

California Public Utilities Commission

Report to the Legislature on

**Year 2005 Utility Procurement
of Goods, Services and Fuel**

from

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

Submitted
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EXECUTIVE SUMMARY

This is the California Public Utilities Commission's 20th 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.

Utility spending on WMDVBE procurement increased from \$ 1.89 billion in 2004 to \$2.03 billion in 2005. In percentage terms, procurement amounts from WMDVBE firms increased, from 15.25% in 2004 to 15.32% in 2005.

There have been major accomplishments and significant developments in the Utility Supplier Diversity Program, which include:

- The Commission held its third Full Panel hearing in October 2005, and will hold its fourth hearing in October 2006, regarding the supplier diversity program and other diversity issues. Representatives from industry, government, and other interested parties are expected to attend.
- The Commission continues to expand its efforts in the areas of legal services and financial services. Due to the Commission's actions, the utilities have hosted networking events to increase their utilization of diverse law firms. Additionally, the Commission held a meeting with the CFOs of the five major California utilities to outline strategies to increase their usage of diverse firms that provide financial services.

- Utility Supplier Diversity staff members have attended the Commission's Small Business Expositions held throughout the state. A representative of the Commission's clearinghouse operator attended the expositions as well.
- The utilities are now required to show procurement results in their annual reports using a common reporting format. The new format will allow for more objective comparisons of the utilities' procurement results.
- CPUC staff is upgrading the supplier database to make it more effective. The CPUC will maintain the new system. The project was initiated in 2004, continued throughout 2005, and is currently underway.

OVERVIEW OF 2005 SUPPLIER DIVERSITY PROCUREMENT

Total utility WMDVBE procurement for 2005 was \$2.03 billion – a 7.4 percent increase from the \$1.89 billion reported in 2004. Of the \$2.03 billion for 2005, \$1.4 billion (10% of total corporate procurement) was for goods and services procured from minority-owned business enterprises (MBEs); \$620 million (5%) was for goods and services procured from women-owned business enterprises (WBEs); \$32 million (0.24%) 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. The utilities are not achieving the 1.5 percent goal for disabled veteran-owned businesses. [See Table 3]

In 2004, the Commission reported the results of 24 utilities; for 2005, the Commission is reporting the results of 23 utilities, due to the merger of Sprint and Nextel. Some of these utilities are filing their second or third report, and have not yet fully developed their WMDVBE programs. The utilities reported an increase in total corporate procurement from \$12.4 billion in 2004 to \$13.3 billion in 2005, a 7.3 percent increase.

2005 UTILITY WMDVBE PROCUREMENT PROGRAM RESULTS

This report summarizes the utility procurement information into two categories: large utilities - those with total procurement grossing over \$250 million, and small utilities - those grossing under \$250 million. The tables attached to this report summarize the utilities' 2005 and 2004 WMDVBE procurement program results. The large utilities (see Table 1A) represent a disproportionately large share of total utility procurement (98%).

This report does not include the results of some utilities.

- VarTec Telecom has submitted a plan to the Commission stating it has a limited physical presence in California and has no results to report at this point. Pac-West Telecomm submitted its plan, which shows total WMDVBE procurement of approximately 0.2%.
- Comcast and Cox Communications were not included, as they reported no procurement activity in California. Comcast and Cox Communications state their procurement is processed by their parent companies, located out of state.

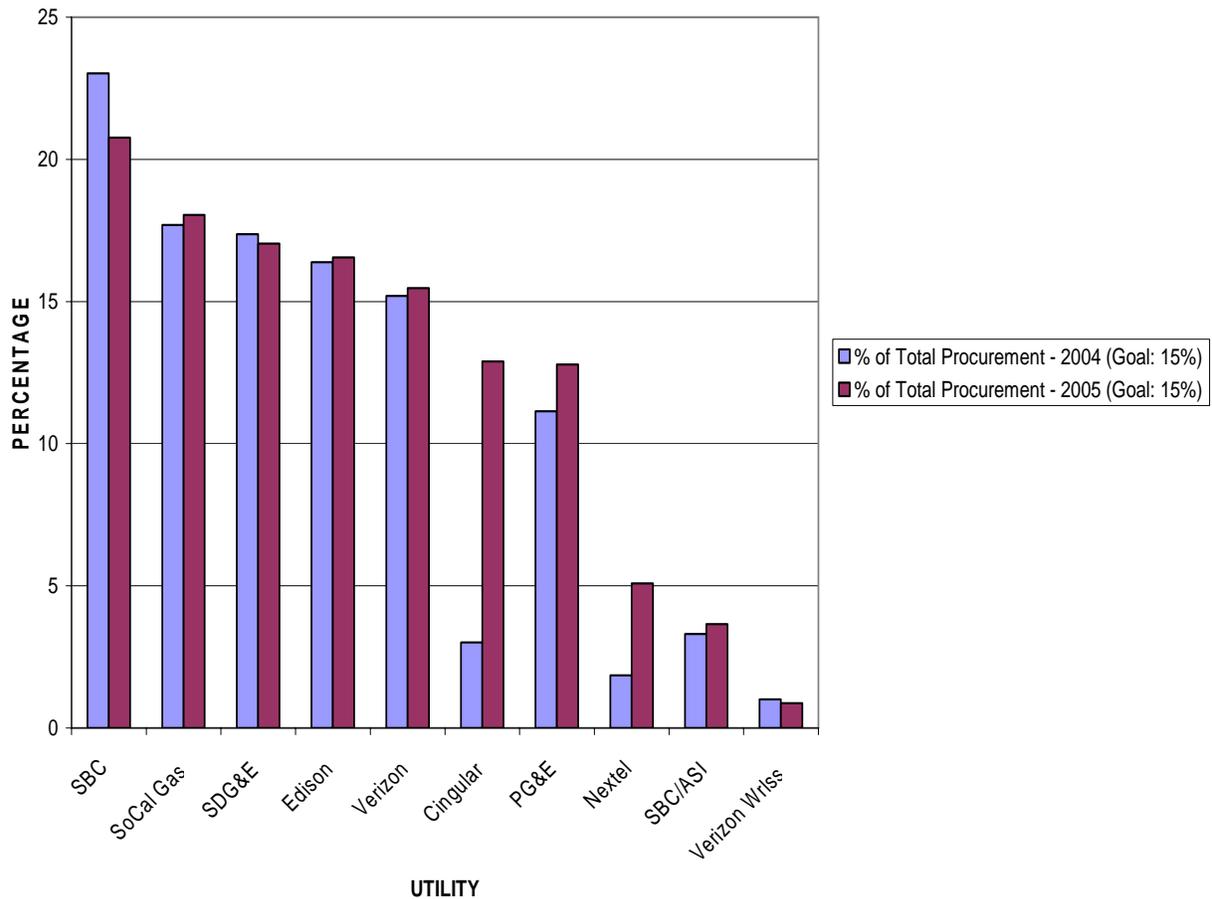
Program Results of Large Utilities

The ten large utilities reporting activity in their WMDVBE programs are Cingular Wireless, Southern California Edison (Edison), Nextel/Sprint, Pacific Gas and Electric Company (PG&E), SBC, SBC/ASI, San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas), Verizon of California, and Verizon Wireless. The 2005 results for the large utilities show an overall WMDVBE procurement increase in terms of dollars, but a decrease of 0.11% as a percentage of total procurement; from \$1.84 billion (15.49%) in 2004 to \$1.99 billion (15.38%) in 2005 [See Tables 1A and 1B].

Large Utilities' Procurement From Minority-owned Businesses

Of the large utilities, five met the procurement goal of 15 percent, and five did not. Of the five who did not meet the goal, four utilities are relatively new to the program. The utilities spent more procurement dollars on MBEs – from \$1.2 billion (10.39%) in 2004 to 1.4 billion (10.45%). AT&T reports its MBE procurement decreased due to an increased demand for leading edge technology products and services such as Broadband and Voice Over Internet Protocol (VOIP). First tier suppliers in these areas have just recently been placed in AT&T's supply chain and 2nd and 3rd tier diverse supplier participation is expected to grow in the next couple of years. Cingular, Edison, Nextel/Sprint, PG&E, SBC/ASI, Southern California Gas, and Verizon reported increases in **both** dollars and percentages of total corporate procurement from minority-owned businesses [See Tables 1A and 1B].

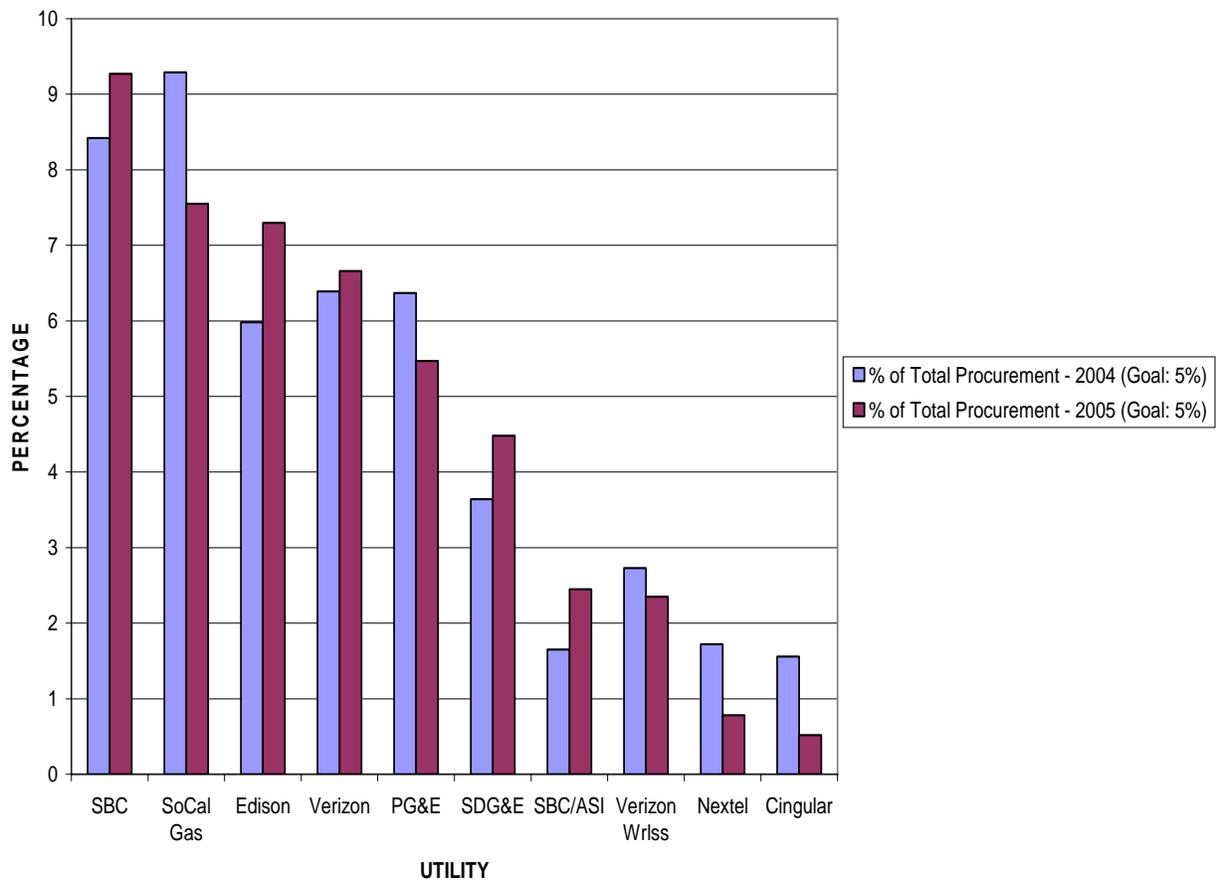
Minority Business Enterprise: Comparison of Years 2004 and 2005



Large Utilities' Procurement From Women-owned Businesses

Of the 10 large utilities, five met the procurement goal of 5 percent with WBEs and five did not. Of the five that did not, four have been in the program for a relatively short time - 3 to 4 years. Overall, the utilities spent more procurement dollars on WBEs - from \$570 million (4.8%) in 2004 to \$609 million (4.7%). Edison, SBC, SBC/ASI, SDG&E, and Verizon reported increases in **both** dollars and percentages of total corporate procurement from women-owned businesses [See Tables 1A, 1B, 6A and 6B].

Women Business Enterprise: Comparison of Years 2004 and 2005

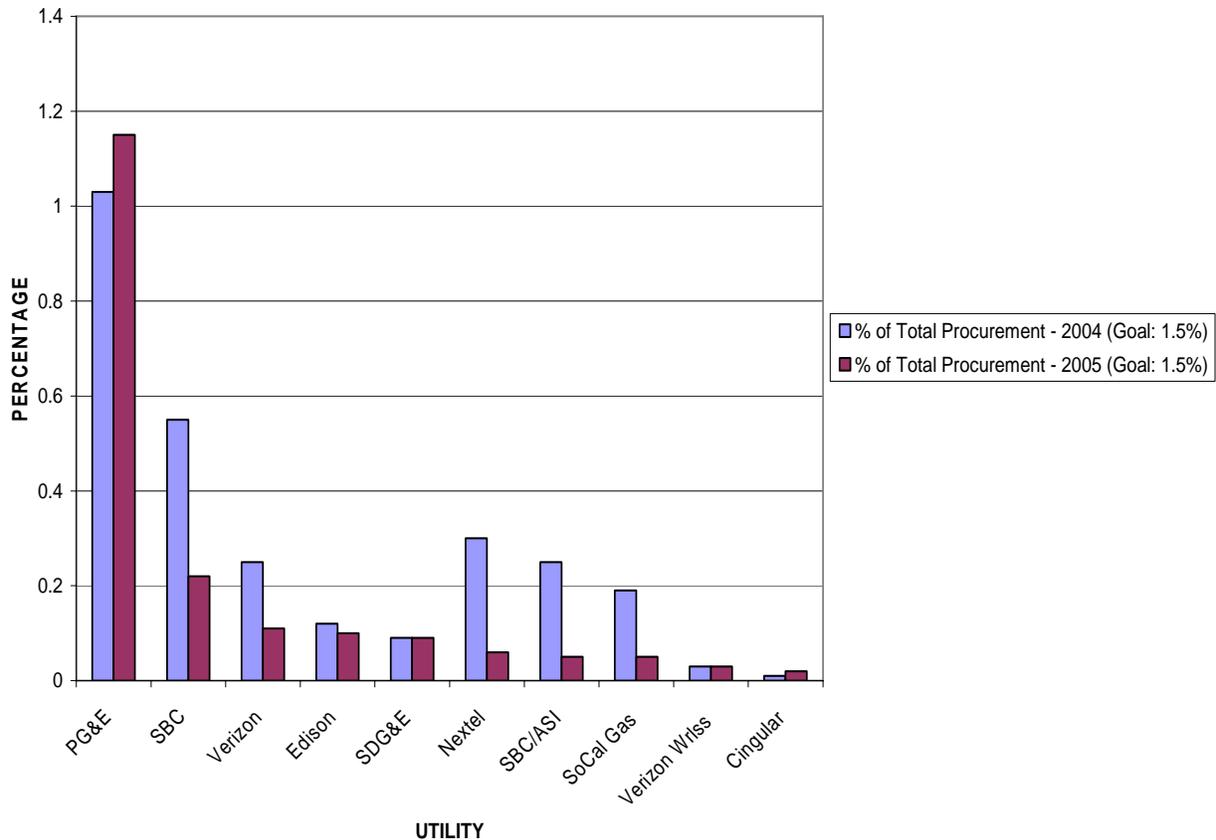


Large Utilities' Procurement From Disabled Veteran-owned Businesses

The large utilities' procurement from DVBEs decreased from \$35 million (0.29%) in 2004 to \$31 million (0.24%) in 2005. No large utility reported achieving the 1.5 percent procurement goal in General Order 156. AT&T states a part of the decline in their results was due to significant changes in the DVBE certification process due to legislation. This caused two of their larger DVBE suppliers to lose their certification and precluded their spending in the results. Nextel's decreased results may be due to its merger with Sprint and the excessive amount of capital equipment purchased in 2005, which diluted their results.

PG&E was the only utility to report an increase in **both** dollars and as a percentage of total procurement from disabled veteran-owned businesses. Although not meeting the 1.5% goal, PG&E was also the only utility to report DVBE procurement results above 1.00% of total corporate procurement (1.15%) [See Tables 1A, 1B, 7A and 7B].

Disabled Veteran Business Enterprise: Comparison of Years 2004 and 2005



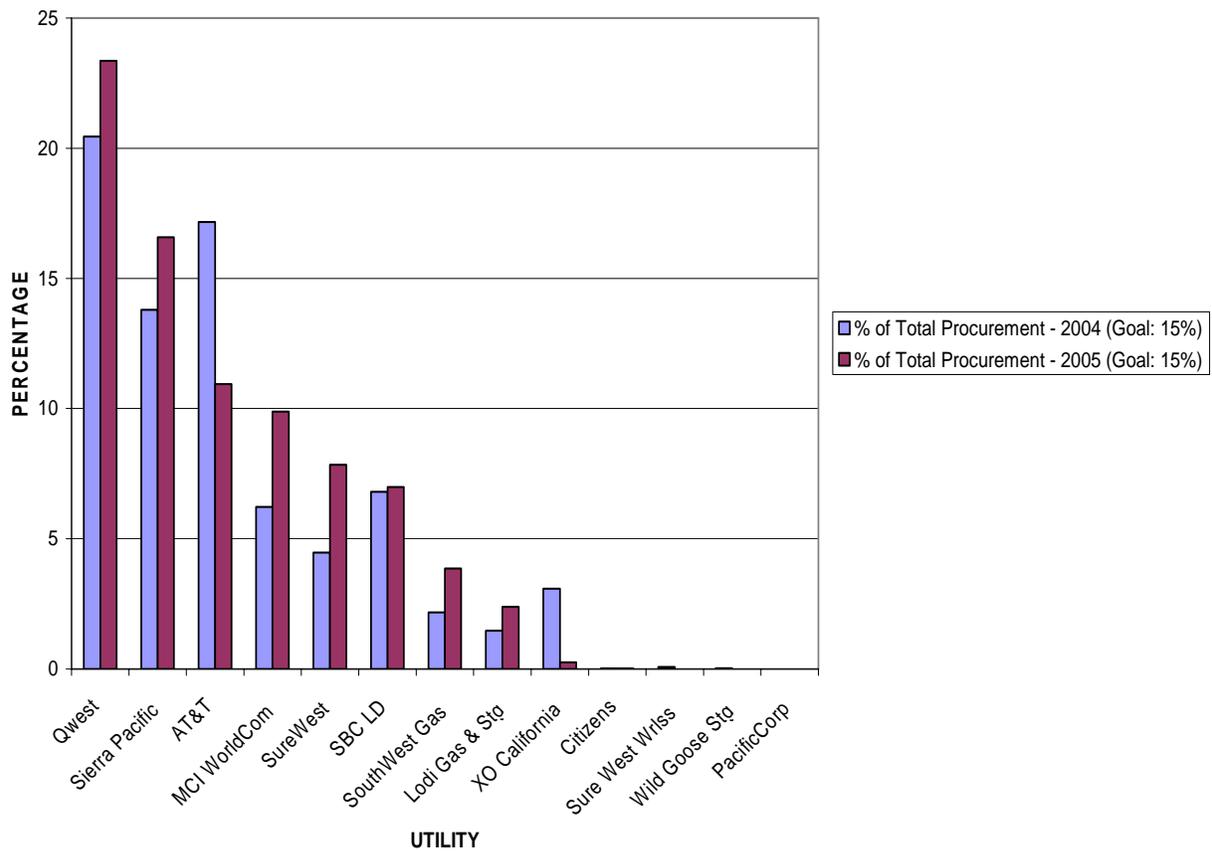
Program Results of Small Utilities

For those regulated utilities having a total procurement of less than \$250 million, overall combined WMDVBE procurement decreased in dollars, but increased as a percentage of total procurement, from \$50.8 million (9.86%) in 2004 to \$37.8 (12.44%) million in 2005 [See Tables 2A and 2B]. Small utilities account for approximately 2% of total utility procurement. The thirteen small utilities reporting in the WMDVBE program are: AT&T, Citizens Telecommunications (Citizens), Lodi Gas & Storage, MCI WorldCom, PacificCorp, Qwest, SBC Long Distance (SBC LD), Sierra Pacific, SouthWest Gas, SureWest, SureWest Wireless, Wild Goose Storage, and XO California.

Small Utilities' Procurement From Minority-owned Businesses

Overall procurement from MBEs decreased in dollars from \$35.3 million (6.85%) in 2004 to \$25.1 million (8.25%). Only Qwest and Sierra Pacific Power achieved the 15 percent MBE goal. MCI WorldCom, Qwest, Sierra Pacific, SureWest, XO California, SBC LD, Lodi Gas and Storage, and SouthWest Gas all reported increases in MBE procurement, both in dollar volume and as a percentage of total corporate procurement.

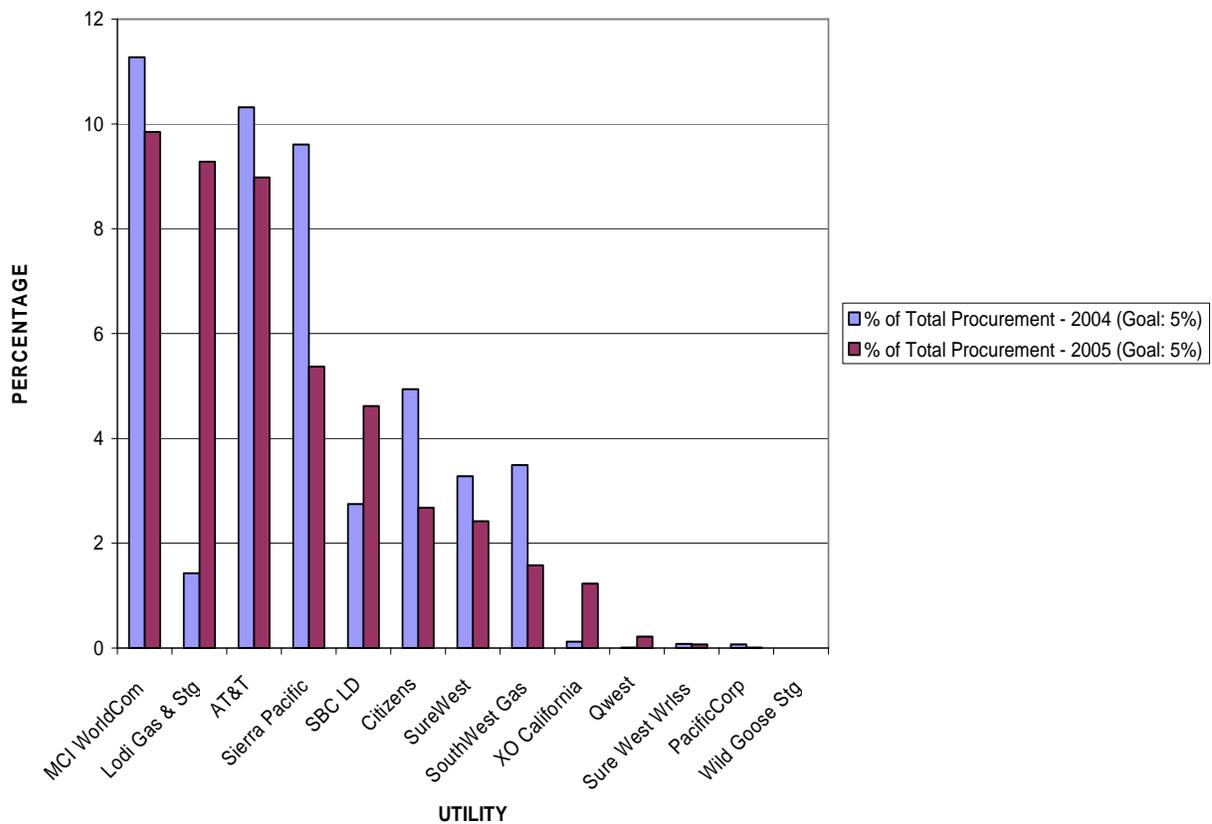
Minority Business Enterprise: Comparison of Years 2004 and 2005



Small Utilities' Procurement From Woman-owned Businesses

Procurement from WBEs decreased in dollar volume, but increased as a percentage of total procurement, from \$14.3 million (2.78%) in 2004 to \$11.4 million (3.74%) in 2005. Lodi Gas & Storage, SBC LD, Qwest, and XO California reported increases both in their percentages and dollar volumes of WBE procurement. Except for AT&T, MCI WorldCom, Sierra Pacific and Lodi Gas & Storage, all small utilities failed to meet the 5% WBE goal.

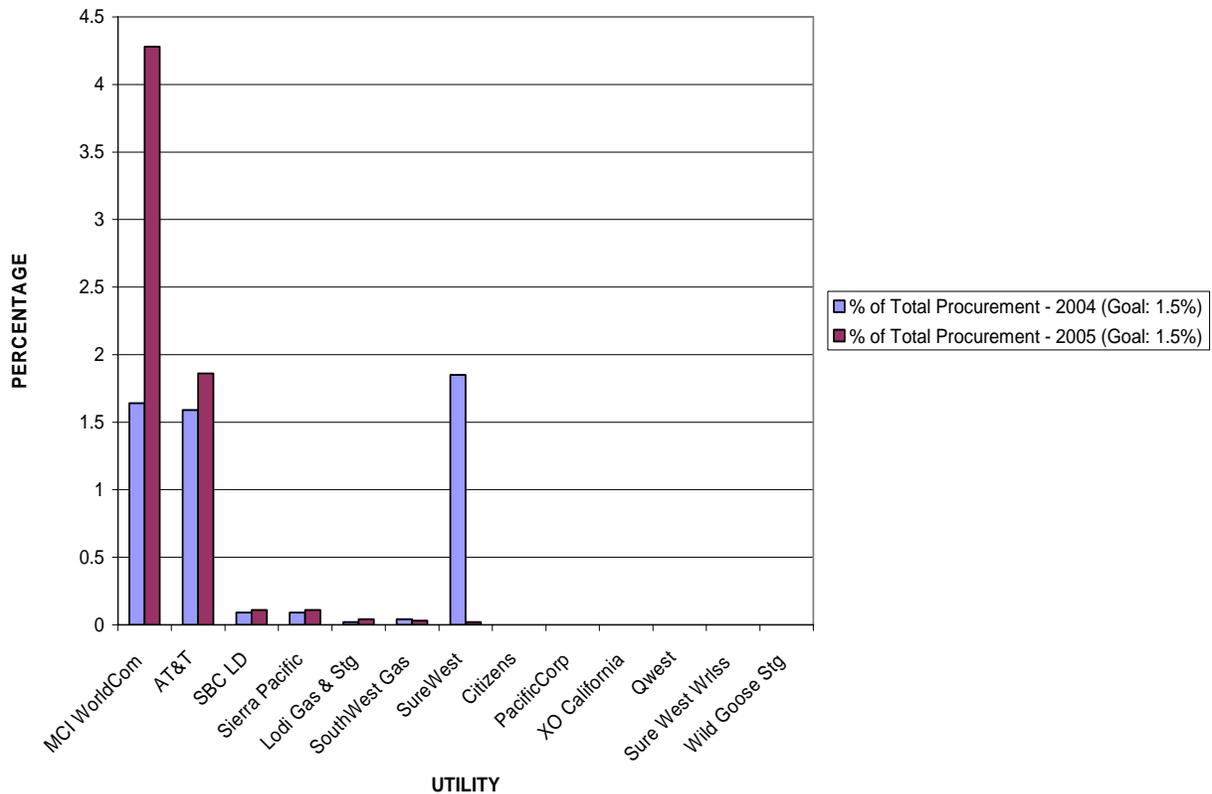
Women Business Enterprise: Comparison of Years 2004 and 2005



Small Utilities' Procurement From Disabled Veteran-owned Businesses

DVBE procurement increased in dollars and as a percentage of total procurement from \$1,186,722 (0.23%) in 2004 to \$1,384,311 (0.46%). AT&T, MCI WorldCom, Sierra Pacific, SBC LD, and Lodi Gas & Storage reported increases in both dollar volume and as a percentage of total procurement from DVBEs. All other small utilities reported declines in their results. Only MCI WorldCom, and AT&T achieved the 1.5 percent DVBE goal. MCI WorldCom's achievement of 4.28% far exceeded the DVBE goal of 1.5%. Their spending on DVBEs increased by a significant amount, from \$192,710 in 2004 to \$557,471 in 2005. This represents an increase of over 289% from their results of 2004.

Disabled Veteran Business Enterprise: Comparison of Years 2004 and 2005



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 increased in dollars from \$467 million in 2004 to \$509 million in 2005, but decreased as a percentage of total corporate procurement from 12.36% in 2004 to 7.85% in 2005. Fuel procurement from MBEs increased in dollars from \$420 million in 2004 to \$467 million in 2005, but decreased as a percentage of total procurement from 11.10% in 2004 to 7.20% in 2005. No fuel was purchased from DVBEs in 2005; however, \$42 million was purchased from WBEs in 2005. [See Tables 8A and 8B].

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 area of legal services and financial services.

The Commission issued a data request in 2004 requesting amounts spent by the six major California utilities on diverse law firms. Responses to the data request showed procurement results were small. The President of the Commission and staff later met with the General Counsels of the major utilities to discuss their increased utilization of diverse law firms. The Commission's Utility Supplier Diversity Manager also provided a report at the 2005 Full Panel Hearing regarding their 2004 results. A review of the utilities' 2005 reports shows that some utilities are making progress, and others continue to need improvement. San Diego Gas and

Electric showed the highest level of achievement at 9.2%, followed by Southern California Gas at 4.5%.

The utilities have hosted several networking events in 2005, in which members of WMDVBE law firms met with the General Counsels of California's major utility companies. Events such as these contribute to a heightened awareness of the contracting opportunities available for WMDVBE law firms. The Commission will also have a panel dedicated to legal services in its 2006 Full Panel Hearing.

Commission staff is also pursuing utility procurement practices in the area of financial services. The Commission initiated a meeting with the Chief Financial Officers of the six major California utilities to discuss strategies to increase their usage of women, minority, and disabled veteran businesses that provide financial services. A data request was issued prior to the meeting to determine the utilities' procurement levels with diverse financial services providers. The data request responses reveal there is room for significant growth in this area.

A review of the utilities' 2005 reports shows there has been some growth in this area. The results show a range of 0.2% to 4.9% of financial services procurement directed to diverse vendors. The 2006 Full Panel Hearing will include a panel on Financial Services. The CFOs of California's major utilities have been invited to speak as members of this panel.

The Commission will continue to pursue its efforts in these areas, as well as additional areas, in the future.

New Participating Utilities

Commission regulated water utilities are not required by PU Code section 8283 to participate in the program, however they are voluntarily complying. Seven water utilities filed reports. Park Water Company filed a report showing overall WMDVBE results of 6.9%. However, for the second consecutive year, the six major water utilities have not provided statistical results in their reports. In an effort to provide a balanced comparison to other water utilities, Park Water's results have not been included in the accompanying tables. The Commission looks

forward to seeing statistical results from the six major water utilities in their 2006 reports, in order to provide objective comparisons within this industry.

Uniform Reporting Categories

This is the first year in which the utility companies are reporting their procurement activities using a standardized methodology. The Commission now requires the utilities to report their procurement using the Standard Industry Classification (SIC) codes. Use of a common reporting format will facilitate 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 October 2006, the Commission will hold its fourth public hearing regarding diversity in utility programs. Representatives of industry, government, and other interested parties are expected to attend. Topics, speakers, and the agenda are currently being finalized. At this meeting, the Commission will explore new avenues to enhance the utilization of WMDVBE subcontractors by the utilities' prime contractors. In many instances, there may be no WMDVBE contractors that provide goods and services in the amounts utilities need. However, prime contractors can procure some products and services from qualified WMDVBE subcontractors for utility projects. The CPUC views this area as a valuable resource to increase WMDVBE procurement by utilities.

California Utilities Diversity Council

As a result of the Commission's 2003 Full Panel Hearing, and at the behest of minority business associations and public advocates, the California Utilities Diversity Council (CUDC) was established. CUDC's inaugural meeting was held in March 2004. CUDC is providing input to the CPUC's next Full Panel Hearing.

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.

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.

In June of 2005, members of the CUDC’s Directorate, including the CPUC’s Utility Supplier Diversity Manager, attended a summit hosted by the Latino Journal. The focus of the summit was to explore the creation of a council in the insurance industry similar to that of the CUDC in the utility industry.

The meeting was well attended and attracted insurance industry leaders as well as prominent California legislators, including Senators Jackie Speier, Richard Alarcon, and Assemblyman John Benoit. Commissioner John Garamendi was the key note speaker. He endorsed the creation of the insurance diversity council, encouraged the parties to work collectively and cooperatively to address the needs of California’s diverse populations and communities.

The success of the CPUC's diversity council was discussed throughout the day. Several speakers including Commissioner Garamendi and Senator Speier referred specifically to the CUDC and its value, and the similar contributions an insurance industry council could make to the economic, social and political processes.

One of the topics covered was the value of Full Panel Hearings on Diversity and the importance of publicly acknowledging the commitment to diversity. A high-level representative from the Department of Insurance later spoke at the Commission's third Full Panel Hearing in October.

Looking ahead to 2007, the CUDC will continue its efforts in promoting diversity for utility companies doing business in California.

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. Commission supplier diversity staff members also attended some of the events as well.

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, in GO 156, required the establishment of a WMDVBE clearinghouse. The WMDVBE 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. As of August 2006, there were 3,594 verified vendors in the database, of which 1,209 were minority-owned businesses, 1,153 were women-owned businesses, 380 were both women- and minority-owned businesses, 800 were disabled veteran-enterprise businesses, 50 were a combination of these ownership categories, and 2 were small disadvantaged businesses. These amounts represent a decrease in the total number of verified vendors over those of 2004. Operating costs of the Clearinghouse are reimbursed by the participating utilities. The CPUC awarded a new two-year contract for management of WMBE verification to Asian Inc. effective July 1, 2005. The award was made on a competitive bid basis to the lowest bidder.

Website

In addition to the Utility Supplier Diversity Program's homepage, its other Web pages offer:

- Application forms for suppliers to download
- Information on program history, certification, and the role of the clearinghouse
- Links to comparable verifying agencies and the supplier diversity programs of participating utilities
- A public version of the supplier database, with confidential information expunged

CONCLUSIONS

Utilities reported an increase of approximately \$143 million dollars spent on WMDVBE firms, as well as an increase in total procurement dollars spent in 2005. Additionally, the percentage of dollars spent on WMDVBE firms shows a slight increase. The overall percentage results indicate the utilities are not meeting the goals established by GO 156. However, as stated in last year's report, one explanation may be the inclusion of wireless carriers' results. Wireless carriers have inordinately high procurement spending due to items such as telephone handsets in their procurement base. This condition has continued from last year's report and is even stronger this year. For example, Verizon Wireless reports a total procurement base of \$4.1 billion. Of this amount, \$2.8 billion (67%) was due to one item: handsets. Verizon Wireless has stated there are no certified, American-based WMDVBE firms providing handsets for them to purchase. Items such as handsets drive total procurement dollar amounts up, while a lack of WMDVBE firms providing these products drives the percentage achievement results down. Other wireless carriers are most likely in the same market conditions as Verizon Wireless. These conditions amplify the negative effect on the overall WMDVBE procurement results for all utilities.

To illustrate this point, the table below shows the procurement results of the large utilities with and without the results from the wireless carriers.

WMDVBE Procurement With and Without Wireless Carriers' Results

Total Procurement	MBE	WBE	DVBE	WMDVBE
\$7,287,021,000	\$1,176,583,000	\$502,413,000	\$28,515,000	\$1,707,511,000
100.00%	16.15%	6.89%	0.39%	23.40%
Including Wireless Carrier Data	\$1,353,390,000	\$609,117,000	\$30,511,000	\$1,993,018,000
	10.45%	4.70%	0.24%	15.38%

In 2006, Commission staff will continue to 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. Staff will continue to assess the programs of utilities that did not meet their goals. With the Commission's continuation of public hearings, networking opportunities, and the utilities' participation and renewed commitment, greater achievement in meeting and exceeding WMDVBE procurement goals is expected.