



TO: File b6 -4 DATE: February 11, 2005
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FROM:

SUBJECT: Accounting for the Energía Costa Azul Trust Agreement

The purpose of this position paper is to document the accounting for the funds contributed to the Energía Costa Azul Trust Agreement.

Purpose:

To document the chronology of events that led to permitting the Energia Costa Azul (ECA) project in Ensenada, Baja California and the formation of the Ensenada Trust (Trust).

History:

In September 2001, Sempra submitted a letter to the City of Ensenada requesting a land use permit for the ECA project.

Subsequently in January 2002, Sempra began to hold meetings with the mayor of Ensenada, Jorge Catalan (Mayor), other local government officials and community leaders to describe the benefits of the project to the city of Ensenada. During these meetings, the topic of the social impact on the community was raised by the Mayor. The Mayor was expecting that Sempra would make appropriate contributions to the city of Ensenada in order to be a member of its business community. Through ongoing discussion between the Mayor and Sempra, a mutually beneficial contribution of \$7,000,000 USD was tentatively agreed upon. A year later in January 2003, a draft of the Trust Agreement was prepared and presented to the Mayor. As a result, on August 12, 2003 the Land Use permit was signed by the Mayor.

In March 2004, the Trust Agreement's Internal Rules for the Trust and the Trustee was finalized. Then from March 2004 to October 2004, the Trust formed the Advisory Council and Technical Committee and the Mayor became the President of the Technical Committee. As a result of entering into the Trust, Sempra contributed its first payment of \$500,000 USD to the Trust on July 29, 2004, subject to the Trust being certified as a qualified charitable organization by the Secretaria de Hacienda (Hacienda), the national tax authority.

Subsequently on October 21, 2004, Sempra's final permit, the Construction License, was signed by Roberto Magana, the head of the Ensenada City Urban Development Agency. At the time of the approval, reported to the Mayor, Jorge Catalan.

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On October 29, 2004, although not required but in a commitment to give transparency to the process, the Trust was registered before the Public Register of Commerce. Also in October 2004, the Trust initiated registration with the Hacienda.

Then on November 4, 2004, after the construction license was issued, Sempra contributed the second payment of \$500,000 USD to the Trust, again subject to the Trust being certified as a qualified charitable organization by the Hacienda.

On December 1, 2004, Cesar Mancillas became the mayor of the city of Ensenada and on December 10, 2004 he became president of the Trust's Technical Committee.

As a result of receiving the final permit from the city, Sempra began to mobilize its construction activities. During Q4 2005, subject to no unplanned permitting impediments, Sempra will contribute \$5,000,000 USD to the Trust. During 2008, the same period as achieving commercial operation, Sempra will contribute the final \$1,000,000 USD to the Trust.

Conclusion:

Based on the above, it has been determined that the establishment and funding of the Trust is a cost associated with developing the LNG facility and such cost should be capitalized as part of the plant.