DIANNE JACOB
SUPERVISOR, SECOND DISTRICT
SAN DIEGO COUNTY BOARD OF SUPERVISORS

AGENDA ITEM

DATE: December 7, 2010

41

TO: Board of Supervisors

SUBJECT: **CALLING ON STATE AND FEDERAL REGULATORS TO INVESTIGATE THE FINANCING OF SEMPRA ENERGY'S CASA AZUL FACILITY (DISTRICTS: ALL)**

SUMMARY:

Overview

Sempra Energy, a locally-based energy services company which owns San Diego Gas and Electric (SDG&E), has been accused by a former employee of bribing government officials in Mexico to advance the company's business interests. The former employee's lawsuit also claims that the company used ratepayer dollars to finance a $17 million corporate retreat north of Ensenada, Mexico. The facility features 14 bedrooms, a $56,000 home-theater system, a $55,000 bar and a fully stocked wine cellar, according to local media accounts.

Sempra denies the allegations and maintains that its own internal investigation yielded no evidence of bribery. In addition, Sempra insists that ratepayer dollars were not funneled from SDG&E in order to build the retreat.

Energy is a lifeblood commodity that literally fuels the nation's economy. Sempra and SDG&E are supposed to be regulated by the Federal Energy Regulatory Commission (FERC) and the California Public Utilities Commission (CPUC), respectively.

Sempra's highly-publicized role in the infamous California energy crisis, including almost $800 million in settlement payments, coupled with the serious new allegations of bribery and improper use of ratepayer dollars have created an atmosphere of intense distrust and skepticism. Today's action calls on the CPUC and FERC to investigate the troubling allegations contained in the whistleblower lawsuit.

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Recommendation(s)
SUPERVISOR JACOB
Direct the CAO to draft a letters for the Chair's signature to the CPUC and FERC requesting an investigation into 1) the alleged misuse of ratepayer money for the construction of a $17 million corporate retreat by Sempra Energy and 2) allegations that Sempra paid bribes to Mexican government officials.

Fiscal Impact
There is no fiscal impact associated with this recommendation.

Business Impact Statement
None

Advisory Board Statement
N/A

BACKGROUND:
Sempra Energy, a locally-based energy services company, which owns the region's electric utility, SDG&E, has been accused by a former employee of paying bribes to government officials in Mexico to advance the company's business interests there, including a liquid natural gas terminal near Ensenada.

The former employee's lawsuit also claims that the company used ratepayer dollars to finance a $17 million corporate retreat north of Ensenada, Mexico. The facility features 14 bedrooms, a $56,000 home-theater system, a $55,000 bar and a fully stocked wine cellar, according to local media accounts.

Sempra denies the allegations and maintains that its own internal investigation yielded no evidence of bribery. In addition, Sempra insists that ratepayer dollars were not funneled from SDG&E in order to build the retreat.

Ordinarily, how private companies spend revenue is of little concern to local government so long as companies comply with health and safety regulations. However, because energy is a lifeblood commodity that literally fuels the nation's economy, Sempra and SDG&E are supposed to be regulated by the Federal Energy Regulatory Commission (FERC) and the California Public Utilities Commission (CPUC), respectively.

During the California energy crisis in 2001, Californians learned the importance of closely monitoring the energy sector to guard against market abuses, including market churning, phony congestion and the deliberate ramping down of generation sources to artificially inflate prices.

At that time, families struggled to pay sky-high energy bills and some businesses were forced to close their doors. The threat of rolling blackouts was constant. Federal regulators were heavily criticized for not aggressively putting an end to gouging and gaming on the part of wholesale generators. The energy crisis is estimated to have cost ratepayers more than $9 billion.

In April 2010, Sempra Energy agreed to pay $410 million to settle claims that it used Enron-style tactics to generate record profits during the crisis. Similarly, in 2006, Sempra agreed to pay $377 million to settle claims that it manipulated natural gas supplies to drive up prices during the crisis. That same year, Sempra paid $5.7 million to settle a claim that it wrongly diverted natural gas from San Diego-based plants to generation sources in Mexico.

Sempra's highly-publicized role in the energy crisis, coupled with the serious new allegations of bribery and improper use of ratepayer dollars have created an atmosphere of intense skepticism and distrust toward the company by the public.

Sempra's internal audit is not a sufficient review of the allegations detailed in the whistleblower suit. The company's report is automatically suspect because Sempra has an obvious stake in the matter and is not a neutral party. To truly put the allegations to rest, state and federal regulators must investigate on behalf of the public.

A CPUC spokesperson told the San Diego Union-Tribune it will be "monitoring the proceeding," but stopped short of committing to a thorough review. Monitoring without an audit does not go far enough to ensure that ratepayer dollars were used appropriately. Similarly, FERC must do its part to investigate the bribery allegations and identify the funding sources of the corporate retreat.

The public should have confidence that government regulators take seriously their obligation to guard against misdeeds by energy companies. The CPUC and FERC should act swiftly and not rely on a civil lawsuit to root out the allegations. The energy industry has already manipulated Californians to a terrible degree in the past. That must not happen again.

Respectfully submitted,

DIANNE JACOB
Supervisor, Second District

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AGENDA ITEM INFORMATION SHEET

REQUIRES FOUR VOTES: [] Yes [X] No

WRITTEN DISCLOSURE PER COUNTY CHARTER SECTION 1000.1 REQUIRED
[] Yes [X] No

PREVIOUS RELEVANT BOARD ACTIONS:
N/A

BOARD POLICIES APPLICABLE:
N/A

BOARD POLICY STATEMENTS:
N/A

MANDATORY COMPLIANCE:
N/A

ORACLE AWARD NUMBER(S) AND CONTRACT AND/OR REQUISITION NUMBER(S):
N/A

ORIGINATING DEPARTMENT: District 2, Board of Supervisors

OTHER CONCURRENCE(S): N/A

CONTACT PERSON(S):

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