcharge projects (including two transmission projects), totaling 7.3 miles, affecting 380 customers and estimated at \$20.0 million, were completed (with the exception of AT&T). In addition, two Rule 20-A projects were completed totaling 1.3 miles, affecting 91 customers and estimated at \$2.1 million.

Projects completed thus far for calendar year 2008 include two surcharge projects totaling 5.4 miles, affecting 253 customers and estimated at \$14 million (AT&T's portion will not be completed). Rule 20-A completions thus far for 2008 include two projects totaling 2.8 miles, 247 customers and estimated at \$6.3 million.

For the remainder of calendar year 2008, it is expected that 10 surcharge projects (including one transmission project) totaling 18.1 miles, affecting 1,900 customers and estimated at \$54.9 million will be completed (with the exception of AT&T). Rule 20-A completions for 2008 are expected to be 10 projects totaling 6.1 miles, 339 customers and estimated at \$9.7 million.

*The status of all active allocated underground conversion projects is listed in Attachment 1.*

### **B. Undergrounding Master Plan**

Prior to 2003, the City had no master plan for undergrounding of overhead utilities nor any idea of the scope of existing overhead utilities which existed in the City. As part of the terms of SDG&E's amended franchise agreement approved by the City Council in 2002, SDG&E provided necessary information for the City to determine the extent of the amount of overhead utilities and to develop a master plan to underground them all.

The first prioritized master plan to underground all overhead utilities within City streets and alleys was approved by Council in October 2003. Minor modifications to the original master plan was approved by City Council in 2004 and 2005.

In 2006, the master plan was updated to a significantly higher level of engineering, with more accurate definition of the project boundaries necessary to underground the entire City. Additionally, the plan includes the project attributes that provide more accurate estimates of the scope of work necessary to underground all lines. The current Master Plan was approved by City Council on November 27, 2006 as part of Resolution R-302119.

It is now estimated that, at the current rate of revenue and expenditures, the undergrounding of the entire City will be completed in approximately 53 years at a cost of approximately \$2.66 billion (in 2006 dollars), with all major and collector roadways completed within 20 years at a cost of approximately \$210 million.

*The master plan for undergrounding can be viewed on the City of San Diego web site at [www.sandiego.gov/undergrounding](http://www.sandiego.gov/undergrounding)*

C. **2008 Annual Allocation of Projects**

For the 2008 Annual Allocation of Projects, staff recommends no new surcharge or Rule 20A projects. This is due to substantial construction costs increases in recent years which have delayed the start of several projects to the time period where new 2008 allocated projects would have started.

D. **AT&T's (formerly SBC) Participation in City's Expanded Underground Program**

In December 2004, the City Council approved a settlement agreement with AT&T that would secure their participation in the Surcharge Program. This agreement was contingent upon the CPUC's approval of a cost recovery mechanism for AT&T.

The Agreement required AT&T to file an application with the CPUC for permission to collect a surcharge from its customers to cover its undergrounding costs. AT&T did so on March 3, 2005. The monthly surcharge will be adjusted annually by the CPUC to reflect AT&T's actual costs. The monthly surcharge is shown on AT&T telephone bills as a *City of San Diego undergrounding surcharge*. The AT&T surcharge was approved by CPUC decision D-0612039 on December 14, 2006. The current surcharge is \$0.77 per customer, per month.

While the AT&T application was pending at the CPUC, the City paid AT&T to design the AT&T underground conduit which the City installed in conjunction with the relocation of SDG&E and cable company lines. This avoids the need to re-trench City streets to relocate AT&T lines. Per the settlement agreement, upon approval of the surcharge application, AT&T will be allowed to accumulate six months worth of surcharge funds before it begins to relocate its overhead lines to underground. San Diego AT&T customers (or San Diego customers of AT&T wholesale customers) began seeing this surcharge on their July 2007 bills.

AT&T began work on all "Year One" surcharge projects March 24, 2008. In accordance with the settlement agreement, all "Year One" projects are required to be completed within 12 months.

The oldest projects are anticipated to be converted first, as AT&T hires additional staff over four years to keep pace with the City's expanded program. AT&T will purchase the conduit previously installed by the City while the AT&T application was pending at the CPUC. The City will absorb the conduit installation costs, including

AT&T's share of the joint trench costs, as the City now does for Cox and Time-Warner, and will be paid from the SDG&E franchise fee funds.

A copy of the settlement agreement and CPUC decision can be viewed on the Utilities Undergrounding Program web page ([www.sandiego.gov/undergrounding](http://www.sandiego.gov/undergrounding)).

As of February 29, 2008, 41 projects involving approximately 35.6 miles and approximately 2,279 property owners have been completed, except for the undergrounding of the AT&T lines.

In accordance with the settlement agreement, by the end of calendar year 2008, AT&T should complete 20 of these projects, totaling 15.2 miles and affecting 865 customers. For these projects, AT&T will reimburse the Surcharge Fund approximately \$422,197 for expenses the City incurred as part of the Settlement Agreement.

For the remainder of calendar year 2008 it is expected that an additional eight (8) surcharge projects over 19.1 miles and approximately 1,884 property owners will have been completed with the exception of the undergrounding of the AT&T lines.

*The AT&T schedule of work upon approval of the surcharge, per settlement agreement, is in Attachment 2.*

E. **Utilities Undergrounding Acceleration**

From 1970 to 2003, private property owners on underground utility projects were required to perform the undergrounding of utilities from the street to their homes and businesses, including all trenching, installation of conduit, electrical panel work, and obtaining all permits and inspections for electrical, telephone and cable TV service. The City of San Diego did not provide this for property owners until 2003. Also, the City did not resurface or slurry seal trenched roads or install street trees and curb ramps, and only installed minimal street lighting to maintain public safety.

A summary of completed undergrounding in the City since the beginning of the SDG&E franchise agreement and the subsequent implementation and ramp up of the City's Surcharge Program is as follows:

***Rule 20A Projects Only:***

1970 to 1979	10 years	80 miles
1980 to 1989	10 years	60 miles
1990 to 1999	10 years	61 miles
2000 to 2003	3 years	28 miles

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<b>TOTALS</b>	<b>33 Years</b>	<b>229 miles</b>
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In July 2003, construction began on the first surcharge funded projects. Since then, 79 projects (71 distribution projects and 8 transmission projects) have been completed (includes both Rule 20A and surcharge projects):

*Expanded program (includes projects completed except for AT&T)*

2004	9 miles
2005	16 miles
2006	28 miles
2007	9 miles
2008 (est.)	32 miles

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<b>TOTALS</b>	<b>5 Years</b>	<b>94 miles</b>
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In addition, the expanded program allows the Underground Surcharge Fund to provide for all work on private property at no cost to property owners. The City's Utilities Undergrounding Program performs all necessary work on behalf of property owners who take advantage of this offer. The City's expanded underground program also provides that the Underground Surcharge fund will resurface or slurry seal curb-to-curb all trenched streets, plant street trees for those property owners willing to care for them, install new streetlights in accordance with the street design manual current standards (including mid-block lighting), and provide any ADA-required curb ramps.

**FISCAL CONSIDERATIONS:**

**F. Status of Conversion Funds**

**1. *20A Program***

Due to SDG&E over-expenditures to their required Rule 20A spending obligations for calendar year 2005, SDG&E was only required to spend \$1,774,942 on Rule 20A projects in calendar year 2006. However, for calendar year 2006 SDG&E reported total Rule 20A expenditures of \$16,011,675. Thus, for calendar 2007, SDG&E began the year with an over-expenditure of \$14,236,733.

In accordance with SDG&E's franchise agreement, SDG&E had a required spending obligation on Rule 20A projects for calendar year 2007 of \$9,500,259 and the 2006 over-expenditures of \$14,236,733. Thus, SDG&E was not required to incur any Rule 20A expenditures in 2007 and had an additional over-expenditure of \$4,736,474 towards the 2008 spending obligation.

However, during 2007, SDG&E remained committed to the completion of all Rule 20A projects in construction, as well as the start of some new Rule 20A projects. Through December 31, 2007, SDG&E expended \$5,447,363. Thus, for 2008, SDG&E has a total carryover towards required expenditures of \$10,183,837.

2. ***Surcharge Program***

As of the quarterly fund report ending December 31, 2007, \$204,155,863 in surcharge revenues has been deposited into the Undergrounding Surcharge Fund (30100) since collection began in January 2003.

For the same period, the City has spent \$179,059,684 on conversion projects with the Undergrounding Surcharge Fund (30100).

*The status of the Undergrounding Surcharge Fund (30100) as of December 31, 2007 can be seen in Attachment 3.*

G. **SDG&E Audit of Expenses**

The City has hired Scott Seo Consulting, an outside auditor, to perform a review and audit of SDG&E's stated underground costs for both the Rule 20A program and the Surcharge Program. The audit will cover all completed Rule 20A and Surcharge projects from 2004 to present. The audit is currently in progress.

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS**

During calendar year 2007, the Underground Program had construction work underway that affected approximately 3,500 property owners; and had projects in various stages of design or public hearings affecting approximately 9,000 property owners. The Underground Program mails several thousand pieces of U.S. Mail annually, tracks and documents return forms, and assists property owners through the underground process. In addition, the Underground Program maintains a comprehensive community outreach effort that includes:

- A public information telephone line available from 9:00 am to 6:00 pm, Monday through Friday
- A comprehensive website that includes monthly project updates, the City's Master Plan for undergrounding, and relevant documents, reports and links. The website will soon include a series of short videos of "what to expect during the course of an underground project."
- Community Forums prior to beginning each project that includes a personal invitation to all customers within the project area.
- Monthly email updates to affected customers for each individual project. The email includes maps and contractor information of what is happening/ going to happen.



- A series of door hangers to alert property owners of construction activities and issues.
- A customer satisfaction survey during construction and at project completion.
- Tracking of all information and complaint calls to identify systemic issues.
- Establishment of community “project liaisons”, members of the community to assist neighbors and act as liaison with City staff.
- Establishment of regular monthly updates with Council staff to discuss projects, issues, and ideas.
- Periodic presentations with Community Planning groups.
- Creation of a Utilities Underground Program brochure to be included in mailings to constituents and to be distributed at public forums and events.

The utilities undergrounding program lists a telephone information line on all project correspondence and project signs. The line was established to provide information and referral to people interested in obtaining undergrounding information. All calls are catalogued, and all complaints are tracked and reviewed for identification of systemic issues. In 2007, the information line received 1,506 calls.

In addition, the Underground Program maintains a comprehensive page on the City’s web site dedicated exclusively to undergrounding issues in order to adequately accommodate those who prefer obtaining information via the internet. The Utilities Undergrounding Program website went live in March 2006, and in 2006 the web page received 17,151 visitors, averaging 46 visitors a day. Continuous efforts are made to refine and add content to the web page; for 2007, the web site received 34,784 visitors, averaging 95 per day. In 2007, visitors viewed 96,727 underground web pages and downloaded 24,609 documents.

Constituents are able to go on-line and learn about the undergrounding master plan and where their properties lie within the master plan, see individual project updates (updated each month), learn about the public hearing process, get pre-construction notifications, and view locations for the replacement of streetlights. The public can also see a list of all active projects, projects the City has undergrounded since 1970, the current quarterly reports regarding surcharge revenues and expenditures, a detailed history of undergrounding in San Diego, Underground Program Status Reports, documents such as the AT&T Settlement Agreement, and more. In early 2008, the addition of a series of short videos covering a range of topics related to “what to expect during the course of an undergrounding project” will be completed. The videos will also be presented on CityTV. The web address is [www.sandiego.gov/undergrounding](http://www.sandiego.gov/undergrounding).

In addition, residents living within an underground conversion project are encouraged to sign up to receive automatic email updates and schedules for the project. Once construction begins, email updates are sent every month regarding the status of the project, where the contractors are working and where contractors will be working next. Detailed maps are included with email updates.

Residents are also able to send correspondence regarding concerns about projects or general inquiries via email directly to the Underground Program Public Information Officer.

Approximately six months prior to the construction start date for their streets, affected residents within areas scheduled for undergrounding are invited via U.S. Mail to an informational seminar at the Balboa Park War Memorial. Representatives from the local Community Planning Group as well as the relevant City Council office are also invited. The event is hosted by the City Underground Program staff, but representatives from each utility company also attend to answer questions.

The events include an hour-long information presentation, and focus on answering questions about schedules, giving residents information about how and where they can continue to monitor a project that is affecting their properties, answering questions about what residents can expect during construction and the type of work that will happen on their properties, and providing names of individuals they can contact if concerns arise during construction. Feedback surveys are collected concerning the presentation and its usefulness.

Finally, at the completion of the trenching phase and again at the completion of conversion projects, residents are mailed a customer satisfaction survey. The results of the surveys are compiled and shared with the appropriate council office, SDG&E and the contractors.

*A summary of the Underground Program information line calls can be seen in Attachment 4.*

*A summary of the Underground Program Web Site visits can be seen in Attachment 5.*

**PREVIOUS COUNCIL and/or COMMITTEE ACTION:**

The previous report regarding the status of the Utilities Undergrounding Program was submitted July 26, 2007, Report to City Council 07-134.

Submitted by:



Marnell Gibson  
Originating Department

Approved by:



David Jarrell  
Deputy Chief/Chief Operating Officer

Reviewed by:



Patti Boekamp  
Director

- Attachments:
- (1) Status of all allocated underground conversion projects
  - (2) AT&T Catch Up, Surcharge Conversion Completion Schedule
  - (3) Status of Undergrounding Surcharge Fund (30100) as of December 31, 2006
  - (4) Utilities Undergrounding Program Information Line Call Summary
  - (5) Utilities Undergrounding Program Website Visit Summary