

October 3, 2006

President Peevey and Commissioners:

The California Utilities Diversity Council (CUDC) will soon complete its third year. Thanks to the California Public Utilities Commission (CPUC) and its focus and support for diversity, we are pleased to show progress is being made and challenges continue for some groups. Members of the CUDC give their valuable time, expertise and advice to promote diversity in the privately held utilities. The CUDC's ability to perform its work would not be possible without the support and participation of the utility companies in five key areas: governance, customer service and marketing, philanthropy, procurement, and employment. Here are but a few highlights of the exceptional work being done in 2006.

The Governance Committee created a reporting mechanism to track the progress of diversity in the utility corporate board rooms. We are encouraged by some increases for African Americans and women on these boards but see a dearth of Hispanics (who dropped in their numbers), Asians, and American Indians. The CUDC was also pleased with the Governor's appointment of the first Asian female ever to serve on the CPUC.

The Employment Committee, in concert with the Philanthropy Committee, created the CUDC/MESA partnership. The companies are investing over a million dollars in this effort. This year the CUDC held a first-ever multi utility company internship program that included a summer training program designed to help prepare these college interns for the real world challenges. Moreover, utility companies appointed to key positions a diverse, high level group of individuals such as the first woman president and chief executive officer of two utility companies.

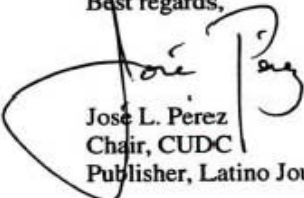
The Procurement Committee, highly influenced by General Order 156, supported the efforts of the CPUC to diversify procurement opportunities in legal and financial services and small business expos held throughout the State. These outreach efforts drew highly successful women, minority and service disabled business owners to consider doing business with our utilities. The committee plans to enhance its outreach in 2007 to include consultative services. It is also considering ways to measure progress and evaluate its efforts so that strategies can be created and or modified.

The Philanthropy Committee set up a common reporting framework to allow companies to see if their self-set one percent goal of pre-tax earnings for charitable cash contributions, with a goal of 60% to underserved communities, is being met. Representatives of the five largest companies need to define the terms and data gathering methods to make the information more meaningful for them. The CUDC member utilities collaborate for common benefit such as with the MESA/CUDC program and are considering launching in 2007 an initiative to deal with minority student retention in public schools.

The Customer Service and Marketing Committee performed an unprecedented language survey of CUDC member utility companies in 2005 and in 2006 arranged to have a meeting of the CUDC at the AT&T Hispanic Service Center and Accessibility Resource Center in Oakland, CA. The committee recently drafted language access principals; these principles are voluntary in nature and provide for a vision of the ideal quality levels of language services. This is an unprecedented action and cutting edge in this country.

The CUDC is a valuable resource and we recommend the Commissioners of the CPUC continue their collective and strong support of the CUDC and let's keep California number one in the nation as it relates to diversity.

Best regards,



Jose L. Perez
Chair, CUDC
Publisher, Latino Journal

Governance Committee

Committee Members:

Betsy Berkhemer-Credaire, Jess Haro, Steve Leder, Gwen Moore, José L. Pérez, Frank Quevedo (Chair), Aubry Stone, Paul Turner, Vicki Zeiger

The Committee's goal is to operate as a resource to expand understanding of California's diversity and to enhance representation of minorities on the Board of Directors of companies regulated by the CPUC.

The CUDC Governance Committee administered a survey to determine the ethnic composition of utility company boardrooms. Twenty (20) utility companies responded to the survey.

Board Members in 1996

| African American | American Indian | Asian American | Latino | White |
|------------------|-----------------|----------------|-----------|--------------|
| 3% (6) | 0% (0) | 1% (3) | 4% (8) | 92% (189) |

The totals for this category were based on 19 of 20 participating utility companies. One (1) of the participating companies was formed after 2002; as a result, they did not provide data for this category.

- Based on 206 Board members, 88% (181) were male and 12% (25) were female.
- There was one minority female (Asian) in this category.

Board Members in 2006

| African American | American Indian | Asian American | Latino | White |
|------------------|-----------------|----------------|-----------|--------------|
| 7% (14) | 0% (0) | 1% (1) | 2% (4) | 90% (171) |

- Based on 190 Board members, 83% (158) are male and 17% (32) are female.
- Two (2) of the 20 participating companies are made up of 100% External Board of Directors (non-employees of the utility company).
- Four (4) of the 32 female directors are minorities (three African Americans and one Latina).

Elected/Appointed Board Members

- Forty* (40) Board members were elected/appointed between July 2005 and June 2006.
- Eighty-two percent (33) are male and 18% (7) are female.
- Ten (10) of 40 (25%) new Board members are minorities/women, (3) African Americans (2 male and 1 female), (1) Latino male and (6) White females.

The ethnic breakdown of the 40 new Board members:

- 8% (3) African American
- 2% (1) Latino
- 90% (36) White

The Committee will continue to collect data and report on the boardroom composition of investor-owned utility companies. In 2007, the Committee will look to provide best practices outside of the utility industry and provide a list of organizations that will help identify or promote the increased representation of women and minorities on corporate boards.

* Seven (7) of the 40 newly elected/appointed board members are from the 5 largest utility companies. One (1) White female, 1 African American male, 1 Latino, and 4 White males.

Procurement Committee

Committee Members:

Joe Alderete (Co-chair), Samantha Allen, Yolanda Benson, Betsy Berkhemer-Credaire, John Casas, Susan Conway, Gordon Eng, Dennis Huang, Felicia Hudson, Jane Jansen, Palle Jensen, Marshall Kennedy, Joan Kerr (Chair), Patricia Kushida, Gwen Moore, Joe Partida, José L. Pérez, Colin Pethram, Asia Powell, Melanie Shelby, Tracy Stanhoff, Aubry Stone, Frank Urtasun,

The CUDC Procurement Committee is pleased to note that the California Utilities increased their supplier diversity results between 2004 and 2005 from \$1.89 billion to \$2.03 billion. In assessing where the Procurement Committee could be most helpful, it was noted that there are still several areas where the utilities did not achieve either substantial supplier diversity results or substantial progress toward achieving their goals. It was in these procurement categories that the CUDC Procurement Committee believed it could provide the most assistance to the Commission, the minority, women and disabled veteran owned businesses ("MWDVBES") and to the Utilities.

The CUDC Procurement Committee has focused on two major initiatives in the past year.

- I. Supporting the CPUC in launching statewide Forums for small businesses seeking to do business with the California Utilities and;
- II. Supporting the increase of opportunities for diversity firms to participate in utility procurement categories that have low supplier diversity participation. The first low-performing procurement category we decided to work with is Professional Services.

I. Statewide Small Business Forums – members of the CUDC Procurement

Committee helped to organize and staff 7 Small Business Forums listed in the table below. The utility representatives prepared presentations on how to seek business with the utilities, recruited prime suppliers to meet with prospective subcontractors and conducted matchmaker meetings with the small businesses who attended the Forums. By traveling around the state, the utilities were able to meet with businesses from many different locations in California.

| Date | Location |
|----------|-------------|
| 01/19/06 | Oakland |
| 02/23/06 | San Diego |
| 03/09/06 | Bakersfield |
| 03/16/06 | Sacramento |
| 04/19/06 | Los Angeles |
| 07/27/06 | Riverside |
| 09/14/06 | San Jose |

II. Professional Services – The CUDC members who represent various MWDVBE business organizations indicated that many of their members are in the professional services sector but have not had much success in securing utility business. The utilities' Annual Reports confirm that those areas are not yet achieving the 21.5 % goal.

The Commission also identified this same area of low utilization. The Commission asked the utilities for additional data on supplier diversity results in legal and convened the General Counsel to speak at the 2005 En Banc. The Commission also asked for additional data in the area of financial services and called together the utility Chief Financial Officers to explore how to improve results.

In support of the focus on Legal Services, the CUDC Procurement Committee continued the efforts started last year. CUDC worked with the General Counsels to host 2 more legal forums, San Francisco and Sacramento where the utility legal departments and diversity law firms had the opportunity to meet. Extensive outreach was done to include new diversity suppliers.

Procurement Committee

It was also noted that the utilities' supplier diversity Prime Supplier initiatives could be successfully deployed with prime suppliers in the legal arena to promote diversity subcontracting or alliance opportunities. Several majority-owned incumbent law firms attended these forums to explore business opportunities with the diverse suppliers. All three forums were co-hosted by an incumbent majority-owned firm.

In support of the second professional services focus area - Financial Services, the CUDC Procurement Committee helped produce a successful forum in San Francisco. The Forum brought together the 5 largest utilities and 3 of their largest suppliers- Ernst and Young, Price Waterhouse Cooper and Deloitte and Touche to meet with a wide-range of MWDVBES that provide financial services. Diversity-owned accounting firms, money management and investment firms alike were able to hear from utility financial executives and meet directly with decision makers from AT&T, PG&E, San Diego Gas & Electric and Southern California Gas Company, Southern California Edison, and Verizon. A very hard-working organizing committee ensured the event's success and is planning a second forum in Southern California.

The Forums clearly highlighted the potential for increasing diversity participation in the Legal and Finance arenas and opened communications between corporate decision makers and diverse suppliers. We are optimistic that with continued focus of time and talent, the utilities will be able to report increased results in the near future.

Looking toward 2007, in addition to continuing to support increased results in legal and finance, the Procurement Committee has selected Consulting Services as our next focus area. This is another professional services area with low utilization across all utilities. Plans are underway to host the first Consulting Services Forum in January of 2007, with a special emphasis on how diversity-owned consulting firms can work with the large international consulting firms that appear to dominate this procurement category.

Employment Committee

Committee Members:

Rob Howard, Steve Leder (Chair), Ben Lewis, Gwen Moore, José L. Pérez, Colin Petheram, Frank Quevedo, Nancy Smith-Taylor

The CUDC Employment Subcommittee is a resource for advising utility companies, CPUC, and policy makers on ways to accomplish human diversity in the utility industry. From the corporate officers to the rank and file, employment opportunities should be provided on an equal basis without preference to any group. Thus, it should reflect the rich mixture of California's demographics.

The CUDC Employment Committee conducted its annual survey of member utilities (participating utilities include AT&T, San Jose Water Company, Pacific Gas and Electric Company, San Diego Gas & Electric and Southern California Gas Company, and Southern California Edison.

- A rough comparison was done of California Utilities and utilities nationwide. This comparison suggests that California utilities are similar to U.S. utilities with regard to employment of women, but that they employ more than double the proportion of minorities.
- The responding utilities employ over 42,400 minorities and almost 33,000 women out of a total employee population of 88,500.

| Employee Category | African American | Asian | Native American | Hispanic | Other (including Caucasian) | Total Minority | Total Female |
|---------------------------------|------------------|-------|-----------------|----------|-----------------------------|----------------|--------------|
| Total Officer | 11.2% | 6.8% | 0.5% | 5.3% | 76.2% | 23.8% | 31.1% |
| Total Director | 8.0% | 9.8% | 1.8% | 8.3% | 72.9% | 27.9% | 51.1% |
| Total Manager | 5.9% | 15.9% | 0.5% | 12.2% | 65.5% | 34.5% | 30.0% |
| Total Other Exempt | 10.2% | 16.4% | 0.7% | 15.9% | 56.7% | 43.3% | 42.3% |
| Total Bargaining Unit | 13.3% | 10.0% | 1.2% | 26.3% | 49.1% | 50.9% | 33.5% |
| Total Non-exempt/Non-Bargaining | 13.6% | 13.2% | 0.9% | 32.0% | 40.2% | 59.8% | 65.8% |
| Grand Total | 11.9% | 12.2% | 1.0% | 22.7% | 52.1% | 47.9% | 37.2% |

Source: CUDC Employment Survey of Member Utilities

In 2005 the Employment Subcommittee found that one factor influencing the utilities ability to attract qualified, diverse candidates is the availability of qualified labor resources in the labor markets represented above. Several of these labor markets lack substantial diverse representation. The committee found that the most significant shortfall occurs in the engineering/science based labor market. Some studies indicate that in the United States African Americans, Hispanics, and Native Americans comprise less than 12% of those who graduate with engineering degrees.

The CUDC member utilities made a substantial financial and resource commitment to improve the matriculation of minorities through science and engineering based programs (\$1.365 million over three years). In 2005 the CUDC agreed to enter into a partnership with the University of California's, Math, Engineering and Science Achievement (MESA) program.



2006 was the first year of the program. Twenty-five MESA students were identified as CUDC-MESA Scholars and participated in a paid summer internship program at one of the sponsoring utilities which included a significant work assignment, coaching and development and a two day Professional Development Seminar. The two day leadership seminar, sponsored by member utilities and held at PG&E's Learning Facility provided the MESA Scholars an opportunity

Employment Committee

to participate in classes designed to develop their skills in networking and resume writing, making presentations, understanding their leadership styles, and teambuilding.

Highlights included:

- A kick-off reception and dinner where interns practiced their professional networking skills on CPUC Commissioner Rachelle Chong (who also served as the keynote speaker), as well as CUDC Chairperson, Jose Perez, CUDC members and senior utility company and CPUC executives;
- A panel on “Regulation in the Corporate World” headed by Steve Larsen, CPUC Executive Director; and
- A “Style Assessment” where interns learned more about their leadership and teamwork styles.

Perhaps one of the most important outcomes was the relationship and support systems built among the students. The CUDC looks forward to again sponsoring the program in 2007.

2007 Outlook

The Employment Subcommittee continues to review the demographics of the utility labor markets, as well as other significant data such as high school graduation rates and has held several sessions to discuss how the CUDC can help increase employee diversity at member utilities. The next area of opportunity the committee will focus on is workforce development for non-exempt positions particularly with respect to the growing diversity of California’s population that will be entering the workforce.

Philanthropy Committee

Committee Members:

Kimberly Freeman, Jess Haro, Rob Howard, Pat Kushida, Steve Leder, Cynthia Marshall, Jose Perez, Frank Quevedo, Paul Turner, Vicki Zeiger

The purpose of the Philanthropy Committee is to examine how the CUDC member utility companies can increase charitable contributions to promote diversity and inclusion throughout their respective service territories. The participating CUDC-member utility companies are San Diego Gas & Electric, Southern California Gas Company, Southern California Edison, AT&T California, Verizon, and Pacific Gas & Electric.

2006 Committee Work

In 2006, the utility companies continued to diligently work on enhancing their data collection methods for tracking charitable contributions to underserved communities. Though categories of contributions to underserved communities vary from company to company, for most of the companies, communities of color, low income, women and girls, and LGBT generally are considered underserved communities. Also, although not a part of the figures provided in this report, in addition to cash contributions, some companies tracked in-kind contributions and volunteer hours. Employees' personal financial and volunteer contributions are not included in these figures. The inclusion of these additional contributions would have a tremendous positive impact on the overall charitable efforts by the utilities in California and further show the impact of our efforts on communities throughout the state.

All of the energy utilities have publicly committed to strive towards a goal of 1% pre-tax earnings for their charitable contributions budgets with 60% of that amount being targeted to underserved communities.

Five Utilities Contribute \$50 Million

Collectively in 2005, pre-tax income for the five (5) participating CUDC-member utility companies mentioned above was \$6.042 billion. Of this amount, approximately \$50.3 million was spent on philanthropy. This number for the CUDC-member utilities represents .83% of pre-tax earnings. By comparison, 2004 pre-tax income for the member utilities was reported as \$5.871 billion. Of that amount, cash contributions equaled roughly \$42.3 million or .72% of pre-tax income. The commitment by the utilities to achieve the 1% pre tax goal was evidenced by the approximately 19% increase in cash contributions between 2004 and 2005. The \$50 million in charitable expenditures is an excellent example of the utilities focus on improving and benefiting communities they serve throughout California and also communities in need nationally and globally as evidenced by the efforts after disasters such as Hurricane Katrina and the tsunami.

In aggregate, the five (5) CUDC member utilities estimate that the following amounts for cash philanthropy were spent in various communities in 2005:

| | |
|------------------------|--------------|
| Latino | \$6,679,805 |
| African American | \$2,959,421 |
| Asian/Pacific Islander | \$1,966,153 |
| American Indian | \$362,817 |
| Multi-Ethnic | \$7,530,173 |
| Other Underserved | \$9,601,865 |
| Total | \$29,100,234 |

Table 1. Cash Philanthropy in 2005

The amount contributed to under represented minorities and underserved communities was \$29 million in 2005. This is 58% of the \$50 million total cash philanthropy given by the five utilities.

Philanthropy Committee

2007 Outlook

All of the member utilities agree that additional discussion to refine the definition of underserved is needed. For now, the committee has chosen to use the US Census definitions for Hispanic or Latino origin, Black or African American, American Indian and Alaska Native, Asian, and Native Hawaiian or other Pacific Islander. The committee has also elected to use the California Alternative Rates for Energy (CARE) and Universal Lifeline Telephone Service (ULTS) definitions to define low-income.

In order to build on the progress of the successful CUDC/MESA partnership, in 2007 the committee plans to explore another possible partnership aimed at improving success rates for college admissions of underrepresented students of color by perhaps working with a statewide organization that focuses on parental involvement.

The committee is also considering a joint effort with the employment committee that will focus on workforce readiness. Many of the member utilities currently have stand-alone initiatives in this arena, but all agree that it might be worthwhile to look at this issue in a comprehensive manner across the utility sector here in California especially because of the need for the industry to establish a consistent pipeline of qualified employees to help address our hiring needs caused by normal attrition.

In the end the goal of the utilities is to, through our charitable activities, become an integral part of the fabric of our communities we serve.

Customer Service and Marketing Committee

Committee Members:

Palle Jensen, Steve Leder, Ben Lewis, Jose Perez, Colin Petheram, Frank Quevedo, Peter Ramirez, Betty Jo Toccoli, Nancy Zarenda (Chair), Vicki Zeiger

The CUDC continues to create and develop new and innovative ideas for effective and profit-bearing multilingual programs and services in the utility industry. Last year, the Customer Service and Marketing Committee (CSMC) conducted an unprecedented language access survey of CUDC utility companies. In 2006, the CSMC chose to continue its primary focus on language issues in customer service and marketing that challenge all of its member companies and organizations.

California is the most linguistically and ethnically diverse state in the nation with huge numbers of residents who speak primary languages other than English. There are between 179 and 207 languages spoken in this state according to different popular sources. Forty-one percent of Californians (nearly 14 million) over age five speak a language other than English at home, and 25 percent, or one in four residents is foreign born. Spanish is by far the most common language after English with 25 percent of the population, or about 8 million Spanish speakers. Asian languages are spoken by over 2,700,000 (8.6 percent) Californians. Language preferences of customers served by utility companies vary greatly by region and other demographic characteristics, however, virtually all utility companies have paying customers who prefer to speak languages other than English. The CSMC and the CUDC also acknowledge that diversity goes far beyond spoken languages, and includes numerous other important characteristics and cultural considerations that affect all aspects of customer service and relations.

Recognizing that multilingual services in telecommunications originated with a California company in the 1980s, the former PacBell, then SBC and now AT&T, the CUDC was invited by AT&T to observe their Hispanic Service Center and Accessibility Resource Center in Oakland in May, 2006. After an orientation and history of AT&T's commitment to serving their diverse customer base, members toured the facility which includes their main Spanish language service center and their center for consumers with disabilities. CUDC members, many of whom are bilingual in Spanish and English, observed the Spanish language sales and service activities which were of the highest quality in terms of courtesy, efficiency and bilingual competence. Customer service representatives use state of the art computer and telephone systems, and are rewarded with incentives for multilingual expertise and excellence in sales capacity.

In July, 2006, Nancy Zarenda provided an overview of language and ethnic demographics of California and the U.S., including top languages spoken, language trends and information about linguistically isolated populations and how language barriers affect utility and other consumer services. The presentation included information about the Dymally-Alatorre Bilingual Services Act, government agencies with successful multilingual practices, and trends and initiatives at local, state and national levels. This presentation was originally given at the first Telco Consumer Protection Initiative workshop held by the CPUC in June, 2006.

After much research and discussion, the CSMC determined that there was no statewide framework within the utilities industry, or for the utilities industry to offer consistency and a basis for developing

Customer Service and Marketing Committee

quality indicators for implementing, assessing, monitoring, and increasing high quality services and programs to consumers whose language preference is other than English. The participating utilities concurred that developing a set of overarching guidelines to be considered separately and uniquely by companies, would be valuable. The CUDC has always and continues to promote voluntary participation in any guidelines it develops.

The following six principles were developed by the CSMC and received formal endorsement by the CUDC. All CUDC companies currently apply some or all of these principles. They may be used on a voluntary basis to serve as guidelines for developing or enhancing current multilingual programs and services, with tactics to be developed in accordance with companies' respective visions, goals, preferences, human and fiscal resources and timelines. The CUDC promotes that utility companies determine their own customer service needs and pace of implementation of any tactics they may develop.

Principle #1
The Language of Business is the Language of the Customer

Principle #2
Emergencies and Public Safety Require Attention in All Languages

Principle #3
Recruit, Train, and Compensate for Multilingual Expertise

Principle #4
Measure and Monitor Multilingual Programs for Customer Satisfaction

Principle #5
Establish Quality Indicators for Multilingual Practices

Principle #6
Corporate Culture: Language Services and Expertise as Value Added

California Utilities Diversity Council

Directorate:

| | |
|--|---------------------|
| José L. Pérez , Publisher, Latino Journal | Chair |
| Cynthia G. Marshall , Senior Vice President, Regulatory, AT&T | Vice Chair |
| Nancy Zarenda , Director, Spanish Language Academy | Vice Chair |
| Linda Serizawa , Director, Consumer Service and Information Division, California Public Utilities Commission | Liaison to the CUDC |

Yolanda Benson, Deputy Secretary, Jobs, Economic Development & Trade Business,
Transportation & Housing Agency

Betsy Berkhemer-Credaire, Immediate Past President, NAWBO CA and President, Berkhemer
Clayton, Inc.

Kay Ferrier, Dean of Economic & Workforce Development Network, California Community
Colleges

Jess Haro, Immediate Past Chair, California Hispanic Association on Corporate Responsibility

Rob Howard, Human Rights Advisor, Utility Workers Union of America

Dennis Huang, President & Executive Director, Asian Business Association

Russell Jackson, Senior Vice President, Human Resources, Pacific Gas & Electric Company

Palle Jensen, President, California Water Association

Patricia F. Kushida, President & CEO, Sacramento Asian Pacific Chamber of Commerce

Ben Lewis, Director, Network/Field Services, California-American Water Company

Henry Mendoza, Chairman, California Hispanic Chamber of Commerce

Gwen Moore, President, GEM Communications

Joe Partida, Owner, J.D. Partida & Associates

Asia Powell, Specialist State Government Relations, Verizon

Frank Quevedo, Vice President, Southern California Edison

Peter B. Ramirez, President, SD&D Veterans, California DVetBusiness Alliance

Alexandria G. Rooker, National Executive Board Member, Communications Workers of America

Tracy Stanhoff, President, AD PRO

Aubry Stone, President & CEO, California Black Chamber of Commerce

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