

**ExxonMobil Comments  
Proposed Rule on Valuation of Crude Oil**

**January 31, 2000**

**ATTACHMENT A**

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**FILED**  
LOS ANGELES SUPERIOR COURT

AUS 30 1999

JOHN A. CLARKE, CLERK

*T. Acuña*

BY T. ACUNA, DEPUTY

IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA  
FOR THE COUNTY OF LOS ANGELES

STATE OF CALIFORNIA and CITY	)	Case No. C 587 912
OF LONG BEACH, as Trustees	)	
for the State of California,	)	
	)	SPECIAL VERDICT
Plaintiffs,	)	
	)	
vs.	)	
	)	
EXXON CORPORATION,	)	
	)	
Defendant.	)	

We, the jury in the above entitled action, find the following Special Verdict on the questions submitted to us:

Question No. 1: Do you find that plaintiffs have proven by a preponderance of the evidence that defendant or any of its contract partners breached the covenant of good faith and fair dealing under the Contractors' Agreement?

	Yes	No
Answer:	_____	<u>X</u> _____

If "yes," go to question no. 2. If "no," go to question no. 4.



1 under the LBOD Agreement?

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Yes No

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Answer: \_\_\_\_\_

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If "yes," go to question no. 6. If "no," go to question no. 7.

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Question No. 6: State the amount of damages suffered by plaintiffs as a result of the breach of the covenant of good faith and fair dealing under the LBOD Agreement.

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Answer: \$ \_\_\_\_\_

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Question No 7: Do you find that plaintiffs have proven by a preponderance of the evidence that defendant or any of its contract partners sufficiently influenced the prices paid to plaintiffs under the Contractors' Agreement such that plaintiffs were entitled to the reasonable worth of the crude oil sold?

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Yes No

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Answer: X \_\_\_\_\_

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If "yes," go to question no. 8. If "no," go to question no. 10.

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Question No. 8: Do you find that plaintiffs have proven by a preponderance of the evidence that they did not receive the reasonable worth of the crude oil sold under the Contractors'

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1 Agreement?

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Yes No

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Answer: \_\_\_\_\_ X

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If "yes," go to question no. 9. If "no," go to question no. 10.

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Question No. 9: State the amount by which the reasonable worth of the crude oil sold exceeded the amounts paid to plaintiffs under the Contractors' Agreement.

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Answer \$ \_\_\_\_\_

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Question No. 10: Do you find that plaintiffs have proven by a preponderance of the evidence that defendant or its contract partner Chevron sufficiently influenced the prices paid to plaintiffs under the LBOD Agreement such that plaintiffs were entitled to the reasonable worth of the crude oil sold?

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Yes No

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Answer: X \_\_\_\_\_

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If "yes," go to question no. 11. If "no," sign and return the Special Verdict form.

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Kalt Cross  
7/27/99

Exxon's Expert

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1 Q. So if Exxon's partners had influence over  
2 the price paid to the State of California in this case,  
3 the jury needs to determine, Dr. Kalt, what the  
4 reasonable worth is of the Wilmington crude oil that was  
5 sold to Exxon and its THUMS partners and under both the  
6 THUMS and the LBOD contract.

7 Now, you -- I think you would agree with  
8 me that reasonable worth would mean to you true market  
9 value or fair market value.

10 A. Fair market value, yes.

11 Q. Well -- by the way, do you make a  
12 distinction between fair market value and, let's say,  
13 true value in a competitive market? Are you making a  
14 distinction here?

15 A. No, but I do tend to draw the  
16 distinction. I understand the question. Sometimes  
17 people will talk about true market value but it won't be  
18 the same as fair market value. If, you know, OPEC is  
19 raising the price very high, for example, that might be  
20 the true market value that's been set, but it might be  
21 above fair market value because they've -- Saudi Arabia  
22 or something has restricted the supply to drive up the  
23 price. So I've tried to talk about fair market value.

24 Q. I'm trying to understand, though. If we  
25 were talking about the market value of something in a

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1 competitive market, that would be fair market value;  
2 correct?

3 A. Yes.

4 Q. So one of the linchpins would be that you  
5 had a competitive market, crick?

6 A. Struck through competitive processes, yes.

7 Q. And you would also -- if you had fair  
8 market value that was struck as a result of actual  
9 competitive process, competition in the marketplace,  
10 wouldn't that also -- I'm not quite sure I understand,  
11 but wouldn't that also be the true or actual value of  
12 the oil in a competitive market?

13 A. Yeah, in that case it would be, right.

14 Q. Now, so one way to determine or to try to  
15 determine whether or not -- what the reasonable worth  
16 was of Wilmington crude oil, how much it was worth if,  
17 in fact, posted prices had been set below fair market  
18 value, one of the things that we might turn to, I  
19 suppose, is we could take a look at maybe other oils,  
20 other California crude oils that are being bought and  
21 sold in California other than Wilmington and the posted  
22 prices for Wilmington and the three named fields, Signal  
23 Hill, Huntington Beach, and Inglewood. If we had a  
24 competitive market out there for other California crude  
25 oils, we might look to them to see what the reasonable

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1 worth is, right, after making some quality adjustments?

2 A. I don't know what you have in mind, but  
3 maybe there might be something to look at.

4 Q. Well, as an economist, wouldn't it be  
5 logical for you to do something like that? If somebody  
6 said, "Dr. Kalt, the posted price is not fair market  
7 value for Wilmington and the three named fields. How  
8 would we go about trying to figure out what the fair  
9 market value is?"

10 I mean, isn't one of the things you might  
11 do is to -- well, why don't we look at other California  
12 crude oils that are actually being sold in California  
13 and making some quality adjustment, we'll see what they  
14 sold for; right? That might be one approach you would  
15 use?

16 A. I don't -- in this context Dr. Anderson  
17 had indicated that he thought that all over California,  
18 all California prices had been depressed. So I  
19 understood the claims that the front table here was  
20 making were sort of to say all of the California prices  
21 were depressed. So in this context I don't --

22 Q. I didn't ask you that, sir. I didn't ask  
23 you what Dr. Anderson said one way or the other. I'm  
24 asking you as an economist, isn't that one of the first  
25 places you might look to, other California crude oils?

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1           A.       Well, I would look at the marginal buyer  
2 and I would look at the swing crudes that are affecting  
3 the market. That's where I would start.

4           Q.       Okay. Well, I guess, in any event, would  
5 you agree that one -- if, in fact, the posted prices for  
6 all California crudes, not just Wilmington and the three  
7 named fields, were set below fair market value, then you  
8 have to look to something else if you're going to try to  
9 figure out what reasonable worth is or what fair market  
10 value is; correct?

11          A.       You mean if all the California prices are  
12 depressed?

13          Q.       That's right, all of them are depressed.

14          A.       You would have to look at those if you  
15 assumed they were depressed.

16          Q.       In your view, Dr. Kalt, one of the things  
17 that Dr. Anderson looked at, not the only thing, but one  
18 of the things he looked at was the swing crude. The  
19 other crude that was sold in large quantities in  
20 California during the 1980s, and that was Alaska North  
21 Slope crude, wouldn't it be reasonable for an economist  
22 where the entire -- where posted prices for all  
23 California crudes are depressed, where they're set below  
24 market value, wouldn't it be reasonable, sir, to take a  
25 look at the other crude oil that is being sold in large

*Kent Anderson*  
*7/23/99*

*- Long Beach / California's  
Expert*

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1 fair market value?

2 A. Yes, it is.

3 MR. BONNER: Your Honor, the  
4 exhibit number for that would be 14457.

5 THE COURT: Thank you.

6 BY MR. BONNER:

7 Q. Dr. Anderson, in your opinion did Exxon  
8 and its partners pay to the City for the state of  
9 California's oil the reasonable worth of that oil?

10 A. No.

11 Q. And, first of all, before I ask you why  
12 that is, can you tell us, what do you understand the  
13 term "reasonable worth" to mean or how are you using  
14 that term?

15 A. I would take reasonable worth to mean the  
16 same thing as true market value.

17 Q. And so why in your opinion did the City  
18 receive less than reasonable worth for the crude oil,  
19 the state's crude oil?

20 A. Well, it's just another way of saying the  
21 same thing that I have said before, that the posted  
22 price was below true market value. I'm saying true  
23 market value to me and reasonable worth are the same  
24 thing.

25 THE COURT: You've used true market value

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1 and fair market value. Are you using those to mean the  
2 same thing?

3 THE WITNESS: Yes, sir.

4 BY MR. BONNER:

5 Q. Now, in doing your analysis, one of the  
6 things you used here is Alaska North Slope crude to  
7 establish the true market value or the fair market value  
8 for California crude, including Wilmington crude.

9 Dr. Anderson, why didn't you use some  
10 other California crude, California-produced crude to  
11 determine the market value for Wilmington crude?

12 A. I don't think that would have been  
13 possible because California crudes, as a whole, were  
14 underpriced. It was necessary to look to some other  
15 standard of value other than California crudes in order  
16 to make that assessment.

17 Q. In your opinion were all California  
18 crudes, including Wilmington crude, underpriced in about  
19 the same degree?

20 A. In about the same degree. The whole  
21 structure of California prices was set too low.

22 Q. And why did you use Alaska North Slope,  
23 then, as a comparison crude?

24 A. Well, we talked about this earlier. It's  
25 a crude that was bought and sold in large quantity on