



**Pacific Gas and  
Electric Company**

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Kayode Kajopaiye – Branch Manager  
Utility Audit, Finance and Compliance Branch  
California Public Utilities Commission  
505 Van Ness Avenue, 3rd Floor  
San Francisco, CA 94012

Dear Kayode:

PG&E appreciates the insights provided by the CPUC's Utility Audit, Finance and Compliance Branch (UAFCB) review of PG&E's 2011 Annual Supplier Diversity Report. Pursuant to this review and the audit findings, PG&E took steps to improve the processes underlying our GO 156 Annual Report. In PG&E's November 26, 2013 letter to you, we described all the steps we had taken to improve our processes and provided copies of documents that implemented or supported those steps. Since that time, we have continued to implement those processes and have taken additional steps to strengthen and improve our program.

Based on the audit learnings, the following controls regarding accurate reporting of direct spend are now in place:

1. We have implemented a formal process to ensure that Early Payment Discounts (EPD) are always removed from PG&E's total spend and diverse spend before preparing the GO 156 Annual Report. We corrected that error in the 2011 Report and re-filed our summary page 47 to reflect the change, resulting in a minimal decrease in base and diverse spend and a net increase of 0.06% in diverse spend results. The 2012 and 2013 GO 156 Annual Reports filed with the CPUC continued to remove any EPD from base and diverse spend.
2. We instituted documented processes to ensure the subcontracting results of Diverse Business Enterprise (DBE) are not inadvertently included in the direct spend calculation. We corrected that misplacement in the 2011 report by placing the specific Disabled – Veteran Business Enterprise subcontracting results of a DBE Prime in the subcontracting calculations. While it did not change our total Disabled – Veteran Business Enterprise results, we reflected that correction in our page 47 re-filing of the 2011 results. We also instituted documented processes to check for any such possible error going forward. The preparation of filings in 2012 and 2013 utilized those processes.

The issues identified by the CPUC audit concerning second tier DBE spend reported by prime suppliers centered on the amount of supporting documentation provided by prime

suppliers. Based on the audit learnings, the following steps regarding accurate reporting by prime suppliers of subcontracting spend have been taken:

1. PG&E has communicated newly developed requirements, based in part on the guidance from the audit, in two letters to prime suppliers. Copies of these letters are attached.
2. We educated prime suppliers on these requirements at our Supplier Conference, in a range of different supplier meetings and in ongoing monthly webinar trainings for prime suppliers.
3. We augmented the directions on report filing in our Prime Supplier Guide to emphasize the importance of having detailed back up documentation for any subcontracting results reported.
4. PG&E continued its annual third party audit of prime supplier reports and utilized a new DBE audit firm, Mah& Associates, LLP that has worked for PG&E on other CPUC filings. We asked prime suppliers to produce copies of contracts, purchase orders, and invoices along with checks and bank statements verifying Electronic Funds Transfer payment documentation. We continued our longstanding requirement that the prime supplier CEOs attest in writing to the diverse spend submitted in reports to PG&E.
5. We have taken further steps to ensure that internal team members are trained. A formal presentation/training on the rigor of prime supplier subcontracting documentation requirements was made to our Line of Business Supplier Diversity Champions. All sourcing team members were informed about the letters being sent to prime suppliers and were educated about the back-up documentation that prime suppliers were being asked to produce.

The UAFCB audit of PG&E's Supplier Diversity 2011 Annual Report was the first CPUC audit of a supplier diversity program under GO 156 and elucidated for the very first time, the level of documentation desired for prime supplier reports. Since receiving that guidance, we have focused our resources on implementing that guidance and in strengthening our Prime Supplier Program.

The new focus the UAFCB has asked us to take on prime supplier documentation of subcontracting reports is clear, and we are moving forward to implement additional requirements for prime supplier reporting of subcontracting spend.

Additional audits are unlikely to provide any new illumination on what documentation prime suppliers were maintaining and retaining and would provide no new guidelines on how we are to direct prime suppliers going forward. Conducting an additional audit would not improve or advance the controls and processes we are in the process of implementing. And even more importantly, the extraordinary time and resources expended would be of

no benefit to MWDVBES, would create no new business opportunities for diverse suppliers and would not encourage additional prime suppliers to work with diverse subcontractors.

We plan to continue our practice of conducting audits of our prime supplier reports utilizing the new insights gained from the UAFCB. However, we hope that with continuing education and training, including one-on-one reviews of reports, prime suppliers will eventually find it easier and less onerous to provide the documentation we are asking of them.

We respectfully submit that it would not improve or advance our prime supplier reporting processes, it would not advance the goals of GO 156, nor would it be a prudent use of resources, to conduct additional audits of PG&E's past or current GO 156 filings.

Going forward, we believe it would prove beneficial to convene the utilities and a wide range of their prime suppliers and diverse subcontractors to discuss the challenges in subcontracting reporting, review the best practices in document production and retention and develop a collaborative consensus on how to ensure validity of subcontracting reports while valuing the standard business practices around subcontracting in the various industries that supply the utilities. Maintaining a tone of respect for reasonable business practices and voluntary collaboration is so important to increasing the participation of prime suppliers, to expanding their programs and creating even more opportunities for diverse businesses. We would look forward to a process that would develop and standardize the prime supplier reporting process. Thank you for your attention to this matter.

Sincerely,



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cc: Paul Clanon  
Rami Kahlon  
Carol Brown  
Gun Shim  
Stacy Campos  
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