



The City of San Diego

Staff Report

DATE ISSUED: November 8, 2021
TO: City Council
FROM: Transportation Department
SUBJECT: Status of the Utilities Undergrounding Program

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Council District(s): Citywide

OVERVIEW:

This item presents the first semi-annual report for FY2022 regarding the status of the Utilities Undergrounding Program (UUP).

PROPOSED ACTIONS:

This is an information only item being presented in accordance with Council Policy 600-08. No action is required.

DISCUSSION OF ITEM:

For the past fifty years, since the establishment of Rule 20A (local overhead-to-underground conversion of electrical facilities), more than 400 miles of overhead utilities have been converted to safer and more reliable underground services. This conversion has been implemented through the Utilities Undergrounding Program (UUP), administered by the City's Transportation Department, with the majority of the construction work carried out by the existing franchise holder, San Diego Gas & Electric (SDG&E).

This report provides information about the overhead-to-underground conversion 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. Recently, the CPUC issued an order that new Rule 20A work credits will cease after December 31, 2022 (discussed further under the section heading “Status of Program Finances – Rule 20A Work Credits”).

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 of Undergrounding Projects

In recent years, the Transportation Department has increased the number of projects that are in the active portfolio through a series of Council actions to allocate projects and create Utilities Undergrounding Districts. Creation of a Utilities Underground District begins the timeline, enforceable by the municipal code, for utility companies to convert overhead lines to underground lines. It essentially marks the start of project expenditures, although the community may not see any construction for two years or more. Table 1 shows a summary of that portfolio. The table is organized by the phases of a project lifecycle in sequential order: Allocation, Project Development, Design, and Construction.

Table 1: Utilities Undergrounding Program – Project Portfolio at the End of FY 2021

Phases	Fund Source	Projects	Miles	Parcels	Est. Cost (\$M)
Allocation	20A	46	23.1	1,649	\$88.3
	Surcharge	93	162.8	18,793	\$800.8
Project Development	20A	6	5.4	245	\$11.4
	Surcharge	26	76.9	8,453	\$375.3
Design	20A	15	8.8	588	\$21.7
	Surcharge	19	64.4	7,205	\$352.4
Construction	20A	31	16.9	1,404	\$37.2
	Surcharge	19	51.2	6,617	\$315.1
Total 20A		98	54.2	3,886	\$158.6
Total Surcharge		157	355.3	41,068	\$1,843.6
Program Total		255	409	44,954	\$2,002.2

The transition to a new electrical franchise agreement had caused a slowdown of Construction phase activity during the second half of FY 2021. Construction is expected to return to desired levels in the second half of FY 2022 following the adoption of a new Undergrounding Memorandum of Understanding (MOU) with SDG&E. Despite these impacts, the program was able to complete 8.7 miles of undergrounding projects in FY2021 due to completion of Rule 20A projects, which were not impacted by the franchise transition.

Of the projects that are in the Project Development phase, 19 are projected to be brought to City Council toward the end of FY 2022 for creation of Underground Utilities Districts. After creating these districts, those projects will advance to the Design phase. Surcharge projects that are in the Allocation phase will be advanced to the Project Development phase when there are sufficient

program funds as described under the section heading “Status of Program Finances-Underground Surcharge Fund.” Over 100 miles of Surcharge projects have been completed since the start of the program, leaving approximately 1,180 miles of Surcharge projects to be completed in future years.

Progress on Rule 20A projects that are not in the Construction phase might be impacted by a recent CPUC decision, discussed further under the section heading “Status of Program Finances – Rule 20A Work Credits.”

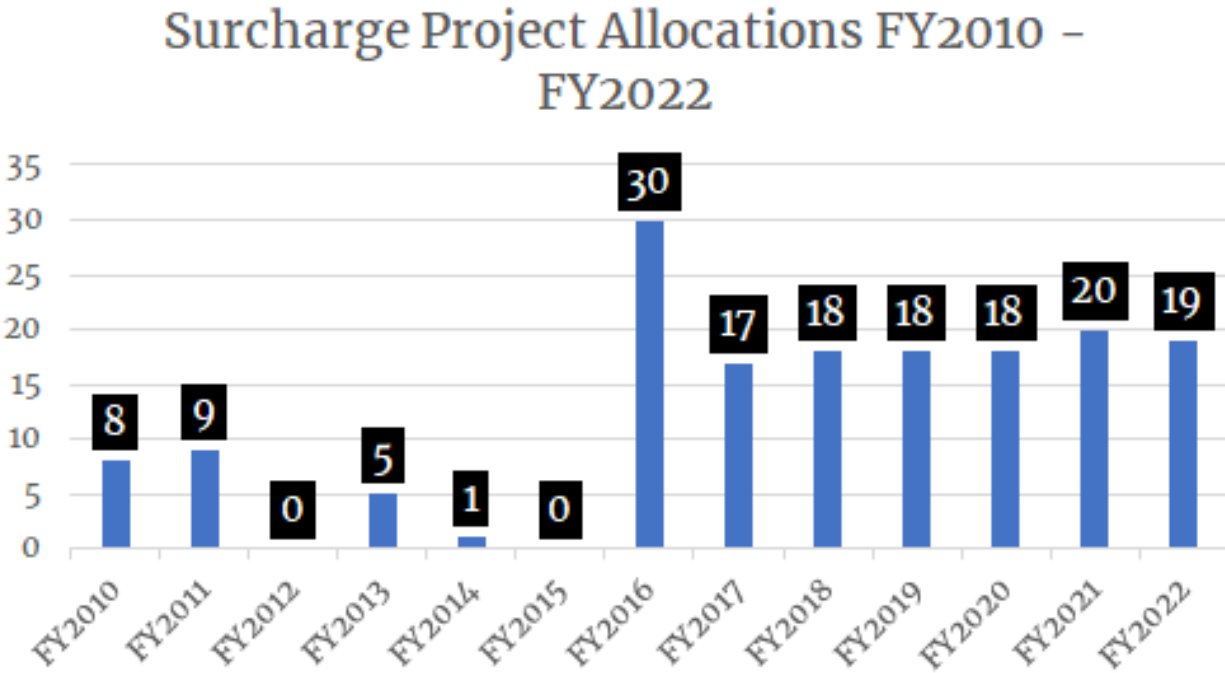
Future Project Allocations

The program status report in FY 2016 through FY 2018 included recommendations to increase the number of Surcharge projects allocated. Figure 1 shows the historical increase in Surcharge project allocations starting in FY 2016—continuing through the current fiscal year—with the FY 2018 approval of a five-year plan. The current recommendation is to wait on planning additional allocations of Surcharge projects until there is further progress on those projects that have already been allocated. Under the new franchise terms, the City will be receiving improved information from SDG&E, allowing the City to forecast the pace of construction expenditures. Forecasting will prevent having project designs finish too soon. Designing projects too early is not cost efficient because designs may require updating if they sit too long waiting for construction funds.

The information received from SDG&E will become more accurate as the projects progress further toward completion. Since none of the project design has started yet under the new franchise agreement, it is too early to accurately forecast upcoming construction expenditures. To date, staff have succeeded in getting a forecasting model in place and performing a preliminary model run using assumed construction expenditure rates as described under the section heading “Status of Program Finances – Underground Surcharge Fund.” Based on these preliminary results, staff are confident that allocating additional Surcharge projects this fiscal year would result in completed project designs needing to wait for construction funds. The next report will provide an updated modeling analysis with the goal of determining if new projects could occur in FY 2023.

The Transportation Department also recommends not allocating additional Rule 20A projects until results of the second phase of the CPUC’s rulemaking become available. The impact that this ongoing CPUC rulemaking has had on the certainty of funding for Rule 20A projects is discussed in the section titled “Status of Program Finances – Rule 20A Work Credits.”

Figure 1 - Change in Pace of Allocating Surcharge Projects in Recent Years



Customer Service

The program continues to maintain an “Info Line” providing residents with a direct line to City staff who are knowledgeable on the status of undergrounding projects. With the recent project delays during the transition to a new franchise agreement, the Transportation Department sent mailers to affected residents informing them of the reason for the delay and approximate timelines for work to resume. The Transportation Department is currently collaborating with SDG&E to develop public noticing regarding projects that are being impacted by the recent CPUC decision regarding Rule 20A work credits.

Status of Program Finances - Underground Surcharge Fund

The Underground Surcharge Fund beginning balance for FY 2021 was approximately \$168.9 million. At the end of FY 2021, the balance was approximately \$188.3 million. During FY 2021 the Underground Surcharge Fund received revenue of approximately \$84.6 million and expended approximately \$72.2 million. The beginning balance for FY 2022 is approximately \$171 million. An overview of the Underground Surcharge Fund revenue, expenditures, and balances is shown in Table 2.

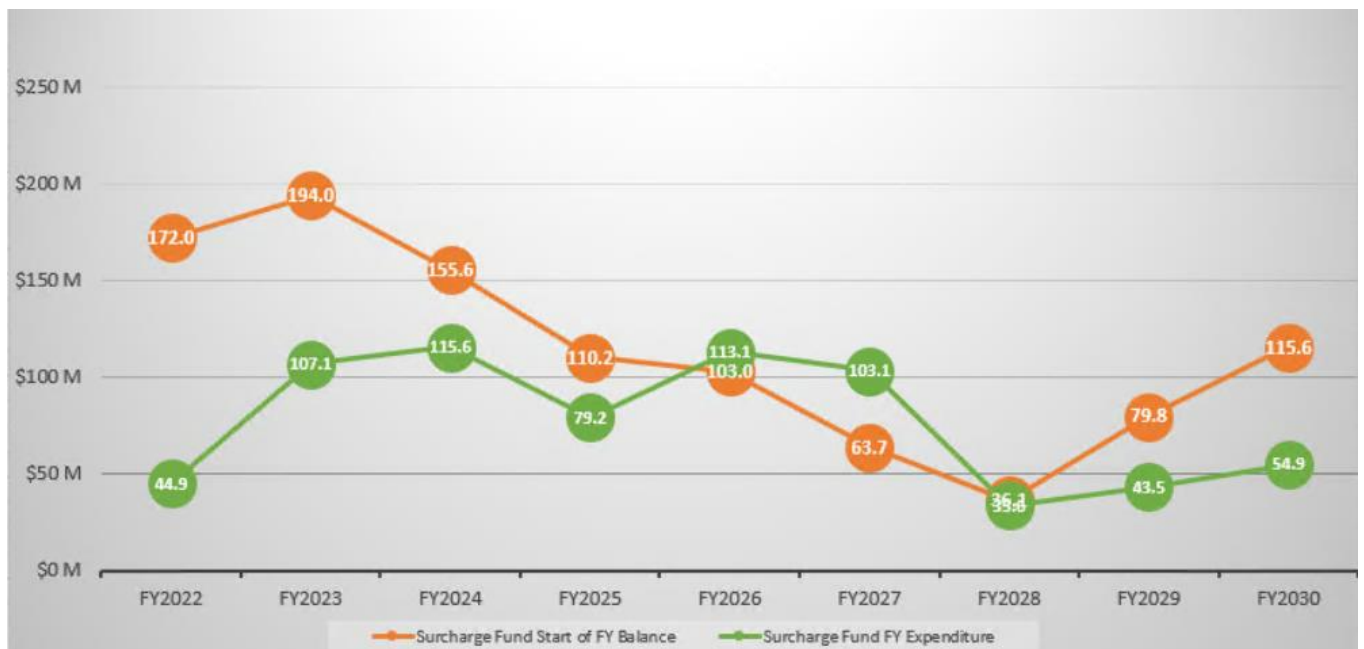
Table 2: Underground Surcharge Fund Balances and Activity

Activity	Amount (in millions)
FY 2021 Beginning Fund Balance	\$168.9
FY 2021 Revenue	\$84.6
FY 2021 Expenditures	\$(72.2)
FY 2021 Ending Fund Balance	\$181.4
Accounting Adjustments for FY 2022 Period 0:	
Accounts receivable accrual that gets reversed	\$(16.2)
Accounts payable that gets reversed	\$8.3
Unrealized gain (unearned revenue) that cannot carry over to FY 2022	\$(2.4)
FY 2022 Beginning Fund Balance	\$171.0

As mentioned in “Future Project Allocations,” a forecast of future program finances will be used to estimate when it will be appropriate to recommend new project allocations. The results of a trial run of a forecasting model using assumed construction expenditure rates are presented in Figure 2. Updated model results using expenditure projections from SDG&E under the terms of the new franchise agreement will be presented in the next report. The results of this trial run show that the existing portfolio of allocated projects will consume much of the program’s fund balance and planned revenue through FY 2030.

The Transportation Department is currently recommending that the working capital reserve target be four months of budgeted program expenditures. This is based on a review of how much control the program has over spikes in construction expenditures. In FY 2019 the City had identified SDG&E cost increases that were as much as three times greater than the monthly budgeted amount due to both construction cost increases and increases in the pace of that construction.

Figure 2: Trial Run Forecast of Surcharge Expenditures and Fund Balance



Status of Program Finances – Rule 20A Work Credits

Consistent with CPUC terminology, Rule 20A funds are referred to herein as “work credits.” SDG&E is required to annually set aside funds for undergrounding in accordance with the CPUC tariff rule, Rule 20A. This setting aside of funds is referred to as “allocation of work credits.”

Starting in calendar year 2020, SDG&E has discontinued reporting of annual expenditures of ongoing construction costs for Rule 20A projects. The annual reporting from SDG&E now provides only the financial information explained in Table 3.

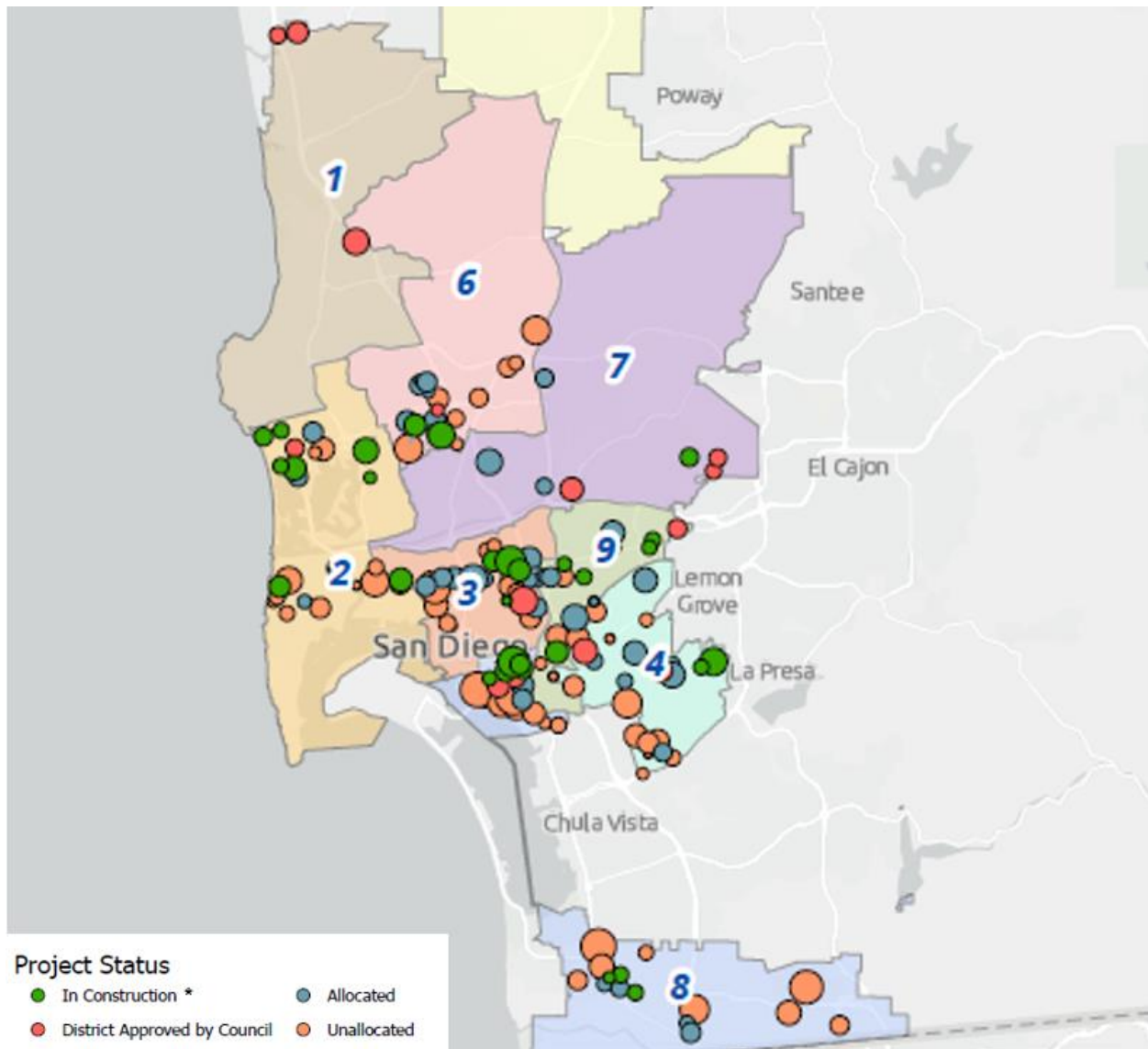
Table 3: Definition of Terms Used in SDG&E Rule 20A Annual Status Reports

<i>Term</i>	<i>Definition</i> (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. 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.

As of the SDG&E report representing the beginning of calendar year 2021, the City’s Work Credit Allocation Balance is \$104,598,454, the total Estimated Allocation Expenditures are \$131,126,624, and the total of Waitlisted Projects is \$46,857,919. 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 the issuance of new Rule 20A work credits will cease after December 31, 2022. The Transportation Department is in communication with SDG&E to understand the decision’s impact to planned and active projects. SDG&E has indicated that the City will likely have sufficient work credits to complete those projects that are currently in construction (see Table 1 of attachment 3). The City awaits more information regarding Phase 2 of the CPUC’s rulemaking before conclusions may be drawn on the future of those Rule 20A projects that are planned but are not yet in construction (see Table 2, 3, and 4 of Attachment 3). 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.

Continuing Program Management Improvements

Standardize Project Size Metric – A standardized metric has been developed that will change how project size will be communicated in future reports. The reported project size will be based on street lengths, consistent with the methodology that the Transportation Department uses for inventory of City assets. This will simplify communications to City Council regarding a change in project size by providing clarity on any segments of streets that are added to or subtracted from the project during subsequent project development phases. Field review with affected utility companies is performed prior to creating the Utilities Undergrounding District, so a change in project size commonly occurs between the first Council action to allocate the project and the subsequent Council action to create the district. Changes to the project size after district creation are less common, but when these

occur, they will be reported in the program status reports. If there is a change in the estimated cost of delivering a project, Council will know if the change is due to a change in cost per mile, due to a change in the size of the project, or both.

Conclusion

The beginning of Fiscal Year 2022 marks 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. Discussions are currently underway between the City and SDG&E for the development of the new Utilities Undergrounding MOU, which is anticipated to be brought forward to Council for consideration and approval in the first quarter of 2022. The Surcharge revenue source will continue under the new franchise agreement and the MOU, with improved financial monitoring and reporting at all stages of a project lifecycle. Once the MOU is finalized, it will allow projects that were delayed in the absence of an agreement to start again. The City and SDG&E are dedicated to developing a comprehensive MOU as quickly as possible.

Additional detail on the program may be found on the City website at www.sandiego.gov/undergrounding. If you have any questions, please contact Patrick Hadley, Deputy Director, at (858) 541-4325 or at phadley@sandiego.gov.

City Strategic Plan Goal(s)/Objective(s):

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:

Quarterly revenue provided by SDG&E will maintain a positive fund balance in the Underground Surcharge fund. No additional appropriations are being requested with this action.

Environmental Impact:

This is an informational item only and not an activity that is subject to CEQA pursuant to Section 15060(c)(3) of CEQA Guidelines because it will not result in a direct or reasonably foreseeable indirect physical change in the environment.

Climate Action Plan Implementation:

N/A – Does not have a connection to the CAP.

Equal Opportunity Contracting Information (if applicable):

Any necessary agreements between the City and utility companies associated with this work are subject to California Public Utility Commission (CPUC) Equal Opportunity Contracting guidelines and mandates. Any work that does not fall under CPUC authority shall be subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 1873, Sections 22.2701 through 22.2708) and

Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

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.

Transportation Department Director

Deputy Chief Operating Officer

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