

SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "CARB") 1001 I Street, Sacramento, California 95814, and CALWATER DRILLING COMPANY, INC. (hereinafter "CALWATER DRILLING"), 300 South Kilroy Road, Turlock, California, 95380.

I. RECITALS

- (1) California Health and Safety Code section 44011.6 (HSC § 44011.6) established the Heavy-Duty Vehicle Inspection Program (HDVIP). It authorizes CARB to inspect on-road heavy-duty vehicles for excessive smoke emissions and engine tampering and to issue citations accordingly. The program also requires the vehicle owner to repair its engines that exceed the prescribed CARB smoke opacity standards, perform a post-repair opacity test, and submit proof of repairs and any assessed penalties under the regulations of the HDVIP, chapter 3.5, California Code of Regulations, title 13, sections 2180-2188 (13 CCR §§ 2180-2188).
- (2) HSC § 43701 provides that CARB shall adopt regulations that require owners or operators of heavy-duty diesel motor vehicles to perform regular inspections of their vehicles for excessive smoke emissions.
- (3) 13 CCR § 2190 *et seq.* were adopted under the authority of HSC § 43701 and, with limited exceptions, which are not applicable here, apply to all heavy-duty diesel powered vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California.
- (4) 13 CCR § 2190 *et seq.* authorize the Periodic Smoke Inspection Program (PSIP) which requires the owners and operators of California based vehicle fleets of two or more heavy-duty diesel motor vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California to conduct annual smoke opacity inspections of their vehicles equipped with engines that are four years old or older.
- (5) 13 CCR § 2192(a) requires inter alia that the owner of the vehicle "[t]est the vehicle for excessive smoke emissions periodically according to the inspection intervals specified in section 2193(a), (b), and (c)", "[m]easure the smoke emissions for each test...", "[r]ecord the smoke test opacity levels and other required test information as specified in section 2194..." and "[k]eep the records specified in section 2194 for two years after the date of inspection."
- (6) HSC § 43016 states, "Any person who violates any provision of this part, or any order, rule, or regulation of the state board adopted pursuant to this part, and for which there is not provided in this part any other specific civil penalty or fine, shall

be subject to a civil penalty of not to exceed five hundred dollars (\$500.00) per vehicle.”

- (7) CARB considers testing, measuring, recording, and recordkeeping to be critical components in reducing excessive smoke emissions from these heavy-duty vehicles.
- (8) CARB contends CALWATER DRILLING failed to test, measure, record, and maintain records of smoke emissions for its fleet of heavy-duty diesel vehicles for the year 2016 in violation of 13 CCR § 2190 *et seq.*
- (9) HSC §§ 39650-39675 mandate the reduction of the emissions of substances that have been determined to be toxic air contaminants. In 1998, following an exhaustive ten-year scientific assessment process, CARB identified particulate matter (PM) from diesel-fueled engines as a toxic air contaminant. In-use on-road diesel vehicles are powered by diesel fueled engines that emit toxic PM. On-road vehicles are controlled under the Truck and Bus regulation, as codified in 13 CCR § 2025.
- (10) 13 CCR § 2025(e)(1)(B) states: “Starting January 1, 2012, for all vehicles with GVWR greater than 26,000 lbs, excluding school buses, fleets must meet the requirements of 13 CCR § 2025(g) or fleets that report may instead comply with the phase-in option of 13 CCR § 2025(i).”
- (11) Failure to comply with the requirements of 13 CCR § 2025 is a violation of state law resulting in penalties. HSC §§ 39674(a) and (b) authorize civil penalties for the violation of the programs for the regulation of toxic air contaminants not to exceed one thousand dollars (\$1,000) or ten thousand dollars (\$10,000), respectively, for each day in which the violation occurs.
- (12) CALWATER DRILLING has elected to meet the requirements of the Engine Model Year Compliance Schedule provided for in 13 CCR § 2025(g).
- (13) 13 CCR § 2025(g) requires that owners of diesel vehicles with a GVWR greater than 26,000 lbs. (heavier vehicles) meet PM Best Available Control Technology (BACT) requirements for all 1996 through 1999 model year engines by January 1, 2012, all 2000 through 2004 model year engines by January 1, 2013, and all 2005 and 2006 model year engines by January 1, 2014, and upgrade to a 2010 model year emissions equivalent engine for all 1993 and older model year engines by January 1, 2015, and all 1994 and 1995 model year engines by January 1, 2016.

- (14) CARB has documented that CALWATER DRILLING failed to meet PM BACT requirements for one 2005 and 2006 model year engines by January 1, 2014, and failed to upgrade to a 2010 model year emissions equivalent engine for two 1993 and older model year engines by January 1, 2015, and one 1994 and 1995 model year engines by January 1, 2016.
- (15) 13 CCR § 2025(f) requires that owners of diesel vehicles with a GVWR greater than 14,000 lbs. and less than or equal to 26,000 lbs. (lighter vehicles) upgrade to a 2010 model year emissions equivalent engine for all 1995 and older model year engines by January 1, 2015, all 1996 model year engines by January 1, 2016, all 1997 model year engines by January 1, 2017, and all 1998 model year engines by January 1, 2018.
- (16) CARB has documented that CALWATER DRILLING failed to upgrade to a 2010 model year emissions equivalent engine for one 1995 and older model year engines by January 1, 2015, one 1997 model year engines by January 1, 2017.
- (17) 13 CCR § 2025(r) sets forth the requirements for reporting all vehicles with engines subject to the regulation if the owner of a fleet has elected to utilize the compliance options of 13 CCR §§ 2025(f)(4), 2025(g)(3), 2025(g)(4), 2025(h), 2025(i), the credits of 13 CCR § 2025(j), and the agricultural provisions of 13 CCR § 2025(m), single-engine and two-engine street sweeper provisions of 13 CCR § 2025(n), extension or exemptions for vehicles used exclusively in NOx exempt areas of 13 CCR § 2025(p)(1), the extension for work trucks of 13 CCR § 2025(p)(2), and the low-use vehicle provision of 13 CCR § 2025(p)(4).
- (18) 13 CCR § 2025(e)(8) states: "All information specified in 13 CCR § 2025(r) must be reported to the Executive Officer." CALWATER DRILLING has elected to utilize the compliance options/credits/provisions of section 13 CCR § 2025(p)(4)
- (19) CARB has documented that CALWATER DRILLING failed to report all vehicles with engines subject to the regulation for which the fleet owner has elected to utilize the compliance options of 13 CCR § 2025(p)(4).
- (20) Failure to comply with the requirements of 13 CCR § 2025 is a violation of state law resulting in penalties. HSC §§ 39674(a) and (b) authorize civil penalties for the violation of the programs for the regulation of toxic air contaminants not to exceed one thousand dollars (\$1,000) or ten thousand dollars (\$10,000), respectively, for each day in which the violation occurs.
- (21) In order to resolve these alleged violations, CALWATER DRILLING has taken, or agreed to take, the actions enumerated below under "RELEASE". Further, CARB accepts this Agreement in termination and settlement of this matter.

- (22) 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 the above-listed violations, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, CARB and CALWATER DRILLING agree as follows:

II. TERMS AND RELEASE

In consideration of CARB not filing a legal action against CALWATER DRILLING for the alleged violations referred to above, and CALWATER DRILLING's payment of the penalties set forth in Section 1 below, CARB and CALWATER DRILLING agree as follows:

- (1) Upon execution of this Agreement, the sum of twenty-eight thousand one hundred and twenty five dollars (\$28,125) shall be paid on behalf of CALWATER DRILLING no later than April 20, 2018, as follows:
- \$28,125 payable to the **Air Pollution Control Fund**

The Parties shall exchange signed copies of this Agreement. This Agreement may be executed in counterparts. Facsimile or photocopied signatures shall be considered as valid signatures as of the date hereof, although the original signature pages shall thereafter be appended to this Agreement. **Please send the original signed Settlement Agreement and any future mailings or documents required per the terms of this Settlement Agreement to:**

**Mr. Stephen Binning
California Air Resources Board
Enforcement Division
P.O. Box 2815
Sacramento, California 95812**

Please send the payment along with the attached "Settlement Agreement Payment Transmittal Form" (Attachment A) to:

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

- (2) If the Attorney General files a civil action to enforce this settlement agreement, CALWATER DRILLING shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's costs, and costs.

- (3) It is further agreed that the penalties described in "Terms and Release", paragraph 1 are punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish CALWATER DRILLING for violations of state environmental statutes, and these penalties are payable to and for the benefit of CARB, a governmental unit. Therefore, it is agreed that these penalties imposed on CALWATER DRILLING by CARB arising from the facts described in recital paragraphs (1) through (20) 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.
- (4) CALWATER DRILLING shall not violate HSC §§ 43701 *et seq.*, 44011.6 *et seq.*, and 13 CCR §§ 2180 *et seq.*, 2190 *et seq.*, and 2485 *et seq.*
- (5) CALWATER DRILLING shall comply with one or both of the following options to attend the California Council on Diesel Education and Technology (CCDET I) class, (SAE J1667 Snap Acceleration Smoke Test Procedure for Heavy-Duty Diesel Powered Vehicles) as described on the CCDET webpage, ccdet.org. This class is conducted by various California Community Colleges and instructs attendees on compliance with the PSIP, the ECL regulation and the HDVIP.
 - (a) CALWATER DRILLING shall have the fleet maintenance manager (or equivalent) and all staff performing opacity tests for compliance with PSIP and the HDVIP attend the CCDET I class. Proof of CCDET I completion shall be provided to CARB within six months of the date of this Agreement and be maintained in each applicable employee's file for the term of his or her employment.
 - (b) If CALWATER DRILLING uses a contractor to perform the annual smoke opacity testing required under the PSIP, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET I course, CALWATER DRILLING shall obtain proof that the contractor's staff conducting the smoke opacity tests completed the CCDET I course within the past four years. This proof of CCDET I completion shall be provided to CARB with PSIP records as required by this Agreement and be maintained with the annual PSIP records.
- (6) CALWATER DRILLING shall comply with the following options to attend the CCDET II class (Diesel Exhaust After Treatment and Maintenance), described on the CCDET webpage, ccdet.org. This class is conducted by various California Community Colleges and instructs attendees on California's emission regulations and the proper care and maintenance of diesel exhaust after-treatment systems (DEATS).

- (a) CALWATER DRILLING shall have the fleet maintenance manager (or equivalent) and all staff responsible for maintenance of DEATS attend the CCDET II class. Proof of CCDET II completion shall be provided to CARB within six months of the date of this Agreement and also be maintained in each applicable employee's file for the term of his or her employment.
 - (b) In case CALWATER DRILLING uses a contractor for the maintenance of DEATS, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET II course, CALWATER DRILLING shall obtain proof that the contractor's staff maintaining the DEATS device(s) completed the CCDET II course within the last four years. This proof of the CCDET II completion shall be provided by CALWATER DRILLING to CARB within six months of the date of this settlement and be maintained with the DEATS installation and maintenance records.
 - (c) In case CALWATER DRILLING is unable to find a CCDET II certified contractor within a radius of 25 miles from its yard for the maintenance of DEATS, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET II course, CALWATER DRILLING shall contract only with the authorized verified diesel emission control strategy installer(s) or original equipment manufacturer distributor(s) for the maintenance of DEATS. The proof of the CCDET II completion for the fleet maintenance manager (or equivalent) shall be provided by CALWATER DRILLING to CARB within six months of the date of this settlement and be maintained with the DEATS installation and maintenance records.
- (7) As is typically required, CALWATER DRILLING shall submit copies of all PSIP compliance records for the two years (2017 and 2018) after the close of the audit to CARB by January 31 of the following year. CARB acknowledges that CALWATER DRILLING has already submitted copies of all PSIP compliance records for year 2017 and has therefore complied with that requirement. CALWATER DRILLING must still submit copies of all PSIP compliance records for year 2018 to CARB by January 31 of the following year. **Copies shall be addressed to the attention of Mr. Stephen Binning at the California Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, California 95812.** CARB reserves the right to visit any CALWATER DRILLING fleet location at any time to conduct compliance audits for the HDVIP and PSIP, or any other applicable CARB program.
- (8) CALWATER DRILLING shall complete Low NOx Software Upgrades (reflash) on all applicable heavy-duty diesel engines operating in California and report to CARB within 45 days of this agreement.
- (9) CALWATER DRILLING shall remain in compliance with the ECL regulation as codified in 13 CCR § 2183.

- (10) CALWATER DRILLING shall instruct all employees who operate diesel-fueled vehicles to comply with the idling regulations set forth in 13 CCR § 2485, within 45 days of this Agreement.
- (11) CALWATER DRILLING shall not violate the Truck and Bus regulation as codified in 13 CCR § 2025.
- (12) CALWATER DRILLING, by December 31, 2018, shall submit proof of compliance with the January 1, 2019 Truck and Bus deadline, for all regulated heavy-duty diesel vehicles, to **Mr. Stephen Binning, California Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, California 95812.**
- (13) This Agreement shall apply to and be binding upon CALWATER DRILLING, and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and upon CARB 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 CARB and CALWATER DRILLING concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between CARB and CALWATER DRILLING 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) Severability. 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.
- (19) Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires CARB to provide information on the basis for the penalties it seeks (HSC § 39619.7). This information, which is provided throughout this settlement agreement, is summarized here:

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 HSC §§ 42403 and 43024.

PSIP Violations

The per vehicle penalty for the PSIP violations involved in this case is a maximum of \$500.00 per vehicle per violation per year. The penalty obtained for the PSIP violations involved in this case is \$7,125 for 19 violations involving 19 vehicles, or \$375 per vehicle per violation.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

Truck and Bus Violations

The per unit penalty for the Truck and Bus violations involved in this case is a maximum of \$1,000 per vehicle per day for strict liability violations or \$10,000 per vehicle per day for negligent or intentional violations.

The penalty obtained for the Truck and Bus violations involved in this case for failure to meet the requirements of the Engine Model Year Compliance Schedule for heavier vehicles is \$12,000 or \$3,000 violation:

- \$3,000 for one vehicle with a 2005-2006 model year engine
- \$6,000 for two vehicles with a 1993 and older model year engine, and
- \$3,000 for one vehicle with a 1994-1995 model year engine

The penalty obtained for the Truck and Bus violations involved in this case for failure to meet the requirements of the Engine Model Year Compliance Schedule for lighter vehicles is \$6,000 or \$3,000 per violation:

- \$3,000 for one vehicle with a 1995 or older model year engine, and
- \$3,000 for one vehicle with a 1997 model year engine

The penalty obtained for the Truck and Bus violations involved in this case for failure to report all required information for all vehicles in the fleet is \$3,000 or \$500 per vehicle per violation for six vehicles.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

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

PSIP Violations

The penalty provision being applied to the PSIP violations is HSC § 43016 because CALWATER DRILLING failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy-duty diesel vehicles for the year 2016 in violation of the PSIP regulation in 13 CCR § 2190 *et seq.*, for 19 vehicles. Since the PSIP regulation was adopted pursuant to authority granted in Part 5 of Division 26 of the HSC and since there is no specific penalty or fine provided for PSIP violations in Part 5, HSC § 43016 is the applicable penalty provision.

Truck and Bus Violations

The penalty provision being applied for the Truck and Bus regulation (13 CCR § 2025) violations in this case is HSC § 39674 because the Truck and Bus regulation is an Airborne Toxic Control Measure adopted pursuant to authority contained in HSC §§ 39002 *et seq.*, 39650-39675 and because CALWATER DRILLING failed to bring their diesel fleet into compliance by the deadlines set forth in 13 CCR § 2025(g) and 2025(f)). In addition, CALWATER DRILLING failed to report all required information for all vehicles in the fleet for which they have elected to utilize compliance options/credits/provisions as required in 13 CCR § 2025(r).

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.

PSIP Violations

The PSIP provisions cited above do prohibit emissions above a specified opacity or level of g/hp-hr. However, since the hours of operation of the noncompliant units involved and their individual emission rates are not known, it is not practicable to quantify the excess emissions.

Truck and Bus Violations

The provisions cited above do not prohibit emissions above a specified level.

- (20) CALWATER DRILLING acknowledges that CARB has complied with Senate Bill 1402 in prosecuting or settling this case. Specifically, CARB has considered all

relevant facts, including those listed at HSC § 43024, 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.

- (21) 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. Penalties in future cases might be smaller or larger on a per unit basis.
- (22) The penalty was based on confidential settlement communications between CARB and CALWATER DRILLING that CARB does not retain in the ordinary course of business. The penalty is the product of an arms length negotiation between CARB and CALWATER DRILLING and reflects CARB's assessment of the relative strength of its case against CALWATER DRILLING, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that CALWATER DRILLING may have secured from its actions.
- (23) Now therefore, in consideration of the payment on behalf of CALWATER DRILLING to the Air Pollution Control Fund. CARB hereby releases CALWATER DRILLING and their principals, officers, agents, predecessors and successors from any and all claims, CARB may have or have in the future based on the circumstances described in paragraphs (1) through (20) of the Recitals. The undersigned represent that they have the authority to enter into this Agreement.

California Air Resources Board

Signature: 
Print Name: Dr. Todd P. Sax
Title: Chief, Enforcement Division
Date: 9/12/18

Calwater Drilling Company, Inc.

Signature: 
Print Name: Curtis Alearcajr
Title: Pres.
Date: 3/30/18