

SUPERIOR COURT OF CALIFORNIA

County of San Diego

DATE: June 7, 2006 DEPT. 71 REPORTER A: Peter Stewart CSR#

PRESENT HON. Ronald S. Prager REPORTER B: CSR#

JUDGE

CLERK: K. Sandoval

BAILIFF: REPORTER'S ADDRESS: P.O. BOX 120128
SAN DIEGO, CA 92112-4104

MINUTE ORDER

IN RE: JCCP 4221/4224/4226&4428 – Natural Gas Anti-Trust Cases (Pipeline)

The attached Court's Tentative Ruling regarding NATURAL GAS PIPELINE SETTLEMENT applies to all cases listed as follows:

- 4221-00001 PHILLIP vs EL PASO MERCHANT ENERGY
- 4221-00002 PHILLIP vs EL PASO MERCHANT ENERGY
- 4221-00003 CONTINENTAL FORGE COMPANY vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00004 BERG vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00005 THE CITY OF LONG BEACH vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00006 THE CITY OF LOS vs SOUTHERN CALIFOR
- 4221-00005 SWEETIE'S A CALIFORNIA PARTNERSHIP vs EL PASO CORPORATION
- 4221-00006 THE CITY OF LOS ANGELES vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00007 SWEETIE'S A CALIFORNIA PARTNERSHIP vs EL PASO CORPORATION
- 4221-00008 CALIFORNIA DAIRIES INC vs EL PASO CORPORATION
- 4221-00009 DRY CREEK CORPORATION (JCCP 4228) vs EL PASO NATURAL GAS COMPANY
- 4221-00010 HACKETT vs EL PASO CORP
- 4221-00011 THE COUNTY OF LOS ANGELES vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00012 THE CITY OF VERNON vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00013 WORLD OIL CORP vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00014 CITY OF UPLAND vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00015 THE COUNTY OF SAN BERNARDINO vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00016 EDGINGTON OIL COMPANY vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00017 THE CITY OF CULVER CITY vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00018 THE CITY OF BURBANK vs SOUTHERN CALIFORNIA GAS COMPANY
- 4221-00019 THUMS LONG BEACH COMPANY vs SOUTHERN CALIFORNIA GAS COMPANY

The Court grants the parties' request for judicial notice.

This Cartwright Act action was filed in an attempt to redress record high energy prices imposed on Californians from alleged anti-trust conduct of Defendants. California had recently deregulated its energy market and some believed deregulation contributed to the California Energy Crisis. Plaintiffs however filed this consumer antitrust class action and alleged Defendants conspired to restrain trade in the energy market by restricting the flow of natural gas at the California border. Specifically, the complaint alleged that in September, 1996, executives from Sempra and El Paso corporations met in an hotel room in Phoenix, Arizona to create a scheme to control the flow of natural gas to and within Southern California. Plaintiffs further alleged that after the Phoenix meeting Sempra and El Paso stopped competing against each other for projects that would have brought additional natural gas pipeline capacity to California. The Defendants resolutely opposed the allegations made by plaintiffs.

This action began a long arduous fight that expended unbelievable resources in an attempt to remedy an unprecedented situation. This action was subsequently coordinated statewide with similar cases as the Natural Gas Pipeline cases. It was one of many filed throughout the state on behalf of consumers, municipalities, agencies and entities against every energy producer, marketer, regulated and unregulated energy entity imaginable. Numerous proceedings were had before the Federal Energy Regulatory Commission (FERC), the California Public Utilities Commission (CPUC), multiple state and federal courts. This action, however, is one of very few that remained viable as others failed to survive Federal Preemption or the bar of the Filed Rate Doctrine.

At the time FERC determined the rate increases were largely part of a market-based system and the product of deregulation. When Plaintiffs filed their action in 2000, the Attorney General declined to participate in its resolution. Plaintiffs pressed on, and the efforts of counsel have been revealed in a substantial settlement previously with the El Paso defendants, and now with the Sempra defendants. The parties now seek final approval of the class action settlement.

When considering a motion for final approval of class action settlement, a court's inquiry is whether the settlement is "fair, adequate, and reasonable. (*Dunk v. Ford Motor Co.* (1996) 48 Cal.App.4th 1794, 1801 n.7) A settlement is fair, adequate and reasonable, and merits approval when "the interests of the class as a whole are better served if the litigation is resolved by the settlement rather than pursued." (*Manual for Complex Litigation, Third* (MCL 3d) (1995) section 30.42 at 238) "Although the court gives regard to what is otherwise a private consensual agreement between the parties, the court must also evaluate the proposed settlement agreement with the purpose of protecting the rights of the absent class members who will be bound by the settlement." (*Wershba v. Apple Computer, Inc.* (2001) 91 Cal.App.4th 224, 245)

The trial court operates under a presumption of fairness when the settlement is the result of arm's length negotiations, investigation and discovery that are sufficient to permit counsel and the court to act intelligently, [where] counsel are experienced in similar litigation, and the percentage of objectors is small." (In re Microsoft I-V Cases, (2006) 135 Cal.App.4th 706, 764)

JCCP 4221

NATURAL GAS PIPELINE SETTLEMENT

JUNE 7, 2006

The trial court has broad discretion to determine whether the settlement is fair. (Dunk v. Ford (1999) 48 Cal.App.4th 1794, 1801, citing Rebney v. Wells Fargo Bank (1990) 220 Cal. App. 3d 1117, 1138) "The inquiry 'must be limited to the extent necessary to reach a reasoned judgment that the agreement is not the product of fraud or overreaching by, or collusion between, the negotiating parties, and that the settlement, taken as a whole, is fair, reasonable and adequate to all concerned.'" (Dunk, supra at 625.) Further, "it cannot be over emphasized enough that neither the trial court in approving the settlement nor [the Court of Appeal] in reviewing that approval have the right or the duty to reach any ultimate conclusions on the issues of fact and law which underlie the merits of the dispute." (7-Eleven Owners for Fair Franchising v. Southland Corp. (2001) 85 Cal.App.4th 777)

The Court finds the Settlement Agreement is the product of difficult arms-length negotiations between the parties' extremely well credentialed attorneys, which culminated from years of investigation, education, discovery, and legal debate. In re Microsoft I-V Cases (2006 135 Cal.App.4th 706, 723 sets out factors the Court must consider when approving a class action settlement. The Court finds those factors have been satisfied as detailed below.

First, Plaintiffs' case was not strong. It was one of numerous cases filed to remedy the energy crisis. It was one of a few that proceeded past the pleading stage. This action, although hard fought and well reasoned, proceeded for the most part on a dispute over unresolved legal jurisprudence. The evidence presented at trial was credible, but not unexplained. Plaintiffs' theories were not incredulous, especially since so much suspicion arose from the debilitating effects of the energy crisis. Nonetheless, it is undisputed that Plaintiffs' were not guaranteed an easy victory.

Second, the risk, expense, complexity and duration of further litigation absent the settlement would have been astronomical. This case was two months into trial when the parties reached a settlement. As stated above, Plaintiffs' case was arguably an uphill battle. In addition, a huge risk presented for Defendants. If the jury believed Plaintiffs' case, Defendants might have suffered bankruptcy in order to pay damages awarded against them. Currently, the parties have incurred untold fees and costs in litigating this matter, if not for the settlement, further litigation would boggle the mind in terms of the costs and complexity involved in starting over.

Third, the amount of the cash settlement alone is sufficient in light of the circumstances surrounding this action. As stated above, Plaintiffs did not have an overwhelmingly strong case and the risks of proceeding were high. Since essentially no other case proceeded past the pleading stage, this action amounted to consumers' "last chance" at redress in the court system. The result of a jury decision, which was decidedly questionable, makes settlement reasonable and preferable at this time.

The non-cash elements of the settlement, although subject to CPUC approval, are significant. The evidence presented indicates a value in the millions. The exact value is disputed, but the value is substantial nonetheless. Similarly, the "\$300 million insurance policy" regarding the CDWR contracts is also substantial

JCCP 4221

NATURAL GAS PIPELINE SETTLEMENT

JUNE 7, 2006

in light of the state's inability to secure any meaningful results from it's own litigation.

As such, the consideration offered weighs in favor of settlement, instead of proceeding with risky, costly litigation.

Further, it is undisputed that discovery in this matter was comprehensive. It is undisputed that counsel are exceedingly capable, educated, experienced and driven. Plaintiffs' counsel "rode alone" in pursuit of these claims. Without any assistance from the Attorney General, Plaintiffs' counsel sought relief for 13 million energy consumers at a time when it was believed by the government and administrative agencies that the energy crisis was the unfortunate result of deregulation and couldn't possibly have been caused by misuse of the system. Once evidence came to light that manipulation of the market and regulatory system was possible, the State initiated its own litigation.

The Attorney General recently became active in this case after he initially declined to participate. However, the Attorney General's participation is curious since he objects to the settlement and does not support it's resolution. The Attorney General asserts the settlement in this action may adversely effect the outcome of his own litigation. As such, the Court was given the opportunity to review the settlement from an adversarial perspective not usually considered in approving a settlement between willing parties. The Attorney General continues to ask the Court to consider the impact the settlement agreement might have on the State's ongoing litigation and future proceedings before the FERC and CPUC. The Court continues to view these requests as inappropriate advisory opinions, predicated on speculation, and will not comment on the future possible impacts or problematic applications to other proceedings.

Finally, Plaintiffs persuasively point out that of the 13 million class members only a handful objected to the settlement. Most of the objectors were government entities, private utilities, or public agencies that opposed the settlement because Defendants' indication that the general releases in the settlement

agreement would be used to adversely impact other actions and proceedings. Other objections were filed concerning (1) adequate notice to the class because the settlement and notices were only disseminated in English, (2) the value of the structural components of the settlement were uncertain and (3) the amount of attorneys fees.

Even Plaintiffs advocated against settlement approval without assurances from Sempra concerning the scope of the releases.

Subsequent to the filing of the objections, the Sempra Defendants and Southern California Edison reached further settlement which details the applicability of the settlement releases in these actions and proceedings. Sempra unambiguously conceded, among other things, that the releases would not interfere with public actions and/or entities pursuing separate proceedings. As such the objections concerning the releases are moot, and Plaintiffs withdrew their objection to the approval of the settlement in this regard.

The Court finds the Attorney General, PG&E and The Electricity Oversight Board's
JCCP 4221 NATURAL GAS PIPELINE SETTLEMENT JUNE 7, 2006

continued objections despite the concessions from Sempra are without merit. Thus, the Court overrules these objections in this regard. Whether the FERC elects to change its methodology regarding refunds it has employed for nearly five years is simply too speculative at this time. Sempra has a contractual right to protect itself from potential adverse events. In light of the bargains crafted by and between the parties the Court will not interfere with those agreements nor presume to know better. Further, the effect of this settlement on any future administrative agency decision or other tribunal is a determination to be made wholly by the agency or tribunal. It is improper for this Court to hypothesize on those effects and the Court is unwilling to gamble away substantial benefits to the class based on nothing more than pure conjecture. (See: *In Re: Domestic Air Transportation Antitrust Litigation* (N.D. Ga 1993) 148 F.R.D. 297, 305 [the time has come for the rational and practical resolution of this complex litigation . . . Plaintiffs have achieved a certain and worthwhile benefit for the class in exchange for the mere possibility of recovery at some indefinite time in the future."].)

In addition, the parties, Edison, and others agree this settlement will not thwart the Attorney General's ability to enforce its ample police powers in the unrestricted recovery of injunctive relief, civil penalties, and other forms of structural relief against the Sempra Defendants. Only in the remote situation that the Attorney General is unsatisfied with these remedies, and somehow is successful in obtaining damages or restitution on behalf of class members, will the impact of this settlement on future litigation come into play. Such contemplation is unworthy of the risk to the class in denying settlement approval and proceeding with this litigation. (See: *In Re: Domestic Air, supra*)

The Court is unpersuaded by the continued objection of the CPUC. Nothing in the

settlement agreement interferes with the authority or jurisdiction of the CPUC. The settlement agreement expressly states that the structural relief, the LNG contracts and other provisions are subject to the authority and approval of the CPUC. Nothing, but pure speculation, indicates that the terms of the settlement agreement abrogate, in any way, the law or authority of the CPUC.

The Court overrules the objections of the City of Signal Hill. The Court finds the City of Signal Hill misstates the settlement agreement and its effect on the municipality.

The Court also overrules the objections of Equilon Enterprises LLC and Shell California Pipeline Company LLC since resolution of their objections is being satisfied outside these proceedings. In addition, the Court notes the Sempra Defendants and Plaintiffs' counsel represent that it was their intention that the term "defendants" meant only "Sempra parties" and would not apply as Equilon and Shell contend.

The Court overrules the objections of The Utility Reform Network in accordance with the Court's ruling herein and pursuant to the agreement between Edison and the Sempra defendants.

The Court also overrules the objections of the Utility Consumers Action Network, Inc. in accordance with the Court's ruling herein and pursuant to the agreement between Edison and the Sempra defendants.

JCCP 4221

NATURAL GAS PIPELINE SETTLEMENT

JUNE 7, 2006

As established by Plaintiffs, the objections of objector Ms. Tomkinson are without merit since notices were published in 13 non-English speaking newspapers widely circulated in California. In addition, there are no requirements that the settlement agreement and the Court's preliminary approval be translated as contended by Ms. Tomkinson. As such, the Court overrules Ms. Tomkinson's objections in their entirety.

As stated above, the value of the structural relief is disputed. However, there is no dispute that the structural relief has substantial value. Subject to the approval and processes of the CPUC, the structural relief is a meaningful aspect of the settlement agreement. The structural relief proposed by this settlement agreement was thoughtfully drafted using the Northern California regulatory scheme as a model. It was crafted after considerable reflection on concerns from all sophisticated institutional entities weighing in on the aspects of the litigation. The Court further notes that a plaintiffs' verdict in this case could not possibly have afforded the structural relief provided by the settlement. That in and of itself is a powerful reason to approve the settlement, since without settlement, there was no chance the class would achieve any of these structural benefits from the litigation.

The objections concerning attorneys fees will be addressed below.

Based on the factors detailed above, and the absence of applicable objections to the settlement, the Court grants the parties' request for final approval of the class action settlement as requested.

Plaintiffs' Application for Attorneys' Fees and Costs

The "experienced trial judge is the best judge of the value of professional services rendered in his court, and while his judgment is of course subject to review, it will not be disturbed unless the appellate court is convinced that it is clearly wrong." (*Serrano v. Priest* (1977) 20 Cal.3d 25, 49, citing *Harrison v. Bloomfield Building Industries, Inc.* (6th Cir. 1970) 435 F.2d 1192, 1196)

Both California state and federal courts recognize two methods for evaluating the fairness and reasonableness of attorneys' fees in class action settlements resulting in the creation of a common fund for the distribution to class members: (1) the percentage-of-the-benefit method; or (2) the lodestar method plus multiplier method. (*Wershba v. Apple Computers, Inc.* (2001) 91 Cal.App.4th 224, 254; *Hanlon b. Chrysler Corp.* (9th Cir. 1998) 150 F.3d 1011, 1029)

In considering an award of attorneys' fees, the Court may evaluate (1) the results achieved for the class; (2) the risks faced by class counsel; (3) whether the class counsel's performance generated benefits beyond the creation of a cash settlement fund; (4) how the percentage compares to market rates and/or negotiated retainer rates with class representatives; and (5) whether based on the length and complexity of the case counsel had to forego other work. (*Vizcaino v. Microsoft Corp.* (9th Cir. 2002) 290 F.3d 1043, 1048, 50)

It is customary in percentage-of-the-benefit cases that attorneys fees are

JCCP 4221

NATURAL GAS PIPELINE SETTLEMENT

JUNE 7, 2006

awarded based on 25% to 30% of the benefit received by the class. (*In re Activision Sec. Litig.* (N.D. Cal. 1989) 723 F.Supp. 1373, 1378-79; *Staton v. Boeing Company* (9th Cir. 2003) 327 F.3d 938, 968)

Plaintiffs' counsel seek \$161 million in fees for their considerable efforts in this action. The settlement is conservatively valued at approximately \$1.16 billion. The fees requested represents less than 10% of the settlement value. Recognizing the value of the non-cash consideration is disputed, and partly subject to certain conditions including the outcome of pending arbitration proceedings and approval by the CPUC, the requested fees represents less than 14% of all cash consideration and price reduction components of the combined *El Paso* and *Sempra* settlements. (Cotchett Declaration, paras. 35-37, Sarokin Declaration, para. 50)

The Court finds the requested fees are reasonable and appropriate under the

circumstances. As stated above, the risks faced by class counsel were enormous. No government agency or administrative body pursued these claims and it was up to class counsel to take up the charge. Most all the other actions filed seeking to redress similar wrongs failed to proceed as far as this case. The cash consideration alone constituted sufficient consideration for settlement under the circumstances. But in addition, counsel was able to secure significant non-cash concessions that improve the way the industry does business in order to guard against future abuse. The value of the non-cash components of the settlement agreement is disputed. Everyone, however, agrees the economic benefit to the class is remarkable under the circumstances.

The efforts of counsel were tremendous. The time and dedication spent on this action was all consuming. For six years Plaintiffs counsel relentlessly pursued resolution of their clients' claims. The Court has no doubt that counsel traveled

a legal odyssey that has crossed jurisdictional boundaries and state lines, withstood repeated blistering attacks on their legal claims (including no less than forty attacks on all or part of the Plaintiffs' complaint, five summary judgment motions and five demurrers), waded through literally millions of pages of documents, engaged in massive discovery including hundreds of document requests and interrogatories and responded to over one thousand Requests for Admission, taken over 150 depositions, argued more than thirty in limine motions, tested the class against the crucible of class certification, moved to San Diego for a five month period of pre-trial and trial and navigated an eleventh-hour trip to the FERC. Then they steered the settlement over eight months of intense negotiations through multiple crises - any one of which could have cratered an already fragile accord - all the while bankrolling from their own pockets over nine million dollars in costs and tens of millions of dollars in deferred work, without any guarantee of success. (Plaintiffs' Motion for Attorneys' Fees, Costs, and Class Representatives' Incentive Awards, p. 2:12)

None of the institutional objectors challenged the requested attorneys' fees. Objector Tomkinson complained the requested fees were exorbitant. Ms. Tomkinson, JCCP 4221 NATURAL GAS PIPELINE SETTLEMENT JUNE 7, 2006

however, failed to provide applicable evidence to support her claims. Ms. Tomkinson made allegations of ethical violations, and improper fee splitting, but provided no admissible evidence in support of her claims. Other than Ms. Tomkinson's bald assertions and argument the record before the Court supports an award of attorneys' fees and costs as requested.

The Court also approves the requested incentive fees of \$15,000 for Continental Forge, Sierra Pine, United Church Retirement Homes and Long Beach Brethren Manor and \$10,000 for the Berg family, the Welch family, the Frazee family, the Stella family, Gerald Marci, John Clement Molony and Robert Lamond. There was no

opposition to the award of these incentive fees.

The Court hereby adopts Plaintiffs' proposed order awarding Plaintiffs' attorneys' fees and costs and class representatives' incentive awards as its own, and in its entirety.

Indexing Plaintiffs' Application for Attorneys' Fees

Plaintiffs' counsel seeks \$1 million in fees and costs associated with the settlement of the Sempra Defendants and the Natural Gas Pipeline Indexing cases. There was no opposition to Counsel's application with the exception of Ms. Tomkinson. However, Ms. Tomkinson's opposition failed to provide admissible evidence in support of her opposition.

Accordingly, the Court grants the Indexing Plaintiffs' Counsel application for the requested fees and costs.