



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: July 26, 2007 REPORT NO: 07-134
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, most underground conversions in the State have 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 its 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 and cannot be undergrounded. While the Rules cite specific criteria, generally speaking, in order to qualify for Rule 20A, a street or 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, but those who live there.

SDG&E's current franchise agreement was signed in 1970 and contained a provision in regard to 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 per 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. Constituents who live within an underground conversion project incur a private cost to convert their own private services, as they are 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 did not always exist 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 over 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 for 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 stated 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, 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. In addition, the City has the option to hire outside contractors to perform any and all aspects of this work and the City has greater authority to monitor reported expenses to ensure funds are spent as efficiently as possible.

Today, approximately 1,200 miles of overhead utility lines still 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 cost of \$2.87 billion dollars.

Council Policy 600-08 requires that no later than March 31st and October 31st 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

As of June 27th, 2007, there were 25 underground conversion projects in construction, encompassing approximately 41.9 miles, 3,369 customers and an estimated construction cost of approximately \$92.8 million. Eight (8) of these projects are Rule 20-A funded, and 17 projects are Surcharge-funded.

In calendar year 2007, it is estimated that 13 surcharge projects (including two transmission projects) totaling 16.6 miles, affecting 718 customers and estimated at \$29.4 million will complete construction, with the exception of AT&T.

In calendar year 2007, it is expected that all ten (10) currently active Rule 20A projects totaling 8.8 miles, affecting 603 customers and estimated at \$15.5 million will be completed by SDG&E and Cox or Time Warner Cable. It is estimated AT&T will complete approximately half of these projects (5 projects, 4.6 miles).

*The status of all allocated underground conversion projects can be seen 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 completely underground all overhead utilities within City streets and alleys was approved by Council along with the allocation of the first residential surcharge block projects in October 2003. Minor modifications to this first master plan were approved by City Council in 2004 and 2005.

In 2006, significant resources were dedicated to update the master plan to a significantly higher level of engineering to more accurately define all project boundaries necessary to underground the entire City, as well as the project attributes that would 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 in the next 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

C. 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 AT&T's undergrounding costs. AT&T did so on March 3, 2005. AT&T estimated the cost to be \$0.94 per month per customer. The monthly surcharge will be adjusted annually by the CPUC to reflect AT&T's actual costs. The monthly surcharge will be marked 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.

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. According to AT&T, it is currently expected that San Diego residents will begin seeing this surcharge on their July bills. Accordingly, AT&T would not be required to begin work on surcharge projects before January 2008, at which time AT&T would begin construction on all "Year One" projects. 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. This is estimated to be approximately \$2 million per year, and will be paid from SDG&E franchise fee funds.

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

As of June 27, 2007, approximately 36 projects involving approximately 27.3 miles and approximately 1,790 property owners have been completed, with the exception of the undergrounding of the AT&T lines.

In addition, in calendar year 2007 it is expected that another 11 surcharge projects involving 15.0 miles and approximately 718 property owners will have been completed with the exception of the undergrounding of the AT&T lines.

*The CPUC's final decision approving AT&T's Surcharge Application can be seen in **Attachment 3**.*

*The AT&T schedule of work upon approval of the surcharge, per settlement agreement, can be seen in **Attachment 4**.*

D. **Utilities Undergrounding Acceleration**

From 1970 to 2003, private property owners on underground utility projects were required to perform the undergrounding utilities from the street to their homes and businesses, including all trenching, 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

In July 2003, construction began on the first Surcharge funded projects. Since then, the following has been completed (includes both Rule 20A and Surcharge Projects):

Expanded program (includes those completed except for AT&T)

2004	1 year	9 miles
2005	1 year	16 miles
2006	1 year	28 miles
2007 (est.)	1 year	25 miles

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, provide street trees to those property owners willing to care for them, provide new streetlights in accordance with the street design manual current standards (including mid-block lighting), and provide for any needed curb ramps.

FISCAL CONSIDERATIONS:

A. Status of Conversion Funds

1. *20A Program*

In calendar year 2006, SDG&E was required to expend \$1,774,942 in Rule 20A expenditures due to a large carryover of expenses from calendar 2005. As of December 31, 2006 SDG&E reported \$16,011,675 in expenditures on CPUC Rule 20A projects within the City. Thus, SDG&E has a 2007 carryover in required expenditures of \$14,236,733.

In accordance with SDG&E's franchise agreement, SDG&E has a required spending obligation on Rule 20A projects for calendar year 2007 of \$9,500,259 and a 2006 carryover of \$14,236,733. Thus, SDG&E is not required to incur any Rule 20A expenditures in 2007 and has an additional carryover of \$4,736,474 towards the 2008 spending obligation. However, SDG&E remains committed to the completion of all current Rule 20A projects in construction and the start of one new Rule 20A project in 2007. Through March 31, 2007, SDG&E has expended \$2,647,923 for the first quarter of calendar year 2007.

2. *Surcharge Program*

As of the quarterly fund report ending March 31, 2007, \$169,248,927 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 \$158,352,357 in paid expenditures on conversion projects with the Undergrounding Surcharge Fund (30100).

*The status of the Undergrounding Surcharge Fund (30100) as of December 31, 2006 can be seen in **Attachment 2**.*

B. 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

From October 31, 2006 to February 28, 2007, the Underground Program had construction work underway that affected approximately 5,000 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/ issues.
- Two customer satisfaction surveys 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/ 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 2006, the information line received 2,287 calls. For the first six months of 2007, the information line received 870 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 web page 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; in the first six months of 2007, the web page has received 17,730 visitors, averaging 90 per day. In 2007, visitors have downloaded nearly 11,000 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, pre-construction notifications, and 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 2007, 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 developed. The videos will also be presented on CityTV. The web address is 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 and photo 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, answer questions about what residents can expect during construction and the type of work that will happen on their properties, and who 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 5**.*

*A summary of the Underground Program Web Site visits can be seen in **Attachment 6**.*

*A summary of the Underground Program Customer Satisfaction Surveys can be seen in **Attachment 7**.*

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The previous report regarding the status of the Utilities Undergrounding Program was submitted November 22, 2006 (Report to the City Council 06-179) and requested actions were approved November 27, 2006 in Resolution R-302119 and the introduction of Ordinance O-2007-50, subsequently adopted on January 9, 2007 as O-09562.

Submitted by:

Approved by:

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Reviewed by:

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Director

- Attachments: (1) [Status of all allocated underground conversion projects](#)
(2) [Status of Undergrounding Surcharge Fund \(30100\) as of December 31, 2006](#)
(3) [CPUC Approval of AT&T Surcharge, Decision 06-12-039](#)
(4) [AT&T Catch Up, Surcharge Conversion Completion Schedule](#)
(5) [Utilities Undergrounding Program Information Line Call Summary](#)
(6) [Utilities Undergrounding Program Website Visit Summary](#)
(7) [Utilities Undergrounding Program Customer Satisfaction Survey Summary](#)