



The City of San Diego

Staff Report

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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 and being presented in accordance with Council Policy 600-08.

DISCUSSION OF ITEM:

Background

Since 1970, more than 400 miles of overhead utilities have been converted to safer and more reliable underground services through the use of the two funding sources described below. The Utilities Undergrounding Program, which is administered by the Transportation Department, has implemented these conversions, with the majority of the construction work carried out by the current franchise holder, San Diego Gas & Electric (SDG&E).

This report provides information about undergrounding progress funded by two 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 money is 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."

The program continues to maintain a website (<https://www.sandiego.gov/undergrounding>) that displays maps of all Utilities Undergrounding projects throughout the City.

New Memorandum of Understanding & Fiscal Year 2022 Accomplishments

The beginning of Fiscal Year 2020 marked the end of approximately 50 years of undergrounding performed under the terms of the 1970 electrical franchise agreement, and the transition to a new franchise agreement. On April 8, 2022, the new Undergrounding Memorandum of Understanding (MOU) between the City and SDG&E was adopted. The new MOU made several significant improvements compared to the previous one. The MOU improves financial monitoring and reporting at all stages of a project lifecycle and holds SDG&E more accountable to meeting project delivery timelines. After the MOU went into effect SDG&E began revising their accounting system and procuring new contracts for design and construction that comply with terms of the new MOU. The City has performed oversight of those changes and has started the formal noticing required to initiate projects.

The transition to a new electrical franchise agreement caused a pause on all new construction activity for the second half of FY 2021 through FY 2022 to allow for operational changes to be made to comply with new MOU guidelines. Only projects in the middle of construction continued as the City and SDG&E negotiated the new terms of the agreement. Despite the pause in construction, the program was able to complete 1.8 miles of undergrounding projects in FY 2022.

Status of Undergrounding Projects

The undergrounding process can take upwards of seven years from beginning to project completion. There are five stages of the undergrounding process, including: public hearing, design, notification, construction, and post-construction. Creation of a Utilities Underground District marks the beginning of the timeline, enforceable by the municipal code, for utility companies to convert overhead lines to underground lines. As agreed in the new MOU, ten legacy projects that were near completion were allowed to continue construction under the previous terms to reduce the impact of the slowdown.

Some of the projects that are in the Project Development phase will be brought to City Council this fiscal year for creation of Utilities Underground Districts after environmental review is completed. Surcharge projects that are in the Allocation phase will move to the Project Development phase when annual program funds become available. Attachment 1 provides a detailed listing of projects by phase. Table 1 shows a summary of the undergrounding portfolio organized by the phase of the project.

Table 1: Utilities Undergrounding Program – Project Portfolio at the End of FY 2022

Phases	Fund Source	Projects	Miles	Parcels	Est. Cost (\$M)
Allocation	20A	46	23.1	1,649	\$88.30
	Surcharge	93	162.8	18,793	\$800.80
Project Development	20A	6	5.1	245	\$11.39
	Surcharge	27	80.5	8,692	\$391.01
Design	20A	15	8.7	588	\$21.72
	Surcharge	19	63.5	7,249	\$349.25
Construction	20A	30	17.3	1,459	\$36.22
	Surcharge	18	48.53	6,334	\$302.55
Total 20A		97	54.2	3,941	\$157.63
Total Surcharge		157	355.33	41,068	\$1,843.61
Program Total		254	409.53	45,009	\$2,001.24

FY 2023 Goals and Targets

Bring Legacy Projects to completion – The new 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. Staff have continued to meet monthly with SDG&E on the progress of completing these projects. SDG&E has committed to completing the following seven projects before the end of the fiscal year, with the remaining three to finish in FY 2024.

- Clairemont Mesa 6DD1
- Clairemont Mesa 6H
- Golden Hills 8C
- La Jolla 1J Job 2
- Muirlands 1M-J1
- Rolando Blk 7G2
- S. Mission Beach 2S1

Recommend a pace for annual project startups– The Utilities Undergrounding Program operates on a “pay as you go” basis, meaning that instead of encumbering funds for a project up-front, the project is funded in monthly progress payments that tie to the program’s annual operating budget. The annual operating budget cannot exceed the amount available in the Underground Surcharge Fund. The decision of how many projects to start in a fiscal year will impact future operating budgets, and consequently the future fund balance, for the next five to seven years. The new Undergrounding MOU has added requirements for SDG&E to provide project cost estimates at earlier stages. This information will help program staff more accurately predict how the number of project initiations will impact future budget years, and this will lead to better recommendations on how many projects to start. As prices

and commodities in the global construction market continue to fluctuate greatly, the City is reviewing data to finalize decisions on the project initiations in FY 2024 and beyond. By the end of this fiscal year, staff expect to have a recommended number of projects to start up in FY 2024, and an estimated target for the number of projects to start in subsequent years.

Begin using new prioritization criteria for projects to start in FY 2024- The new franchise agreement requires that undergrounding projects be prioritized in historically underserved communities and in high fire threat areas. As the focus of the current fiscal year is existing projects that were paused during the franchise transition, FY 2024 will be the first year that the new criteria can be used to prioritize which projects proceed with starting design. Staff are currently performing geospatial analyses using mapping from the CPUC’s High Fire Threat District tool and the Sustainability and Mobility Department’s Climate Equity Index (CEI) map layer. The franchise agreement does not remove previously established prioritization criteria, so staff are evaluating how these two new criteria should overlap with prioritization criteria found in Council Policy 600-08 and the 2018 Utilities Undergrounding Master Plan. The revised prioritization strategy, along with the target number of projects to start up as discussed above, will guide the creation of a FY 2024 list of projects to start undergrounding design.

Status of Program Finances

Underground Surcharge Fund

The Underground Surcharge Fund beginning balance for FY 2022 was approximately \$171 million. At the end of FY 2022, the balance was approximately \$235.5 million. During FY 2022 the Underground Surcharge Fund received approximately \$90.4 million in revenue and expended approximately \$25.9 million. The beginning balance for FY 2023 is approximately \$221.5 million. Efforts are underway to utilize these funds toward getting more projects built. An overview of the Underground Surcharge Fund revenue, expenditures, and balances is shown in Table 2.

Table 2: Underground Surcharge Fund Balances and Activity

Activity	Amount (in millions)
FY 2022 Beginning Fund Balance	\$171.0
FY2022 Revenue	\$90.4
FY2022 Expenditures	\$(25.9)
FY 2022 Ending Fund Balance	\$235.5
Accounts receivable accrual that gets reversed	\$(17.4)
Accounts payable that gets reversed	\$8.0
Unrealized gain that cannot carry over to FY23	\$(0.4)
Unrealized loss that cannot carry over to FY23	\$(4.2)
FY 2023 Beginning Fund Balance	\$221.5*

* The difference in amounts between FY 2022 Ending Fund Balance and FY 2023 Beginning Fund Balance is due to a subtraction of accounts receivable accrual that gets reversed, accounts payable that gets reversed, and unrealized gain (unearned revenue and loss) that cannot carry over to FY 2023.

Rule 20A Work Credits

Starting in calendar year 2020, SDG&E discontinued reporting of annual expenditures of ongoing construction costs for Rule 20A projects. The annual reporting from SDG&E includes the information found in Table 3.

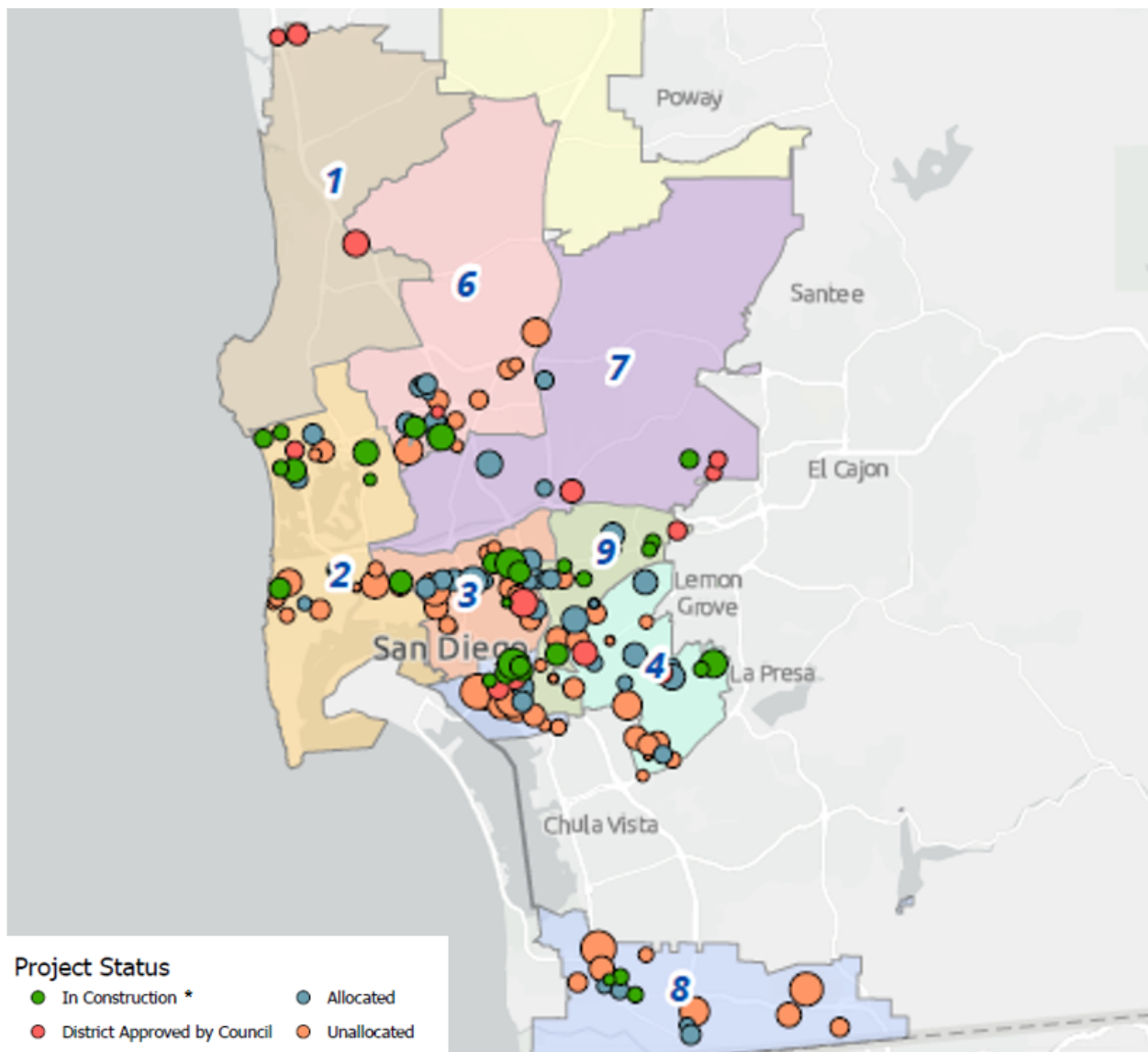
Table 3: Definition of Terms Used in SDG&E Rule 20A Annual Status Reports

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 \$107,932,957, the total Estimated Allocation Expenditures is \$123,577,463, and the total of Waitlisted Projects is \$51,386,607. The report provided by SDG&E included herein as Attachment 2 provides additional details such as the names of the projects in these expenditure categories.

On June 3, 2021 the CPUC adopted Decision 21-06-013, which includes Phase 1 revisions to Electric Rule 20. This CPUC action orders that issuance of new Rule 20A work credits cease after December 31, 2022. SDG&E has indicated that the City will likely have sufficient work credits to complete those projects that are currently in construction (Attachment 3). On August 16th, 2022 the CPUC released a Scoping Memo for Phase 2. Until the rulemaking is completed, the City cannot plan any future action on Rule 20A projects. The information from these tables is graphically summarized in Figure 3.

Figure 3 - All Active and Planned Rule 20A Projects by Project Phase



* Projects shown as "In Construction" are not expected to be impacted by the CPUC decision. Projects in the other three phases are impacted.

Next Steps

Staff are evaluating the five- to seven-year effect on the fund balance and will recommend the number of projects to start design in FY 2024. Consistent with the new franchise agreement and MOU, a new prioritization methodology that emphasizes historically underserved communities and areas of high fire threat will be developed in FY 2023 and will be applied to the list of projects to start design in FY 2024.

City of San Diego Strategic Plan:

N/A - This item does not have a connection to the Strategic Plan.

Fiscal Considerations:

N/A.

Charter Section 225 Disclosure of Business Interests:

N/A

Environmental Impact:

This activity is not a "project" per the California Environmental Quality Act (CEQA) Guidelines Section 15378(b)(4), as the status update on the Utilities Undergrounding Program is an informational item only and as such, is an organizational or administrative activity of governments that will not result in direct or indirect physical changes in the environment, and therefore is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3). This determination is predicated on Section 15004 of the guidelines, which provides direction to lead agencies on the appropriate timing for environmental review. Projects for which this funding is intended will require preparation of environmental documents in accordance with the State CEQA Guidelines.

Climate Action Plan Implementation:

N/A

Equal Opportunity Contracting Information (if applicable):

N/A

Previous Council and/or Committee Actions:

December 11, 2001: Established Council Policy 600-08 and Surcharge Fund.

November 27, 2006: Changed reporting periods for Master Plan approval to every five years.

July 27, 2018: Approved the 2018 Master Plan.

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 (<https://www.sandiego.gov/undergrounding>) 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.

Jorge Riveros

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Attachments: 1. Project Status Information
2. Rule 20A Letter and Report from SDG&E
3. Comprehensive list of planned and active Rule 20A projects