



UPDATE ON THE ERCOT CORRUPTION CASE

by Texas Attorney General Greg Abbott

CORRUPTION BY PUBLIC OFFICIALS erodes the foundations of government and democracy.

This summer, my office has continued its prosecution of a security-contract crime ring hatched within the Electric Reliability Council of Texas (ERCOT) in the spring of 2003. Three former top managers have been handed lengthy prison terms. A former senior manager and an independent contractor will be sentenced in the coming weeks, and a former program development director awaits trial for his role in the massive personal enrichment scheme.

ERCOT is an independent, nonprofit organization entrusted to manage the state's electric transmission grid, which covers 200,000 square miles of Texas and delivers electricity to nearly 20 million Texas consumers. ERCOT's work is partially funded through a fee paid by residential electric service customers. The agency is regulated by the Public Utility Commission and subject to oversight by the Texas Legislature. Its primary control center is in Williamson County.

In 2004, an internal review at ERCOT uncovered suspicious invoices and billing. The matter was turned over to a joint investigation team consisting of multiple law enforcement agencies, including my office. Our five-month investigation revealed a vast conspiracy by the organization's top officials to set up a complex internal network of shell companies designed to provide "security and computer contracting services" to ERCOT. Each of them billed the organization hundreds of thousands of dollars on contracts

for equipment, time and work, much of which was not provided. In total, ERCOT paid more than \$2 million to the bogus companies.

In early 2005, a Williamson County grand jury returned 23 criminal indictments against five of the agency's former top managers and one independent contractor. While the integrity of the ERCOT grid system statewide was never compromised, the evidence showed that the suspects were shamelessly lining their pockets at the expense of every Texan paying an electric bill. After the indictments were handed down, we worked with the DPS and local authorities in Round Rock and western Travis County to seize bank accounts, luxury automobiles, and other assets bought with proceeds from the crime.

Kenneth Shoquist, former chief information officer at ERCOT, pleaded guilty to engaging in organized criminal activity for commercial bribery. He repaid \$120,000 in illicit proceeds to ERCOT and was sentenced to eight years in prison.

Carlos Luquis, former physical security manager, was found guilty by a jury on two counts of engaging in criminal activity for theft and misapplication of fiduciary property. He was sentenced to 12 years on each felony charge and ordered to pay a \$10,000 fine and restitution of \$195,000 to ERCOT.

James C. Uranga, former director of information technology operations and corporate security, pleaded guilty to three first-degree felony charges of misapplication of fiduciary property and was sentenced to seven years in prison and ordered to pay \$505,000 in restitution to ERCOT.

John Cavazos, an independent contractor who was not employed by ERCOT, pleaded guilty to misapplication of fiduciary property enhanced to organized criminal activity, a third-degree felony. He returned \$8,700 to ERCOT, which is the amount he was illegally paid as a security contractor. He will be sentenced this month.

Chris Douglas, a former senior manager of ERCOT's Data Warehouse, pleaded guilty to theft and engaging in organized criminal activity for misapplication of fiduciary property, both first-degree felonies. He agreed to repay ERCOT over \$500,000 and faces formal sentencing in October.

Steven C. Wallace, a former program development director, still awaits trial for his alleged role in the scheme, including bribing Shoquist with monthly kickbacks ranging from \$7,500 to \$20,000.

In 2005, the Texas Legislature enacted a law that gives the Public Utility Commission oversight of ERCOT's budget and finances to ensure the organization properly performs its duties for the citizens of Texas. It also provided that ERCOT's meetings be open to the public.

The stunning complexity of illegal business dealings by those in positions of trust at ERCOT required an extraordinary commitment of time and resources to investigate. Our success in exposing the ERCOT fraud has come from bringing together the professional expertise of a wide range of finance and law enforcement officials. I believe this level of cooperation will be the standard for future efforts to root out public corruption.

POINTS TO REMEMBER



INDICTMENTS AND SENTENCES

For specifics of the indictments and sentences, visit my agency's website: www.oag.state.tx.us

Visit the Texas Legislature's website at: www.capitol.state.tx.us to view Senate Bill 408, passed during the 79th Regular Session to provide more oversight of ERCOT and transparency in the organization's business dealings.

- **Kenneth Shoquist**, chief information officer: eight years prison and \$120,000 restitution
- **Carlos Luquis**, physical security manager: 12 years prison on two felony counts, \$10,000 fine, \$195,000 restitution
- **Chris Uranga**, director of information technology operations and corporate security: seven years prison and \$505,000 restitution
- **John Cavazos**, a nonemployee contractor and a shell company security director: returned \$8,700 in illicit proceeds to ERCOT; sentencing in September
- **Chris Douglas**, senior manager, Data Warehouse: sentencing in October
- **Steven C. Wallace**, program development director: (two indictments pending, \$800,000 misappropriated) awaiting trial



ATTORNEY GENERAL OF TEXAS
GREG ABBOTT