

# SETTLEMENT AGREEMENT

This Settlement Agreement (Agreement) is entered into between the State of California Air Resources Board (ARB) with its principal office at 1001 "I" Street, Sacramento, California 95814, and Merced Power LLC (Merced Power), 30 West Sandy Mush Road, El Nido, California 95340.

## RECITALS

1. The Global Warming Solutions Act of 2006 authorizes ARB to adopt regulations to reduce greenhouse gas emissions (Health & Safety Code section 38500 et seq.).
2. Pursuant to that authority, ARB adopted the Regulation for Reducing Sulfur Hexafluoride Emissions from Gas Insulated Switchgear (GIS), California Code of Regulations (CCR), title 17, section 95350 et seq. (SF<sub>6</sub>-GIS Regulation). The SF<sub>6</sub>-GIS Regulation became fully effective on June 17, 2011.
3. The SF<sub>6</sub>-GIS Regulation sets forth maximum annual SF<sub>6</sub> emission rates for GIS owners (CCR, title 17, section 95352).
4. Merced Power is a "Gas Insulated Switchgear (GIS) Owner" as defined by the SF<sub>6</sub>-GIS regulation and is subject to the SF<sub>6</sub>-GIS Regulation's requirements.
5. Based on reports submitted by Merced Power, Merced Power failed to comply with the annual SF<sub>6</sub> emission rate limits.
6. Merced Power has repaired the GIS equipment and implemented changes to their business practices to minimize future SF<sub>6</sub> emissions.
7. The SF<sub>6</sub>-GIS Regulation provides that any exceedance of the maximum allowable SF<sub>6</sub> emission rate for a calendar year constitutes a single separate violation for each day of the calendar year (CCR, title 17, section 95358(c)).
8. Violation of the SF<sub>6</sub>-GIS Regulation is a violation of State law. Health & Safety Code sections 38580 and 42400 et seq., authorize strict liability penalties not to exceed ten thousand dollars (\$10,000) per day, for each day that the violation occurs.
9. ARB and Merced Power desire to resolve this issue completely under the terms of this Agreement, in lieu of litigation. In order to resolve these violations, Merced Power agrees to take the actions enumerated below under "TERMS AND RELEASE."

## **TERMS AND RELEASE**

10. Upon execution of this Agreement, Merced Power agrees to pay civil penalties in the amount of ONE HUNDRED AND TWENTY FIVE THOUSAND DOLLARS (\$125,000.00). Payment of the penalties shall be as follows:  
  
Payment shall be made to the "Air Pollution Control Fund" on behalf of Merced Power and payment is due upon execution of this Agreement. Payment and submittal of the signed Agreement shall be handled in accordance with the instructions in Attachment A to this Agreement.
11. Merced Power shall not violate the SF<sub>6</sub>-GIS Regulation.
12. It is agreed that these penalties imposed on Merced Power by ARB arising from the facts described in recitals are non-dischargeable under United States Code, title 11, section 523 (a)(7).
13. This Agreement shall apply to and be binding upon Merced Power, and its officers, directors, receivers, trustees, employees, successors and assignees and subsidiary corporations, and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.
14. This Agreement constitutes the entire agreement and understanding between ARB and Merced Power concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and Merced Power concerning the subject matter hereof.
15. 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. This Agreement shall further serve to toll any statute of limitation until six months after all terms and conditions of this Agreement have been fulfilled.
16. Failure to comply with any of the terms of this Agreement shall void the agreement and ARB may take enforcement action based on the initial violation and any subsequent violations of this Agreement.
17. 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.
18. 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.
19. This Agreement is deemed to have been drafted equally by ARB and Merced Power; it will not be interpreted for or against either party on the ground that said party drafted it.

20. **SB 1402 Statement.** Health & Safety Code section 39619.7 (Senate Bill 1402, Dutton, chapter 413, statutes of 2010) requires ARB to explain the basis for the penalties it seeks. This information is provided throughout this Agreement and is summarized here.

**The manner in which the penalty was determined.**

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 section 42403. 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 violations. In this matter ARB concluded there were a number of mitigating factors including: the fact that this was a first time alleged violation; Merced Power cooperated fully with the investigation; Merced Power's efforts to repair the GIS equipment to prevent future violations, Merced Power's commitment to future compliance and Merced Power submitted a confidential demonstration of financial hardship. Penalties in future cases might be smaller or larger. Specifically, this penalty reflects a penalty of approximately \$343 per day for 365 days of violation.

**The legal provisions under which the penalty was assessed.**

The penalty is based on Health and Safety Code section 42402 and CCR, title 17, section 95358, the provisions intended to govern SF<sub>6</sub>-GIS Regulation violations.

**Whether the governing provisions prohibit emissions at a specified level, and, if so a quantification of excess emissions if it is practicable to do so.**

The SF<sub>6</sub>-GIS Regulation prohibits SF<sub>6</sub> emissions above a specified annual percentage rate. In this case the emissions above what the specified annual rates allowed were 22 pounds of SF<sub>6</sub>.

21. Merced Power acknowledges that ARB has complied with section 39619.7 in investigating, prosecuting and settling this case. Specifically, ARB has considered all relevant facts, including those listed at Health & Safety Code section 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, and has considered and determined that this penalty is being assessed under a provision of law that prohibits the emission of pollutants at a specified level.
22. The penalty was based on confidential settlement communications between ARB and Merced Power. The penalty is the product of an arms length negotiation

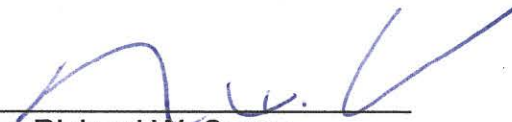
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ARB and Merced Power  
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between ARB and Merced Power and reflects ARB's assessment of the relative strength of its case against Merced Power, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that Merced Power may have secured from its actions.

23. Now therefore, in consideration of the undertaking in paragraph 10 and payment on behalf of Merced Power to the California Air Resources Board, ARB hereby resolves finally and releases Merced Power and its principals, officers, agents, predecessors and successors from any and all claims for the past violations of the SF<sub>6</sub>-GIS Regulation that ARB may have based on the circumstances described in the Recitals.
24. The undersigned represent that they have the authority to enter into this Agreement.

**SIGNATURES**

**California Air Resources Board**

By:   
Name: Richard W. Corey  
Title: Executive Officer

Date: 9/30/2015

**Merced Power, LLC**

By:   
Name: David Kandolha  
Title: Manager

Date: 8-24-15