

This Settlement Agreement (Agreement) is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (ARB) 1001 I Street, Sacramento, California, and SK Energy Americas, Inc. (the Company), 1300 Post Oak Blvd., Suite 425, Houston, Texas.

RECITALS

1. The Global Warming Solutions Act of 2006 authorized ARB to adopt regulations to reduce greenhouse gas emissions. (Health & Saf. Code, § 38500 et seq.) Pursuant to that authority, ARB adopted the Low Carbon Fuel Standard California Code of Regulations (CCR), title 17, section 95480 et seq. (LCFS).
2. The LCFS is crucial to incentivizing innovative fuels that will reduce greenhouse gas (GHG) emissions. The regulation provides that low-carbon fuel producers and importers can generate credits by supplying transportation fuels with a carbon intensity below a stated standard. Producers and importers of high-carbon fuels, such as gasoline and petroleum-based diesel, must acquire and annually retire sufficient credits to match deficits generated by supplying fuel with a carbon intensity above the stated standard.
3. LCFS section 95491 requires quarterly and annual compliance reporting. LCFS section 95494 provides that each day that a required report remains unsubmitted, incomplete or inaccurate constitutes a separate violation. A regulated party's annual compliance report must demonstrate a neutral or positive balance of credits.
4. California Health & Safety Code sections 38580 and 43027 provide that one who violates the LCFS is strictly liable for daily penalties of up to \$35,000 per day.
5. ARB contends that for the 2014 compliance period, the Company failed to comply with the LCFS by submitting an annual report reflecting a net deficit of 2,015 metric tons. A corresponding number of credits had not been retired to match that deficit.
6. In reaching this settlement, ARB considered a variety of circumstances, including the nature of the Company's business, the nature, magnitude, and duration of the violation, any harm to the regulatory program, efforts the Company took to prevent the violation and to correct it, and the financial burden to the Company.
7. In this matter, there were a number of mitigating factors, including that this is the first time the Company violated the LCFS regulation, that the deficit was accurately and timely reported by the Company in its annual report, and the company has fully cooperated in ARB's investigation.
8. In order to resolve these alleged violations, the Company has taken, or agreed to take, the actions enumerated below. Further, ARB accepts this Agreement in termination and settlement of this matter.
9. 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, ARB and the Company agree as follows.

TERMS

10. Within 15 business days following execution of this Agreement, the Company shall deliver a cashier's check, money order or wire transfer in the sum of \$393,000 made payable to the "Air Pollution Control Fund."

The check should note "LCFS Settlement" in the memo section. Once this Agreement has been fully executed, the Company shall send (1) one original copy of this Agreement, (2) check or money order, and (3) the payment transmittal form (Attachment A) to:

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

and send a copy of this Agreement and copy of the payment to:

William Brieger
Air Resources Board
P.O. Box 2815
Sacramento, CA 95812-2815

11. It is further agreed that the penalties described in the prior paragraph are punitive in nature, rather than compensatory, and payable to a governmental unit. Therefore, it is agreed that these penalties arising from the facts described in recital paragraphs 1 – 7 are non-dischargeable under 11 United States Code § 523 (a)(7).

12. This Agreement shall apply to and be binding upon the Company, 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.

13. This Agreement constitutes the entire agreement and understanding between ARB and the Company concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements, whether made in orally or in writing, between ARB and the Company concerning the subject matter hereof.

14. 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.

15. 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.

16. 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.

17. 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.

PENALTY BASIS

18. Health & Safety Code section 39619.7 requires ARB to explain the manner in which the penalty was determined, the law on which it is based, and whether that law prohibits emissions at a specified level. ARB has considered all relevant facts, including those listed at Health & 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. That information is summarized here.

The manner in which the penalty was determined, including any per unit penalty. 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. ARB considered the extent to which the violation deviated from LCFS requirements, the cause of the violation, and whether the violator gained in any way from the 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 violations. The penalty reflects \$195 for each deficit that remained following the 2014 compliance year annual report. Penalties in future cases might be smaller or larger.

In this matter the penalty was discounted based on the fact that the violation was a first time violation for this company, after receiving a notice of violation, the company promptly purchased and retired credits so as to balance its account, and the company made diligent efforts to fully comply and cooperate with ARB's investigation.

The legal provisions under which the penalty was assessed and why those provisions are appropriate. The penalty is based on Health & Safety Code section 43027 and CCR, title 17, section 95494, the provisions intended to govern violations of the LCFS.

Whether the governing provisions prohibit emissions at a specified level. The provisions above do not prohibit emissions above a stated level, but Health & Safety Code section 38580(b)(2) specifies that violations of any LCFS under the Global Warming Solutions Act of 2006 shall be deemed to result in an emission of an air contaminant for purposes of the governing penalty statutes.

19. The penalty was based on confidential settlement communications between ARB and the Company. The penalty is the product of an arms length negotiation between ARB and the Company and reflects ARB's assessment of the relative strength of its case against the Company, the desire to avoid the uncertainty, burden and expense of

ARB AND SK ENERGY AMERICAS

litigation, obtain swift compliance with the law and remove any unfair advantage that the Company may have secured from its actions.

20. In consideration of the penalty payment specified herein, ARB hereby releases the Company and its successors and assignees, subsidiary and parent corporations from any claims the ARB may have based on the circumstances described in paragraph 5, above, and any related LCFS claims known to ARB that relate to the years 2012 and 2013.

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

California Air Resources Board

By: _____

Richard W. Corey
Executive Officer

Date: _____

4/28/2017

SK Energy Americas, Inc.

By: _____

Name: Wam Yong Koo

Title: Managing Director

Date: _____

4/26/2017