



DATE: July 24, 2018

TO: Mayor and City Council

FROM: Interim Director of Public Works

SUBJECT: PG&E's Rule 20A Program Audit – Amendment to Professional Services Agreement with Mikkelsen & Associates, LLC.

RECOMMENDATION

That Council adopts the attached resolution authorizing the City Manager to negotiate and execute an Amendment to the Professional Services Agreement with Mikkelsen & Associates, LLC., in an amount not-to-exceed \$75,000.

SUMMARY

Mikkelsen & Associates, LLC., (Mikkelsen) has provided consulting services to the City beginning in 2014 to obtain additional PG&E Rule 20A Program (Rule 20A) allocation credits for work on the replacement of overhead with underground electric utilities. Sources of the additional credits were:

- PG&E's calculation of credits for previously completed Rule 20A projects;
- Purchase of other local agencies' unused Rule 20A credits; and
- A return to the City's pre-2011 allocation allotment that was nearly twice the current amount.

The California Public Utilities Commission (CPUC) 2017 General Rate Case (GRC) decision required an overall audit of the Rule 20A. Additional consulting services by Mikkelsen are necessary to provide support and representation for the City in the audit.

BACKGROUND

Since 1967, California's electric utilities had a program to replace overhead distribution lines with underground facilities. Undergrounding projects are undertaken in partnership with local municipal jurisdictions. The utilities allocate credits for future work to each jurisdiction as described in the Rule 20A tariff. These funds come from PG&E's distribution capital expenditures. Local agencies form Utility Underground Districts within eligible areas, usually well-travelled streets, to redeem these credits. When a project is completed, PG&E deducts project costs from the credit account balance. As part of their 2011 General Rate Case (GRC), PG&E convinced the CPUC to reduce the credit allocations by nearly 50%.

On December 14, 2010, in anticipation of the Mission Boulevard Corridor Improvements Phase 2 project, Council adopted an ordinance to form Underground District No. 30 and use

the Rule 20A funds allocated each year to the City by PG&E to replace existing overhead utility facilities with underground facilities. Because the CPUC reduced local agency Rule 20A allocations, the City cannot complete the undergrounding work in Phase 2 using Rule 20A funds exclusively.

In August 2014, the City entered into a professional services agreement with Mikkelsen in the amount of \$25,000 for support services to obtain additional Rule 20A allocation credits. This effort resulted in a successful transfer of allocation credits from the City of Corcoran and a settlement negotiated through the CPUC complaint process.

The City and other local agencies also worked with the CPUC to modify PG&E's 2017 GRC recommendations for Rule 20A. On March 3, 2015, Council authorized the City Manager to execute the first agreement amendment in the amount of \$75,000 for Mikkelsen to perform additional consulting services to represent the City in the modification of the GRC.

The CPUC Board did not agree to the Administrative Law Judge's recommendations to reinstate the pre-2011 Rule 20A allocation levels. However, Mikkelsen successfully negotiated an order from the CPUC that requires PG&E to establish a fund dedicated to the Rule 20A program and a dedicated Rule 20A fund to perform an overall audit of the program and PG&E's management practices.

DISCUSSION

Local agencies were concerned over several issues related to Rule 20A conversions, including the cumulative amount of unredeemed work credits, methods of allocating new work credits to jurisdictions, reasonableness of PG&E's forecasts of expenditures and additions, and PG&E's ability to undertake conversions in a timely manner. In response to these concerns, the CPUC required an audit of the program. In accordance with CPUC's Decisions 17-05-013 and 18-03-022, PG&E, the City, and the CPUC's Energy Division are jointly developing requests for proposals from qualified auditors and consultants to conduct an audit regarding the replacement of overhead lines with underground electric facilities.

The scope of the audit will include the following items:

1. Ensure that PG&E has fully accounted for annual Rule 20A budgeted amounts;
2. Ensure that localities will receive the full benefit of these funds;
3. Assess progress in implementing steps that PG&E has taken to increase its capability to perform Rule 20A conversions;
4. Assess PG&E's processes to verify eligibility of Rule 20A projects; and
5. Verify the reliability of Rule 20A project cost estimates.

Mikkelsen's original agreement and first amendment did not include support and representation for the City in the audit; therefore, this second amendment is necessary. The audit will take approximately 12 months to complete. Staff recommends that Council authorizes the City Manager to execute an additional amendment to the existing agreement

with Mikkelsen to increase the not-to-exceed amount by an additional \$75,000, from \$100,000 to \$175,000.

ECONOMIC IMPACT

There is no economic impact associated with this item.

FISCAL IMPACT

Rule 20A is related to the Mission Boulevard Corridor Improvements Phases 2 and 3 projects. The Adopted FY19 Capital Improvement Program (CIP) includes a total of \$45,893,000 for the completion of Phases 2 and 3 in Route 238 Corridor Improvement – Fund 410. There are adequate funds in the project for Mikkelsen to provide the additional support services in the amount of \$75,000. Decisions related to the Rule 20A program will affect future funding of efforts to underground overhead utilities.

STRATEGIC INTIATIVES

This agenda item pertains to the professional services agreement with Mikkelsen and does not directly relate to the Council’s Strategic Initiatives.

SUSTAINABILITY FEATURES

The action taken for this report will not result in physical development, purchase, or service, or a new policy/legislation.

PUBLIC CONTACT

No public contact has occurred associated with this action.

NEXT STEPS

If approved by Council, staff will amend the Professional Services Agreement with Mikkelsen in a form approved by the City Attorney.

Prepared by: Kathy Garcia, Deputy Director of Public Works

Recommended by: Alex Ameri, Interim Director of Public Works

Approved by:



Kelly McAdoo, City Manager