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 Covanta Power Pacific, Inc. (Covanta), with offices at 5222 Pirrone Court, Suite 300, Salida, California 95368.

RECITALS

1. The Global Warming Solutions Act of 2006 authorizes ARB to adopt regulations to reduce greenhouse gas emissions (Health & Safety Code section 38530).

2. Pursuant to that authority, ARB adopted the Regulation for Reducing Sulfur Hexafluoride Emissions from Gas Insulated Switchgear, California Code of Regulations (CCR), title 17, section 95350 et seq. (SF_6-GIS Regulation). The SF_6-GIS Regulation became fully effective on June 17, 2011.

3. The SF_6-GIS Regulation sets forth a maximum annual SF_6 emission rate for 2013 of eight percent (CCR, title 17, section 95352).

4. Covanta's wholly-owned subsidiary, Pacific Oroville Power, Inc. (POPI), owns and operated a facility located at 3050 South 5th Avenue, Oroville, California 95965.

5. POPI is a "Gas Insulated Switchgear (GIS) Owner" as defined by the SF_6-GIS regulation and is subject to the SF_6-GIS Regulation's requirements.

6. ARB, with the cooperation of Covanta, determined that POPI failed to comply with annual SF_6 emission rate limits in 2013.

7. On February 6, 2014, Covanta took the GIS out of service and replaced the SF_6 from the GIS equipment with nitrogen gas at the POPI facility, which ceased operations in October 2012.

8. On March 5, 2014, Covanta removed the SF_6 from GIS at two additional Covanta-owned facilities: Mount Lassen Power (MLP), located at County Road A-21, Westwood, California 95965, which ceased operations in October 2011; and Burney Mountain Power (BMP), located at 37800 Energy Drive, Burney, California 96013, which ceased operations in October 2010. MLP and BMP are wholly-owned subsidiaries of Covanta.

9. The SF_6-GIS Regulation provides that any exceedance of the maximum allowable SF_6 emission rate for a calendar year constitutes a single separate violation for each day of the calendar year (CCR, title 17, section 95358(c)).

10. Violation of the SF_6-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.

11. ARB and Covanta desire to resolve this issue completely under the terms of this Agreement, in lieu of litigation. In order to resolve these violations, Covanta agrees to take the actions enumerated below under "TERMS AND RELEASE."

TERMS AND RELEASE

12. Upon execution of this Agreement, Covanta agrees to pay civil penalties in the amount of ONE HUNDRED AND FORTY THOUSAND DOLLARS ($140,000.00). Payment of the penalties shall be as follows:

    Payment shall be made to the "Air Pollution Control Fund" and 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.

13. Covanta and its corporate subsidiaries shall not violate the SF_6-GIS Regulation.

14. It is further agreed that the penalties described in this Agreement are punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish Covanta for violations of the SF_6-GIS Regulation, and these penalties are payable to a governmental unit. Therefore, it is agreed that this penalty imposed on Covanta by ARB arising from the facts described in recitals are non-dischargeable under United States Code, title 11, section 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.

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

18. 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.

19. 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.

20. 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.

21. This Agreement is deemed to have been drafted equally by ARB and Covanta; it will not be interpreted for or against any party on the ground that said party drafted it.

22. **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.

23. 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; Covanta cooperated fully with the investigation; Covanta's good faith efforts to reduce future emissions by replacing SF_6 with N_2 at the three nonoperational facilities owned and operated by wholly-owned Covanta subsidiaries (POPI, MLP and BMP); and finally Covanta on behalf of POPI made a confidential demonstration of financial hardship. Penalties in future cases might be smaller or larger. Specifically, this penalty reflects a penalty of $383 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_6-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_6-GIS Regulation prohibits SF_6 emissions above a specified annual percentage rate.

24. Covanta acknowledge 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.

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

26. Now therefore, in consideration of payment on behalf of POPI to the California Air Resources Board, ARB hereby resolves with Covanta and its principals, officers, agents, predecessors and successors and subsidiary corporations from any and all claims for the past violations of the SF_6-GIS Regulation that ARB may have through the date of this Agreement.

27. 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: 10/11/2014

Pacific Oroville Power, Inc.

By: _____
Name: Ted Hoefler NT
Title: SVP Operations

Date: 10/7/14

Covanta Power Pacific, Inc.

By: _____
Name: Ted Hoefler NT
Title: SVP Operations

Date: 10/7/14