

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 North America Exploration and Production Company, a division of CHEVRON U.S.A. Inc., 1500 Louisiana, Houston TX 77002 ("CNAEP" 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.
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, for the reporting period 2011, CNAEP failed to comply with the MRR by failing to timely report intrastate sales and transfers of natural gas from its San Joaquin Valley business unit (ARB ID #104195) as required by CCR, tit. 17, § 95103(e). ARB further alleges that the report was late or incorrect for 219 days.
6. CNAEP 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 CNAEP's operations, the nature, magnitude, and duration of the alleged violations, any harm to the environment or the regulatory program, efforts

CNAEP took to prevent the alleged violations and to correct them, and the financial burden to CNAEP.

8. In this matter, there were a number of mitigating factors, including that this is the first time ARB has contended that CNAEP reported late under the MRR, CNAEP brought the alleged error to ARB's attention, the alleged reporting lapse was corrected, and CNAEP has agreed to submit an updated GHG Monitoring Plan under CCR, title 17, § 95105(c) to ARB to demonstrate that reporting will be complete in future reporting years. CNAEP contends that it did submit a timely report regarding its combustion emissions relating to its San Joaquin Valley oil and gas production, but overlooked the duty to report, for the first year required by the MRR, its intrastate sales and transfers of natural gas from the same business unit. CNAEP disclosed its omission to ARB promptly upon discovery.

9. In order to resolve these alleged violations, CNAEP 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 CNAEP agree as follows.

### TERMS

11. Within 15 business days following execution of this agreement, CNAEP shall deliver a check or money order in the sum of \$328,500 made payable to the "Air Pollution Control Fund."

The check should note "CNAEP SJVBU 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. CNAEP is subject to the MRR, CCR, title 17, §§ 95100 *et seq.*, and acknowledges its obligations thereunder.

14. Within 60 days of executing this Agreement, CNAEP shall submit to ARB an updated GHG Monitoring Plan pursuant to CCR, title 17, § 95105(c) that addresses any omissions and errors in the gathering and reporting of information identified to date by CNAEP, a verifier or ARB in connection with reporting intrastate sales and transfers of natural gas during the year 2011.

15. This Agreement shall apply to and be binding upon CNAEP, 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 CNAEP concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and CNAEP 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. California 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, CNAEP 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 complexity, the extent to which the monitoring and reporting deviated from MRR requirements, the cause of any errors and omissions, 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 report in question was alleged to be late. The penalty was discounted based on the fact that the alleged violation would be a first-time violation for CNAEP, CNAEP detected and reported the alleged violation, circumstances suggest that the reporting error, if any, may have resulted from an oversight, and CNAEP made diligent efforts to cooperate with ARB's investigation.

**The legal provisions under which the penalty was assessed.** The penalty is based on Health & Safety Code § 42402 and CCR, title 17, § 95107, the provisions intended to govern MRR violations. MRR § 95107 provides that each day that a required report remains unsubmitted, incomplete or inaccurate constitutes a separate violation. Health and Safety Code §§ 38580 and 42402 provide for strict liability of up to \$10,000 per violation.

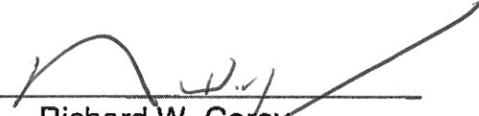
**Whether the governing provisions prohibit emissions at a specified level.** The MRR does not prohibit emissions above a stated level, but Health & Safety Code § 38580(b)(2) specifies that violations of any regulation under the Global Warming Solutions Act of 2006 shall be deemed to result in an emission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

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

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

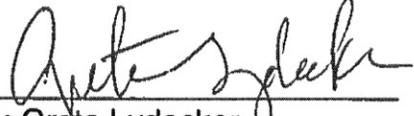
24. The undersigned represent that they have the authority to enter into this Agreement.

**California Air Resources Board**

By:   
Richard W. Corey  
Executive Officer

Date: 12/31/2013

**Chevron North America Exploration and Production Company, a division of Chevron U.S.A. Inc.**

By:   
Name: Greta Lydecker  
Title: Vice President

Date: January 9, 2014

