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 Badger Creek Ltd. (Badger Creek), 34759 Lencioni Avenue, Bakersfield, California 93308.

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 2012 of nine percent (CCR, title 17, section 95352).

4. Badger Creek 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.

5. ARB, with the cooperation of Badger Creek, has determined that Badger Creek failed to comply with the annual SF_6 emission rate limit for 2012 and ARB issued NOV #SF6-2013-02.

6. Badger Creek has repaired the GIS equipment and implemented changes to their business practices to minimize future SF_6 emissions.

7. 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)).

8. 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.

9. ARB and Badger Creek desire to resolve completely this issue and NOV #SF6-2013-02 under the terms of this Agreement, in lieu of litigation and Badger Creek agrees to take the actions enumerated below under "TERMS AND RELEASE."

TERMS AND RELEASE

10. Upon execution of this Agreement, Badger Creek agrees to pay civil penalties in the amount of TWO HUNDRED AND FIFTY THOUSAND DOLLARS ($250,000.00). Payment of the penalties shall be as follows:

    Payment shall be made to the "Air Pollution Control Fund" on behalf of Badger Creek and is due upon execution of this Agreement. Payment shall be made in accordance with the instructions in Attachment A to this Agreement.

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

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

    Please submit the signed Settlement Agreement and all other correspondence to:

    Ms. Cathleen Oliver, Air Pollution Specialist
    Air Resources Board, Enforcement Division
    P.O. Box 2815
    Sacramento, CA 95812

11. Badger Creek shall not violate the SF_6-GIS Regulation.

12. 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 Badger Creek for violations of the SF_6-GIS Regulation, and these penalties are payable to a governmental unit. Therefore, it is agreed that these penalties imposed on Badger Creek 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.

13. This Agreement shall apply to and be binding upon, and inure to the benefit of, Badger Creek, and its officers, directors, receivers, trustees, employees, successors and assignees and subsidiary corporations, 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 Badger Creek concerning the subject matter hereof, and supersedes

and replaces all prior negotiations and agreements between ARB and Badger Creek 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. 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.

16. 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.

17. 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.

18. 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.

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

20. **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.

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 there were a number of mitigating factors including: the fact that this was a first time violation; Badger Creek cooperated fully with the investigation; Badger Creek's overall compliance history; and Badger Creek's efforts to repair the GIS equipment to prevent future emissions. Penalties in future cases might be smaller or larger. Specifically, this penalty reflects a penalty of $685 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. Health & Safety Code sections 38580 and 42402 provide for strict liability of $1,000 or up to $10,000 per violation.

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 emission rate. In this case the emissions above what the specified annual rate would allow were 4.8 pounds of SF_6.

21. Badger Creek 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, 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.

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

23. Now therefore, in consideration of the payment on behalf of Badger Creek to the California Air Resources Board, ARB hereby finally and unconditionally resolves with Badger Creek and its principals, officers, agents, affiliates, predecessors and successors and assigns from any and all claims for the past violations of the SF_6-GIS Regulation that ARB may have based on circumstances of the type described in the Recitals and releases them from any further liability in connection with such matter.

24. 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: 7/25/2014

Badger Creek Ltd.
By: Redwood III, LLC, its general partner

By: _____
Name: Daniel R. Revers
Title: President

Date: July 15, 2014