SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") with its principal office at 1001 I Street, Sacramento, California 95814, and TESORO REFINING & MARKETING COMPANY LLC (hereinafter "TESORO") with its principal place of business at 19100 Ridgewood Parkway, San Antonio, Texas 78259.

I. RECITALS

(1) California Code of Regulations, title 13, section 2265 specifies the requirements that must be met once a producer of California Gasoline has elected to sell or supply a final blend of gasoline as a Predictive Model alternative gasoline formulation.

(2) California Code of Regulations, title 13, section 2266.5(f)(1) states: "...No person may combine any CARBOB that has been supplied from the facility at which it has been produced or imported with any CARBOB, gasoline, blendstock or oxygenate...".

(3) 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)."

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

(5) Health and Safety Code section 43031(b) states, "In 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."

(6) ARB alleges that in July 2009, TESORO sold, offered for sale, supplied, or offered for supply California gasoline which had a sulfur content exceeding their Predictive Model limit(s) at/from its Wilmington Refinery.

(7) ARB alleges that in May 2010, TESORO sold, offered for sale, supplied, or offered for supply California gasoline which had a total aromatics content exceeding their Predictive Model limit(s) at/from its Martinez Refinery.

(8) ARB alleges that in November and December 2010, TESORO sold, offered for sale, supplied, or offered for supply California gasoline which had an olefin content exceeding their Predictive Model limit(s) at/from its Martinez Refinery.

(9) ARB alleges that in November 2010, TESORO combined conventional gasoline with CARBOB at Kinder Morgan's Concord Terminal.

(10) Specifically, ARB alleges that the acts committed by Tesoro represented in recitals 6 through 9 resulted in 52 days of violation.

(11) ARB alleges that the sale, offer for sale, supply, and/or offer for supply of the California gasoline represented in recitals 6 through 8 was unlawful and in violation of California Code of Regulations, title 13, section 2265(b).

(12) ARB alleges that the combining of CARBOB with conventional gasoline represented in recital 9 was unlawful and in violation of California Code of Regulations, title 13, section 2266.5(f).

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

(14) 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.

II. TERMS AND RELEASE

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

(1) As a condition of this Settlement Agreement, within 15-days after the last party signs this Agreement, TESORO shall pay the sum of one million fourteen thousand dollars ($1,014,000) as a penalty. Payment shall be made to the following as described below:

- $760,500 by check payable to the **California Air Pollution Control Fund**
- $253,500 by check payable to the **San Joaquin Air Pollution Control District**, with a notation on the check memo line "For School Bus Retrofit SEP"

Upon receiving the fully executed Settlement Agreement, Tesoro shall complete Attachment A and return along with payment to:

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

(2) If the Attorney General files a civil action to enforce this Agreement, TESORO shall pay all costs of enforcing the Agreement, including expert fees, reasonable attorney's fees, and

(2) If the Attorney General files a civil action to enforce this Agreement, TESORO shall pay all costs of enforcing the Agreement, including expert fees, reasonable attorney's fees, and costs.

(3) TESORO shall not seek to reduce any tax liability by virtue of paying the above amount.

(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 as described above, ARB hereby releases TESORO and its principals, officers, directors, agents, receivers, trustees, employees, parents, subsidiaries, predecessors, successors, and assignees, and each of their officers, directors, agents, and employees from, any and all claims that ARB may have based on the facts and allegations described in recital paragraphs 1-12 The undersigned represent that they have the authority to enter this Agreement.

(6) No provision of the Agreement shall be construed as an admission of any wrongdoing, or a violation of the CCR or any other statute, regulation, ordinance, order, or legal requirement by TESORO, its principals, officers, directors, agents, employees, parents, or subsidiaries. TESORO does not admit the truth of any of the alleged facts contained herein. The parties acknowledge that the agreements, statements, stipulations, and actions herein are made solely for the purpose of settling this matter economically and without litigation or further expense. TESORO does not endorse ARB's method of penalty calculation in this case and reserves the right to challenge it in future cases, should they arise.

(7) 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.

(8) 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.

(9) No agreement to modify, amend, extend, or 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) SB 1402 STATEMENT

Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires the ARB to provide information on the basis for the penalties it seeks (see Health and Safety Code section 39619.7). This information, which is provided throughout this settlement agreement, is summarized 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 a total of 52 days of violation occurred. The total amount of penalty in this case is $1, 014,000 reflecting an average penalty of $19,500 per day. This reflects the consideration of a number of circumstances, including: the alleged violations were innocent and inadvertent, the fact that TESORO made diligent efforts to comply, to reduce the number of days of alleged violation, to cooperate with the investigation and to take steps to help prevent recurrence of similar situations.

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

The penalty provision being applied in this case is Health and Safety Code section 43027 because ARB alleges that TESORO sold, offered for sale, supplied, and/or offered for supply gasoline in California in violation of California Code of Regulations, title 13, section 2262.5(b). ARB also alleges that TESORO combined CARBOB with conventional gasoline in violation of California Code of Regulations, title 13, section 2266.5(f).

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 fuels 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.

(16) 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.

(17) 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 in part because the alleged violations were innocent and inadvertent, TESORO made diligent efforts to comply, to reduce the number of days of violation, to cooperate with the investigation and to take steps to help prevent recurrence of similar situations. Penalties in future cases might be smaller or larger on a per day basis. The penalty in this case was based in part on confidential financial information or confidential business information provided by TESORO that has 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 is the product of an arm's length negotiation between ARB and TESORO and 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 actions.

CALIFORNIA AIR RESOURCES BOARD

By _____

Name Richard W. Corey
Title Executive Officer
Date 12/23/2014

TESORO REFINING & MARKETING COMPANY LLC

By _____

Name Charles S. Parrish
Title EVP, General Counsel & Secretary