

September 24, 2013

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Subject: Response to the CPUC's draft report on the results of its compliance examination on Pacific Gas and Electric Company's (PG&E) Supplier Diversity 2011 Annual Report

Introduction

On August 30, 2013, the Utility Audit, Finance and Compliance Branch (UAFCB) issued a draft examination report on PG&E's Supplier Diversity 2011 Annual Report. This was the first CPUC audit of a supplier diversity program under GO 156. The audit report provides PG&E the opportunity to improve its supplier diversity program, and provides the CPUC with the opportunity to discuss and clarify, for the first time in the program's history, the auditing standards for utilities participating in this voluntary program.

PG&E appreciates the opportunity to comment on the UAFCB's Draft Examination Report on the Supplier Diversity 2011 Annual Report. PG&E's response to the UAFCB's recommendations and supporting documents are in the attached summary and exhibits.

Overview

PG&E is committed to providing diverse suppliers with economic opportunities to supply products and services required by PG&E. In 2012, PG&E achieved its highest level of diversity spending with over \$2 billion or over 38.8 percent of total spend. This percentage represented the fifth consecutive year PG&E surpassed the cumulative percentage established by the California Public Utilities Commission (CPUC) for procurement from diverse vendors. In 2011, the year audited by the UAFCB, PG&E achieved diversity spending of \$1.6 billion or over 36.56% percent of total spend. PG&E met its 2011 and 2012 goals both through contracting directly with diverse firms and through its prime contractors sub-contracting with diverse firms.

In conjunction with PG&E's commitment for continuous improvement, PG&E welcomes the auditor's findings and suggestions regarding how it can further improve its program. For example, PG&E supports and has already implemented the UAFCB's recommendations regarding deduction of early payment discounts and appreciates the importance of accurate categorization of direct and subcontracting WMDVBE spend. PG&E also agrees that its suppliers need additional reminders and training on the importance of retaining appropriate documentation to support supplier diversity spend.

PG&E also appreciates the opportunity to respond to the UAFCB's findings regarding the \$28.9 million it categorizes as mis-stated spend. As discussed in greater detail in the attached summary (Attachment 1), of that \$28.9 million:

- \$15.6 million reflects a categorization error. PG&E mistakenly placed \$15.6M of certified DVBE spend in the direct spending column rather than the subcontracting column. GO 156 guidelines allow both direct and subcontracting spend to be counted towards a utility's annual total WMDVBE spend. PG&E agrees that the

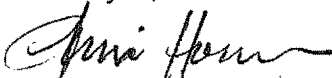
categorization of the spend is important, and will move the spend to the correct column, however, it does not impact its stated DVBE spend;

- \$2.7 million represents actual WMDVBE spend. The UAFCB auditor interpreted Compass Power Services and All Day Electric as not being certified vendors. Department of General Services Certification Officer Louise Kurashige has confirmed that these vendors were certified during the relevant reporting period (See Attachment 2, pg.1);
- Early payment discounts in the audit sample amounted to only \$360 thousand dollars. Total 2011 early payment discounts amounted to \$8.9 million in diverse spend and \$31.4 million in total spend—the total adjustment results in an increase of supplier diversity percentage spend in 2011 from 36.56 to 36.62%;
- \$2.4 million represents over-reported subcontracting spend. PG&E agrees to remove this amount from its 2011 report and to reinforce subcontracting reporting guidelines to its prime suppliers;
- \$4.19 million represents work performed in 2011 by WMDVBE subcontractors but paid in 2012. PG&E informs its prime suppliers to report accurately in compliance with their accounting practices. PG&E believes there may be an opportunity for a larger discussion to provide clarity and consistency in the reporting of diverse subcontracting; and
- \$3.6 million represents confirmed payments to WMDVBE subcontractors by prime suppliers; however, only some of the invoices for these payments could be located (See Attachment, 2 pgs.8-13). PG&E agrees to reinforce to its prime suppliers the importance of keeping documentation to support their payments to WMDVBE suppliers.

Conclusion

PG&E remains proud of its GO156 program and the value it brings to the supplier diversity community. PG&E also appreciates the recommendations of the UAFCB regarding early payment discounts and the misplacement of the DVBE subcontracting dollars the auditor found in Table 9.1.2. This audit provides an opportunity for the utilities to further enhance their supplier diversity programs through dialog with the CPUC and supplier community about UAFCB's recommended auditing and accounting standards for this voluntary program.

Thank you,



Trina Horner

Vice President

Regulatory Proceedings and Rates

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