

SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") with its principal office at 1001 I Street, Sacramento, California 95814, and CHEVRON U. S. A. INC. (hereinafter "CHEVRON") with its principal place of business at 6111 Bollinger Canyon Road, San Ramon, CA 94583.

I. RECITALS

- (1) California Code of Regulations (hereinafter "CCR"), Title 13, Section 2265 (Gasoline Subject to PM Alternative Specifications Based on the California Predictive Model) provides in pertinent part as follows:

(a) *Election to sell or supply a final blend as a PM alternative gasoline formulation.*

(1) In order to sell or supply from its production facility or import facility a final blend of California gasoline as a PM alternative gasoline formulation subject to PM alternative specifications, a producer or importer shall satisfy the requirements of this section (a).

(2) The producer or importer shall evaluate the candidate PM alternative specifications for gasoline subject to the CaRFG Phase 2 standards in accordance with the Air Resources Board's "California Procedures for Evaluating Alternative Specifications for Phase 2 Reformulated Gasoline Using the California Predictive Model," as adopted April 20, 1995 and last amended December 11, 1998, which is incorporated herein by reference. The producer or importer shall evaluate the candidate PM alternative specifications for gasoline subject to the CaRFG Phase 3 standards in accordance with the Air Resources Board's "California Procedures for Evaluating Alternative Specifications for Phase 3 Reformulated Gasoline Using the California Predictive Model," as last amended April 25, 2001, which is incorporated herein by reference (the two documents incorporated by reference in this section 2265(a)(2) are collectively referred to as the "Predictive Model Procedures"). If the PM alternative specifications meet the criteria for approval in the applicable Predictive Model Procedures, the producer shall notify the executive officer of: (A) The identity, location, and estimated volume of the final blend; (B) the PM alternative specifications that will apply to the final blend, including for each specification whether it applies as a PM flat limit or a PM averaging limit; and (C) the numerical values for percent change in emissions for oxides of nitrogen, hydrocarbons, and potency-weighted toxic air contaminants as determined in accordance with the applicable Predictive Model Procedures. The notification shall be received by the executive officer before the start of physical transfer of the gasoline from the production or import facility, and in no case less than 12 hours before the producer or importer either completes physical transfer or commingles the final blend.

(b) *Prohibited activities regarding PM alternative gasoline formulations.*

(1) No producer or importer shall sell, offer for sale, supply, or offer for supply from its production or import facility California gasoline which is reported pursuant to section 2265(a) as a PM alternative gasoline formulation subject to PM alternative specifications if any of the following occur:

...(C) The gasoline fails to conform with any PM flat limit in the identified PM alternative specifications...

- (2) H&SC section 43027(c) states, "[a]ny person who violates any provision of this part, or any rule, regulation, permit, variance, or order of the state board, pertaining to fuel requirements and standards, exclusive of the documentation requirements specified in subdivision (d), is strictly liable for a civil penalty of not more than thirty-five thousand dollars (\$35,000)."
- (3) H&SC section 43027(d) states, "[a]ny person who enters false information in, or fails to keep, any document required to be kept pursuant to any provision of this part, or any rule, regulation, permit, variance, or order of the state board, pertaining to fuel requirements and standards, is strictly liable for a civil penalty of not more than twenty-five thousand dollars (\$25,000)..."
- (4) H&SC section 43029 requires the prosecuting agency to include a claim for an additional penalty designed to eliminate the economic benefits from noncompliance against any person who violates any provision of this part, or any rule, regulation, permit, variance, or order of the state board pertaining to fuel requirements or standards as follows; "(a) For violations of gasoline requirements, the amount of the penalty shall equal the product of the number of tons of incremental increased vehicular emissions resulting from the manufacture, distribution, and sale of the specified volume of noncompliant fuel and nine thousand one hundred dollars (\$9,100) per ton, which is the maximum calculated cost-effectiveness for California Phase 2 Reformulated Gasoline.
- (5) H&SC section 43030(a) states, "for the penalties prescribed in Sections 43027 . . . , each day during any portion of which a violation occurs is a separate offense."
- (6) H&SC section 43031(b) states, "[i]n determining the amount assessed, ...the state board, in reaching any settlement, shall take into consideration all relevant circumstances, including, but not limited to, all of the following: (1) The extent of harm to public health, safety, and welfare caused by the violation. (2) The nature and persistence of the violation, including the magnitude of the excess emissions. (3) The compliance history of the defendant, including the frequency of past violations. (4) The preventive efforts taken by the defendant, including the record of maintenance and any program to ensure compliance. (5) The innovative nature and the magnitude of the effort required to comply, and the accuracy, reproducibility, and repeatability of the available test methods. (6) The efforts to attain, or provide for, compliance. (7) The cooperation of the defendant during the course of the investigation and any action taken by the defendant, including the nature, extent, and time of response of any action taken to mitigate the violation. (8) For a person who owns a single retail service station, the size of the business."

- (7) ARB alleges in Notice of Violation **F10-8-6** the following: On November 16, 2009 CHEVRON sold or offered for sale, or supplied or offered for supply unleaded regular grade California reformulated gasoline blendstock for oxygenate blending (CARBOB) from Chevron's Richmond Refinery located at 841 Chevron Way, Richmond, CA 94804, with an olefin content that exceeded its respective Predictive Model Alternative Specification Limit.
- (8) Specifically, ARB alleges that CHEVRON produced batch numbers 5170 and 5171 in tanks 3133 and 1687 on November 12, 2009 and November 14, 2009, respectively, and the Predictive Model notification for both batches were sent to ARB on November 14, 2009; that ARB obtained and analyzed samples of the CARBOB in Tank 3133 and 1687 on November 16, 2009; and that analysis showed that the CARBOB had a olefin content of 7.3 volume percent, which exceeds the Predictive Model Alternative Specifications of 6.4 volume percent for batch number 5170 and 6.1 volume percent for batch number 5171.
- (9) ARB alleges that the sale, offer for sale, supply, or offer for supply of gasoline that contained olefins that exceeded the Predictive Model Alternative Specification Limit was unlawful and in violation of CCR, title 13, section 2265.
- (10) CHEVRON denies the preceding allegations and makes no admission of any fact or liability whatsoever with respect to the preceding allegations.
- (11) CHEVRON is entering into this Agreement solely for the purpose of settlement and resolution of this matter with ARB. Further, ARB accepts this Agreement in termination of this matter. Accordingly, the parties agree to resolve this matter completely by means of this Agreement, without the need for formal litigation.

II. TERMS AND RELEASE

In settlement of any and all claims that ARB has against CHEVRON for the matters referred to above, ARB and CHEVRON agree as follows:

- (1) Within 15-days after the last party signs this Agreement, CHEVRON shall pay the sum amount of one hundred ninety-two thousand and five hundred dollars (\$192,500). Payment shall be made by check payable to the California Air Pollution Control Fund and addressed to:

Duong Trinh
Air Resources Board / Enforcement Division
9480 Telstar Avenue #4
El Monte, CA 91731
- (2) CHEVRON shall not seek to reduce any tax liability by virtue of paying the above amount.
- (3) This Agreement shall apply to and be binding upon CHEVRON and its principals, officers, directors, agents, 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.

- (4) Now therefore, in consideration of the payment of CHEVRON to the California Air Pollution Control Fund, ARB hereby releases CHEVRON and its principals, officers, directors, agents, receivers, trustees, employees, parents, subsidiaries, predecessors, successors, and assignees, and each of their officers, directors, agents, and employees from, any and all claims that ARB may have based on the facts and allegations described in recital paragraphs 1-11. The undersigned represent that they have the authority to enter this Agreement.
- (5) No provision of the Agreement shall be construed as an admission of any wrongdoing, or of a violation of the CCR or any other statute, regulation, ordinance, order, or legal requirement by CHEVRON, its principals, officers, directors, agents, employees, parents, or subsidiaries. CHEVRON does not admit the truth of any of the alleged facts contained herein. The parties acknowledge that the agreements, statements, stipulations, and actions herein are made solely for the purpose of settling this matter economically and without litigation or further expense.
- (6) This Agreement constitutes the entire agreement and understanding between ARB and CHEVRON concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreement of any kind or nature, whether written or oral, between ARB and CHEVRON concerning these claims.
- (7) If any court of competent jurisdiction declares or determines any provision of this Agreement to be illegal, invalid, or unenforceable, the legality, validity, and enforceability of the remaining parts, terms, and provisions shall not be affected thereby, and said illegal, unenforceable, or invalid part, term or provision will be deemed not to be part of this Agreement.
- (8) No agreement to modify, amend, extend, or supersede this Agreement, or any portion thereof, shall be valid or enforceable unless it is in writing and signed by all parties to this Agreement.
- (9) 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.

III. SB 1402 STATEMENT

Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires the ARB to provide information on the basis for the penalties it seeks (see Health and Safety Code section 39619.7). This information, which is provided throughout this settlement agreement, is summarized here. ARB alleges the following:

The manner in which the penalty amount was determined, including a per unit or per vehicle penalty.

Penalties must be set at levels sufficient to discourage violations. The penalties in this matter were determined in consideration of all relevant circumstances, including the eight factors specified in Health and Safety Code section 43031.

The per unit penalty in this case is a maximum of \$35,000 per day per strict liability violation. ARB alleges that the fuel samples obtained from Chevron's Richmond refinery were found to have olefin contents that exceeded the Predictive Model Alternative Specification Limit, was sold or offered for sale, or supplied or offered for supply, over a time period of approximately 8 days. The total amount of penalty in this case is \$192,500, reflecting an average penalty of approximately \$24,000 per day. The penalty was reduced because CHEVRON cooperated fully with the investigation.

The provision of law the penalty is being assessed under and why that provision is most appropriate for that violation.

The penalty provision being applied in this case is Health and Safety Code section 43027 because ARB alleges that CHEVRON put fuel into commerce in California in violation of Title 13 California Code of Regulations Section 2265.

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and, if so a quantification of excess emissions, if it is practicable to do so.

The provisions cited above do not prohibit emissions above a specified level. ARB alleges that since the fuel did not meet California air pollution standards, any emissions attributable to them are illegal. However, it is not practicable to quantify these emissions because the information necessary to do so is not available.

- (1) CHEVRON acknowledges that ARB has complied with SB 1402 in prosecuting and settling this case. Specifically, ARB has considered all relevant facts, including those listed at Health & Safety Code section 43031, has explained the manner in which the penalty amount was calculated (including a per unit or per vehicle penalty, if appropriate), has identified the provision of law under which the penalty is being assessed and has considered and determined that this penalty is not being assessed under provision of law that prohibits the emission of pollutants at a specified level. No other representation or acknowledgement is made nor intended regarding ARB compliance with SB 1402.
- (2) Penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar cases, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a certain number of days considered together with the complete circumstances of this case. The penalty was discounted in this matter based in part on the fact that the violator made unusually diligent efforts to comply, to cooperate with the investigation and to mitigate any potential emissions consequences. Penalties in future cases might be smaller or larger on

a per day basis. Chevron does not endorse ARB's method of penalty calculation in this case and reserves the right to challenge it in future cases, should they arise.

- (3) The penalty in this case was based in part on confidential financial information or confidential business information provided by CHEVRON that has not been retained by ARB in the ordinary course of business. The penalty in this case was also based on confidential settlement communications between ARB and CHEVRON that ARB does not retain in the ordinary course of business either. The penalty is the product of an arm's length negotiation between ARB and CHEVRON and reflects ARB's assessment of the relative strength of its case against CHEVRON, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that CHEVRON may have secured from its actions.

CALIFORNIA AIR RESOURCES BOARD

By 

Name James Goldstene

Title Executive Officer

Date Jan. 28, 2013

CHEVRON U. S. A. INC.

By 

Name Grace P. Nerona

Title Assistant Secretary

Date January 2nd, 2013