

This Settlement Agreement (Agreement) is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (ARB) and MUSKET CORPORATION (Musket), P.O. Box 26210, Oklahoma City, Oklahoma 73126-0210.

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 (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.
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 sections 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. Based on a review of reports submitted for 2011, 2012 and 2013, ARB contends that for the reporting period 2013, Musket failed to comply with the MRR by submitting its emissions report eight days late.
6. In reaching this settlement, ARB considered a variety of circumstances, including the nature, magnitude, and duration of the violation, any harm to the environment or the regulatory program, the violator's compliance history, efforts the violator took to prevent the violation and to correct it, and the financial burden to the violator.
7. In this matter, there were a number of mitigating factors. The company's explanation indicates an innocent error; once the company realized its error it acted promptly to report. The company has also submitted an updated GHG monitoring plan to ARB to demonstrate that reporting will be timely in future reporting years.
8. In order to resolve these alleged violations, Musket has taken, or agreed to take, the actions enumerated below. Further, ARB accepts this Agreement in termination and settlement of this matter.

9. In consideration of the foregoing, and of the promises and facts set forth herein, the parties desire to settle and resolve all claims, disputes, and obligations relating to Musket's past reporting under the MRR, including the violation noted in paragraph 5, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, ARB and Musket agree as follows.

TERMS

10. Within 15 business days following execution of this Agreement, Musket shall deliver a cashier's check or money order in the sum of \$24,000.00 (Twenty-Four Thousand dollars) made payable to the "Air Pollution Control Fund."

The check should note "Musket 2013 MRR settlement" in the memo section. Please submit the signed settlement agreement and check to:

Air Resources Board, Accounting Office
P.O. Box 1436
Sacramento, CA 95812-1436

Please send a copy of the settlement agreement and check to:

William Brieger
Air Resources Board
P.O. Box 2815
Sacramento, CA 95812-2815

11. It is further agreed that the penalties described in the prior paragraph are punitive in nature, rather than compensatory, and payable to a governmental unit. Therefore, it is agreed that these penalties imposed on Musket by ARB arising from the facts described in recital paragraphs 1 – 9 are non-dischargeable under 11 United States Code § 523 (a)(7).

12. Musket shall not violate the MRR, title 17 CCR section 95100 *et seq.*

13. This Agreement shall apply to and be binding upon Musket, and its officers, directors, receivers, trustees, employees, successors and assignees, and affiliates 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 Musket concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and Musket 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.

16. 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.

17. 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.

18. 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

19. Health & Safety Code section 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. Musket 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, which provision does not prohibit the emission of pollutants at a specified level. That information, some of which is also elsewhere in this settlement 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 section 42403. Consideration was given to the extent to which reporting deviated from MRR requirements, the cause of any errors and omissions, and the magnitude of any errors. 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. Penalties in future cases might be smaller or larger.

In this matter the penalty equates to \$3000 for each day that the company's report was late. The penalty was discounted based on the fact that circumstances suggest that the reporting error resulted from a misunderstanding; upon learning of its obligation the company promptly complied and cooperated with ARB's investigation.

The legal provisions under which the penalty was assessed and why those provisions are appropriate. The penalty is based on Health & Safety Code section 42402 and CCR, title 17, section 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 section 38580(b)(2) specifies that violations of any regulation under the Global Warming

ARB AND MUSKET


Solutions Act of 2006 shall be deemed to result in an emission for purposes of the governing penalty statutes.

20. The penalty was based on confidential settlement communications between ARB and Musket. The penalty is the product of an arms length negotiation between ARB and Musket and reflects ARB's assessment of the relative strength of its case against Musket, 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.

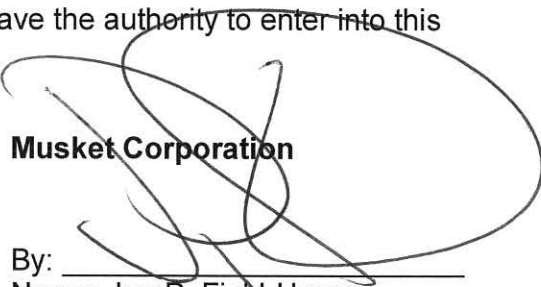
21. In consideration of the penalty payment, ARB hereby releases Musket and its officers, directors, receivers, trustees, employees, successors and assignees and affiliates from any claims the ARB may have based on the circumstances described in paragraphs 5 and 9, above.

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

California Air Resources Board

By: 
Ellen M. Peter
Chief Counsel
Date: 9/23/2014

Musket Corporation


By: _____
Name: Jon P. Fjeld-Hansen
Title: Managing Director
Date: 9/2/2014