



The City of San Diego

Staff Report

DATE ISSUED: June 22, 2023

TO: Environment Committee

FROM: Transportation Department

SUBJECT: Status Update on the Utilities Undergrounding Program

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Council District(s): All

OVERVIEW:

This is an informational item to present a status update of the Utilities Undergrounding Program (UUP).

PROPOSED ACTIONS:

This item is for information only.

DISCUSSION OF ITEM:

Background

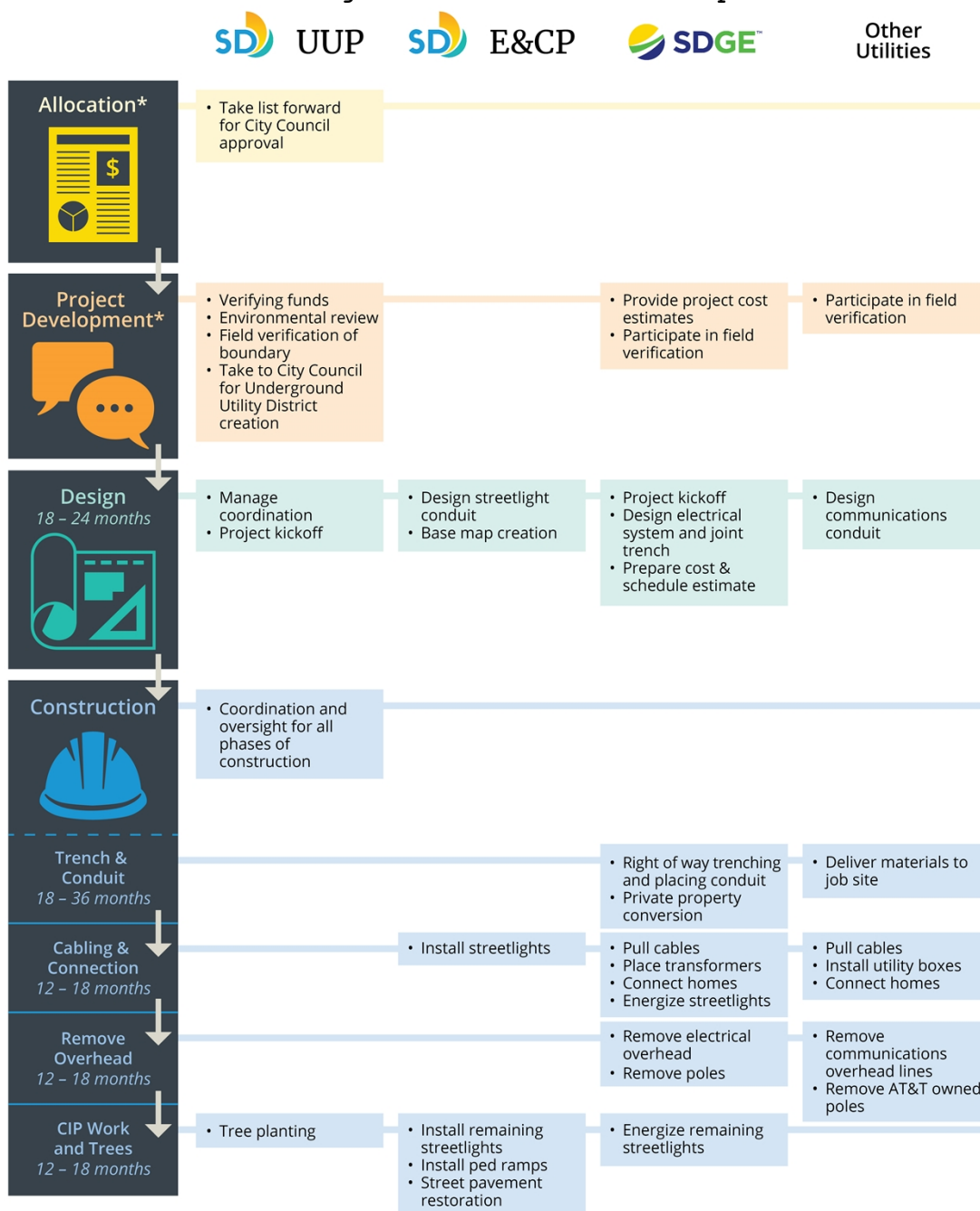
Since 1970, over 400 miles of overhead utilities in the City of San Diego have been undergrounded through special funding sources to ensure security and reliability of services. The Transportation Department administers the Utilities Undergrounding Program, which has facilitated these projects, with the majority of the construction tasks executed by the City's gas and electricity franchisee, San Diego Gas & Electric (SDG&E).

The franchise agreements have allowed SDG&E and its contractors to perform undergrounding activities on behalf of the City. As the expiration of the 50-year-old Franchise Agreement approached, SDG&E decelerated work on projects, and this led to a substantial pause in undergrounding activity for approximately three years. The new Franchise Agreement was awarded to SDG&E in July 2021 after a one-year extension. A new Undergrounding Memorandum of Understanding (MOU) between the City and SDG&E was executed in April 2022. SDG&E subsequently initiated a recompetes process for the master agreements that allow third party contractors to comply with the terms of the new agreements.

UUP Process Description

The process to deliver an undergrounding project is a complex, collaborative effort. Figure 1 outlines the major steps and provides a generalized breakdown of each party's responsibility along with typical timelines. Many inquiries received are related to the timelines for projects that are waiting for funding. The program finances portion of this report provides more information on that process.

Figure 1: UUP Process Description



* Timeline largely dependent on cost/funding projection

Project Prioritization

In addition to the exiting prioritization criteria¹, new project prioritization criteria is required by the new franchise agreements, which include Communities of Concern² and areas of high fire risk³. To determine whether projects are within a Community of Concern, we conducted a geospatial analysis between the City of San Diego's Climate Equity Index layer in the GIS Atlas database (Attachment 1) and the UUP projects layer. To determine whether projects were within a high fire risk area, we conducted a geospatial analysis between the City of San Diego's Climate Resilient SD fire risk GIS layer (Attachment 2) and the UUP projects layer. The FY 2023 program goal was to restart as quickly as possible with shovel ready projects. Upon review, 11 out of the 13 projects met at least one of the new prioritization criteria. The resulting list has priority area percentages that are representative of the priority area percentages for the entire list of future projects. In preparing the FY 2024 Annual List of Projects, the priority will be to continue restarting projects that were paused during franchise negotiations, are ready to start design, and consider the new prioritization criteria. Once enough projects are in design and construction to support the ramp up, the new prioritization criteria will more directly guide project sequencing.

FY 2023 Accomplishments & Status of FY 2023 Undergrounding Projects

With the Undergrounding MOU executed, the focus in FY 2023 has been restarting undergrounding work under the terms of the new agreement.

FY 2023 Project Restarts - The new MOU outlined a formal process for assigning projects to SDG&E to perform the design and construction. All projects previously assigned to SDG&E under the prior franchise agreement, and all newly assigned projects, must be initiated with a written Notice to Proceed (NTP). The City is required to send an advanced notice of NTPs planned no later than July 30 each fiscal year. This advance notice is referred to as the Annual List of Projects, and the FY 2023 Annual List of Projects is shown in Table 1.

¹ Existing criteria, which include land use, existing of a substation in the area, and other public benefits (projects adjacent to active or completed projects, opportunities for project coordination, recommendations in Community Plans, and input from the public and Council Offices).

² As identified in the City's Climate Equity Index

³ As identified in the City's Climate Resilient SD Report

Table 1: Annual List of Projects for FY 2023

CIP ID	Community Name	Project Name	CD	Within Fire Hazard Area	Within Community of Concern
UU970	Allied Gardens	Residential Block 7R1	7	Yes	No
UU65	Allied Gardens	Residential Block 7T	7	Yes	No
UU857	Clairemont Mesa	Residential Block 6K1	6	Yes	No
UU858	Clairemont Mesa	Residential Block 6K2	6	Yes	No
UU854	Pacific Beach	Residential Block 2BB Job 2	1	No	No
UU798	Del Mar Heights	Residential Block 1Y	1	Yes	No
UU667	Egger Highlands	Residential Block 8R (Joint Project)	8	Yes	Yes
UU899	Encanto	Residential Block 4R1	4	Yes	Yes
UU789	Jamacha Lomita	Residential Block 4Y1 (Joint Project)	4	Yes	Yes
UU982	Mission Beach	Residential Block 2S2	2	No	No
UU311	Muirlands	Residential Block 1M1	1	Yes	No
UU658	Muirlands	Residential Block 1M Job 2	1	Yes	No
UU908	Normal Heights	Residential Block 3DD	3	Yes	No

The projects selected were based on readiness for construction. Two projects had started construction during the prior franchise agreement. One of these, Block 2BB Job 2 in the community of Pacific Beach, has resumed construction. The other, Block 1M Job 2 in the community of Muirlands is awaiting design modifications before resuming construction. Eleven projects on the list had previously completed the project design and were ready for construction, and all but one is scheduled for construction. Block 3DD must go through Underground Utilities District Creation which is scheduled to occur this year. Preliminary cost and schedule estimates received to date from SDG&E are included as Attachment 3.

FY 2023 project restarts were delayed to the last half of the fiscal year because SDG&E required more time to competitively bid their Master Service Agreements. To mitigate delays, SDG&E expedited construction on Project 2BB by using their own crews. NTPs and kickoff meetings have been completed for eight projects and schedules have been received for four projects.

UUP in the Community in FY 2023- Once projects were restarted in the second half of FY 2023, the UUP team was able to restart public outreach. In March a

Construction Forum was held for 2BB. Most recently, UUP held its first pole removal ceremony in over three years. This ceremony celebrated the completion of the La Jolla Shores Block 1J Phase II project.

La Jolla Shores Block 1J Phase II Pole Removal Ceremony on June 6, 2023



Planned FY 2024 Annual List of Projects

Table 2 shows the projects planned to move forward on the FY 2024 project list. As mentioned, balancing design readiness with the new prioritization criteria drove the selection. The two proposed Joint Projects were previously planned for the City design team to start once the new franchise agreement was awarded, and the City has already completed the preliminary engineering work. For Block 2BB Job 1 the City had previously completed the property conversions and had planned to resume construction in late FY 2024 in coordination of construction for water and sewer main replacements. Using SDG&E's forecasted project costs, including a forecast of \$246 million for the projects on the FY 2023 Annual Project List, the program was able to sustainably fund four additional projects to start design in FY 2024.

Table 2: Planned FY 2024 Annual Project List

CIP ID	Community Name	Project Name	CD	Within Fire Hazard Area	Within Community of Concern
UU232	University City	Residential Block 1S (Joint Project)	6	Yes	No
UU853	Pacific Beach	Residential Block 2BB Job 1	1	No	No
UU 213	Terralta West	Residential Block 3AA1	9	Yes	Yes
UU906	Kensington	Residential Block 3CC1	9	Yes	No
UU949	Del Cerro	Residential Block 7U	7	Yes	No
UU668	Egger Highlands	Residential Block 8R1 (Joint Project)	8	No	Yes

Joint Projects - The projects labeled as "Joint Project" in the report tables represent joint initiatives that are being worked on collaboratively by both San Diego Gas & Electric (SDG&E) and the Engineering and Capital Projects Department (E&CP). These efforts are being undertaken in close partnership, with each organization leveraging their respective strengths and expertise to achieve the shared objective of delivering optimal outcomes for the community. Two joint projects will be moving forward in FY24.

Collaboration between SDG&E and E&CP is vital to ensure efficient and effective project delivery, as well as to maximize the benefits for the community.

FY 2024 Planned Work Look Ahead

The success of the ramp up of work can be measured by the amount of design and construction we can expect to see in FY 2024. Table 3 shows projects that will be in active construction in FY 2024.

Table 3: Anticipated FY 2024 Construction Activity

CIP ID	Community Name	Project Name	CD	Within Fire Hazard Area	Within Community of Concern
UU658	La Jolla	Residential Project Block 1M Job 1	1	Yes	No
UU231	La Jolla	Residential Project Block 1J Phase I	1	Yes	No
UU908	Adams North	Residential Project Block 3DD	9	Yes	No
UU525	Ridgeview-Webster / Oak Park	Residential Project Block 4J1	4	Yes	Yes
UU853	Crown Point	Residential Project Block 2BB Job 1	1	No	No
UU854	Crown Point	Residential Project Block 2BB Job 2	1	No	No
UU889	Jamacha Lomita	Residential Project Block 4Y	4	Yes	Yes
UU874	Bay Park	Residential Project Block 6H	2	Yes	No
UU209	Bay Park	Residential Project Block 7G2 (Joint Project)	9	No	No
UU495	Golden Hill	Residential Project Block 8C	3	Yes	Yes
UU667	Egger Highlands	Resid. Project Block 8R (Joint Project)	8	Yes	Yes
UU982	Mission Beach	Residential Project Block 2S2	2	No	No
UU65	Allied Gardens	Residential Project Block 7T	7	Yes	No

Table 4 shows projects that will be under design development in FY 2024. These projects will advance to construction in FY 2024 and FY 2025.

Table 4: Anticipated FY 2024 Design Activity

CIP ID	Community Name	Project Name	CD	Within Fire Hazard Area	Within Community of Concern
UU668	Egger Highlands	Residential Project Block 8R1	8	No	Yes
UU232	University City	Residential Project Block 1S	6	Yes	No
UU213	Terralta West	Residential Project Block 3AA1	9	Yes	Yes
UU906	Kensington	Residential Project Block 3CC1	9	Yes	No
UU789	Jamacha Lomita	Resid. Project Block 4Y1 (Joint Project)	4	No	Yes
UU949	Del Cerro	Residential Project Block 7U	7	Yes	No

Progress on completing Legacy Projects - The Undergrounding MOU identified a list of ten projects that would continue construction without pause. The objective was to avoid slowing down those projects that were already at a substantial stage of completion at the time that the MOU was being developed. SDG&E has made substantial progress on completing these projects and estimates that all projects on the list will be completed by the end of FY 2024.

Increasing Community Communication & Engagement

To further enhance communication with the public the Undergrounding Info Map will be revised to show which projects have moved forward and which projects are waiting to move forward based on program funds and locational priority. This info map is provided on our website at <https://www.sandiego.gov/undergrounding/undergroundinginfomap>. Staff are also exploring the use of digital newsletters to increase ongoing communication of project status information.

Status of Program Finances

Funding Sources

Rule 20A Work Credits - The California Public Utilities Commission (CPUC) established Rule 20A in 1967. California’s electrical utility companies are required to reserve funds each year to pay for underground conversion of existing overhead lines. These funds are allocated to cities and counties as “work credits,” meaning there is no exchange of money, rather the credits are used to perform underground conversion work.

Underground Surcharge Fund - Within the City of San Diego’s jurisdiction, additional funds designated for undergrounding work are collected as a surcharge on electric utility bills and remitted to the City as Underground Surcharge revenue. Surcharge revenue and expenditure activity are reported in the City’s annual budget under the “Underground Surcharge Fund.”

Status Underground Surcharge Fund

The Underground Surcharge Fund beginning balance for FY 2023 was approximately \$221.6 million. That number has grown over the last fiscal year due to incoming revenue, but FY 2024 spending efforts are underway. An overview of the Underground Surcharge Fund balances and expenditures is shown in Table 5.

Table 5: Underground Surcharge Fund Balances and Activity

Activity	Amount (in millions)
FY 2023 Beginning Fund Balance	\$221.6
FY2023 Expenditures to date*	\$(8.5)
FY2024 Projected Beginning Fund Balance	\$281.9
FY2024 Projected Expenditures	\$(70.9)

* FY2023 Expenditures as of April 2023.

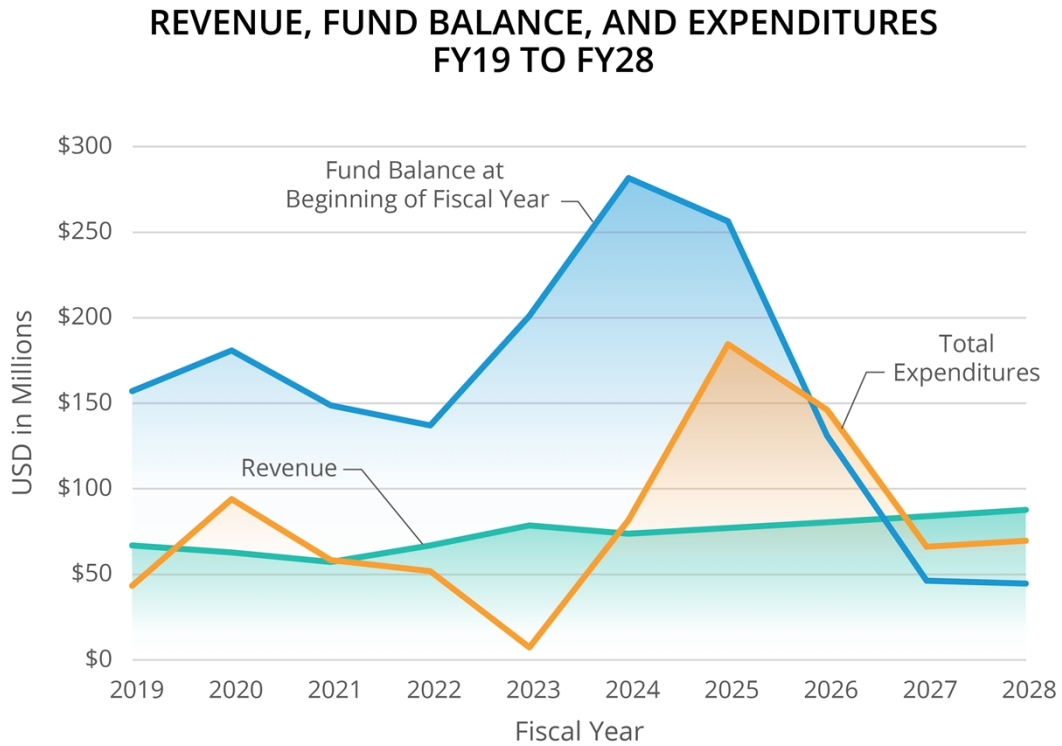
Project Cost Increases

The negotiation of a new MOU opened an opportunity to improve the City’s understanding of SDG&E’s costs for design, construction and overhead. The result is new cost information provided directly by SDG&E, such as the cost and schedule estimates at a project level, provided as Attachment 3, and forecasted costs for future projects, provided as Attachment 4. This new information shows significant inflation since the project cost estimates were developed under the prior MOU and will require a scaling back of how many projects can be funded annually. For example, for the FY 2023 list of projects, the estimated cost increased from \$113 million as previously planned to \$246 million as currently forecasted. The previously planned cost of \$57.3 million for the FY2024 list of projects is now forecasted at \$195.4 million. The average cost per mile of utilities undergrounding increased from \$2.35 million per mile to \$6.09 million per mile. The average cost per project increased from \$9.0 million to \$23.2 million. The updated estimates reflect the prices that SDG&E expects to get through competitive bidding of design and construction contracts plus SDG&E’s estimated internal labor and overhead charges.

As described in previous sections, the creation of the Annual List of Projects for FY 2023 and FY2024 focused on a ramp up of the number of projects in design and construction. This ramp up is financially supported by the existing fund balance and incoming revenue. Starting in FY 2025, the financial support for additional projects will be solely from incoming revenue. This means that, shortly after ramping up, the pace of starting design on projects will need to ramp down to a level that can be continuously supported by incoming revenue while maintaining a steady fund balance that is sufficient to serve as contingency. SDG&E has provided a forecast of future project costs to assist with determining a sustainable pace of project execution. Because the project cost will drive the pace, staff will work with SDG&E to identify cost efficiencies on the work they deliver and will continue to explore the cost efficiency of executing Joint Projects in which City staff directly manage the design and a significant portion of the construction. Efforts are currently underway to effectively utilize our accumulated fund balance, which has significantly increased in recent years. The projected fund balance curve shown in Figure 2 spends aggressively initially and then backs off the pace to a sustainable level. A 4.2% revenue growth is projected based on historical data. This is achieved by starting work on 13 projects in FY 2023, 6 projects in FY 2024, and then starting an

average of one project per fiscal year for the next three fiscal years. Financial projections will be continuously updated with the latest project cost and program revenue information, and opportunities to increase the pace will be explored.

Figure 2: Historical and Projected Underground Surcharge Fund Balance



Rule 20A Work Credits

These funds are allocated to cities and counties as "work credits," meaning there is no exchange of money, rather the credits are used to perform underground conversion work. The annual reporting from SDG&E includes the information found in Table 8.

Table 8: Definition of Terms Used in SDG&E Rule 20A Annual Status Reports

Term	Definition (prepared by City staff in consultation with SDG&E)
<i>Work Credit Balance</i>	The sum accumulation of work credits allocated in previous years, minus any debits for completed projects.
<i>Completed Projects</i>	The amount of work credits debited when projects reach 100% completion. This represents the final cost of delivering the project. This item reduces the Work Credit Balance.
<i>Allocation</i>	Annual amount of work credits, expressed in dollars, allocated to the City of San Diego, in accordance with tariff rules. This item increases the Work Credit Balance.
<i>Estimated Allocation Expenditures</i>	Estimated amounts to be debited in future years as Completed Projects. Typically, this represents the sum of total project cost estimates for projects that are currently incurring construction expenses but have not reached 100% completion.
<i>Waitlisted Projects</i>	Estimated sum of future total project cost estimates to be added to the Estimated Allocation Expenditures category when these projects advance to the construction stage. Typically, these are projects that have a City Council resolution but have not started construction yet.

According to the SDG&E Calendar Year 2022 report, the City’s Work Credit Allocation Balance is \$100,149,878, the total Estimated Allocation Expenditures is \$119,617,506, and the total of Waitlisted Projects is \$56,860,874. The report provided by SDG&E included herein as Attachment 5 provides additional details such as the names of the projects in these expenditure categories. This work credit balance is used to complete Rule 20A projects only and is unrelated to the surcharge fund and surcharge-funded projects.

On June 3, 2021, the CPUC approved Decision 21-06-013, encompassing Phase 1 amendments to Electric Rule 20. This directive from the CPUC mandated that the allocation of new Rule 20A work credits be discontinued after December 31, 2022. SDG&E has conveyed that the City will likely possess adequate work credits to finalize the projects presently under construction. However, any projects not already in construction would have to be put on pause pending a decision from the CPUC. See Attachment 6 for project areas affected.

On the May 5th 2023, the CPUC unveiled a proposed order for advancing Rule 20A projects. The order requires changes to the Electric Rule 20A tariff and guidebook, including a clear definition of an active Rule 20A project, provisions for expiring unallocated work credits, and options for community financial contributions. It highlights reallocating credits from inactive communities to active projects, prioritizing areas without completed projects since 2004 or in Environmental and Social Justice Communities. Additionally, the proposed order suggests the possibility of discontinuing the Rule 20A program. This item was heard on June 8th, 2023 at the Commission’s Business Meeting.

Next Steps

The next steps for the Utilities Undergrounding Program are to bring Legacy Projects to completion, continue restarting FY 2023 projects, and implement

new project prioritization criteria for FY 2024 project and beyond. To achieve these goals, the City and SDG&E will continue to work together collaboratively to ensure that projects move forward and that the goals and targets of the MOU are met.

City of San Diego Strategic Plan:

Goal # 1: Provide high quality public service

Objective # 1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

Objective # 2: Improve external and internal coordination and communication

Objective # 3: Consistently collect meaningful customer feedback

Goal # 2: Work in partnership with all of our communities to achieve safe and livable neighborhoods

Objective # 3: Invest in infrastructure

Fiscal Considerations: N/A

Charter Section 225 Disclosure of Business Interests: N/A

Environmental Impact: N/A

Climate Action Plan Implementation:

This action supports Strategy 5: Resilient Infrastructure and Healthy Ecosystems of the Climate Action Plan (CAP). Undergrounding overhead lines reduces wildfire and other safety hazards, such as downed lines, caused by more extreme weather events. In addition, it reduces the need for tree trimming due to conflicts with overhead lines, which enhances carbon sequestration and preserves the tree canopy. The Utilities Undergrounding Program also plants street trees after the removal of overhead lines, which furthers the CAP target to increase urban tree coverage.

Equal Opportunity Contracting Information (if applicable): N/A

Previous Council and/or Committee Actions: N/A

Key Stakeholders and Community Outreach Efforts:

- The primary stakeholders are the citizens of San Diego who benefit from removal of overhead utilities across the city.
- The process of undergrounding creates impacts typically associated with construction in the street right-of-way, including lane closures.
- Private property owners are impacted by construction on their property to connect the underground lines. These inconveniences are minimized through planning and notification.
- The program continues to maintain a website that displays maps of all Utilities Undergrounding projects and an "Info Line" providing residents with a direct line to City staff who are knowledgeable on the status of undergrounding projects.
- Public forums give attendees the opportunity to get questions answered and provide input to those managing the design and construction.

Bethany Bezak

Kris McFadden

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Deputy Chief Operating Officer

- Attachments:
1. Map of Communities of Concern
 2. Map of fire risk areas
 3. Cost and schedule estimates from SDG&E
 4. Forecast from SDG&E
 5. Rule 20A Letter and Report from SDG&E
 6. Map of 20A project locations