Federal Deposit Insurance Corporation
12 CFR Part 325, Subpart C
RIN: 3064-AD91

FDIC STRESS TEST SHOULD AVOID THE PROBLEMS CONFRONTING THE REGULATORS IN THE VOLCKER RULE

COMMENTS BY THE BLACK ECONOMIC COUNCIL,
THE LATINO BUSINESS CHAMBER OF GREATER LOS ANGELES AND
THE NATIONAL ASIAN AMERICAN COALITION

Len Canty, Chairman
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March 20, 2012

FDIC STRESS TEST SHOULD AVOID THE PROBLEMS CONFRONTING THE REGULATORS IN THE VOLCKER RULE

These preliminary comments are filed by three minority consumer and business organizations that strongly support appropriate stress tests, particularly among banks "too big to fail." The groups are the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition.

All three groups have filed comments relating to the Volcker Rule on January 20th entitled, "Keep It Simple."[1]

We commend the FDIC for initiating stress tests for its largest institutions. But, we are unclear that the stress tests as proposed will necessarily benefit the public or depositors. For example, it may be appropriate for institutions with under $30 billion in assets to be partially exempt or to be subject to less exhausting stress test analysis if they are engaged in creating jobs through small business development or resolving our economic crisis through pilot and innovative homeownership projects. (According to the FDIC staff estimate, at least 46,000 hours will go into the stress test responses by the 23 financial institutions affected.)

Secondly, we are unclear as to the impact of the stress test on other key elements of the Dodd-Frank reform bill and the FDIC's CRA and other community mandates. For example, we are unclear as to the impact of the stress test on CRA and believe that the stress test examination should not be conducted in a simplistic fashion. That is, extraordinary public interest efforts to benefit underserved communities consistent with CRA should be given credit within the stress test itself.

For the smaller institutions within the 23 affected by the stress test, we are unclear as to whether an annual or biannual stress test might be more appropriate. Related to this is whether CRA examinations should be conducted in conjunction with the stress test.

In the Volcker Rule proposal by the federal regulatory bodies, the greatest public objection by the financial institutions, one that we joined in in our comments, is that the Volcker Rule as proposed is far too complex. This is demonstrated by the 298 pages submitted for review by the public and financial institutions. As the three minority, business and consumer groups stated in our last comments in the Volcker Rule, "keep it simple."

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[1] The groups filed their initial comments on the Volcker Rule before the FDIC, Federal Reserve, OCC and SEC on October 21, 2011 entitled, "Mr. Volcker Would Be Perplexed if Not Embarrassed."

As the recently deceased and well-respected political scientist James Q. Wilson frequently observed, "we know less than we thought we knew about how to change the human condition."[2] Therefore we should take into account the potential unintended consequences of regulatory good.

Importance of Ascertaining Independence of Financial Institution Auditors

The Public Company Accounting Oversight Board (PCAOB), created by the Sarbanes-Oxley Act, has raised very serious questions as to the accuracy and independence of the Big Four CPA firms. With few, if any, exceptions, the 23 banks subject to the stress test are primarily audited by a Big Four firm.

Beginning in October of 2011, the PCAOB released reports that challenged the accuracy and independence of Big Four audits among Fortune 500 corporations, including major financial institutions, all of whom audited by the Big Four firms. (Over 40 percent of the audits reviewed by the PCAOB were criticized for the lack of independence and/or failure to follow generally accepted accounting principles (GAAP).) The PCAOB criticisms related to the failure to follow GAAP and the lack of independence of the auditor from the financial institution or other company it was auditing.[3]

On March 21st and 22nd, the PCAOB will be holding a hearing as to its concerns relating to the lack of independence and failure to follow GAAP rules affecting the Big Four firms and possibly other major CPA firms.

Former Federal Reserve Chairman Paul Volcker and two former SEC chairmen will be testifying and apparently, they will be supportive of the PCOAB's report urging greater independence of auditors from the management of the company being audited and for the need for greater adherence to GAAP. The group will be testifying along with CalPERS at the PCAOB hearing on March 22nd.[4]

We also call to the FDIC's attention the extraordinary impact of lack of independent audits on financial institutions based in part on the crises that resulted from the lack of independent auditing in Iceland, Ireland and Greece.[5]

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[2] See, Wall Street Journal, March 3, 2012, "James Q. Wilson in His Own Words."

[3] See, New York Times, October 17, 2011, "Accounting Board Criticizes Deloitte's Auditing System," Wall Street Journal, October 18, 2011, "Audit Watchdog Criticized Deloitte Quality Controls in '08," and Wall Street Journal, February 8, 2012, "Audit Watchdog Fines Ernst & Young $2 Million."

[4] Attached are the PCAOB hearing agenda and the comments that have been filed for this hearing by the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition.

[5] See, "Boomerang: Travels in the New Third World," by Michael Lewis.

In particular, please see, American Banker of March 6th, "Information on Foreclosure Review Is, So Far, Troubling." It in great detail sets forth the lack of independence of, for example, Deloitte & Touche and PricewaterhouseCoopers, as well as concerns as to KPMG and Ernst & Young, in the context of JP Morgan Chase, Citigroup, US Bancorp, SunTrust, Bank of America, HSBC and Ally Financial.

Community Consultations with Other Banks

Because we wish to avoid Volcker Rule problems (where virtually every bank is opposing the rule, as are more than a dozen foreign governments, including Mexico), we believe it is essential for community and business groups, such as our groups, to secure further input from the financial institutions subject to the stress test and are not "too big to fail."

Within the next 30 days, we hope to have meetings with and gather information from many of these financial institutions on a public interest approach to the stress test and other concerns we may jointly share. We therefore urge that opening comments be extended by 45 days from March 23rd to May 7th.

Within this time period, it is our intention to also seek a joint meeting with the FDIC, affected financial institutions and key community groups to develop a win-win solution that will avoid the unnecessary delays that are now occurring in the Volcker Rule.

In considering our comments, please note the three groups were strong supporters of the Dodd-Frank Act and remain strong supporters of the Dodd-Frank Act and its predecessor, the Sarbanes-Oxley Act.

Respectfully submitted,

/s/ Len Canty
Len Canty
Chairman
Black Economic Council

/s/ Jorge Corralejo
Jorge Corralejo
Chairman
Latino Business Chamber of Greater Los Angeles

/s/ Robert Gnaizda
Robert Gnaizda
Counsel

/s/ Faith Bautista
Faith Bautista
President/CEO
National Asian American Coalition

March 20, 2012

ATTACHMENT 1

PCAOB
Public Company Accounting Oversight Board

FOR IMMEDIATE RELEASE

Media Inquiries: Public Affairs
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PCAOB Announces Panelists and Schedule of Appearances for March 21-22 Public Meeting on Auditor Independence and Audit Firm Rotation

Also reopens concept release comment period until April 22

Washington, D.C., March 7, 2012 -- The PCAOB today announced the panelists and schedule of appearances for its March 21-22 public meeting on ways to enhance auditor independence, objectivity, and professional skepticism, including through consideration of audit firm term limits.

The Board issued a concept release on Aug. 16, 2011 inviting public comments on these issues.

In light of the public meeting, the Board is reopening until April 22, 2012 the comment period on the concept release.

Last month, on Feb. 2, the Board announced that it would host this public meeting to obtain further input from interested parties. Panelists include investors and investor advocates, senior executives and audit committee chairs of major corporations, chief executive officers of audit firms, academicians and other interested parties.

The meeting will be held at 1201 15th Street N.W., Washington, D.C. It will be open to the public, and also available via webcast on the PCAOB website.

Comments on the concept release may be submitted by postal mail or electronic mail. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street N.W., Washington, D.C. 20006-2803. Email may be sent to comments@pcaobus.org, or sent in from the PCAOB website.

All comments should refer to PCAOB Rulemaking Docket Matter No. 037 in the subject or reference line and should be received by the PCAOB no later than 5 p.m. (EDT) on April 22, 2012. All comments will be made public.

The following are the panelists and schedule of appearances:

Panelists and Schedule of Appearances: PCAOB Public Meeting on Auditor Independence and Audit Firm Rotation
March 21, 2012, 8:15 a.m. — 5:30 p.m.

8:15 a.m.	Welcome and Opening Remarks	
8:30 a.m.	Session One	**The Honorable Charles A. Bowsher** Former U.S. Comptroller General
		The Honorable Richard C. Breeden Chairman and Chief Executive Officer, Breeden Capital Management, LLC; former Chairman, U.S. Securities and Exchange Commission
		The Honorable Paul A. Volcker, Former Chairman of the Federal Reserve; former Chairman of the Economic Recovery Advisory Board
9:30 a.m.	Session Two	**James Alexander** Head of Equity Research, M&G Investment Management
		Peter Clapman Chairman and President, Governance for Owners USA, Inc.
		Edward J. Durkin Director, Corporate Affairs, United Brotherhood of Carpenters
		Damon A. Silvers Director of Policy and Special Counsel, AFL-CIO
10:30 a.m.	Session Three	**The Honorable Harvey L. Pitt** Chief Executive Officer, Kalorama Partners LLC; Former Chairman, U.S. Securities and Exchange Commission

11 a.m.	Session Four	**Steven E. Buller** Managing Director, BlackRock, Inc. **Theodore Bunting, Jr**. Senior Vice President, Chief Accounting Officer, Entergy Corporation (a member of the Edison Electric Institute) **Valarie L. Sheppard** Senior Vice President and Comptroller, The Proctor & Gamble Company **Darren Wells**, Executive Vice President and Chief Financial Officer, The Goodyear Tire & Rubber Company
12 p.m.	Lunch Break	
1 p.m.	Session Five	**John H. Biggs** Former Chairman and Chief Executive Officer, TIAA-CREF **John C. Bogle**, founder and former Chief Executive, The Vanguard Group **The Honorable Arthur Levitt** Senior Advisor to The Carlyle Group, Goldman Sachs Group, Inc., and Promontory Financial Group; former Chairman, U.S. Securities and Exchange Commission
2 p.m.	Session Six	**Max H. Bazerman** Jesse Isidor Straus Professor of Business Administration, Harvard Business School **Don A. Moore** Associate Professor of Management of Organizations, Haas School of Business, University of California at Berkeley
3 p.m.	Session Seven	**Greg Jenkins** Professor of Accounting and Information Systems and the William S. Gay Faculty Fellow, Virginia Polytechnic Institute and State University **Richard L. Kaplan** Peer and Sarah Pedersen Professor of Law, University of Illinois at Urbana-Champaign

4 p.m.	Session Eight	**Stephen Chipman** Chief Executive Officer, Grant Thornton LLP **Joe Echevarria** Chief Executive Officer, Deloitte LLP **Stephen R. Howe, Jr**. Americas Managing Partner and Managing Partner of the U.S. firm, Ernst & Young LLP **Robert E. Moritz** Chairman and Senior Partner, PricewaterhouseCoopers LLP **John B. Veihmeyer** Chairman and Chief Executive Officer, KPMG LLP
5:30 p.m.	Conclusion	

March 22, 2012, 8:45 a.m. — 5 p.m.

8:45 a.m.	Welcome and Opening Remarks	
9 a.m.	Session Nine	**Paul W. Chellgren** Chairman of the Audit Committee, PNC Financial Services Group, Inc. **The Honorable Roderick M. Hills** Chairman, Hills Program on Governance at the Center for Strategic and International Studies; Partner, Hills, Stern & Morley; former Chairman, U.S. Securities and Exchange Commission **Catherine P. Lego** Chairman of the Audit Committee, SanDisk Corporation and Lam Research Corporation **Alex J. Mandl** Chairman of the Audit Committee, Dell Inc. **Richard Roedel** Chairman of the Audit Committee, Lorillard, Inc.

10:30 a.m. Session Ten	**David M. Becker** Partner, Cleary Gottlieb Steen & Hamilton LLP; former General Counsel and Senior Policy Director, U.S. Securities and Exchange Commission
	Donald T. Nicolaisen Chairman of the Audit Committee, Morgan Stanley, Verizon Communications, Inc. and Zurich Financial Services Group; former Chief Accountant, U.S. Securities and Exchange Commission
	Robert Pozen Senior Lecturer, Harvard Business School and Senior Fellow, Brookings Institution
11:30 a.m. Session Eleven	**Jack T. Ciesielski**, President, R.G. Associates, Inc.
	Mia Martinez Deputy Director for the Black Economic Council, Latino Business Chamber of Greater Los Angeles and National Asian American Coalition
	Mary Hartman Morris Investment Officer, Corporate Governance, The California Public Employees' Retirement System (CalPERS)
12:30 p.m. Lunch Break	
1:30 p.m. Session Twelve	**Larry Harrington** Vice President of Internal Audit, Raytheon Company; Chairman of the North American Board, Institute of Internal Auditors
	Jack Parsons Independent financial consultant
	Thomas P. Quaadman Vice President, U.S. Chamber of Commerce, Center for Capital Markets Competitiveness
	Robert E. Smith Vice President and Deputy General Counsel, NiSource Inc.; Chairman of the Policy Advisory Committee, Society of Corporate Secretaries and Governance Professionals

2:30 p.m.	Session Thirteen	**Barbara Arel** Assistant Professor, School of Business Administration, The University of Vermont **Al Ghosh** Professor of Accountancy, Stan Ross Scholar, Zicklin School of Business, Baruch College —The City University of New York **Arnold Wright** Joseph M. Golemme Research Chair, Northeastern University, College of Business Administration
3:30 p.m.	Session Fourteen	**Joe Adams** Managing Partner and Chief Executive Officer, McGladrey & Pullen LLP **Charles M. Allen** Chief Executive Officer, Crowe Horwath LLP **Cynthia M. Fornelli** Executive Director, Center for Audit Quality **Wayne Kolins** Global Head of Audit and Accounting, BDO International Limited **Charles Weinstein** Chief Executive Officer, EisnerAmper LLP
5 p.m.	Conclusion	

ATTACHMENT 2

CONCEPT RELEASE ON AUDITOR INDEPENDENCE AND AUDIT FIRM ROTATION	))))))	PCAOB Rulemaking Docket Matter No. 37

PREVENTING ANOTHER GREECE OR ICELAND:
TIME FOR TRULY INDEPENDENT AUDITS BY A MULTITUDE OF FIRMS

COMMENTS BY BLACK, LATINO AND ASIAN AMERICAN
CONSUMER AND BUSINESS GROUPS:

THE BLACK ECONOMIC COUNCIL
LATINO BUSINESS CHAMBER OF GREATER LOS ANGELES
NATIONAL ASIAN AMERICAN COALITION

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March 22, 2012

PREVENTING ANOTHER GREECE OR ICELAND:
TIME FOR TRULY INDEPENDENT AUDITS BY A MULTITUDE OF FIRMS

These comments are submitted by Black, Latino and Asian American consumer and business groups that have actively participated in a broad range of regulatory actions before the Federal Reserve, Treasury, the FDIC, the OCC, the Department of Justice, the FTC and the FCC. The groups are the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition.

Main Street, at least as much as Wall Street, is adversely affected by the present lack of independent CPA audits. This is in part due to the lack of competition even among the Big Four firms. For example, only two CPA firms effectively bid for audits of the major financial institutions. Similarly, only two appear to effectively bid for audits of utilities. And, only two effectively bid for high tech firm audits. Our analysis submitted to the Department of Justice, the FTC, the PCAOB, the Federal Reserve, the FDIC, Treasury and the OCC demonstrates this concentration and is attached as Exhibit A.

Monopolies are per se dangerous for the wellbeing of even the strongest economic system in the world, as demonstrated by recent actions by the FTC and the antitrust division of the Department of Justice. But, they are far more dangerous, given the existence of audit duopolies in three key industries by auditors who have been chastised by PCAOB in the recent past for lack of independent audits, for failing to use generally accepted accounting principles and for unduly cozy relationships with management.

As identified in Michael Lewis' recent book, "Boomerang," which describes the meltdown in Iceland, Ireland and Greece, this is a recipe for potential disaster.

To the best of our knowledge, and we urge the PCAOB to secure the exact statistics since the SEC has refused to provide such to us, an estimated 95 percent of Fortune 500 corporations are audited by the Big Four, all four of whom have been chastised by the PCAOB.

However, independent of the quasi-monopolistic practices of the Big Four and the duopolies in major industries essential to our nation's economic survival, we strongly support two key matters raised by the PCAOB for this roundtable.

Firstly, we support rotation of CPA firms. We recommend, particularly for Fortune 1,000 corporations, that the rotation be every six years rather than the present average of approximately 25 years.

Secondly, we strongly support the barring of any audit contract where the auditor is also paid for other services, such as management services. As previously identified by the PCAOB, this creates a far too cozy relationship between the auditor and management.

Role of CalPERS and Other Public Interest Investor Groups

The Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition are particularly pleased that we are joined on this panel by an extraordinary public interest pension fund, CalPERS. In the past, it virtually on its own created changes for the benefit of the public and shareholders that even the federal government has been unable to achieve.

Joined by CalPERS and CalSTRS (California's other very large and extraordinary public interest pension fund), we believe that the reforms raised by the PCAOB can be quickly achieved. That is, CalPERS is in a position to recommend for the thousands of corporations in which it holds stock, a vote of "no confidence" to management and management's positions on a broad range of issues unless management agrees to rotation of auditors every six years and to a separation of audit functions from management and service functions.

We have already initiated discussions on these issues with the president of CalPERS and California State Treasurer Bill Lockyer. Further, on February 23rd, we filed an Order Instituting Rulemaking before the California Public Utilities Commission for similar provisions that will affect all the utilities it has jurisdiction over, including Sempra and PG&E (which are audited by Deloitte & Touche) and SoCal Edison (which is audited by PricewaterhouseCoopers). A copy of this order is attached as Exhibit B.

We offer two examples of the adverse impact of the present system of long time auditors who have failed to protect the public. But similar examples abound across the nation. Sempra is seeking a 2.4 billion dollar rate increase to be paid by consumers based in large measure on the accounting services of its long-term prime auditor for 50 years, Deloitte & Touche. Similarly, all banks subject to regulatory stress tests or seen to be "too big to fail" are audited by the Big Four CPA firms, such as Deloitte & Touche and PricewaterhouseCoopers, who have been heavily criticized by the PCAOB for shoddy financial practices.

Further, some of the Big Four firms, such as Deloitte & Touche and PricewaterhouseCoopers, have been allowed by the very federal regulatory bodies who have criticized the foreclosure practices of the banks they audit to be the "judge and jury" for the Federal Reserve/OCC consent decree against the 14 largest servicers for malpractice and fraud against homeowners in distress. See, for example, the criticisms of these two firms and the questions raised as to the other

Big Four firms in the American Banker of March 6th, "Information on Foreclosure Review Is, So Far, Troubling."

Largest Predatory Institutions Audited by Big Four Firms

We have looked at ten of the largest financial institutions that were involved in financial fraud that have been bailed out and/or failed. All were audited by Big Four firms: Ameriquest, Bear Stearns, Merrill Lynch and Washington Mutual were audited by Deloitte & Touche; Countrywide, New Century Financial and Wachovia were audited by KPMG; IndyMac and Lehman Brothers were audited by Ernst & Young; and AIG was audited by PricewaterhouseCoopers.

From Four to Twenty-Five Competing CPA Firms

The two changes that the PCAOB is considering and that we support in our testimony could enable at least 25 large CPA firms to effectively compete for business, therefore eliminating the quasi-monopolistic power of the Big Four. And, if other reforms are put into place by other government bodies, up to a hundred firms could effectively compete to audit most Fortune 500 and Fortune 1,000 corporations. (One suggested government reform would be the federal government refuse to allow its 500 billion dollars in contracts to be awarded to any corporation that has been audited by a CPA firm whose accounting practices have been criticized by the PCAOB.)

Contrast with Competition in the Legal Profession

This type of competition is not pie in the sky. Consider the legal profession where there are at least 100 firms that effectively compete. See attached Exhibit C on Top 100 law firms by prestige, revenue and attorneys.[1]

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[1] For example, there are 25 law firms in the United States that have between 1,000 and 3,000 attorneys. There are none at 4,000. And, for example, the most prestigious firm, Wachtell, Lipton, Rosen & Katz, which is rated Number One among law firms and has revenue that is competitive with any other law firm's, has only 248 attorneys. Similarly, another highly rated law firm, Boies, Schiller & Flexner, LLP, (ranked Number 17 in prestige) had only 138 employees and is highly competitive. Similarly, the relatively small firm, Munger, Tolles & Olson, LLP monger (ranked Number 34 in prestige) has only 175 attorneys, but competes effectively with even the largest law firm, Baker & McKenzie, LLP (ranked Number 40 in prestige), which has 3,774 attorneys. (Rankings based on 2012 prestige score.)

Lack of Diversity

Lastly, 120 million minorities and six million minority-owned businesses believe that these reforms could also open up extraordinary opportunities to promote diversity for minorities and women and allow minority-owned firms to bid for major contracts.[2] Today, the Big Four are almost exclusively all white, particularly at the senior partner level, and disproportionately male. Compare this, for example, with the legal profession or the medical profession.

The exact diversity data of the Big Four is unknown because in collusion with each other, they have refused all efforts to secure such information.[3] In contrast, the legal profession readily provides such data.

Respectfully submitted,

/s/ Len Canty
Len Canty
Chairman
Black Economic Council

/s/ Faith Bautista
Faith Bautista
President and CEO
National Asian American Coalition

/s/ Jorge Corralejo
Jorge Corralejo
Chairman
Latino Business Chamber of
Greater Los Angeles

/s/ Robert Gnaizda
Robert Gnaizda
Counsel

Oral Testimony By: Mia Martinez
Deputy Director

Dated: March 22, 2012

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[2] See, for example, California, where in 2011, 20 percent of Governor Jerry Brown's judicial appointees were Black, 20 percent Latino and 13 percent Asian American. Also note that the California Supreme Court has a majority that are minorities and a majority that are women (four of seven are minorities, including four of seven who are women).

[3] The three minority groups herein first requested diversity data from the Big Four in May 2010, just prior to the California Public Utilities Commission's diversity examination of professional firms. Further, in preparation for this proceeding, the three minority groups sent the request on February 6th for diversity information to the Big Four. None have responded. A sample letter to Deloitte & Touche is attached as Exhibit D.

EXHIBIT A

Duopolies Among Audits:
Financial, Utility and Technology Industries

1. PricewaterhouseCoopers (PWC) and KPMG oversee accounting/audit for banks holding 86.2% of the total assets among the Top 10 and oversee accounting/audit for banks representing about $5.9 trillion in assets (probably in excess of $7 or $8 trillion if all banks are included). This represents more than 10% of all U.S. household net worth ($54 trillion in 2009).
2. Deloitte & Touche and PWC perform accounting/audit for utilities representing 93.4% of the customers among the Top 10 electric utilities.
3. Ernst & Young performs accounting/audit for seven of the Top 10 U.S. technology firms, representing 68.1% of their total market cap.
4. No firms other than the Big Four perform lead accounting/audit services for any of the Top 10 banks, utilities or technology firms.

Top 10 Retail Banks in the U.S.

Banking Institution	Accounting Firm	Assets ($ billions) as of 12/31/2011
JP Morgan	PWC	$2,289
Bank of America	PWC	$2,221
Citigroup	KPMG	$1,935
Wells Fargo	KPMG	$1,304
Goldman Sachs	PWC	$949
Morgan Stanley	Deloitte & Touche	$795
MetLife	Deloitte & Touche	$785
Barclays Group	PWC	$427
Taunus Corporation*	KPMG	$380
HSBC North America	KPMG	$345

* Taunus Corp is a subsidiary of Deutsche Bank.

Top 10 Electric Utilities in the U.S

Utility	Accounting Firm	Consumers (millions) as of 11/30/2011
Pacific Gas & Electric	Deloitte & Touche	4,655
Southern California Edison	PWC	4,270
NextEra Energy (formerly Florida Power Light Company)	Deloitte & Touche	3,999
EXC (formerly Commonwealth Edison Co)	PWC	3,433
Consolidated Edison Co-NY	PWC	2,271
Virginia Electric and Power Co	Deloitte & Touche	2,057
Georgia Power Co.	Deloitte & Touche	2,049
Detroit Edison Co (DTE Energy Co.)	PWC	1,920
Public Service Electric & Gas Co	Deloitte & Touche	1,855
Genon Energy	KPMG	1,851

Top 10 U.S. Technology Firms

Technology Firm	Accountant Firm	Market Cap (billions) 2/09/2012
Apple	Ernst & Young	$460
Microsoft	Deloitte & Touche	$258
Google	Ernst & Young	$199
IBM	PWC	$224
ATT	Ernst & Young	$178
Oracle	Ernst & Young	$145
Intel	Ernst & Young	$136
Cisco	PWC	$108
Amazon	Ernst & Young	$84
HP	Ernst & Young	$57

EXHIBIT B

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Petition of Black Economic Council, National Asian American Coalition, and Latino Business Chamber of Greater Los Angeles to Adopt, Amend, or Repeal a Regulation Pursuant to Public Utilities Code § 1708.5	Petition 12-02-____

BLACK ECONOMIC COUNCIL, NATIONAL ASIAN AMERICAN COALITION AND LATINO BUSINESS CHAMBER OF GREATER LOS ANGELES

PETITION FOR RULEMAKING (RULE 6.3)

Faith Bautista, President
National Asian American Coalition

Jorge Corralejo, Chairman and President
Latino Business Chamber of Greater Los Angeles

Len Canty, Chairman,
Black Economic Council

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February 23, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Petition of Black Economic Council, National Asian American Coalition, and Latino Business Chamber of Greater Los Angeles to Adopt, Amend, or Repeal a Regulation Pursuant to Public Utilities Code § 1708.5	Petition 12-02-____

BLACK ECONOMIC COUNCIL, NATIONAL ASIAN AMERICAN COALITION AND LATINO BUSINESS CHAMBER OF GREATER LOS ANGELES

PETITION FOR RULEMAKING (RULE 6.3)

I. INTRODUCTION

Pursuant to § 1708.5 of the California Public Utilities Code and Section 6.3 of the Commission's Rules of Practice and Procedure, the Black Economic Council, the National Asian American Coalition, and the Latino Business Chamber of Greater Los Angeles (hereinafter "Joint Parties") hereby petitions the Commission (the "CPUC" or the "Commission" to issue an Order Instituting Rulemaking ("OIR") regarding the verification of information by outside auditors criticized by PCAOB who are used by investor-owned utilities (IOUs) as it affects the accuracy of rate increases, executive compensation and all other audits. This petition is filed in the context of growing concerns about the accuracy of CPA audits.

In the ongoing Sempra rate proceeding, the Joint Parties have previously raised the issue of the Public Company Accounting Oversight Board's (PCAOB's) determination that Deloitte & Touche's so-called independent audits of Sempra are suspect.[1] These independent audits are

[1] Please see A.10-12-005 and A.10-12-006, *Motion of the Joint Parties to Compel Testimony of Auditing Partner of Deloitte & Touche, Mr. K. Alan Lonbom*.

likely to affect future rate increases, executive bonuses and diversions of ratepayer funding from intended purposes. The auditors for the big three utilities have all been determined to be suspect by the PCAOB. (See, Wall Street Journal, December 21, 2011, "Accounting Board Finds Faults in Deloitte Audits, New York Times, 10/17/11, "Accounting Board Criticizes Deloitte's Auditing System" and Wall Street Journal, 10/18/11, "Audit Watchdog Criticized Deloitte Quality Controls in '08.")

However, based upon the ruling in the Sempra case discussed below, it appears that this Commission believes that there are better avenues for the exploration of this issue. If this issue cannot be raised in ongoing general rate cases, then it should instead be raised within another forum within the CPUC. With this in mind, the Joint Parties urge an expedited Order Instituting a Rulemaking (OIR) to ascertain the impact, if any, of faulty independent audits by Deloitte & Touche, PricewaterhouseCoopers, Ernst & Young, and KMPG (known as the Big Four CPA firms) on utilities with one billion dollars or more in revenue.

This rulemaking request is also consistent with the January 18th, 2012 pledges by Commissioners Florio and Sandoval at their Senate Rule Committee confirmation hearings. Both committed to "making more information available regarding the Commission's oversight of Pacific Gas and Electric and other utilities." (San Francisco Chronicle, 1/19/12, "Regulators Pledge to Be More Open.") It is also consistent with all of the Commissioners' position that we need "to step up [our] safety auditing…." (Commissioner Sandoval comments, San Francisco Chronicle, *id.*)

As set forth in the section of this petition, "These Concerns Are Not Isolated to the California Utility Industry, as Evidenced by the Public Company Accounting Oversight Board" (p. 10), the Chairs of the Black Economic Council, the Latino Business Chamber of Greater Los

Angeles and the National Asian American Coalition raised these issues throughout meetings occurring on their trip to Washington D.C. during the week of February 13, 2012. These meetings were held with the Public Company Accounting Oversight Board (PCAOB), the Anti-Trust Division of the Department of Justice, and the Anti-Trust and Consumer Divisions of the Federal Trade Commission.

As set forth in the same section, there is a duopoly controlling the utility industry's audits. Nationwide, nine of the ten largest utilities by customers use either Deloitte & Touche or PricewaterhouseCoopers (PWC). As set forth herein, PG&E and Sempra use Deloitte & Touche and Southern California Edison (SCE) uses PWC.

The duopoly concern is similar to the concern this Commission raised in the AT&T/T-Mobile case. However, the Federal Trade Commission concerns are dual. The first is whether consumers (ratepayers) are adversely affected. The second is the major impact of the duopoly on the future for the public.

On February 21, 2012, Assembly Utilities and Commerce Committee Chairman Steven Bradford's office asked that the Joint Parties provide updates on this proceeding and on any actions by the Joint Parties before federal regulatory bodies that may affect this petition for rulemaking.

II. THE PETITIONERS

All three of the organizations have interrelated expertise relating to small business issues and minority issues. The Joint Parties also have overlapping expertise regarding a wide range of consumer and low-income issues are currently participating in a number of proceedings before the CPUC, including general rate cases, the smart grid deployment cases, the rulemaking in

regards to the San Bruno gas pipeline explosion, and the consolidated CARE and ESA Program cases.

The Black Economic Council (BEC), perhaps more than any other Black business organization in California, conducts a wide range of technical assistance and capacity building programs participated in by many of the utilities. They receive continual input from the Black small business community relating to the availability of contracts and CPUC utility procedures pursuant thereto. They are also one of the leading Black advocacy voices for the nation's 40 million Blacks, including the almost three million in California. As a result, they are in constant contact with a wide range of Black and other minority, consumer and community groups on issues affecting ratepayers in rate proceedings, including low-income issues, since the Chairman of the BEC previously served on the Low Income Oversight Board.

The National Asian American Coalition (NAAC) advocates for a broad range of small Asian American businesses through technical assistance and capacity building programs. The President & CEO of NAAC is presently on the CPUC's Low Income Oversight Board, am a former member of the Sempra Consumer Advisory Council and the federal Office of Thrift Supervision's Minority Depository Institutions Advisory Committee. As with the BEC, NAAC conducts numerous technical assistance and capacity building seminars and is one of the more influential Asian American organizations relating to the Asian American consumers' and ratepayers' needs throughout California. The NAAC has conducted surveys relating to ratepayers in general, including relating to the Sempra rate increase and the PG&E gas explosion issues, has daily outreach with Asian American ratepayer homeowners (having served over 5,000 California homeowners in distress in 2010) and has met with officials from Edison, Sempra and PG&E recently on key consumer/ratepayer and low-income issues. The NAAC also hosts a

twice weekly prime time TV program entitled "Asian News in America." It highlights key issues affecting both small business and consumer issues among our nation's estimated 18 million Asian Americans and two million small Asian American owned businesses.

The Latino Business Chamber of Greater Los Angeles (LBCGLA) directly or indirectly serves 500,000 Latino owned businesses, 98% of whom qualify as small businesses. The LBCGLA is one of the nation's most respected minority small business institutions and the largest Latino chamber in California. For example, in June 2010, President Obama invited the LBCGLA to a private meeting with his most senior officials on the affairs of the Latino community. LBCGLA was the only Latino business chamber invited.

III. COMMUNICATIONS

Pleadings and other communications pertaining to this proceeding should be served on the three parties:

Len Canty
Black Economic Council
484 LakePark Ave. Suite 338
Oakland, California 94610
(510)452-1337
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National Asian American Coalition
1758 El Camino Real
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(650) 953-0522
(650) 952-0530 (fax)
Email: fbautista@naacoalition.org

Jorge Corralejo, Chairman and President
Latino Business Chamber of Greater Los Angeles
634 S. Spring Street, Suite 600
Los Angeles, California 90014
(213) 347-0008
(213) 347-0009 (fax)
Email: jcorralejo@lbcgla.org

as well as a copy to their counsel:

Robert Gnaizda
1758 El Camino Real
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(650) 953-0522
(650) 952-0530 (fax)
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IV. BASIS FOR PETITION

A. THE FINANCIAL AUDITS RELIED UPON BY THE CPUC FACE SERIOUS CONCERNS AS TO INDEPENDENCE AND IMPARTIALITY

The San Francisco Chronicle front-page article of January 13th, "State Calls PG&E Lawbreaker: Utility Diverted Safety Funds Into Profit," is a stark reminder of the importance of this Commission receiving reliable and accurate independent audits, not just for Pacific Gas & Electric (PG&E), but for all utilities.[2] (Both PG&E and Sempra use Deloitte & Touche for data

[2] In the PG&E case, for example, the audits failed to uncover or note the diversion of 100 million dollars in gas, safety and operations money over a 15-year period to shareholders and for executive bonuses. There is every reason

submitted to the CPUC. Deloitte& Touche has been singled out by the PCAOB for unreliable data, not following generally accepted accounting principles and being a pawn of management.[3])

There may be numerous problems relating to data that this Commission has relied on. This may one day haunt and damage this Commission's reputation and cost the ratepayers billions of dollars. This will be unfair to this Commission, especially because the Joint Parties recognize that all the commissioners are highly dedicated and have impeccable integrity.

For far too long, this Commission and other commissions across the country have unduly relied on the accuracy of so-called independent audits of financial data prepared by the Big Four CPA firms. The Joint Parties are unaware of any major California utility that has not been audited by the Big Four; Deloitte & Touche alone is estimated to be the auditor of 40 percent of all major utility and energy companies, including the auditor for both PG&E and Sempra Energy, which includes San Diego Gas & Electric and Southern California Gas.

The evidence that the three minority business and community organizations have as to the utilities and their suspect CPA firms is as follows:

a. Sempra has used the same auditor, Deloitte & Touche, for more than fifty consecutive years.[4] As to PG&E, the Joint Parties do not yet have the information as to how long PG&E has used Deloitte & Touche, but the relationship goes back to at least 2006 or for

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to assume similar problems exist at the other major utilities. The online version of this article can be found at: http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2012/01/13/MNUS1MOSUC.DTL

[3] PG&E's financial data that this Commission relies upon for rate increases and executive bonuses, is audited by its long-term auditor, Deloitte & Touche. Deloitte & Touche has been the auditor for Sempra for more than fifty years and its audit may affect the proposed 2.4 billion dollar Sempra rate increase. Deloitte & Touche, more than any other CPA firm, has been consistently and recently criticized by the PCAOB for the inaccuracy of its data, its cozy relationship with its management and its lack of independence. See, Wall Street Journal, December 21, 2011, "Accounting Board Finds Faults in Deloitte Audits, New York Times, 10/17/11, "Accounting Board Criticizes Deloitte's Auditing System" and Wall Street Journal, 10/18/11, "Audit Watchdog Criticized Deloitte Quality Controls in '08."

[4] Please see "Annual Report to Security Holders, page 138, located at: http://www.sec.gov/Archives/edgar/vprr/08/9999999997-08-017859

the last five years.[5] The Joint Parties have no information at this point as to Southern California Edison's (SCE's) timeframe in using PricewaterhouseCoopers. However, contemporaneous to this filing, the Joint Parties will inquire of all the utilities, to secure information and other pertinent information that may be helpful in this considering this proposed OIR.

b. The Joint Parties know for a certainty, because of their involvement in the present pending general rate cases, that the auditors used by SCE and Sempra (PricewaterhouseCoopers and Deloitte & Touche, respectively), provide cozy management type consultant services. These cozy relationships are of concern to the PCAOB because they affect the independence and accuracy of the audits. It is therefore likely that Deloitte & Touche provides a similar cozy type management services for PG&E. However, the Joint Parties will be seeking further information.

Deloitte & Touche receives an average of seven million dollars a year in audit and other service fees from Sempra.[6] The Joint Parties will soon secure the amounts paid by PG&E and SCE for its auditors. However, these amounts may be insignificant if they produce independent and accurate audits, particularly since some of these costs may be covered by the shareholders. The key issue, however, is not cost, but independence and accuracy.

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[5] Southern California Edison, which is seeking a 4.6 billion dollar rate increase, is also audited by PricewaterhouseCoopers, which was criticized by the PCAOB in its report on 2010 audits. See Wall Street Journal, December 21, 2011, "Accounting Board Finds Faults in Deloitte Audits, New York Times, 10/17/11, "Accounting Board Criticizes Deloitte's Auditing System" and Wall Street Journal, 10/18/11, "Audit Watchdog Criticized Deloitte Quality Controls in '08.

[6] This information was provided to the Joint Parties through a data response to the Joint Parties that is currently on file in the Sempra general rate case (A.10-12-005 and A.10-12-006) as Exhibit 282.

B. THESE CONCERNS ARE NOT ISOLATED TO THE CALIFORNIA UTILITY INDUSTRY, AS EVIDENCED BY THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

The PCAOB report for the year 2010 demonstrates very substantial concerns as to three of the four Big Four firms, PricewaterhouseCoopers, Deloitte & Touche, and KPMG. Ernst and Young was fined 2 million dollars by the PCAOB on February 8, 2012 for similar violations. Most importantly, the big three California utilities, Sempra, Southern California Edison and PG&E, have had long term and cozy relationships with their Big Four CPA firms that are unlikely to have been independent. Further, according to the PCAOB, many have failed to use generally accepted accounting principles (GAAP). It should be noted that Deloitte & Touche has been singled out for the harshest criticism the PCAOB has ever expressed as to any large CPA firm.[7]

The PCAOB, in its pending Docket No. 37 on independence of audits, expressed concerns and offered suggestions about this lack of independence and apparent "partnerships" between a so-called independent CPA firm and the management of the company they are auditing. As part of this docket, the PCAOB has raised questions[8] as to:

a. The rotation of CPA firms on a regular basis to prevent cozy management relationships and promote independence;

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[7] See, Wall Street Journal, December 21, 2011, "Accounting Board Finds Faults in Deloitte Audits, New York Times, 10/17/11, "Accounting Board Criticizes Deloitte's Auditing System" and Wall Street Journal, 10/18/11, "Audit Watchdog Criticized Deloitte Quality Controls in '08."

[8] The Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition have all intervened in this docket before the PCAOB, as of January 13, 2011, and have filed the attached PCAOB comments, which may be of assistance to this Commission and DRA.

b. Whether a CPA firm can be independent when it does consulting work for management, while at the same time performing its independent audit work;[9] and

c. Creating greater competition among independent auditors that may include more diverse CPA firms.[10]

On February 21, 2012, Assembly Utilities and Commerce Committee Chairman Steven Bradford's office asked that the Joint Parties provide updates on this proceeding and on any actions by the Joint Parties before federal regulatory bodies that may affect this petition for rulemaking.

C. THE JOINT PARTIES PREVIOUSLY RAISED THESE ISSUES IN A.10-12-005 AND A.10-12-006

Pursuant to Rule 6.3 of the Rules of Practice and Procedure of the CPUC, the Joint Parties hereby set forth the history of these issues before the CPUC in A.10-12-005 and A.10-12-006. The Joint Parties attempted, despite the general opposition of Sempra's counsel, to raise these issues in the Sempra rate case once the PCAOB's report denouncing Deloitte & Touche was publicly exposed on October 17, 2011.[11] The Joint Parties subsequently alerted CPUC Assigned Commissioner Ferron, President Peevey and Executive Director Paul Clanon as to this matter, and invited Executive Director Clanon to participate in any conversations we had with the

[9] See PCAOB Docket No. 37, "Concept Release on Auditor Independence and Audit Firm Rotation," for full information.

[10] The Big Four have never been willing to provide their ethnic/racial data and are believed to be far less diverse than most smaller competitors. In 2010, as part of the OIR on diversity, the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition initiated an unsuccessful effort to directly gather data from the Big Four for the then ongoing OIR on diversity. All four firms declined to respond, much less cooperate. Similar data was requested by the Joint Parties on February 6, 2012.

[11] Please see A.10-12-005 and A.10-12-006, *Motion of the Joint Parties to Compel Testimony of Auditing Partner of Deloitte & Touche, Mr. K. Alan Lonbom*.

PCAOB, including our conversation of January 5th with one of its board members and its general counsel. The Joint Parties also invited the Division of Ratepayer Advocates (DRA) to participate, but DRA, given its huge witness list and extraordinary responsibilities in this case, understandably declined to participate at this point. However, the Joint Parties believe, based on other evidence in the rate cases, that DRA and other ratepayer advocates may share these concerns.

In the Sempra general rate case, it was also determined (and similar findings may exist for the other affected utilities) that management is not actively involved in ascertaining the validity of the audits. For example, in the Sempra case, the COOs of both SDG&E and SoCal Gas stated that they knew nothing of the PCAOB October 17th findings and were not involved in the impact of PCAOB findings on Sempra's proposed rate increase. Similarly, the acting controller of Sempra, when cross-examined by the Joint Parties, admitted that he too was not knowledgeable regarding the impact and like the CEOs, did not know whether Deloitte & Touche's audit of Sempra was a suspect audit. Further, none of these three top Sempra officials could definitively state whether Deloitte & Touche had informed them of the PCAOB investigation and findings and/or whether Sempra was among the more than two-dozen suspect corporate audits by Deloitte & Touche.

Although the Joint Parties do not concur with the ALJ's ruling of January 12th denying the Joint Parties' motion to further inquire as to the legitimacy of the data relied on by Sempra, we do not appeal. (The Joint Parties' motion, which was denied, was to cross-examine Deloitte & Touche's principal auditor for Sempra who works out of their San Diego office near Sempra's headquarters.) The Joint Parties do not appeal the ruling because it appears that the ALJ ruling in

its present form has the full support of the Assigned Commissioner, the President of the CPUC and perhaps of other commissioners.[12]

D. FEDERAL REGULATORS ARE LOOKING TO THE CPUC FOR LEADERSHIP

In order to be of assistance to the CPUC in this petition for rulemaking, the Chairs of the Black Economic Council, the Latino Business Chamber of Greater L.A. and the National Asian American Coalition, accompanied by their counsel, Robert Gnaizda, met in Washington D.C. from February 13th to 16th on this issue with numerous federal regulators, including: the Federal Trade Commission, the Antitrust Division of the Department of Justice and, most importantly, with a senior board member from the Public Company Accounting Oversight Board. In addition, the Joint Parties compiled and submitted to them a list of the auditors for the ten largest utilities ranked by customers. The attached list demonstrates that Deloitte & Touche and PricewaterhouseCoopers are the only auditors used for nine of the top ten electric utilities in the United States based on customers served.

[12] Both the Assigned Commissioner and the President were alerted by the Joint Parties after the cross examination of COOs Niggli and Smith as to our concerns as to the accuracy of the proposed 2.4 billion dollar rate increase.

Top 10 Electric Utilities in the U.S

Utility	Accounting Firm	Consumers (millions) as of 11/30/2011
Pacific Gas & Electric	Deloitte & Touche	4,655
Southern California Edison	PWC	4,270
NextEra Energy (formerly Florida Power Light Company)	Deloitte & Touche	3,999
EXC (formerly Commonwealth Edison Co)	PWC	3,433
Consolidated Edison Co-NY	PWC	2,271
Virginia Electric and Power Co	Deloitte & Touche	2,057
Georgia Power Co.	Deloitte & Touche	2,049
Detroit Edison Co (DTE Energy Co.)	PWC	1,920
Public Service Electric & Gas Co	Deloitte & Touche	1,855
Genon Energy	KPMG	1,851

During these meetings in Washington D.C., the three groups met with two Federal Trade Commission (FTC) Commissioners, Edith Ramirez and Thomas Rosch; the Director of the Bureau of Consumer Protection, David Vladeck; senior officials from the Department of Justice; PCAOB board member, Steve Harris; and other key federal officials concerned about the accuracy of CPA audits. This included Federal Reserve Governor Sarah Raskin, Deputy Comptroller Barry Wides, Assistant Secretary of Treasury Mary Miller, and senior staff from the Consumer Financial Protection Bureau.

The three major issues discussed were:

1. How inadequate CPA audits affect consumers and ratepayers at regulated utilities;
2. Whether the presence of only two CPA firms auditing the top nine utilities indicated duopoly concerns or quasi-monopolistic concerns similar to those raised by many of the CPUC commissioners in the recently concluded AT&T/T-Mobile case; and
3. What role could the PCAOB and the FTC (specifically its consumer public interest staff) play in assisting the CPUC, should it determine to initiate an OIR as requested herein.

In addition, the PCAOB has agreed to cooperate with the three parties' expert in gathering additional information on who audits any utilities among the Fortune 500 corporations. Updated information may be available within the next two weeks and the parties will submit additional inquiries to the PCAOB should such be requested by the CPUC staff.

E. RECOMMENDATIONS AND NEXT STEPS

The Wall Street Journal of January 14, 2012, "One Cure for Accounting Shenanigans," sets forth one simple cure for this problem: *limit the terms of these auditors*. As the chairman of the PCAOB stated, "Without independence, it's unlikely you are going to get skepticism or an healthy look for disconfirming evidence."

Although the Wall Street Journal's emphasis is on protecting investors, it is even more important to protect ratepayers who are far more vulnerable and lack the resources to demand independent audits when facing rate increases.[13]

Another issue that should be covered by the OIR relates to the potential of an inaccurate or suspect CPA audit on proposed rate increases. As set forth in the Sempra case in particular, the limitations of the rate proceeding as interpreted by the ALJ prevented us from fully exploring

[13] The Wall Street Journal of January 14, 2012 states, "for the sake of investors, we should phase out auditors-for-life too."

this matter in the context of the 2.4 billion dollar rate increase.[14] Nor was the matter properly explored in regards to the 4.6 billion dollar proposed SCE rate increase. This was largely because all evidentiary hearings and briefs were completed before the PCAOB report was made publicly available.

However, the Joint Parties recognize that this request for an OIR may not directly affect the pending rate cases of SCE and Sempra. However, it is our hope that an expeditious OIR will enable this Commission, particularly if it works with the DRA, to develop appropriate ground rules for future engagements of independent auditor CPA firms. This could include, for example, issues raised by the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition, in our attached January 13th PCAOB filing, such as:

(a) CPA firms that are engaged in an audit be barred from providing any other paid services, such as management consulting;
(b) CPA firm engagements be limited to six consecutive years for companies with one billion dollars or more in revenue;
(c) What portions of a CPA audit are used to bolster proposed rate increases and/or executive compensation bonuses and incentives; and
(d) How this Commission can secure greater certainty as to the reliability of the data upon which rate increases are predicated or executive bonuses are determined.[15]

[14] See A.10-12-005 and A.10-12-006, January 20, 2012 "Administrative Law Judge's Ruling Regarding Joint Parties' Motion to Compel Testimony of Deloitte & Touche"
[15] This could perhaps include ascertaining the feasibility of allowing the CPUC to do an independent audit of the figures provided by the IOUs, as was recently suggested by CPUC staff in a straw proposal on how to incorporate safety issues into the regulatory structure.

To the best of our knowledge, no other utility regulatory commission has yet looked into these issues. However, as set forth in our PCAOB comments, Enron-type scandals could be avoided if there were truly independent audits. See for example comments of John Biggs, the former chairman and CEO of TIAA-CREF, quoted in our PCAOB remarks. He testified that:

> "Had Arthur Andersen in 1996 known that Peat Marwick was going to come in 1997, there would have been a very different kind of relationship between them and Enron….There is a very high probability that had rotation been in place at Enron with Arthur Andersen you would not have had the accounting scandal that I think we now have…."

F. PROPOSED LANGUAGE TO INCLUDE IN AN OIR

The proposed language is similar to what the Joint Parties are urging in their comments filed January 13th before the PCAOB (the PCAOB on January 5th urged the parties to file such comments).

- "All CPA firms hired to do an annual audit shall be barred from providing any other paid services with particular reference to management and consulting services. This will help ensure that the CPA audit firm and the utility it audits are free from any appearance of and/or actuality of conflicts of interest and/or partnerships."

- "No utility shall maintain the same CPA auditing firm for more than six consecutive years. This rotation of auditors is likely to maximize the independence of the auditors

and prevent the type of lifetime 'partnerships' that appear at many companies who use their auditors for long periods of time."

- "No CPA firm may be hired to perform an independent audit after its six year term until at least twelve years thereafter. This will further promote independence of auditing firms and promote more competition."

- "This Commission recognizes the importance of competition in promoting cost reductions, independence and diversity efforts to encourage use of firms other than the Big Four are likely to create far greater competition and long term cost reductions among independent auditors. It is also likely given the lack of diversity among partners at the Big Four firms to also promote another goal of this Commission diversity pursuant to GO 156."

- The matter could cover all utilities with one billion dollars in revenue or more, or as little as fifty million in revenue or more.

V. SERVICE OF PETITION

Pursuant to Rule 6.3(c) of the Commission's Rules of Practice and Procedure, this Petition for Rulemaking has been served on the Executive Director, the Chief Administrative Law Judge, the Director of the Energy Division, and the Public Advisor. The Public Advisor was consulted by phone in January 2012 as to whom the petition should be served upon. She suggested Parties that would perhaps be interested in the petition would be those involved in the Southern

California Edison (A.10-11-015) and Sempra Energy (A.10-11-005 and A.10-11-006) general rate cases, and those involved in the PG&E's gas pipeline safety rulemaking (R.11-02-019).

VI. CONCLUSION

In conclusion, this Commission has a well-deserved reputation and a great responsibility to the ratepayers of California. The Joint Parties therefore urge that it would be appropriate to open an OIR on this matter as soon as possible, in the context of the PCAOB's findings as to the lack of independence and integrity of CPA firms used by the three largest California utilities and also the data demonstrating a duopoly of auditors for energy utilities. This will not only ensure the accuracy and reliability of the figures provided by the IOUs, but will also have a major impact on utility safety and transparency before the CPUC.

Dated: February 23, 2012

Respectfully submitted,

/s/ Len Canty
Len Canty, Chairman
Black Economic Council

/s/ Faith Bautista
Faith Bautista, President and CEO
National Asian American Coalition

/s/ Jorge Corralejo
Jorge Corralejo, Chairman
Latino Business Chamber of Greater Los Angeles

/s/Robert Gnaizda
Robert Gnaizda, Of Counsel

/s/ Shalini Swaroop
Shalini Swaroop, Senior Staff Attorney

VERIFICATION BY ATTORNEY

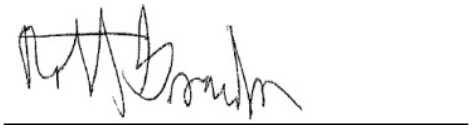
I, Robert Gnaizda, declare:

I am an attorney for the Petitioners in this matter. The Petitioners are three different parties in three different counties in California. Two of the parties do not have offices in the same county where I am located. Therefore, in accordance with Rule 1.11 of Practice and Procedure before the California Public Utilities Commission, I make this verification on their behalf for that reason.

I have read the foregoing document. I an informed and believe, and on that ground allege, that the matters stated in it are true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true of my own knowledge, except as to matters that are stated on information or belief, and as to those matters that I believe them to be true.

Executed on February 23, 2012, at San Bruno, California.



Robert Gnaizda

EXHIBIT C

Top 100 U.S. Law Firms by Prestige

2011 Ranking	2012 Ranking	Name of Law Firm	Prestige Score	2010 Revenue	Number of Attorneys
1	1	Wachtell, Lipton, Rosen & Katz	9.139	$585,000,000	248
2	2	Cravath, Swaine & Moore, LLP	8.735	$568,500,000	516
3	3	Sullivan & Cromwell, LLP	8.443	$995,000,000	728
4	4	Skadden, Arps, Slate, Meagher & Flom, LLP and Affiliates	8.43	$2,100,000,000	1,946
5	5	Davis, Polk & Wardwell	8.121	$846,000,000	731
6	6	Simpson, Thacher & Bartlett, LLP	7.877	$870,500,000	841
7	7	Weil, Gotshal & Manges, LLP	7.858	$1,233,000,000	1,248
9	8	Cleary, Gottlieb, Steen & Hamilton, LLP	7.766	$965,000,000	1,055
11	9	Kirkland & Ellis, LLP	7.496	$1,428,000,000	1,405
10	10	Covington & Burling, LLP	7.382	$583,000,000	661
15	11	Latham & Watkins, LLP	7.335	$1,821,000,000	2,005
13	12	Debevoise & Plimpton, LLP	7.324	$668,000,000	712
12	13	Paul, Weiss, Rifkind, Wharton & Garrison, LLP	7.177	$665,500,000	696
8	13	Williams & Connolly, LLP	7.177	$302,500,000	257
14	14	Gibson, Dunn & Crutcher, LLP	7.172	$995,000,000	1,026
16	15	Sidley Austin, LLP	7.087	$1,357,000,000	1,681
19	16	Quinn, Emanuel, Urquhart & Sullivan, LLP	6.868	$419,000,000	367
23	17	Boies, Schiller & Flexner, LLP	6.842	$305,000,000	298
20	18	White & Case, LLP	6.829	$1,307,000,000	1,851
18	19	Jones Day	6.826	$1,520,000,000	2,530
21	20	Arnold & Porter, LLP	6.692	$524,000,000	624
17	21	WilmerHale	6.543	$941,000,000	962
24	22	O'Melveny & Myers, LLP	6.537	$826,500,000	901
26	23	Morrison & Foerster, LLP	6.506	$884,000,000	1,005
22	24	Shearman & Sterling, LLP	6.478	$801,000,000	861

2011 Ranking	2012 Ranking	Name of Law Firm	Prestige Score	2010 Revenue	Number of Attorneys
25	25	Ropes & Gray, LLP	6.473	$789,500,000	920
29	26	Clifford Chance US, LLP	6.367	$1,874,500,000	2,586
33	27	Paul Hastings, LLP	6.25	$889,000,000	917
34	28	Akin, Gump, Strauss, Hauer & Feld, LLP	6.225	$719,000,000	744
30	29	Linklaters, LLP (US)	6.205	$1,852,500,000	2,167
31	30	Mayer Brown	6.166	$1,118,000,000	1,693
36	31	Fried, Frank, Harris, Shriver & Jacobson, LLP	6.098	$424,500,000	493
32	32	Milbank, Tweed, Hadley & McCloy, LLP	6.049	$601,500,000	565
44	33	Cadwalader, Wickersham & Taft, LLP	6.031	$456,500,000	497
27	34	Munger, Tolles & Olson, LLP	5.964	$193,000,000	175
35	35	Allen & Overy, LLP (US)	5.95	$1,644,500,000	1,969
39	36	Orrick, Herrington & Sutcliffe, LLP	5.939	$847,500,000	1,046
47	37	Dewey & LeBouef, LLP	5.87	$914,000,000	1,035
42	38	Baker Botts, LLP	5.799	$575,000,000	743
46	39	Proskauer Rose, LLP	5.792	$643,000,000	702
49	40	Baker & McKenzie, LLP	5.777	$2,104,000,000	3,774
48	41	Goodwin Procter, LLP	5.766	$658,000,000	796
38	42	Freshfields, Bruckhaus & Deringer, LLP (US)	5.754	$1,787,000,000	2,085
37	43	Irell & Manella, LLP	5.746	$256,000,000	184
41	44	Winston & Strawn, LLP	5.73	$705,000,000	932
53	45	DLA Piper (US)	5.726	$1,014,500,000	1,220
40	46	Willkie Farr & Gallagher, LLP	5.715	$549,500,000	633
47	47	King & Spalding	5.636	$677,500,000	808
43	47	Jenner & Block, LLP	5.636	$367,500,000	448
65	48	Cahill Gordon & Reindel, LLP	5.606	$323,500,000	298
56	49	Bingham McCutchen, LLP	5.567	$860,000,000	929
45	50	Wilson, Sonsini, Goodrich & Rosati	5.547	$501,000,000	600

2011 Ranking	2012 Ranking	Name of Law Firm	Prestige Score	2010 Revenue	Number of Attorneys
28	51	Hogan Lovells	5.539	$1,664,500,000	2,451
50	52	Fulbright & Jaworski, LLP	5.515	$642,500,000	916
54	52	Morgan Lewis & Bockius, LLP	5.515	$1,068,500,000	1,363
60	53	Alston & Bird, LLP	5.513	$551,000,000	851
57	54	Dechert, LLP	5.505	$713,000,000	822
51	55	Vinson & Elkins, LLP	5.451	$562,000,000	703
52	56	McDermott Will & Emery, LLP	5.45	$829,000,000	1,011
59	57	K&L Gates, LLP	5.441	$1,034,500,000	1,746
55	58	Pillsbury, Winthrop, Shaw, Pittman LLP	5.4	$533,500,000	687
61	59	Greenberg Traurig, LLP	5.344	$1,173,000,000	1,728
58	60	Cooley, LLP	5.223	$507,000,000	628
68	61	Nixon Peabody, LLP	5.123	$465,000,000	718
62	62	Holland & Knight, LLP	5.118	$545,500,000	633
63	63	Fish & Richardson P.C.	5.091	$417,000,000	427
66	64	Foley & Lardner, LLP	4.968	$667,000,000	940
72	65	Reed Smith, LLP	4.884	$942,000,000	1,433
67	66	Perkins Coie, LLP	4.868	$433,000,000	677
70	67	Kaye Scholer, LLP	4.821	$432,000,000	446
76	68	Bryan Cave, LLP	4.776	$555,000,000	1,005
73	69	Steptoe & Johnson, LLP	4.769	$345,000,000	509
78	70	Crowell & Moring, LLP	4.758	$327,500,000	488
69	71	Patton Boggs, LLP	4.746	$337,500,000	541
80	72	Arent Fox, LLP	4.725	$216,500,000	360
74	73	Chadbourne & Parke, LLP	4.685	$306,500,000	458
71	74	Hunton & Williams, LLP	4.55	$615,000,000	863
81	75	McGuireWoods, LLP	4.535	$509,000,000	856
82	76	Venable, LLP	4.532	$349,500,000	512

2011 Ranking	2012 Ranking	Name of Law Firm	Prestige Score	2010 Revenue	Number of Attorneys
86	77	Baker & Hostetler, LLP	4.521	$386,000,000	750
79	78	Schulte, Roth & Zabel, LLP	4.453	$397,000,000	409
77	79	Katten, Muchin & Rosenman, LLP	4.414	$420,500,000	608
96	80	Dickstein Shapiro, LLP	4.358	$297,000,000	780
91	81	Blank Rome, LLP	4.349	$311,000,000	515
88	82	Seyfarth Shaw, LLP	4.315	$453,500,000	718
92	83	Bracewell & Giuliani, LLP	4.3	$280,500,000	470
85	84	Locke Lord, LLP	4.258	$399,000,000	532
84	85	Hughes Hubbard & Reed, LLP	4.254	$298,500,000	300
87	86	Stroock & Stroock & Lavan, LLP	4.241	$263,000,000	310
90	86	Kramer, Levin, Naftalis & Frankel, LLP	4.241	$309,500,000	375
93	87	Dorsey & Whitney, LLP	4.229	$342,000,000	613
96	88	Manatt, Phelps & Phillips, LLP	4.224	$261,000,000	350
97	89	Squire, Sanders & Dempsey	4.187	$545,000,000	838
89	90	Patterson, Belknap, Webb & Tyler, LLP	4.177	$174,000,000	217
100	91	Sheppard, Mullin, Richter & Hampton, LLP	4.128	$361,000,000	479
95	92	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo P.C.	4.038	$292,500,000	461
98	93	Troutman Sanders, LLP	4.019	$376,500,000	641
83	94	Finnegan, Henderson, Farabow, Garrett & Dunner, LLP	4.011	$349,000,000	370
Not Rated	95	Drinker Biddle & Reath, LLP	3.962	$373,500,000	630
Not Rated	96	Pepper Hamilton, LLP	3.947	$313,500,000	492
Not Rated	97	Littler Mendelson, P.C.	3.943	$370,500,000	764
94	98	Kilpatrick Townsend & Stockton, LLP	3.928	$245,500,000	630
Not Rated	99	Kelley Drye & Warren, LLP	3.899	$203,500,000	300
Not Rated	100	Foley Hoag, LLP	3.88	$146,000,000	220

EXHIBIT D

Black Economic Council
Latino Business Chamber of Greater LA
National Asian American Coalition

February 6, 2012

Joe Echevarria
Chief Executive Officer
Deloitte Touche Tohmatsu
1633 Broadway
New York, New York 10019-6754
SENT VIA FAX AND U.S. MAIL
(212) 489 1687

February 14th Meeting with Department of Justice's Antitrust Division: Request for Diversity Data

Dear Mr. Echevarria,

We write this letter on behalf of the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition.

During the week of February 13th to 16th, we will be in DC for meetings with board members from the PCAOB and senior officials from the Department of Justice's antitrust division. We will be discussing consumer concerns relating to the quasi-monopolistic conditions that exist among the Big Four CPA firms.

As part of our discussion with PCAOB and the Department of Justice, we would like to request from you the following diversity information to be received by February 13th:

1. Total number of senior partners, broken down by race, ethnicity and gender (senior partners defined as the top ten percent of partners by earnings and authority, if possible);
2. Breakdown of all partners by race, ethnicity and gender, and
3. Breakdown for CPAs as a whole by race, ethnicity and gender.

We would appreciate this data just for US operations.

As you may be aware, we have filed comments before the PCAOB on January 13th entitled, "Comments of the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition on Auditor Independence and Audit Firm Rotation." These comments urged limits in terms of audits and for a complete separation of audit for management services.

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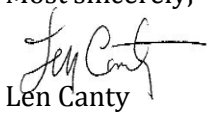
www.blackeconomiccouncil.com | www.latinobusinesschamber.org | www.naacoalition.org

Similarly, on January 23rd, we filed with the California Public Utilities Commission a request entitled, "Concerns as to the Accuracy of Independent Audits of Major Investor-Owned Utilities in the Context of Public Company Accounting Oversight Board Reports: Request for Commission to Issue Order Instituting a Rulemaking (OIR)," for an investigation relating to utilities audited by Big Four CPA firms and the impact of their audits on multibillion of dollars in rate increasers.

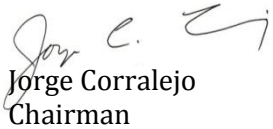
We are also meeting with the director of the Consumer Financial Protection Bureau, Richard Cordray, on February 14th and will be raising the issue in the context of whether consumers are well served by quasi-monopoly of auditor services that affect, for example, the financial industry.[1]

We will be in DC from February 13th to 16th, and if you would like to meet with us before we depart from DC, we will be pleased to meet with you to discuss our concerns.

Most sincerely,



Len Canty
Chairman
Black Economic Council



Jorge Corralejo
Chairman
Latino Business Chamber of Greater LA

Faith Bautista
President and CEO
National Asian American Coalition

[1] We are also meeting with the FDIC Chairman, the Comptroller of the Currency and the senior officials of the Federal Reserve on the possible impact of past Big Four audits on the financial crisis.