

City of San Diego  
Franchise Compliance Review Committee  
San Diego, CA

In planning and performing our performance audit of SDG&E's compliance with the Gas and Electric Franchise Agreements, Administrative Memorandum of Understanding (MOU), Undergrounding MOU, and the Energy Cooperative Agreement between the beginning of each agreement through July 7, 2023<sup>1</sup>, we considered its internal control structure in order to determine our auditing procedures for the purpose of providing conclusions on the audit objectives and not to provide assurance on the internal control structure.

For City and SDG&E consideration we herein submit our comments and suggestions, related to internal control and other matters, summarized in **Table 1** with details for each comment on pages three (3) through eight (8). These are in addition to the findings presented in the performance audit report and are intended to assist in affecting improvements in internal controls and other procedures between audit phases. These items include less-significant internal control matters that were not significant enough to the performance audit objectives but are important enough to warrant attention of those charged with governance, and other control matters.

The accompanying comments and recommendations are intended solely for the information and use of the Franchise Compliance Review Committee, City management, and SDG&E. The status of these comments should be evaluated during the next audit phase covering July 8, 2023 through July 7, 2025. We have already discussed many of these comments and suggestions with various City and SDG&E personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional study of these matters, or to review the procedures necessary to bring about desirable changes.

We include the City's response to this letter in **Appendix A** and SDG&E's response to this letter in **Appendix B**. The City's and SDG&E's written responses to the suggestions identified in our audit were not subjected to the auditing procedures applied in the audit of the compliance with Franchise terms and condition and, accordingly, we express no opinion or conclusion on their response.

We appreciate the courtesy and assistance given to us by City and SDG&E staff during the course of our Phase 1 performance audit.

*Crowe LLP*

Crowe LLP

San Francisco, CA  
May 20, 2024

cc: City Franchise Compliance Review Committee

---

<sup>1</sup> 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.

San Diego Gas & Electric

**Table 1  
Summary of Comments and Recommendations Related to  
SDG&E Franchises and Controls**

Number	Title	Applicable Agreement Section	Recommendation(s)
1	Undergrounding Costs on High End of Comparable Range	Sections 4.2.3, 7.2.2, and 12.3, Undergrounding MOU	<ul style="list-style-type: none"> <li>• Provide Greater Detail for Project Cost Estimates</li> <li>• Provide More Rationale/Context for Cost per Mile Costs Estimates</li> <li>• Provide Greater Access to Books and Records to Substantiate Cost per Mile</li> <li>• Perform Project Lookback to Identify Drivers for Lower and Higher Cost Projects</li> <li>• Evaluate Cost Savings Measures Where Possible</li> </ul>
2	Limited Documentation to Support Method for Determining Overhead Cost Rates Use for Undergrounding Projects	Section 10.1,3 and 10.3, Undergrounding MOU	<ul style="list-style-type: none"> <li>• Provide More Rationale/Context for Application of Each Overhead Applied to Undergrounding Projects</li> <li>• Provide Greater Access to Books and Records to Support Overhead Cost Rates</li> </ul>
3	Delays in Progressing Some Legacy Surcharge Undergrounding Projects	Section 18	<ul style="list-style-type: none"> <li>• Communicate and Document the Basis for Delays in Completing Legacy Surcharge Undergrounding Projects</li> </ul>
4	Instances where Environmental Monitors Not Present When Required	Section 7.13, Undergrounding MOU	<ul style="list-style-type: none"> <li>• Improve Documentation and Communications Related to Environmental Monitoring</li> </ul>
5	Challenges with Obtaining Easements	Section 6.4.2, 6.4.4, Undergrounding MOU	<ul style="list-style-type: none"> <li>• Improve Timeliness of Easements</li> </ul>
6	Improve Tracking of Two-Year Projects Subject to Administrative MOU	Administrative MOU	<ul style="list-style-type: none"> <li>• Develop System Capabilities to Track and Monitor Compliance with Administrative MOU</li> </ul>
7	Emergency Project Process Doesn't Provide City Adequate Notice Work is Occurring	Administrative MOU, Section 5 c), 6 c), 10 c)	<ul style="list-style-type: none"> <li>• Develop Mechanism to Inform City When Work Performed</li> <li>• Document Rationale for Use of Emergency Project Designation</li> <li>• Refine Emergency Project Definition</li> </ul>

## 1. Undergrounding Costs on High End of Comparable Range

### Comment

Regarding SDG&E's compliance with the requirement to submit to the City on an annual basis SDG&E's average underground cost per mile for the Surcharge Program,<sup>2</sup> SDG&E provided undergrounding costs for 13 current surcharge projects that range from \$7.8 to \$13.3M per mile, and average \$9.3M per mile, as shown in the table below.

**Table 2**  
**SDG&E Surcharge Undergrounding Project**  
**Current Cost Estimates per Mile**  
**November 2023**

Project	Miles	Total Cost (Millions \$)	Cost per Mile (without OH)	Cost per Mile (with OH)	OH Factor
1. Allied Gardens 7R1	3.77	\$41.1	\$5.2M	\$9.6M	81%
2. North Clairemont 6K1	4.61	\$49.1	\$5.2M	\$9.6M	85%
3. North Clairemont 6K2	5.89	\$55.8	\$4.7M	\$8.5M	81%
4. Crown Point 2BB, Job 1	2.07	\$28.2	\$6.7M	\$12.4M	85%
5. Crown Point 2BB, Job 2	2.44	\$24.8	\$4.7M	\$9.1M	94%
6. Del Mar Heights 1Y	2.41	\$21.2	\$4.3M	\$7.8M	81%
7. Mission Beach 2S2	2.14	\$31.5	\$7.3M	\$13.3M	82%
8. Muirlands 1M1	2.64	\$25.7	\$4.8M	\$8.7M	81%
9. Navajo Blk 7T	4.89	\$47.8	\$4.9M	\$9.0M	84%
10. North Encanto Blk 4R1	5.53	\$52.5	\$4.5M	\$8.3M	84%
11. Palm City Blk 8R	2.99	\$29.9	\$4.8M	\$8.8M	83%
12. Normal Heights 3DD	4.28	\$47.0	\$5.4M	\$9.9M	83%
Total	43.66	\$407.1			
Average			\$5.1M	\$9.3M	83%

These figures are increasing from prior years likely in part due to construction and labor cost escalations. For example, SDG&E estimated average undergrounding costs for these same surcharge projects equaled approximately \$7.2M per mile for fiscal year 2024 and \$6.9M for fiscal year 2023.<sup>3</sup>

When compared to other published undergrounding cost per mile data, these are on the higher end of the range. For example, PG&E recently reported average actual rule 20A undergrounding costs per mile for 22 of \$5.2M.<sup>4</sup> A City of Berkeley, California, study indicated average City undergrounding cost per mile figures of approximately \$6.0M in 2022.<sup>5</sup> The State of New York identified undergrounding costs per mile ranging from \$4M to \$7.2M.<sup>6</sup>

<sup>2</sup> Per Section 13.1 of the Undergrounding MOU, this is calculated using the "Miles Installed" methodology described in the Franchise (the "Miles Installed" methodology reflects length of mainline trench and service trench installed as referenced in Appendix A — Cost Per Mile of the Undergrounding MOU).

<sup>3</sup> Source: *City Status Update on the Utilities Undergrounding Program*, June 22, 2023, Attachment 4 SDG&E Cost Forecast.

<sup>4</sup> Source: PG&E Rule 20A Annual Report.

<sup>5</sup> *Study to Underground Utility Wires in Berkeley*, prepared February 2020, page 4, in 2019 dollars.

<sup>6</sup> *The Benefits, Costs, and Economic Impacts of Undergrounding New York's Electric Grid*, June 27, 2023, Industrial Economics, Inc., Page 22, for underground distribution capital projects.

We note that there are a variety of reasons why undergrounding costs per mile can vary significantly. These include:

- Concentration of other underground utilities
- Customer outreach requirements
- Environmental clearances
- Labor costs
- Paving
- Permitting
- Population density
- Terrain
- Topography
- Volume of services.

Importantly, use of undergrounding cost per mile figures for rural settings is not a valid comparison as the undergrounding construction conditions generally are much more straightforward. For example, SDG&E has reported recent undergrounding cost per mile figures of between \$2.0 and \$2.3M for wildfire mitigation efforts located in the rural high fire threat district (HFTD) areas it serves.<sup>7</sup> Again these are not comparable costs with SDG&E in City urban area undergrounding costs.

### **Suggestion**

Given that SDG&E's undergrounding costs are on the higher end of the range of reported data, we find it prudent for SDG&E to:

- Provide Greater Detail for Project Cost Estimates – Currently SDG&E provides a one-page summary of the costs per mile, organized to include general categories of service panel modifications, trench & conduit costs, cabling & connections, cable poles, and overhead removals. However, from this data alone it is difficult to understand exactly which elements of that project pose unique construction challenges which may cause that project's costs to be higher than in other locations. We suggest that SDG&E provide a basis of estimate, project assumptions, and more detailed line item costs for each project cost estimate.
- Provide More Rationale/Context for High Cost per Mile Estimates – Recognizing the complexity and variability of undergrounding work, we suggest that SDG&E provide additional data and information to the City to explain reasons why SDG&E undergrounding costs are on the higher end of the range of comparable undergrounding costs.
- Provide Greater Access to Books and Records to Substantiate Cost per Mile Estimates – We suggest in the spirit of open communications related to the MOU that SDG&E provide detailed final actual costs related to completed undergrounding projects, particularly if these are used to inform future project cost estimates.
- Perform Project Lookback to Identify Drivers for Lower and Higher Cost Projects – The City should select five (5) completed higher cost projects and five (5) completed lower cost projects for both Rule 20A and City Surcharge funded for a total of 20 projects. These projects should have been completed in the previous three years. For these projects, SDG&E should perform an analysis to identify lessons learned, primary cost drivers, and unique project-specific factors that contributed to the higher or lower project costs. For example, for higher cost projects, was the cost high because of one-time or extraordinary factors that SDG&E does not expect for most future projects (e.g., lengthy project delays, project starts/stops due to Covid pandemic, temporary supplier/vendor limitations, re-mobilizations, “standing army” or unforeseen utility conflicts)? Additionally, SDG&E should provide documentation to support higher than expected project costs driven by increases in costs of construction, labor, equipment, materials, permitting, and/or overhead. SDG&E should factor these observations and lessons learned into its go forward project cost estimates. SDG&E also should explain whether or not future undergrounding project cost estimates include higher contingencies

---

<sup>7</sup> SDG&E Report 2022 Spending Accountability Report (RSAR), Strategic Undergrounding (Capital), dated 4/28/2023, SDG&E Balanced Program Direct Capital Cost Variances (2020, 2021, and 2022), pages A-117 and A-120.

and/or cost escalations based on recent experience performing undergrounding project work within the City.

- Evaluate Cost Savings Measures – SDG&E has already been working with the City to identify alternative cost-saving measures such as bundling job packages, leveraging City owned property for staging areas and utilizing one lot for two projects, and shortening design durations to bring the Issued for Construction Drawings notice forward.

## **2. Limited Documentation to Support Method for Determining Overhead Cost Rates Used for Undergrounding Projects**

### **Comment**

For undergrounding projects, as shown in the Table 2, SDG&E's total effective overhead rate is approximately 85 percent. The overhead rate is applied to direct costs and in accordance with the Undergrounding MOU, SDG&E is required to report to the City overhead in the following four (4) overhead cost categories:

- Administrative & General (A&G) and Construction Support OH
- Labor OH
- Purchasing & Warehousing OH
- Other OH.

Per testimony provided in conjunction with SDG&E's General Rate Case proceedings for electric and gas rates regulated by the California Public Utilities Commission (CPUC)<sup>8</sup>, SDG&E overheads are charged for expenses not attributable to one project, but many projects. Overhead costs can include supervisors, managers, field employees, and administrative personnel. Overhead costs can include administrative expenses such as office supplies, telephone, mileage, uniforms, professional dues. Overhead costs also can include contract administration, pension and benefits, workers compensation, administrative and general, fleet/equipment, and rent costs.

Given the significance of the overhead costs relative to total City undergrounding project costs, the City would benefit from SDG&E providing additional justification and documentation to support the overhead rates that SDG&E uses for project cost estimates and the overhead costs it provides in conjunction with Section 10.3 of the Undergrounding MOU.

### **Suggestions**

- Provide More Rationale/Context for Application of Each Overhead Rate Applied to Undergrounding Projects – We suggest that as part of its cost estimates, SDG&E provide additional documentation to show the relationship and/or nexus for each applicable overhead rate applied to a direct project cost. Further, SDG&E should provide documentation to support where comparable overhead rates have been accepted/approved elsewhere. One basis for comparison would be the effective overhead rates SDG&E has been approved to apply to similar undergrounding and/or capital projects as part of the CPUC General Rate Case process.<sup>9</sup>
- Provide Greater Access to Books and Records to Support Overhead Cost Rates – We understand that the City recently has requested additional specifics regarding this overhead rate and is working with SDG&E to better understand the costs included within overhead rates applied to City surcharge projects. For example, the City has requested a custom report to show job specific details of how accruals and direct costs affect the overhead amount, and to provide an annual report on rate adjustments and their impact to overhead rates.

---

<sup>8</sup> Sources: Revised Prepared Direct Testimony of R. Craig Gentes on Behalf of SDG&E (Track 2 Accounting), application A.22-05-016 for 2024 General Rate Case – Track 2, dated February 9, 2024, page SPD-15 and Revised Prepared Direct Testimony of Steven P. Dais (Rate Base), application A.22-05-016 for 2024 General Rate Case, dated August 2022, page SPD-15.

<sup>9</sup> SDG&E receives approval for overhead costs, not rates, as part of the CPUC General Rate Case process, but these effective overhead rates can be calculated from approved indirect and direct costs.

### 3. Delays in Progressing Some Legacy Surcharge Undergrounding Projects

#### Comment

Some legacy surcharge undergrounding projects were in process at the time the new Undergrounding MOU became effective on April 6, 2022. Section 18 of the Undergrounding MOU indicates that SDG&E is required to progress these legacy projects to completion.

We observed that some of these projects may not be progressing timely. One example is the La Jolla Block IJ project. For this project, during the April 2023 monthly status meeting, SDG&E reported that trenching was completed and at that time the City was awaiting final “as-built” documents. Approximately one year later in April 2024, upon inquiry from the City, SDG&E indicated the project is not yet complete and instead requires additional trenching.

For the Chollas 4J1 project, the project began in May 2022, but appeared still in process as of January 2024 with an expected completion date in July 2024. A variety of reasons impacted the project schedule. There was some redesign work needed in January 2022 when the target date for preconstruction was May 2022. Some delays occurred between May and October 2022 due to permit updates/resubmittals and the bid process. In October, 2022, the project began but then was put on pause as SDG&E was having equipment problems. The project was then delayed through to June 2023 for various reasons (small part procurements, material shortages, schedule updates). In July, 2023 work paused due to a security incident. Work resumed in August, 2023. Primary cabling was completed in September 2023, but secondary cabling was in process between September 2023 and January 2024. In January 2024, the cutovers were expected to begin in February 2024. In April 2024, SDG&E reported that 6 runs of cabling remain in Job 2, and cutovers were pushed from April 15 to July 9, 2024.

The Golden Hills Block 8C project began in January 2022 with an expectation of design completion in January 2022 and then three weeks for construction. Due to property owner cutover progress, delays pushed out the progress. In August 2022, it was expected that SDG&E would have materials by the end of August 2022. Over the next approximately one year, the project progressed very slowly due to additional resident cutovers required, permit updates, and inspections. In July 2023, work was progressing and was expected to be completed by August, 2023. In August, 2023, SDG&E indicated no work was taking place, but that they would return on September 13, 2023 to make connections. Some delays ensued due a customer’s refusal to allow work. Between October 2023 and February 2024, SDG&E was waiting on a permit for a fuse cabinet. This permit was issued in February 2023, but work had not begun through April, 2024.

The Rolando Blk 7G2 (Joint Project) began in January 2022 with the intent of starting in April 2022 and finishing by the end of June 2022. In July 2022, the job was issued for construction with an estimated procurement completion time of 2 months and 2 weeks and a construction start date of October, 2022. Cabling started in September 2022. In October 2022, SDG&E was having equipment issues so cabling was temporarily put on hold. In January 2023, SDG&E indicated crews would begin work in February, 2023. In March, 2023, SDG&E indicated cabling and cutover would be completed by the end of May 2023. In May, 2023, SDG&E indicated cabling and cutover would be completed by July or August 2023. In September, 2023, SDG&E indicated cabling and cutover would be completed by mid October 2023 and they were on October 9, 2023. At that time RFS was expected in December 2023. In January, 2024, RFS was pushed to the end of March 2024 because the permit team required relocation of cathodic protection. In February, 2024, RFS was pushed to the end of April 2024 as the permit team continued to require relocation of cathodic protection. In March, 2024, RFS was pushed to the end of May 2024 still due to the permit team requiring relocation of cathodic protection.

#### Suggestion

- Document and Proactively Communicate the Basis for Delays in Completing Legacy Surcharge Projects – if there are delays related to legacy project completion, SDG&E should keep the City informed through clear and consistent communication and thoroughly document the specific cause, responsible party, and time impact for these delays in order to respond to future audit inquiries regarding timely completion of legacy projects.

#### **4. Instances where Environmental Monitors Not Present When Required**

##### **Comment**

We identified a couple of cases which eventually were determined to fall under the Phase 2 audit period, where SDG&E may not have either scheduled environmental monitors in advance or forgot that monitoring was still required after trench and conduit work (T&C) was complete. In one case, SDG&E trenched without an environmental monitor present and in another the environmental monitor showed up but there was no construction occurring.

##### **Suggestion**

- Improve Controls Over Environmental Monitoring – SDG&E can enhance its policies and procedures related to ensuring that environmental monitors are scheduled and present during required work. SDG&E also should document the reasons and communications with the City for deviations from this requirement.

#### **5. Challenges Obtaining Easements**

##### **Comment**

The City identified three easements related to the Legacy surcharge project, Jamacha Lomita Blk 4Y, where SDG&E was challenged to obtain easements.<sup>10</sup> Consequently the City had to hire a consultant to obtain these easements. There is some overlap in the timing with the new MOU related to these projects as they are still ongoing.

##### **Suggestion**

- Improve Performance Related to Easements for Joint Projects – Going forward, SDG&E should monitor and document its efforts to obtain, retain, and execute easements for joint projects. SDG&E should communicate immediate concerns with regard to obtaining easements for joint projects so that design modifications can be made where necessary to keep the project progressing.

#### **6. Improve Tracking of Two-Year Projects Subject to Administrative MOU**

##### **Comment**

SDG&E could not timely provide a listing of projects subject to the Administrative MOU. SDG&E does not yet have internal policies or procedures in place to track, monitor or update projects listed in the Two-Year Plan. In addition, SDG&E has not adjusted the systems it uses to specifically identify applicable projects and track project compliance with requirements of the Administrative MOU.

There is a risk that SDG&E will not comply with requirements of the Administrative MOU because SDG&E does not actively track projects subject to the Administrative MOU. In addition, SDG&E does not have the ability to timely report Two-Year Plan project listings for audit purposes.

##### **Suggestion**

- Develop System Capabilities to Track and Monitor Compliance with Administrative MOU - SDG&E should develop internal procedures to track and monitor projects that are included in the Two-Year Plan and periodically audit and update the plans to allow for the City or their designee to audit projects subject more effectively to the requirements of the Administrative MOU.

---

<sup>10</sup> These easements were located at 920 Cardiff, 306 Encinitas, and 428 Sunnyside.

## **7. Emergency Project Process Doesn't Always Provide City Adequate Notice Work is Occurring**

### **Comment**

In some cases, the City has noted that there are some challenges with identifying whether a project falls under the scope of an emergency project. In other cases, due to the nature of the project, the City is not timely informed that emergency project work is occurring. This creates challenges for the City to respond to inquiries from the public as well as to coordinate other City infrastructure project work.

The definition of an emergency project is provided in the Administrative MOU (Section 5 c) and is as follows:

“A Project involving Emergency Work. This includes without limitation, Work required to mitigate active gas leaks, energized downed power lines, restoring service to street lighting and signaling, damaged or failed underground equipment, or repairing damaged or deteriorating poles and/or equipment. This also includes Emergency Work to manage, de-energize, repair and restore energized facilities during Public Safety Power Shutoffs, and restoration of the ROW to its original condition in the event of damage to the ROW that impedes traffic or threatens public safety...”

Section 6 c) further states: “Emergency Work may be performed immediately; provided GRANTEE provides notice to the City as described herein, and to the extent such Emergency Work is a Category 1 project, GRANTEE shall add the Project to the Portal; if it is Category 2, GRANTEE shall apply for the respective permits required for such Work with fourteen (14) Business Days per San Diego Municipal Code section 62.1211, as may be amended; provided that if the Emergency does not require any additional Work, no further action will be taken.

Section 10 c) defines the requirements to notify the City of emergency work and states “Emergency Work. GRANTEE will notify the CITY of Emergency Work in accordance with the notification requirements set forth in San Diego Municipal Code section 62.1211 and the CITY’s emergency excavation website at <https://www.sandiego.gov/tsw/unplannedexcavation>. After essential services are restored, and the Emergency is no longer occurring with respect to the Work, GRANTEE will apply for the appropriate permit based on the project type within fourteen (14) Business Days. Furthermore, GRANTEE shall check in-flight Emergency Work at least every other Business Day to ensure safety until final restoration is complete, and immediately in response to CITY notifying GRANTEE of a safety issue.”

### **Suggestions**

- Document Rationale for Use of Emergency Project Designation – to avoid situations where there is an appearance that a project was completed using the emergency project designation when it should not have been, for those projects where there is potential ambiguity, SDG&E should include thorough documentation in its project files supporting the rationale for why these projects fell under the emergency project definition.
- Develop a better mechanism to timely inform the City when emergency work is performed – the City and SDG&E should explore developing a way for SDG&E to promptly inform the City when and where emergency work is being performed so that the City is aware and can respond to inquiries from the public.
- Refine Emergency Project Definition – the City and SDG&E may want to review the emergency project definitions to clarify those situations where the project may not clearly fall under the current definition of an emergency project.

**Appendix A – City of San Diego Response**



**Sustainability and Mobility Department**

May 22, 2024

**Subject: City Response to Crowe LLP Management Letter**

Dear Crowe LLP,

The City acknowledges Crowe's observations outlined in the management letter and commits to facilitating SDG&E's execution of the recommended improvements. The City appreciates Crowe highlighting these potential focus areas for the next audit as they may impact the overall success of City and SDG&E projects. Recognizing the importance of cost-effective projects and timely project completion for the benefit of our residents, businesses, and community, we look forward to engaging in constructive dialogue with SDG&E to carry out these improvements. We are committed to finding strategies that streamline processes and minimize delays, ultimately ensuring the efficient delivery of City projects.

Sincerely,

A handwritten signature in black ink, appearing to read "Heather Werner".

Heather Werner  
Director (Interim)  
Sustainability and Mobility Department  
City of San Diego

## **Appendix B – San Diego Gas & Electric Response**



Katelyn Hailey  
Regional Public Affairs  
Manager

8330 Century Park Ct.,  
CP31D  
San Diego, CA 92123

tel: 619-798-0842  
email: khalley@sdge.com

May 29, 2024

Aaron Coen, PMP  
Crowe LLP

Via email to: [Aaron.Coen@Crowe.com](mailto:Aaron.Coen@Crowe.com)

Subject: Response to the Management Letter Regarding Performance Audit of SDG&E Compliance with Franchise

Dear Mr. Coen:

SDG&E has reviewed comments and suggestions from Crowe LLP related to internal control and other matters for SDG&E's compliance with the Gas and Electric Franchise Agreements, Administrative Memorandum of Understanding (MOU), Undergrounding MOU, and the Energy Cooperative Agreement that are provided in addition to the findings presented in the performance audit report and are intended to assist in affecting improvements in internal controls and other procedures between audit phases.

SDG&E is appreciative of the suggestions, and seeks to provide the following comments in response:

#### **1. Undergrounding Costs on High End of Comparable Range**

##### *Crowe Suggestions*

*Given that SDG&E's undergrounding costs are on the higher end of the range of reported data, we find it prudent for SDG&E to:*

- *Provide Greater Detail for Project Cost Estimates – Currently SDG&E provides a one-page summary of the costs per mile, organized to include general categories of service panel modifications, trench & conduit costs, cabling & connections, cable poles, and overhead removals. However, from this data alone it is difficult to understand exactly which elements of that project pose unique construction challenges which may cause that project's costs to be higher than in other locations. We suggest that SDG&E provide a*

*basis of estimate, project assumptions, and more detailed line item costs for each project cost estimate.*

- *Provide More Rationale/Context for High Cost per Mile Estimates – Recognizing the complexity and variability of undergrounding work, we suggest that SDG&E provide additional data and information to the City to explain reasons why SDG&E undergrounding costs are on the higher end of the range of comparable undergrounding costs.*
- *Provide Greater Access to Books and Records to Substantiate Cost per Mile Estimates – We suggest in the spirit of open communications related to the MOU that SDG&E provide detailed final actual costs related to completed undergrounding projects, particularly if these are used to inform future project cost estimates.*
- *Perform Project Lookback to Identify Drivers for Lower and Higher Cost Projects – The City should select five (5) completed higher cost projects and five (5) completed lower cost projects for both Rule 20A and City Surcharge funded for a total of 20 projects. These projects should have been completed in the previous three years. For these projects, SDG&E should perform an analysis to identify lessons learned, primary cost drivers, and unique project-specific factors that contributed to the higher or lower project costs. For example, for higher cost projects, was the cost high because of one-time or extraordinary factors that SDG&E does not expect for most future projects (e.g., lengthy project delays, project starts/stops due to Covid pandemic, temporary supplier/vendor limitations, re-mobilizations, “standing army” or unforeseen utility conflicts)? Additionally, SDG&E should provide documentation to support higher than expected project costs driven by increases in costs of construction, labor, equipment, materials, permitting, and/or overhead. SDG&E should factor these observations and lessons learned into its go forward project cost estimates. SDG&E also should explain whether or not future undergrounding project cost estimates include higher contingencies and/or cost escalations based on recent experience performing undergrounding project work within the City.*
- *Evaluate Cost Savings Measures – SDG&E has already been working with the City to identify alternative cost-saving measures such as bundling job packages, leveraging City owned property for staging areas and utilizing one lot for two projects, and shortening design durations to bring the Issued for Construction Drawings notice forward.*

#### **SDG&E Management Response**

- **Provide Greater Detail for Project Cost Estimates.** The project cost estimates SDG&E has begun providing to the City include a detailed breakdown of the following line items: Engineering & Design, Service Panel Modifications, Trench & Conduit, Cabling & Connections, Service Cutover, Cable Poles, Overhead Removals, and Materials. The costs are also broken out between direct costs and indirect costs. Each line item within the estimate is based on the overall size and

scope of the specific job, with some level of contingency built in based on the various project risks. Initial cost estimates are developed during the initiation phase and provide to City with 30 days of project kickoff meeting before the design has started. After a 30% design has been developed, SDG&E updates the cost estimate at the 30% baseline and provides the updated estimate to the City. The 30% baseline cost estimates and project schedules are reviewed in detail with City staff in a meeting where SDG&E presents the following:

- 30% Baseline Cost Estimate
- 30% Baseline Critical Path Report
- 30% Baseline Milestone Summary Report
- 30% Baseline Milestone Summary Variance Report
- Initial-to-30% Baseline Cost Estimate Comparison
- Schedule PowerPoint Presentation

During the meeting, SDG&E reviews any cost variances between the initial estimate and the 30% baseline; the drivers for any reductions or increases are explained and discussed. SDG&E also reviews schedule variance and identifies risks and issues associated with the specific project scope (or scope changes), design, and location. Upon completion of the 90% design milestone, SDG&E will once again update the estimate to reflect any new information or changes to the design and provide updated estimates to the City. Once the drawings have been issued for construction, the IFC estimate will be baselined again and reported to the City with any relevant details provided to explain any changes. The estimate will continue to be updated and reported to the City, if necessary, during construction.

Based on the above framework as outlined in the MOU, SDG&E and the City are working closely to refine the cost estimates during the project lifecycle, and we believe the accuracy, predictability, and timeliness of the estimates will continue to improve and be streamlined as more experience is gained.

- **Provide More Rationale/Context for High Cost per Mile Estimates.** As addressed previously, SDG&E's costs are driven, in part, by global supply chain issues, which have impacted the cost and availability of materials. In addition, Surcharge undergrounding projects are primarily located in urban areas, where there is a higher concentration of other utilities and services compared to undergrounding projects in more rural or remote areas, which result in higher costs. SDG&E's costs are also a function of the local labor and construction markets. It is generally known that construction costs have climbed sharply since the Pandemic. As more projects move towards construction, SDG&E will continue to keep the City informed of any cost drivers that may develop or change and may have the potential to impact projects that are in flight or upcoming.
- **Provide Greater Access to Books and Records to Substantiate Cost per Mile Estimates.** SDG&E is already providing greater access to Books and Records related to invoicing questions submitted by the City. For the billing period August – February, SDG&E has provided copies of multiple vendor invoices requested by the

City and we continue to provide answers and explanations to any questions the City has related to billing.

- **Perform Project Lookback to Identify Drivers for Lower and Higher Cost Projects.** SDG&E can work with the City on “lessons learned” on past projects to understand cost drivers and opportunities to decrease costs. It is expected that projects with shorter durations and streamlined schedules that avoid “stopping and starting” will see greater cost savings. Many projects were put on hold during the negotiation of the Franchise Agreement and Undergrounding MOU. The projects were then restarted, causing the need for schedules, designs and contractor bids to be updated, resulting in longer project durations and associated cost increases. For that reason, SDG&E suggests using completed projects that have not experienced the “stop and start” phenomenon, to better evaluate and identify opportunities to gain efficiencies and savings.
- **Evaluate Cost Savings Measures.** SDG&E will continue to work with the City to identify alternative cost-saving measures. As noted, opportunities for cost savings have been identified in the following areas: bundling job packages for construction bids, leveraging City owned property for staging areas and utilizing one lot for two projects, and shortening design durations to bring the Issued for Construction Drawings notice forward. SDG&E is also working with the City to baseline expectations and approach to community outreach to compliment the City’s efforts while avoiding redundancy and added costs.

## 2. Limited Documentation to Support Method for Determining Overhead Cost Rates Used for Undergrounding Projects

### Crowe Suggestions

- *Provide More Rationale/Context for Application of Each Overhead Rate Applied to Undergrounding Projects – We suggest that as part of its cost estimates, SDG&E provide additional documentation to show the relationship and/or nexus for each applicable overhead rate applied to a direct project cost. Further, SDG&E should provide documentation to support where comparable overhead rates have been accepted/approved elsewhere. One basis for comparison would be the effective overhead rates SDG&E has been approved to apply to similar undergrounding and/or capital projects as part of the CPUC General Rate Case process.<sup>1</sup>*
- *Provide Greater Access to Books and Records to Support Overhead Cost Rates - We understand that the City recently has requested additional specifics regarding this overhead rate and is working with SDG&E to better understand the costs included within overhead rates applied to City surcharge projects. For example, the City has requested a custom report to show job specific details of how accruals and direct costs affect the overhead amount,*

<sup>1</sup> SDG&E receives approval for overhead costs, not rates, as part of the CPUC General Rate Case process, but these effective overhead rates can be calculated from approved indirect and direct costs.

*and to provide an annual report on rate adjustments and their impact to overhead rates.*

**SDG&E Management Response**

- **Provide More Rationale/Context for Application of Each Overhead Rate Applied to Undergrounding Projects.** SDG&E will continue to strive for open communication with the City on all matters related to Franchise projects and costs.
- **Provide Greater Access to Books and Records to Support Overhead Cost Rates.** SDG&E is already providing access to Books and Records related to the City's requests for invoice documentation.

**3. Delays in Progressing Some Legacy Surcharge Undergrounding Projects**

**Crowe Suggestion**

- *Document and Proactively Communicate the Basis for Delays in Completing Legacy Surcharge Projects – if there are delays related to legacy project completion, SDG&E should keep the City informed through clear and consistent communication and thoroughly document the specific cause, responsible party, and time impact for these delays in order to respond to future audit inquiries regarding timely completion of legacy projects.*

**SDG&E Management Response**

SDG&E implemented weekly project meetings with the City during the past year to allow for greater and more frequent communication regarding project status and details. The Legacy Surcharge projects are discussed during the weekly meetings, and SDG&E includes all project managers (both Legacy and new MOU) to report updates on their respective projects to keep the City informed of any developments or changes. SDG&E has also hired a full-time dedicated program manager for the Surcharge program who is actively managing and monitoring the program, keeping a pulse on the status of individual projects, identifying and mitigating risks and issues, and communicating with the City on a daily basis.

**4. Instances where Environmental Monitors Not Present When Required**

**Crowe Suggestion**

- *Improve Controls Over Environmental Monitoring – SDG&E can enhance its policies and procedures related to ensuring that environmental monitors are scheduled and present during required work. SDG&E also should document the reasons and communications with the City for deviations from this requirement.*

**SDG&E Management Response**

SDG&E was not made aware of instances where environmental monitors were not present when required during the audit but will further investigate the specific cases where an environmental monitor may not have been scheduled or present. SDG&E will work with the City to identify opportunities for improved communication related to environmental monitor requirements and scheduling.

**5. Challenges Obtaining Easements****Crowe Suggestion**

- *Improve Performance Related to Easements for Joint Projects – Going forward, SDG&E should monitor and document its efforts to obtain, retain, and execute easements for joint projects. SDG&E should communicate immediate concerns with regard to obtaining easements for joint projects so that design modifications can be made where necessary to keep the project progressing.*

**SDG&E Management Response**

SDG&E acknowledges there were challenges in acquiring easements for the Jamacha Lomita Blk 4Y project. The detailed project schedules SDG&E has implemented will assist the project teams in more closely monitoring progress on obtaining and executing easements for joint projects. SDG&E will communicate immediate concerns regarding acquisition of easements for joint projects during weekly projects meetings so that design modifications can be made as necessary to keep the project on schedule.

**6. Improve Tracking of Two-Year Projects Subject to Administrative MOU****Crowe Suggestion**

- *Develop System Capabilities to Track and Monitor Compliance with Administrative MOU - SDG&E should develop internal procedures to track and monitor projects that are included in the Two-Year Plan and periodically audit and update the plans to allow for the City or their designee to audit projects subject more effectively to the requirements of the Administrative MOU.*

**SDG&E Management Response**

SDG&E has submitted the two-year plan per the requirements of the Administrative MOU; the purpose of the list is for coordination between the City and SDG&E that may impact the same portion of public right-of-way (ROW). SDG&E actively tracks all projects occurring in the City's ROW which are subject to the Administrative MOU and updates the Two-year plan as frequently as required by the Administrative MOU.

Additionally, SDG&E is actively working with the City of San Diego's Transportation Department to coordinate a digital transfer of project data which would include information in a geospatial format.

## **7. Emergency Project Process Doesn't Always Provide City Adequate Notice Work is Occurring**

### Crowe Suggestions

- *Document Rationale for Use of Emergency Project Designation – to avoid situations where there is an appearance that a project was completed using the emergency project designation when it should not have been, for those projects where there is potential ambiguity, SDG&E should include thorough documentation in its project files supporting the rationale for why these projects fell under the emergency project definition.*
- *Develop a better mechanism to timely inform the City when emergency work is performed – the City and SDG&E should explore developing a way for SDG&E to promptly inform the City when and where emergency work is being performed so that the City is aware and can respond to inquiries from the public.*
- *Refine Emergency Project Definition – the City and SDG&E may want to review the emergency project definitions to clarify those situations where the project may not clearly fall under the current definition of an emergency project.*

### **SDG&E Management Response**

SDG&E determines whether work qualifies as "Emergency Work" based on the definition of the term in the Administrative MOU. This definition was negotiated and agreed to by the City of San Diego in the 2021 version of the Administrative MOU, and the 2023 (current) version of the Administrative MOU. Since the first MOU was negotiated, SDG&E and the City have evaluated and re-negotiated the Administrative MOU and the definition of "Emergency Work" was deemed appropriate and was not modified. Unless the City raises the issue during the next re-negotiation of the Administrative MOU, SDG&E believes this matter has been addressed to the satisfaction of both parties.

The Emergency Work designation and process is not taken lightly and is only used when necessary to repair and restore energized facilities and the public ROW to a functional and safe condition.

Prior to Emergency Work being performed, SDG&E follows the requirements for notification outlined in Section 10 of the Administrative MOU and further outlined in section 62.1211 of the San Diego Municipal Code. As a part of that process, SDG&E notifies the City through the City's designated online portal at <https://www.sandiego.gov/tsw/unplannedexcavation>.

Emergency Work is entered into the portal referenced above and relevant information related to the work is made available to the City including:

- Date and time of work
- Contact person
  - Phone number
  - Email address
- Description of work
- Whether or not excavation is required
- Address of excavation
- Nearest Cross Street
- Number of Residences without Services

As a part of SDG&E's entry into the existing portal prior to performing Emergency Work, a description of work is provided. Through this, the City can verify that the "Emergency Work" designation is applicable to the specific situation at hand.

Additionally, all of this information is readily available to the City once entered and could be used to answer related inquiries from the public. If there were additional inquiries from the public that could not be answered using the information in the portal, the City can engage the contact person listed in the portal for additional information as-needed.

Once again, SDG&E thanks Crowe LLP and the City of San Diego for the opportunity to provide comments in response to the "Management Letter Regarding Performance Audit of SDG&E Compliance with Franchise." We look forward to our continued partnership with the City of San Diego.

Sincerely,



Katelyn Hailey  
Regional Public Affairs Manager

Cc: Bert Nuehring, Crowe LLP  
Erik Nylund, Crowe LLP  
Kenneth Smith, Crowe LLP  
Heather Werner, City of San Diego  
Megan Ong, City of San Diego