SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement And Release (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 Tesoro Refining and Marketing Company Golden Eagle Refinery (hereinafter "Tesoro") with its principal place of business at 150 Solano Way, Martinez, California 94952.

RECITALS

(1) California Code of Regulations, title 13, Section 2261 provides in pertinent part as follows: "(b) Applicability of the CaRFG Phase 3 Standards. (1)(B) The remaining CaRFG Phase 3 standards and compliance requirements contained in this subarticle shall apply to all sales, supplies, or offers of California gasoline occurring on or after December 31, 2003."

(2) Section 2266.5 (Requirements Pertaining to California reformulated Gasoline Blendstock for Oxygen Blending (CARBOB) and Downstream Blending) provides in pertinent parts as follows: "(a) Application of the California gasoline standards for CARBOB. (1) Applicability of standards and requirements to CARBOB. All of the standards and requirements in sections 2261, 2262, 2262.3, 2262.4, 2262.5(a), (b), (c) and (e), 2262.6, 2264, 2264.2, 2265, 2266, 2268, 2270, 2271 and 2272 pertaining to California gasoline or transactions involving California gasoline also apply to CARBOB or transactions involving CARBOB. Whenever the term "California gasoline" is used in the sections identified in the preceding sentence, the term means "California gasoline or CARBOB." Whenever the term "gasoline" is used in section 2265(b)(1), the term means "California gasoline or CARBOB." (2) Determining whether a final blend of CARBOB complies with the standard for California gasoline. (B) Determining whether a final blend of CARBOB complies with the standards for California gasoline by use of the CARBOB Model. 1. A producer or importer may elect to have the CARBOB model used in determining whether a final blend designated as CARBOB complies with the standards applicable to California gasoline, by providing the notice in section (b))(1)(C). In this case, the CARBOB limits for the final blend shall be determined in accordance with the "Procedures for Using the California Model for California Reformulated Gasoline Blendstocks for Oxygenate blending (CARBOB)." As adopted April 25, 2001, last amended August 7, 2008, which is incorporated by reference herein. The CARBOB's compliance with the assigned CARBOB limit for a property shall constitute compliance with the corresponding finished gasoline limit - be it a section 2262 flat limit, PM flat limit, TC limit, or (if no designated alternative limit has been established) section 2262 or PM averaging limit. In addition, where the producer or importer has elected to use the CARBOB model for a given final blend that is not being transferred from its production or import facility during the Reid vapor pressure control period for that facility set forth in section 2262.4(a), the final blend must have a Reid vapor pressure no lower than the value used in the T50 CARBOB model."

(3) Health and Safety Code section 43027(a) states, "Any person who willfully and intentionally violates any provision of this part, or any rule, regulation, permit, variance, or order of the state board, pertaining to fuel requirements and standards, is liable for a civil penalty of not more than two hundred fifty thousand dollars ($250,000), and the prosecuting agency shall include a claim for an additional penalty in the amount of any economic gain that otherwise would not have been realized from the sale of the fuel determined to be in noncompliance."

(4) Health and Safety Code section 43027(b) states, "Any person who negligently 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 liable for a civil penalty of not more than fifty thousand dollars ($50,000)."

(5) Health and Safety Code section 43027(c) states, "Any 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)."

(6) Health and Safety Code section 43027(d) states, "Any person who enters false information in, or fails to keep, any document required to be kept pursuant to any provision of this part, or any rule, regulation, permit, variance, or order of the state board, pertaining to fuel requirements and standards, is strictly liable for a civil penalty of not more than twenty-five thousand dollars ($25,000). In determining the amount of the penalty to be assessed under this subdivision, the court, or in reaching any settlement, the Attorney General or the state board, shall take into consideration, in addition to subdivision (b) of Section 43031, the specific circumstances and intent of the defendant in making the false entry or in failing to keep the document."

(7) Health and Safety Code section 43029 states, "In an action to recover civil penalties pursuant to subdivisions (b) and (c) of Section 43027 ... or a criminal prosecution pursuant to Section 43020, the prosecuting agency shall include a claim for an additional penalty designed to eliminate the economic benefits from noncompliance against any person who violates any provision of this part, or any rule, regulation, permit, variance, or order of the state board pertaining to fuel requirements or standards as follows: (a) For violations of gasoline requirements, the amount of the penalty shall equal the product of the number of tons of incremental increased vehicular emissions resulting from the manufacture, distribution, and sale of the specified volume of noncompliant fuel and nine thousand one hundred dollars ($9,100) per ton, which is the maximum calculated cost-effectiveness for California Phase 2 Reformulated Gasoline."

(8) Health and Safety Code section 43030 states, "(a) For the penalties prescribed in Sections 43027...each day during any portion of which a violation occurs is a separate offense. (c) The recovery of civil or administrative civil penalties

pursuant to this chapter precludes prosecution pursuant to Section 43020 for the same offense. When the executive officer refers a violation to a prosecuting attorney, the filing of a criminal complaint is grounds requiring the dismissal of any civil action or administrative proceedings brought pursuant to this chapter for the same offense."

(9) Health and Saftey Code section 43031(b) states, "In determining the amount assessed, the court, the Attorney General, or 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) ARB alleges in Notice of Violation F051310-TSOR-RPT that from April 29, 2010 to May 22, 2010, Tesoro submitted four PM notifications for four batches of California gasoline. The reported values of some of the gasoline properties and the percent change in emissions for oxides of nitrogen, total ozone forming potential, and potency weighted toxic air contaminants did not match values calculated in accordance with the Air Resources Board's "California Procedures for Evaluating Alternative Specifications for Phase 3 Reformulated Gasoline Using the California Predictive Model." Therefore, the PM notifications submitted by Tesoro did not meet the criteria for approval in the applicable PM Procedures in violation of Title 13 California Code of Regulations, Section 2261 and Section 2266.5.

(11) ARB alleges that the sale, offer for sale, supply, or offer for supply of gasoline fuel contained properties that exceeded maximum values of the PM, did not meet criteria for approval in the applicable PM Procedures, that failed the California Predictive Model, and that the PM reports were not in compliance with the PM reporting requirements of the fuels regulation.

(12) Tesoro denies the preceding allegations and makes no admission of any fact or liability whatsoever with respect to the preceding allegations.

(13) Tesoro is entering into this Agreement solely for the purpose of settlement and resolution of this matter with ARB. Further, ARB accepts this Agreement in termination of this matter. Accordingly, the parties agree to resolve this matter completely by means of this Agreement, without the need for formal litigation.

TERMS AND RELEASE

In settlement of any and all claims that ARB has against Tesoro for matters referred to above, ARB and Tesoro agree as follows:

(1) As a condition of this Settlement Agreement, Tesoro shall pay the sum of forty thousand dollars ($40,000) as a penalty. This amount shall be payable within 15 days after the last party signs this Agreement. Payment shall be made by check payable to the **California Air Pollution Control Fund** and addressed to:

Duong Trinh
Air Resources Board / Enforcement Division
9480 Telstar Avenue #4
El Monte, CA 91731

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

(3) It is agreed that the penalty described in terms and release paragraph (1) is punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish Tesoro for violations of state environmental statutes, and this penalty is payable to and for the benefit of ARB, a governmental unit. Therefore, it is agreed that this penalty imposed on Tesoro by ARB arising from the facts described in recital paragraphs 1–13 are nondischargeable under 11 U.S.C § 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) This Agreement shall apply to and be binding upon Tesoro and its principals, officers, directors, agents, 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.

(5) Now therefore, in consideration of the payment by Tesoro to the California Air Pollution Control Fund in the amount specified above, ARB 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 ARB may have based on the facts and allegations described in recital paragraphs 1-13. The undersigned represent that they have the authority to enter this Agreement.

(6) This Agreement constitutes the entire agreement and understanding between ARB and Tesoro concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreement of any kind or nature, whether written or oral, between ARB and Tesoro concerning these claims.

(7) No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, shall be valid or enforceable unless it is in writing and signed by all parties to this Agreement.

(8) Advice of Counsel. Each Party to this Agreement has reviewed the Agreement independently, has had the opportunity to consult counsel, is fully informed of the terms and effect of this Agreement, and has not relied in any way on any inducement, representation, or advice of any other Party in deciding to enter into this Agreement.

(9) 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.

(10) 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 to the extent necessary to fulfill the Agreement's purpose and the intent of the parties.

(11) 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.

(12) Waiver. 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. The rights and remedies granted all Parties herein are cumulative and the election of one right or remedy by a Party shall not constitute a waiver of such Party's right to assert all other legal remedies available under this Agreement or otherwise provided by law.

(13) **SB 1402 Statement**

Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010, Health and Safety Code section 39619.7) requires ARB to provide information on the basis for the penalties it seeks. This required information,wh ich is provided throughout this

settlement agreement,is su mmarized 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 Health and Safety Code section 43031.

The per unit penalty in this case is a maximum of $35,000 per day per strict liability violation. ARB alleges that four Predictive Models submitted by Tesoro did not comply with ARB gasoline Predictive Model requirements for a total of four days of violation. The total amount of penalty in this case is $40,000 or $10,000 per violation. The penalty was reduced because Tesoro cooperated fully with the investigation.

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

ARB 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 gasoline fuel into commerce in California in violation of title 13 California Code of Regulations section 2261 and section 2266.5.

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. ARB 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.

(14) Tesoro acknowledges that ARB has complied with SB 1402 in prosecuting and settling this case. Specifically, ARB 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 (including a per unit or per vehicle penalty, if appropriate), has identified the provision of law under which the penalty is being assessed, and has considered and determined that this penalty is not being assessed under provision of law that prohibits the emission of pollutants at a specified level.

(15) 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. The penalty reflects violations extending over a certain number of days considered together with the complete circumstances of this case. The penalty was discounted in this matter based on the fact that this was an innocent violation and because Tesoro made unusually diligent efforts to comply, to cooperate with the investigation and to mitigate any potential emissions consequences. Penalties in future cases might be smaller or larger on a per day basis.

(16) The penalty in this case was based in part on confidential business information provided by Tesoro that is not been retained by ARB in the ordinary course of business. The penalty in this case was also based on confidential settlement communications between ARB and Tesoro that ARB does not retain in the ordinary course of business either. The penalty also reflects ARB's assessment of the relative strength of its case against Tesoro, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that Tesoro may have secured from its alleged actions.

CALIFORNIA AIR RESOURCES BOARD

By _____

Name Ellen M. Peter

Title Chief Counsel

Date 12/20/2013

TESORO REFINING COMPANY

By _____

Name Stoney K. Vining

Title Senior Counsel

Date 10/18/2013