

## SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement And Release (Agreement) is entered into between the State of California Air Resources Board (CARB) with its principal office at 1001 I Street, Sacramento, California, 95814, and Tesoro Refining & Marketing Co. (Tesoro) with its principal place of business at 2350 E 223rd Street Carson, California, 90810 (collectively, the Parties).

This agreement settles Notice of Violation (NOV) **F120715-TSOR-OLE**. CARB issued this NOV on **May 16, 2018**, for exceedance of the allowable limit of the olefin content specified in the submitted Predictive Model (PM) notification of two blends of California reformulated gasoline blendstock for oxygenate blending (CARBOB).

### I. RECITALS

- (1) California Health and Safety Code section 39003 assigns CARB with attaining and maintaining ambient air quality standards.
- (2) Title 13, California Code of Regulations, Sections 2250–2273.5 (California Reformulated Gasoline (CaRFG) regulation) establish standards and compliance requirements for motor vehicle fuels applicable to producers and importers of motor vehicle fuel in California.
- (3) The standards and compliance requirements in the CaRFG regulation apply to all persons who sell, supply, or offer for sale, gasoline for motor vehicles in the State of California. (Cal. Code Regs., tit. 13, § 2261).
- (4) The California gasoline must conform to any PM flat limit identified in the PM Alternative Specification. (Cal. Code Regs., tit. 13, § 2265).
- (5) The standards and compliance requirements for California gasoline or transactions involving California gasoline also apply to CARBOB or transactions involving CARBOB, including, but not limited to, CaRFG regulation sections 2261, 2262, 2262.3, 2262.4, 2262.5(a), (b), (c), and (e), 2262.6, 2264, 2264.2, 2265, 2266, 2267, 2268, 2270, 2271 and 2272. (Cal. Code Regs., tit.13, §§ 2260; 2272). Whenever the term "California gasoline" is used in this Agreement, the term means California gasoline or CARBOB. (Cal. Code Regs., tit. 13, § 2266.5).
- (6) CARB regulations state, "[E]ach sale of California gasoline at retail, and each dispensing of California gasoline into a motor vehicle fuel tank, shall also be deemed a sale or supply by any person who previously sold or supplied such gasoline in violation of any applicable sections of this subarticle." (Cal. Code Regs., tit. 13, § 2268).

- (7) Failure to comply with the requirements of the CaRFG regulation is a violation of state law resulting in penalties. Health and Safety Code section 43027, subdivision (c) states, "[a]ny person who violates any provision of this part, or any rule, regulation, permit, variance, or order of the state board, pertaining to fuel requirements and standards, exclusive of the documentation requirements specified in subdivision (d), is strictly liable for a civil penalty of not more than thirty-five thousand dollars (\$35,000)."
- (8) Health and Safety Code section 43030, subdivision (a) states "[f]or the penalties prescribed in sections 43027 and 4328, each day during any portion of which a violation occurs is a separate offense."
- (9) Health and Safety Code section 43031, subdivision (b) states, "[i]n determining the amount assessed, ...the state board, in reaching any settlement, shall take into consideration all relevant circumstances, including, but not limited to, all of the following: (1) The extent of harm to public health, safety, and welfare caused by the violation. (2) The nature and persistence of the violation, including the magnitude of the excess emissions. (3) The compliance history of the defendant, including the frequency of past violations. (4) The preventive efforts taken by the defendant, including the record of maintenance and any program to ensure compliance. (5) The innovative nature and the magnitude of the effort required to comply, and the accuracy, reproducibility, and repeatability of the available test methods. (6) The efforts to attain, or provide for, compliance. (7) The cooperation of the defendant during the course of the investigation and any action taken by the defendant, including the nature, extent, and time of response of any action taken to mitigate the violation. (8) For a person who owns a single retail service station, the size of the business."
- (10) CARB alleges in **NOV F120715-TSOR-OLE** that starting December 5, 2015, Tesoro sold, offered for sale, supplied, offered for supply or transported a batch of CARBOB that exceeded the limit of the olefin content specified in the PM notification reported for **three days**.
- (11) CARB alleges in **NOV F120715-TSOR-OLE** that starting December 5, 2015, Tesoro sold, offered for sale, supplied, offered for supply or transported a batch of CARBOB that exceeded the limit of the olefin content specified in the PM notification reported for **three days**.
- (12) CARB alleges in **NOV F120715-TSOR-OLE** that starting December 7, 2015, Tesoro sold, offered for sale, supplied, offered for supply or transported a batch of CARBOB that exceeded the limit of the olefin content specified in the PM notification reported for **two days**.
- (13) CARB alleges in **NOV F120715-TSOR-OLE** that starting December 5, 2015, Tesoro sold, offered for sale, supplied, offered for supply or transported a batch of CARBOB that exceeded the limit of the olefin content specified in the PM notification reported for **one day**.

- (14) CARB alleges that the sale, offer for sale, supply, offer for supply or transportation of non-complying CARBOB was unlawful and in violation of California Code of Regulations, title 13, sections 2261, 2265, 2266.5, and 2268.
- (15) In consideration of the foregoing, and of the promises and facts set forth below, the Parties desire to settle and resolve all claims, disputes, and obligations relating to the above-listed alleged violations and voluntarily agree to resolve this matter by means of this Agreement. In order to resolve the violations described herein, Tesoro has taken, or agrees to take, the actions enumerated below within the Terms and Conditions. Further, CARB accepts this Agreement in termination and settlement of this matter.

## II. TERMS AND RELEASE

In consideration of CARB not filing a legal action against Tesoro for the alleged violations referred to above, and in consideration of the terms set out below (and Tesoro payment of the penalties), CARB and Tesoro agree as follows:

- (1) Tesoro has agreed to pay the sum of **one hundred and fifty seven thousand five hundred dollars (\$157,500.00)** as a civil penalty for all the alleged violations in NOV F120715-TSOR-OLE.
- (2) Upon execution of this Agreement, Tesoro shall make a total payment of **one hundred and fifty seven thousand five hundred dollars (\$157,500.00)** to the **AIR POLLUTION CONTROL FUND** no later than **thirty (30) business days** after Tesoro receives two mailed copies of this Agreement for signature from CARB. The payment along with the "Settlement Agreement Payment Transmittal Form" (Attachment A) shall be submitted to:  
  
California Air Resources Board  
Accounting Office  
P.O. Box 1436  
Sacramento, California 95812-1436
- (3) In addition, if the Attorney General files a civil action to enforce this settlement agreement against Tesoro, Tesoro shall pay all reasonable costs of investigating and prosecuting the action, including reasonable expert fees (if appropriate), reasonable attorney's fees, and reasonable costs, if and when the Attorney General is deemed to be a prevailing party by a court of competent jurisdiction.
- (4) Tesoro has demonstrated to the satisfaction of CARB that the alleged violations have been corrected.
- (5) Now therefore, in consideration of the payment by Tesoro to the California Air Pollution Control Fund in the amount specified above, CARB hereby releases

Tesoro and its principals, officers, directors, agents, receivers, trustees, employees, successors and assignees, and subsidiary and parent corporations from any and all claims that CARB may have based on the allegations described in recital paragraphs (1) through (15). The undersigned represent that they have the authority to enter this Agreement.

### III. GENERAL PROVISIONS

- (1) This Agreement constitutes the entire agreement and understanding between CARB and Tesoro concerning the subject matter hereof, and supersedes and replaces any and all prior negotiations and agreements of any kind of nature, whether written or oral, between CARB and Tesoro concerning the subject matter hereof.
- (2) The payment obligation under section II shall apply to and be binding upon Tesoro and its successors and assignees, parent corporations, and subsidiaries, if any; and the release obligation under section II shall apply to and be binding upon CARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.
- (3) The terms and conditions set forth in this Agreement shall remain valid and enforceable notwithstanding any future violations that may occur.
- (4) The effective date of this Agreement shall be the date of the last signatory.
- (5) 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.
- (6) Each provision of this Agreement is severable, and in the event that any provision of this Agreement is held to be illegal, invalid or unenforceable in any jurisdiction, the remainder of this Agreement remains in full force and effect.
- (7) The headings in this Agreement are not binding and are for reference only and do not limit, expand, or otherwise affect the contents of this Agreement.
- (8) 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.
- (9) It is further agreed that the stipulated penalties described in this Agreement are non-dischargeable under United States Code, title 11, section 523(a)(7).
- (10) The failure of any Party to enforce any provision of this Agreement shall not be construed as a waiver of any such provision, nor prevent such Party thereafter from enforcing such provision or any other provision of this Agreement.

- (11) Each of the undersigned represents and warrants that he or she has full authority to enter into this Agreement.

#### IV. PENALTY DETERMINATION

- (1) Pursuant to Health and Safety Code section 39619.7, CARB must provide information on the basis for the penalty it seeks. This information is provided throughout this settlement agreement and summarized below.

**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 Health and Safety Code section 43031, subdivision (b).

The per unit penalty in the case of (NOV) F120715-TSOR-OLE is a maximum of \$35,000 per day per strict liability violation. CARB alleges that the non-complying CARBOB was sold, supplied and transported over a time period of **nine days**. The penalty obtained in this case is **\$17,500.00 per day**. The lower penalty reflects the consideration of a number of facts, including: that this was an unintentional violation, Tesoro did not have a similar olefin violation three years prior to the discovery of this violation, and Tesoro's efforts to comply and to cooperate with the investigation.

The main factor resulting in the 50 percent reduction of the maximum per day strict liability violation was Tesoro's immediate voluntary disclosure of the violation to CARB and the immediate action taken to mitigate the violation.

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

CARB alleges that the penalty provisions being applied in this case, Health and Safety Code sections 43027 and 43030, are appropriate because Tesoro allegedly sold, offered for sale, supplied, or offered for supply or transported CARBOB in California in violation of Cal. Code Regs., tit.13, §§ 2250-2273.5.

**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.**

The provisions cited above do not prohibit emissions above a specified level. CARB alleges that since the fuel did not meet California air pollution standards, any emissions attributable to them are illegal. However, it is not practicable to quantify these emissions because the information necessary to do so is not available.

- (2) Tesoro acknowledges that CARB has complied with Health and Safety Code section 39619.7 in prosecuting or settling these cases. Specifically, CARB has considered all relevant facts, including those listed at Health and Safety Code section 43031, 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 does not prohibit the emission of pollutants at a specified level.
- (3) Penalties were determined based on the unique circumstances of each 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 case negotiations, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a number of days considered together with the complete circumstances of this case. Penalties in future cases might be smaller or larger on a per unit basis.
- (4) The penalty in each case was based in part on confidential business information provided by Tesoro that is not retained by CARB in the ordinary course of business. The penalty in each case was also based on confidential settlement communications between CARB and Tesoro that CARB does not retain in the ordinary course of business. Each penalty also reflects CARB's assessment of the relative strength of the case against Tesoro, the desire to avoid the uncertainty, burden and expense of litigation, to obtain swift compliance with the law and to remove any unfair advantage that Tesoro may have secured from its actions.

#### **V. STIPULATED CONSENT JUDGMENT**

- (1) CARB expressly reserves the right to bring an enforcement action based on violations of law not covered in this Agreement and to seek whatever fines, penalties, or remedies provided by law, including injunctive relief.
- (2) In the event CARB seeks a Consent Judgment based on Tesoro's default under this Agreement, the Parties agree to the following:
  - a. Superior Court of California, County of Sacramento (Court) has jurisdiction over the Parties and to the subject matter of this action;
  - b. Venue is proper in this Court;

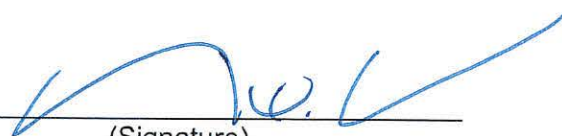
- c. The Court has personal jurisdiction over Tesoro for purposes of enforcing the terms of the Consent Judgment; and
- d. The obligations under this Agreement shall be deemed the terms and conditions of the Consent Judgment.

**ACKNOWLEDGED AND ACCEPTED BY:**

**California Air Resources Board**

Dated: 10/1/2018

By: \_\_\_\_\_

  
(Signature)

Printed Name: Mr. Richard W. Corey

Title: Executive Officer

**Tesoro Refining & Marketing Co.**

Dated: Sept. 20, 2018

By: \_\_\_\_\_

  
(Signature)



Printed Name: Thomas A. Lu

Title: Vice President, Martinez Refinery