

# GREENLINING ANNUAL REPORT CARD

California Utility Supplier Diversity

*a project of*



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## TABLE OF CONTENTS

<b>Introduction</b>	<b>2</b>
<b>Section 1: Contracting to <i>All Minorities</i></b>	<b>3</b>
<b>Section 2: Contracting to <i>African-Americans</i></b>	<b>4</b>
<b>Section 3: Contracts to <i>Asian-Americans</i></b>	<b>4</b>
<b>Section 4: Contracts to <i>Latinos</i></b>	<b>5</b>
<b>Section 5: Contracts to <i>Native Americans</i></b>	<b>5</b>
<b>Section 6: Contracts to <i>Minority Women</i></b>	<b>6</b>
<b>Section 7: Recommendations</b>	<b>6</b>
<b>Section 8: Legal Services – Large White Firms, Not Minorities</b>	<b>7</b>
<b>Section 9: Financial Services and Accounting</b>	<b>8</b>
<b>Section 10: Additional Opportunities for Minority Contracting</b>	<b>8</b>

## INTRODUCTION

For the first time in its 98 year history, we have a California Public Utilities Commission whose commissioners are diverse, albeit Greenlining continues to urge the Governor to appoint the first Hispanic ever to the Commission.

For the first time in its history, half of the six major utilities reporting have set substantial goals for supplier diversity, AT&T and PG&E at 27%, and Verizon at 20%. Also, a fourth utility, Southern California Edison, has been strongly urged by a unanimous commission to meet its 1989 goal of 22.5%.

For the year 2006, the six largest utilities spent more than 1.5 billion dollars with minority contractors. This is an increase by almost \$500 million from 2005 in overall contract spend among the top utilities. AT&T awarded the most at over \$500 million. Unfortunately, with the exception of PG&E, there was no significant improvement among the utilities from 2005 to 2006.

It is Greenlining's expectation that with a diverse commission united in its support for supplier diversity as a part of corporate responsibility and good citizenship that major changes will occur in 2007 and all major utilities will demonstrate the same rate of progress that PG&E has from 2005 to 2006.

In addition to a breakdown and analysis of contracting to minority groups, this report also contains recommendations in contracting for legal, financial and accounting services as well as future opportunities for minority contracting resulting from technological advancements within utility industries.

The Greenlining Institute's report card analyzes overall progress and provides separate breakdowns by race, ethnicity and gender.

## **SECTION ONE: All Minorities**

The grades in this section are weighted to give credit to those companies showing significant progress and those companies that have set major future goals.

AT&T finished first but it only received a “B.” This is because it showed a slight decline which indicates that its very laudable goal of 27% minority supplier contracting by 2010, set by their CEO, may not be met unless extraordinary changes are implemented quickly.

PG&E, although it finished last in percentage of contracts, was given a “C” (not an F) due to its very substantial improvement and its CEO commitment to reach 27%. At the present rate of progress, PG&E could well achieve this before 2015, the date it is set to reach 27%.

Edison received the lowest grade, a “D+” because it finished next to last in overall achievements, showed a decline from last year and has still not indicated whether it will meet its 22.5% goal set in 1989, a goal that the PUC unanimously urged it to achieve in its May 11, 2006 decision.

	<b>Company</b>	<b>Percentage (%)</b>	<b>Grade</b>
1	AT&T	20.10%	B <sup>1</sup>
2	Verizon	16.22%	C+
3	San Diego Gas & Electric	17.40%	C+
4	Pacific Gas and Electric	14.80%	C <sup>2</sup>
5	Southern California Gas	16.25%	C-
6	Southern California Edison	16.00%	D+ <sup>3</sup>

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<sup>1</sup> AT&T’s grade of a B is a reflection of their decrease in their percentage by 3.35% from 2005 to 2006 which is not indicative of a steady progress towards their pledge to be the national leader at 27%.

<sup>2</sup> Pacific Gas and Electric’s grade of a C is a result of first its percentage increase from 2005 by almost 13.65% and second by the commitment made by their CEO to reach an industry high of 27% by 2015.

<sup>3</sup> Edison’s grade of D+ is a result of both its 3.45% percentage decrease from 2005 and its refusal to honor its 1989 commitment of 22.5%

## **SECTION TWO: African Americans**

AT&T finished first in percentage of contracts to African-Americans and showed the greatest improvement as well. It received an "A-."

PG&E finished second and showed slight progress from the previous year.

Verizon received the lowest grade, "a double F," because it not only had close to zero contracts to African-Americans (0.16%) but showed a 50% decline from 2005. As a result, it's 20% goal will never be met without balance among all minorities.

Edison received a "D" rather than an "F" despite being under 2%. This is because it did show slight improvement from 2005.

	<b>Company</b>	<b>Percentage (%)</b>	<b>Grade</b>
1	AT&T	6.98%	A-
2	Pacific Gas and Electric	4.80%	B
3	San Diego Gas and Electric	3.62%	C+
4	Southern California Gas	2.87%	C-
5	Southern California Edison	1.90%	D
6	Verizon	0.16%	FF

## **SECTION THREE: Asian Americans**

In spite of the large number of Asian-American businesses in California, no utility had a good record. However, since the grades are on a curve, Edison finished first and received a "B-," despite a slight decline from 2005.

Although AT&T finished second, it received a "C+" because of a significant decline from 2005 to 2006.

Southern California Gas received Greenlining's lowest grade, "a double F," because it finished last with under 2% and showed a huge decline from 4.4% to 1.5%.

	<b>Company</b>	<b>Percentage (%)</b>	<b>Grade</b>
1	Southern California Edison	5.90%	B-
2	AT&T	5.76 %	C+
3	Pacific Gas and Electric	4.6%	C+
4	Verizon	3.60%	C
5	San Diego Gas and Electric	3.37%	C
6	Southern California Gas	1.50%	FF

#### **SECTION FOUR: Latinos**

Southern California Gas and Verizon were the two leaders in 2006 and both showed increases from 2005, therefore both received “A-s.”

PG&E received a D, the lowest grade, despite a small increase from 2005. It was far behind any of its competitors.

	<b>Company</b>	<b>Percentage (%)</b>	<b>Grade</b>
1	Verizon	11.74%	A-
2	Southern California Gas	11.44%	A-
3	San Diego Gas and Electric	8.38%	C+
4	AT&T	7.26%	C
5	Southern California Edison	6.50%	C-
6	Pacific Gas and Electric	4.70%	D

#### **SECTION FIVE: Native Americans**

No utility achieved 2% in contracting to Native Americans. The two leaders, San Diego Gas and Electric and Southern California Edison both declined substantially. San Diego Gas & Electric’s declined 48% in its percentage from 2005-2006 (to 1.99%) and Southern California Edison declined 71% in its percentage from 2005-2006 (to 1.40%).

#### **SECTION SIX: Minority Women**

Greenlining was not able to offer a grade on a curve system due to the surprisingly poor record of every utility in this category. The four “leaders,” AT&T, SDG&E, PG&E and Edison all showed declines from 2005 and none were at even 4%.

Verizon and Southern California Gas were both tied for last, and both received Fs since they showed declines from 2005 as well.

	<b>Company</b>	<b>Percentage (%)</b>	<b>Grade</b>
1	AT&T	3.90%	C-
2	San Diego Gas and Electric	3.43%	C-
3	Pacific Gas and Electric	3.30%	C-
4	Southern California Edison	3.40%	C-
5	Verizon	1.64%	F
6	Southern California Gas	1.33%	F

## **SECTION SEVEN: Recommendations**

Greenlining makes the following recommendations in order to ensure continued CPUC national leadership and strengthening of corporate responsibility and compliance:

- 1) All reporting utilities should be urged to develop an outreach strategy targeted at minority women suppliers since less than 4% of all contracts are awarded to women.
- 2) Edison should once again be strongly urged by this Commission to reach its 22.5% minority goal by 2008.
- 3) AT&T's CEO should be urged to reexamine the California program to ensure that its 27% commitment made in September 2006 as part of the SBC-AT&T merger is met and that AT&T continues to be the national leader.
- 4) Sempra, in its pending rate case, should be strongly urged to set goals comparable to those set by PG&E's CEO as part of the just completed rate case. This is particularly important in the context of Southern California Gas's precipitous decline from 2005-06.<sup>4</sup>
- 5) Verizon's CEO should be strongly urged to immediately put in place a major technical assistance and capacity building program to move its African-American percentage from a disappointing zero percent to at least the utility average.
- 6) Sempra's CEO should be strongly urged in its rate case and at the October en banc hearing on diversity to rectify its "double F" grade for Asian-Americans and meet the utility average by 2008.
- 7) This Commission, through orders in rate and merger cases as well as through the bully pulpit, should urge all utilities to set goals similar to those set by AT&T and/or PG&E, particularly Sempra which has no significant goals and Edison which has refused to meet its 1989 goal of 22.5%.
- 8) Capacity building and technical assistance are essential if the utilities are to continue to improve their records; therefore all utilities should be urged to put in place, either individually or collectively, very major technical assistance programs (such as AT&T has) with significant capacity building goals.

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<sup>4</sup> In the mid 80s when the first hearings on supplier diversity began, Southern California Gas was by far the leader in reported contracting to minority firms.

## **SECTION EIGHT: Legal Services - Large White Firms Not Minorities**

This Commission has put a special emphasis on the lack of opportunities for minority law firms and the utilities' poor records in addressing this lack of contracts to minority law firms. For the most part the utilities have disingenuously distorted their reporting to address this concern. Minority business groups do not consider dollars spent at large white law firms part of minority supplier diversity. Yet, five of the six utilities have reported, as part of their professional service contracting data, the dollar amount spent at white law firms for minority and women attorneys at these firms. With the rarest of exceptions, these firms have few or no major partners who are minorities and have poor records, both in hiring and in assignment of minority attorneys to important roles in utility cases.

*None of the data provided relating to white firms should be included as part of supplier diversity.* Less than a decade ago, both Southern California Edison and Pacific Gas and Electric joined Greenlining in opposing a similar dilution when the Big Three auto companies urged that the definition of a minority owned firm be changed from 51% to 30%.

Separate hearings should be conducted on the legal profession, perhaps as part of an OIR. Greenlining has previously submitted to the CPUC and to all utilities criteria that might allow a modification of the present 51% standard for white law firms, but this modification would require a law firm to:

- a) establish very significant goals and achievement for minorities, both at the associate, partner and senior partner level,
- b) develop a very major recruitment program including increasing the pipeline of minorities by addressing the matter at the junior high and above level,
- c) give minority attorneys very substantial responsibility in utility cases with the intention of preparing them to, if they wish, form minority owned law firms that can represent the utilities in the future;
- d) the firm develop a very major pro bono program designed to address the needs of the underserved community.<sup>5</sup>

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<sup>5</sup> According to the latest State Bar statistics, legal services for the poor are underfunded by two-thirds and less than one in three low income persons who have specific legal problems are served by legal service programs.



## **SECTION NINE: Financial Services and Accounting**

Financial services, including accounting, has been a high priority for this Commission, however, the data available indicates that no utility presently has a program, much less a creative or leadership oriented strategy, to address the generally poor utility record in regards to use of diverse financial institutions and CPA services. Big Four CPA firms are not only white owned but almost exclusively white. Programs comparable to what was suggested in Section 8 regarding legal services should be considered for the Big Four CPA firms.

As to financial services, Greenlining opposes any credits for relationships with so called minority owned financial institutions, unless the financial institution serves all minorities in its service area.<sup>6</sup>

## **SECTION TEN: Additional Spend Opportunities**

### **AT&T and Verizon: Video Service, Broadband and Diversity**

AT&T and Verizon both received major victories in their ability to offer video service in addition to voice (telephone) and data (internet). With the introduction of this critical and wide reaching service, both companies will have a substantial expansion of contracting spend. In addition to the service offering, both AT&T and Verizon have also built out their fiber optic infrastructure (AT&T with Project LightSpeed and Verizon with FIOS). AT&T has attributed a majority of their 118% increase in total spend to the deployment of Project LightSpeed and U-Verse, their video service. Verizon, on the other hand, actually saw a decrease in total spend in 2006 despite their deployment of broadband, fiber optic, and video service.

With these new and advanced technologies, Greenlining encourages both companies to continue their positive record of minority contracting. With both companies now holding statewide franchises for video service, the demand for the above services will only increase. With this increase there will also be an increase in contracting opportunities to meet the need for, as Verizon notes, "everything from actual fiber to underground cable installation."

A strategy for ensuring that minority contractors are aware of and are equipped with the technical skills necessary to be awarded contracts in these new areas of service for these multi-billion dollar telecommunications utilities will be critical in the upcoming year. Greenlining strongly recommends CEO leadership for both companies in developing and remaining committed to minority contracting in video service deployment as has been the case in contracting for traditional services offered by AT&T and Verizon.

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<sup>6</sup> Greenlining's position only applies to institutions with 5 billion or more in assets. If they are smaller, Greenlining has no objection to providing credit so long as the institution serves an underserved low-income minority group.

## **SCE, SoCal Gas, SDG&E and PG&E: Energy Efficiency and Diversity**

In this past year, the State of California has positioned itself as the global leader in developing innovative policies in environmental sustainability and energy efficiency. In order for the realization of long term success in these respective areas, new technologies and methods of delivering energy services will have to be established. This places California's leading energy utilities at the forefront of the global movement for energy and environmental literacy, efficiency and sustainability.

This leadership will require the proactive deployment and installation of new technologies throughout the state. New technologies that provide renewable energy sources, saves consumers real dollars in their energy bills and lessens the burden on the state's overall energy resources will be critical.

Along with these action steps, we should expect to see substantial increases in the amount of dollars to be directed towards minority small business owners through contracting by the energy utilities as they work to ensure that all Californians (particularly underserved communities) achieve stability and efficiency in their energy use. Greenlining encourages the energy utilities to proactively work to ensure that minority small business owners are made aware of new opportunities resulting from the deployment of advanced energy technologies and are equipped with the capacity and relevant training to fulfill these opportunities.