

This Settlement Agreement (this "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD ("ARB") 1001 I Street, Sacramento, California 95814, and CHEVRON PRODUCTS COMPANY, a division of Chevron U.S.A. Inc., on behalf of its El Segundo Refinery, 6001 Bollinger Canyon Road, San Ramon, California 94583 (the "Company" and, together with ARB, the "Parties").

RECITALS

1. The Global Warming Solutions Act of 2006 authorized ARB to adopt regulations requiring the reporting and verification of greenhouse gas emissions. (Health & Saf. Code § 38530.) Pursuant to that authority, ARB adopted the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions (the "MRR"), California Code of Regulations (CCR), title 17, § 95100 et seq.
2. The MRR is crucial to the development of the greenhouse gas ("GHG") inventory, and supports other regulatory programs, including the cap on GHG emissions established by CCR, title 17, § 95801 et seq., known as the Cap-and-Trade Regulation. The MRR requires most reporting entities to submit, by April 10 of each year, an emissions data report containing emissions and product data that is certified to be complete and accurate within stated standards. (CCR, tit. 17, § 95103.) The April 10 deadline is intended to precede other regulatory events later in the year, such as verification under the MRR, and the distribution of allowances and surrender of compliance instruments under the Cap-and-Trade Regulation. Petroleum refineries that participate in Solomon Energy Reviews are required to report their Solomon Energy Intensity Index (EII) along with other production data by the April 10 deadline. (CCR, tit. 17, § 95113(l)(2).)
3. Where a report required under the MRR is late or does not meet the regulation's standards for accuracy, completeness, or third-party verification, the MRR provides that each day a report remains unsubmitted, incomplete or inaccurate constitutes a separate violation. (CCR, tit. 17, § 95107.)
4. California Health & Safety Code §§ 38580 and 42402 provide that one who violates the MRR or related regulations is strictly liable for a penalty of up to \$10,000 for each violation.
5. ARB alleges that in its 2011 emissions data report for the El Segundo refinery (ARB ID #100138), the Company submitted a report containing incorrect Solomon EII values. ARB further alleges that this report remained inaccurate for 243 days.
6. The Company denies the allegations in the preceding paragraph and all allegations contained in this Agreement and makes no admission of fact or liability whatsoever with respect to such allegations.
7. In reaching this settlement, ARB considered a variety of circumstances, including the size and complexity of the Company's operations, the nature, magnitude, and

duration of the alleged violations, the extent to which the alleged violations resulted in any harm to the environment or the regulatory program, efforts the Company took to prevent the alleged violations and to correct them, and the financial burden to the Company.

8. In this matter, there were a number of mitigating factors, including that this is the first time ARB has contended that the Company submitted inaccurate information under the MRR, the alleged errors in the report were promptly corrected, the Company's explanation indicates an inadvertent error, and the Company has agreed to submit an updated GHG monitoring plan under CCR, title 17, § 95105(c) to ARB.

9. In order to resolve these alleged violations, the Company has taken, or agreed to take, the actions enumerated below. Further, ARB accepts this Agreement in termination and settlement of this matter.

10. In consideration of the foregoing, and of the promises and facts set forth herein, the Parties desire to settle and resolve any and all claims, disputes, and obligations arising from the circumstances described in paragraph 5, above, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, ARB and the Company agree as follows.

TERMS

11. Within 15 business days following execution of this agreement, the Company shall deliver a check or money order in the sum of \$364,500 made payable to the "Air Pollution Control Fund."

The check should note "Chevron 2011 MRR settlement" in the memo section. Please submit the signed settlement agreement and check to:

Mr. Will Brieger
Air Resources Board, Legal Office
P.O. Box 2815
Sacramento, CA 95812

12. It is further agreed that the penalties described in the prior paragraph are non-dischargeable under 11 United States Code § 523(a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty or forfeiture payable to and for benefit of governmental unit, and is not compensation for actual pecuniary loss, other than certain types of tax penalties.

13. The Company is subject to the MRR, CCR, title 17 §§ 95100 *et seq.*, and acknowledges its obligations thereunder.

14. Within 60 days of executing this Agreement, the Company shall submit to ARB an updated GHG Monitoring Plan pursuant to CCR, title 17, § 95105(c), that corrects the errors identified by ARB and covered in this Agreement.

15. This Agreement shall apply to and be binding upon the Company, and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.

16. This Agreement constitutes the entire agreement and understanding between ARB and the Company concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and the Company concerning the subject matter hereof.

17. No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, is valid or enforceable unless it is in writing and signed by all Parties to this Agreement.

18. Each provision of this Agreement is severable, and in the event that any provision of this Agreement is held to be invalid or unenforceable, the remainder of this Agreement remains in full force and effect.

19. This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice-of-law rules.

20. This Agreement is deemed to have been drafted equally by the Parties; it will not be interpreted for or against either party on the ground that said party drafted it.

SB 1402 STATEMENT

21. Health & Safety Code § 39619.7 requires ARB to explain the manner in which the penalty was determined, the law on which it is based, and whether that law prohibits emissions at a specified level. Without waiving, limiting, or otherwise restricting its right to challenge ARB's compliance with § 39619.7 in future settlements, the Company acknowledges that ARB has complied with § 39619.7 in investigating, prosecuting and settling this case. Specifically, ARB has considered all relevant facts, including those listed at Health & Safety Code § 42403, has explained the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty is being assessed, which provision does not prohibit the emission of pollutants at a specified level. That information, some of which is also elsewhere in this Agreement, is summarized here.

The manner in which the penalty was determined, including any per-unit penalty. Penalties must be set at levels sufficient to deter violations. The penalties in this matter were determined based on all relevant circumstances, including the unique circumstances of this case, giving consideration to the eight factors specified in Health & Safety Code § 42403. Consideration was given to the reporting entity's size and

complexity, the extent to which the monitoring and reporting deviated from MRR requirements, the cause of any errors and omissions, the fact that the MRR regulations underwent amendments to clarify applicable reporting requirements, the magnitude of any errors, and whether emissions were over reported or under reported. Those circumstances were considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, penalties sought in other cases, and the potential costs and risk associated with litigating these particular alleged violations. Penalties in future cases might be smaller or larger.

In this case, the penalty equates to \$1500 for each day that the reports in question were alleged to be late or inaccurate, and was discounted based on the facts that the errors in the refinery emissions report were promptly corrected, and the Company made diligent efforts to comply and to cooperate with ARB's investigation. The Company's explanation indicates an inadvertent error, and the Company has agreed to submit an updated GHG Monitoring Plan to ARB pursuant to CCR, title 17, § 95105(c).

The legal provisions under which the penalty was assessed and why those provisions are appropriate. The penalty is based on Health & Safety Code § 42402 and CCR, title 17, § 95107, the provisions intended to govern MRR violations.

Whether the governing provisions prohibit emissions at a specified level. The MRR does not prohibit emissions above a stated level, but Health & Safety Code § 38580(b)(2) specifies that violations of any regulation under the Global Warming Solutions Act of 2006 shall be deemed to result in an emission for purposes of the governing penalty statutes.

22. The penalty was based on confidential settlement communications between ARB and the Company. The penalty is the product of an arms length negotiation between ARB and the Company and reflects ARB's assessment of the relative strength of its case against the Company, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law, and remove any unfair advantage that the Company may have secured from its actions.

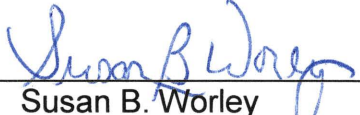
23. In consideration of the penalty payment and undertaking in paragraph 14, above, ARB hereby releases the Company and its officers, directors, receivers, trustees, employees, successors and assignees, and subsidiary and parent corporations from any and all claims the ARB may have based on the circumstances described in paragraph 5, above.

24. The undersigned represent that they have the authority to enter into this Agreement.

California Air Resources Board

**Chevron Products Company, a
division of Chevron U.S.A. Inc.**

By: 
Richard W. Corey
Executive Officer

By: 
Susan B. Worley
HES Manager, El Segundo Refinery

Date: 12/31/2013

Date: 1/3/14

