

2012

Supplier Diversity Report Card

Another Record-Breaking Year

Minority Contracts Increase \$1 Billion Page 5

CPUC Trailblazes Electric Procurement Supplier Diversity Page 22

A Plan for Smart Grid? Page 23

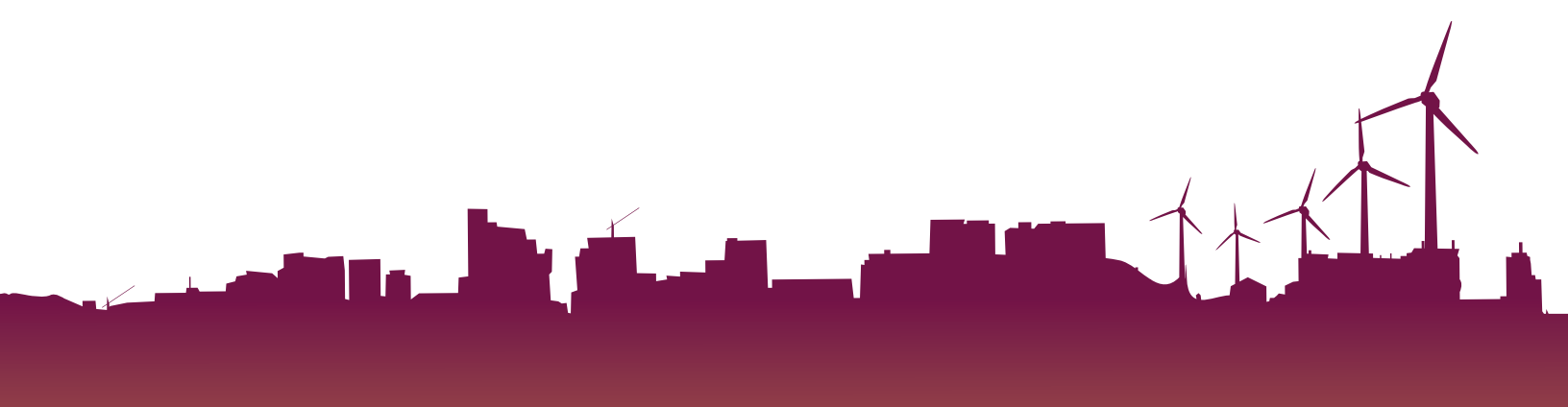
SAMUEL KANG General Counsel and ERIN DELANEY Legal Associate | The Greenlining Institute



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JUNE 2012



About the Greenlining Institute

The Greenlining Institute is a national policy, research, organizing, and leadership institute working for racial and economic justice. We ensure that grassroots leaders are participating in major policy debates by building diverse coalitions that work together to advance solutions to our nation's most pressing problems. Greenlining builds public awareness of issues facing communities of color, increases civic participation, and advocates for public and private policies that create opportunities for people and families to make the American Dream a reality.

About Greenlining's Consumer Protection Program and Our Legal Team

Led by General Counsel Samuel Kang, Greenlining uses in house legal experts to ensure that there is equity in the state's energy, telecom, and cable industries. Greenlining's legal team is one of the few active racial justice advocates at the California Public Utilities Commission, the Federal Communications Commission, and other regulatory bodies.

Our team works closely with grassroots leaders to ensure that the needs and solutions of communities of color are represented in the halls of these commissions. Greenlining plays a critical role in ensuring that California's regulated companies remain leaders on issues of diversity and economic equity. In addition, our legal team builds bridges between grassroots leaders and corporate CEOs to ensure that positive dialogue leads to win win solutions.

About the Authors

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Samuel Kang is the general counsel for The Greenlining Institute and is a co-author of the Supplier Diversity Report Card. Sam oversees Greenlining's legal advocacy and has led several successful campaigns impacting state and national policy, including the expansion of supplier diversity in California's regulatory industry. He has litigated several high profile cases impacting the allocation of billions of dollars in utility rates and regularly testifies before the California legislature. He also serves on a state body that advises the Insurance Commissioner of California on issues affecting underserved and diverse communities. Sam has been interviewed and quoted in hundreds of media outlets across the country. He was previously a Coro Fellow and recognized as one of the top young Korean American leaders in the United States by the Network of Korean American Leaders. Sam received his B.A. from Occidental College and his J.D. from the University of San Francisco School of Law.

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Erin is the legal associate at Greenlining and works on a variety of efforts ranging from increasing supplier diversity in Californian companies to assessing the Patient Protection and Affordable Care Act and evaluating how to ensure equal access to its provisions. Erin has worked for the city government, as well as the 9th Circuit Court of Appeals, and has served as the chairperson for the city of La Mesa's Youth Commission which advocated for the interests of the city's young. Currently, Erin is in her third year at the University of California, Berkeley where she has served as Solicitor General to the student government and is studying both Political Science and Rhetoric.

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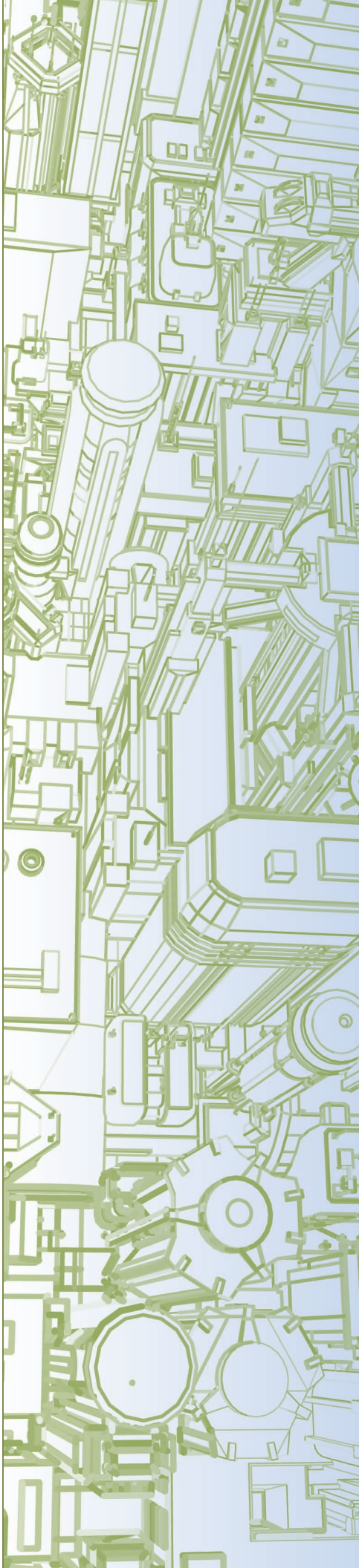
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I. Executive Summary

Supplier diversity has become solidified as a defining feature of contracting within the telecommunications and utility industries in California, thanks to the CPUC's General Order 156. Building on last year's impressive increase in proportional spending, this year saw an over \$1 billion increase in diverse contracting with minority based enterprises (MBEs).

Key Findings and Highlights

- Contracting with MBEs grew by approximately \$1 billion from 2010 to 2011.
- For the first time, six companies are spending 20% or more of their total procurement dollars with MBEs.
- Contracting in the professional and legal categories remains woefully low across the board.
- Despite these continued successes in supplier diversity, companies that were ahead of their industry peers in the past have faced some leveling-off this year in terms of overall percentage.
- On the other hand, companies that have traditionally ranked towards the bottom of the pack have increased their MBE contracting, bringing them much closer to the industry leaders.

Greenlining's Recommendations for 2012

- California's leading companies must renew their efforts or risk stagnating.
- Utilities, telecoms, and cable companies must use their enormous influence over the market to engage their prime suppliers to match their own commitments to supplier diversity.
- Companies should expand supplier diversity efforts when opportunities for major capital projects arise.
- Utility companies should meld Smart Grid planning with supplier diversity efforts.
- The companies must increase contracting with minority enterprises in underutilized spending categories, including legal services, professional services, and technological equipment.

II. Introduction

Always on the cutting edge, California and the companies that operate within it have a long tradition of recognizing that diversity is an integral part of good business. Perhaps nowhere is this culture more apparent than in the groundbreaking supplier diversity efforts taken on by its utilities and telecommunications companies. Under the leadership of the California Public Utilities Commission's General Order 156, these companies have established robust supplier diversity programs that have developed over the past two decades into the national gold standard.

The Greenlining Institute facilitates this process by releasing an annual report that grades the state's utilities, telecoms, and cable companies based on their voluntarily reported supplier diversity statistics. Our report includes rankings and a breakdown of spending by ethnic categories as well as across industrial categories for each company. In addition,

the report examines crucial and timely topics related to supplier diversity, including the new requirement to report supplier diversity in electric procurement, focusing on major capital projects like Smart Grid, and the need to improve efforts in legal and professional services. The report concludes with comprehensive recommendations for both the overall GO 156 program as well as each individual company.

General Order 156: The CPUC's Supplier Diversity Program

For over 20 years, the CPUC has recognized the economic significance of supplier diversity in California's regulated utilities market, and promoted its expansion through General Order 156 (GO 156). Enacted in 1988 pursuant to Public Utilities Code Sections 8281-8286, this order requires the state's largest regulated utilities and telecommunications companies to annually report their percentages of contracts given to women-, disabled veteran-, and minority-owned business enterprises.

GO 156 has made it state policy to promote the interests of diverse businesses to "maintain and strengthen the overall economy of the state." As the numbers of women-, disabled veteran-, and minority-owned businesses have steadily grown in the last two decades, these businesses have become an essential component in both the regulated utilities market and the wider state economy.

2011's Major Supplier Diversity Trends

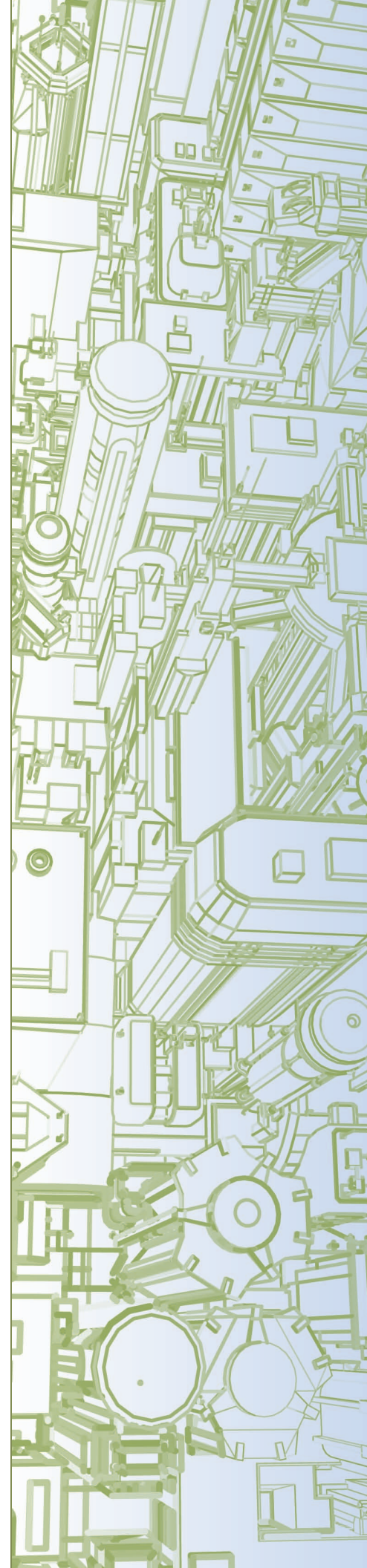
For the first time, six companies regulated under the California Public Utilities Commission have procured more than 20% of their spending with minority based enterprises (MBEs). This has made 2011 another groundbreaking and record-setting year with almost \$3.5 billion in MBE spending – an increase of \$1 billion from 2010. While there continues to be progress overall, companies that have traditionally led the pack are seeing their results level off. Conversely, companies that have trailed in the past are beginning to catch up with industry leaders. Although overall dollars procured have increased, spending in MBE categories has started to plateau among the very top companies. This shift in trends could be indicative of new, emerging leaders in supplier diversity.

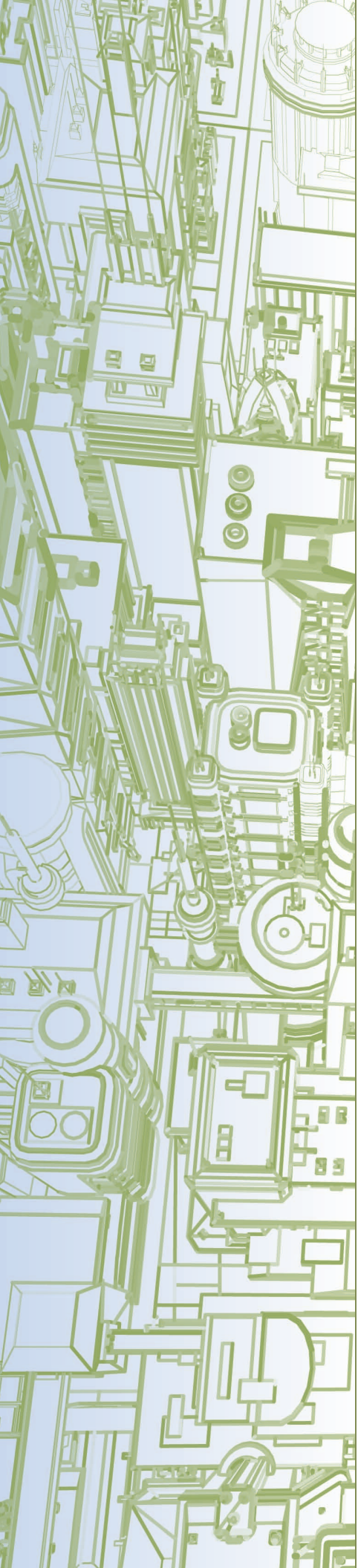
Another important overall trend is the severe lack of progress in professional and legal services. Since Greenlining started looking at results disaggregated by Standard Industrial Categories (SIC) two years ago, we have been urging telecoms and utilities to focus efforts on these areas.

It is crucial that continuing to expand supplier diversity efforts remains paramount within these companies. With many companies on the cusp of starting large new ventures, such as Smart Grid deployment, clean energy procurement, high tech integration, and gas pipeline modernization, there is a wealth of opportunities for expanding the success of GO 156. The utilities and telecoms must refocus and expand their efforts in order to continue their achievements.

Supplier Diversity as Economic Stimulus

When adopted comprehensively, supplier diversity can serve as an economic catalyst for corporations, their diverse suppliers, and California's communities. While the current recession has hurt all Americans deeply, the burden has fallen unequally on communities of color. Although the national unemployment rate fell to 8.1% in March 2012, African Americans and Latinos still suffer from disproportionately high levels of unemployment, at 13% and 10.3% respectively. Supplier diversity efforts serve as a particularly effective form of economic stimulus because they target the communities that need opportunity the most.

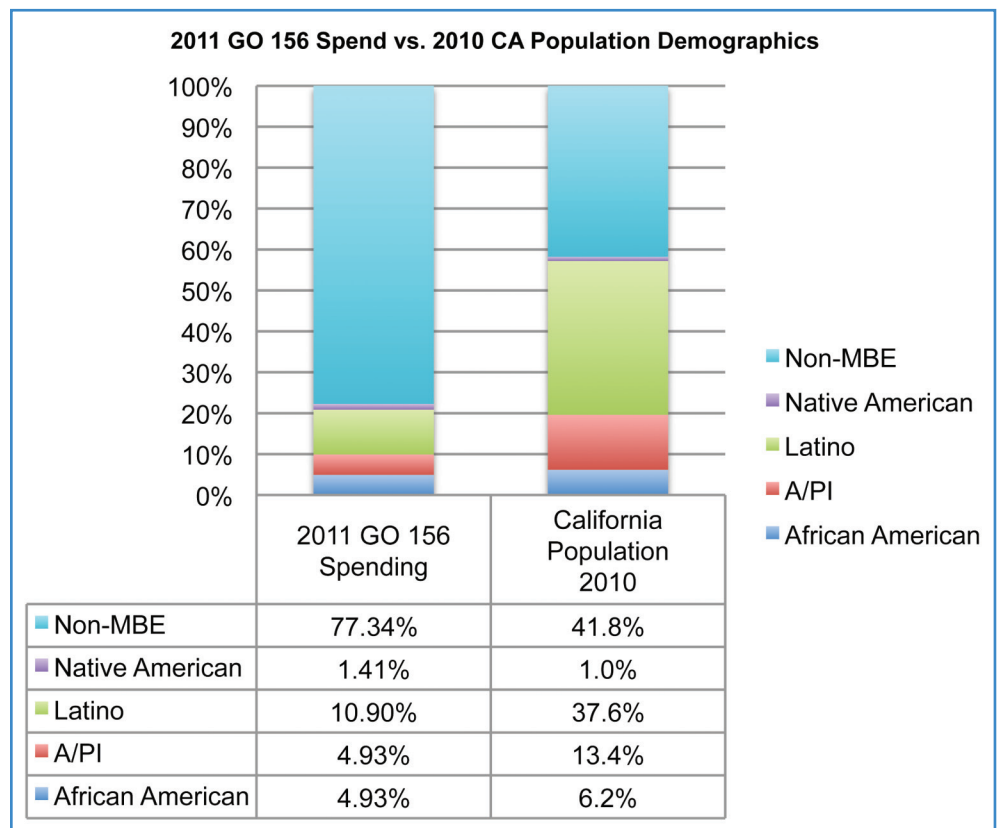




Supplier diversity in California is not simply a numbers game. Under GO 156, the utilities and telecoms have made serious commitments to develop initiatives to open their supplier networks to new and diverse businesses. By encouraging these diverse businesses to compete with entrenched suppliers, the utilities and telecoms can use market competition to lower prices and increase the quality of the products and services they receive. In the case of the investor-owned utilities that receive a guaranteed rate of return, supplier diversity can be one of the most significant drivers of competition. All of this translates into better service and lower rates for California’s consumers.

Supplier diversity also translates into tangible benefits for the companies that employ it. The diverse suppliers that are introduced into the companies’ supply chain are not only adept at hiring from underserved communities, but they are also able to increase the company’s ability to engage with the different communities and cultures in their service territories. Additionally, research has shown that among leading companies supplier diversity facilitates the discovery of new revenue streams. Moreover, procurement departments that focus on supplier diversity achieve 33%* more return on investment for procurement than the average.

The voluntary nature of GO 156 is indicative of the mutually beneficial impact of supplier diversity in California. Companies reach new levels of competitiveness and small businesses flourish from new opportunities



*Source: The Hackett Group.
 “The Hackett Group: Supplier Diversity Does not Drive Increased Costs.” 17 August 2006.
 Retrieved from: http://www.thehackettgroup.com/about/alerts/alerts_2006/alert_08172006.jsp..

III. 2011 Supplier Diversity Rankings and Results

Supplier Diversity Rankings	
Industry Leaders	1. Southern California Gas
	2. AT&T
	3. Pacific Gas & Electric
Falling Back	4. Verizon
	5. San Diego Gas & Electric
Emerging	6. Southern California Edison
Improving	7. Sprint
Incomplete	8. Cox Communications
	9. Comcast Corporation
Noncompliant	10. Time Warner Cable

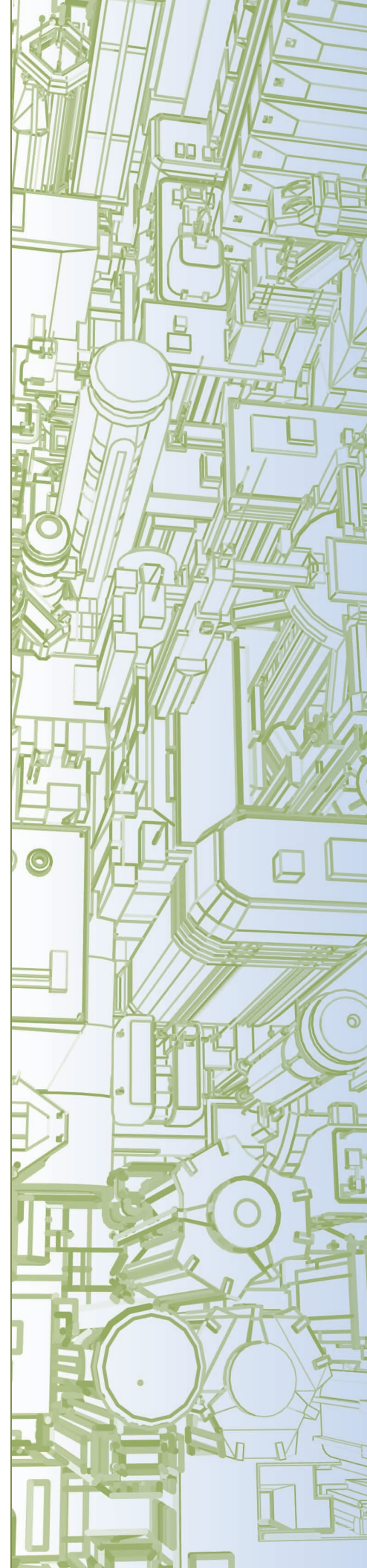
Because 2011 saw a plateauing of percentage increases in MBE spending among the companies that have traditionally been leaders, special consideration was given to companies that were able to buck this trend and experience growth. Additionally, as Smart Grid implementation will play a key role in supplier diversity in the coming years, utilities were marked down if they failed to report plans that adequately addressed how they will incorporate supplier diversity into Smart Grid projects. This affected **Edison, PG&E**, and to a lesser extent, **SDG&E**, which provided us with preliminary plans.

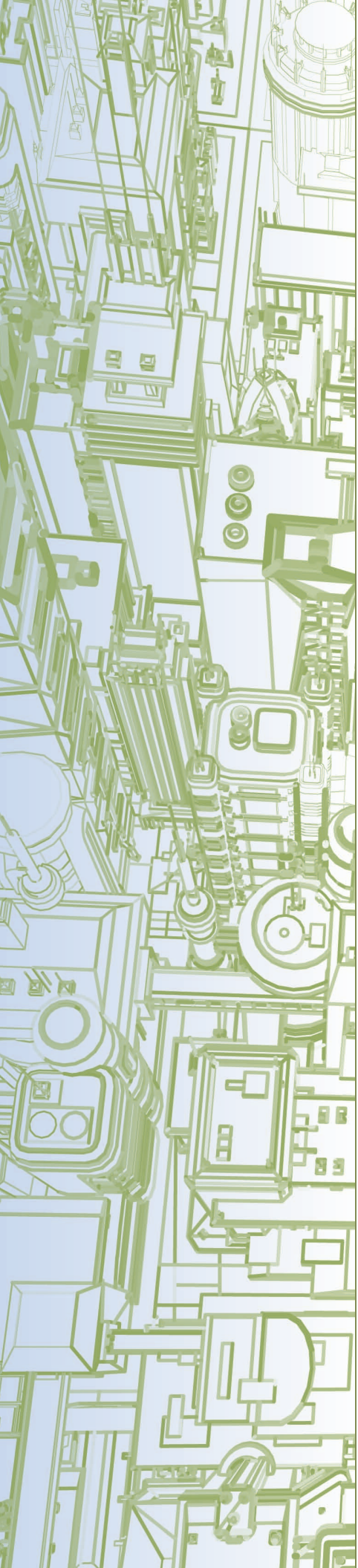
Southern California Gas took the top spot in 2011, edging out **AT&T**. **SoCal Gas**' percentage spending grew in most ethnic categories. 2011 also marked the fifth consecutive year **SoCal Gas** has improved its overall MBE spending. This sustained and steady progress over the last five years has earned **SoCal Gas** the title of top industry leader.

AT&T, one of 2010's top grades, received an A- and the second spot in 2011 because, while still demonstrating strong efforts and solid results, it did not reach the level of excellence exhibited in 2010. **AT&T** reached new highs in Service Disabled Veteran Business Enterprise (SDVBE) spending, far outpacing other companies. However, for the first time in many years, **AT&T** experienced a decrease in its overall proportional MBE spending.

PG&E was the only company to experience growth in every major sub-category, a significant achievement that has resulted in an impressive increase for the second consecutive year. **PG&E** not only reached 20% MBE spending, but shot past it with a new high of 23%. Had **PG&E** developed a comprehensive supplier diversity incorporation plan for Smart Grid, its overall grade would have been even higher.

Verizon, traditionally an industry leader, experienced a decline in 2011 in overall MBE percentage spending, leading to its B grade. Its overall spending has dropped down to its 2008 level, which is concerning after 2010's success. This decline is in large part due to its drop in Asian American and African American contract spending and relative lack of progress in minority women spending. These areas should be looked at as particular areas of concern.





After a robust 2010, SDG&E experienced a disappointing decline in its overall percentage of MBE spending in 2011. Although **SDG&E** modestly improved its African American spending, the company is now last in this category among the companies measured in this report. Furthermore, **SDG&E's** 2011 MBE percentage spending has decreased noticeably from 2010, particularly in Latino, Asian American, and Native American spending. However, **SDG&E** is the only utility that provided information about its plans to incorporate supplier diversity into its Smart Grid plans, earning it a B-.

Edison continues making progress in most categories and has jumped considerably in its overall MBE percentage spending, breaking 20% MBE spending for the first time in the company's history. The highlight of **Edison's** 2011 results is its surge in minority women spending, claiming the top spot in this category. However, **Edison's** results in SDVBE spending and its lack of a comprehensive Smart Grid plan bumped it down to a C.

Sprint's reported numbers in 2011 showed surprising growth, more than doubling 2010's numbers. However, **Sprint's** continued practice of not reporting in a way that disaggregates its numbers into SIC or by gender contributed to earning it a D+. However, this is still a remarkable turnaround from its 2010 performance, when it received a double F.

Cox has continued its practice of reporting minimal information, but not enough for an apples-to-apples comparison. Although **Cox** had some success in its overall spending, failure to disaggregate by ethnicity, gender, and SIC inhibits it from achieving a higher grade, resulting in a F-.

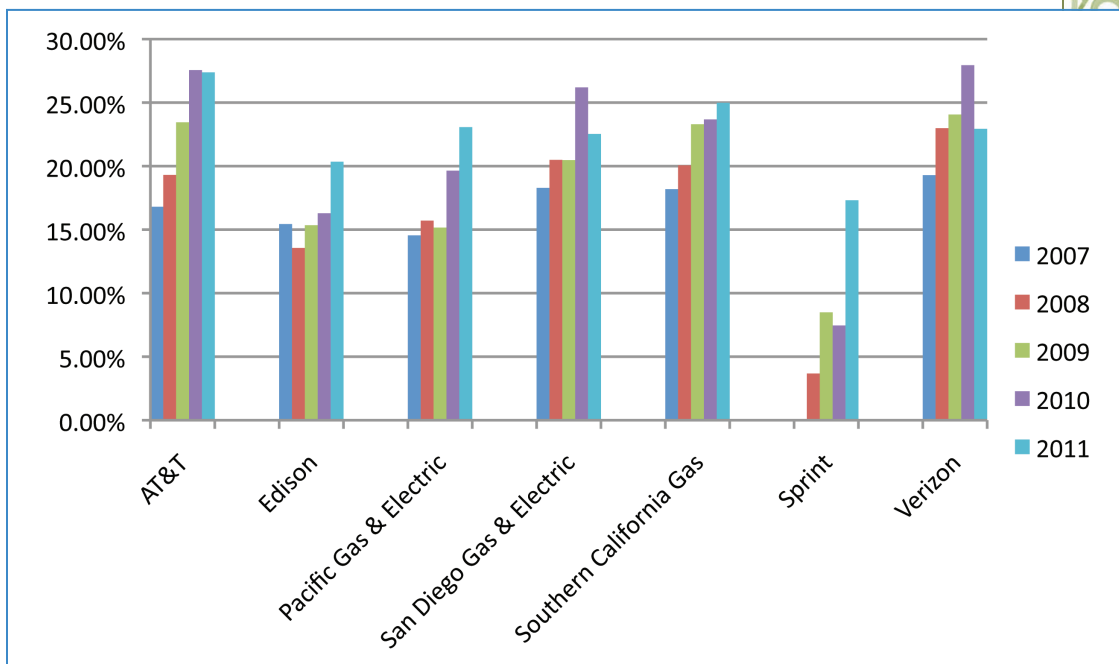
Despite improved efforts, **Comcast** has a long way to go before reaching the level of success attained by its industry peers. Increased efforts must also be matched by conforming to reporting standards, including information on spending broken down by SIC.

Time Warner Cable once again did not file under GO 156.

Total Minority-Owned Business Enterprise Spending

Company Name	Percentage of Contract Dollars	Grade	Total MBE Spending (\$)
Southern California Gas	24.96%	A	201M
AT&T	24.76%	A-	589M
Pacific Gas & Electric	23.07%	B	1,016M
Verizon	22.94%	B	64M
San Diego Gas & Electric	22.40%	B-	321M
Southern California Edison	20.26%	C	840M
Sprint Corporation	17.07%	D+	422M
Cox Communications	9.26%	F-	107M
Comcast Corporation	8.73%	Incomplete	25M
Time Warner Cable	Did not file under GO 156	N/A	N/A

Total Minority-Owned Business Enterprise Spending Over Last Five Years*



*Includes "Other", which is not reflected in the chart above

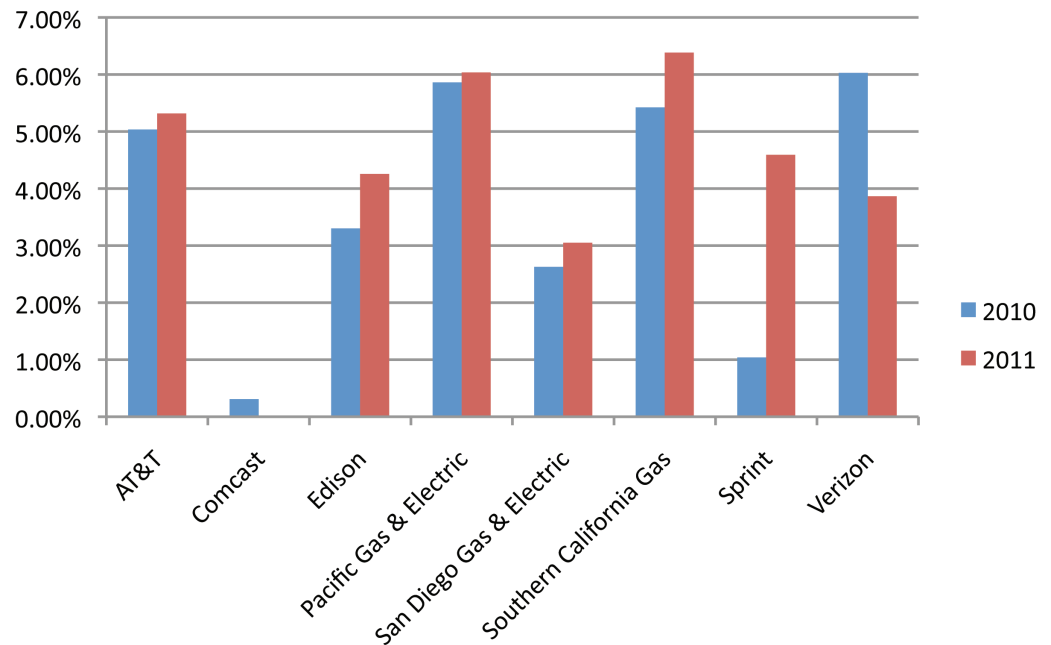
A crowded race in 2011

After 2010's success, an interesting trend seems to be developing: Companies that traditionally have led the pack are plateauing in their results, while the other companies are seeing an increase in their proportional spending, resulting in an overall "bunching" of companies with 20% MBE spending. Overall, **Sprint** experienced significant growth in its results. Unfortunately, companies like **AT&T**, **Verizon**, and **SDG&E**, which were 2010's industry leaders, all decreased in their overall proportional spending in 2011.

Edison, **PG&E**, and **SoCal Gas** all continued steady growth in their diverse contract spending. 2011 yielded mixed results from the reporting companies, begging questions of how companies at the top can continue to expand their efforts, while other companies continue to catch up.

African American-Owned Business Enterprise Spending

Company Name	Percentage of Contract Dollars	Grade
Southern California Gas	6.38%	A
Pacific Gas & Electric	6.04%	A
AT&T	5.32%	B+
Sprint Corporation	4.59%	B-
Southern California Edison	4.26%	B-
Verizon	3.87%	C
San Diego Gas & Electric	3.05%	C-
Comcast Corporation	0.02%	Incomplete

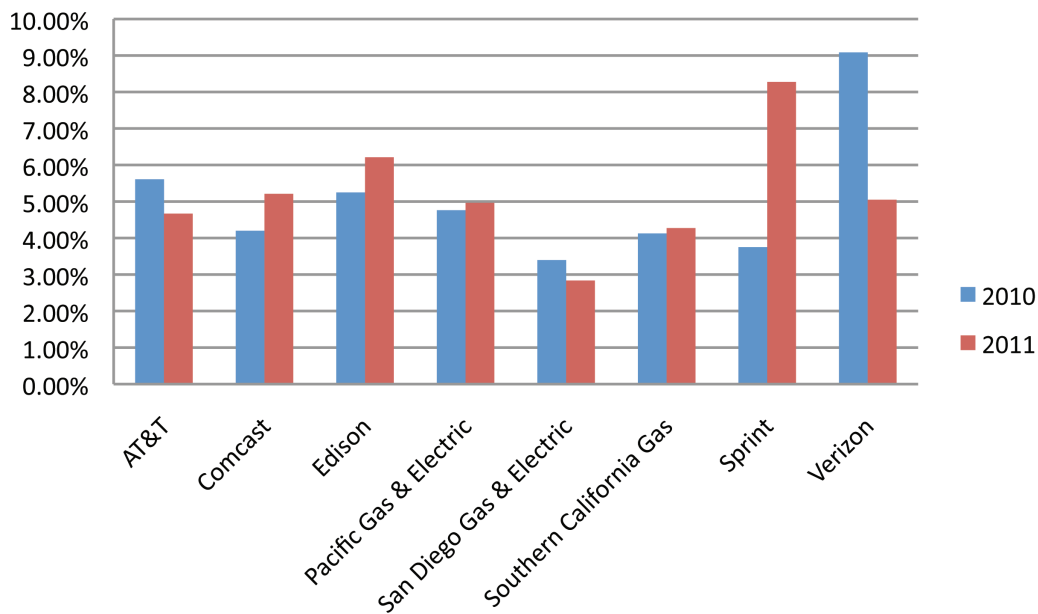


Overall, African American contract spending grew

Except for **Verizon** and **Comcast**, every company grew in this category. **Verizon** dropped from 6% to 3.87% in this category, while **PG&E** experienced some growth. **SoCal Gas** and **PG&E** both broke the 6% mark, which is an encouraging step forward. **Edison** continues to see growth from year to year. A surprising surge can be seen in **Sprint's** increase from 2010's roughly 1% to 2011's near 4.6% spending.

Asian American-Owned Business Enterprise Spending

Company Name	Percentage of Contract Dollars	Grade
Sprint Corporation	8.28%	A-
Southern California Edison	6.21%	B
Verizon	5.05%	C
Pacific Gas & Electric	4.96%	C
AT&T	4.67%	D+
Southern California Gas	4.27%	D+
San Diego Gas & Electric	2.83%	F+
Comcast Corporation	5.21%	Incomplete

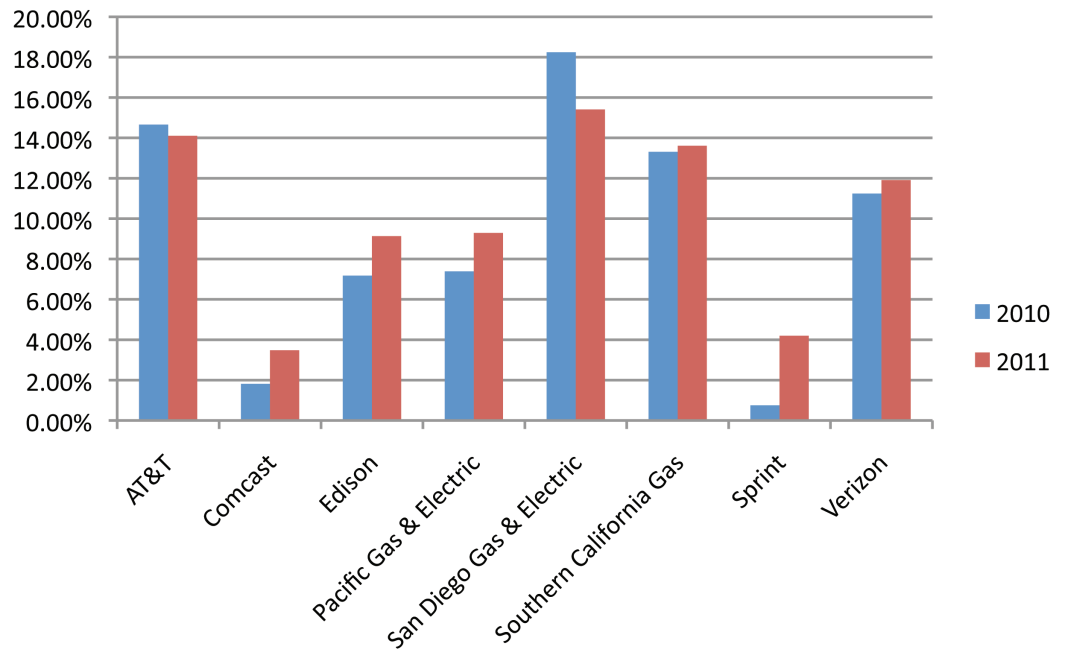


Asian American spending continues to struggle, with the exception of Sprint and Edison

In the 2009 GO 156 filings, Greenlining found a troubling drop in Asian American spending. In 2010, little progress was made in reversing that trend, with the exception of a burst in **Verizon's** spending, which has since gone down considerably, from nearly 9% to 5%. The pattern of multi-year declines and stagnation in this category is concerning. However, it is noteworthy to point out two bright spots, led by **Sprint's** huge jump from 3.75% in 2010 to 8.28% in 2011. **Edison** also grew from 5.25% in 2010 to 6.2% in 2011.

Latino-Owned Business Enterprise Spending

Company Name	Percentage of Contract Dollars	Grade
San Diego Gas & Electric	15.41%	A-
AT&T	14.10%	B+
Southern California Gas	13.61%	B+
Verizon	11.91%	B-
Pacific Gas & Electric	9.29%	C
Southern California Edison	9.13%	C
Sprint Corporation	4.20%	F+
Comcast Corporation	3.48%	Incomplete

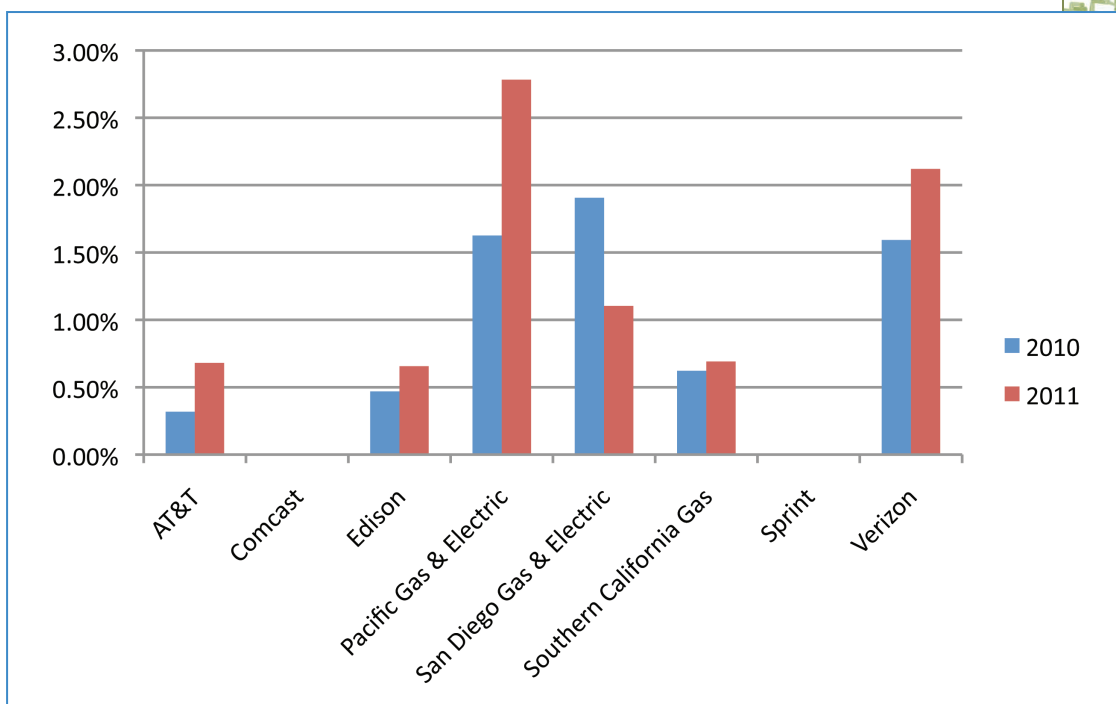


Latino growth hits a ceiling among leaders

Comcast, Edison, PG&E, SoCal Gas, Verizon, and Sprint all had at least modest growth in Latino spending in 2011. However, **AT&T**, traditionally an industry leader, had a decrease in this spending category. Similarly, **SDG&E** decreased from over 18% in 2010 to roughly 15% in 2011. Although both **Comcast** and **Sprint** significantly improved from 2010, both are still well behind their peers.

Native American-Owned Business Enterprise Spending

Company Name	Percentage of Contract Dollars	Grade
Pacific Gas & Electric	2.78%	A
Verizon	2.12%	A
San Diego Gas & Electric	1.10%	B
Southern California Gas	0.69%	C-
AT&T	0.68%	C-
Southern California Edison	0.66%	C-
Sprint Corporation	0.00%	FF
Comcast Corporation	0.00%	Incomplete

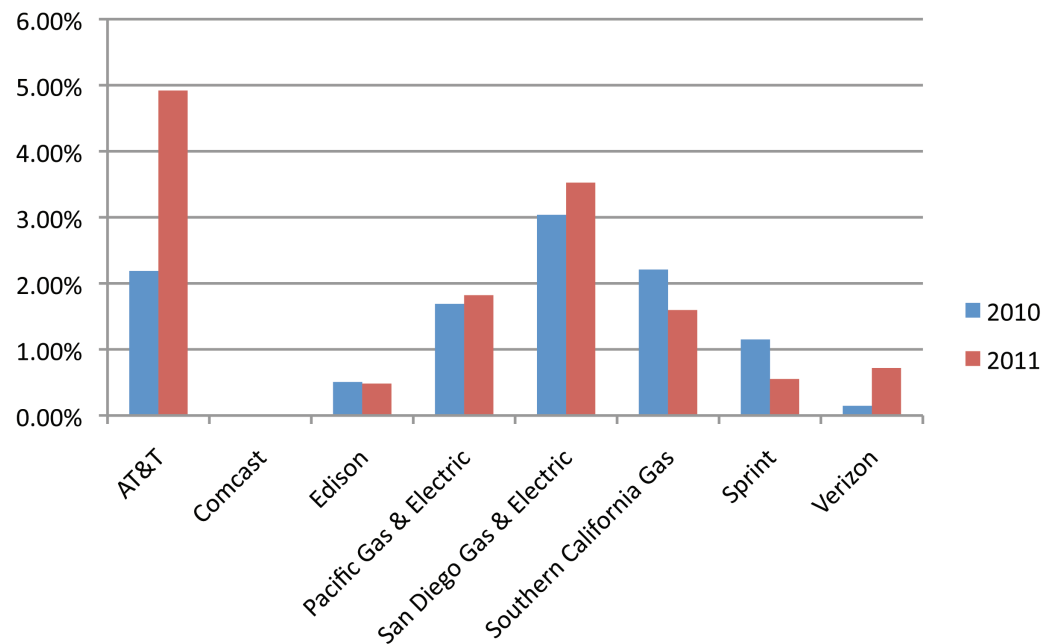


Continued growth from most companies, continuing 2010's upward trend

With the exception of **SDG&E's** .8% drop and **Sprint** and **Comcast's** 0% spending, every company experienced growth in this category. Most notably, **PG&E** grew from 1.63% spending in 2010 to 2.78% in 2011, improving by more than 1% overall. **Verizon** experienced similar growth, improving from 2010's 1.59% to 2011's 2.12%. **AT&T** and **Edison** both breached the .5% mark, which is an encouraging move forward. For at least the second year in a row, both **Comcast** and **Sprint** had no Native American spending.

Disabled Veteran-Owned Business Enterprise Spending

Company Name	Percentage of Contract Dollars	Grade
AT&T	4.92%	A
San Diego Gas & Electric	3.52%	B+
Pacific Gas & Electric	1.82%	C+
Southern California Gas	1.59%	C
Verizon	0.72%	D
Sprint Corporation	0.55%	F
Southern California Edison	0.48%	F
Comcast Corporation	0.00%	Incomplete

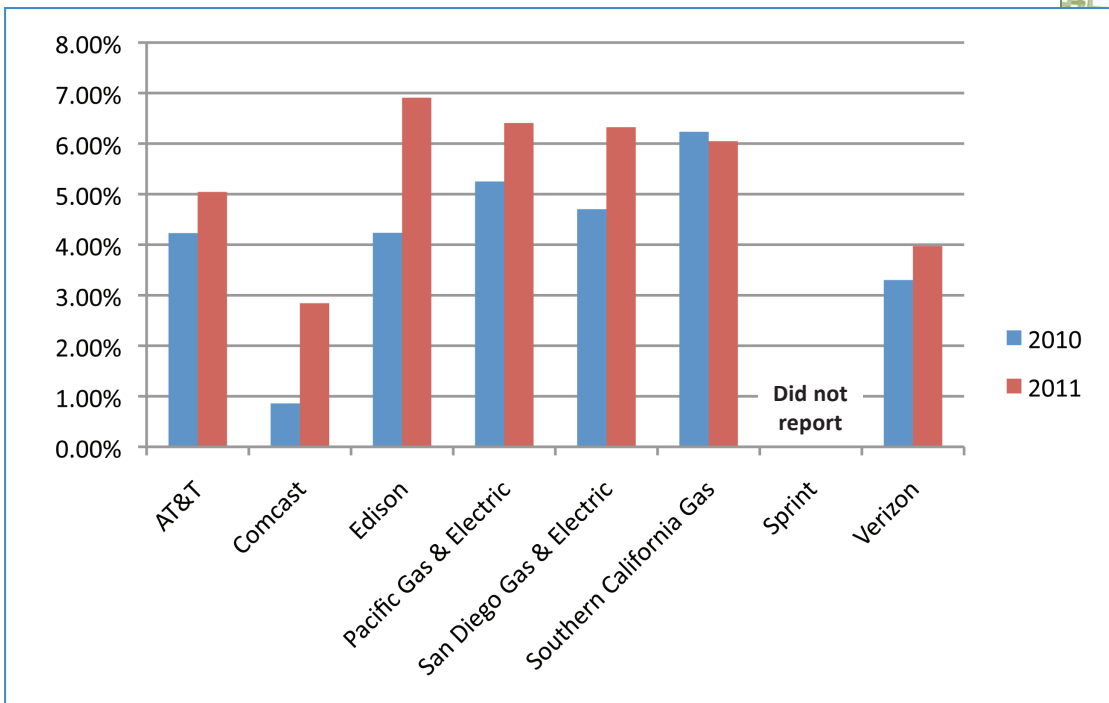


Mixed success highlighted by AT&T's large increase

AT&T more than doubled its percentage spent on contracts with Disabled Veteran-Owned Business Enterprises, taking it to just below 5%. 2010's leader, **SDG&E**, also continued its growth in this category, going from 3.04% to 3.52%. Despite these successes, **SoCal Gas** and **Sprint** each experienced declines of roughly .6% from their proportional spending. Although **Verizon** increased its percentage spending in 2011, **Verizon**, **Sprint**, and **Edison** round out the bottom of the pack in this category, coming in below 1% spending.

Minority Women-Owned Business Enterprise Spending

Company Name	Percentage of Contract Dollars	Grade
Southern California Edison	6.91%	B+
Pacific Gas & Electric	6.41%	B
San Diego Gas & Electric	6.32%	B
Southern California Gas	6.05%	B-
AT&T	5.04%	C+
Verizon	3.97%	C-
Comcast Corporation	2.84%	Incomplete
Sprint Corporation	Did not report	N/A



Encouraging growth across the board, led by Edison

The upward trend seen in 2010 in spending with Minority Women-Owned Business continued in 2011, with **Edison** leading the pack at nearly 7%. In only two years, **Edison** has emerged from the back of the pack to the top spot in minority women spending. Almost every company experienced growth in this category, which is an encouraging trend since Greenlining first shed light on this category two years ago. Unfortunately, **Sprint's** progress in this area is unknown due to lack of conformity in its reporting practices.



IV. Aggregated Spending in Each Industrial Category by Race

Introduction

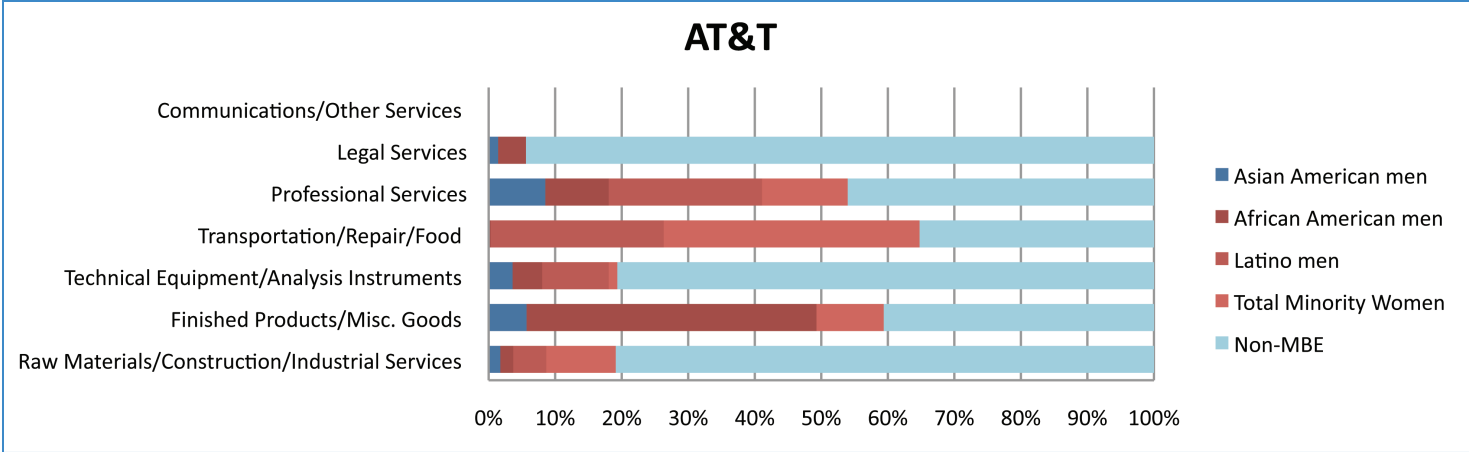
Two years ago marked the first time that Greenlining took a comprehensive look at spending across industrial categories. This year's report card continues that practice by once again breaking down diverse contracting across seven spending categories for each of the companies that reported categorical data. This effort to deepen the penetration of supplier diversity is crucial in enabling companies to continue to increase their spending with minority enterprises.

Yet again, the analysis depicts significantly skewed spending across the different categories, with contracting related to legal and professional services and technological equipment tending to be much less diverse than other areas. Looking at supplier diversity by spending category not only uncovers areas that should be targeted by supplier diversity programs, but also encourages the deepening of equity in contracting practices because the economic opportunity varies greatly between industries.

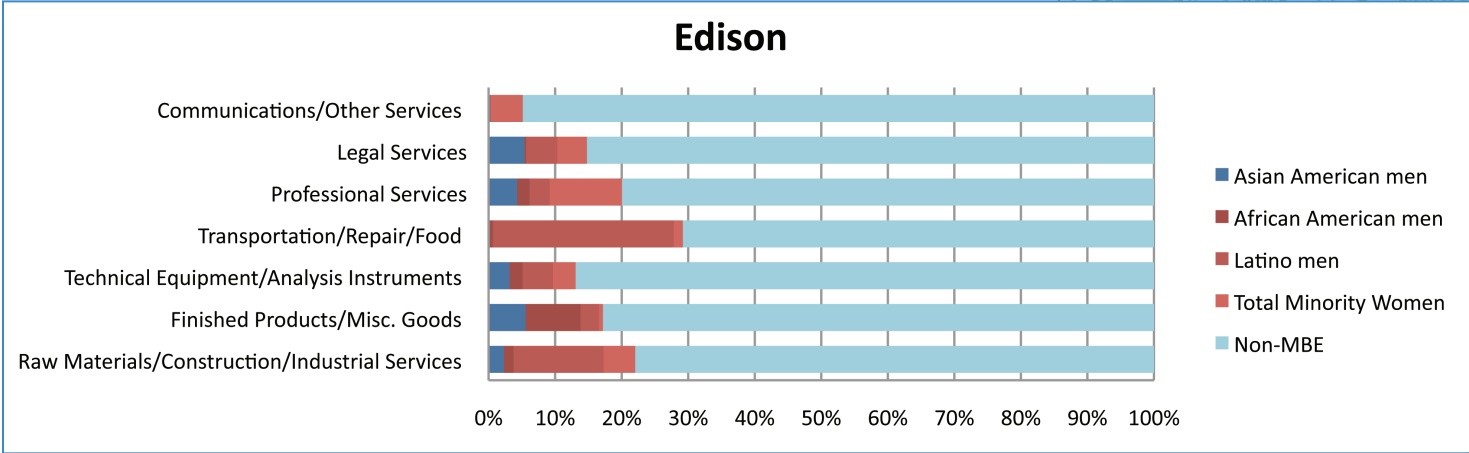
Methodology

The charts on the following pages depict aggregated utility and telecom spending in each procurement category broken down by race. Spending in each of the seven procurement categories is divided into five demographic categories: African American men, Asian American men, Latino men, minority women, and non-MBE. The tables on the opposing page display the proportion of spending going towards minorities for each spending category. For simplicity, we aggregated the Standard Industrial Categories into the broader categories in the charts that follow.

Greenlining Category	Corresponding Standard Industrial Categories
Raw Materials/Construction/ Industrial Services	(7, 13, 14, 15, 16, 17, 24, 26, 28, 29, 30, 32,33, 46, 49, 52)
Finished Products/Misc. Goods	(23, 25, 39, 50, 51, 56, 57,59)
Technical Equipment/Analysis Instruments	(34, 35, 36, 38)
Transportation/Repair/Food	(37, 42, 45, 47, 55, 58, 75, 76)
Business Services	(60, 61, 62, 63, 64, 65, 67, 73, 87, 89)
Legal Services	(81)
Communications/Other Services	(27, 48, 72, 78, 79, 80, 83, 86)

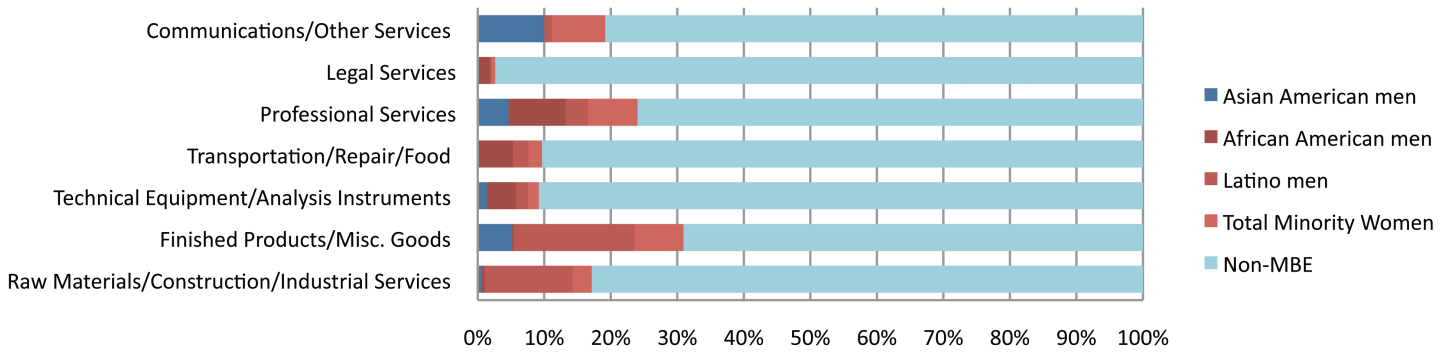


AT&T's percentage spending decreased in 2011. Specifically, a large decrease can be seen in the professional services category, and was not offset by growth in another category. AT&T did experience some growth in the legal services category, though not every diverse group is present in that contract spending.



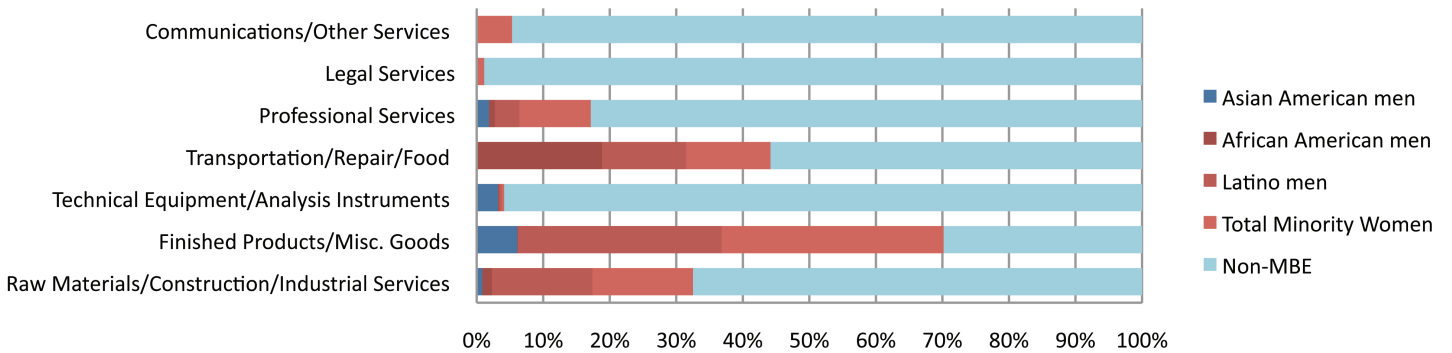
Edison experienced modest growth in nearly every category. One area of laudable growth was legal services, where MBE spending grew over 3 points to 14.79% in 2011. Also, Edison's noticeable growth in the transportation category shows an encouraging upward trend.

PG&E

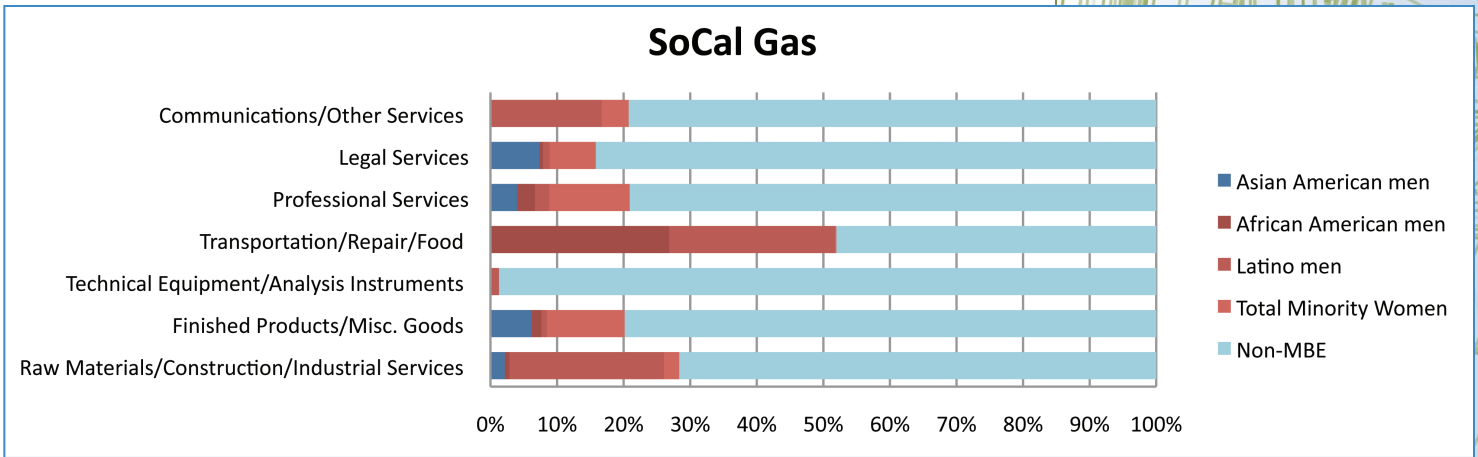


PG&E saw a 5% increase in MBE percentage spending in the raw materials category. While not dropping noticeably in any industrial category in 2011, identifying areas where there is potential for large growth will help PG&E continue its MBE spending efforts.

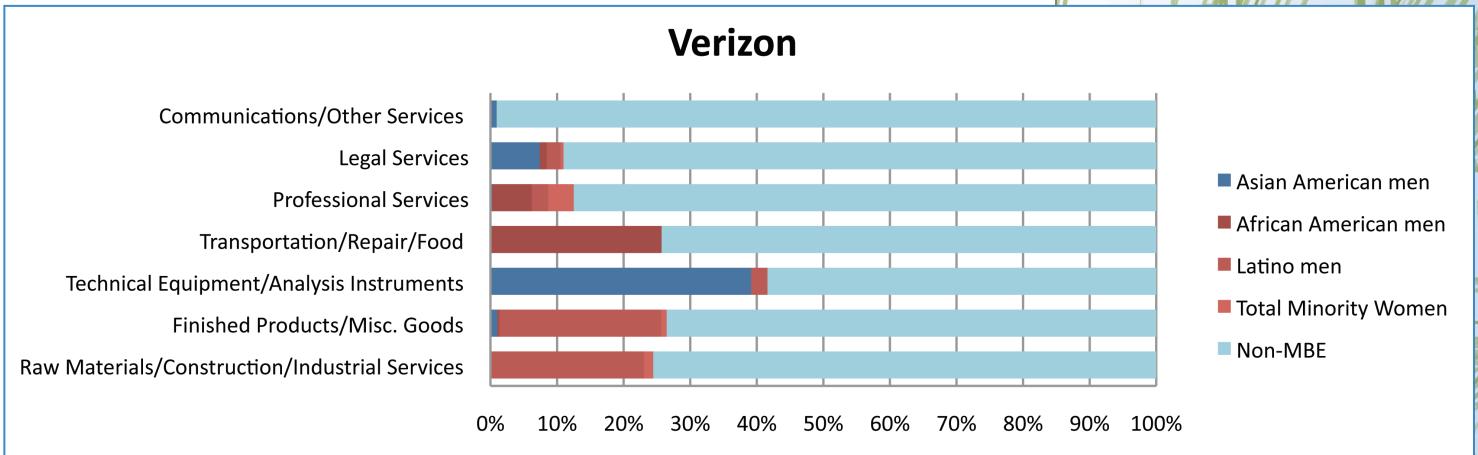
SDG&E



SDG&E increased its proportional MBE spending in both the Raw Materials and Transportation categories by approximately 20%. Additionally, SDG&E saw growth, though modest, in all categories with the exception of Finished Products. Also, SDG&E purchased \$65.5 million, or more than 34%, of its natural gas supply for electricity generation from MBEs.



SoCal Gas has remained strong in the professional services categories, though it had mixed results in 2011 in terms of growth in proportional spending. SoCal Gas experienced its most marked improvement in the Transportation category, which grew from just over 40% in 2010 to roughly 50% MBE spending in 2011. Spending in the SIC categories remained largely the same as last year with only slight variations.



In 2011, Verizon saw a significant drop in the transportation, technical equipment, and finished products categories. The technical equipment category especially saw significant decline, going from over 80% in 2010 to just over 40% in 2011. Verizon did, however, see a slight uptick in legal spending which hopefully will continue in the year to come.

AT&T	Asian American Men	African American Men	Latino	Minority Women	Overall Spend (Millions)
Raw Materials/Construction/Industrial Services	1.77%	1.93%	4.98%	10.43%	\$331
Finished Products/Misc. Goods	5.19%	39.56%	0.02%	9.17%	\$18
Technical/Analysis Instruments	3.55%	4.39%	9.88%	1.29%	\$1,568
Transportation/Repair/Food	0.09%	0.13%	18.80%	27.77%	\$127
Business Services	7.56%	8.44%	20.40%	11.42%	\$289
Legal Services	1.44%	4.18%	0.00%	0.00%	\$45
Communications/Other Services	0.00%	0.00%	0.00%	0.00%	\$0

Pacific Gas & Electric	Asian American Men	African American Men	Latino	Minority Women	Overall Spend (Millions)
Raw Materials/Construction/Industrial Services	0.65%	0.42%	13.21%	2.88%	\$1,395
Finished Products/Misc. Goods	5.18%	0.22%	18.20%	7.33%	\$603
Technical/Analysis Instruments	1.41%	4.36%	1.83%	1.61%	\$517
Transportation/Repair/Food	0.00%	5.28%	2.36%	2.02%	\$115
Business Services	4.66%	8.55%	3.39%	7.44%	\$1,673
Legal Services	0.18%	1.75%	0.11%	0.59%	\$75
Communications/Other Services	10.01%	0.00%	1.11%	8.05%	\$27

Southern California Edison	Asian American Men	African American Men	Latino	Minority Women	Overall Spend (Millions)
Raw Materials/Construction/Industrial Services	2.31%	1.44%	13.55%	4.74%	\$1,506
Finished Products/Misc. Goods	5.56%	8.27%	2.77%	0.60%	\$226
Technical/Analysis Instruments	3.15%	1.95%	4.57%	3.41%	\$678
Transportation/Repair/Food	0.11%	0.55%	27.16%	1.37%	\$118
Business Services	4.29%	1.85%	3.05%	10.85%	\$1,560
Legal Services	5.41%	0.23%	4.69%	4.45%	\$37
Communications/Other Services	0.24%	0.04%	0.00%	4.87%	\$24

San Diego Gas & Electric	Asian American Men	African American Men	Latino	Minority Women	Overall Spend (Millions)
Raw Materials/Construction/Industrial Services	0.86%	1.43%	15.12%	15.12%	\$538
Finished Products/Misc. Goods	6.12%	0.07%	30.65%	33.36%	\$224
Technical/Analysis Instruments	3.22%	0.14%	0.39%	0.39%	\$199
Transportation/Repair/Food	0.00%	18.83%	12.66%	12.67%	\$75
Business Services	1.86%	0.88%	3.69%	10.74%	\$313
Legal Services	0.11%	0.00%	0.00%	1.02%	\$41
Communications/Other Services	0.00%	0.02%	0.00%	5.31%	\$4

Southern California Gas Company	Asian American Men	African American Men	Latino	Minority Women	Overall Spend (Millions)
Raw Materials/Construction/Industrial Services	2.16%	0.70%	23.22%	2.29%	\$335
Finished Products/Misc. Goods	6.16%	1.49%	0.82%	11.70%	\$101
Technical/Analysis Instruments	0.00%	0.00%	1.27%	0.00%	\$66
Transportation/Repair/Food	0.00%	26.83%	24.92%	0.20%	\$53
Business Services	3.99%	2.67%	2.14%	12.11%	\$232
Legal Services	7.36%	0.55%	1.01%	6.90%	\$9
Communications/Other Services	0.00%	0.02%	16.69%	4.06%	\$10

Verizon	Asian American Men	African American Men	Latino	Minority Women	Overall Spend (Millions)
Raw Materials/Construction/Industrial Services	0.00%	0.00%	23.04%	1.41%	\$90
Finished Products/Misc. Goods	1.04%	0.29%	24.33%	0.83%	\$23
Technical/Analysis Instruments	39.16%	0.00%	2.46%	0.00%	\$22
Transportation/Repair/Food	0.00%	25.71%	0.00%	0.00%	\$6
Business Services	0.25%	5.95%	2.47%	3.84%	\$151
Legal Services	7.39%	1.04%	2.10%	0.45%	\$6
Communications/Other Services	0.94%	0.00%	0.00%	0.00%	<1

Examples of Skewed Spending Across Procurement Categories

AT&T

- Three procurement categories — transportation, business services, and finished products — all reached approximately 50% MBE contracting
- Business services diverse proportional spending decreased by nearly 50%
- No Latino or Minority Women contract spending in Legal Services

PG&E

- No Asian American contract spending in the transportation/repair/food category
- No African American contract spending in communications
- Latinos account for over 18% of the finished products/misc. goods category

Southern California Edison

- Significant improvement in diverse legal spending
- Transportation/repair/food category spending increased from under 20% MBE spending to nearly 30%
- Minority women account for 10.85% of business services categorical spending

San Diego Gas & Electric

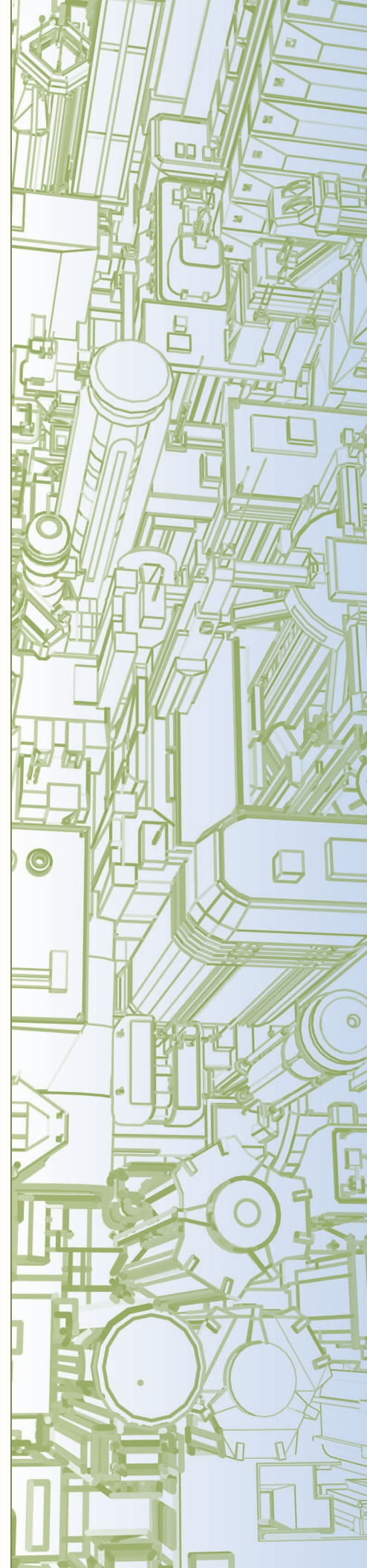
- No Asian American spending in communications
- No Latino spending in either legal services or communications services
- Latino and minority women each make up over 30% of finished products category
- More than a third of its spending for its natural gas supply for electric generation came from MBEs

Southern California Gas Company

- No Asian American spending in technical/analysis instruments, transportation, or communications services
- Transportation spending increased from just over 40% MBE spending to around 50%
- No African American or minority women spending in technical/analysis instruments
- Technical/analysis instruments MBE spending is extremely low (under 2%)

Verizon

- No Asian American contract spending in raw materials or transportation categories
- No African American spending in raw materials, technical/analysis instruments, or communications categories
- No Latino spending in transportation or communications categories
- No minority women contract spending in technical/analysis instruments, transportation, or communications
- Around 10% of legal services contracting goes towards MBEs





V. Key Supplier Diversity Trends and Opportunities

Strong supplier diversity performance requires not only directing effort at current procurement practices, but also anticipating future spending streams. The landscape of utility and telecom spending will increasingly include capital projects and general procurement related to the green economy and technological development. Greenlining continues to stress the importance of including minority enterprises in these economic sectors to build equitable practices into the foundation of these emerging industries.

Energy Procurement: Going Green

Investor-owned utilities in California must provide 33% of their energy through eligible renewable resources by the year 2020. As these utilities move forward with new avenues of electric procurement, huge opportunities to incorporate supplier diversity will develop. These opportunities were recently reinforced by the CPUC.

Beginning in 2011, the CPUC started to require every electric utility to annually report on their level of supplier diversity in electric procurement. This new requirement was established under a CPUC rulemaking proceeding that concluded last year. While the initial reporting for this area was expected to, and has, yielded very low results, being able to measure these results should illuminate and cultivate new opportunities for supplier diversity. Greenlining will be intently focusing on the utilities' progress in this area. We hope that all the electric utilities will at least have a comprehensive plan for how to make progress in electric procurement supplier diversity by the time they report their results in March 2013.

Legal and Professional Fields

Disaggregating by SIC affords the ability to identify the specific areas in which telecoms and utilities are succeeding and struggling. In our 2010 Supplier Diversity Report, Greenlining identified professional and legal services as two areas in need of special attention. Unfortunately, the 2011 results have shown no real progress in diverse contract spending in Legal or Professional Services.

All six of the major utilities and telecoms had at least one major ethnic category with less than 1% spending in 2011. Three of these companies had at least one major ethnic category of zero spending. The leading company in 2011 for legal spending was SoCal Gas, with nearly 16% in legal spending with MBEs. However, even SoCal Gas struggled with African-American and Latino legal spending.

The general lack of growth in this sector is concerning. It appears that little concerted effort is being made to expand contracting in these areas. In order to achieve real parity between diverse and non-diverse firms, contracting to these areas must be given special attention.

In September of 2011, the CPUC, led by Commissioner Tim Simon, held a symposium to address the lack of spending in Legal Services. However, the poor results and lack of progress in this area require more direct and urgent steps.

Smart Grid

What is the Smart Grid?

The Smart Grid is an energy delivery network that modernizes the way in which consumers and utilities interact with each other, as well as their electricity usage and spending. By bringing electronic modernization to the grid, consumers will be able to see where their energy is being used, as well as remotely turn off unnecessary appliances. These practices would lead to a reduction of energy usage, as well as savings on electricity bills. The utilities benefit from the Smart Grid by making the use of energy more efficient. Utilities would no longer need to send employees out into the field to look for broken equipment or read meters, because the Smart Grid would be able to report all of this information without human intervention.

The role of supplier diversity in the Smart Grid

Switching to a Smart Grid is a process that will take years. In that time, utility companies will be contracting out hundreds of millions of dollars to many companies in order to facilitate the infrastructural and technological changes needed to make the switch. Here, supplier diversity must play a key role.

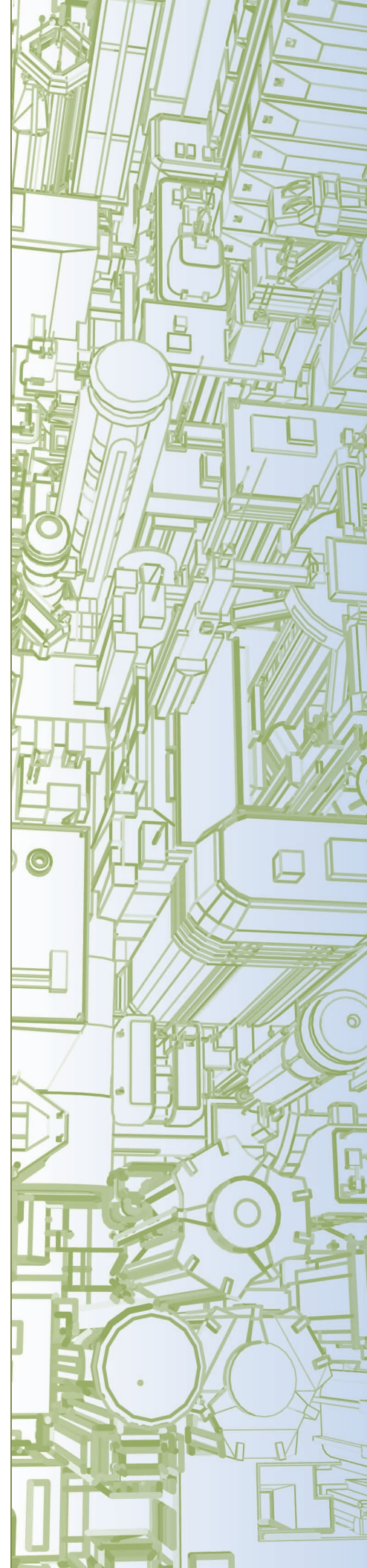
When required by the CPUC to file reports on their Smart Grid proposals, all of the utilities failed to include satisfactory strategies or plans for how to incorporate diverse suppliers into the contracting efforts. Despite Greenlining urging the utilities to develop much more comprehensive plans, none have been developed. SDG&E, however, has at least formulated some initial tactics to develop and communicate their Smart Grid supplier diversity plans. Accordingly, Greenlining downgraded the overall grades for all the electric utilities. The impact on SDG&E's overall grade was partially mitigated for providing at least an initial set of tactics.

The implementation of the Smart Grid is a huge expenditure which must be used to expand supplier diversity efforts across the utilities. The Smart Grid provides a huge opportunity for diverse suppliers and utilities alike to expand their network and introduce more competition into contract bidding while improving diverse spending in California. Utilities must incorporate comprehensive supplier diversity plans into their Smart Grid ventures.

Following Up: Supplier Diversity in the Insurance Industry

Last year, Greenlining highlighted AB 53 (Solorio), a bill which would bring the success of the CPUC's GO 156 to the insurance industry by requiring that companies making \$100 million and over to report their diverse contract spending to California's Department of Insurance and update their reports every two years.

Insurance Commissioner Dave Jones took the initiative to start this process without waiting for the final conclusion of the bill. Commissioner Jones requested the diversity data from the top 200 insurance companies, and followed up that request by appointing an Insurance Diversity Task Force. This task force will be considering and making recommendations about diversity in the insurance industry, including the diversity of corporate governing boards and procurement from diverse businesses. The task force, in close cooperation with the insurance commissioner, has already started measuring the diversity of the governing boards of insurance companies, as well as identifying ways that the Department of Insurance can encourage increased supplier diversity.





VI. Recommendations

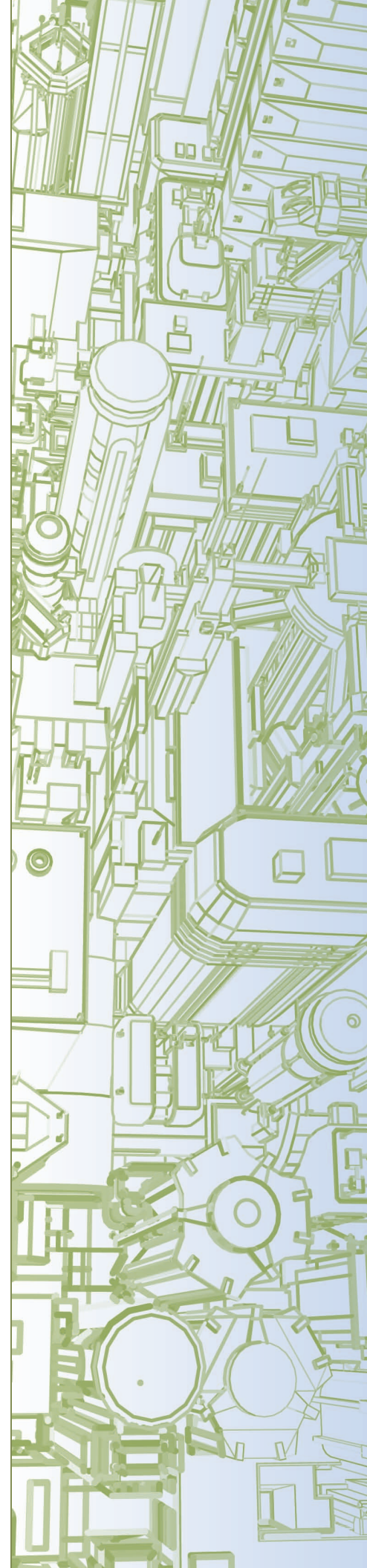
Overall Recommendations

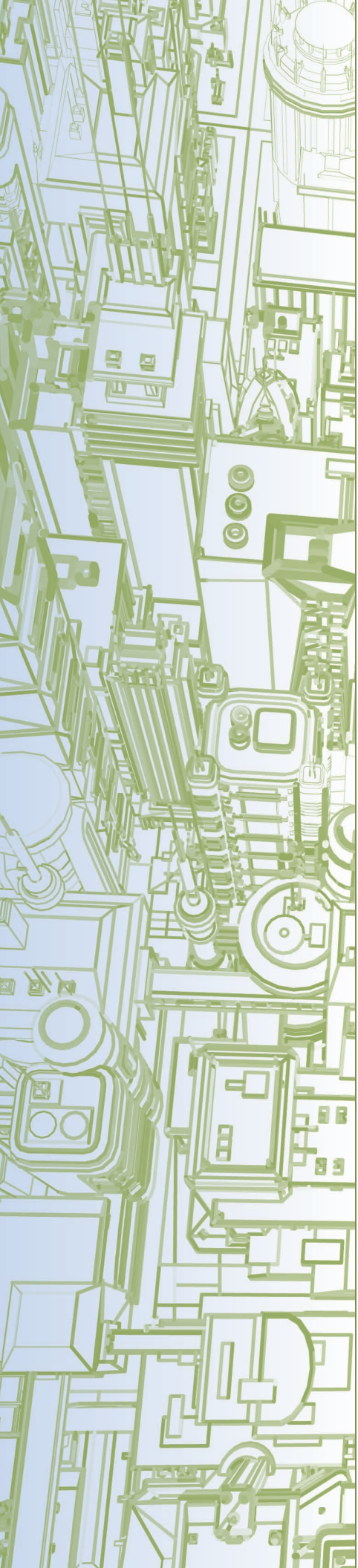
- 1. California's leading companies must renew their efforts or risk stagnating.** 2010 was an unprecedented success in supplier diversity. 2011 has seen the top companies plateau in their progress, while those companies that usually bring up the back have improved. As a result, we see the "Big 6" utilities and telecoms now all hovering in the 20-25% MBE range. While this demonstrates a big overall achievement, it still lags far behind California's nearly 60% ethnically diverse population. If California's leading companies do not continue to move forward, their current numbers are at risk of declining. This is because most companies measured in this report will have enormous capital projects in the immediate future. Sustaining their results will require continued vigilance, outreach, and leadership.
- 2. Utilities, telecoms, and cable companies must use their enormous influence over the market to engage their prime suppliers to match their own commitments to supplier diversity.** Under GO 156, the California companies have proven that supplier diversity can be a crucial component of good business and social responsibility. The companies must build up and formalize their efforts to develop similar cultures within their major prime suppliers, an area where they have significant leverage. As large amounts of spending continue to be disbursed in the form of large contracts with prime suppliers, an enormous opportunity to increase supplier diversity can be capitalized upon if these suppliers learn to diversify their own spending tiers. These prime suppliers are especially prevalent in the crucial, burgeoning markets related to the green economy and technical equipment (e.g. Silicon Valley and solar companies). Encouraging foreign suppliers to embrace supplier diversity practices also mitigates the effects of globalization by keeping more jobs local. The companies measured in this report should begin to require these major prime suppliers to comprehensively report their supplier diversity data.
- 3. Utilities must expand supplier diversity efforts as projects expand.** As utilities work to meet the CPUC's requirement of 33% eligible-renewable energy by 2020, many projects will be underway to make this a reality. Incorporating supplier diversity while these programs are in their planning stages is vital to cementing its place in new energy procurement. Shifting energy procurement to green resources will take many large-scale projects worth hundreds of millions of dollars. By measuring electric procurement contracting, we will be able to see the impact of these projects on diverse communities. Electric procurement is an incredible opportunity for economic stimulus through supplier diversity. Not only will the incorporation of more bidders make for more competitive contract selection, but it will also help to reinvigorate the economies in communities of color which were hit hardest by the recession.
- 4. Utilities should meld Smart Grid planning with supplier diversity efforts.** Switching to Smart Grid is an undertaking that will span years, and involve huge amounts of spending and contracting. Given the energy companies' failure to adequately incorporate supplier diversity into the plans sent to the CPUC, special attention must be brought to this issue moving forward. Although companies voice concerns that DBEs lack the resources or technical skills needed for these projects, SDG&E has shown in its preliminary plans that there are vital areas within Smart Grid that require conventional contracting efforts. Utilities must make special efforts to make sure diverse suppliers are not only not overlooked, but are actively engaged to bid for these increasingly prevalent opportunities.
- 5. The companies must increase contracting with minority enterprises in underutilized spending categories, including legal services, professional services, and technological equipment.** There has been little improvement in traditionally underutilized industrial categories, which represent yet another opportunity to reach new diverse suppliers.

Of the spending categories analyzed in this report, legal services, professional services, and technological equipment stand out as areas that are consistently less diverse than their counterparts. This is an area that might require more forceful inquiry, if not intervention, to examine why this glass ceiling is so strong.

Company Specific Recommendations and Evaluations

- 1. SoCal Gas must solidify the practices that brought it successes in 2011 while continuing to work against the trend of plateauing.** SoCal Gas has proven itself an industry leader in 2011, improving in most categories across both ethnic and industrial categories. SoCal Gas is the only company in this report to improve its overall MBE percentage spending every year for the last five years. This steady, long-term effort demonstrates the company's deep commitment to supplier diversity. However, in the coming year, SoCal Gas must target DVBE spending, as well as the finished products industrial category. SoCal Gas must also work to make sure that its performance in 2011 does not give way to a plateauing of efforts next year. Greenlining is impressed with its continued growth and steady progress, which is guided by a thoughtful and vigorous supplier diversity team.
- 2. AT&T must reinvigorate efforts to stave off further decline and maintain its status as an industry leader.** AT&T defined itself in 2010 as an industry leader in both its commitment to and results in supplier diversity. However, in 2011 AT&T experienced some leveling-off in its successes, a trend that was visible among many of the top-ranked companies from 2010. In the coming year, AT&T should turn its attention to areas that have dropped off, such as Asian American and Latino spending, as well as the significant decrease in contracting in professional services. Given its pace-setting leadership in the traditionally difficult SDVBE category, AT&T has demonstrated the capability, commitment, and leadership to continue its overall progress. AT&T should be especially lauded for its consistently robust performance in its biggest SIC category, technical/analysis instruments. What will be critical is AT&T's ability to sustain and build on this category of spending with continued outreach to diverse innovators and to educate this emerging class of MBEs on the importance and potential of MBE certification.
- 3. PG&E showed impressive overall growth and consistent improvements across the board.** PG&E spent over \$1 billion on diverse contracts in 2011, demonstrating real dedication to supplier diversity efforts. When spending so much on contracts, raising numbers even one percentage point represents a significant increase in dollars spent on diverse contracts. PG&E showed at least modest growth in every ethnic category, and did so in a year when combating a plateauing of results was especially challenging for the leading companies. In order to continue its trend of positive growth, PG&E should focus on continuing to improve on spending in ethnic categories, but also turn its attention to the communications, legal, and technical industrial categories where it experienced either no change or a decrease in contracting. PG&E's surge over the last two years should serve warning to others that it might soon take the top spot.
- 4. Verizon must make up ground to reverse its decline.** After having the highest proportionate diverse contract spending of any company in 2010, Verizon unfortunately declined significantly in 2011. Verizon must focus on areas where it experienced plateaus and decreases, namely its precipitous drops in technical services, finished products, African American, and Asian American contract spending. Also, among the six largest companies measured in this report, Verizon has the least visible supplier diversity program. It is important to acknowledge that Verizon also has the smallest amount of total procurement among the top six. However, focusing on making its supplier diversity program more visible to cultivate more diverse bidders may help reverse its overall decline.



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5. **SDG&E experienced a disappointing decline in overall MBE spending and most major categories.** Despite its significant increase in minority women contracting and some more modest gains in other categories, the company was not able to offset drops across other categories. **SDG&E** must turn its attention to areas where it experienced declines in 2011, such as Asian American, Latino, Native American, and finished products contracting. Additionally, despite its increase in African American contract spending, it is still in last place in this category at only 3.05%. There are a number of areas of concern for **SDG&E**. However, the noticeable declines from 2010 to 2011 may signal a broader concern. Its challenges may foreshadow what the other electrical utilities may face in the near future because the opportunities to keep up on new spending will be greater.
 6. **Edison continues a positive trajectory with a comprehensive and sustained strategy and leadership.** **Edison** experienced 4-point growth in overall MBE spending, showing results that matched its commitment to its supplier diversity goals. In a year when leveling-off of results was prevalent, **Edison** improved in almost every major sub-category and claimed the top spot for minority women spending. Deemed this year's Emerging company, **Edison** has come a long way in just three years' time. Part of that success is undoubtedly the commitment shown by **Edison's** top executive leadership, who have been very visible in outreach and educational efforts organized by **Edison's** reinvigorated supplier diversity team. **Edison** still has much work to do, particularly in DVBE spending, but it is also intentionally positioning itself to become an industry leader.
 7. **Sprint shows a new level of commitment to supplier diversity efforts, but has yet to fully report results.** **Sprint** demonstrated surprising growth in its diverse contracting spending, particularly in its Asian American spending where it took the top spot. However, in order to be considered among its industry peers, **Sprint** must start to report its data in a more transparent, detailed, and usable way. Doing so should only help **Sprint** more acutely identify areas of opportunity. **Sprint** should be congratulated for its impressive surge in 2011. However, without more detailed information, it is difficult to forecast whether this surge was the start of a trend or merely an anomaly.
 8. **Cox experienced moderate growth in supplier diversity numbers, but failed to report more than the bare minimum.** **Cox** once again did not report its supplier diversity numbers in a comprehensive way, which inhibited Greenlining from evaluating its progress to the same degree as its industry peers. In the coming year, **Cox** should disaggregate its data based on ethnicity, gender, and SIC, while also increasing efforts across the board and engaging in conversations with Greenlining and industry peers for the sake of transparency and learning from the best practices of others.
 9. **Comcast experienced overall growth, and is working very slowly towards reporting in a comprehensive way.** **Comcast** has continued its efforts to report information in a way that will bring it up to par with the other telecoms and utilities reporting under GO 156. With a 2.4-point increase in overall spending, **Comcast** is still moving in the right direction, and especially so in Asian American spending at nearly 5%. For the coming year, Greenlining recommends that **Comcast** report SIC categories to help create a clearer picture of the progress being made. Additionally, we urge **Comcast** to do more in outreach and procuring new MBEs. Greenlining is concerned that **Comcast's** heavy focus to bring reporting standards up to par may be inhibiting its capacity to find new contracting opportunities. **Comcast's** approach must balance both reporting standards and finding new opportunities. In order to do so, **Comcast** clearly needs to invest more resources in its supplier diversity efforts to improve on its sluggish pace.

10. **Time Warner Cable continues its apathy towards supplier diversity reporting.** **Time Warner Cable** once again did not report any meaningful data. Specifically, **Time Warner Cable** did not file any quantitative measurements of their supplier efforts. The company's continued refusal to participate in GO 156 represents a lack of commitment to supplier diversity that is unacceptable in California as well as a lack of interest in competing with two of its cable industry peers.

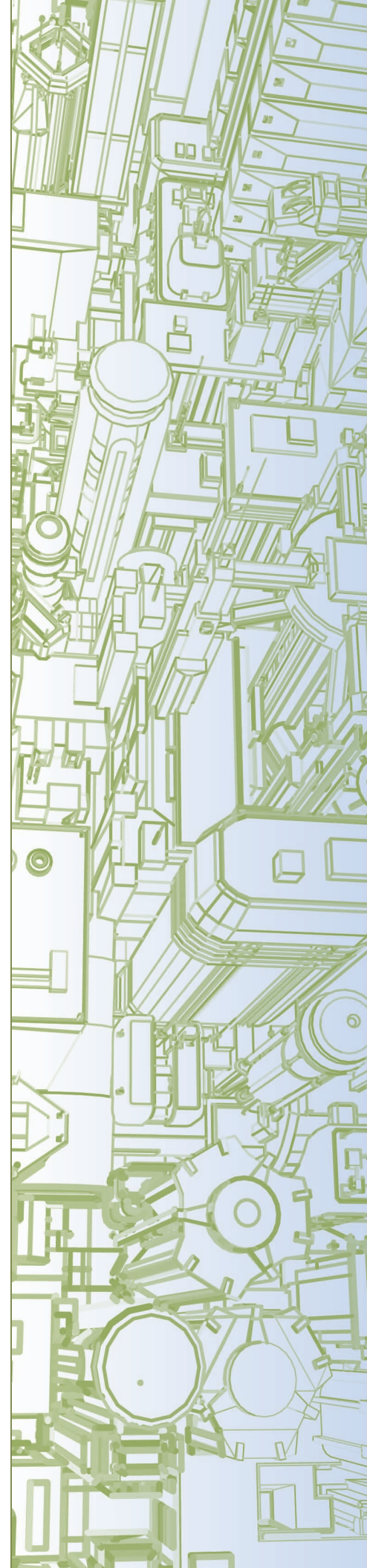
Methodology

Greenlining obtains the data in its annual report card from the yearly GO 156 filings of the seven largest utilities and telecom companies in California: Southern California Edison, Pacific Gas & Electric, Southern California Gas, AT&T, Verizon, and Sprint Corporation. The report also includes a limited analysis of three cable companies operating in California: Comcast, Cox, and Time Warner. Greenlining issues a grade to each of these companies based on the following guidelines:

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

Through these annual report cards, Greenlining attempts to achieve two key objectives:

- To highlight the successes and failures of California's utilities and telecoms in upholding their commitments to California's diversity and economic security; and
- To present ideas and recommendations on how diversity can continue to strengthen California's utilities and telecom companies.





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