

Performance Audit of San Diego Gas & Electric (SDG&E)
Franchise

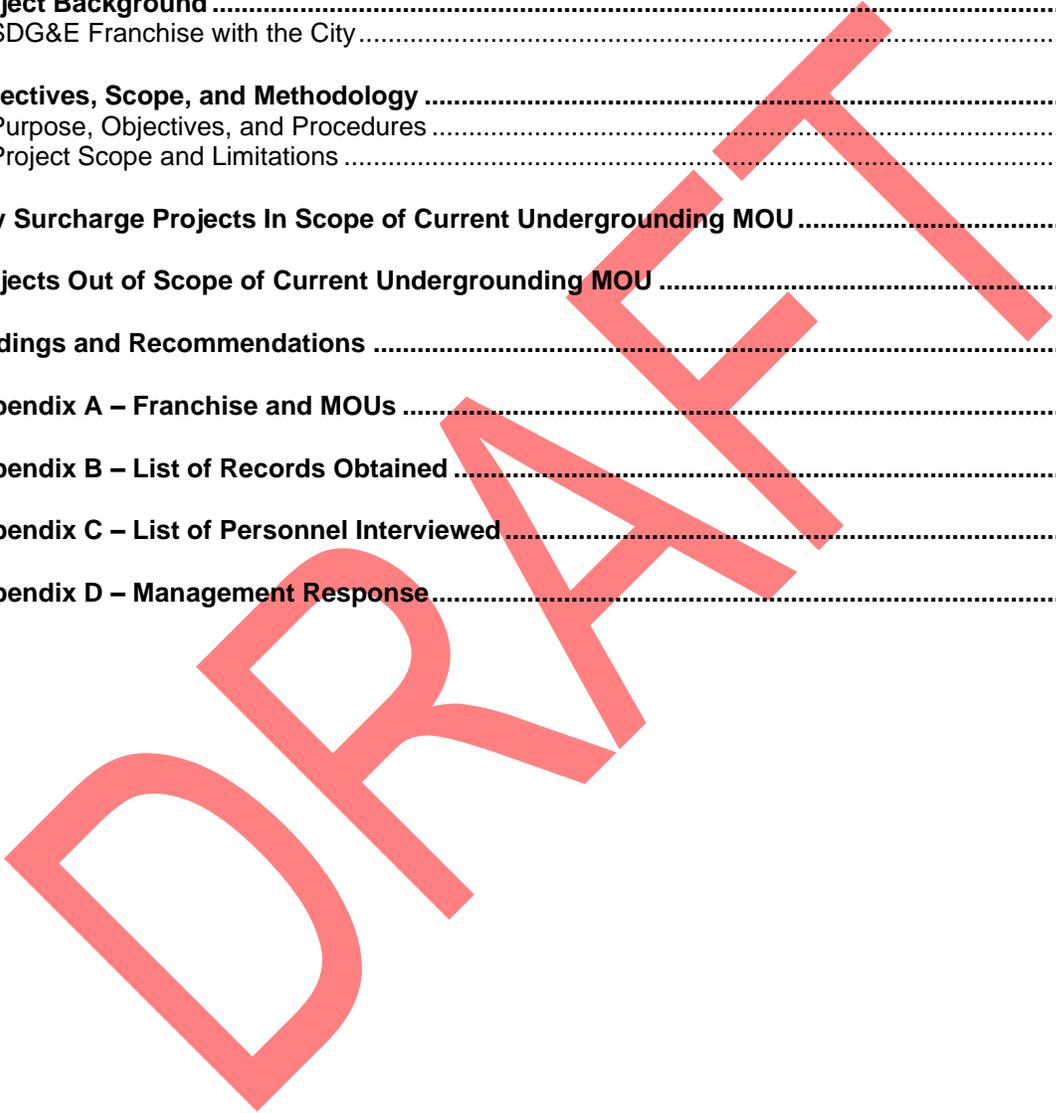
City of San Diego

Draft Report



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Independent Auditor's Report

Crowe LLP (Crowe) conducted a performance audit of San Diego Gas & Electric (SDG&E), to determine compliance with Franchise terms and conditions set by the City of San Diego, for the period of start date of each of the agreements through July 7, 2023.¹ The objectives of the audit are described on pages six (6) through nineteen (19).

We conducted our performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed on pages 6 through 19 of this report.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of SDG&E to determine the audit procedures that were appropriate for the purpose of providing a conclusion on the audit objectives, as specified, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the internal control.

The results of our tests indicated that SDG&E met the four (4) Audit Objectives in all significant respects for the period of the start date of each of the agreements to July 7, 2023. We include four (4) findings that were deemed not to be significant to the Audit Objectives but warranted inclusion in the report.

¹ The start dates were as follows: Gas and Electric Franchises on July 8, 2021; Administrative MOU on November 1, 2021; Undergrounding MOU on April 6, 2022; and Energy Cooperative Agreement on May 25, 2021.

Executive Summary

Crowe LLP (Crowe) conducted a performance audit of San Diego Gas & Electric (SDG&E) compliance with the Electric and Gas Franchises, Administrative MOU, Utility Undergrounding Program MOU, and Energy Cooperation Agreement associated with the Franchises with the City of San Diego (City) (hereafter referred to as “Franchise”) for the period of the effective date of the applicable agreements through July 7, 2023 in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The goal of the audit was to determine whether SDG&E’s financial, operational, documentary and cooperative requirements are in conformance and compliance with the requirements of the Franchise.

The audit objectives, shown on pages six (6) through nineteen (19) of this report, were developed based on the requirements set forth in the Franchise between the City and SDG&E.

Crowe identified four (4) findings, which are presented in **Exhibit 1**. Further details of the findings, which were deemed not to be significant to the audit objectives, are presented on pages 22 through 28 of this report.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis.

Exhibit 1 Finding and Control Evaluation

Finding Number	Finding Description	Classification	Audit Objective Impacted
1	Inconsistent Undergrounding Project Cost Estimates	<i>Noncompliance and Deficiency</i>	3
2	Limited Collaboration with the City on SDG&E Undergrounding Construction Project Master Services Agreement (MSA) Evaluation Criteria	<i>Noncompliance</i>	3
3	SDG&E Did Not Comply with Section 6 a) of the Administrative MOU	<i>Noncompliance</i>	2
4	The City and SDG&E Did Not Comply with Section 2 of the Energy Cooperation Agreement	<i>Noncompliance</i>	4

Project Background

SDG&E Franchise with the City

The City has franchises with San Diego Gas & Electric (SDG&E or Grantee) for electric service and for gas service (Franchises). The City and SDG&E entered into these Franchises on June 8, 2021, passing ordinance O-21327 regarding transmitting and distribution of gas, and ordinance O-21328 regarding transmitting and distributing electricity. SDG&E commenced operations under these Franchises on July 8, 2021 (Effective Date) and they are effective for a primary term of ten (10) years.

1. Franchise Consideration

As consideration for the use of City streets, for the gas franchise, SDG&E is required to pay a bid amount of \$10,000,000 and a sum of three (3) percent of its gross gas revenues.² For the electric franchise, SDG&E is required to pay a bid amount of \$70,000,000 and a sum of sum of three (3) percent of its gross electric revenues. The bid amount is not recoverable through rates charged to customers (i.e., approved by the CPUC).

SDG&E is required to submit reports to the City on February 15th of each year that include gross receipts for the prior calendar year. Payments are made to the City on a quarterly basis based on the prior year gross receipts and are trued up at the end of the year based on actual results for the year. Late payments are subject to delinquency fee of 2 percent of the amount owed and 1 percent of the amount due per month of delay.

2. Compliance Assessment

Section 6 of the Franchise specifies that the City hire an independent auditor to conduct an audit of SDG&E's compliance with the franchise every two years after the Effective Date. The audit must address the Grantee's fulfillment of financial, operational, documentary, and cooperative agreements under the Franchises.

To oversee the audit and receive the report, the City established a Franchise Compliance Review Committee (Review Committee) made up of:

- 3 appointees from the City Council
- 2 appointees selected by the Mayor.

The Review Committee is required to provide the auditor's report and its own report with recommendations to the City Council within 180 days of the end of each two-year period of the Franchise term.

The compliance assessment covers SDG&E's compliance with the following:

- Franchises
- Administrative MOU
- Utility Undergrounding MOU
- Energy Cooperation Agreement associated with Franchises.

The compliance assessment covers two periods of time:

- Phase 1 – start dates of each of the agreements to July 7, 2023³

² With credits for City-imposed fees for right-of-way usage. SDG&E also is required to pay applicable statutory surcharges (e.g., municipal lands use surcharge).

³ The start dates were as follows: Gas and Electric Franchises on June 11, 2021; Administrative MOU on November 1, 2021; Undergrounding MOU on April 6, 2022; and Energy Cooperative Agreement on May 25, 2021.

- Phase 2 - July 8, 2023 to July 7, 2025.

The subject of this audit report is Phase 1. The Phase 2 audit report will be completed in mid-2026.

Objectives, Scope, and Methodology

Crowe developed our audit plan and procedures to meet specific objectives identified by the City. In developing this audit plan, among other factors, we primarily considered the specific SDG&E compliance requirements included in the Franchise.

Purpose, Objectives, and Procedures

Crowe submitted several data requests to SDG&E which were progressively more focused throughout the engagement as we obtained more detailed data and information on the company’s operations. We reviewed policies and procedures to understand SDG&E’s use of supporting information systems. We conducted an internal controls assessment to obtain an understanding of SDG&E’s internal controls as they related to the Franchise. Finally, we developed workpapers to document results of the performance audit.

The audit included four (4) objectives, which we list below. The objectives of the audit were developed based on the City’s request for Crowe to determine whether SDG&E complied with terms and conditions included within the Franchises and MOUs.

Objective 1

Objective 1: Determine whether SDG&E complied with the requirements outlined in the Electric and Gas Franchise Agreements with the City of San Diego from the effective date of July 8, 2021 through July 7, 2023.

Approach

Franchise Compliance Area	Franchise Reference ⁴	Procedures
Payment of Bid Amount and Franchise Fees	Franchise, Section 4	<ul style="list-style-type: none"> Obtain City documentation listed in item 1 of Appendix B confirming payment of applicable bid amount and quarterly franchise fees Obtain documentation listed in item 1 of Appendix B from SDG&E supporting gross receipts, including adjustments for non-franchised activities Obtain documentation listed in item 1 of Appendix B and assess accuracy of SDG&E calculation of amounts due to City Obtain documentation listed in item 1 of Appendix B and assess payment accuracy, timeliness, and late fees, if applicable
Compliance with Laws	Franchise, Section 7	<ul style="list-style-type: none"> Obtain/review applicable policies, laws, and regulations Interview City personnel (e.g., management and public works personnel) Obtain City documentation of violations, if applicable

⁴ Includes both Electric and Gas franchises which are organized similarly.

Franchise Compliance Area	Franchise Reference ⁴	Procedures
		<ul style="list-style-type: none"> Assess whether SDG&E complied with applicable policies, laws and regulations
City Reserved Powers; Relocation Efforts	Franchise, Section 8	<ul style="list-style-type: none"> Interview City personnel (e.g., public works personnel, inspectors) Determine population of applicable cases requiring relocation; sample cases and review documentation (design documents) related to SDG&E efforts to meet requirement, including design submittals and timing Assess whether SDG&E complied with required provisions
Administrative MOU	Franchise, Section 9	<ul style="list-style-type: none"> See procedures completed in Objective #2
Providing Location Data	Franchise, Section 9	<ul style="list-style-type: none"> Interview City staff (e.g., public works) Obtain documentation to confirm that SDG&E provided GIS data, if applicable Assess the timeliness and completeness of SDG&E response to location data requests from City
Undergrounding of Facilities	Franchise, Section 10 (Electric)	<ul style="list-style-type: none"> Obtain SDG&E budgets for 11 undergrounding projects covered by the new Undergrounding MOU, including: <ul style="list-style-type: none"> Allied Gardens Blk 7R1 Allied Gardens (Navajo) Blk 7T North Clairemont Blk 6K1 Clairemont Blk 6K2 Crown Point Blk 2BB Job 2 Del Mar Heights Blk 1Y S. Mission Beach 2S2 Muirlands La Jolla 1M1 North Encanto Blk 4R1 Palm City Blk 8R (joint project with City) Jamacha Lomita Blk 4Y1 Obtain documentation listed in item 1 of Appendix B supporting three in process undergrounding projects, including <ul style="list-style-type: none"> Allied Gardens (Navajo) Blk 7T (design stage) Crown Point Blk 2BB Job 2 (construction stage) Del Mar Heights Blk 1Y (design stage) Muirlands La Jolla 1M1 (design stage) Obtain documentation from SDG&E and City listed in item 1 of Appendix B supporting actual amounts expended for undergrounding projects Obtain documentation furnished by SDG&E to the City listed in item 1 of Appendix B to support project planning (e.g., design information, costs)

Franchise Compliance Area	Franchise Reference ⁴	Procedures
		<ul style="list-style-type: none"> Interview City personnel to determine extent to which SDG&E coordinated and communicated with City on undergrounding activities Assess whether a new or amended Underground MOU was negotiated in accordance with timing requirements
Coordination with Community Choice Aggregation (CCA)	Franchise, Section 11 (Electric)	<ul style="list-style-type: none"> Interview City staff (e.g., public works) to determine SDG&E level of assistance in implementation of CCA, and compliance with CCA Code of Conduct, if applicable Obtain documentation listed in item 1 of Appendix B supporting violations if applicable (e.g., rate payer funded marketing or lobbying efforts) Assess extent to which SDG&E is cooperating with CCA requirements
Climate Action, Local Energy, Energy Justice, and Purchasing of Local Materials	Franchise, Section 10 (Gas), 12 (Electric)	<ul style="list-style-type: none"> Obtain and review City Climate Action Plan Interview City personnel (management and SMEs) responsible for climate action, local energy use, and energy justice programs Obtain documentation/reports demonstrating SDG&E level of participation in these efforts Interview SDG&E personnel to determine efforts to participate Assess compliance with good faith effort to assist the City with these programs
Purchasing of Local Materials	Franchise, Section 10 (Gas), Section 12 (Electric)	<ul style="list-style-type: none"> Obtain documentation listed in item 1 of Appendix B to determine approaches used to purchase locally Assess whether SDG&E is making good faith efforts to purchase local materials
Repair Costs	Franchise, Section 12 (Gas), 14 (Electric)	<ul style="list-style-type: none"> Obtain documentation listed in item 1 of Appendix B to determine the extent, timing, and amount of payments made by SDG&E to City for repairs Assess whether SDG&E paid the City for the cost of repairs
Liquidated Damages	Franchise, Section 13 (Gas), 15 (Electric)	<ul style="list-style-type: none"> Obtain documentation listed in item 1 of Appendix B to support City damage assessments and payments to City for liquidated damages Assess whether SDG&E paid the City for applicable liquidated damages
Performance Bond	Franchise, Section 20 (Gas), 22 (Electric)	<ul style="list-style-type: none"> Obtain documentation listed in item 1 of Appendix B to support SDG&E has filed and maintained a faithful performance bond Assess whether SDG&E is in compliance with this requirement

Conclusion: SDG&E complied in all significant respects.

Objective

Objective 2: Determine whether SDG&E complied with the requirements outlined in the Administrative Memorandum of Understanding with the City of San Diego from the effective date of November 1, 2021 through July 7, 2023.

Approach

Compliance Area	Admin MOU Reference	Procedures
General Work Requirements	Section 4	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E work conformed with Municipal Code Chapter 6, Article 2, Division 11; and complied with City requirements and applicable laws Assess compliance with general work requirements
MOU Permit	Sections 5 and 6	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with permitting requirements for each type of work category (Category 1, 2, 3, 4 and Master Plan Approvals). This will include obtaining permit documentation for a sample of projects within each work category. Additionally, we will assess the extent to which SDG&E provided an online Work Portal for Category 1 projects with the required project profile information; consulted with the City' Project Map Finder to determine that no projects conflict with other field activities; and displayed signage at each project location Assess compliance with MOU permit requirements
Traffic Control Permits	Section 7	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E applied for a Street/Sidewalk Blockage Form (SSWBF) and Traffic Control Plan (TCP), if applicable, for projects that impeded vehicular, bicycle, or pedestrian traffic; and developed Working Drawings for various scenarios in developing TCPs Assess compliance with traffic control permit requirements
Work Hours	Section 8	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with work hour requirements Assess compliance with work hour requirements
Notification and Inspection Requirements, Commencement of Emergency Work and Preconstruction Activities	Section 10	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree for non-Emergency Work (other than Category 1) SDG&E contacted CMFE via e-mail to notify upcoming commencement of construction, invited CMFE to a pre-construction meeting, and provided a work schedule; for Emergency Work SDG&E complied with notification requirements in Municipal Code section 62.1211 and when the emergency is no longer occurring applied for the appropriate permit; and notified the City Liaison of impacted facilities prior to the start of work affecting access to public/private facilities; coordinated conflict checks in the ROW

Compliance Area	Admin MOU Reference	Procedures
		for Category 2 projects; and coordinated work with the City regarding street repair redundancy <ul style="list-style-type: none"> Assess compliance with notification requirements
Construction Requirements	Section 11	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with street repair requirements (e.g., restored in compliance with applicable laws); developed a process for approving third-party labs to perform soil/compaction tests; and restored landscaping and the site Assess compliance with construction requirements
Cooperation & Coordination with City Projects and City Work	Section 12	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with collaboration requirements (e.g., electronic methods of coordination, re-designed when conflicts arise, met monthly to review schedules, commenced relocation of facilities within 90 days after request from City, identified opportunities to improve noticing periods and communication, performed on-site field meetings to establish Standby Service requirements, performed exposure of its facilities, developed processes to identify projects that need Standby Services, and management support for cases involving imminent threats) Assess compliance with coordination requirements
ArcGIS	Section 13	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with development of an online website displaying GIS data, including making available GIS information describing facilities in the ROW, determining appropriate attributes, and making monthly updates Assess compliance with ArcGIS requirements
Two-Year Plan	Section 14	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with development of the Two-Year Plan cataloging planned projects into appropriate classifications (e.g., regular maintenance, minor repairs, major repairs); and made updates based on City input Assess compliance with Two-Year Plan requirements
Permanent Survey Markers	Section 15	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with survey requirements for cases where markers are disturbed during construction Assess compliance with survey requirements
Request for Records	Section 19	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with requests for records (i.e., within 10 days of sufficient detail) Assess compliance with request for records requirements

Compliance Area	Admin MOU Reference	Procedures
Security and Safety of Work Area	Section 20	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with requirements to maintain, cleanup and secure work areas Assess compliance with security and safety requirements
Hazardous Substance	Sections 21-25	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with hazardous substance requirements (e.g., obtain approvals, containerization, bear cost of remediation, removal, notice of release) Assess compliance with hazardous substance requirements
NPDES, Storm Water Management	Sections 26-27	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E complied with NPDES permit and storm water management requirements (e.g., best management practices) Assess compliance with NPDES and storm water management requirements
Joint Utilities Coordinating Committee (JUCC)	Section 30	<ul style="list-style-type: none"> Obtain documentation listed in item 3 of Appendix B and interview City personnel to determine to what degree SDG&E participated in the JUCC. Assess compliance with JUCC participation requirements

Conclusion: SDG&E complied in all significant respects. Crowe found SDG&E noncompliant with one of 59 compliance requirements. See finding 3.

Objective

Objective 3: Determine whether SDG&E complied with the requirements outlined in the Undergrounding Memorandum of Understanding with the City of San Diego from the effective date of April 6, 2022 through July 7, 2023.

Approach

Compliance Area	MOU Reference	Procedures
Project Identification and Prioritization	Section 4.2.2	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E provided information on areas with High Fire Threat (HFT) District most beneficial to wildfire mitigation; as well as existing above ground facilities to aid with planning level project cost estimates Obtain documentation to support where SDG&E assisted with City Council meetings related to climate risk and public safety Assess compliance with project information requirements

Compliance Area	MOU Reference	Procedures
Underground Utilities Districts	Sections 4.3, 4.5	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E participated in review of draft Underground Utilities District boundaries (e.g., written comments), attended field review meetings (e.g., minutes), advised on adjustments to draft boundaries (written comments) to achieve project cost efficiencies, and worked with communication infrastructure providers to identify attachments to poles within District Obtain documentation listed in item 4 of Appendix B to support prompt notifications by SDG&E for suggested modifications of boundaries Assess compliance with Underground Utilities Districts assistance requirements
Safety	Section 4.7	<ul style="list-style-type: none"> Obtain SDG&E safety policy Interview City personnel to determine if SDG&E employees adhered to safety policy Obtain documentation of SDG&E violations of its safety policy Assess compliance with safety policy
Program Level Communication	Sections 5.1, 14	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E staff are meeting on at least a monthly basis to review project related information, including project progress, risks, schedule, delays (e.g., meeting agendas, meeting attendee lists, and meeting notes) Obtain documentation listed in item 4 of Appendix B to support SDG&E DPOA assignment Assess compliance with program level and enhanced communication requirements
City/Grantee Cooperation with Design and Project Management	Section 6.2	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E provided the updated Qualified Designer List (on its website); reviewed components of City design bid packages; cooperated in timely scheduling and attendance at project kickoff; provided access to SDG&E controlled software or databases needed for design Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E reviewed design submittals, bid package review submittals and other relevant submittals for conformance with SDG&E standards; and that SDG&E cooperated in sequencing design approvals to align with construction sequencing Assess compliance with design and project management requirements
Grantee Acceptance of Design Performed by City	Section 6.3	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E provided a written Notice of Design Acceptance for each Rule 20 project; provided explanations for changes after Notice of Design Acceptance; and minimized design changes after bid package preparation is complete. Assess compliance with design acceptance requirements

Compliance Area	MOU Reference	Procedures
Grantee Easements for Joint Projects	Sections 6.4., 7.11	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E managed communications with property owners, prepared and processed applicable easement forms; reviewed and approved easement terms and conditions with property owners; and provided qualified personnel for execution Assess compliance with easement requirements
City Construction Scope and Streetlight Coordination	Section 6.7, 6.8, 7.8	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine extent to which SDG&E provided wiring up to service points (for streetlighting); participated in resolving issues with joint construction; and met/coordinated streetlight installation Assess compliance with City construction scope and streetlight requirements
Field Change Orders	Section 6.10	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E reviewed and commented on design changes without delay Assess compliance with City field change order requirements
Inspection and Acceptance of Construction by City	Section 6.11	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E provided timely construction inspections, required line workers, written inspector schedules, field layouts, and written Final Acceptance of Work Assess compliance with inspection requirements
Grantee Construction for Joint Projects	Section 6.13	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E has obtained applicable permits; coordination of outages; performed cutovers, intercepts, and energized streetlights; removed overhead facilities and vacated poles from service Assess compliance with grantee construction for joint projects requirements
Project Schedule for Joint Projects	Section 6.14	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E worked with City to create initial project schedule, regularly updated the schedule and provided updates to the City Interview City to understand how effectively SDG&E managed project schedules for joint projects Assess compliance with project schedule requirements
Project Kick-Off	Section 7.2	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E kicked off projects within 30 days of the NTP and provided a draft milestone schedule 30 days after the project kickoff meeting Assess compliance with project kickoff requirements
Grantee Responsibilities	Section 7.3	<ul style="list-style-type: none"> Interview City personnel to determine whether SDG&E was responsible for project level design and construction and execution activities, including mapping, customer service, designs, third-party coordination, permitting, construction, cabling, outages and energizations, cutovers, removals from services, street work and communications

Compliance Area	MOU Reference	Procedures
		<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether Grantee complied with these responsibilities Assess compliance with Grantee responsibility requirements
City Oversight of Grantee Executed Projects	Section 7.4	<ul style="list-style-type: none"> Interview City personnel, and obtain supporting documentation, to determine whether SDG&E scheduled meetings to review the 30% Design Baseline, notified the City with “Start Construction Notifications”, scheduled meetings with the City to review the “Construction Baseline” appropriately notified the City 20 days in advance of the start of electric construction work, and incorporated quality management checkpoints into the schedule Assess compliance with City oversight of Grantee Executed projects requirements
City Permitting Requirements	Section 7.5	<ul style="list-style-type: none"> Obtain documentation listed in item 4 of Appendix B to determine whether SDG&E obtained permits for project work, provided the City with a full listing of DSD permit numbers on a monthly basis, met with the City regarding process changes to City traffic control permits Assess compliance with City permitting requirements
Grantee Design	Section 7.6	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E performed all necessary designs and that SDG&E endeavored to reduce the size of aboveground equipment Assess compliance with Grantee design requirements
Grantee Construction	Section 7.7	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E executed all construction and coordinated all aspects of work on its facilities and customer service panel conversions Assess compliance with Grantee construction requirements
Grantee Pre-Construction Meeting	Section 7.9	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E arranged for the Grantee Pre-Construction Meeting Assess compliance with pre-construction meeting requirements
Service Panel Conversions and Inspections	Section 7.10	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E arranged to convert customer’s electrical service at customer direction; coordinated with property owners who performed their own service; provided grounding rods and related appurtenances; obtained building inspection permits from the City and complied with these permits, requested service panel conversion inspections provided by DSD, did not remove overhead power without written authorization from the City, and provided documentation regarding safety, reliability, or structural integrity issues and participate in information presentation to Council Assess compliance with service panel conversion and inspection requirements
Other Project Coordination	Section	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E delivered facilities with

Compliance Area	MOU Reference	Procedures
Requested by City	7.12	<p>potential conflict with applicable accessibility requirements and cooperate to study these conflicts to address compliance concerns; and notify the City of potential construction impacts from street tree or tree roots</p> <ul style="list-style-type: none"> Assess compliance with other project coordination requirements
Environmental Compliance for Grantee Projects	Section 7.13	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E ensured construction complied with CEQA requirements, included compliance requirements in contracts and ROW submittals, provided environmental monitors notice prior to construction, supported City obtaining permits, performed construction under its NPDES permit, and adhered to City Whitebook requirements for C&D waste disposal Assess compliance with environmental compliance requirements
Grantee Project Cost Estimates	Section 8	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E provided updated Estimate Cost to Completion (EAC), preliminary cost estimates, initial cost estimates, 30% design estimates, 90% design estimates, IFC estimates, explanations for increases by 10 percent or more month over month Assess compliance with Grantee project cost estimate requirements
Design & Engineering Procurement	Section 9.1	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E procured design and engineering work under MSAs, posted sourcing for at least 10 days, created standard evaluation matrices, reviewed from a technical perspective, issued work based on consultant's workload, lead times, geographic coverage and performance metrics on past projects, maintained documentation of standard processes for evaluating bids, and provided all design/engineering contracts to City Assess compliance with design and engineering procurement requirements
Construction Procurement	Section 9.2	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E held competitive sourcing for MSAs, contractors are pre-qualified for work, posted sourcing for at least 10 days, created standard evaluation matrices, provided the City with draft evaluation matrix, maintained documentation of standard processes for evaluating bids, and provided all design/engineering contracts to City Assess compliance with construction procurement requirements
Construction Project Bidding	Section 9.3	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E used the MSA rate structure for time and equipment-based work that do not exceed the established Bid Threshold; competitively bid projects exceeding the Bid Threshold via Construction Project Bid; informed the City of factors that could impact Construction Project Bids; provided the City with bid summaries including completed bid evaluation matrices, list of bids, bid evaluation meeting minutes; met with

Compliance Area	MOU Reference	Procedures
		City to discuss disagreements regarding award; and provided all Civil and Electric construction contracts on request <ul style="list-style-type: none"> Assess compliance with construction project bidding requirements
Diverse Business Enterprises	Section 9.4	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E tracked yearly utility expenditures with DBEs and disadvantaged small businesses, made efforts to utilize DBEs, provided commitments in MSAs, and prepared DBE reports for the CPUC; and included Equal Employment Opportunity Requirements in its MSAs Assess compliance with diverse business requirements
Accounting for Grantee Project Expenses	Section 10	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E provided monthly billing back up to support invoices for surcharge program projects (e.g., direct costs, materials, overhead); subdivided costs into the categories consistent with MOU requirements; accounted for direct Surcharge Program Project costs in the Surcharge Specific Cost Pool; and provided a breakdown on overheads into labor, purchasing/warehouse, A&G and construction support, and other Assess compliance with Grantee accounting requirements
Invoicing	Section 11	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E provided monthly billing back up support documentation and provided timely (within 10 business days) supporting documentation upon City request Assess compliance with invoicing requirements
Reporting Requirements	Section 13	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E provided required reporting (e.g., underground cost per mile, monthly milestone reporting, project estimate report, monthly cashflow estimate) Assess compliance with invoicing requirements
Outreach	Section 15	<ul style="list-style-type: none"> Obtain supporting documentation listed in item 4 of Appendix B to determine to what degree SDG&E participated in meeting preparation and provided timely information for public notices and presentation materials, provided appropriate personnel, and consulted with the City on sensitivity of project visual impacts Assess compliance with outreach requirements

Conclusion: SDG&E complied in all significant respects. Crowe found SDG&E noncompliant with 2 of 166 compliance requirements. See findings 1 and 2.

Objective

Objective 4: Determine whether SDG&E complied with the requirements outlined in the Energy Cooperation Agreement with the City of San Diego from the effective date of May 25, 2021 through July 7, 2023.

Approach

Compliance Area	MOU Reference	Procedures
Cooperative, Unified Response	Section 1	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E cooperated with the City in submitting applications, letters of support, and testimony related to achieving 100% clean energy and net zero emissions Assess compliance with cooperation requirements
Implementation Plan	Section 2	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E worked with the City to develop an implementation plan within 90 days of City Council approval of the ECA Assess compliance with implementation plan requirements
Living Agreement	Section 3	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City personnel to determine to what degree SDG&E participated in the Cooperative Agreement Summit (CAS), where applicable Assess compliance with living agreement requirements
Costs	Section 4	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E cooperated in determining appropriate funding sources and necessary approvals for projects/programs Assess compliance with cost requirements
Clean Energy Collaboration Opportunities	Section 5	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E collaborate with the City to seek mutually agreed upon opportunities to deliver clean energy to residents, including following the Community Choice Aggregate (CCA) Code of Conduct; identifying energy efficiency and demand response programs; supporting City tree planting efforts by identifying locations, assisting with species ideas and providing support with highly trained arborists; identifying vendors open to receiving green waste and investigating use of diverted waste as a fuel source; providing clean transportation expertise (e.g., piloting vehicle electrification projects in the City); providing information to aid with AB 802 benchmarking in support of the City's Climate Action Plan; help the City implement its Municipal Energy Strategy to reduce emissions in municipal buildings; and identify study areas where electrification can be accelerated Assess compliance with Clean Energy Collaboration requirements

Compliance Area	MOU Reference	Procedures
Safe Energy Collaboration Opportunities	Section 6	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E cooperated in providing hyper-localized situational awareness of potential weather threats; firefighting air resources to protect the City; investigation of weather stations and other technologies; and monitoring canyons where fires are more likely to ignite/spread; sharing intelligence and data; lending expertise to support the City’s Virtual Emergency Operations Center (EOC); attending town council and other public meetings; and reviewing the resiliency of the City’s existing infrastructure Assess compliance with Safe Energy Collaboration requirements
Reliable Energy Cooperation Opportunities	Section 7	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E assisted the City to develop a centralized dashboard to manage City-wide energy usage; shared expertise relating to facility and community-level microgrids; identified appropriate distributed energy resources (DER) projects; and assisted with demand response and DER efforts (e.g., by applying to the CPUC for approvals) Assess compliance with Reliable Energy Cooperation requirements
Equitable Energy Cooperation Opportunities	Section 8	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E worked with the City’s Environmental Committee to define program outcomes, and timelines related to equity-focused solar program; executed the program with a non-profit organization; spent \$1M of shareholder contributions each year for the program (which will be available for incentives, refunds, equipment, labor, program management and administration); began tracking affordability housing utility design applications, created a dashboard to track utility coordination/timing, and supported operational enhancements related to more rapid affordable housing development; identified underserved populations to launch careers; cooperated on refreshing the City-driven accelerated undergrounding program (see Utility Undergrounding MOU); expanded outreach to eligible low-income and hard-to-reach customers; and researched available grants Assess compliance with Equitable Energy Cooperation requirements
Ensuring Transparency	Section 9	<ul style="list-style-type: none"> Obtain documentation listed in item 6 of Appendix B and interview City and SDG&E personnel to determine to what degree SDG&E offered periodic informational opportunities on SDG&E’s business; annually presented rate structure, planned filings, and rate changes to the Council; annually offered to present planned projects and status to City Council Committee; annually offered to present a status update on Public Purpose Program (PPP) funds (e.g., CARE, FERA, LIHEAP) to City

Compliance Area	MOU Reference	Procedures
		<p>Council Committee; twice per year offered to present ways supporting Climate Action Plan goals to City Council Committee; four times per year met with City’s COO to discuss infrastructure projects, facility coordination, municipal energy bills, account questions, and other topics of mutual concern; annually provide an update to the Compliance Review Committee on Agreement implementation</p> <ul style="list-style-type: none"> Assess compliance with Transparency requirements

Conclusion: SDG&E complied in all significant respects. Crowe found SDG&E noncompliant with 1 of 31 compliance requirements. See finding 4.

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Project Scope and Limitations

Undergrounding Project Scope and Limitations

Undergrounding projects have four (4) potential funding sources as follows:

Project Name	Within Scope of this Performance Audit	Funding Source
City surcharge projects	Yes	City surcharges beginning April 6, 2022
Legacy surcharge projects	Yes	City surcharges prior to April 6, 2022
Rule 20A projects	No	Customer rates
Wildfire mitigation – undergrounding program	No	Customer rates

City Surcharge Projects In Scope of Current Undergrounding MOU

The new undergrounding MOU projects considered within the scope of our audit are those in the following table:

Project Name	Start Date	State of Development	Number of Months in Scope of Current July 7, 2023 Audit Period Ending
SDG&E Projects			
Crown Point Blk 2BB Job 2	8/18/2022	Construction	9.5 months
Muirlands La Jolla Blk 1M1	Design: 3/7/2023	Design	4 months
Del Mar Heights Blk 1Y	Design: 4/10/2023	Design	3 months
Allied Gardens (Navajo) Blk 7T	2/18/2023 Design; 1/11/2024 Construction	Design	4.5 months
S. Mission Beach Blk 252	6/1/2023	Design	No progress yet
Allied Gardens Blk 7R1	5/16/2023	Design	No progress yet
N. Clairemont Blk 6K1	5/30/2023	Design	No progress yet
Clairemont Blk 6K2	5/30/2023		No progress yet
N. Encanto Blk 4R1	6/16/2023	Design	No progress yet
Joint Projects (SDG&E and City)			
Palm City (Egger Highlands) Blk 8R	2/22/2023	Design (City performing)	No progress yet
Jamacha Lomita Blk 4Y1	TBD	Not started	No progress yet

Consequently, for purposes of this Phase 1 audit timeframe, only one undergrounding project, Crown Point Blk 2BB Job 2, was within scope and under construction. A total of two other projects, Muirlands La Jolla Blk 1M1 and Allied Gardens (Navajo) Blk 7T had 4-4.5 months of progress and were in the design phase. The remainder were just getting started, with minimal progress, and will be captured within the Phase 2 audit scope.

The table below shows undergrounding projects considered “Legacy” surcharge projects which are subject to the compliance provisions contained within the new Undergrounding MOU for the period of April 6, 2022 to July 7, 2023. Note that most of these projects did not have much activity to assess new MOU compliance with as they were near project completion.

Project Name	Planned Completion Date
SDG&E Projects	
Clairemont Mesa 6DD1	In closeout
S. Mission Beach 2S1	Completed
Clairemont Mesa 6H	Q4 CY 2023
Golden Hills 8C	Q3 CY 2023
Muirlands 1M-J1	Q4 CY 2023
La Jolla 1J Job 1	Q4 CY 2023
Rolando Blk 7G2 (Joint Project)	Q3 CY 2023; final pole removals April 2024
La Jolla1J Job2	Completed
Chollas 4J1	Q1 CY 2024
Lomita Block 4Y (Joint Project)	TBD; C&C planned to start March 2024, RFS to start July 2024

Projects Out of Scope of Current Undergrounding MOU

None of the current and planned Rule 20A projects are subject to the compliance provisions in the new Undergrounding MOU. Finally, none of the undergrounding projects SDG&E has completed as part of its wildfire mitigation program required in accordance with its Wildfire Mitigation Plans are within the scope of this audit.

Findings and Recommendations

Our performance audit resulted in four (4) findings. Findings include a recommendation to correct the issue, and are organized into the following six (6) components:

- *Condition* – includes the error observed based on facts revealed from the examination.
- *Criteria* – the basis for our evaluation; in this case a specific policy, procedure, or leading practice.
- *Cause* – the underlying reason for why the non-compliance or error occurred.
- *Effect* – the impact on the organization and/or the ratepayer from the error.
- *Recommendation* – a suggested action to correct the deficiency; or what can be done to address both the cause and condition.
- *Management Response* – an opportunity for the company to provide its response to the finding and/or recommendation.

Findings and recommendations from this performance audit are provided beginning on the next page.

A list of findings and recommendations is summarized below:

Finding Number	Finding Description
1	Inconsistent Undergrounding Project Cost Estimates
2	Limited Collaboration with the City on SDG&E Undergrounding Construction Project Master Services Agreement (MSA) Evaluation Criteria
3	SDG&E Did Not Comply with Section 6.a of the Administrative MOU
4	The City and SDG&E Did Not Comply with Section 2 of the Energy Cooperation Agreement

Finding #1 – Inconsistent Undergrounding Project Cost Estimates

Non-compliance Conclusion: *Non-compliance*

Internal Control Conclusion: *Deficiency*

Condition

SDG&E's undergrounding project cost estimates increased substantially between April 2023 and December 2023 because SDG&E did not include overhead costs in its initial April 2023 project cost estimates. For example, Table 1 below provides cost estimates provided by SDG&E to the City for the Navajo Blk 7T project at different points in time. SDG&E provided the City with an initial cost estimate of \$24,514,262. SDG&E subsequently revised this estimate by adding \$19,359,668 of overhead costs, which were not included in its initial cost estimate, for a revised total cost estimate of \$44,315,711, or 81% above the initial cost estimate. Table 2 shows a similar result where SDG&E's cost estimate for the Muirlands 1M1 project increased by 83% from \$12,640,121 to \$23,171,525 between April and December 2023 because of SDG&E revising the estimate to include overhead costs.

Table 1
Navajo Blk 7T Project
Project Cost Estimates

Date	Total Direct + Contingency Costs	Total SDG&E Overhead Costs	Total Fully-Loaded Costs	SDG&E Source Document
4/3/2023	\$24,514,262		\$24,514,262 ⁵	Initial Cost Estimate
10/30/2023			\$42,951,819	Cost Variance Report (11/14/2023)
12/14/2023	\$24,956,043	\$19,359,668	\$44,315,711	Initial Cost Estimate (revised)
Total Project Cost Increase			\$19,801,449 (81%)	

Table 2
Muirlands 1M1 Project
Project Cost Estimates

Date	Total Direct + Contingency Costs	Total SDG&E Overhead Costs	Total Fully-Loaded Costs	SDG&E Source Document
4/21/2023			\$12,640,121	Estimate Provided by SDG&E Project Manager
12/1/2023	\$14,739,743	\$8,431,782	\$23,171,525	Updated Initial Cost Estimate
Total Project Cost Increase			\$10,531,404 (83%)	

⁵ SDG&E used this \$24,514,262 as its baseline cost for its February 23, 2024 cost variance report.

Criteria

The following four (4) sections of the Undergrounding MOU related to SDG&E providing project cost estimates to the City which the City relies on for its cash flow forecasting:

- Section 4.2.3 - Upon request, GRANTEE will provide information to CITY regarding existing aboveground GRANTEE Facilities reasonably necessary to allow CITY to generate planning level cost estimates for Projects.
- Section 7.2.2 - Within thirty (30) days of the GRANTEE Project Kickoff, or as otherwise agreed upon, GRANTEE will provide a draft milestone schedule and updated Project estimate as part of its regular monthly reporting.
- Section 12.3 - GRANTEE acknowledges that CITY relies on Project expenditure forecasts to achieve long-term management of cash-flow reserves in the Municipal Surcharge Program Fund. For all Projects for which CITY has assigned GRANTEE Work under this MOU, GRANTEE will provide CITY updated monthly Project estimates and cashflows per requirements of this MOU and GRANTEE will be timely in informing CITY of any changes in Project costs or schedules that may affect the accuracy of such forecasts.
- Section 12.4 - CITY and GRANTEE will confer no later than thirty (30) days prior to each CITY annual budget process milestone to ensure Municipal Surcharge Program Funding is available for all planned Projects on the Project List, as updated, during each CITY Fiscal Year. CITY budget projections are due on the following dates, which may change at CITY's direction:
 - (a) Proposed Budget: December 1 for the next CITY Fiscal Year's Budget.
 - (b) May Revision: April 1 for the next CITY Fiscal Year's Budget.
 - (c) Mid-year Projection: December 1 for the current CITY Fiscal Year.
 - (d) Year-End Projection: April 1 for the current CITY Fiscal Year.

Cause

SDG&E did not develop quality control/quality assurance procedures to use in evaluating its cost estimates prior to submission to the City. Further, SDG&E's internal control processes did not identify this cost estimate deficiency.

Effect

SDG&E's failure to provide comprehensive and accurate initial undergrounding project cost estimates and the delays in ultimately furnishing accurate undergrounding project cost estimates created challenges for the City to forecast its future undergrounding cash flow and funding requirements for its portfolio of projects.

Recommendation

SDG&E should develop accurate undergrounding project cost estimates so that the City can accurately forecast cash flow balances and schedule projects. SDG&E should strengthen the quality control/quality assurance processes it uses for developing undergrounding project cost estimates.

Finding #2 – Limited Collaboration with the City on SDG&E Undergrounding Construction Master Services Agreement (MSA) Evaluation Criteria

Non-compliance Conclusion: *Non-compliance*

Internal Control Conclusion: *None*

Condition

SDG&E did not collaborate with the City to incorporate City input, provided on March 21, 2024, on the evaluation matrix that SDG&E used in scoring respondents to the MSA Request for Proposal (RFP) for Construction. SDG&E did provide an email on April 15, 2024 explaining to the City its rationale for not including the City's suggestion to adjust the weighting percentages to increase the weighting of pricing in the MSA evaluation matrix. In that email, SDG&E indicated a desire to prioritize an entity's safety record over pricing. However, SDG&E made this determination in isolation and did not fully collaborate with the City prior to arriving at this decision.

Criteria

Section 9.2.5 of the Undergrounding MOU states that GRANTEE and CITY will collaborate to create standard MSA evaluation matrices to evaluate the competitive sourcing of Civil and Electric Construction Work as part of any such sourcing effort, in accordance with the requirements of the San Diego City Charter, which shall address, at a minimum, the following aspects of the Work:

- (a) Safety record
- (b) Rates, Adjustments, Third Party Markup Percentage
- (c) Ability to meet scope of work requirements
- (d) Experience and technical ability
- (e) Experience with GRANTEE's Construction Standards and GRANTEE Facilities
- (f) Use of Diverse Business Enterprises (DBE)
- (g) Sustainability
- (h) Exceptions to GRANTEE Terms and Conditions

The evaluation matrices developed by the Parties will assign percentages and/or scoring to each aspect of the Work appropriate for the scope of Work at issue. Prior to GRANTEE advertising for a sourcing effort for Civil or Electric Construction Work, GRANTEE shall provide a draft evaluation matrix for CITY's review. CITY will provide comments on the matrix within ten (10) days of receipt. If GRANTEE does not receive comments from CITY within such period, GRANTEE will move forward with the proposed matrix for the sourcing effort.

Additionally, the Parties will develop evaluation matrices to be used on a regular basis to evaluate Construction Project Bids, as further described in Section 9.3.2 below. Such Construction Project Bid matrices shall be reviewed by the Parties not less than every three (3) years.

Cause

SDG&E determined that only incorporating input from the City on minor language changes to the Undergrounding MSA evaluation criteria was necessary, rather than the City suggested changes to the evaluation criteria weighting percentages and categories. SDG&E also considered that a safety and best value approach was superior to one that relies to a greater degree on lower (competitive) pricing.

Effect

Not considering City input on the MSA evaluation matrices does not align with the cooperative nature of the new Undergrounding MOU. Further, if SDG&E doesn't consider City input, it may create the

appearance that the Undergrounding MSA evaluation criteria includes bias.

Recommendation

Going forward, SDG&E should carefully consider and fully discuss with the City its input on the MSA evaluation criteria before arriving at the final evaluation criteria and weightings. SDG&E also should provide the City with the MSA RFP package it intends to send to bidders so that the City has a more complete view of SDG&E's competitive MSA procurement process and can provide more informed feedback related to the evaluation categories and weightings.

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Finding #3 – SDG&E Did Not Comply with Section 6 a) of the Administrative MOU

Non-compliance Conclusion: *Non-compliance*

Internal Control Conclusion: *None*

Condition

SDG&E did not establish an effective online Work Portal (“Portal”) that describes all Category 1 Projects taking place in the ROW and was unable to share this information timely with the City. The portal was ineffective due to inaccurate and / or incomplete data and delays in delivering data on current projects. For example, the portal included incorrect coordinates for projects and the same date used for start and end dates of projects.

Criteria

Section 6 a) of the Administrative Memorandum of Understandings states “Category 1: Maintenance, Inspection, and Low Impact Projects. The CITY has determined that projects in Category 1 may be performed by GRANTEE under this MOU without additional right-of-way permits from CITY. GRANTEE will establish an online Work Portal (“Portal”) that describes all Category 1 Projects taking place in the ROW and will share that information with the CITY. Category 1 Projects will be added to the Portal no later than ten (10) business days prior to commencement of physical Work by GRANTEE; provided that schedule, workforce and related information for a Project may be uploaded, updated or modified after the Project is added to the Portal.” Section 6 a) i) states “the Portal will contain the following information for each Category 1 Project:

- 1) Justification (maintenance, inspection or low impact) including master plan, as applicable
- 2) Job Name
- 3) Job Number
- 4) Scope of work
- 5) Street Address
- 6) Coordinates
- 7) Business Point of Contact (Name, Email, Phone)
- 8) Field Point of Contact (Name, Email, Phone)
- 9) Crew (GRANTEE vs. Contracted)
- 10) Start Date
- 11) Anticipated End Date
- 12) Time
- 13) Conflict (Y/N)
- 14) Moratorium (Y/N)
- 15) Maintenance Assessment District (Y/N)
- 16) SSWBF/Traffic Control (Y/N)
- 17) Approved Master Plan Reference.”

Cause

SDG&E data gathering and reporting methods were not adequate to satisfy the requirements of the portal.

Effect

The City was unable to properly or timely track and monitor Category 1 projects in the ROW because the portal was not operational.

Recommendation

The City and SDG&E identified an alternative approach to the online Work Portal which is currently operating effectively according to City and SDG&E personnel.

Finding #4 – The City and SDG&E Did Not Comply with Section 2 of the Energy Cooperation Agreement

Non-compliance Conclusion: *Non-compliance*

Internal Control Conclusion: *None*

Condition

The City and SDG&E did not meet the 90-day deadline for developing an implementation plan as required under Section 2 of the Energy Cooperation Agreement (ECA). The ECA was approved by the City Council on June 7th, 2021. The Implementation Plan was required to be completed by September 5, 2021. The City and SDG&E initiated work on the ECA Implementation Plan in November 2021 and it was presented to the City Council's Environment Committee 284 days later, on March 18, 2022.

Criteria

Section 2 of the of the Energy Cooperation Agreement states, "The City and SDG&E will work together to develop an implementation plan outlining roles, processes, responsibilities, timelines, program, and development pathways, and estimated costs to achieve the goals and deliverables outlined in this Energy Cooperation Agreement within 90 days of City Council approval ("Implementation Plan"). Once finalized, the Implementation Plan must be provided to the San Diego City Council and the Compliance Review Committee described in the Electric and Gas Franchises. The City and SDG&E will update and revise the Implementation Plan periodically."

Cause

The City and SDG&E were in the process of developing the Administrative MOU during this time and were unable to meet the 90-day deadline.

Effect

The Implementation Plan was not finalized for 284 days. No negative impact to the outcomes for the ECA were identified.

Recommendation

The City and SDG&E implemented the necessary actions. The City and SDG&E initiated work on the ECA Implementation Plan in November 2021 and it was presented to the City Council's Environment Committee 284 days later, on March 18, 2022.

Appendix A – Franchise and MOUs

This appendix provides the following governing documents:

- Franchises (Exhibit A-1)
- Administration MOU (Exhibit A-2)
- Undergrounding MOU (Exhibit A-3)
- Energy Cooperative Agreement (Exhibit A-4).

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Appendix B – List of Records Obtained

This appendix provides the list of records Crowe requested and obtained during the course of this audit.

SDG&E

1. Franchise fees
 - a. Approval and commitment policy
 - b. General ledger journal entry transaction policy
 - c. Annual franchise fee calculation workbooks
 - d. Revenue reports
 - e. Reconciliation of revenue with SAP
 - f. System generated reports showing fee payments
 - g. Aging data
 - h. Write-off data
2. Gas and Electric franchise
3. Administrative MOU
 - a. Matrix providing compliance status by MOU section
 - b. 2-Year Plan, listing of projects
 - c. 2021 – Trenching, listing of projects
 - d. 2021 – City of SD Projects, listing of projects
 - e. 2021 Transmission – GM, listing of projects
 - f. Permits forms and approvals for selected projects
 - g. Communication between the City and SDG&E
 - h. Notification letters submitted to customers
4. Undergrounding MOU
 - a. Presentations to City Council (status)
 - b. Email exchanges between City and SDG&E regarding undergrounding prioritization
 - c. Invoices
 - d. Crowe Point 2BB kickoff meeting notes, project schedule, cost estimates, permit information, environmental compliance information, waste disposal information
 - e. Navajo Blk 7T kickoff meeting notes, project schedule, cost estimates, construction notification, cost variance report, schedule variance report, permit information, service panel conversions and inspections reports, environmental compliance information
 - f. Muirlands 1M1 kickoff meeting notes, project schedule, cost estimates, punch lists, email correspondence, service panel conversions and inspections reports
 - g. Project cost estimates (for all projects covered by new MOU)
 - h. Master service agreement instructions, contract template, scorecard, scope of work, job category descriptions, pricing workbook, program vendor list, bid review process, and results
 - i. Master service agreements

- j. Milestone reports (monthly)
 - k. Overhead costs
 - l. Overall project schedules
5. Surcharge billing information
6. Energy Cooperation Agreement
- a. Customer & Climate Equity update presentation (January 19, 2023)
 - b. Customer & Climate Equity update presentation (June 22, 2023)
 - c. Compliance Review Committee presentation (July 6, 2023)
 - d. Community Power Plan (May 2023)
 - e. ECA implementation plan (several versions)
 - f. CPUC Resolution E-5190. Approval, with Modifications, of Evaluation Criteria for the Partnership Pilot and Standard Offer Contract Pilot Pursuant to Decision 21-02-006
 - g. 30 Follow-up Questions related to the Energy Cooperation Agreement (August 29, 2023)
 - h. Ratepayer funding authority matrix
 - i. Annual report activity of SDG&E (U 902M) on low-income assistance programs for 2021
 - j. Monthly report activity of SDG&E (U 902M) on low-income assistance programs for January 2022 through June 2023
 - k. The Path to Net Zero report, April 2022
 - l. The Path to Net Zero presentation, May 2022
 - m. Various meeting agendas/minutes
 - n. SDG&E 2022 Presentation on Gas & Electric Rates (October 3, 2022)
 - o. Natural gas and electric rates update presentation (October 2022)

City

- 1. Franchise Compliance Review Committee meeting notes
- 2. Franchise fees and other payments
 - a. Quarterly Franchise Fee Statements (from SDG&E)
 - b. Proof of payment receipt for franchise fees
 - c. Proof of payment of Bid Amount
- 3. Administrative MOU
 - a. Matrix providing compliance status by MOU section
- 4. Undergrounding MOU
 - a. City compliance tracker workbook
 - b. Status update on the Utilities Undergrounding Program (June 22, 2023)
 - c. Report to Council, Status of the Utilities Undergrounding Program FY'23
 - i. Attachment 1, Program Status Information
 - ii. Map of Communities of Concern
 - iii. Map of Fire Risk Areas

- iv. Attachment 2, Rule 20A Letter, Report from SDG&E
 - v. Attachment 3, Project Cost and Schedule Estimates from SDG&E for Navajo Block 7T, Crown Point Block 2BB, Muirlands 1M1
 - vi. Attachment 3, Comprehensive list of planned and active Rule 20A projects
 - vii. Attachment 4, SDG&E Cost Forecast
 - viii. Attachment 5, Rule 20A Letter and Report from SDG&E
 - ix. Attachment 6, Map of Rule 20A Project Locations
 - d. Palm City 8R status meetings, summary reports, all activities reports
 - e. Email exchanges between City and SDG&E on various topics
 - f. Program status reports
 - g. Presentations
 - h. Various emails between the City and SDG&E
- 5. Organizational charts
 - 6. Energy Cooperative Agreement
 - a. Staff reports
 - b. Slide presentations
 - c. Supporting documentation (for presentations)
 - 7. Permitting statistics dashboard

Appendix C – List of Personnel Interviewed

This appendix provides the list of personnel Crowe interviewed during the course of this audit.

SDG&E

1. Bernadette Butkiewitz, Sr. Public Affairs Manager
2. Eric Dalton, Principal Accountant
3. Kelli Fitzgerald, Project Manager
4. Craig Gentes, Director of Accounting Operations
5. Katelyn Hailey, Regional Public Affairs Manager
6. Glenn Mueller, Senior Counsel
7. Brittany Syz, Director Regional Public Affairs
8. Shaun McMahon, Senior Municipality Advisor

City of San Diego

1. Nicholas Abboud, Assistant Deputy Director, Development Services Department
2. Mazen Abugharbieh, Program Manager, Development Services Department
3. Ali Alaeipour, Senior Civil Engineer, Development Services Department
4. Bethany Bezak, Director, Transportation Department
5. Ana Legy Del Rincon, Senior Civil Engineer, Transportation Department
6. Myrna Dayton, Assistant Director and Chief Deputy City Engineer, Engineering & Capital Projects Department
7. Tanner French, Senior Traffic Engineer, Development Services Department
8. Chris Gascon, Assistant Director, Transportation Department
9. Chelsea Klaseus, Deputy Director, Transportation Department
10. James Nabong, Assistant Deputy Director, Transportation Department
11. Christopher Naval, Assistant Deputy Director, Development Services Department
12. Megan Ong, Program Manager, Sustainability and Mobility Department
13. Jennifer Reynolds, Program Coordinator, Transportation Department
14. Luis Schaar, Assistant Director, Engineering & Capital Projects Department
15. Manjit Singh, Deputy Director, Development Services Department
16. Natalia Torres, Associate Civil Engineer, Transportation Department
17. Heather Werner, Interim Director, Sustainability and Mobility Department

Appendix D – Management Response

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