

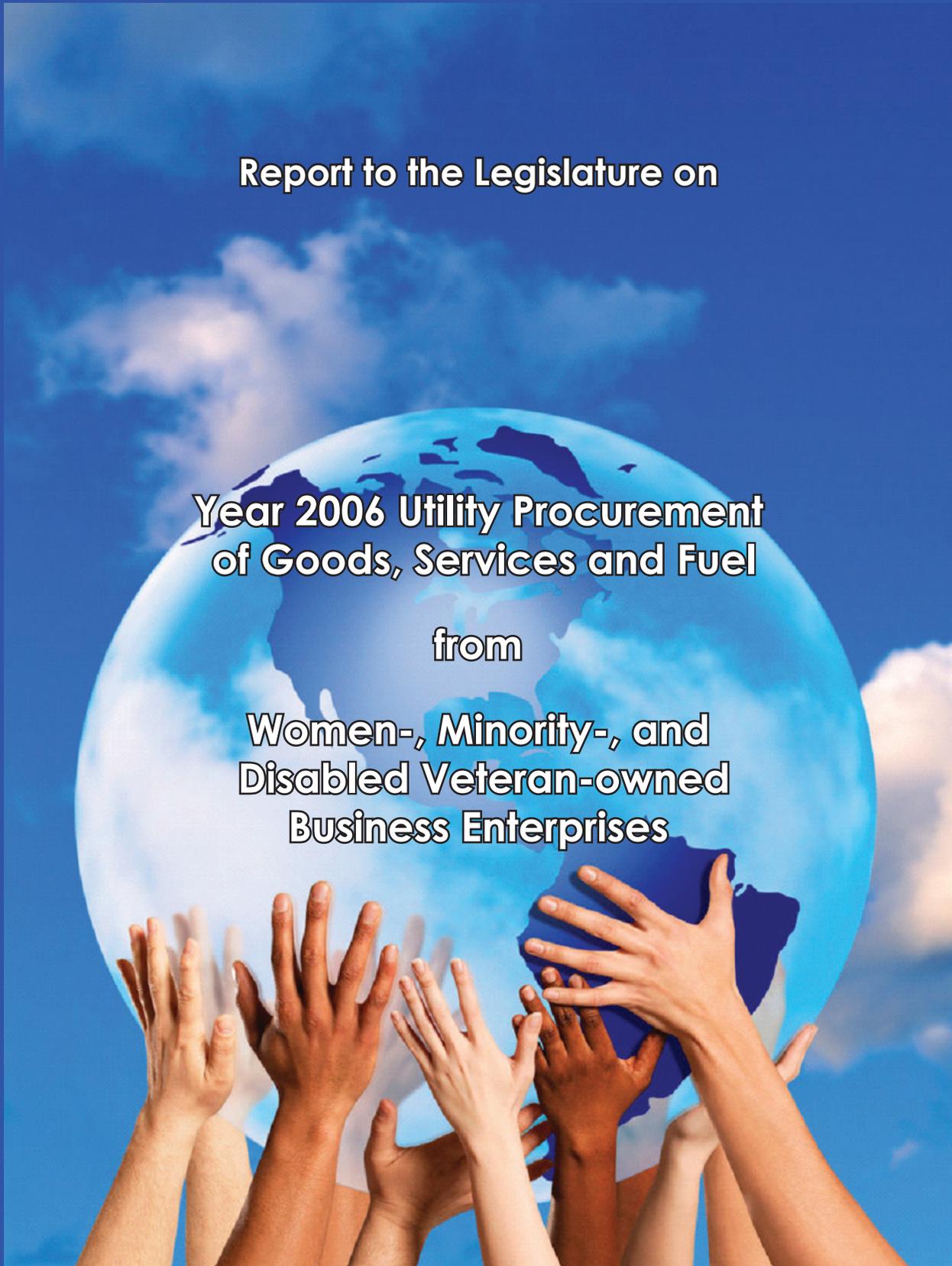


Report to the Legislature on

Year 2006 Utility Procurement of Goods, Services and Fuel

from

Women-, Minority-, and Disabled Veteran-owned Business Enterprises



Submitted
October 2007

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EXECUTIVE SUMMARY

This is the California Public Utilities Commission's ("Commission") 21st 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.

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.

Among the positive news is that utility spending on WMDVBE procurement increased from \$2.03 billion in 2005 to \$2.74 billion in 2006, an increase of nearly 35%. However, the other news is that, as a percentage of total utility procurement, amounts from WMDVBE firms decreased from 15.32% in 2005 to 12.83% in 2006.

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

- The Commission held its fourth Full Panel hearing in October 2006, and will hold its fifth hearing in late September 2007, regarding the supplier diversity program and other 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 traditional under representation. After a focus on these areas at the October 2006 Full Panel Hearing, the utilities' procurement levels in both areas have increased in the past year. Due to the Commission's actions, the utilities are regularly hosting networking events to meet potential new vendors and increase their

utilization of diverse legal and financial services firms. The PUC Commissioners have often attended and delivered addresses at these events.

- The Commission held hosted eight Small Business Expositions throughout the state. Under the leadership of Commissioner John Bohn, these expos match small businesses and diverse vendors with utility procurement personnel. A representative of the Commission's clearinghouse operator attended the expositions as well.
- The Commission will complete the first phase of the upgrade to its supplier database initiated in 2006. This upgrade will allow utilities and the public to better identify, via web-based tools, diverse suppliers that are Commission certified in particular areas of expertise and by geographic region.
- The Commission continues to work with the California 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 2006 SUPPLIER DIVERSITY PROCUREMENT

Total utility WMDVBE procurement for 2006 was \$2.70 billion – a 34.88 percent increase from the \$2.03 billion reported in 2005. Of the \$2.70 billion for 2006:

- \$1.80 billion (9% of total corporate procurement) was for goods and services procured from minority-owned business enterprises (MBEs)
- \$858 million (4%) was for goods and services procured from women-owned business enterprises (WBEs)
- \$56 million (0.26%) was for goods and services procured from disabled veteran-owned business enterprises (DVBES)

Overall, 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 or the 1.5 percent goal for disabled veteran-owned business enterprises.

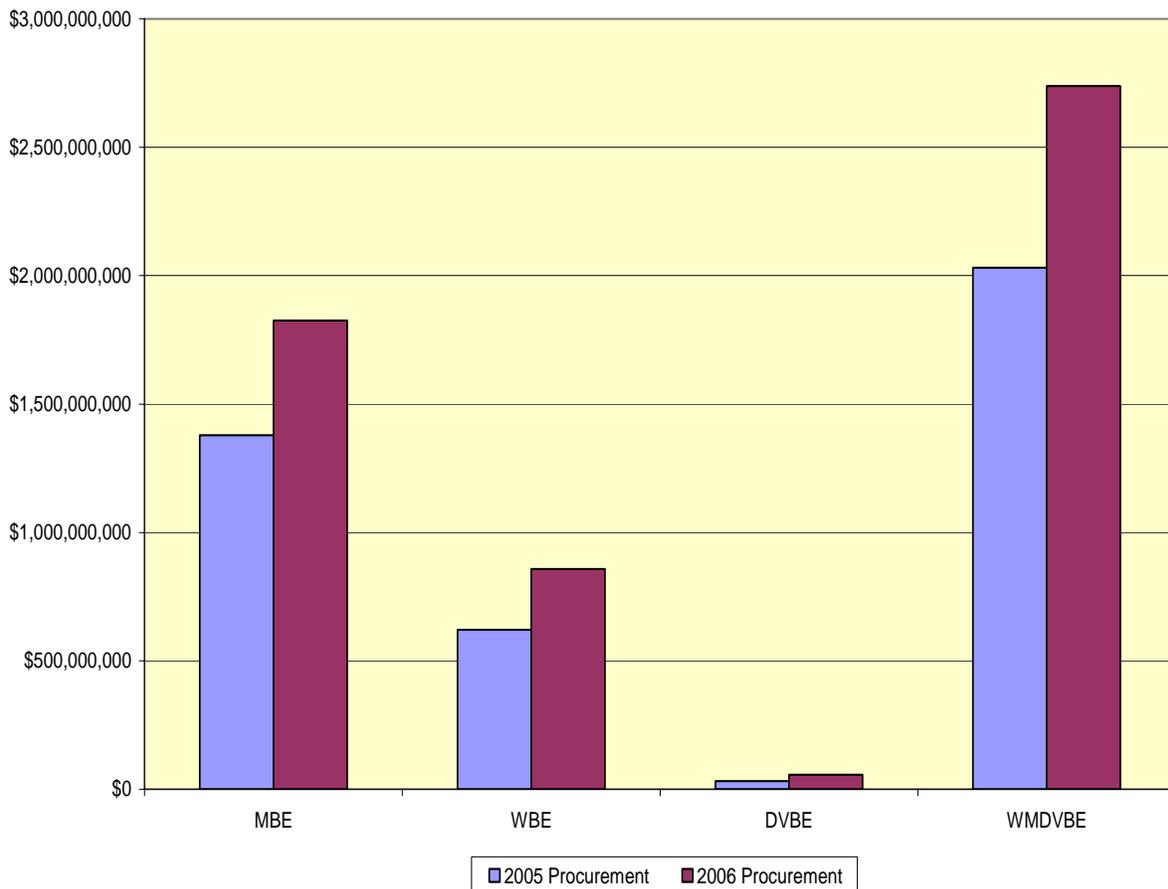
In 2005, the Commission reported the results of 23 utilities; for 2006, the Commission has gathered information on results of 29 utilities including six water utilities. However, as this is the first year reporting for the majority of the six water utilities, and there is no basis for comparison with the previous year's data, their results have not been included in this year's report. We plan to report results from water utilities in next year's report.

In viewing the graphic representations within this report, it is apparent that a number of utilities, primarily in the telecommunications industry, experienced sharp changes in WMDVBE procurement percentages when compared to the previous year. Mergers and reorganizations within this industry created challenges for utilities' procurement departments including reducing redundancies.

2006 UTILITY WMDVBE PROCUREMENT PROGRAM RESULTS

This report summarizes utility procurement information into two categories: 1) large utilities (those with total procurement over \$250 million); and 2) small utilities (those with procurement under \$250 million). The tables attached to this report summarize the utilities' 2006 and 2005 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: Pac-West Telecomm submitted a report, but their level of procurement shows total WMDVBE procurement of approximately 0.3%; Comcast of California and Cox Communications of California do not make in-state procurement decisions. Due to reorganizations in the communications industry, procurement dollars increased and decreased by large amounts as a result of the merging of supplier diversity results from previously disparate entities.

Comparison of 2005 and 2006 WMDVBE Procurement

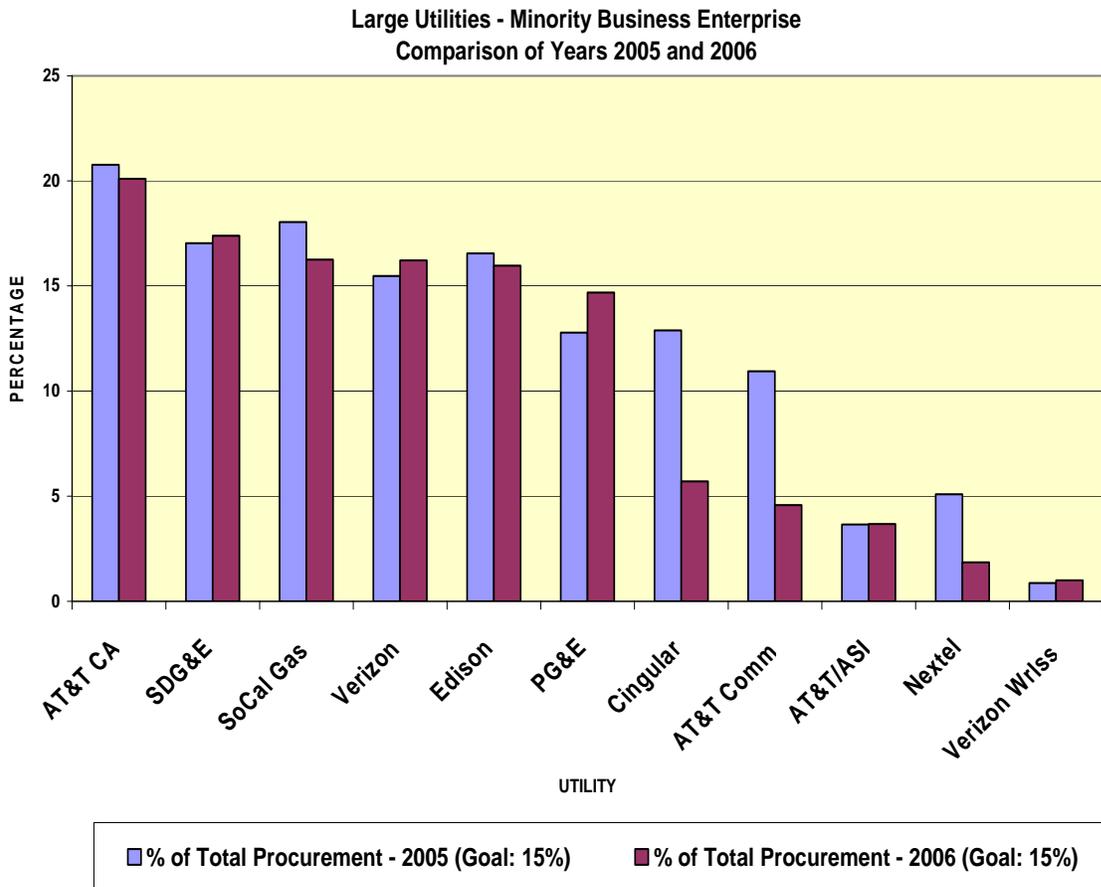


Program Results of Large Utilities

The eleven large utilities reporting activity in their WMDVBE programs are Cingular Wireless, Southern California Edison (Edison), Nextel/Sprint, 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), Verizon of California, and Verizon Wireless. The 2006 results for the large utilities show an overall WMDVBE procurement increase in terms of dollars, but a decrease of 2.39% as a percentage of total procurement; from \$2.0 billion (15.38%) in 2005 to \$2.7 billion (12.99%) in 2006. [See Tables 1A and 1B in Attachment A].

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

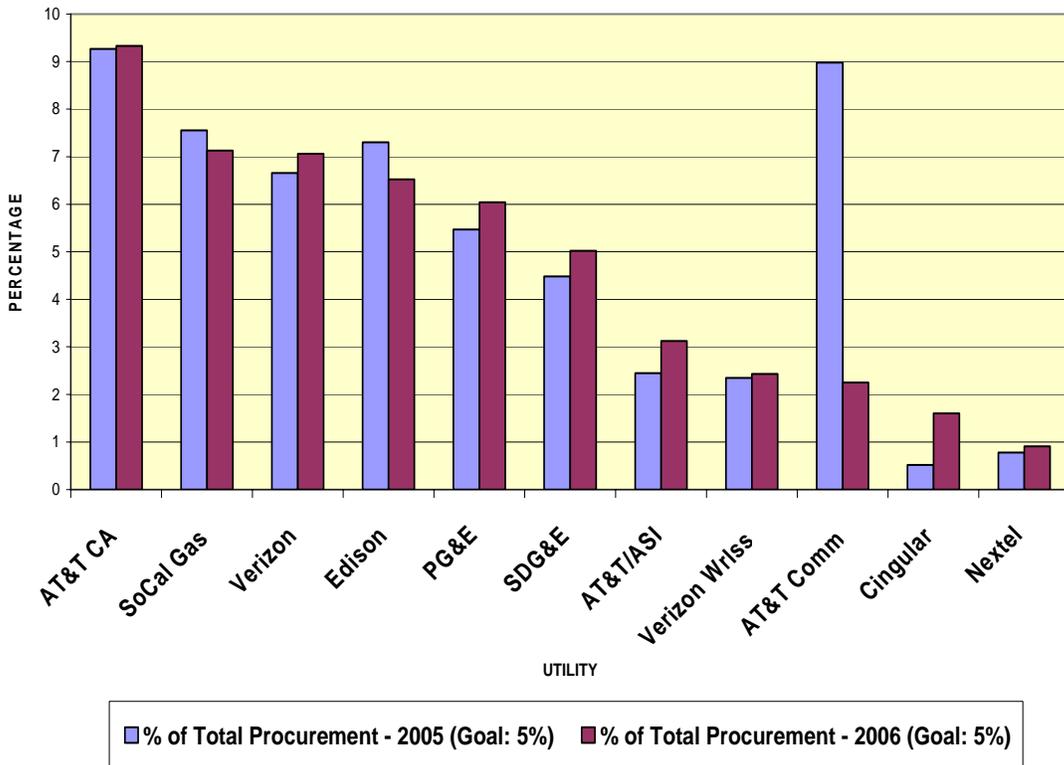
Of the large utilities, five met the MBE procurement goal of 15 percent, and six did not. Large utilities' procurement dollars on MBEs rose from \$1.4 billion in 2005 to \$1.8 billion in 2006, but decreased as a percentage of total utility procurement from 10.45 percent in 2005 to 8.68 percent in 2006. PG&E, AT&T/ASI, SDG&E, and Verizon Wireless reported increases in both dollars and percentages of total corporate procurement from minority-owned businesses [See Tables 1A and 1B in Attachment A].



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

Of the 11 large utilities, six met the procurement goal of 5 percent with WBEs and five did not. The five that did not meet the goal are newer members to the program, and have not yet fully developed their own programs. Overall, the utilities spent more procurement dollars on WBEs - from \$609 million (4.70%) in 2005 to \$831 million (4.04%) in 2006. Cingular, Nextel/Sprint, PG&E, AT&T California, AT&T/ASI, SDG&E, and Verizon Wireless 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].

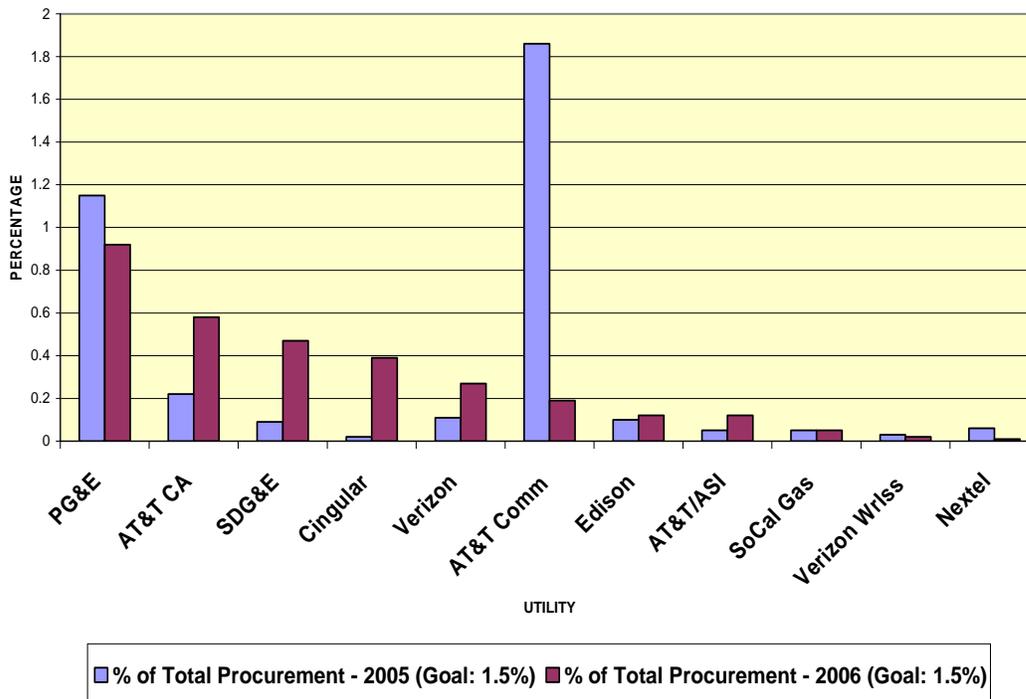
Large Utilities - Women Business Enterprise
Comparison of Years 2005 and 2006



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

The large utilities' procurement from DVBES increased from \$31 million (0.24%) in 2005 to \$55 million (0.27%) in 2006. No large utility reported achieving the 1.5 percent procurement goal in General Order 156. Cingular, Edison, AT&T California, AT&T/ASI, SDG&E, and Verizon California 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].

Large Utilities - Disabled Veteran Business Enterprise
Comparison of Years 2005 and 2006



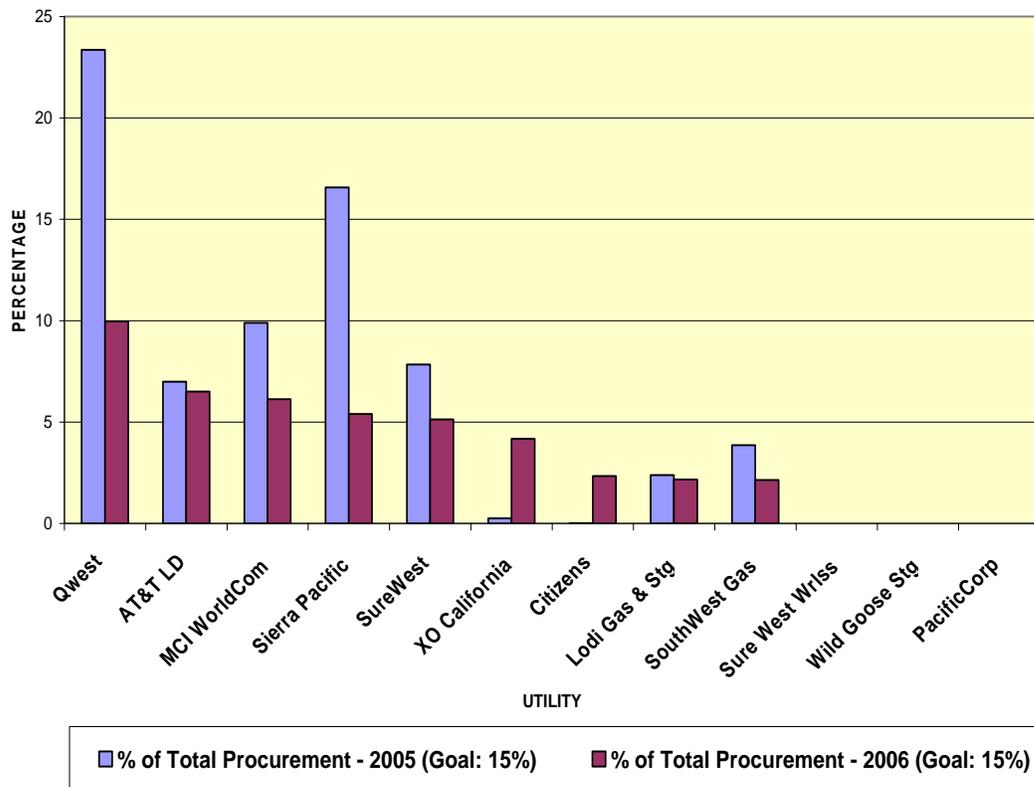
Program Results of Small Utilities

For those regulated utilities having a total procurement of less than \$250 million, overall combined WMDVBE procurement increased in dollars, but decreased as a percentage of total procurement, from \$37.8 million (12.44%) in 2005 to \$67.2 million (8.68%) in 2006 [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 WorldCom, PacificCorp (PPL), Qwest, Sierra Pacific, SouthWest Gas, SureWest, SureWest Wireless, Wild Goose Storage, XO California, California Water Service, Golden State Water Company, Park Water Company, San Gabriel Water Company, San Jose Water Company, and Suburban Water Company.

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

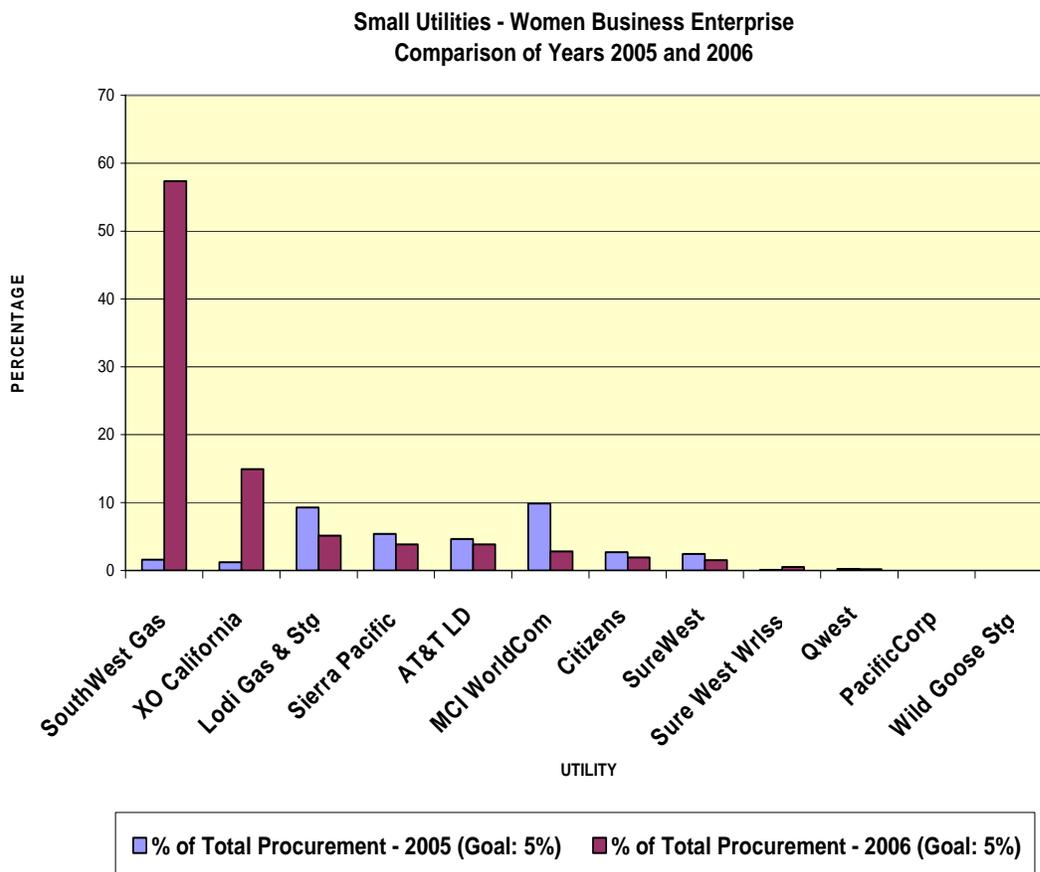
Overall procurement from MBEs increased in dollars from \$25.1 million (8.25%) in 2005 to \$40.0 million (5.18%) in 2006. No utility achieved the 15 percent MBE goal. Citizens and XO California reported increases in MBE procurement, both in dollar volume and as a percentage of total corporate procurement [See Tables 2A and 2B in Attachment A].

Small Utilities - Minority Business Enterprise
Comparison of Years 2005 and 2006



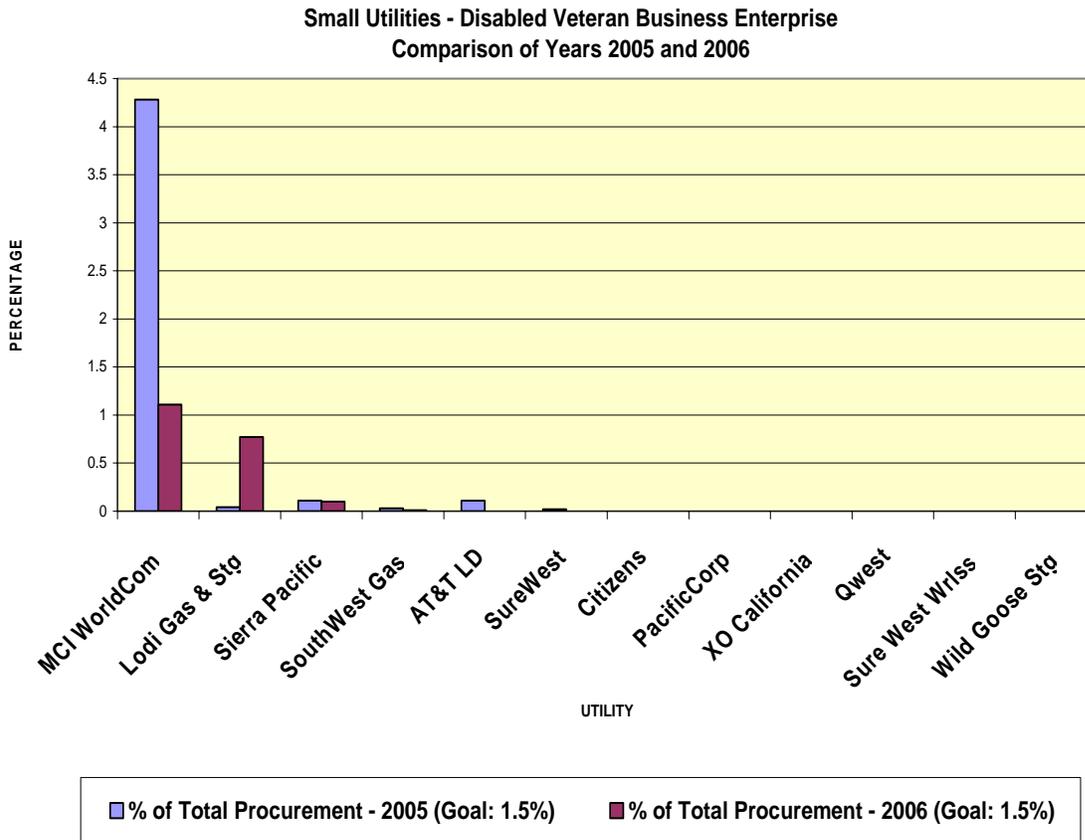
Small Utilities' Procurement From Woman-owned Businesses (WBEs)

Procurement from WBEs increased in dollar volume, but decreased as a percentage of total procurement, from \$11.4 million (3.74%) in 2005 to \$26.5 million (3.42%) in 2006. No utility met the 5% WBE goal. SouthWest Gas, SureWest Wireless, and XO California all reported increases both in their percentages and dollar volumes of WBE procurement. [See Tables 2A and 2B in Attachment A].



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

DVBE procurement decreased in dollars and as a percentage of total procurement from \$1,384,311 (0.46%) in 2005 to \$621,413 (0.08%) in 2006. No utility achieved the 1.5 percent DVBE goal. Lodi Gas & Storage reported increases in both dollar volume and as a percentage of total procurement from DVBEs. MCI WorldCom was the only small utility whose DVBE procurement exceeded 1% [See Tables 2A and 2B in Attachment A].



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/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 decreased in dollars from \$509 million in 2005 to \$480 million in 2006, and decreased as a percentage of total corporate fuel procurement from 7.85% in 2005 to 7.34% in 2006 [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 these areas. Specifically, it is continuing to review the utilities' commitment in the areas of legal services and financial services.

Legal Services

A review of the utilities' 2006 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 achievement at 8.08%, followed by San Diego Gas and Electric at 5.71%, and Pacific Gas and Electric at 4.55%. Pacific Gas and Electric attained the highest dollar amount of diverse legal services procurement at \$2.3 million.

Financial Services

While the results show the amount of total procurement directed to diverse financial services firms lags behind traditional procurement areas, a review of the utilities' 2006 reports shows the utilities have made improvement in this area. The utility showing the largest amounts of diverse spend was San Diego Gas and Electric at \$455,000.

The Commission and utilities continue to expand efforts in the areas of legal services and financial services procurement from WMDVBE firms. Utilities are regularly hosting networking events to expand the available pool of legal and financial WMDVBES and ultimately increase utilization of diverse legal and financial services firms. Utilities are beginning to include an evaluative component in these programs to aid in gauging the effectiveness of this type of outreach effort. For example, utilities are following up with the participants in networking events to determine if contracts for services were awarded. While we have seen improvement in 2006, this is an area that will receive much continuing focus from the Commission and utilities in 2007 and beyond.

New Participants - Water Utilities

Commission-regulated water utilities, that are privately owned and operated, are not required by PU Code section 8283 to participate in the program; however the largest water companies in the State are voluntarily complying. Six water utilities filed reports. Suburban Water Company showed the highest level of overall achievement at 8.66%, while Park Water Company reached 6.99%, and California Water Service Company attained 6.40%. The Commission commends the voluntary 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 now requires 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 late September 2007, the Commission will hold its fifth public hearing regarding diversity in utility programs. High level representatives of industry, government, and other interested parties, including utility CEOs, PUC Commissioners, and representatives of CalPERS, California Department of Insurance, and the State Bar are expected to attend. Topics, speakers, and the agenda are currently being finalized. At this hearing, a major focus will be on the California Aspire Achieve Lead Pipeline Project (CaALL Pipeline Project). The Pipeline Project is an innovative education and mentoring program that seeks to encourage and develop young people for careers in the legal profession, financial services, and information technology by providing educational opportunities for students in pre-school through graduate school. In addition to the Commission, this year's hearing will be co-hosted by the California Public Employees Retirement System, the California Department of Insurance, and the State Bar of California, who have all pledged their commitment to this program.

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 regular basis since then.

The CUDC serves as a resource for advising CPUC, 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, educational institutions, and CPUC. 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 CPUC.
3. **Supplier Diversity** – Utility companies, and to a smaller extent the CPUC, 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 2007 and beyond, the CUDC will continue its efforts in promoting diversity for California's utilities.

Small Business Expositions

The Commission has held a series of small business expositions 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 was used to send out e-mail notifications to thousands of diverse suppliers advising them of the events. Additionally, a representative from the Commission's clearinghouse operator, Asian Inc., was present at the events to explain the WMDVBE certification process, provide literature, and answer questions. In 2006, the expositions were held in Oakland, San Diego, Bakersfield, Sacramento, Los Angeles, Riverside, San Jose, and Anaheim. Several hundreds of small business owners were in attendance at the expositions. Subsequent to these sessions, the Commission was apprised that utilities had contracted these small businesses for goods and services.

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 women- and minority-owned and operated business enterprises. The Department of General Services verifies the status of disabled veteran-owned and operated businesses. The clearinghouse operator also performs re-verifications on all vendors whose three-year status has expired.

The clearinghouse maintains a database of all verified vendors, including DVBEs. Currently, there are 3,820 verified vendors in the database, of which 1,237 were minority-owned businesses, 1,211 were women-owned businesses, 398 were both women- and minority-owned businesses, 920 were disabled veteran-enterprise businesses, 52 were a combination of these ownership categories, and 2 were small disadvantaged businesses. These amounts represent an increase in the total number of verified vendors over 2005. Operating costs of the Clearinghouse are paid by the participating utilities.

In an effort to provide better information to utilities and the public regarding diversity programs the Commission is continuing its efforts to streamline the certification processes. These efforts include: 1) evolution to an on-line certification process; 2) creation of a more user-friendly data

base of WMDVBE-certified vendors that includes multiple-category sorting and reporting capabilities; and 3) a thorough analysis of certification processes and timelines that are utilized by the Commission and our clearinghouse.

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 a sortable database of certified vendors. In 2007, the Commission will explore the ability to host a web-based certification process and introduce a more user friendly database of certified vendors.

CONCLUSIONS

For 2006, utilities reported an increase of 34.9 percent or approximately \$708 million dollars spent on procurement from WMDVBE firms. Despite this large increase, total utility procurement grew at an even greater rate. As a result the percentage which utilities spent on WMDVBE procurement actually decreased from 2005 to 2006. This means that utilities are not meeting the goals established by General Order 156.

There are two potential explanations that the Commission is investigating. In 2006, the utilities reported total corporate procurement had increased by nearly 60 percent over that of 2005. This “rising tide” did not lift all boats equally. Are there enough certified WMDVBE vendors to meet the needs of California’s utilities – especially where the need for particular goods and services are growing? This question will inform the Commission’s diversity agenda in 2007.

Second, an ongoing issue is whether the dearth of U.S.-based certified WMDVBE wireless handset providers is preventing the industry as a whole from meeting General Order 156 goals. For example, in 2006, one wireless provider recorded that 72 percent of its total procurement consisted of wireless handsets only. This question will also inform the Commission’s diversity agenda in 2007.

To illustrate this issue, the following table shows the procurement results of the large utilities with and without the results from the wireless carriers included.

2006 WMDVBE Procurement				
Large Utilities	MBE	WBE	DVBE	WMDVBE
Excluding Wireless Carrier Procurement Data	\$1,521,793,000 15.9%	\$649,066,000 6.8%	\$44,250,000 0.5%	\$2,212,109,000 23.0%
Including Wireless Carrier Procurement Data	\$1,785,517,000 8.7%	\$831,126,000 4.0%	\$55,289,000 0.3%	\$2,671,933,000 13.0%

The challenge for the Commission and utilities for the coming year is clear. The utility industry is growing in terms of overall procurement at a rate faster than of certified WMDVBE

procurement. The Commission must intensify its focus on expanding the WMDVBE program by including underrepresented industries such as legal, financial and technical services as a larger element in the utilities' procurement efforts. The Commission will explore ways to address the potential structural mismatch between certified WMDVBE vendors and utility needs. The Commission will also explore whether some unique procurement items (e.g. wireless handsets) are candidates for separate reporting. The Commission will complete streamlining its certification process for WMDVBE vendors including moving toward an on-line application. We intend to address these issues with a renewed commitment from all of the stakeholders in the California supplier diversity community.

Attachment A – Data Tables

TABLE 1A	2006 WMDVBE Procurement Results for Large Utilities
TABLE 1B	2005 WMDVBE Procurement Results for Large Utilities
TABLE 2A	2006 WMDVBE Procurement Results for Small Utilities
TABLE 2B	2005 WMDVBE Procurement Results for Small Utilities
TABLE 3	2006 and 2005 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)
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TABLE 4B	2005 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total Corporate Procurement)
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TABLE 5B	2005 Summary of Large Utility Ethnic Procurement (in Dollars and as a Percentage of Total MBE Procurement)
TABLE 6A	Summary of Procurement from Women: 2006 Minority and non-Minority Women (in Dollars and as a Percentage of Large Utilities' Total Corporate Expenditures)
TABLE 6B	Summary of Procurement from Women: 2005 Minority and non-Minority Women (in Dollars and as a Percentage of Large Utilities' Total Corporate Expenditures)
TABLE 7A	2006 DVBE Procurement for Large and Small Utilities (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 7B	2005 DVBE Procurement for Large and Small Utilities (in Dollars and as a Percentage of Total Corporate Procurement)
TABLE 8A	2006 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)
TABLE 8B	2005 WMDVBE Fuel Procurement (Percentage of Total Corporate Procurement)