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Sent: 9/23/2013 8:29:46 AM
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Subject: Bakersfield Californian

Historic PG&E Penalty Would Hurt 'The Little Guy' Statewide

ByHectorV.Barreto
BakersfieldCalifornian -Opinion
September 23, 2013

Tributes to small business are standard fare for politicians and public officials these days -- the economic equivalent of motherhood and apple pie. What's baffling then is how often these would-be friends of the little guy seem oblivious to the way actions aimed at big firms can backfire and hurt smaller ones.

The latest example is the drive to hit California's biggest gas and electric company, **PG&E**, with a massive penalty for the tragic gas pipeline explosion that killed eight people in San Bruno a few years ago. The California Public Utilities Commission staff has suggested San Francisco-based PG&E should pay upwards of $4 billion -- a record amount for a utility and one of the biggest accident-related penalties ever in any industry.

At first, that may look justifiable, especially to regulators who are on the defensive and under pressure to appear tough. The CPUC has been under a barrage of criticism lately, fueled by embarrassing allegations of infighting and incompetence. What better time to make headlines and prove their bona fides by slamming a big, unpopular utility with a crippling fine?

But here's the rub: In the real world, small companies and big ones are interdependent. Major companies like PG&E rely on massive supply networks largely made up of small and mid-size firms. In turn, these companies often depend on big customers for a large share of their sales.

As head of the U.S. Small Business Administration, I saw this dynamic up close everyday with thousands of firms. From my current experience helping small companies as head of The Latino Coalition, I can also attest that many of these smaller players are diverse businesses.

PG&E's supply chain includes roughly 5,000 companies with whom the utility spends a total of about $5 billion per year. More than $2 billion of this is spent with women, minority and veteran-owned enterprises, usually local firms of the type that are the lifeblood of many communities.

Inevitably, it's some of these businesses that would end up sharing the pain if the CPUC staff prevails with its proposed punishment. Even more ironic, many of these are the very same companies the CPUC works to assist by setting ambitious supplier diversity goals every year -- goals that PG&E regularly outperforms.

PG&E has said that a $4 billion penalty would substantially weaken the company's finances and credit, reducing its ability to invest in improvements to its system and also raising the cost of those investments. As a result, it would have to trim its investment plans, scaling back or postponing big projects across its northern and central California service area.

These fears were backed up recently by warnings from two major credit rating agencies, Moody's and Standard & Poor's, which also said they might even feel compelled to re-evaluate California's overall regulatory climate if the proposed penalty goes through.

It would be a mistake for policy makers to ignore these consequences. California is already notorious for having one of the least attractive business climates in the country. We should be working to shed that reputation, not reinforce it.

Moreover, recent declines in Dunn & Bradstreet's monthly Small Business Health Index show that, overall, small firms are still struggling in this economy. The lone bright spots? Construction and business services -- exactly the types of enterprises that would mostly likely suffer if a company like PG&E were forced to pull back investments.

Destabilizing a major employer and contractor that is key to the economy in nearly two-thirds of our state is shortsighted at best and reckless at worst.

It's understandable that regulators want to punish PG&E. But it has to be asked: at what price to other businesses and, ultimately, to ourselves?

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