This Settlement Agreement (Agreement) is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (ARB) 1001 I Street, Sacramento, California 95814, and CP Energy Marketing (US) Inc. (CP Energy), Suite 1200, 401 – Ninth Avenue SW, Calgary, AB T2P 3C5, Canada.

RECITALS

1. The Global Warming Solutions Act of 2006 authorized ARB to adopt regulations to reduce greenhouse gas emissions, including market-based approaches. (Health & Saf. Code §§38560, 38570.) Pursuant to that authority, ARB adopted the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (Regulation), California Code of Regulations (CCR), title 17, §95801 et seq.

2. The Regulation is crucial to reducing greenhouse gas (GHG) emissions, and includes several provisions intended to ensure a fair and functional market.

3. California Health & Safety Code sections 38580 and 42402.1 provide that one who violates the Regulation through negligence is liable for a penalty of up to $25,000 for each violation.

4. ARB contends that in connection with an allowance auction held in November, 2012, CP Energy failed to comply with the Regulation by specifically disclosing to an unrelated party its specific intent to purchase a specified number of allowances at the auction.

5. In reaching this settlement, ARB considered a variety of circumstances, including the nature of CP Energy's business, the nature, small magnitude, and short duration of the alleged violation, any harm to the regulatory program, efforts CP Energy took to prevent the alleged violation and to correct it, and the financial burden to CP Energy.

6. In this matter, there were a number of mitigating factors, including that this is the first time ARB has noted the company as being potentially in violation, the error resulted from haste and were inadvertent, CP Energy promptly corrected the error before ARB made any formal allegations, the error related to the first auction conducted under a new Regulation, the unrelated party did not participate in the auction itself, the volumes of allowances purchased by CP Energy in the auction was small, CP Energy did not unjustly profit from the alleged violation, and the functioning of the market was unaffected.

7. In order to resolve these alleged violations, CP Energy has taken, or agreed to take, the actions enumerated below. Further, ARB accepts this Agreement in termination and settlement of this matter.

8. 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 alleged violations, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, ARB and CP Energy agree as follows.

TERMS

9. Within 15 business days following execution of this agreement, CP Energy shall deliver a cashier's check or money order in the sum of $25,000 made payable to the "Air Pollution Control Fund."

The check should note "CP Energy 2012 Cap-and-Trade settlement" in the memo section. Please submit the signed settlement agreement and check to:

Mr. Will Brieger
Air Resources Board, Office of Legal Affairs
P.O. Box 2815
Sacramento, CA 95812

10. CP Energy shall not share or disclose to any third party any bidding information in connection with future Cap-and-Trade auctions and CP Energy had already taken steps to come fully into compliance with the Regulation in this regard prior to any information being requested by ARB.

11. This Agreement shall apply to and be binding upon CP Energy, 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.

12. This Agreement constitutes the entire agreement and understanding between ARB and CP Energy concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and CP Energy concerning the subject matter hereof.

13. 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.

14. 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.

15. 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.

16. 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.

17. Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires the ARB to provide information on the basis for the penalties it seeks (see HSC section 39619.7). This information, which is provided throughout this settlement agreement, is

summarized here. CP Energy acknowledges that ARB has complied with section 39619.7 in settling this matter.

The manner in which the proposed penalty was determined. Penalties must be set at levels sufficient to deter violations. The proposed 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. Consideration was given to the extent to which the alleged violation deviated from Regulation's requirements, the cause of the alleged violation, and whether the alleged violator gained in any way from the alleged violation. 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 matters. Penalties in future cases might be smaller or larger.

With respect to the eight factors specified in Health & Safety Code section 42403 that must be considered, we note that:

(1) The alleged error did not harm public health, safety or welfare. Specifically, the alleged error involved disclosure to a third party of participation in a cap and trade auction with respect to a very small quantity of carbon, and without any further details about price, auction strategy or similar information. The third party was not an auction participant and bound by confidentiality, and did not create any risk of collusion in bidding. The alleged disclosure was not likely to have any effect on market mechanics.

(2) The alleged error was a small transaction, was self-corrected, was not a persistent violation, and did not result in release of any emissions.

(3) CP Energy has an excellent compliance history, has not engaged in past violations.

(4) CP Energy maintains a diligent compliance group to ensure compliance with all regulations. With respect to the alleged error, CP Energy modified its business practice prior to any enforcement action, and has provided additional training to all relevant staff to ensure future compliance.

(5) The ARB Cap and Trade Regulations and auction process is new and complex, and requires diligent effort to understand and comply with all requirements. The alleged error occurred with respect to application of the Regulations to the very first Auction, and has not been repeated.

(6) As noted in Item 4 above, CP Energy maintains a diligent compliance group to ensure compliance with all regulations, modified its business practice prior to any enforcement inquiry, and has provided additional training to all relevant staff to ensure future compliance.

(7) CP Energy has fully cooperated with the investigation.

In this matter the proposed penalty was discounted based on application of the statutory factors as discussed above.

The legal provisions under which the proposed penalty was to be assessed. The proposed penalty is based on Health & Safety Code section 42402.1 and CCR, title 17, section 96013, the provisions intended to govern violations of the Regulation.

Whether the governing provisions prohibit emissions at a specified level. The Regulation does not prohibit emissions above a stated level, but Health & Safety Code section 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.

18. The settlement set forth herein is based on confidential settlement communications between ARB and CP Energy. The settlement is the product of an arms-length negotiation between ARB and CP Energy and reflects the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that CP Energy may have secured from its actions, although no such advantage was alleged.

19. In consideration of the settlement payment and undertaking in paragraph 10, above, ARB hereby releases CP Energy and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations from any claims the ARB may have based on the circumstances described in paragraph 4, above.

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

California Air Resources Board

By: Ellen M. Peter
Ellen M. Peter
Chief Counsel

Date: 6/11/2013

CP Energy Marketing (US) Inc.

By: Jim Morison
Name: Jim Morison
Title: Chief Compliance Officer

Date: June 5/2013

ORG.		
LGL.	6/5/13	ZNK
CR.		
DOC.	6/5/13	DCouper