

DATE ISSUED: January 5, 2005 REPORT NO. 05-001

ATTENTION: Honorable Mayor and City Council
Docket of January 11, 2005

SUBJECT: Status of Underground Conversion Program

SUMMARY

Issues - Should the City Council 1) Adopt a resolution, per Council Policy 600-08, approving 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 \$41.4 million?

Manager's Recommendation - 1) Adopt a resolution, per Council Policy 600-08, approving 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 \$41.4 million.

Fiscal Impact - None with this action. Projects on the approved FY 2005 allocation list will be brought before Council individually for public hearings to create Underground Utility Districts. Projects identified as part of this action would be designed in calendar year 2005-2006 and constructed by SDG&E beginning in the latter half of calendar year 2007.

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 31st and June 30th 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.

Council Policy 600-08 requires the City Manager to bring before the Council a master plan for approval not later than June 30th 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 30th.

This year, these actions were delayed pending a final resolution in regards to SBC's participation in the City's Underground Program as the various proposals to settle this dispute would have widely varying consequences to the City's master plan for undergrounding as well as the FY 2005 annual allocation of projects.

DISCUSSION

- A. **Status of Allocated Projects:** Currently, there are a total of 45 underground conversion projects in construction. 14 are Rule 20A projects and 31 are surcharge-funded projects. Another five surcharge projects will begin construction before the end of the current calendar year. In calendar year 2005 another 21 projects will begin construction including the first large residential block projects which were allocated in FY 2004. The status of all allocated underground conversion projects can be seen in Attachment 1.
- B. **Status of Conversion Funds:** In calendar year 2004, SDG&E is required to expend at least \$11,573,719 million in Rule 20A expenditures. In addition, approximately \$58.9 million in Surcharge revenues has been deposited into the Undergrounding Surcharge Fund (30100) since collection began in January 2003.
1. As of October 31, 2004, SDG&E has spent approximately \$7,812,205 on CPUC Rule 20A projects within the City of San Diego thus far during the calendar year.
 2. As of October 31, 2004, SDG&E has spent approximately \$39,416,501 on conversion projects funded with the Undergrounding Surcharge Fund (30100). The status of the Undergrounding Surcharge Fund (30100) for FY 2004 can be seen in Attachment 2. The status of the Undergrounding Surcharge fund (30100) for the first quarter of FY 2005 can be seen in Attachment 3.
- C. **Undergrounding Master Plan:** The Revised Undergrounding Master Plan for Fiscal Year 2005 can be seen in Attachment 4.

The first prioritized master plan to completely underground the approximately 970 miles of overhead utilities within the City of San Diego streets and alleys was approved by Council along with the allocation of the first residential surcharge blocks in October 2003.

Upgrades to the Master Plan for FY 2006 will include improved and expanded project details showing the limits of each project, various stages of each project (design, construction, and completion), and standardization of the symbols through out the

manual. Other improvements that will take place are: better labeling of street names, address hundred blocks, easier to read legends, estimated number of customers affected, estimated trench footages and other attribute data. Other new data that will be added to the plan will be the display of existing utility poles, open space areas, and canyons that have existing overhead lines running through them. This and other data will be introduced to make finding information in the Master Plan much easier. These upgrades will simplify and will greatly improve the value of this manual.

As part of improving the Master Plan, we will be providing the plan in different formats, including: paper booklets and compact disk (PDF format) as well as access from the Underground Program web page.

D. **FY 2005 Annual Allocation:** The proposed FY 2005 allocation can be seen in Attachment 5.

1. For FY 2005 this includes an allocation of approximately \$41.4 million in surcharge-funded residential project blocks. These projects would begin construction sometime in late 2006 or early 2007.
2. For FY 2005 Rule 20A allocations, staff is recommending that no new Rule 20A projects be allocated for FY 2005. Due largely to increased estimates for projects which are currently allocated, there is currently sufficient projects allocated on the Rule 20A list to provide SDG&E with enough projects to meet expenditure obligations through the end of calendar year 2006.

E. **City and SBC dispute over SBC's non-participation in City's expanded Underground Program:** A proposed Agreement with SBC California [SBC] that will secure SBC's participation in the expanded Underground Utility Program, will soon be considered by City Council and would be contingent upon the California Public Utilities Commission's approval of a cost recovery mechanism for SBC.

The proposed Agreement requires SBC to file an Application with the CPUC for permission to collect a surcharge from its customers to cover SBC's undergrounding costs. SBC estimates the cost to be \$1.00 per month per customer. The monthly surcharge will be adjusted periodically by the CPUC to reflect SBC's actual costs. The monthly surcharge will be marked on SBC telephone bills as a City of San Diego undergrounding surcharge. The City is required to actively support the Application and the estimated \$1.00 surcharge amount.

The Application process is estimated to take six to nine months, though SBC estimates it could take as long as eighteen to twenty-four months. While the Application is pending, the City will continue to pay SBC to design underground conduit which the City will install in conjunction with the relocation of SDG&E and cable company lines. This avoids the need to re-trench City streets when the time comes to relocate SBC facilities. If the Application is approved, SBC will be allowed to accumulate six months worth of surcharge funds before it begins to remove its overhead lines. The oldest projects are

anticipated to be converted first, as SBC hires additional staff over four years to keep pace with the City's expanded program. SBC will purchase the conduit previously installed by the City while the Application was pending. The City will absorb the conduit installation costs, including SBC's share of the joint trench costs, as the City now does for Cox and Time-Warner. This is estimated to be approximately \$2 million per year, and will be paid from SDG&E franchise fee funds.

If the Application is not approved by the CPUC, or approved for only a portion of SBC's actual costs, then the City and SBC will meet to discuss other alternatives to secure SBC's participation in the Underground Utility Program.

- F. **Underground Program Web Page:** In order to accommodate a high volume of inquiries to the program, a telephone hotline was previously established to directly provide information and referral to people interested in obtaining undergrounding information.

In addition to this, the Underground Program is currently in the process of designing and setting up a 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. By March 2005, people will be able to go on-line and learn about the undergrounding master plan and where their properties lie within the master plan, get project schedules and updates, learn about the public hearing process, pre-construction notifications, replacement of street lights and more.

Residents living within an underground conversion project will be able to sign up via email to receive automatic email updates and schedules for any project. Residents will also be able to send correspondence regarding concerns about projects, or even general inquiries via email directly to the Underground Program Public Information Officer.

- G. **Value Engineering Study:** In February 2004, the City received the final report from Value Management Strategies, Inc. (VMS), a professional value engineering consulting firm hired by the City to evaluate SDG&E's underground conversion processes. A value engineering (VE) team was assembled by VMS to identify ways in which the underground conversion process for electric facilities can be streamlined in terms of both time and cost of projects. The VE team consisted of members of VMS, The Polaris Group, City of San Diego and SDG&E. The VE study was performed in multiple sessions from September 2003 through January 2004. Specific goals included:

1. Assure Council and City Residents paying the undergrounding surcharge that the program is efficient in terms of completing projects in a timely manner, and that surcharge dollars are being spent as efficiently as possible.
2. Develop recommendations to improve program efficiency and reduce cost in a holistic manner, in order for the city to achieve its goal of undergrounding the entire city as soon as possible.

The VE team developed 27 alternatives for improvement of the process. All of the alternatives offer the potential to simplify process steps, improve process time, and/or reduce cost. Several of these ideas were immediately implemented by SDG&E and several others are in the process of being set up and/ or receiving further evaluation in order to be implemented.

The cost savings from these and other implementations since the inception of the expanded underground program are too early to measure. However, when the new program was approved by the CPUC in December 2002, the average project took 24-30 months to complete and it was not uncommon for projects to take 48 months or longer. Today, the average project takes 8-10 months to complete and nearly all projects of comparable size are being completed in 12 months or less, SBC's participation notwithstanding.

- H. SDG&E Audit of Expenses:** In 2005, the Underground Program intends to hire an outside consultant to perform a periodic review and audit of SDG&E's stated underground costs to date for both the Rule 20A program and the Surcharge Program.
- I. Design Review Consultant:** Currently, the Underground Program is in negotiations with two professional dry utility design firms to provide reviews of designs submitted by SDG&E, SBC, local Cable companies and others. These services will ensure the City is paying only for the conversion of existing utilities and not the installation of system upgrades.
- J. Public Technology, Inc., Solutions Award:** In April 2004, the City of San Diego was selected by Public Technology, Inc. as the 2003 Solutions Winner in the Large Jurisdiction Energy Category for its entry, "*Underground Utility Conversion Program, Cashflow and Schedule Forecasting*" by Nathan Bruner. The project utilizes econometric modeling techniques in an engineering and project management application.

Public Technology, Inc. is a national non-profit technology research and development organization based in Washington, DC., representing local governments. SOLUTIONS is the national, annual competition conducted by Public Technology, Inc. to showcase examples of technology excellence in the public sector.

The City of San Diego, working in collaboration with San Diego Gas and Electric (SDG&E), researched and gathered detailed information in regards to conversion projects which had been completed during the last five years (1998-2002). With assistance from the University of San Diego Department of Economics, this data was then used to create a cost and schedule forecasting model utilizing cross section econometric forecasting with multiple least squares analysis in order to estimate project costs and provide for long term program planning.

ALTERNATIVES

Do not approve this proposal.

Respectfully submitted,

Afshin Oskoui
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BOEKAMP/OSKOU/NB

Attachments: [1. Current Status of All Allocated Underground Conversion Projects](#)
[2. FY 2004, Year End Underground Surcharge Fund Status](#)
[3. FY 2005, First Quarter Underground Surcharge Fund Status](#)
4. FY 2005, Utility Underground Master Plan
[5. FY 2005, Propose Annual Allocation of Underground Projects](#)