THE GREENLINING INSTITUTE

2015 ENERGY · TELECOM · WATER · CABLE

SUPPLIER DIVERSITY REPORT CARD

TOTAL SPENDING REMAINS HIGH, BUT PROGRESS HAS STALLED

Stephanie Chen • Energy and Telecommunications Policy Director

Paul Goodman • Legal Counsel

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ACKNOWLEDGEMENTS

About The Greenlining Institute

Founded in 1993, The Greenlining Institute envisions a nation where communities of color thrive and race is never a barrier to economic opportunity. Because people of color will be the majority of our population by 2044, America will prosper only if communities of color prosper. Greenlining advances economic opportunity and empowerment for people of color through advocacy, community and coalition building, research, and leadership development. We work on a variety of major policy issues, from the economy to environmental policy, civic engagement and many others, because economic opportunity doesn't operate in a vacuum. Rather than seeing these issues as being in separate silos, Greenlining views them as interconnected threads in a web of opportunity.

About the Energy and Telecommunications Policy Teams

The Greenlining Institute's Energy and Telecommunications policy programs work to ensure that vital services such as electricity, gas, telephone and broadband are accessible to all, that low-income consumers and ratepayers are protected and that race, language or income are never barriers to these essential services.

About the Authors

Stephanie Chen, Energy and Telecommunications Policy Director

Stephanie directs Greenlining's advocacy in energy and telecommunications policy. She oversees Greenlining's legal counsel at the California Public Utilities Commission and the Federal Communications Commission, who advocate on a wide range of issues impacting underserved consumers and small businesses. Stephanie has litigated several high profile cases impacting billions of dollars in utility rates, winning broad statewide protections for communities of color, low-income ratepayers and small business owners. Stephanie serves on the Board of Directors for the Conference of California Public Utility Counsel. Stephanie has a B.A. in Government from Dartmouth College and a J.D. from the University of San Francisco School of Law.

Paul Goodman, Legal Counsel

Paul Goodman's work is grounded in the belief that all telecommunications policy has racial equity impacts. He serves as Greenlining's legal counsel at the California Public Utilities Commission and the Federal Communications Commission, advocating for underserved communities' access to affordable and reliable telephone, video, and Internet services. While at Greenlining, Paul has successfully opposed the highly anti-consumer proposed mergers between AT&T and T-Mobile and Comcast and Time Warner Cable, fought for critical Net Neutrality rules to protect consumers, and helped shape the evolution of state and federal Universal Service Programs. He is a regular contributor to Greenlining's blog, where he writes about telecommunications and competition policy.

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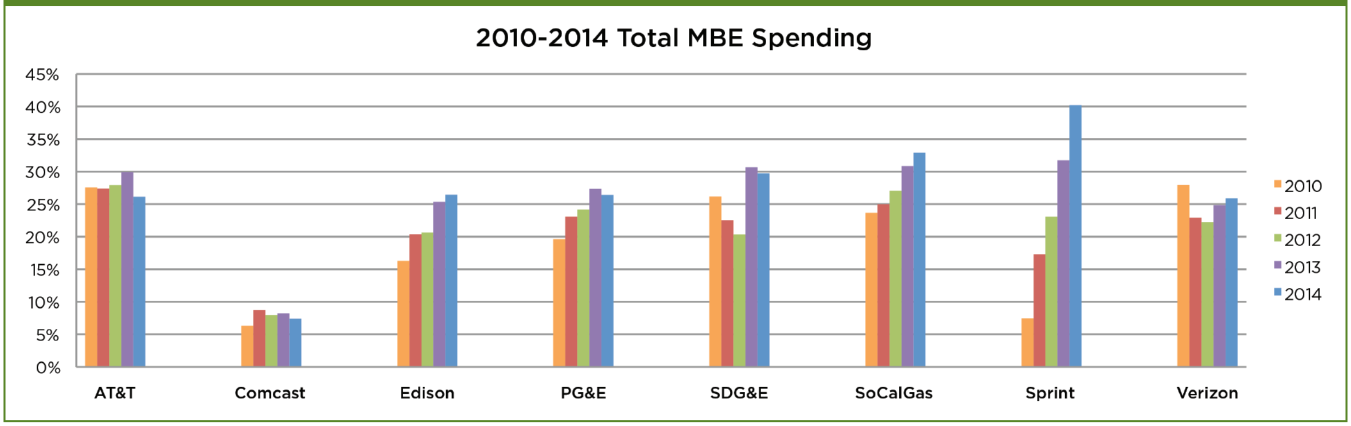
I. SUMMARY OF FINDINGS

California's energy and telecommunications companies remain at the forefront of supplier diversity achievements, with a "class average" well above their peers nationwide. This year, Sprint exceeded 40% procurement with MBEs, an unprecedented achievement. For the last two years, a small handful of companies have surpassed 30% procurement with minority-owned businesses. After passage of AB 1678 (Gordon) in 2014, these record-breaking efforts will expand to also include LGBT-owned businesses.

However, despite the overall strength of 2014's results, minority spending declined by $67 million from 2013, and alarming downward trends continue in spending with African American and Asian American businesses. The outlook for African American businesses is of particular concern, leading Greenlining to call for concerted corrective action by the reporting companies. Leaders at the California Public Utilities Commission and in the legislature must also actively engage to turn around this decline.

Contracting with Latino-owned businesses declined sharply in 2014, which raises additional red flags for a traditionally strong demographic category. Native American spending increased in the aggregate; however, this was largely the result of strong performances by a few companies.

MBE Spending for Companies Which Have Reported Data for the Past Five Years



2014 Overall MBE Spending and Company Grades

Company	% Spent	$ Spent	Grade
Sprint	40.20%	550M	A
SoCalGas	32.90%	388M	A
SDG&E	29.75%	329M	A-
Edison	26.46%	1B	B+
PG&E	26.44%	1.4B	B+
AT&T California	26.15%	693M	B+
Verizon California	25.89%	59M	B
Verizon Wireless	18.10%	407M	C-
AT&T Wireless	13.15%	515M	D
Cox	8.53%	194M	F
Comcast	8.15%	26M	F
T-Mobile	6.42%	180M	F

Several companies report internal pressure to consolidate their procurement, which threatens to stifle competition in the supply chain, as well as supplier diversity performance. In the face of leadership changes, budget cuts, shifts in corporate strategy and other internal changes, the benefits of supplier diversity remain relevant and necessary in the 21st century global economy.

Companies that report strong support from executive leadership and concerted efforts to include diversity at all stages in the procurement process continue to show strong results. In particular, companies who embrace supplier diversity best practices are beginning to demonstrate strong results in traditionally underutilized categories, including Legal Services. These industry leaders show that strong performance and consistent progress are, in fact, possible and set a strong example for their reporting peers.

Finally, 2014 saw the departure of the CPUC's long-term supplier diversity champion in Commissioner Michael Peevey. It remains to be seen who among the five currently seated Commissioners will step up to continue this critical aspect of leadership.

General Order 156: The CPUC's Supplier Diversity Program

Always on the cutting edge, California and many of the companies that operate here have long recognized that diversity is integral to good business. Nowhere is this culture more apparent than in the groundbreaking supplier diversity efforts taken on by its energy and telecommunications companies under the guiding principles of General Order 156. According to the CPUC, companies participating in its Supplier Diversity Program hit a new milestone in 2014, procuring $8.8 billion in goods and services from minority-owned, women-owned, and service disabled veteran-owned businesses.[1]

The CPUC's model for promoting supplier diversity in the industries it regulates has withstood the test of time and, when the policy is made a priority by the sitting commissioners, it has generated unprecedented results. To learn more about the model, which Greenlining advocates in other industries.

To learn more, see Appendix I online, http://greenlining.org/issues/2015/2015-supplier-diversity-report-card-total-spending-remains-high-but-progress-has-stalled/

II. ABOUT OUR REPORT

Published annually, Greenlining's Supplier Diversity Report Card grades California's energy, telecommunications and cable companies based on the supplier diversity reports the companies file with the California Public Utilities Commission. Our rankings are based on performance and improvement, and break down spending by ethnic categories, as well as minority women and disabled veterans. We make recommendations based on what we see in the numbers and what we hear from the companies themselves about their programs and practices.

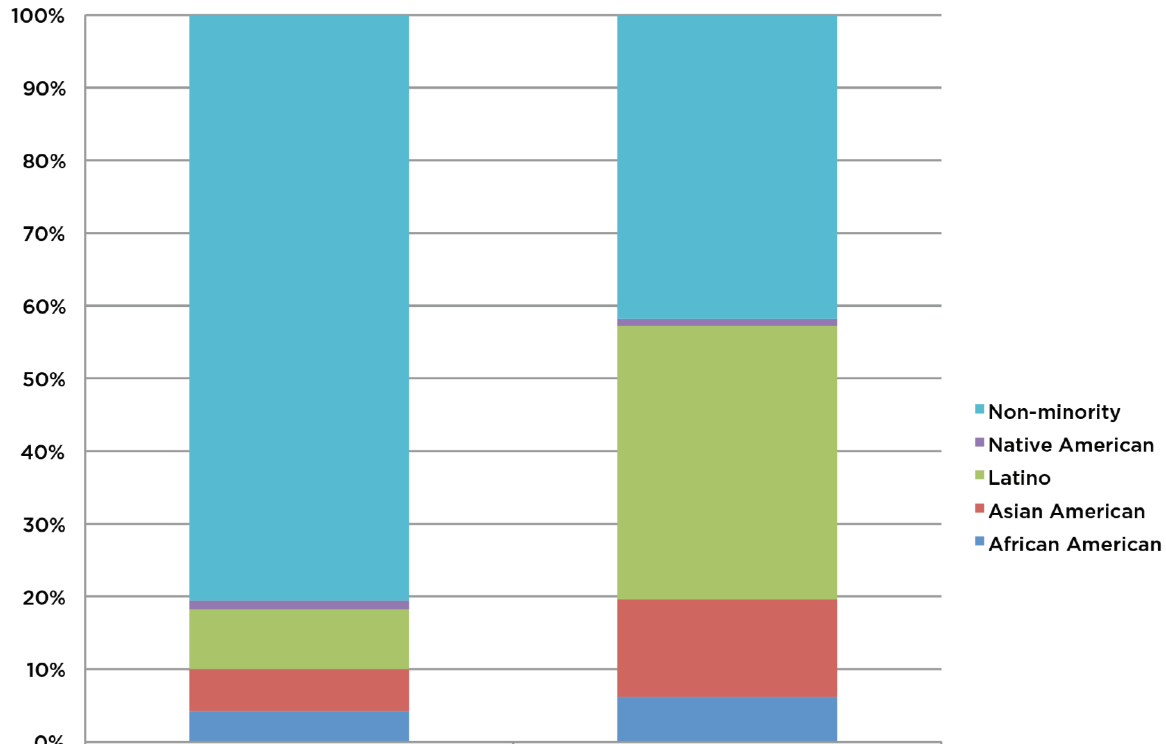
We also examine spending by industrial category. **To learn more, see Appendix II online, http://greenlining.org/issues/2015/2015-supplier-diversity-report-card-total-spending-remains-high-but-progress-has-stalled/.** Looking at results in this way helps to identify underutilized areas, which present both reporting companies and suppliers with opportunities for growth.

We advocate for supplier diversity because it creates economic gains on all sides: It promotes economic development in diverse communities, and by increasing competition and diversity in the supply chain generates a better return on investment for companies that meaningfully engage in it.

While the recent recession and slow recovery hurt many Americans, the burden has fallen unequally on communities of color. Although the average rate of unemployment in California was 7.5% overall[2] and 7.1% for white males last year, African Americans and Latinos faced 13.6% and 8.5% unemployment rates respectively.[3] Supplier diversity efforts are particularly effective as economic stimulus because they target the communities for whom opportunities are most lacking. **To learn more, see Appendix III online, http://greenlining.org/issues/2015/2015-supplier-diversity-report-card-total-spending-remains-high-but-progress-has-stalled/**

2014 GO 156 Spending (Includes Energy, Telecom & Water)
vs.
2010 CA Demographics (US Census)

*Does not include multi ethnic/other categry



	2014 GO 156 Spending	2010 California Demographics
Non-minority	80.6%	41.8%
Native American	1.2%	1.0%
Latino	8.2%	37.6%
Asian American	5.8%	13.4%
African American	4.2%	6.2%

III. METHODOLOGY

Greenlining obtains the data for its annual report card from discussions with company representatives and the annual GO 156 filings of the largest energy, water and telecom companies in California. The energy companies include: **Pacific Gas & Electric**, **Southern California Edison**, **San Diego Gas & Electric**, and **Southern California Gas**. The telecommunications companies include **AT&T California ("AT&T")**, **Comcast**, **Cox**, **Time Warner Cable**, **Verizon California ("Verizon")**; and four wireless companies: **AT&T Wireless**, **Sprint**, **T-Mobile** and **Verizon Wireless**. The report also includes a limited analysis of California's Class A water companies: **California American Water**, **California Water Service**, **Golden State Water**, **Park Water/Apple Valley Ranchos**, **San Gabriel Valley Water**, **San Jose Water** and **Suburban Water**.

In developing letter grades, Greenlining looks at the following:

- Progress from previous years as demonstrated through percentage spent on diverse contracts;
- Performance in relation to industry peers; and
- Progress relative to the CPUC's overall goals of 15% of procurement from minority-owned businesses, 5% from women-owned businesses and 1.5% from disabled veteran-owned businesses.

For grading purposes, Greenlining does not include the "other or mixed race" category in any analytical portion of the report because not all of the companies currently report this category. We focus on spending in the following categories enumerated in GO 156: African American, Asian American, Latino, Native American and service-disabled veterans.

As we did last year, we continue to analyze the Class A water companies separately as they transition to full GO 156 reporting. We hope that they will continue to move their programs and results in line with the telecommunications and energy companies. Already we see several water companies building strong foundations for their programs, and though the results are uneven, their efforts are bearing fruit. We look forward to seeing continued growth next year.

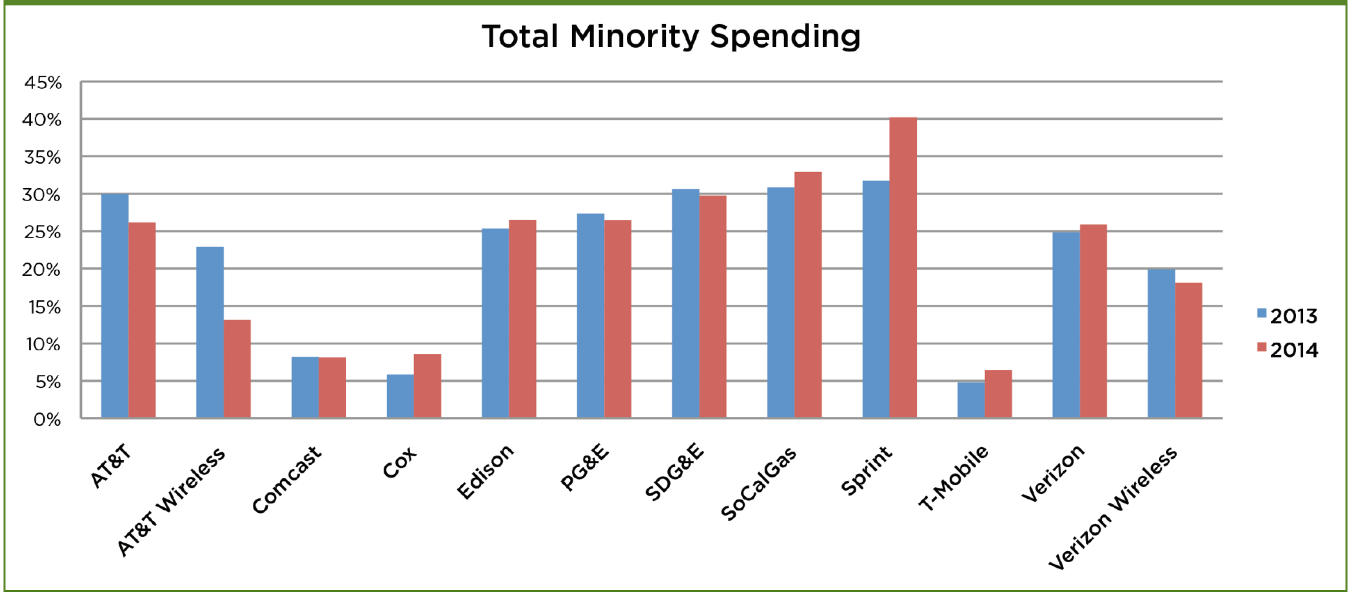
GLOSSARY OF TERMS	
Supplier Diversity	A proactive business practice to provide diverse suppliers equal access to purchasing opportunities
Tier I	Suppliers that are paid directly by companies for goods and/or services
Tier II	Subcontractors hired by Tier I suppliers to supply goods and/or services required to fulfill the Tier I contract
MBE	Minority-Owned Business Enterprise. MBEs have at least 51% ownership by ethnic/racial minorities
DBE	Diverse Business Enterprise. Includes minority-, women-, and disabled veteran owned businesses
MWBE	Minority Women-Owned Business Enterprise
DVBE	Service Disabled Veteran-Owned Business Enterprise
LGBTBE	Lesbian-, Gay-, Bisexual- and Transgender-Owned Business Enterprise
DNR	Did Not Report

IV. 2014 SUPPLIER DIVERSITY RESULTS AND RANKINGS

Overall Minority Spending

In 2014, the reporting companies spent $5.6 billion with minority business enterprises. While this is undoubtedly a significant amount and a solid achievement overall, it represents a decline of $81 million from 2013 spending. Further, the results are mixed among the group, with some companies leapfrogging to the top, others demonstrating consistent year-over-year growth, and some in significant decline.

Minority Contracting Fell by $65 Million, With Two Companies Breaking 30% and One Above 40%



2014 was characterized by decreases in spending across all but one category, resulting in a decrease in overall spending by the reporting companies from 29.7% in 2013 to 24.4% in 2014. Spending in the African American category decreased from 4.3% in 2013 to 4.23% in 2014, while spending in the Asian American category decreased from 6.39% in 2013 to 5.82% in 2014. The largest drop occurred in the Latino category, where spending decreased from 11.20% in 2013 to 8.19% in 2014. Spending in the Native American category declined slightly from 1.21% in 2013 to 1.18% in 2014.

2014 Overall MBE Spending and Company Grades

Company	% Spent	$ Spent	Grade
Sprint	40.20%	550M	A
SoCalGas	32.90%	388M	A
SDG&E	29.75%	329M	A-
Edison	26.46%	1B	B+
PG&E	26.44%	1.4B	B+
AT&T California	26.15%	693M	B+
Verizon California	25.89%	59M	B
Verizon Wireless	18.10%	407M	C-
AT&T Wireless	13.15%	515M	D
Cox	8.53%	194M	F
Comcast	8.15%	26M	F
T-Mobile	6.42%	180M	F

Sprint broke 40% in 2014, a remarkable achievement for this come-from-behind leader. However, **Sprint** had negligible spending with Native American businesses, and declined significantly in the Asian American category. **Sprint** showed some improvement in the Latino category and, most markedly, nearly doubled its spending in the African American category.

SoCalGas reported nearly 33% overall MBE spending, with slight increases with African American and WMBE businesses. Although **SoCalGas** had a marginal decrease in the Latino category, it otherwise showed modest increases across the board. This is the eighth consecutive year of growth in MBE spending for SoCalGas.

SDG&E's 2014 MBE spending came in at 29.75%, a slight drop from 2013, largely driven by a decrease in Latino contract spending. **SDG&E** has achieved year-over-year gains in Asian American and Native American spending, but has slipped significantly in the MWBE category, with a decrease of just over four percentage points from last year.

Edison edged into fourth place, increasing its overall MBE spending slightly to 26.46%, largely driven by a slight increase in Asian American and Latino contract spending. **Edison** decreased its contract spending in the African American, Native American, and MWBE categories.

PG&E dropped by almost 1 point to 26.44%. This drop is primarily attributable to a reduction in Latino spending. **PG&E**'s absolute MBE contracting dollar spending dropped from a record high $1.5 billion to $1.4 billion.

AT&T earned the fifth spot with a drop of almost four points, resulting in 26.15% in MBE contract spending. **AT&T** dropped in every category but Native American and WMBE, with the most significant drop of over three points in the Latino category.

Verizon achieved 25.89% MBE contract spending. **Verizon** improved its performance in the Asian American and Latino categories, but lost significant ground with African American and Native American businesses. **Verizon's** spending with MWBE appears to have plateaued at 3.15%.

Verizon Wireless fell to 18.1% in overall MBE contract spending. **Verizon Wireless'** spending is flat across all categories except Latino spending, which dropped significantly. **Verizon Wireless** had 0.10 percent spending with DVBE.

AT&T Wireless' MBE spending for 2014 was 13.15%, a drop of almost ten full points, the largest drop of any reporting company. **AT&T Wireless'** decline is the result of an almost nine point drop in Latino spending, while spending in other categories was flat.

Cox continues to struggle and in 2014 experienced an almost three point drop in MBE spending. While this is the second year that **Cox** has broken out its spending by ethnic category, it still does not provide gender data.

Comcast MBE spending dropped to 8.15% in 2014, earning an F. **Comcast** was stagnant across all areas. In the Native American and DVBE categories, spending remained at zero.

While **T-Mobile's** spending remains the lowest of any company, it did see a modest rise to 6.42%, with its most significant improvement in the Asian American category. We hope to see **T-Mobile** expand beyond its existing commitment to communities of color as customers and make a commitment to communities of color as suppliers.

Time Warner Cable failed to report under GO 156, once again demonstrating apathy towards these efforts.

Frontier is not included in this report, and is currently seeking approval of its purchase of all of Verizon California's assets in the state. If **Frontier** consummates the merger, we expect it to adopt Verizon California's relatively successful supplier diversity model, and we will be including **Frontier** in the 2016 Supplier Diversity Report Card.

Charter is not included in this report and is currently seeking approval of its purchase of Time Warner Cable and Bright House Communications' assets, many of which are located in California. If **Charter** consummates the merger, we expect it to report its supplier diversity data to the CPUC, and we will be including **Charter** in the 2016 Supplier Diversity Report Card.

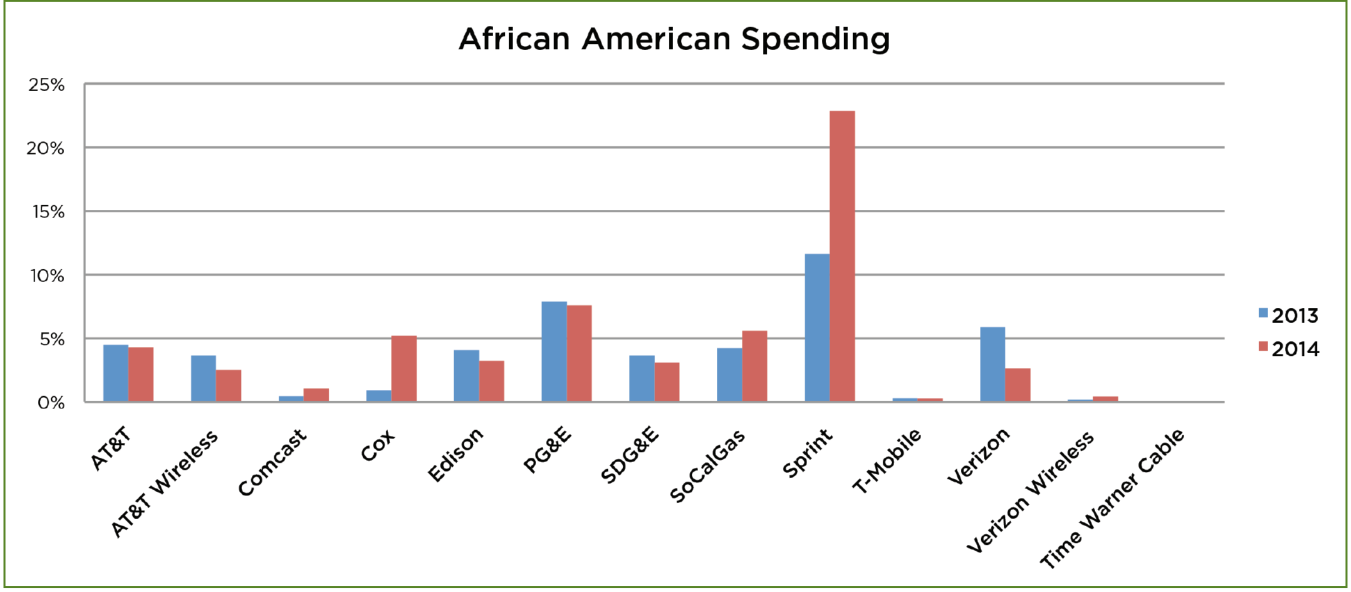
African American Contract Spending

Spending and Grades			
Company	**% Spent**	**$ Spent**	**Grade**
Sprint	22.85%	312M	A
PG&E	7.58%	391M	A
SoCalGas	5.59%	66M	B
Cox	5.20%	118M	B
AT&T	4.29%	113M	C
Edison	3.23%	396M	D
SDG&E	3.09%	34M	D
Verizon	2.69%	6M	F
AT&T Wireless	2.52%	99M	F
Comcast	1.04%	3M	F-
Verizon Wireless	0.43%	10M	F-
T-Mobile	0.26%	7M	F-

Had it not been for Sprint's 22.85% spending level, 2014 would have seen a significant decline in African American spending. Combined results totaled 4.23% across all companies. More than half of the reporting companies reduced their spending in this area from 2013. This drop is particularly concerning given that in 2013, 10 out of 11 companies increased their spending with African American businesses. **Verizon** had the largest decline in this category, with a drop of 3.20%. **T-Mobile** and **Verizon Wireless** had spending under 1%. We urge the reporting companies and the Commission to take more concerted action to increase opportunities for African American suppliers.

Sprint, the only company to achieve double digits in this category for the second year in a row, took the top spot with 22.85%, up from 11.63% in 2013 and 7.94% the year before. **PG&E** reduced its spending in the African American category slightly, but managed to remain in second position. **SoCalGas** continued to increase its spending, to 5.59%, ranking third.

Over Half of the Companies Reduced Their African American Spending

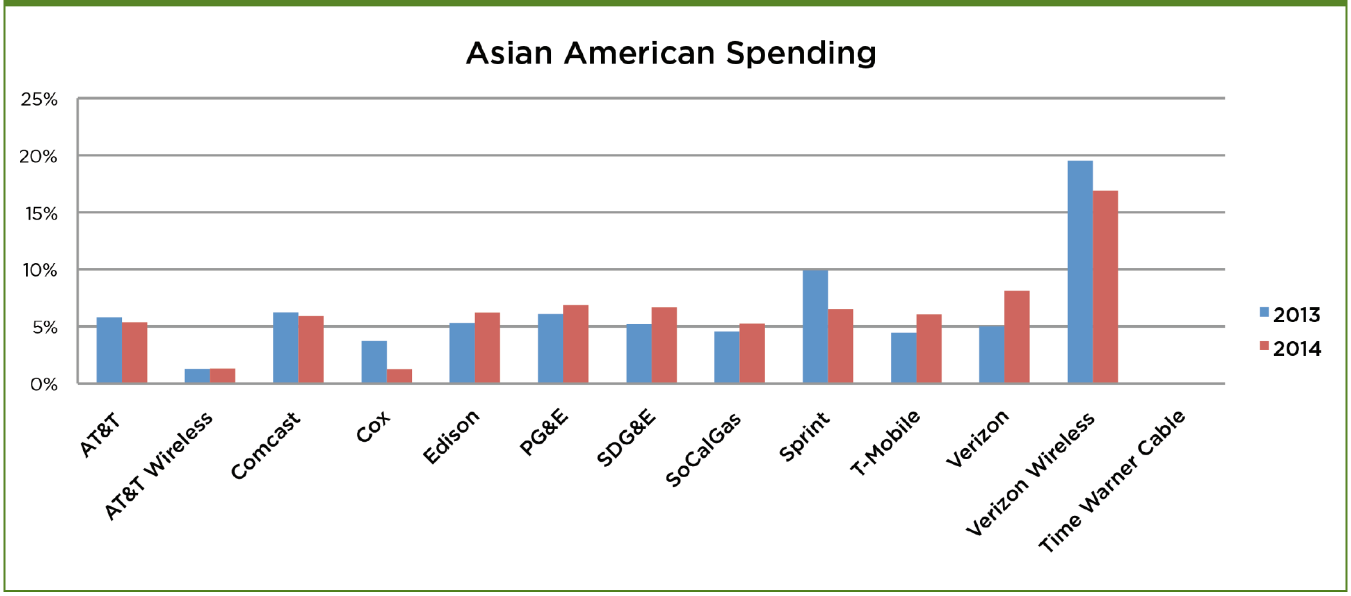


Asian American Contract Spending

Spending and Grades			
Company	**% Spent**	**$ Spent**	**Grade**
Verizon Wireless	16.88%	379M	A-
Verizon	8.14%	18M	B+
PG&E	6.88%	335M	B+
SDG&E	6.66%	74M	B
Sprint	6.52%	89M	B
Edison	6.22%	235M	B-
T-Mobile	6.04%	170M	B-
Comcast	5.92%	19M	C+
AT&T	5.36%	142M	C-
SoCalGas	5.26%	62M	C-
AT&T Wireless	1.31%	51M	F
Cox	1.25%	36M	F

The reporting companies dropped overall in the Asian American category from 6.39% in 2013 to 5.82% in 2014. **Verizon Wireless** continues to achieve the highest grade in this area, reporting 16.88%. It was the only reporting company to achieve double digit results in this category, yet its performance dipped significantly from last year. Asian American spending has been noticeably challenging for four consecutive years. With only two companies exceeding 7%, the companies and the Commission need to renew their commitment in order to reverse this trend.

Asian American Spending Slipped in 2014



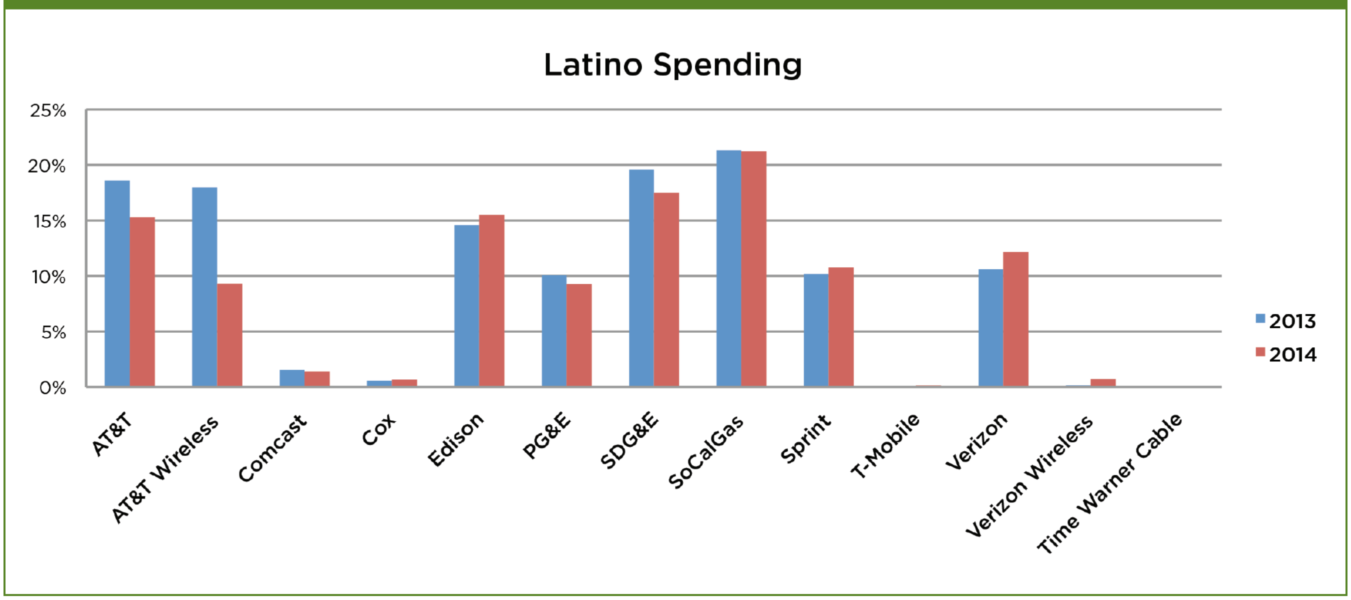
Latino Contract Spending

Spending and Grades

Company	% Spent	$ Spent	Grade
SoCalGas	21.23%	251M	A
SDG&E	17.51%	194M	B+
Edison	15.50%	586M	B
AT&T	15.28%	405M	B
Verizon	12.88%	29M	C
Sprint	10.75%	147M	D+
AT&T Wireless	9.29%	364M	D-
PG&E	9.25%	478M	D-
Comcast	1.39%	3M	F-
Verizon Wireless	0.71%	16M	F-
Cox	0.67%	28M	F-
T-Mobile	0.12%	3M	F-

The reporting companies spent 9.17% in the Latino category in 2014, a drop of over 2 points from 2013's 11.20%. With **SoCalGas** leading the pack at 21.23%, just over half of the companies increased spending in this category. No company reported an increase higher than 2 points. While the companies reversed a dip in 2013, it appears that Latino spending is once again on the decline.

Latino Spending Experienced a Sharp Decline



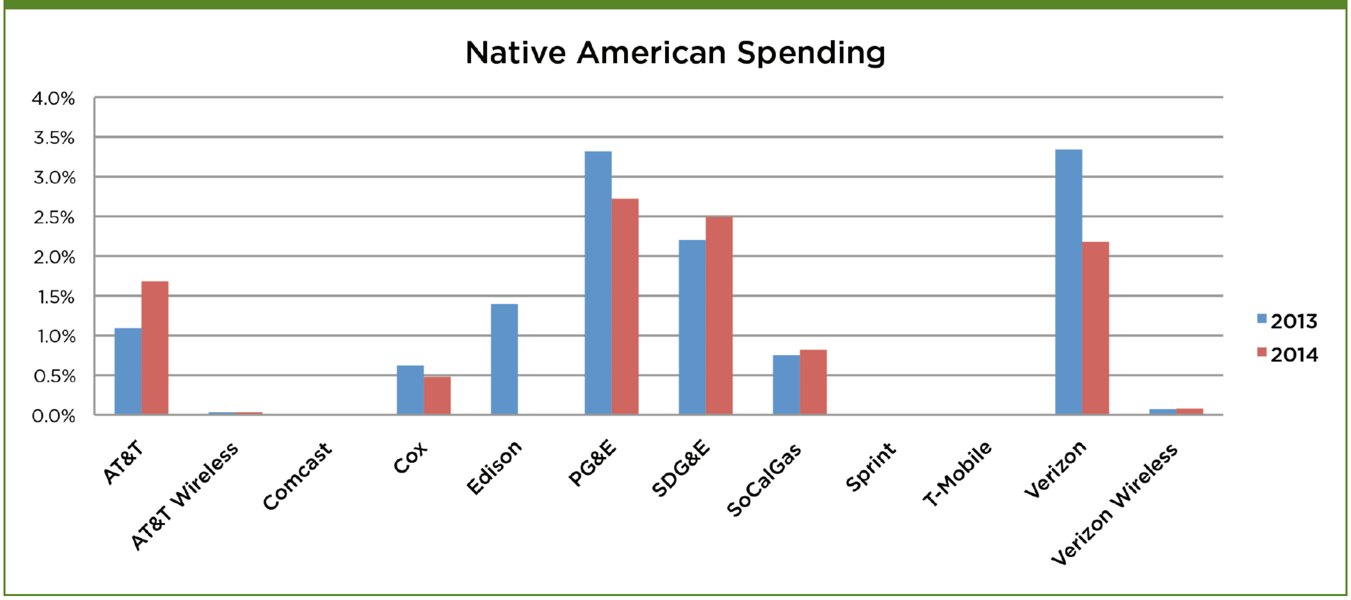
Native American Contract Spending

Spending and Grades

Company	% Spent	$ Spent	Grade
PG&E	2.72%	141M	A
SDG&E	2.49%	28M	A
Verizon	2.18%	5M	A
Edison	1.51%	57M	B
AT&T	1.23%	33M	B-
SoCalGas	0.82%	10M	C
Cox	0.48%	<1M	D
Verizon Wireless	0.08%	2M	F
Sprint	0.08%	1M	F
AT&T Wireless	0.03%	1M	F
T-Mobile	0.01%	<1M	F-
Comcast	0.00%	1M	F-

For the third consecutive year, contracting in a minority group category surpassed that group's percentage of California's population. Despite this overall accomplishment, spending is not distributed evenly across the companies. Three companies do between 2% to 4% of their contracting with Native American-owned business enterprises, offsetting several firms at or near zero. Several companies demonstrated slight growth. This year, **AT&T Wireless**, **Comcast** and **T-Mobile** fell to or remained at zero. **Verizon** experienced a sharp decline in Native American spending, from 3.34% in 2013 to 2.18% in 2014.

Native American Spending Saw Slight Improvement

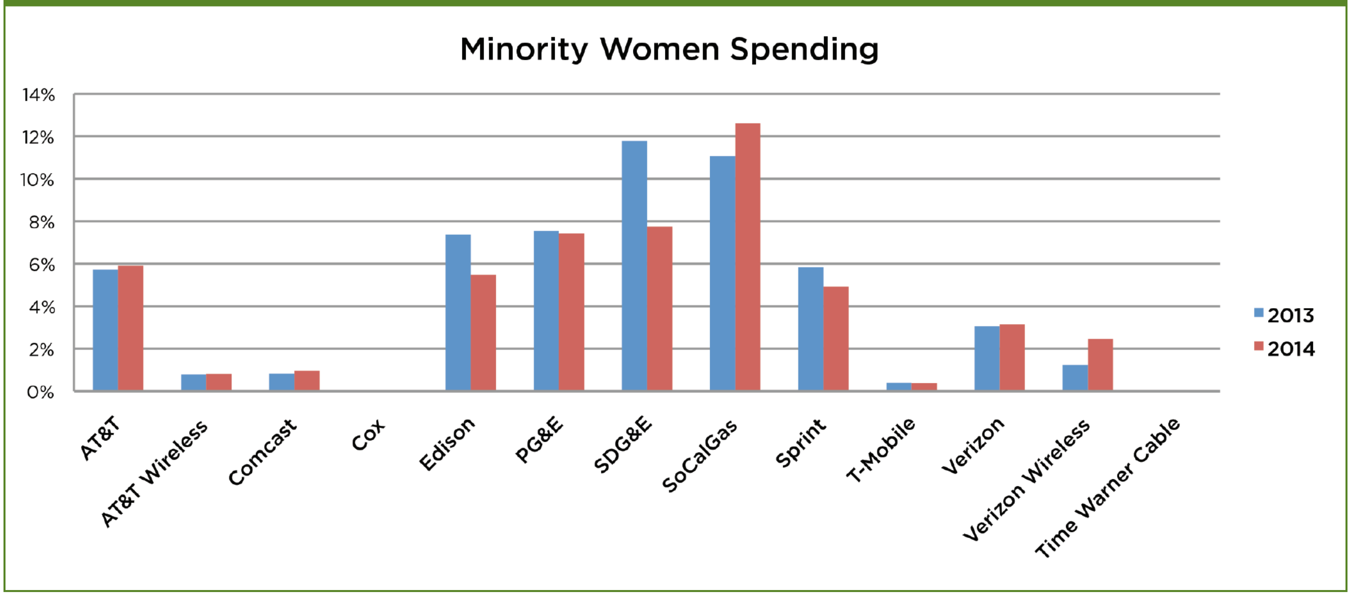


Minority Women Contract Spending

Spending and Grades			
Company	**% Spent**	**$ Spent**	**Grade**
SoCalGas	12.62%	149M	A
SDG&E	7.75%	86M	B
PG&E	7.43%	383M	B
AT&T	5.90%	156M	C
Edison	5.49%	208M	C
Sprint	4.92%	67M	C-
Verizon	3.15%	7M	D
Verizon Wireless	2.45%	55M	D-
Comcast	0.96%	3M	F
AT&T Wireless	0.81%	32M	F
T-Mobile	0.37%	10M	F

In 2014, the reporting companies collectively had 4.23% in MWBE spending, a 0.63% drop. **SoCalGas** ranked first in this category with spending exceeding 12%. **SDG&E** and **PG&E** had spending exceeding 7%. **AT&T Wireless**, **Comcast** and **T- Mobile** all reported spending below 1%. **Cox** once again failed to separately report its spending with MWBEs.

Minority Women Spending Changes Erratically from 2013 to 2014



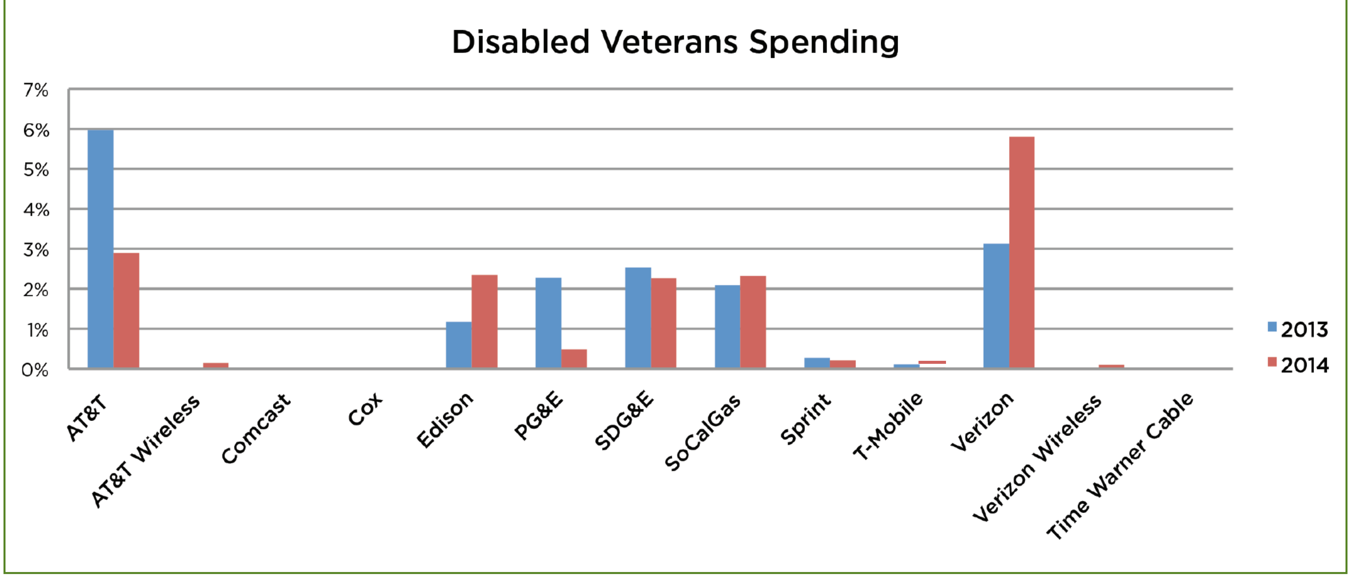
Disabled Veteran-Owned Business Spending

Spending and Grades

Company	% Spent	$ Spent	Grade
Verizon	5.80%	13M	A
AT&T	2.90%	77M	B
PG&E	2.42%	125M	B
Edison	2.34%	208M	B
SoCalGas	2.32%	27M	B
SDG&E	2.27%	25M	B
Sprint	0.21%	3M	F
AT&T Wireless	0.14%	6M	F
Verizon Wireless	0.10%	2M	F
T-Mobile	0.03%	1M	F
Comcast	0.00%	0M	F-
Cox	0.00%	0M	F-

In 2014, the reporting companies dropped to 1.35% overall spending in the DVBE category, with five of the reporting companies responsible for almost all of the spending. **Verizon** came in just under 6% in this area, knocking **AT&T** out of the first place spot for the first time in three years. **AT&T** earned second place despite a more than three point decline, from 5.97% in 2013 to 2.90% in 2014. Seven companies received failing grades for spending under 1% in 2014, with **Comcast** and **Cox** at 0% and **Verizon Wireless** at 0.10%. As with the 2013 results, the 2014 results demonstrate that DVBE spending needs more focused attention, particularly among those companies reporting little or no spending.

Disabled Veterans Contracting Improved Slightly But Needs More Focused Attention



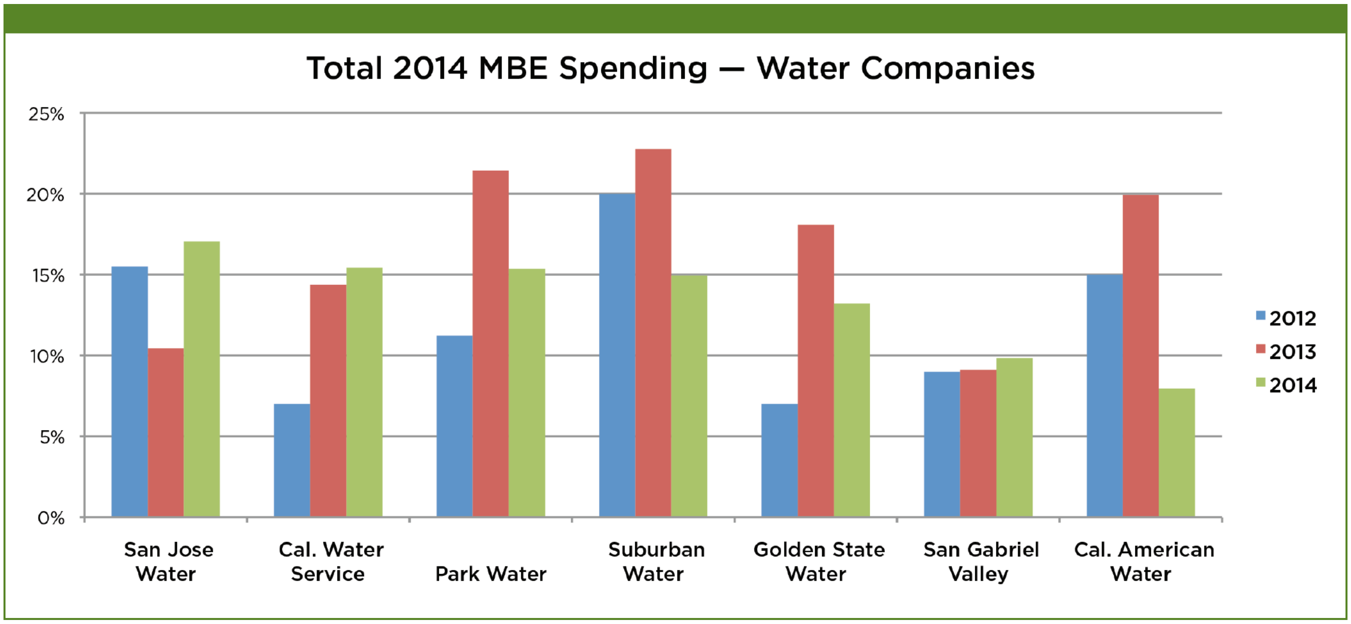
V. THE WATER INDUSTRY

The 2014 report marks the fourth year that water companies have reported under GO 156. Transitioning from Memoranda of Intent to the robust reporting required by GO 156 can represent a significant change in information gathering, reporting structure and internal processes. In 2014, four of the seven of the water companies failed to maintain initial progress. In response to these disappointing numbers, some of the companies have taken steps to reverse this trend. For example, both **California American Water** and **Golden State Water** report including supplier diversity metrics in their performance review of managers. **Golden State Water** includes supplier diversity training as part of its onboarding process for new hires. While these are good initial steps, they have yet to create much improvement. We expect a stronger effort by companies in 2015.

Results and Reporting

Spending — Water Companies

Company	% Spent	$Spent
San Jose Water	17.05%	15.5M
Cal. Water Service	15.44%	21.9M
Park Water	15.35%	3.8M
Suburban Water	14.93%	2.7M
Golden State Water	13.82%	13.3M
San Gabriel Valley	9.85%	4.0M
Cal. American Water	7.96%	8.9M



Note: Park Water includes Apple Valley Ranchos. Park Water Company and Apple Valley Ranchos function as two separate units in California, but filed jointly and combined their data in 2014.

As the graph above shows, only three of the water companies have improved their MBE contract spending compared to 2013. In order for the companies to build on their results, they must all continue to focus on exceeding the CPUC goals. Learning from the best practices established by the telecommunications and energy companies will help advance the water companies' supplier diversity efforts

VI. AGGREGATED SPENDING IN EACH INDUSTRIAL CATEGORY BY RACE

Looking at supplier diversity across industrial categories not only uncovers areas where focus is needed, but also encourages greater equity in contracting practices because the level of economic opportunity varies greatly between industries. Typically, companies demonstrate higher diversity results in certain categories, including transportation and construction related services, while struggling to perform in areas like technical, legal, and professional services. Greenlining's analysis of contracting across seven spending categories for each of the companies that reported categorical data is available.

To learn more, see Appendix II online, http://greenlining.org/issues/2015/2015-supplier-diversity-report-card-total-spending-remains-high-but-progress-has-stalled/

In 2014, the companies that reported granular spending by industrial category showed the best performance in the Finished Products/Misc. Goods and Professional Services categories. The companies still lag behind in the Legal Services and Communications/Other Services categories. Spending in Legal and Professional Services is further addressed in Key Supplier Diversity Opportunities.

VII. KEY SUPPLIER DIVERSITY OPPORTUNITIES

AB 1678

2014 saw another landmark expansion in the reach of GO 156, demonstrating California's commitment to diversity and equity in its utilities' procurement practices. Governor Brown signed into law AB 1678, which expanded GO 156 to include lesbian, gay, bisexual and transgender (LGBT) owned businesses. As when the service disabled veteran category was added in 1990, during the first five years of utility implementation the CPUC will study results in the LGBT category so as to determine appropriate goals for the new category.

The Greenlining Institute believes that discrimination continues against LGBTBEs in the business world and that including LGBT-owned businesses in the Commission's supplier diversity program will expand and strengthen it. This expansion of GO 156 continues California's strong tradition of progressive procurement policies.

Tier II Programs

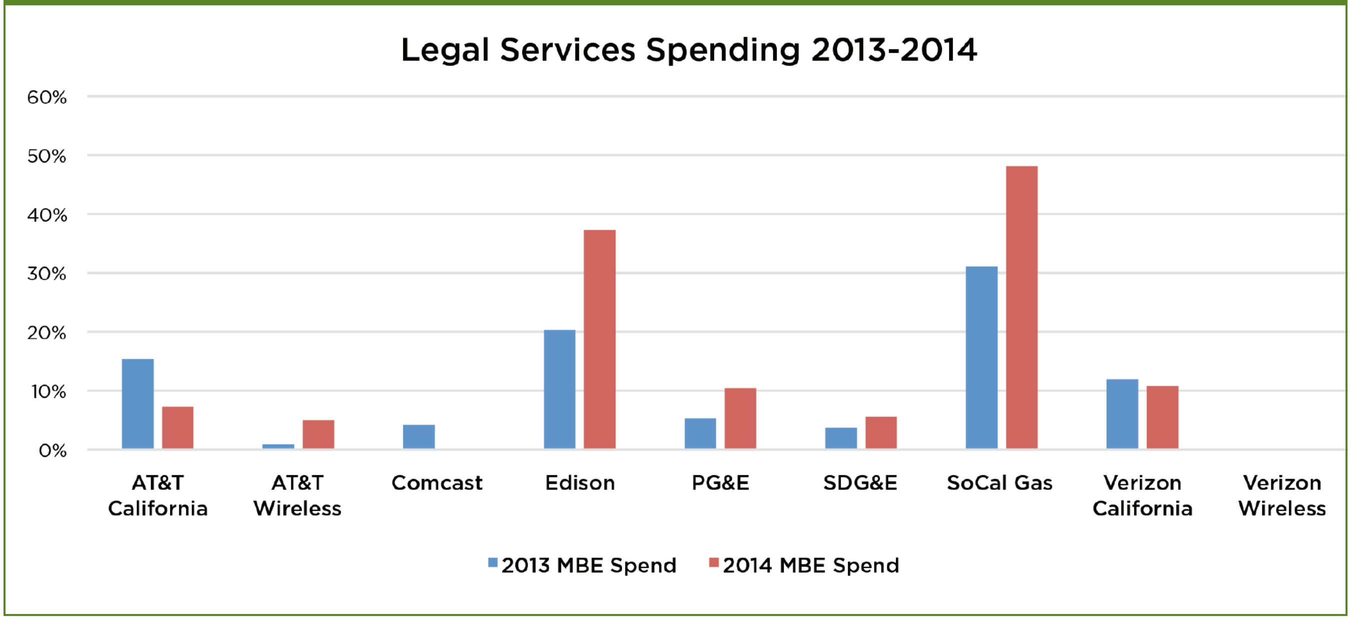
In 2014, several companies expanded outreach and training for Tier II suppliers, to facilitate their growth and ability to take on larger contracts, and possibly to become Tier I suppliers. These efforts included targeted workshops, one-on-one meetings, business-to-business mentorship, and online training. Participants in these programs reported gaining the skills needed to select projects within their capacity as well as successfully bid on those projects.

Developing a robust Tier II supplier diversity program has long been a critical step for improving supplier diversity results, as well as meeting increasingly specialized procurement needs. Many companies have multiple types of mentorship opportunities available to Tier II suppliers, including business-to-business programs as well as direct mentorship from company decision-makers.

Sprint's procurement contracts include mandatory "Diversity in Subcontracting" language that requires prime contractors to either spend a certain percentage of the total annual contract revenue with diverse suppliers, create a value-added relationship with a diverse supplier or donate a portion of their revenue to support a diverse initiative.

SoCalGas and **SDG&E** both had success with supplier mentoring and capacity building efforts, assisting diverse suppliers in better understanding both the certification and bidding processes. These efforts have resulted in an increased number of suppliers who obtained prime contracts, as well as developing new suppliers as subcontractors.

Spending in Legal and Professional Services

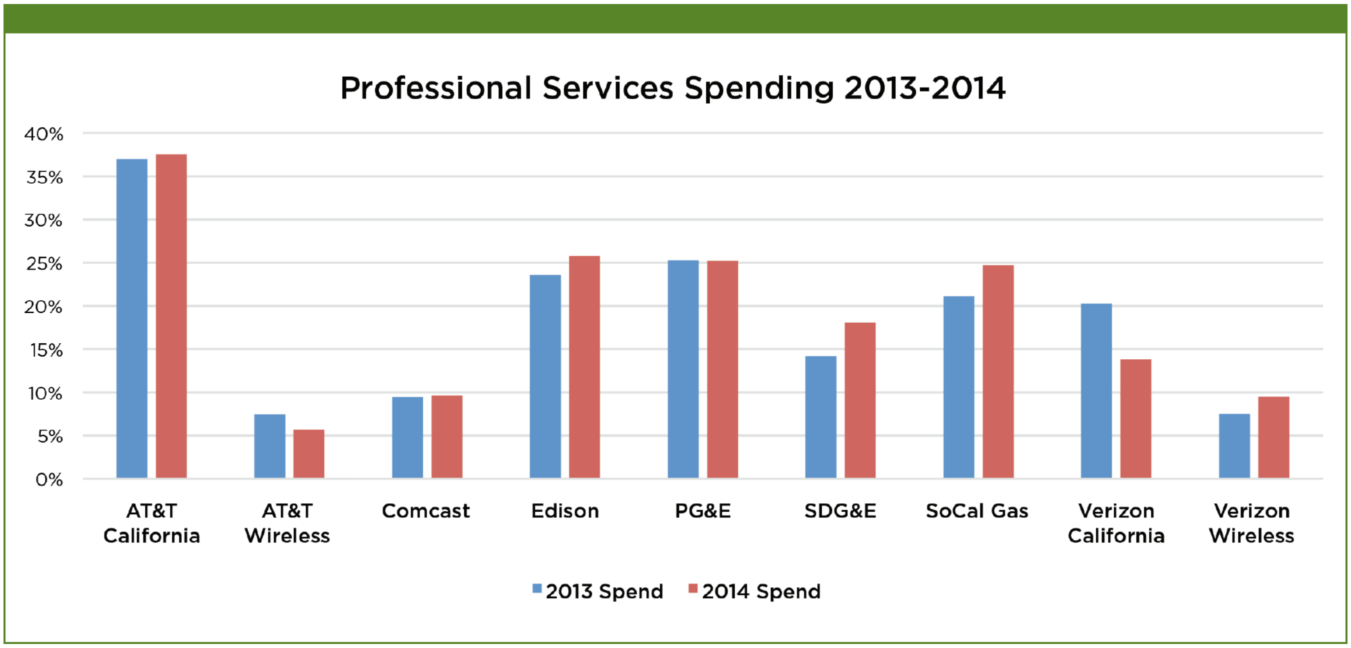


Two companies improved their Legal Services spending substantially in 2014, demonstrating that it can be done. **SoCalGas** increased its contract spending in this category from 31.08% in 2013 to 48.15% in 2014. **Edison** also increased its MBE Legal Services spending from 20.35% to 37.33% and came in second place. Beyond these significant gains, however, too many companies have zero or minimal spending in certain ethnic categories or no MBE spending whatsoever.

Once again, it appears some companies report the portion of their legal spending with majority firms for work done by minority lawyers and paralegals together with their spending with minority-owned firms. As we noted last year, *reporting the minority employees at majority firms is not supplier diversity, and does not count towards GO 156 reporting.* Workforce diversity in majority firms is important, but different from supplier diversity efforts because supplier diversity specifically seeks to increase ownership by minority-owned business enterprises. Although reporting workforce diversity spending at majority law firms is voluntary for GO 156 purposes, *for next year, we suggest including two tables highlighting these distinct diversity efforts.*[4]

Professional Services experienced some notable spending increases by **SoCalGas** and **SDG&E**, but the companies' overall numbers remain discouraging. Unlike Legal Services, however, which lacked spending in several ethnic categories, all but one company had at least some Professional Services spending in each ethnic category. For those companies that did show spending, the range of percentages was as low as .12% (by **Comcast** in the African American women category) and as high as 18.95% (by **AT&T** in the Latino men category). Six companies had less than 1% spending in at least one ethnic category, and three companies, **Comcast**, **Verizon Wireless** and **AT&T Wireless**, failed to reach even 10% in overall MBE spending.

While there was some spending with minority owned financial services companies, this category tends to be volatile from year to year. If a company does not issue any bonds, for example, it does not have the opportunity to contract with MBEs in the debt issuance. In order to protect progress against year-to-year volatility, companies will need to introduce diverse suppliers into other aspects of their financial services procurement.



Special Programs — Electric Procurement

The reporting energy companies have generally been successful in ensuring that they procure natural gas from diverse suppliers, with **SDG&E** and **Edison** both exceeding the 30% mark in 2014. Unfortunately, **PG&E** trails behind at only 15.11%. While the companies' diverse natural gas spending was significant, the same cannot be said for the companies' diverse spending on renewable energy, which was minimal. Renewable energy represents the future of the energy industry, and the electric companies have much work to do to increase their diverse spending in this area.

In early 2015, California Assemblymember Luis Alejo introduced AB 865, the EmPower California Act. AB 865, as currently amended, would require the California Energy Commission (CEC) and any recipient of a CEC contract, grant or loan of $1 million or more to implement an outreach plan for increasing contract and funding opportunities for businesses owned by women, minorities, disabled veterans, and LGBT individuals. As this report goes to press, the measure has passed the Assembly and awaits action by the Senate. Passage of AB 865 would greatly increase competition and diversity in the growing clean energy sector.

Special Programs — Pipeline Safety

In addition to improving public safety, the Commission-ordered Pipeline Safety Enhancement Plans (PSEPs) have provided solid opportunities for diverse suppliers. In 2014, **SDG&E** spent over 60 percent of its PSEP dollars with diverse companies, and **SoCalGas** far exceeded its 35 percent goal. These numbers are impressive, but companies must be careful to avoid relying on a single project like a PSEP for its supplier diversity results, because those percentages will drop as soon as the project ends.

VIII. RECOMMENDATIONS

Overall Recommendations

1. **While companies generally meet or exceed the state's supplier diversity goals, they must remain vigilant:** African American spending declined slightly this year, a result that would have been much worse had it not been for a large increase by Sprint, and over half of the companies reduced spending in this category. Asian American spending continues to languish, bolstered again this year by Verizon Wireless' significant spending, which itself was down from 2013. Latino spending slipped again in 2014, raising concerns. These downward trends must be reversed.

2. **Companies must diversify procurement in core lines of business, not just in special projects.** Over the last several years, companies have seen great results from doubling down on diversity in certain special projects, particularly in infrastructure construction. However, these companies' results drop significantly when the project ends. Companies must ensure diversity in procurement for consistent, core areas of their business, and not just rely on special projects to bolster their results.

3. **Supplier diversity must evolve with technology.** The energy, telecommunications and cable industries are all experiencing rapid technological shifts, some of which are changing the core focus of their business. Evolution should never be used to justify a backslide in supplier diversity or to weaken a company's commitment to diversity. As technology evolves, supplier diversity efforts will also need to evolve in kind.

4. **Companies must continue to focus on Tier II suppliers by providing targeted support and by pushing their prime suppliers to commit to supplier diversity.** As discussed above, great gains can be achieved by focusing technical assistance and capacity-building efforts toward the specific needs of Tier II suppliers. By making contractual agreements with prime suppliers to incorporate supplier diversity into second-tier contracting, companies can increase their diverse contracting and more diverse businesses will be able to participate in overall growth.

Company-Specific Recommendations

1. **AT&T must set new goals for total minority contracting and focus on smart growth. AT&T's** minority contracting dropped substantially this year. **AT&T**, as an industry leader, has the capacity and best practices to achieve supplier diversity success amid rapid industrial change, but we have yet to see it do so.

2. **AT&T Wireless must reverse its sudden and drastic tailspin. AT&T Wireless** made a strong entrance into our annual report in 2012, with 19.92% minority contracting, and improved in 2013 at just under than 23%. However, its 2014 spending dropped almost ten full percentage points. In the Latino spending category, **AT&T Wireless** dropped from almost 18% to less than 10%. All categories are in dire need of attention to bring **AT&T Wireless** in line with its competitors.

3. **Comcast must pay direct attention to producing results, not just efforts. Comcast** is becoming a more visible figure in the supplier diversity landscape but its results continue to languish. In California, **Comcast** is surrounded by examples of best practices, and should avail itself of the expertise of its peers to improve its performance.

4. **Cox's commitment to and recent investment in supplier diversity continue, but reporting complicates evaluating its efforts. Cox** continues to move in the right direction, and we encourage continued efforts and progress. Last year, **Cox** disaggregated its spending by ethnic categories; however, **Cox** still has not disaggregated its data by gender. We continue to encourage **Cox** to disaggregate its MWBE spending and to continue to identify opportunities for growth with MBE contractors.

5. **Edison must continue its steady, incremental growth. Edison** improved again this year, increasing its overall MBE spending slightly to 26.46%. It appears that **Edison** is balancing its spending across demographic groups and spending categories, to ensure steady progress. **Edison** must be commended for its efforts in Legal Spending, which increased from an impressive 20.3% in 2013 to an outstanding 37.33% in 2014.

6. **PG&E must push back against stagnation. PG&E's** spending stagnated in all categories between 2013 and 2014. **PG&E's** aggregate spending also declined in 2014, from 1.5 billion to 1.4 billion. **PG&E** has the infrastructure and resources to be an industry leader. Whether it will take that spot remains to be seen.

7. **SDG&E must renew its focus on areas that are leveling off. SDG&E** experienced a slight drop in spending this year, falling below the 30% mark. While its Asian American spending saw some slight improvement, **SDG&E** should renew its attention to all categories in order to continue its performance.

8. **SoCalGas must be vigilant to maintain steady growth.** While in its eighth consecutive year of growth, **SoCalGas** must ensure that spending in its core lines of business is robustly diverse as it prepares for the eventual end of its Pipeline Safety Enhancement Project, which has been bolstering its numbers. **SoCalGas** must also ensure that diversity remains strong in the face of pressure to consolidate its procurement. **SoCalGas** should be commended for its efforts in Legal Services spending, which reached an unprecedented 48.15% in 2014.

9. **Sprint must continue to expand its best practices to ensure diversity remains a priority during a time of transition. Sprint's** efforts help set it apart as an industry leader, though its results are not consistently strong across categories. **Sprint** should look to best practices identified by other reporting companies in order to ensure that supplier diversity adds value to the company's bottom line, especially as it continues to adjust to its recent leadership transition.

10. **Time Warner Cable must end its continuing apathy towards supplier diversity. Time Warner** again failed to file any report with the CPUC in 2014, reiterating its lack of interest in diversity efforts. This is unacceptable in a state like California where communities of color are the majority, and where other companies' efforts have made such remarkable progress. With another merger recently announced, **Time Warner Cable** must take strong steps to demonstrate that it is committed to the communities it serves.

11. **T-Mobile must improve its numbers using the groundwork it has built over the last two years.** While its numbers remain low, **T-Mobile** is moving in the right direction. **T-Mobile** must increase its minority contracting across the board, facilitated by the program improvements, staffing infrastructure and outreach efforts it has implemented in recent years.

12. **Verizon must bolster its efforts across the board to continue its progress. Verizon** earned a B+ with a slight increase in MBE contract spending to 25.89%. **Verizon** must focus its efforts in the African American and Native American spending categories, which declined this year. It must also maintain robust supplier diversity efforts as the company undertakes new business opportunities and moves away from its traditional role as a communications infrastructure company.

13. **Verizon Wireless must reverse its steady, multi-year decline. Verizon Wireless'** results have declined incrementally each year we have examined them. **Verizon Wireless** must focus on areas that are struggling and on finding vendors in areas where it has little to no spending, such as Native American, Latino and DVBE. It must also look to improve in areas with zero spending, such as Legal Services.

14. If **Frontier** successfully purchases Verizon's California assets, the newly-expanded company must adopt and improve upon Verizon's current supplier diversity efforts, which have largely been successful. **Frontier** has an excellent opportunity to adopt Verizon's existing success and improve even more.

15. If **Charter** successfully purchases Time Warner Cable, it must join Cox and Comcast in reporting under GO 156. Time Warner Cable has consistently refused to provide the Commission with supplier diversity data, claiming that it cannot extract supplier diversity numbers from its procurement data. In integrating Time Warner's systems, Charter should do so in a manner that allows it to report meaningful supplier diversity data to the Commission.

IX. REFERENCES

[1] CPUC Press Release, (March 19, 2015). CPUC Supplier Diversity Program Hits Another Procurement Milestone, http://www.cpuc.ca.gov/NR/rdonlyres/BA8D294E-4130-4558-896A-4BBA46F0BB47/0/CPUCSupplierDiversityProgramHitsAnotherProcurementMilestone.pdf.

[2] National Conference of State Legislatures, State Unemployment Rates 2014, *available at* http://www.ncsl.org/documents/employ/STATE-UI-RATES-2014.pdf (last accessed June 18, 2015).

[3] U.S. Census Bureau. (2014). http://www.bls.gov/lau/ptable14full2014.pdf

[4] Companies reporting under GO 156 may, but are not required to, report their diverse contracting at majority firms. These contracting dollars do not count towards their minority procurement numbers for the CPUC.

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