

March 1, 2021

Eugene "Mitch" Mitchell, Vice President
State Government Affairs & External Affairs
8330 Century Park Court, CP33B
San Diego, Ca. 92123

Subject: City of San Diego Utility Undergrounding Program (UUP) Surcharge Work

via: Electronic Email and Mail

Dear Mr. Mitchell:

As you are aware, the Transportation & Storm Water (TSW) staff have met with SDG&E to resolve the following issues regarding project cost increases related to the Utility Undergrounding Program (UUP):

1. Cost Increases/Cost per Mile
2. Competitive Procurement
3. UUP Projects in Construction
4. Pooled costs including Incentive Compensation Pay (ICP)

TSW staff and SDG&E have reached a resolution for each of the issues listed above as they relate to the 2002 Memorandum of Understanding (MOU) regarding undergrounding obligations. Collectively, we have made significant progress to ensure UUP projects are delivered efficiently to maximize the value of Surcharge funds.

We appreciate SDG&E's cooperation throughout this process. The City has gained a better understanding of how SDG&E calculates the cost per mile of undergrounding work and how these calculations compare to the City's calculation of cost per mile. We are optimistic that SDG&E's development of competitive procurement procedures, allowing the City access to bid documentation and proposal evaluations, as well as SDG&E's commitment to include City staff in the planning stages and throughout the project lifecycle, will ensure proper controls are in place to maximize the value of UPP Projects.

In addition, under the existing franchise agreement, SDG&E has agreed to continue work on a number of UUP projects in an effort to finish projects nearing completion or to a significant project milestone. We also appreciate SDG&E's willingness to continue inspection services on City delivered UUP projects and the further development of a partnership to ensure delayed projects are ready to move forward when the new franchise is awarded.

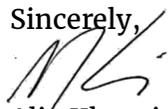
SDG&E currently pools all overhead expenses among all electrical distribution projects, which on average, is approximately 24,000 active projects per month. SDG&E's overhead includes typical business expenses such as workers' compensation, pension/benefits, vacation, and purchasing/warehousing costs. The pool expenses also include direct expenses

Page 2
Eugene "Mitch" Mitchell, Vice President
March 1, 2021

such as design, engineering, project management, and construction management. SDG&E has informed the City that the Federal Energy Regulatory Commission (FERC) and the California Public Utilities Commission (CPUC) recognize SDG&E's pooled costs as an acceptable accounting practice. However, pooling direct costs is not in alignment with the 2002 MOU. Section 8 of the 2002 MOU clearly states that the City will use "Surcharge revenues to fund expenses directly and exclusively related to replacing existing infrastructure related to electric undergrounding projects." Section 10 also states that the City will compensate SDG&E for all reasonable "directly related costs of any such projects." By including direct costs, as listed above, for all electrical distribution projects in the pool costs on the UUP invoices, the City cannot ensure all costs are *exclusive* and *directly* related to UUP projects, and future pooled costs could be disputed.

A portion of SDG&E's pooled overheads includes ICP. The ICP amount adds up to \$2,003,120.45 across all invoices under dispute. We understand that ICP may be a component of the pay that SDG&E employees receive. However, ICP is pooled and paid to all SDG&E employees based on the individual employee and company performance as compared to pre-established financial and operational goals. This includes performance on the 24,000 plus electrical distribution projects not related to UUP projects that SDG&E delivers. As a result, ICP is not an eligible UUP cost as ICP is tied to individual performance, operational goals, and financial performance of all SDG&E projects not exclusive to UUP. On January 15, 2021, SDG&E informed the City that it would remove ICP from all invoices to resolve this portion of the dispute.

The City received revised invoices dated January 29, 2021, with ICP removed. All revised invoices are currently being processed for payment and will be paid based on the 'Amount to be Paid Immediately,' which amounts to \$51,844,200.71.

Sincerely,


Alia Khouri
Deputy Chief Operating Officer

cc: Paola Avila, Chief of Staff, Office of the Mayor
Jay Goldstone, Chief Operating Officer
Kris McFadden, Director, Transportation & Storm Water Department
Gene Matter, Assistant Director, Transportation & Storm Water Department
Patrick Hadley, Deputy Director, Transportation & Storm Water Department
Ryan Gerrity, Deputy City Attorney, Office of the City Attorney