

DATE ISSUED: February 26, 2003

REPORT NO. 03-030

ATTENTION: Honorable Mayor and City Council
Docket of March 3, 2003

SUBJECT: Underground Conversion Allocations

SUMMARY

Issue - Should the City Council change the funding source for \$31.4M in underground conversion projects previously allocated as CPUC Rule 20A projects?

Manager's Recommendation - Change the funding source for \$31.4M in underground conversion projects previously allocated as CPUC Rule 20A projects.

Other Recommendations - None.

Fiscal Impact - Net impact none. The Underground Surcharge Fund is expected to generate approximately \$34M per year. With the exception of \$17M in surcharge expenditures in 2004, the original ramp up plan provided that all other collected surcharge expenditures from 2003 and 2004 to be deferred until 2005. Due to rising estimates since these projects were initially allocated by Council, the allocation of CPUC Rule 20A projects is currently at roughly \$69M. However, SDG&E's required Rule 20A expenditures for 2003 and 2004 is \$32M, an overallocation of \$37M. Because SDG&E has shown both the willingness and the capacity to accelerate the ramp up, staff is recommending that \$31.4M of the 20A allocations be constructed with surcharge funds that would otherwise have the expenditures deferred until 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.

On December 19th, 2002, the California Public Utilities Commission approved revisions to the Underground Conversion Program in the City of San Diego as proposed by the City and SDG&E. This approval included collecting an underground surcharge from ratepayers through an increase to the existing 1.9% franchise fee differential paid by ratepayers to 5.78%.

Part of the proposed program was for the creation of an Undergrounding Surcharge Fund. This fund 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 this fund is expected to be approximately \$34 million per year.

DISCUSSION

In order to allow utilities time to ramp up to the desired undergrounding pace, and in accordance with the MOU with SDG&E, undergrounding expenditures for the calendar years 2002, 2003 and 2004 would be capped at \$16M, \$16M and \$37M respectively.

Of this, it was estimated that only \$17M (from the 2004 expenditures) would be funded through the Undergrounding Surcharge Fund, with the remaining expenditures being funded with CPUC Rule 20A program (approximately \$52M). Any additional collected Underground Surcharge Funds above \$17M would be deferred to 2005. In 2005, SDG&E would be required to make up all deferred allocations.

Thus, the allocation for June 2002, as approved by council, was a total of \$37 million. Of this amount, \$20 million was for CPUC Rule 20A qualified allocation and \$17 million was to be projects funded by the surcharge. It was expected that those projects allocated in June 2002 would begin construction in calendar year 2004. At that time, it was estimated that projects allocated in the years 1999 and 2000 would be sufficient to allow SDG&E to expend \$16M in both 2002 and 2003.

Further, in June 2003, it was anticipated that staff would ask Council to allocate projects totaling \$51M in June 2003. This amount would represent one full years allocation of the underground surcharge plus all estimated deferred allocations. It was estimated that those projects would begin construction in 2005.

However, the ramp up plan as envisioned was predicated upon the following assumptions: Speedy approval by the CPUC, and collection of underground surcharge funds in 2002; and upon preliminary project estimates as provided by SDG&E for projects allocated by Council in 1998, 1999, and 2000, but which had yet to be designed. Once a project is designed, a more accurate streamlined project estimate can be provided. In addition, SDG&E has since updated its per foot estimated cost numbers.

In calendar year 2002, the first partial year of the new franchise, SDG&E spent more than \$22M in undergrounding. This was by far more than any year since the inception of the underground program in 1968; and was \$6M ahead of the City's ramp up goal of \$16M for 2002.

Due to the fact that the total allocations for all CPUC Rule 20 qualified funded projects currently are estimated at approximately \$69M; and the SDG&E Rule 20A expenditure obligations through calendar year 2004 are \$32M; and that approximately \$25M of surcharge fund allocations from 2003 and 2004 would be deferred until 2005; and given that SDG&E has shown that it has the capacity and willingness to perform more undergrounding in 2003 and 2004 than the expenditure caps allow on projects already contemplated; staff has been working with the utility companies to prepare a plan for Council consideration that would:

1. Change the funding source of approximately \$31.4M in Rule 20A qualified projects to be funded with Underground Surcharge Funds. Half of these projects would go to construction in 2003 and half in 2004.
2. Eliminate the need to defer Underground Surcharge Fund expenditures to 2005.
3. Have SDG&E expending an amount approaching \$30M on undergrounding in 2003.
4. Allow projects allocated in June 2002 and estimated to begin in 2004 and not be delayed.

ALTERNATIVE

Do not approve this proposal.

Respectfully submitted,

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