

California Public Utilities Commission

Report to the Legislature

Year 2008 Utility Procurement

of Goods, Services and Fuel

from

Women-, Minority-, and Disabled Veteran-owned

Business Enterprises

Submitted

September 2009

EXECUTIVE SUMMARY	1
OVERVIEW OF 2008 RESULTS SUMMARY	3
2008 UTILITY PROCUREMENT PROGRAM RESULTS	4
Large Utilities	5
Minority Business Enterprise Procurement	6
Woman Business Enterprise Procurement	7
Disabled Veteran Business Enterprise Procurement	8
Small Utilities	9
Minority Business Enterprise Procurement	10
Woman Business Enterprise Procurement	11
Disabled Veteran Business Enterprise Procurement	12
Fuel Procurement	13
PROGRAM EXPANSION AND IMPROVEMENTS	14
Targeted Procurement Categories	14
Water Utilities	15
Uniform Reporting Categories	16
Full Panel Hearing	16
California Utilities Diversity Council	17
Small Business Expositions	18
WMDVBE Verification	18
Utility Supplier Diversity Webpage	19
CONCLUSIONS	20
ATTACHMENT A – SUPPORTING TABLES	21

EXECUTIVE SUMMARY

This is the California Public Utilities Commission's ("Commission") 23rd annual report to the Legislature, pursuant to Public Utilities (PU) Code Section 8283, on progress reported by utilities in procuring goods, services, and fuel from women-, minority-, and disabled veteran-owned business enterprises (WMDVBEs).

PU Code Section 8283 requires Commission-regulated gas, electric, and telephone utilities, and their regulated subsidiaries and affiliates, with gross annual revenues exceeding \$25 million, to submit annual verifiable plans for increasing procurement from WMDVBEs. The Commission is responsible for verifying the status of WMDVBE applicants, reporting results of the program, and making recommendations to achieve maximum results in implementing legislative policy. Overall, 29 utilities filed annual reports with the Commission. These 29 utilities are divided into two categories based on their total procurements. Large utilities are those that have annual total procurement of over \$150 million and there are 11 of those such utilities. The other 18 utilities are referred to as small utilities with less than \$150 million in annual total procurement.

PU Code Section 8283 mandates that the Commission submit its report on September 1 of each year. General Order (GO) 156 requires each utility to establish goals for utility purchases of services, goods, and fuel as a percentage of total procurement from WMDVBEs. The goals are 15 percent, 5 percent, and 1.5 percent for minority-owned, women-owned, and disabled veteran-owned businesses, respectively.

Utility spending on WMDVBE procurement increased from \$2.80 billion in 2007 to \$3.47 billion in 2008, *an increase of 23.93%*. As a percentage of total utility procurement, amounts from WMDVBE firms decreased from 14.57% in 2007 to 13.19% in 2008. However, the traditional six¹ large utilities performed significantly better than the others. Namely, AT&T California, Sempra Utilities², and Verizon California were either at or above 30% procurement from WMDVBE firms. PG&E's procurement from WMDVBE firms reached 24% while Edison procured 20% of its total procurement from WMDVBE firms. Overall, the 29 utilities are well below the 21.5% target established in G.O. 156 and that is mainly because 5 of the 11 large utilities are underperforming. Those 5 utilities are AT&T Mobility, AT&T Communications of California, AT&T/ASI, Verizon Wireless, and Sprint.

¹ Traditional six large utilities are PG&E, SoCalGas, SDG&E, AT&T California, Verizon California, and Edison.

² Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E)

Major program accomplishments and significant developments for the Commission's Utility Supplier Diversity Program include:

- The Commission held its sixth Full Panel hearing in September 2008, and will hold its seventh hearing in early November 2009, regarding the supplier diversity program and diversity issues. High-level executives and representatives from industry, government, and other interested parties (CEOs, Commissioners, etc.) are expected to attend.
- The Commission continues to expand its efforts in the areas of legal services and financial services, areas of spend that are traditionally underrepresented in WMDVBE procurement. After a continued focus on these areas at the October 2008 Full Panel Hearing, the utilities' procurement levels in both areas have increased in the past year. Specifically, legal spending on WMDVE firms more than doubled, from \$7 million in 2007 to over \$15 million in 2008. Financial services spending more than quadruped, from \$2.4 million in 2007 to over \$9.9 million in 2008. Due to the Commission's actions, both the utilities and WMDVBE vendors are regularly hosting outreach events to attract and match potential new vendors to increase utilization of diverse legal and financial services firms.
- The Commission continues its initiative to better understand the unique characteristics of the traditionally underrepresented DVBE community. Through a series of outreach meetings with veteran organizations, the Commission has developed a draft DVBE profile and aims to develop a database program to better match DVBEs with utilities.
- The Commission hosted two Small Business Expos throughout the state in 2008 and participated in many others. The Expos matched small businesses and diverse vendors to utility procurement personnel. A representative of the Commission's WMDVBE certification clearinghouse operator attended many of the expositions as well.
- The Commission continues to work with the California Utility Diversity Council, National Utility Diversity Council, community-based organizations, and business organizations such as chambers of commerce, to promote the goal of WMDVBE development in California.

OVERVIEW OF 2008 SUPPLIER DIVERSITY PROCUREMENT

Total utility WMDVBE procurement for 2008 was \$3.47 billion – a 23.93 percent increase from the \$2.73 billion reported in 2007. Of the \$3.47 billion for 2008, the results show:

Category	Procurement Amount	Percentage Achieved	Goal
MBE	\$2.26 billion	8.59%	15.0%
WBE	\$1.14 billion	4.34%	5.0%
DVBE	\$66 million	0.25%	1.5%

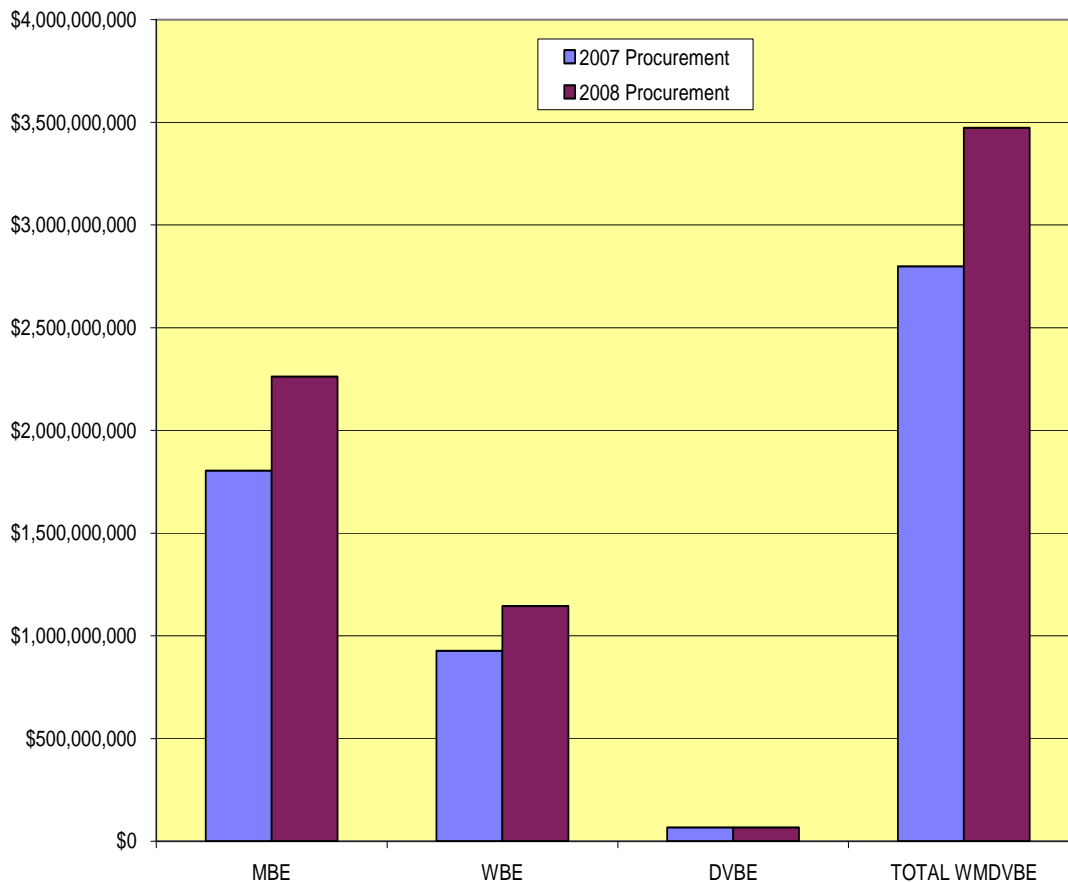
The large utilities experienced decreasing percentages in each of the three WMDVBE categories, while the small utilities increased their percentages in the MBE category only. The results show the utilities are nearly meeting the 5 percent goal for women-owned businesses, but are not achieving the 15 percent goal for minority-owned business enterprises, nor the 1.5 percent goal for disabled veteran-owned business enterprises.

In 2007, the Commission reported the results of 29 utilities; for 2008, the Commission has gathered information on the results of 29 utilities as well.

2008 UTILITY WMDVBE PROCUREMENT PROGRAM RESULTS

This report summarizes utility procurement information into two categories: 1) large utilities (those with total procurement over \$150 million); and 2) small utilities (those with procurement under \$150 million). Attachment A to this report details the utilities' 2008 and 2007 WMDVBE procurement program results. The large utilities represent a disproportionately large share of total utility procurement (97%). Of all utilities required to report, the following exceptions are noted: Comcast of California and Cox Communications of California report they do not make in-state procurement decisions and had no amounts to report. TelePacific Communications filed a report, but due to the recent establishment of its program, their WMDVBE results amounted to less than one percent (0.11%). SureWest Wireless did not submit a report as it was purchased by another carrier in 2008.

Comparison of 2007 and 2008 WMDVBE Procurement



Program Results of Large Utilities

Eleven large utilities reported activity in their WMDVBE programs:

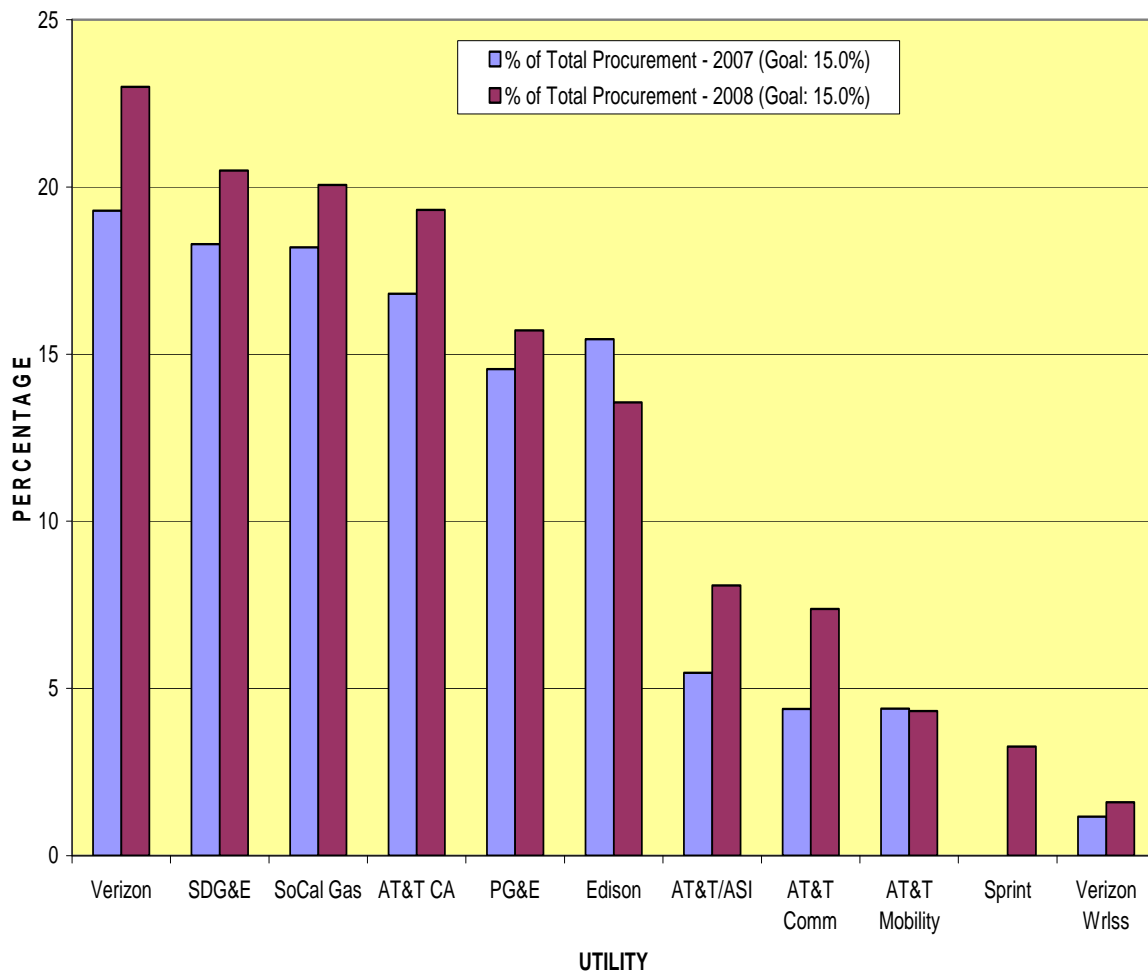
- AT&T Mobility
- Southern California Edison (Edison)
- Pacific Gas and Electric Company (PG&E)
- AT&T California
- AT&T Communications of California
- AT&T/ASI
- San Diego Gas & Electric Company (SDG&E)
- Southern California Gas Company (SoCalGas)
- Sprint
- Verizon of California
- Verizon Wireless

The 2008 results for the large utilities show an overall WMDVBE procurement increase of \$662.20 million, and a decrease of 1.55% of their total procurement; from \$2.73 billion (14.88%) in 2007 to \$3.39 billion in (13.33%) in 2008. [See Tables 1A and 1B in Attachment A].

Large Utilities' Procurement: Minority-owned Business Enterprises (MBEs)

Of the large utilities, five met the MBE procurement goal of 15 percent, and six did not. Large utilities' procurement dollars on MBEs increased from \$1.76 billion in 2007 to \$2.21 billion in 2008, but decreased as a percentage of total utility procurement from 9.61 percent in 2007 to 8.68 percent in 2008. AT&T California, AT&T Communications, PG&E, SDG&E, SoCal Gas, Verizon, and Verizon Wireless all reported increases in both dollars and percentages of total corporate procurement from minority-owned businesses [See Tables 1A and 1B in Attachment A].

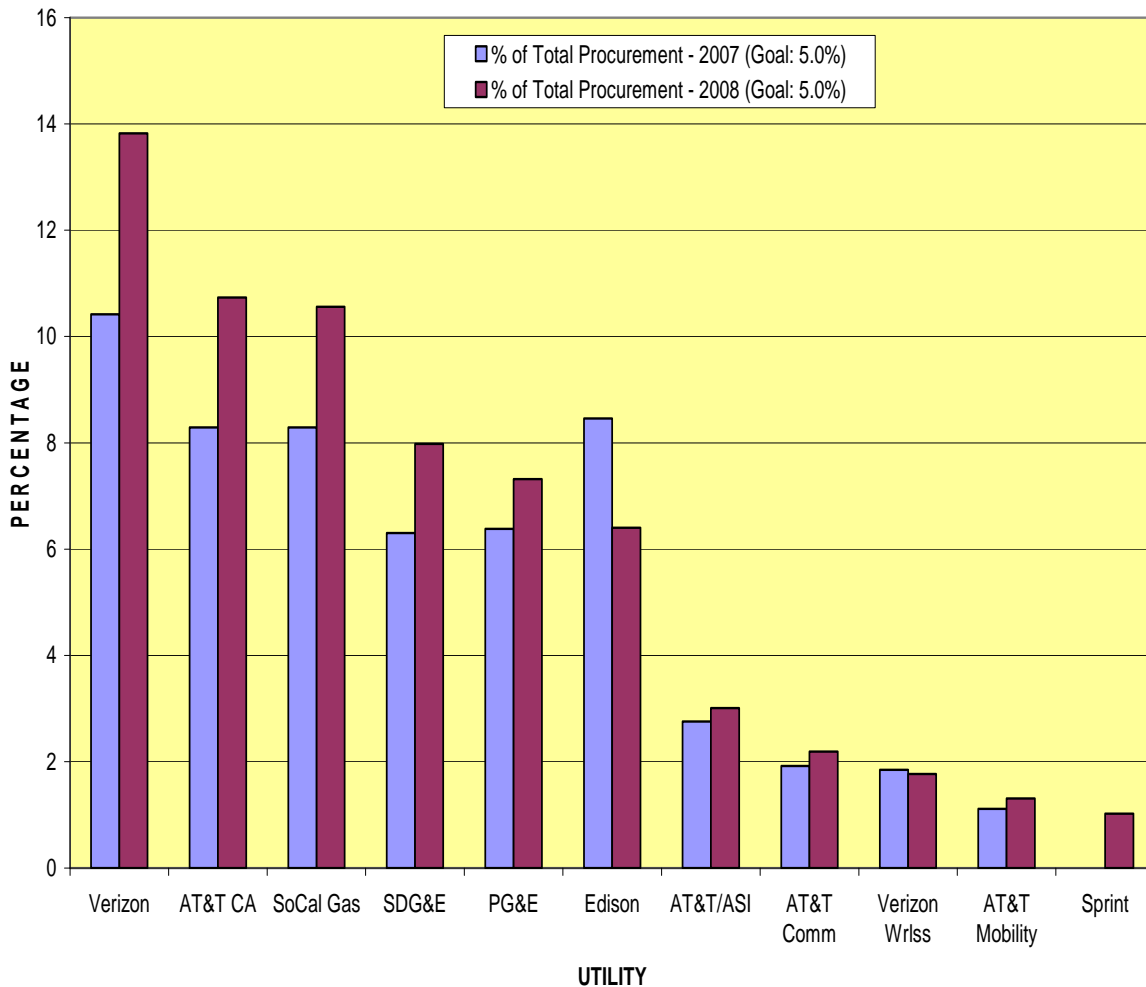
Minority Business Enterprises - Comparison of 2007 and 2008 Procurement



Large Utilities' Procurement: Women-owned Businesses Enterprises (WBEs)

Of the 11 large utilities, six met the procurement goal of 5 percent with WBEs and five did not. Overall, the utilities spent more procurement dollars on WBEs - from \$899 million (4.91%) in 2007 to \$1.12 billion in 2008 (4.39%). AT&T California, AT&T Communications, AT&T Mobility, SDG&E, SoCal Gas, PG&E, and Verizon all reported increases in both dollars and percentages of total corporate procurement from women-owned businesses [See Tables 1A, 1B, 6A, and 6B in Attachment A].

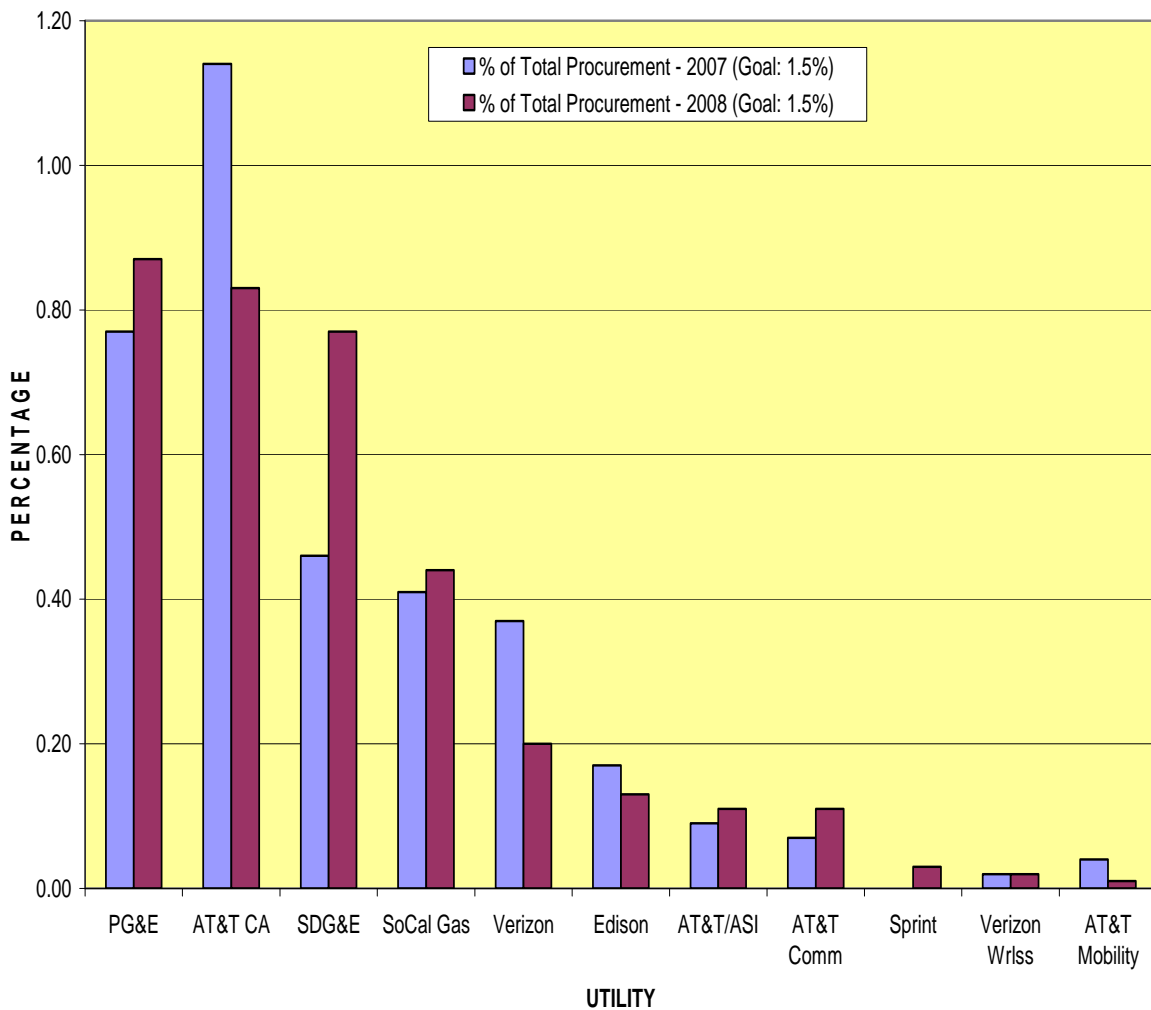
Women Business Enterprises - Comparison of 2007 and 2008



Large Utilities' Procurement: Disabled Veteran-owned Businesses (DVBES)

The large utilities' procurement from DVBES decreased from \$66.7 million (0.36%) in 2007 to \$66.1 million (0.26%) in 2008. No large utility reported achieving the 1.5 percent procurement goal in General Order 156. AT&T Communications, PG&E, SDG&E, and SoCal Gas, all reported increases in both dollars and as a percentage of total procurement from disabled veteran-owned businesses [See Tables 1A, 1B, 7A and 7B in Attachment A].

Disabled Veteran Business Enterprises - Comparison of 2007 and 2008 Procurement



Program Results of Small Utilities

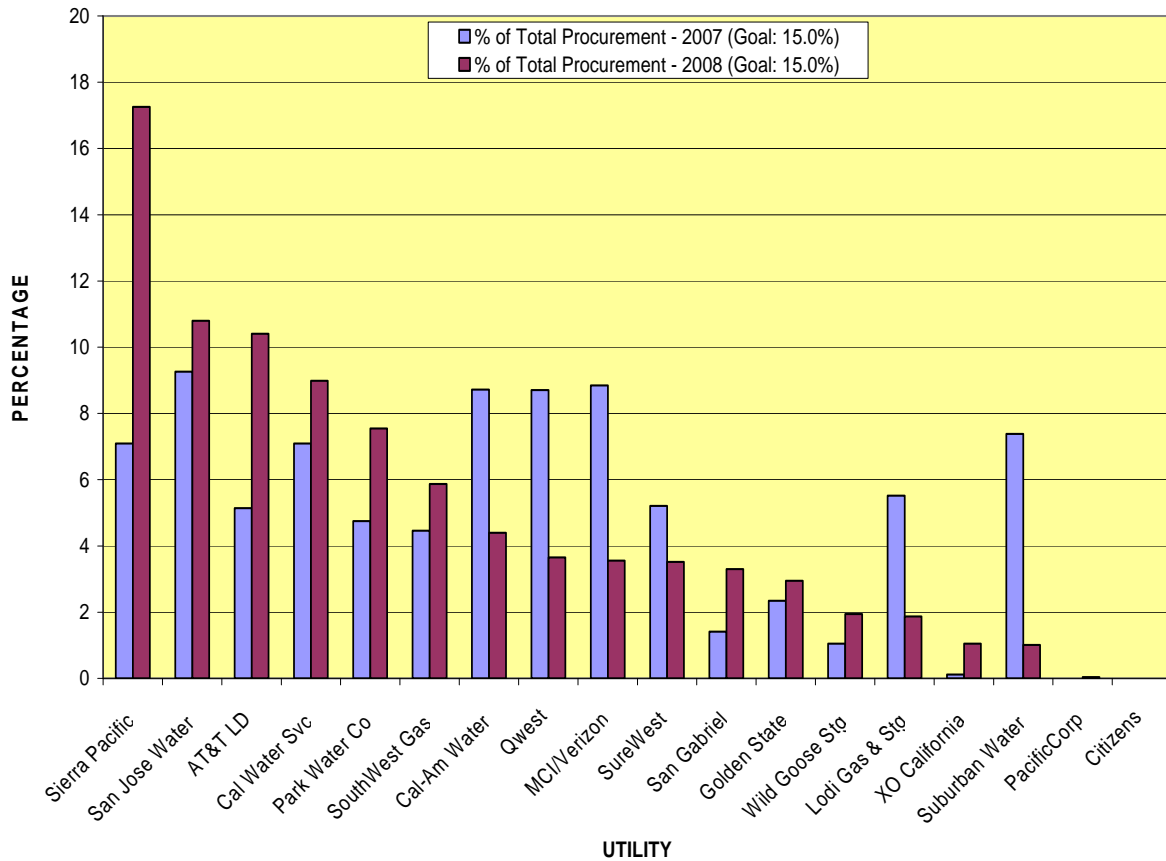
For those regulated utilities having a total procurement of less than \$150 million, overall combined WMDVBE procurement increased in dollars, and increased as a percentage of total procurement, from \$ \$71.4 million (8.17%) in 2007 to \$84.1 million (9.22%) in 2008 [See Tables 2A and 2B in Attachment A]. Small utilities account for approximately 3% of total utility procurement. The eighteen small utilities reporting in the WMDVBE program are:

- AT&T Long Distance
- Citizens Telecommunications (Citizens)
- Lodi Gas & Storage
- MCI/Verizon
- PacificCorp (PPL)
- Qwest
- Sierra Pacific
- SouthWest Gas
- SureWest
- Wild Goose Storage
- XO California
- California-American Water Company
- California Water Service
- Golden State Water Company
- Park Water Company
- San Gabriel Valley Water Company
- San Jose Water Company
- Suburban Water Company

Small Utilities' Procurement: Minority-owned Businesses (MBEs)

Overall small utility procurement from MBEs increased in dollar volume and as a percentage of total procurement, from \$43.2 million (4.95%) in 2007 to \$54.9 million (6.03%) in 2008. Only Sierra Pacific achieved the 15 percent MBE goal. Sierra Pacific, San Jose Water, AT&T Long Distance, Park Water, California Water Service, SouthWest Gas, San Gabriel Valley Water, Golden State Water, Wild Goose Storage, XO California, and PacificCorp all reported increases in MBE procurement, both in dollar volume and as a percentage of total corporate procurement [See Tables 2A and 2B in Attachment A].

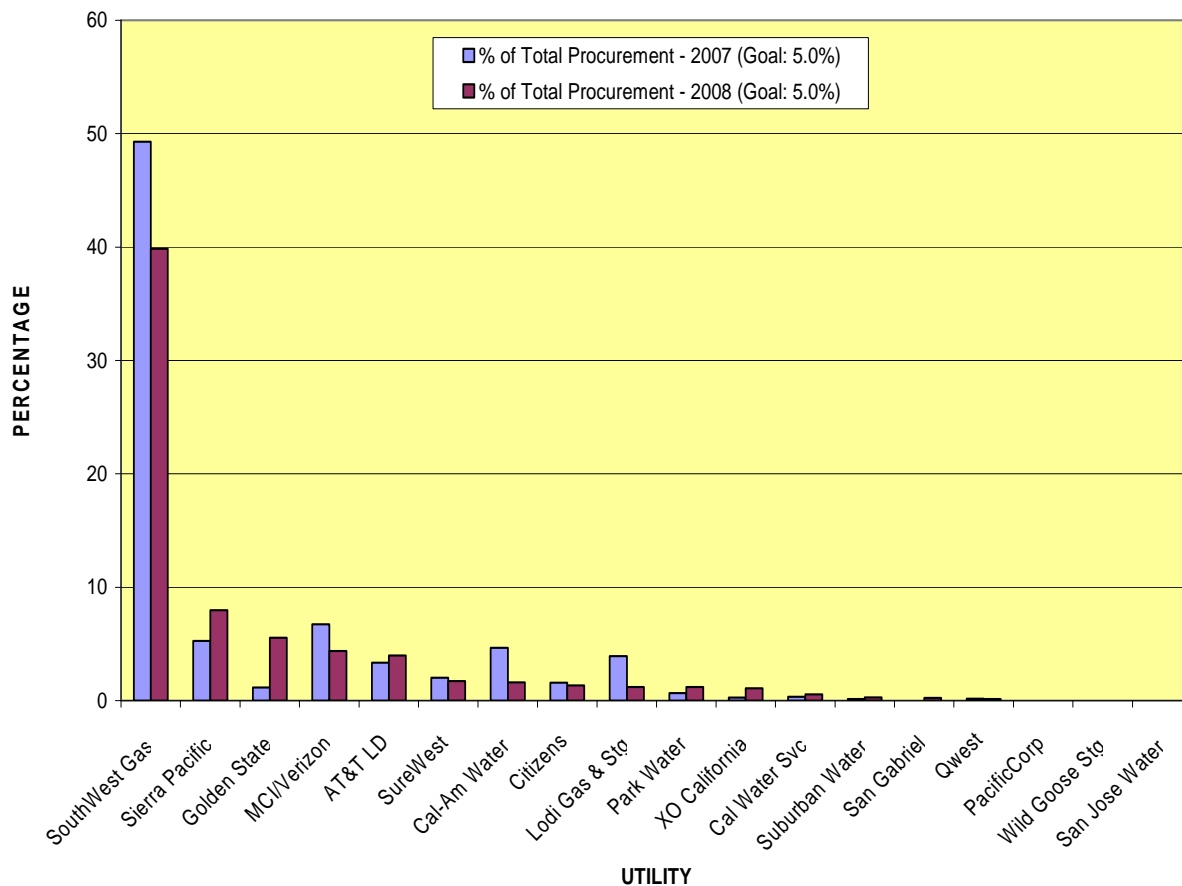
Minority Business Enterprises - Comparison of 2007 and 2008 Procurement



Small Utilities' Procurement: Woman-owned Businesses (WBEs)

Small utility procurement from WBEs increased in dollar volume and was equal as a percentage of total procurement, moving from \$27.6 million (3.16%) in 2007 to 28.8 million (3.16%) in 2008. SouthWest Gas, Sierra Pacific, and Golden State Water all met the 5% WBE goal. SouthWest Gas's high achievement level was primarily due to the utilization of a WBE owned pipeline contractor. Sierra Pacific, AT&T Long Distance, Golden State Water, Park Water, California Water Service, San Gabriel Valley Water, Suburban Water Systems, and XO California all reported increases both in their percentages and dollar volumes of WBE procurement [See Tables 2A and 2B in Attachment A].

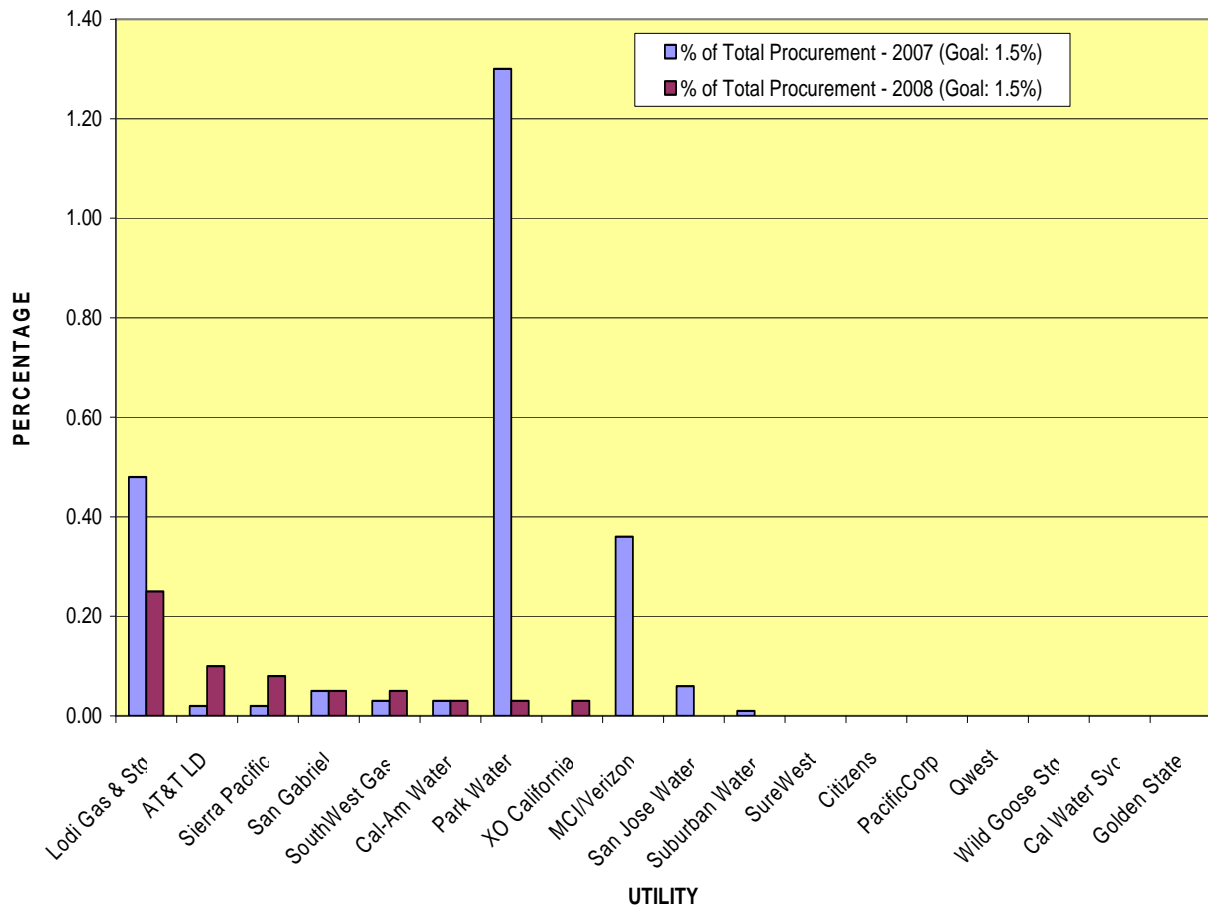
Women Business Enterprises - Comparison of 2007 and 2008 Procurement



Small Utilities' Procurement: Disabled Veteran-owned Businesses (DVBEs)

Small utility DVBE procurement decreased in dollars and as a percentage of total procurement from \$535,083 (0.06%) in 2007 to \$363,778 (0.04%) in 2008. No utility achieved the 1.5 percent DVBE goal. AT&T Long Distance, Sierra Pacific, SouthWest Gas, and XO California all reported increases in both dollar volume and as a percentage of total procurement from DVBEs [See Tables 2A and 2B in Attachment A].

Disabled Veterans Business Enterprise - Comparison of 2007 and 2008 Procurement



Fuel Procurement

General Order 156, Section 9.1.10 allows the utilities to report fuel procurement separately, and does not require fuel purchases to be included in the procurement base on which achievement of the 5-percent, 15-percent, and 1.5-percent goals are based. Five energy utility companies (PG&E, SCE, SoCalGas, SDG&E, and SWG) reported fuel purchases separately.

Overall, fuel procurement from WMDVBEs increased in dollars from \$702 million in 2007 to \$855 million in 2008, but decreased as a percentage of total corporate fuel procurement from 9.92% in 2007 to 9.75 in 2008 [See Tables 8A and 8B in Attachment A].

PROGRAM EXPANSION AND IMPROVEMENTS

Targeted Procurement Categories

Section 8.11 of GO 156 states, "Each utility shall make special efforts to increase utilization and encourage entry into the marketplace of WMDVBES in product or service categories where there has been low utilization of WMDVBES, such as legal and financial services, fuel procurement, and areas that are considered technical in nature." The Commission is currently reviewing the utilities' efforts in the areas of legal services and financial services.

Legal Services

A review of the utilities' 2008 reports shows that progress continues to be made by some of the major utilities, while others need to make more concerted efforts. Southern California Gas showed the highest level of overall achievement at 42.72%. *This is the 2nd consecutive year Southern California Gas has attained the highest percentage of diverse legal spend.* They are followed by Pacific Gas and Electric at 14.60%, and Verizon California at 12.87%. AT&T California attained the highest dollar amount of diverse legal procurement at \$5.1 million. The percentages from Southern California Gas and PG&E represent increases over last year's results, while Verizon's amount is slightly less than that of the previous year.

Financial Services

While the results show the percentage of total procurement directed to diverse financial services lags behind traditional procurement areas, a review of the utilities' 2008 data shows they have made continuing and increasing improvements. The procurement of financial services from diverse vendors *more than quadrupled in terms of dollars from 2007 to 2008, and the percentage amount nearly tripled.* AT&T California attained the highest level of overall achievement at 18.92%, followed by SDG&E at 5.00%, and Southern California Gas at 4.80%. The utility showing the largest amount of diverse financial spend was AT&T at \$8.4 million.

Efforts to Expand Legal and Financial Services

The Commission and utilities continue to expand efforts in the areas of legal services and financial services procurement from WMDVBE firms. Utilities are continuing to host outreach events to expand the available pool of legal and financial WMDVBES and to ultimately increase utilization of diverse legal and financial services firms. In 2008, the Commission co-sponsored three Legal Services events and four Financial Services events. The Financial Services events

covered areas such as Investment Banking and Financial Services, Certified Public Accounting, and Insurance Services. With the Commission's involvement and the utilities' commitment, we are seeing increased results in these areas.

Disabled Veterans

In 2008, the major utilities hosted two significant events dedicated solely to disabled veterans. These events provided several disabled veterans with contracting opportunities. In addition, Commissioners participated at other events, such as "Keeping The Promise", and the utilities' senior executives meeting with Disabled Veteran Business Enterprises – "Best Practices for Achieving Greater Business Opportunities."

Further, the utilities have developed mentor-protégé programs individually designed for disabled veterans to provide them with education in entrepreneurial management. Many disabled veterans are now participating in the programs.

Water Utilities

The six largest Commission-regulated water utilities are now required by PU Code section 8283 to participate in the GO 156 program. All six utilities filed reports with the Commission. Although not required to do, Park Water Company voluntarily submitted a report as well. San Jose Water Company showed the highest level of overall achievement at 10.80%, while California Water Service reached 9.52%, and Park Water Company attained 8.78%. The Commission commends the efforts shown by the water utilities and calls upon them to make increasing strides in their quest to achieve greater levels of diversity. The Commission stands ready to assist the water utilities in their efforts.

Uniform Reporting Categories

The Commission continues to require the utilities to report their procurement using the Standard Industry Classification (SIC) codes. Use of a common reporting format facilitates a more realistic and meaningful comparison amongst the utilities. This helps to ascertain which procurement categories are in need of greater effort and attention.

Full Panel Hearing

In November 2009, the Commission holds its seventh public hearing regarding utility diversity programs. High level representatives of industry, government, and other interested parties, including utility CEOs and PUC Commissioners, are expected to attend. Topics, speakers, and the agenda are currently being finalized. At this hearing, the major focus will be on advancing procurement opportunities with California's Investor-Owned Utilities (IOUs) and how California's emerging green economy can be successfully integrated with the concepts of diversity.

California Utilities Diversity Council

As a result of the Commission's 2003 Full Panel Hearing, and at the request of minority business associations and public advocates, the California Utilities Diversity Council (CUDC) was established. CUDC's inaugural meeting was held in March 2004 and has been meeting on a monthly basis since then.

The CUDC serves as a resource for advising the Commission, utility companies, policy makers and interested parties on ways to accomplish diversity in the utility industry. CUDC is comprised of twenty-five diverse members representing consumers, WMDVBE advocates, labor leaders, utility representatives and educational institutions. Members provide funding for the CUDC.

The CUDC is composed of five committees. Their purposes are:

1. **Governance** - The CUDC believes that California utility companies must strive towards having their Boards of Directors become more reflective of the diverse population of the state of California.
2. **Employment** – Recruiting, retaining and promoting on an equal basis without preference to any group, reflecting California's demographics, is attainable and measurable. The CUDC promotes a competent and comprehensive multi-lingual and multi-cultural work force both within the utility companies and the Commission.
3. **Supplier Diversity** – Utility companies, and the Commission, contract out billions of dollars every year. Procurement opportunities should be available to all segments of California business, large and small. WMDVBE suppliers seek a fair share of opportunities both in traditional and nontraditional enterprises.
4. **Customer Service** – Over 150 languages are spoken in California. Communication in customers' primary languages will help contribute to improved market penetration, add value to the bottom line and provide better overall service to stakeholders.
5. **Philanthropy** - California utility companies give millions of dollars to nonprofit organizations every year. The CUDC believes that charitable giving should be increased and focused primarily on underserved communities.

Looking ahead to 2009 and beyond, the CUDC will continue its efforts in promoting diversity for California's utilities.

Small Business Expos

The Commission continued to hold small business expos throughout the state for small businesses to learn how to avail themselves of contracting opportunities with utility companies. As part of the invitation process, the Commission's WMDVBE database has been used to send out e-mail notifications to thousands of diverse suppliers advising them of the events. Additionally, a representative from the Commission's WMDVBE certification clearinghouse operator was present at the events to explain the certification process.

In 2008, the Commission hosted or co-hosted several expos at various locations throughout the state. These expos are now administered by the Small Business Program of the Commission's Business & Community Outreach Section. This program fosters a natural synergy with the WMDVBE program, as many small businesses in California are diverse. These programs are in the process of developing metrics to understand and promote contracting between small and diverse businesses and utilities.

WMDVBE Verification

PU Code Section 8284(a) states that the Commission shall adopt criteria for verifying and determining the eligibility of WMDVBEs utilized in utility procurement contracting. In order to comply with this regulation, the Commission established a WMDVBE clearinghouse. The clearinghouse verifies that firms seeking to compete for procurement opportunities with the utilities meet the eligibility criteria for WMBE owned and operated businesses. The Department of General Services verifies the status of disabled veteran-owned and operated businesses. The clearinghouse operator also performs re-verifications on all minority business and women business vendors whose three-year status has expired.

The clearinghouse maintains a database of all verified vendors, including DVBEs. Currently, there are 4,770 verified vendors in the database, of which 1,548 are minority-owned businesses, 1,529 are women-owned businesses, 68 are a combination of the preceding two ownership categories, 542 are minority women-owned businesses, 1,083 are disabled veteran-enterprise businesses, and 101 are small disadvantaged businesses. These amounts represent an increase in the total number of verified vendors over 2007. Operating costs of the Clearinghouse are paid directly by the participating utilities.

In an effort to increase the numbers of WMDVBEs in the clearinghouse and to provide better information to the utilities and the public regarding diversity programs, the Commission continued its efforts to streamline the certification processes. These efforts include: 1) evolution to an on-line application process; 2) a thorough analysis of certification processes and timelines that are utilized by the Commission and the clearinghouse. The outcome of these efforts will be covered in greater detail in the Commission's 2009 report to the Legislature.

The Commission's database has enhanced search capabilities and a user-friendly graphical user interface to locate suppliers by various search criteria, such as name, location, or business type.

Utility Supplier Diversity Webpage

The Commission's primary source of information to the diversity community is the webpage located at <http://www.cpuc.ca.gov/static/supplierdiversity/index.htm>. This includes application forms as downloads, roles and responsibilities for the program, links to certification and utility information, and the Commission's enhanced database of certified vendors. In late 2009 or early 2010, the Commission plans to have an on-line application process available through the Clearinghouse website.

CONCLUSIONS

For 2008, the utilities reported an increase of 23.93 percent, or approximately \$675 million more dollars spent on procurement with WMDVBE firms than in 2007. They achieved a large increase in dollar volume, but experienced a decline in their WMDVBE percentages. Although the percentages decreased, it should be noted that significantly more capital flowed into the WMDVBE community from utility procurement in 2008 than did in 2007.

Two potential causes may serve to explain this year's results. First, total utility procurement, both WMDVBE and non-WMDVBE, increased by more than 37 percent from 2007 to 2008. However, this "rising tide" did not lift all boats equally. This led to a declining percentage for 2008, but a greater amount of procurement dollars spent on WMDVBE vendors. Secondly, this year's results include procurement data from a utility whose results were not included in last year's report, due to an inconsistency in their reporting format. As this utility is of a larger size and had a lower achievement level than many of its' counterparts, its' results contributed to a negative influence on the overall averages.

The Commission calls upon the utilities to be aware that even during times of rapidly expanding procurement activity, the need to maintain their levels of procurement dedicated to diverse vendors remains constant and shouldn't be diminished.

Attachment A – Data Tables

TABLE 1A	2008 WMDVBE Procurement Results for Large Utilities
TABLE 1B	2007 WMDVBE Procurement Results for Large Utilities
TABLE 2A	2008 WMDVBE Procurement Results for Small Utilities
TABLE 2B	2007 WMDVBE Procurement Results for Small Utilities
TABLE 3	2008 and 2007 Comparative Summary of Large, Small, and Combined Utility MBE/WBE/DVBE and Total WMDVBE Procurement (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 4A	2008 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 4B	2007 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 5A	2008 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total MBE Procurement)
TABLE 5B	2007 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total MBE Procurement)
TABLE 6A	Summary of Procurement from Women: 2008 Minority and non-Minority Women (in Dollars and as a Percentage of Large Utilities' Total Corporate Expenditures)
TABLE 6B	Summary of Procurement from Women: 2007 Minority and non-Minority Women (in Dollars and as a Percentage of Large Utilities' Total Corporate Expenditures)
TABLE 7A	2008 DVBE Procurement for Large and Small Utilities (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 7B	2007 DVBE Procurement for Large and Small Utilities (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 8A	2008 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)
TABLE 8B	2007 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)