of Congress and some of our politicians these days, I think that the intellectual community, the arbitrator community, has to play a role if we're going to succeed in any kind of new structure that takes shape.

**Richard Fisher:** I'd like to make one general comment. I would hope that the marketplace mechanisms (that I mentioned are out there) are increasingly being recognized, and those forces themselves should improve the collective bargaining relationship inside the organization, as a matter of survival, just as some other industries have tried to survive against foreign competition. I identified the complicating facts before—such as when your governance is heading in a direction contrary to collective bargaining, so that collective bargaining may not be part of the solution. It's not the primary way in which problems are being solved; it has been tried and found wanting. As indicated, we're looking at local decisions with many more variables and to uniformly imposed solutions. I think we are going to see increased localization of decision making, and I think it will eventually conflict with the traditional collective bargaining process in the District. I think there's going to be a major movement to involve parents in a bigger and more direct way. I think it's going in that direction, and I don't see the end game on this, except that since it's so clearly pointed in that direction, I think it has to go there. And then we may need to reinvent the wheel somewhat, recognizing that we may need some central administrative support services and standards to help local public schools operate effectively.

**Roberta Golick:** Thank you. Please join me in thanking our panelists.

## Session 2—Utilities

George Nicolau*
Jack McNally
Barbara Coull Williams
Donald Vial

**George Nicolau:** I've been asked to moderate this morning's session. You heard Don Vial this morning give a penetrating

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analysis of what is going on in utilities in the United States. As they move, rightly or wrongly, from regulation to competition, it's clear that the context has changed and continues to evolve. You've heard him mention such things as outsourcing, subcontracting, downsizing, reclassifications, job restructuring, and changes in work rules. All of this seems to be happening in utilities generally, not only across the country but most particularly in California. And the question, I think, is what is happening on the ground? What impact is this having on the work force, on collective bargaining, on both the nature and substance of grievances, and on arbitration?

We have two people here today who are in the thick of it and who will speak about their perspectives. Then we will open up the session to questions and comments in order for all of us to gain a better understanding of how this is affecting what we do.

Barbara Coull Williams has been with Pacific Gas & Electric since 1981, and since 1993 she has been the Vice President for Human Resources for that vast organization. She deals constantly with Jack McNally, who is Business Manager of Local 1245 of the Electrical Workers (IBEW). You know just from their titles that they see each other every day. They have to live with each other all the time, and they are the ones dealing with the fallout from what Don was speaking of this morning. I thought that it might be best, even though you know the rule is ladies first, that the labor leader tell us how his people are being affected by what is going on. Then Barbara will speak on the same subject, then I will ask Don to comment on it, and then we'll open it up for discussion. Jack?

**Jack McNally:** Thank you, George, and I want to thank everybody for inviting me here today. It's quite an honor.

First of all, I would like to explain that in the business I'm in, when you're required to work on a holiday, or particularly a three-day weekend, you are paid double time, despite the fact that Congress doesn't work. Also, though Barbara and I don't exactly see each other every day, when we do, we hug each other.

This morning, Don Vial provided a good overview of the structural changes that are being proposed in the energy utility industry and the possible effects on collective bargaining relationships. California, as most of you know, is at the forefront of change in this industry, and most of the other states are patiently awaiting the results of this California experience. The vast majority of utility industries in the United States are organized by labor unions, many of them by the IBEW and the Utilities Workers. So I can tell you that many of the local unions are also waiting very anxiously to see what develops in California. In the California Public Utility Commission and in the legislature, we've had more than a year of debates, hearings, and comment proceedings over the shape of California's utility regulation. This process is taking its toll on utility management and utility workers. Utilities are constantly reorganizing, restructuring, and in some cases, merging into what they think would put them in the best position to compete if full competition comes to the industry. As a result, utility workers are in a constant state of anxiety over their employment conditions.

So let's take a look for a moment at the past, the old cost-of-service regulation era for the utility worker. You have a work force conditioned to the obligation to serve all the customers and to provide reliable and safe service. They're well paid, have excellent benefits and training programs that have produced, I believe, highly skilled and well-qualified employees. And if they kept their noses clean, they would have secure employment for most of their productive work life. Also I would say that there's a more cooperative style of labor-management relations as opposed to the adversarial style. Of course, that's the utility monopoly culture.

Now with the breakup of that monopoly and the introduction of competition, utility workers are facing something quite different. Today, along with downsizing and, in some cases, forced layoffs, utilities are reorganizing with possible displacements and demotions of employees. There are constant pressures to be more productive, more efficient, to do more with less. The companies are seeking concessions in collective bargaining agreements and, in some cases, they're using union-busting law firms in order to reduce costs and be more productive. Employees are threatened with outsourcing, which is the fancy name for contracting out or subcontracting. All this threatens their job security, and labor-management relations are becoming more and more adversarial every day. The whole issue of trying to cope with the uncertainty (and I can tell you that many of our members are suffering from a great deal of anxiety, fear, and stress) lowers morale. If you think about it, this is a 180-degree turnaround from what the past has been. There's a great deal of pressure on union leadership because the employees, our members, have a difficult time believing that they can actually be laid off or displaced. Some of the strategies employed by the unions are to try to negotiate provisions that will lessen the impact of layoffs on members. We've had some success in terms of voluntary early retirement packages, voluntary severance plans, and transfers to prevent forced layoffs. And this has worked to some degree, but in many cases, the companies still want more and proceed with forced layoffs in order to maintain pressure, especially to gain concessions. Through this process, the union can challenge the application of contract language concerning demotion, displacement, layoff, and, of course, subcontracting provisions. But it's interesting because in some cases these contract provisions that have been there for years have not been utilized to a large degree. And so there are some unfamiliar aspects of it on both sides basically in terms of the effect on large groups. So as the union and the company proceed in this fashion, an increasingly adversarial relationship results. Energy utilities are at the end of cost-of-service regulation and are faced with market-driven, performance-based regulation. There have been many proposed regulation changes that have caused utilities to fight back without exactly knowing the result of these changes in regulations. In fact, I believe no one really knows what some of these proposals will do, including the regulators themselves. But the fact remains that energy services have become a necessity in our society and the need exists to provide safe and reliable service to all.

Utilities must position themselves to be competitive, and utility workers want to maintain the standard of living and the employment security that they've achieved over the years. While the energy utility industry is being torn apart by these forces, I don't think it's in the best interest of either the utility or the union to tear each other apart in a labor-management relations war. I believe that developing a new social compact for labor-management relations will not be easy, as Donald Vial's paper suggests. If anything is going to work, I believe it must be based on mutual gains and worker empowerment. This means that each side must seriously address problems by finding solutions that benefit both parties. Worker empowerment means management must relinquish some authority and workers must accept more responsibility. I believe this approach will be harder on management than it will be on workers. So, I think, it is time for a new social compact that will provide for a new cooperative labor-management partnership. Arbitrators and the professionals in the field, I think, can play a role by creating or fashioning, if you will, remedies that promote this mutual gains approach within the context of the labor-management relationship.

**Barbara Coull Williams:** Good morning, everyone. I'm very pleased to have the chance to talk to you today, and I welcome those of you who are visiting San Francisco. I'd like to spend just a minute talking about Pacific Gas & Electric (PG&E), for those of you who don't know who we are. In gas and electricity we service about 13 million customers in northern and central California. We have about $10 billion in revenue, 21,000 employees, 13,000 of whom are represented by Jack in the International Brotherhood of Electrical Workers (IBEW) and 1,200 of whom are represented by the Engineers & Scientists of California (ESC). With two-thirds of our work force represented by unions, the idea of successful labor relations is not an idealistic goal. It is a business necessity.

I'm glad to be a part of this panel with Jack and Don. Each of us has a very different role as we look at the utility industry, but we're in complete agreement about one fundamental thing. The utility industry is changing dramatically, and utility companies need to rethink the way they plan, the way they operate, and the way they deal with unions. The path that leads to the best business results has never been more imposing. Don Vial gave us an excellent overview this morning of what's happening in the utility industry and what the landscape looks like. In the restructuring of the utility industry that's taking place across the country, California is leading the way, for better or for worse.

To prepare for this competition PG&E is moving away from traditional ways of operating and thinking. We must move away from those old ways. Here are some of the things we need to be looking at as we move from prices that are based on costs to prices that are determined by the market. We're looking at actively promoting regulations that are based on operating performance and not on the traditional rate making that is based on cost plus. We're looking at streamlining our management practices and bringing levels of decision making to where they belong, with the employees who deal with our customers everyday. Each day we have 150,000 contacts with customers. Those contacts are made by our employees. It's the employees who will keep this industry going. Many of these transactions lie at the core of our business—which is to be the very best we can be in providing safe, reliable, and responsive service to our customers. Our goal is to be the best because in the future, we will not be the only utility around. Customers will be able to choose their utility company. So in addition to being safe and reliable and responsive, we must be cost-competitive because customers are going to be more cost-conscious. The way to be cost-competitive is to examine internally our cost structures, how we can streamline, how we can reduce expenses, and how we can downsize. The issues of streamlining, cost control, cost reduction, and downsizing are enormous challenges for management, especially as they relate to how we deal with our unions.

As we planned our labor relations strategy, it was clear we had a choice of paths: the historical adversarial company-union pattern of being at opposite ends of the table or a different path of working together as partners with a common interest in the same business. On the traditional path, success was determined by who made the least concessions. On the more proactive path, it was how can we work together so that we can succeed and be in business in the future. Don Vial discussed the changes occurring in other industries, such as telecommunications. It's sometimes easy for PG&E, my company, to think that we're the only company going through these dramatic changes. Of course, we're not, but it's important to keep in mind that within our company these types of changes were unprecedented, and we were learning for the first time how to deal with them. As a result, PG&E management—including myself—made many decisions unilaterally. We informed the union that we would be downsizing, we told the union where cuts would occur, and we dictated the timing of the downsizing. What was missing amidst all of this was consultation and collaboration on these changes, deciding together with the union how best to move forward. This lack of collaboration led to a logical outcome: two of our largest arbitration cases ever.

That was not a fun time for us. The first case involved how we would be displacing several hundred employees who were affected by our decision to downsize. Although our labor contract contained the concept of displacement, it was only for a small number of employees. We were not thinking in the contract negotiations about large-scale displacements. In labor arbitration lingo, we know this as "bumping," where people make selections of new jobs and then are chosen for jobs based on their seniority and the options that they've chosen. The amount of paperwork, computer programming, time, energy, and frustration spent on this process was second only to the emotional stress felt by employees who had been impacted by this bumping process.

Our second major arbitration case centered around the issue of job protection for some of the employees who would be laid off. Again, much time, energy, frustration, and yelling across the table resulted. We went back and forth with the union, and we couldn't come to an agreement, and so again we went into arbitration. In hindsight, there is absolutely no doubt in my mind that this was not the preferable way to go. The arbitrator we had was wonderful—I don't see him here today because he's probably sick of Jack and me at this point—but it was clearly not the way to go. In both instances the company and the union were dealing with business circumstances that nobody had ever contemplated in contract negotiations. The contract processes we relied on were not considered or designed with such sweeping changes in mind. Yet rather than recognize this, we went ahead with business as usual. The company acted unilaterally, the union grieved, and we went to arbitration. This type of situation shows the pitfalls of following the traditional path that I talked about a little bit before, that is, the path where the company makes unilateral decisions, the union disagrees, and consequently the parties go to arbitration. As companies like PG&E confront fundamental changes to their organizational structure, I can guarantee you that the traditional, adversarial model of labor relations will no longer be a viable alternative. From the moment the changes began in the industry, we were no longer talking about victory on one side and concessions from the other side. We were talking abut the survival of the business.

I would like to share this situation that helped the company arrive at the realization that we were clearly headed down the wrong path. At the beginning of this year, we were proceeding with layoffs of 800 bargaining unit employees who were in our largest business unit. Based on our best data at that time, and that's the company's data only, we didn't consult with the union, we did not have enough work to justify those positions. So we decided that we needed to lay these employees off. We knew that eliminating these jobs was a difficult and painful decision for the company, but it was even more difficult and painful for the employees who were going to be impacted. We were prepared to implement those layoffs, but we were not prepared for the storms that followed—and I don't mean merely the storms of reactions from our employees. I mean the literal storms of rain, flooding, and wind that descended on California in the first part of this year! Anyone who lives here knows that the newscasters were talking about 100-year floods of biblical proportions. We knew it was Jack who was causing those storms to happen.

**Jack McNally:** The rain gods were on our side.

**Barbara Coull Williams:** He did a very good job with the rain gods on his side. As we worked to make repairs on our system, it became very clear that we needed to conduct extensive maintenance on our electrical systems, even more than had been damaged in the storms. So at this point, we had employees mad at us, we had the regulators mad at us, we had customers absolutely mad at us for the service that we were not giving them, and, probably most serious of all, we had Jack mad at us. Perhaps the most important part of this experience is that the information and the concern about the maintenance of our systems was brought forward by the employees of PG&E to the senior officer who was in charge of the layoffs. That senior officer met with employees, looked around the system, toured with them, and then decided after a dialogue with the employees, to stop the layoffs and redirect the employees to maintenance work. Now, as you hear this story you'll say, "Great, Jack won, or "That's horrible, the company lost." And it's easy to get into that routine, especially for me. Never Jack. But overall, the success of this decision was grounded in the fact that we made the right decision for the company, the employees, our customers, and our share owners. Preparing a business for competition is not in any way limited to senior management being able to make the right decisions. Going through that experience and deciding not to have the layoffs in our largest business unit helped us to recognize that the company will not be able to meet the aggressive goals set for its future unless we listen to, trust, respect, and act on the ideas of our union employees, all of our employees. All of our union employees need to be involved and be supportive of the direction to be taken, or we aren't going to get there. Our employees are our competitive strength, and we need to recognize that every day as we move forward in deciding how we are going to stay in business with future deregulation.

PG&E found its way to partnership with the union in April when we entered into letters of agreement with both of our unions. Since then, we've formed labor-management committees to tackle some of the specific issues. These are only the first steps. We must design and build a new kind of relationship. We need to have labor and management as one team cooperating and collaborating to serve the customer and to beat the competition. The words "company-union partnership" have been part of the corporate vocabulary for a number of years. What's different about the phrase today is that it is not said out of a sense of obligation but rather a sense of knowing that it's the right thing to do. Companies like PG&E simply do not have the time to talk about partnership in traditional ways. The historical roles that placed the company and the union at opposite ends of the table—never working together and always working apart—are not going to work. We must learn to talk together and come to a solution together. If companies and unions want to succeed and excel in the competitive world, we need to dedicate ourselves to linking the union's goal of job security to management's goal of business security. It is a very serious issue. Bringing these two concepts together requires that the company and the union remember that the customer pays all of our salaries. Whether the customer chooses us as their preferred provider determines whether PG&E is alive and well in the next number of years. The customer is the bond that keeps our partnership together, and the benefits the customer receives is the factor that determines the decisions we make.

As we reexamine the company-union relationship, there are a lot of things we need to look at. For instance, what will the contract look like? Will it be hundreds of bureaucratic pages long, or will it be flexible and only a few pages long? What will jobs look like? Will we be locked into rigid job descriptions and scopes of work, or will we be sharing responsibilities and tailoring our jobs to be more flexible to business needs and customer needs? How are jobs going to change in the future? How will technology affect jobs? What kinds of training and development do we need to make sure our employees remain competitive for changing jobs in the future? How will we reach agreement on issues? Pursuing this new partnership with our unions will take much work and effort. We have some difficult cost issues that we have to deal with. We've mentioned them before, including compensation and benefits, work rule flexibility, and that nasty phrase, "contracting out." We're not always going to agree, but we are determined to work together in ways that we know make sense. Speaking quite candidly, I view our choice to go to arbitration on the two issues that I talked about before as a failure on both our parts. According to our contract, we bring to arbitration those issues that we can't resolve between ourselves. And in these two particular cases I mentioned before, what we needed to do was to sit down, discuss the business circumstances, evaluate those circumstances together, and come up with a solution—all the elements of a successful partnership.

So if the goal is no longer to keep score, what does it mean for you as our umpires? Well, let's hope it means that you will not see cases like the two that I mentioned. In a truly effective partnership, we should not have to reach the arbitration stage on major business issues that the parties never anticipated when they negotiated the labor contracts. There will always be issues where we will need skilled arbitrators to help us. Contract language still needs to be interpreted. We will always have issues on overtime policies or disciplinary actions, but the company and the union will not have a truly successful partnership unless we realize that certain labor disputes should not be resolved at the arbitration hearings. So I'm pleased to be with you today, but at the risk of sounding rude, I hope it's quite a long time before I see any of you again, at least in an arbitration case. Jack's and my success should be based on how little we need to use arbitrators to resolve disputes between PG&E and IBEW. That's when our partnership will be truly working. Thanks.

*Discussion*

**George Nicolau:** Thank you very much, Barbara. Remember a few years ago there was a paper about the ascendancy of the Braden school, the legalistic school of arbitration, as opposed to the Taylor school? It looks like the Taylor school may be making a comeback. It seems that what companies and unions may need in these changing times is a mediator-facilitator, not necessarily an arbitrator. Interestingly, what I heard from management is that we need to create the new partnership; we need to bring decision making down to the level where it belongs. And what I heard from the union is what the system must look like. It has to include mutual gains and worker empowerment. Let's look at that system. Don, any comments?

**Donald Vial:** Well, I just want to make a few observations. In my reference to regulators earlier. I made the comment that these days you must join the "First Church of the Marketplace." The first rule of that church is, "If it ain't broke, break it." A lot of that is occurring, unfortunately, although the market system has many advantages. Too many regulators are just saying, "Let the market decide." And it's adding more confusion to labor-management relations because of the uncertainty about how this competitive environment will unfold. It is difficult to build new relationships around uncertainty. What is clear is that bargaining over the consequences of the utility's response to the uncertainty doesn't work. There's just no confidence on the part of unions that management is necessarily making the right decisions when confronting the changes taking place. When we talk about developing a new relationship, we should be thinking about how the new relationship can broaden options in response to industry restructuring. It is important to recognize that the restructuring, requiring the unbundling of services to accommodate competition, also is promoting the growth of new affiliates by the utilities in nonunion environments. The affiliates of the utility take on the character of the negative union environment in which they compete. If the company responds to competition in the generation of electricity by creating a nonunion company, for example, how does the union live with it? The spawning of nonunion affiliates of restructured utilities is taking place in telecommunications and natural gas utilities as well as electric utilities. Developing a new social compact for a cooperative relationship must confront the reality that much of the growth of our restructured utilities is taking place in a negative union environment.

**George Nicolau:** Does anyone have questions or comments about the new social compact?

**James Sherman:** I have always thought that the relationship between a power company and the IBEW is unique, but it may not be, and perhaps I'll get comments from Mr. McNally and Ms. Williams. I've been connected with the university and have done programs for them in-house as well as arbitration. We also have a unique relationship. Sometimes they need a solution that neither side wants to risk being final and binding. They call me in, and we have a conference and talk about everything. What seems to come through very clearly is that they have a good relationship. They're talking much like you are right now: "We've got to change, but there are some people in our organization who don't believe that we're doing the right thing." So instead of a final and binding arbitration decision, they ask me for a letter that obviously isn't binding. I write to the company and the union, and give a possible solution. Just to give you an example, this company has always had its own environmental testing department. They decided to go to an outside contractor for this. They had a place for all the people who were in environmental testing, but they saw the necessity to have an independent organization do the testing. So, of course, they got flak from the people who previously held those positions. We settled it with a letter, and it seemed to work. Another one dealt with whether the employees were required to be available in the event of emergency maintenance. Again, we settled that with a letter, and it seemed to work. I wonder whether the two of you who try to settle problems are aware of similar things going on and whether you've tried them.

**Jack McNally:** I don't think we've used something exactly like that. I've been around PG&E for 35 years, and I've worked as a full-time employee of the local union for 25 years. Over that period of time, at least with my local union and PG&E, we have had, I think, a cooperative style of labor management. It was rough in the early years, 50 some years ago when it was first organized, but while I've been around, it's been basically a cooperative style. Since the beginning, if you look at our contract in 1950, we've had, I think, 102 arbitration cases. That's not very many arbitration cases when you look at our size and the number of years. So we've always had a relationship where we've been able to work out our problems, but I think what's happening is that because of the breakup of the monopoly and the move to a competitive arena, the attitudes of many people are changing. As Barbara discussed earlier, we were in a war for about four or five months. It was brought about because of this breakup. But we are working through that and resolving that, and I think the approach now will lead to an even more cooperative relationship. What I'm saying is, maybe the role as facilitator, moderator, or mediator would be a role that arbitrators will evolve into to help the parties address each other's concerns and try to resolve the issue. One of our concerns is this breakup. You have the utilities saying, "Jesus! All this is happening, so we must be positioned so we can lower our rates and be competitive." So the issues of downsizing and job security are very, very key to our members. My question to the utility is, "What are you going to do? You want us to be involved in a partnership to try to find out how we can be more efficient, more productive. Doesn't this mean fewer jobs? What can we do that would create jobs or create an environment where we have hope in the future for some job security?" What if the company changed its attitude and aggressively sought the work being done by competitors? As a result of the breakup, there are a lot of predators out there just waiting. Why can't the utility do the same thing? So we eliminate jobs because we've become more efficient in certain areas, but can we create jobs in some other areas? That's going to be, in my view, the big issue as utilities go through this.

**Barbara Coull Williams:** One of the things Jack mentioned is that when we decided to control costs, we had to make sure we had prices that are competitive, so that when customers do have choice, we're going to have a competitive price for them to choose. What we did is concentrate on how to reduce costs and expenses. We didn't think a lot about how to increase revenue and by increasing revenue in utility economics get to the same result of lowering price. So what we were starting to have to think about is when we've got labor costs at 10 percent of all our expenses, there's a lot of other stuff out there that we need to be looking at. And we need to be looking at how we increase revenue. How do we increase revenue? We look at those predators that are out there and figure out how we can be competitive. One of the ways we did that was working with the union; we'd say, "Okay, this is how much it costs on the outside to do this work. Let's figure out how we can do it inside. And let's look at other revenue producers and start training employees who may be without jobs in the future as a result of technologies." We tried to train people so that they could work in these new jobs. That is going to be a very critical component over the next number of years, that is, how we will help our employees to be focused on different kinds of revenue producers and how we can help employees in the organization.

**George Nicolau:** What are these "other revenue producers" like?

**Barbara Coull Williams:** Well, right now we have developers who want to put in their own gas lines and their own electric lines, so we're not doing the construction work. But as we look at unbundling our services, there is a need for people to read the meters or do billing services. As we unbundle those services, there will be little niches where different entrepreneurs will want to come in and take over.

**Charles Morris:** This question, I suppose, is really for Jack, but it was arrived at by comments that Don and Barbara made this morning. First, the comment that Don made. If I understood you correctly, you said that we're seeing most of the high-performance work organizations in nonunion environments. Is that a more or less correct quotation?

**Donald Vial:** Yes, but high-performance work organization is being used in utilities, too. And it's in the labor-management setting.

**Charles Morris:** All right, let me just go ahead with my question and a comment. Most of the literature in this area seems to indicate that the best examples of high-performance workplaces are now to be found in the union environment, not in the nonunion environment. And this is, of course, the direction in which to go. This relates to Barbara's comment about linking the union's goal of job security with management's goal of business security. That seems to be what's happening in so many places, whether you're looking at Corning, Xerox, Inland Steel, or some of the good examples in the auto industry. These are examples where job security is being wedded with very high performance that releases all kinds of energy out there. The evidence seems to indicate that it is not as possible in a nonunion environment. So my question now to Jack. Organizationally, why aren't unions vigorously saying to employees, "We have something that your employer can't give you alone"? The union now becomes a necessary element in the process, and this should be used as an organizational tool. I don't see that happening. When I mention these companies, I didn't mention greater things that are happening in the unionized telecommunications industry. Some of the best examples are there. Why is this same approach not applicable to some of the nonunion environments that both of you have been commenting on? The question is for anybody who wants to answer it.

**Jack McNally:** Well, I think in defining what a high-performance workplace is we, the union, discuss with our members on a continuous basis. In fact, I like to think of our labor agreement as a living document. We don't go into bargaining, get a three-year contract, and wait three years before we start discussing others things. We bargain on almost a daily basis, as the issues arise. We have made numerous changes to update the workplace in order to be more productive and more efficient. We have extensive training programs, and we sit down and bargain over those training programs. A key issue, and I see it now in the breakup in utility, will be generating plants. Historically, we set ourselves up with these craft lines and numerous classifications to perform certain duties within a power plant. The power plants today are relatively old, and they're run by this old structure. What's interesting is that the new power plants have new technology and equipment and are more efficient. I think what Don was alluding to is that many of these new plants are nonunion and they're set up with a high-performance workplace where you don't have those craft lines. You have a technician who does everything to make that plant run. And that's the new high-performance workplace, and by and large, for the moment, that's nonunion.

**Charles Morris:** My question relates to organization: Why aren't unions pushing the fact that they have something to sell that conceivably in some future world could be appealing to an employer, as something that might improve productivity?

**Jack McNally:** I'll tell you that that was my exact proposal to PG&E in their affiliate of independent generation. They wouldn't take me up on it primarily because they can find skilled operators from the organized utilities that are downsizing. So they're picking up skilled people, and then they just add to that. Eventually, that's going to run out. Don speaks to that, I think, somewhat in his paper also.

**Donald Vial:** May I come in on this? When you talk about high performance, I think you ought to have some framework in mind. I would advise all of you to use former Secretary of Labor Ray Marshall's framework. It includes eight points considered essential to high-performance work organization. The existence of an independent union is one of the key elements. Arguably, a union environment is one of the most effective ways to deal with high-performance work organization. The Fremont auto plant organized by the United Automobile Workers (UAW) is a good example of how it works. High-performance work organization is based on front-line workers assuming greater responsibility for productivity and product quality in exchange for greater employment security. It requires investing in front-line worker training and continuous upgrading of their skills. In this respect, high-performance organization requires an industry culture that gives high priority to investment in front-line workers. In most American companies, that culture is nonexistent. A negative investment culture regarding training exists side by side with a negative union environment. Fortunately, utilities are an exception, in large part because of the regulatory umbrella that has sheltered training investments and facilitated strong unions. A strong union base and an environment for investing in training provide a good foundation for developing a new cooperative relationship between labor and management in our restructured utilities. As the restructuring goes forward, as Jack McNally has pointed out, a competitive industry cannot live off of the skill investments of the past. New industry-driven training systems need to be developed that are more in line with the European active labor market policies that Bill Clinton talks about all the time. These include youth apprenticeships and other ways of integrating vocational/academic training in schools with structured work-site training. And as you do that, you have to develop industry-driven skills standards and certification procedures. Labor and management together should take the initiative and do just that for the whole industry. They should take it into the schools that are being reformed under mandate of federal and state policies. Labor and management are in a position to provide leadership for skills development programs that serve the entire industry as they provide a strong competitive base for the restructured utilities. From a union perspective, *identification with training opportunities that lead to jobs can help* to overcome negative union environments in growth sectors of utilities.

**John Murphy:** The story of PG&E, it seems to me, is about how the union and the company are being backed into or being forced into thinking about their relationship in a deregulated situation. There's a lot of literature about other utilities. I'm thinking of one in the Midwest, where I'm from, where the company and the union, realizing they were going to face deregulation, sought third-party advice on how to better relate to each other. They did that in the late 1980s, and they once had a 196-page rule book. They also did have a very traditional, adversarial model. They have a different relationship now, something similar to a 17–18 page compact. The company bargained for cross-training, team working, linemen working without field supervisors; and the union bargained for better benefits as well, one of which was job security. But the basic question is this—If you were now faced with advising other utilities on how to deal with this, would you have sought outside third-party help in the face of deregulation? Would you have asked for some help on how you should rethink your relationship as opposed to what happened to you?

**Barbara Coull Williams:** I would like to know what utility that is.

**Jack McNally:** Dayton.

**Barbara Coull Williams:** Dayton, okay. I would say no, and let me tell you why. I think that I, as the officer for PG&E for labor relations, and Jack, who heads up IBEW, know exactly what we need to be doing. We went through four months of a little bit of a problem. Before that we had had, I think, fairly good relations. We went through an expensive four months, but it was a very good learning experience. Now we are beginning to work vigorously on those compacts. So I think the model that Dayton had is a model that we've had historically. We lost our way over the past four months, but I think we can do it without a consultant.

**Jack McNally:** That's a "trust me" agreement, and I'm not there yet, okay? And the other thing that I think you need to understand is that PG&E is a little different from most other utilities in the United States. They have their own construction work force that they used much like most all other utilities use outside contractors. PG&E works by a different set of rules, a different section of contract that allows for the ups and downs of the economy, so that historically, the work force, which was a pretty large work force, could build up or could shrink depending upon the economy. And that was different from most other utilities. So when we thought about downsizing, we talked about rather large numbers of people—about 800 forced layoffs. They've downsized by almost 6,000 employees over the past three or four years, 10,000 in the last 10 years. Much of that was voluntary early outs.

**William Rentfro:** We just have a few minutes here. I've been very impressed with everything I've heard here, and I don't want to take up any more time than I need to, but I'd like to raise just a couple of questions. Jack and Barbara have admirably expressed the new spirit of cooperation that accompanies their daily hugs, but I haven't heard anything in any detail about what is being done to spread that cooperation throughout the enterprise and down to the workroom floor. Maybe there is something they haven't told us about. I'd like to see a situation where the workers would come to work in a department, and they'd all hug their supervisors before they go to work. Well, that's kind of a joke, but actually that's one of the things that happens in Fremont that Don Vial mentioned. The employees at the bottom level are so involved in responsibly managing their work time, their performance, and how they solve their own problems. Sam Kagel tells me he used to arbitrate every week at Fremont. Now he hasn't had an arbitration in three years. Something's going on down there in the way of employee involvement, in their own lives, in the way they perform, the way they solve their own problems, even their own grievances. And I'd like to hear what you folks might think about carrying out your cooperation to that extent. Then you might have something that even Charlie Morris could sell.

**Jack McNally:** We're really just starting in this area. We will have a joint overview committee look at the various issues of projects in interest of each side. And then assign work committees to deal with the issues. These work committees will be made up of people on the shop floors; they'll be people who do the work. Much of the success that comes out of this high-performance workplace has to do with worker empowerment. Also, the auto industry now has teams that build the cars. It's not people putting on the lug nuts and that's all they do all day long anymore. That means that there must be worker empowerment that often flies in the face of what most supervisors have been trained to do. They're going to have to give up a certain amount of authority, and that's not an easy thing to do. The other thing that's really interesting is some of the comments I've heard from some of our members who are saying, "Well, look, we're going to have more 'say' on the shop floor, and therefore you're going to have to take on more responsibility." They say, "That's not my job," because it's been ingrained in them for so long by someone looking over their shoulder and telling them everything to do. So it's a whole culture change. And so I think we will be working toward that, and I think we can get supervisors as well as our members involved to begin to come to grips with that.

**George Nicolau:** Well, I think Bill's question, too, is how do you change that culture? What are you doing?

**Question:** What was just mentioned has also happened at the Saturn plant. The UAW and the General Motors plant started employee involvement and had quite a bit of dissension among both supervisors and rank-and-file. Dissident UAW hard-liners from Detroit just couldn't stomach this involvement. They wanted to file grievances and fight the company like they always had, but they've gone through two elections and have been defeated two-to-one by the employees who prefer the way it is.

**Jack McNally:** But I also understand that that's a little different from what it originally started out to be. I don't really like to use the word "employee involvement"; I like to use "mutual gains" in dealing with the interests of both parties. I would rather come out and sell our members on the idea that we want to work with the company to try to become more efficient, more productive—to be the best that we can be. In order to do that, and this is what I tell the company, we've got to do something that also gives employees some hope for future employment. If you look at what happens in terms of the restructuring, that means we've got to go out and look for other areas where there can be work. So one of my issues, or one of my interests in this whole process, is asking the company what it will do about aggressively going out and looking for other things that we can do to provide that hope or that sense of security. By addressing all of these issues at the same time, you can build up the workers' confidence and enlist their participation. If you don't, then it's not going to work. If you say, "Let's just go out here and try to be efficient and do all these things," they have no hope of job security. They will say, "I'm not buying into that." I don't care what I say or she says, they're just not going to do it, unless there's that sense of hope.

**George Nicolau:** Yes, sir.

**Barry Norvell:** My name is Barry Norvell, and I'm a union representative with the United Steelworkers Local 12775, which represents the employees of Northern Indiana Public Service

Company Gas & Electric Utility, Northwest Indiana. I have a couple of questions concerning alternative forms of compensation. Have you or are you currently working on any type of performance-based or variable compensation for your employees?

**Barbara Coull Williams:** We have a very extensive program of variable compensation for our management population. It's something that we're continuing to talk to Jack about—and Jack has a big smile on his face right now—because I think employees actually want it at a local level. They want to be able to be paid for what they perform, and they don't have that ability right now. It's something that we seriously want to talk to Jack about.

**Barry Norvell:** Have you reviewed any performance-based or variable compensation models, because it's relatively new in the utility industry.

**Barbara Coull Williams:** Well no, we tried it and then stopped it. We had it for a number of years, but what happened was the variable pay the bargaining unit employee got was based solely on corporate earnings per share, as opposed to local level performance that all of our management employees have. The management employees have it down to the local level performance, but it was just at a corporate level for the bargaining unit. We decided it didn't make sense to just keep variable earnings at the corporate level because there was no line of sight for the employees when they got the check at the end of the year. To know how they impacted earnings per share was pretty tough, so we stopped it last year.

**Barry Norvell:** Okay, I have one other question on compensation. How have you dealt with compensation issues in your work rule changes? Your contract, I understand, is a living document that you negotiate daily.

**Jack McNally:** It's a struggle. I'll give an example of what we have done in terms of the linemen in dealing with this issue. The company had desired to do that, and I said, "Okay." The first thing we did was bring in 25 linemen and said, "Hey, look, this is what the company's got an interest in doing. Now do you have any interest?" Of course, the first answer was "no." So we said, "Well look, if we address a lot of these issues in terms of safety, in terms of voluntarism, etc., and then put a chunk of money on top of your rate, would you be interested?" They started thinking positively when we started talking about money. So then we said, "Let's draft a laundry list of what we need, and then we can propose it to the company." We took a subcommittee of that group, we went in there, and we did that.

The company was very responsive to that, and they agreed to do a joint project where we took six or eight of our people right off the job along with six or eight first-line supervision and went down to the training facility. We spent three or four weeks, and they came up with the agreement, without my interference or anything else. We communicated that across the system at all headquarters. It was almost unanimously accepted. We have had virtually no problems or issues with that agreement since it's been in effect for the past three or four years. That was an example of successful employee involvement.

**Barry Norvell:** How do you deal with employees who are skeptical of whether deregulation is actually going to occur in the industry? Do you have a training method?

**Jack McNally:** We talk a lot, and we write a lot. We put out a monthly newspaper, and over the past three years there's been something in that paper every single month about deregulation. In the beginning, it was very, very difficult for people to come to grips with that. They just thought it was a lot of talk. I'll tell you what, the threat of layoff really brought home the realization. But it takes a lot of talk, a lot of work.

**George Nicolau:** Any other questions or comments? Yes, sir.

**Alan Goddard:** I'm an international representative with the IBEW in a different district. My question for the management representative is, with this new partnership, has the company eased any restrictions on information that it formerly wouldn't share with the union?

**Barbara Coull Williams:** As we enter this partnership, we realize that everyone must have the same information so that we can make the decisions properly. The data were kept very close to our chests as we went through the number of people we would be laying off. Jack and others said, "Come on, you know we need to look at what the assumptions are, how much work there would be, and how much work can be expected in the future to be able to understand where you got these numbers." We did a fairly lame job—I don't think we did as good a job as we should have in order for us to be able to partner properly. For all of us to be able to make the right decision about how we face competition together, everybody must have the same data or we're not going to be able to come to the right decision. I feel very strongly about it, and the company understands that clearly. Entering this partnership that we did in the beginning of April, we not only said we were going to do partnering—which can mean all kinds of things—but we also entered into an agreement that said, as we look at performance-based rate making, which is going to be the new way we base how we make profits in this organization, the union is going to be involved in helping us come up with that performance-based rate making. That's a pretty serious partnership.

**Alvin Goldman:** We've had a lot of discussion about the need to change the culture at the shop floor level. The last comment, I think, helps to place attention on the other aspect of cultural change that I'm wondering about, and that is the need to change the culture at the top management level. I'm not aware of too many CEOs or CFOs who came out of the labor relations level of corporate management. And I wonder to what extent do the decisions that relate to contracting out end up being "trickle-down" decisions, rather than decisions that involve the participation of people who are going to have to deal with employees when the decision is announced. What can be done to change that aspect of management culture so that the interests of the employees in the enterprise are recognized as being just as important as the interests of the managers and shareholders in their financial future.

**Barbara Coull Williams:** Jack can speak to this, too, but I do not see an issue at the very top of the organization. The officers and managers of the organization understand what we need to do to be successful in the future. The difficulty arises with that first-level supervisor who, historically, had been in the labor union and had gone into management. Going into management meant that that person now had authority and control. When you talk to first-level supervisors about the fact that accountability must come from the bargaining unit level, that's where we see the need for cultural change. It's not at the manager or officer level.

**Jack McNally:** I don't agree with what she said. The people in the top level, the higher level of management, are the ones that make the decisions, and decisions they make trickle down to lower-level supervision. Clearly, if you're going to look at worker empowerment and instituting a high-performance workplace, there are some problems with lower supervision. But, clearly, in terms of the direction of cooperation with respect to subcontracting or with respect to unionized subsidiaries, the decision will be made at the top level. And clearly, there are some people, at least according to some of the feedback I receive, who don't buy into all that. I think it is a question. However, I will tell you I have a good relationship with the very top individual in PG&E. And usually, if I'm having a bad day, I can call him up, and he will listen to me.

**William Rentfro:** To shift the discussion away from electricity and telecommunications for just a moment, I have a lot of contact with people in the industry, and I hear a lot of these new partnership ideas discussed within the union, just as they are being discussed here. But when it comes to the decisions Jack's talking about, those that are made at higher levels, especially in telecommunications where they're bringing in marketers who are really oriented with the market system rather than the old monopoly system, I don't care how beautiful the language is internally with the union; those marketers are responding to the market. If they see an opportunity to move into long-distance service and it's going to be separated from the operating company local exchange, it might very well go the way of Sprint and MCI—nonunion. The marketers that are developing information services and other aspects of integrated multimedia services that are being put together with Hollywood and all the other people—to market the new telecommunications products in entertainment—are all driven by the market, not goodwill. Even if the people in management like to talk a good line, they're going nonunion, they're operating in a nonunion environment. That's very important to understand when developing a relationship within the company where the bargaining unit tends to be shrinking. I can't emphasize that enough; it's my view that this really is a difficult thing to deal with.

**Stu Cohen:** I've spent 15 years as a management labor lawyer representing a public utility in the region around Peoria, Illinois. I'm listening to all this, and I'm thinking to myself, yes, I agree that the partnership, the team approach, is the best approach. But that means it's a two-sided situation. I'm addressing this mainly to Jack at this point. I have seen the company as the moving force any time progress is made in the relationship, particularly in the situation I've been involved in. For instance, I can give you an example of what the union can do to reclaim line clearance work. One of the reasons there's been more and more subcontracting in that work, even to a union subcontractor represented by the same local, is because their work rules are less stringent. If I were the union, I would offer an arrangement to the company that would make it attractive financially for them to use their own employees rather than to subcontract. And it's not just that one local they're subcontracting to; they're subcontracting to other locals of the same international which is a problem, too. But, the point I'm trying to make is all this should not have to emanate from the company. The union has a responsibility to be creative and to come up with ideas that the company will buy into in order to reclaim work. So I think the burden should be shared and not put on one side or the other.

**Barbara Coull Williams:** I agree, but I think what we're trying to do here is to have the right data that explain the costs of contracting out. Let union and company sit down together and figure out how we can get to the same kind of numbers so that the employees of the company can be the ones doing the work. It's the same issue with the spin-offs. You don't have to spin-off to a nonunion if you have the right data that say this is what it costs on the outside to get this work done, how do we keep it inside. Let's work on it together to figure how we do that. Right.

**Stu Cohen:** Yes, I have no quarrel with what you're saying. The union could also say, "What can we do?" Jack mentioned this a little earlier. What can we do to make ourselves more attractive? What can we offer? And once the union takes that attitude, I can assure you they will have a willing listener all the way up to the top of the company, because that is what the company wants. They want to be profitable. That's the reason they're subcontracting. They feel that they can save money. You could show them that there's a better way to do it using their own employees. I assure you they'll be interested in it.

**Jack McNally:** I happen to believe that Local Union 1245 of the IBEW is probably more progressive than most. And we do a lot of things, again as mutual interest. I'm a little bit familiar with the problem you're talking about, and I could get into a long story about the other side of the coin and PG&E. But I believe that with the new world that's upon us, that we, the union, have a responsibility, and we are going to have to look at things differently than we have in the past. I agreed to a letter of agreement just the other day that basically wipes out a previous letter of agreement that forced the company into keeping a certain number of employees, the famous 88104 thing. Based on this, we're going to do some other things.

**George Nicolau:** We have one last question or comment.

**Question:** I'd like to bring an international perspective to this discussion. I've really enjoyed what I've heard in this conference so far, particularly this session today. In Australia, as some of you may be aware, we have had government-union partnerships at the federal level for some 12 years now. We have a lot of union-management partnerships in industry and in the public sector. We have seen union-sponsored, multiskilling flexibility and the introduction of teamwork. Things that have been talked about here. The union movement has been driving a lot of it, and union density in Australia has fallen 10 percentage points in the last 10 years, just above the level that it reached in the Great Depression. My concern is the future for unionism: What is the best path forward? And, of course, what happens when unionism disappears? What is there to provide a floor under employee compensation and employee rights? Just a further point. One of the most successful in my country in the last couple of years in terms of membership growth is the Transport Workers Union, and it has just disaffiliated from the national body of the union movement. It is very aggressively pursuing a 15-percent wage hike on an industry basis, and it's one of the few unions that are growing.

**Jack McNally:** I have a radical view on that issue. We sit here today talking about the deregulation of all those different industries and primarily utilities. But it really goes beyond utilities, banking, and a whole bunch of others. I think it's about time we look at the possibility of reregulating or deregulating labor. The National Labor Relations Act, despite many good things, has really been used in recent years to weaken the labor movement. And they've done a pretty good job with it. So there's a lot of other things, such as the minimum wage, that, as far as all the contracts we have, don't do one bit, but obviously do help some other people. But I think that the labor movement has been pushed to the edge, but has not yet been pushed over. So I'm tired of it. Push them over, and we'll go back to the 1930s and do it all over again. Then you'll see the labor movement turning around, and then you'll see organization.

**George Nicolau:** I don't know why the two of you decided to raise this in the last three minutes. Well, obviously, we have heard from individuals in an industry facing a sea of change. They're struggling to cope with problems that are really not of their own design, but it looks like they are making their way slowly and perhaps there will still be some work for some of the arbitrators in this room. There will certainly be work for the sages like Don Vial. I want to thank all three of you.