

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") 1001 I Street, Sacramento, California 95814, and BOART LONGYEAR COMPANY (hereinafter "BLY"), 10808 South River Front Parkway, Suite 600, South Jordan, Utah 84095.

## I. RECITALS

- (1) California Health and Safety Code (HSC) section 44011.6 established the Heavy Duty Vehicle Inspection Program (HDVIP). It authorizes ARB to inspect on-road heavy-duty vehicles for excessive smoke emissions and engine tampering and to issue citations, accordingly. The program also requires the vehicle owner to repair its engines that exceed the prescribed ARB smoke opacity standards, perform a post-repair opacity test, and submit proof of repairs and any assessed penalties under the Regulations of the Heavy-Duty Smoke Inspection Program, chapter 3.5, sections 2180-2188, title 13 California Code of Regulations (CCR).
- (2) HSC section 43701 provides that ARB shall adopt regulations that require owners or operators of heavy-duty diesel motor vehicles to perform regular inspections of their vehicles for excessive smoke emissions.
- (3) Title 13 CCR, section 2190 *et seq.* was adopted under the authority of HSC section 43701 and, with limited exceptions, which are not applicable here, apply to all heavy-duty diesel powered vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California.
- (4) Title 13 CCR, section 2190 *et seq.* authorize the Periodic Smoke Inspection Program (PSIP) which requires the owners and operators of California based vehicle fleets of two or more heavy duty diesel motor vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California to conduct annual smoke opacity inspections of their vehicles that are four years older than the model year of the vehicle's engine.
- (5) Title 13 CCR, section 2192(a) requires inter alia that the owner of the vehicle "[t]est the vehicle for excessive smoke emissions periodically according to the inspection intervals specified in section 2193(a), (b), and (c)", "[m]easure the smoke emissions for each test...", "[r]ecord the smoke test opacity levels and other required test information as specified in section 2194..." and "[k]eep the records specified in section 2194 for two years after the date of inspection."
- (6) HSC section 43016 states, "Any person who violates any provision of this part, or any order, rule, or regulation of the state board adopted pursuant to this part, and for which there is not provided in this part any other

specific civil penalty or fine, shall be subject to a civil penalty of not to exceed five hundred dollars (\$500.00) per vehicle.”

- (7) The ARB considers testing, measuring, recording, and recordkeeping to be critical components in reducing excessive smoke emissions from these heavy-duty vehicles.
- (8) ARB contends BLY failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy-duty diesel vehicles for years 2011 and 2012 in violation of title 13 CCR, sections 2190 *et seq.*
- (9) California HSC, section 39650-39675 mandates the reduction of the emission of substances that have been determined to be toxic air contaminants. In 1998, following an exhaustive 10-year scientific assessment process, the ARB identified particulate matter (PM) from diesel-fueled engines as a toxic air contaminant. In-use Off-road diesel vehicles (off-road vehicles) are powered by diesel fueled engines that emit toxic PM. Off-road vehicles are controlled under sections 2449 within chapter 9, article 4.8, title 13 CCR.
- (10) Title 13 CCR, section 2449 (b) states except as provided in section 2449 (b)(2)(G) this regulation applies to any person, business, or government agency who owns or operates within California any vehicles with a diesel-fueled or alternative diesel fueled off-road compression-ignition engine with maximum power (max hp) of 25 horsepower (hp) or greater provided that the vehicle cannot be registered and driven safely on-road or was not designed to be driven on-road, even if it has been modified so that it can be driven safely on-road.
- (11) Title 13 CCR, section 2449 (f) sets forth the requirements for labeling all vehicles with engines subject to the regulation with an ARB-issued equipment identification number (EIN).
- (12) Title 13 CCR, section 2449 (g) sets forth the requirements for reporting all vehicles with engines subject to the regulation.
- (13) The ARB, has documented that BLY failed to report and label equipment prior to the August 1, 2009 deadline.
- (14) Failure to report and label equipment is a violation of state law resulting in penalties. HSC, section 39674, authorize civil or administrative penalties not to exceed one thousand dollars (\$1,000) or ten thousand dollars (\$10,000) for each day that the violation occurs.
- (15) In order to resolve these alleged violations, BLY has taken, or agreed to take, the actions enumerated below under "RELEASE". Further, the ARB accepts this Agreement in termination and settlement of this matter.

- (16) The ARB and BLY enter into this Settlement Agreement to fully resolve the above-referenced allegations against BLY. The parties consider this Settlement Agreement to constitute a reasonable settlement of disputed claims pertaining to the alleged violations. BLY disputes liability pursuant to the above-referenced allegations and denies the above-stated factual allegations.

## II. TERMS AND RELEASE

In furtherance of the settlement of the ARB's allegations regarding BLY's alleged violations, the parties agree as follows:

- (1) Upon execution of this Agreement, the sum of seven thousand, five hundred dollars (\$7,500.00) shall be paid on behalf of BLY no later than May 19, 2014, as follows:
- \$5,625.00 to the **Air Pollution Control Fund**
  - \$1,875.00 to the **Peralta Colleges Foundation**

**Please send the signed Settlement Agreement and any future mailings or documents required per the terms of this Settlement Agreement to:**

**Mr. Christopher Patno/Air Resources Engineer  
Air Resources Board, Enforcement Division  
9480 Telstar Avenue, Suite 4  
El Monte, CA 91731**

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

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

- (2) If the Attorney General files a civil action to enforce this settlement agreement, BLY shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's costs, and costs.
- (3) It is further agreed that the penalties described in "Terms and Release", paragraph 1 are punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish BLY for violations of state environmental statutes, and these penalties are payable to and for the benefit of ARB, a governmental unit. Therefore, it is agreed that these penalties imposed on BLY through by ARB arising from the facts described in recital paragraphs (1) through (14) are non-dischargeable

under 11 United States Code § 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) BLY shall not violate HSC sections 43701 *et seq.*, 44011.6 *et seq.*, and title 13 CCR, sections 2183, 2190 *et seq.*, and 2485 *et seq.*
- (5) BLY shall comply with one or both of the following options to attend the California Council on Diesel Education and Technology (CCDET I) class, (SAE J1667 Snap Acceleration Smoke Test Procedure for Heavy-Duty Diesel Powered Vehicles) as described on the ARB webpage at <http://www.arb.ca.gov/enf/hdvip/ccdet/ccdet.htm>. This class is conducted by various California Community Colleges and instructs attendees on compliance with the PSIP, ECL and the HDVIP.
  - (a) BLY shall have the fleet maintenance manager (or equivalent) and all staff performing opacity tests for compliance with PSIP and the HDVIP attend the CCDET I class. Proof of CCDET I completion shall be provided to ARB within six months of the date of this Agreement and be maintained in each applicable employee's file for the term of his or her employment.
  - (b) If BLY uses a contractor to perform the annual smoke opacity testing required under the PSIP, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET I course, BLY shall obtain proof that the contractor's staff conducting the smoke opacity tests completed the CCDET I course within the past four years. This proof of CCDET I completion shall be provided to ARB with PSIP records as required by this Agreement and be maintained with the annual PSIP records.
- (6) BLY shall comply with one or both of the following options to attend the CCDET II class (Diesel Exhaust After Treatment and Maintenance), described on the ARB's webpage <http://www.arb.ca.gov/enf/hdvip/ccdet/ccdet.htm>. This class is conducted by various California Community Colleges and instructs attendees on California's emission regulations and the proper care and maintenance of diesel exhaust after-treatment systems (DEATS).
  - (a) BLY shall have the fleet maintenance manager (or equivalent) and all staff responsible for maintenance of DEATS attend the CCDET II class. Proof of CCDET II completion shall be provided to ARB within six months of the date of this Agreement and also be maintained in each applicable employee's file for the term of his or her employment.

- (b) In case BLY uses a contractor for the maintenance of DEATS, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET II course, BLY shall obtain proof that the contractor's staff maintaining the DEATS device(s) completed the CCDET II course within the last four years. This proof of the CCDET II completion shall be provided by BLY to the ARB within six months of the date of this settlement and be maintained with the DEATS installation and maintenance records.
- (7) BLY shall submit copies of all PSIP compliance records for the two years (2014 and 2015) after the close of the audit to the ARB by January 31 of the following year. Copies shall be addressed to the attention of Mr. Christopher Patno at the California Air Resources Board, Enforcement Division, 9480 Telstar Ave., Suite 4, El Monte, CA 91731. The ARB reserves the right to visit any BLY fleet location at any time to conduct compliance audits for the HDVIP and PSIP, or any other applicable ARB program.
- (8) BLY shall complete Low NOx Software Upgrades (reflash) on all applicable heavy-duty diesel engines operating in California and report to the ARB within 45 days of this agreement.
- (9) BLY shall instruct all employees who operate diesel-fueled vehicles to comply with the idling regulations set forth in title 13 CCR section 2485, within 45 days of this Agreement.
- (10) BLY shall comply with the requirements for off-road equipment set forth in title 13 CCR, section 2449.
- (11) This Agreement shall apply to and be binding upon BLY, 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 BLY concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and BLY 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) 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.

- (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 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 HSC sections 42403 and 43024.

PSIP Violations

The per vehicle penalty for the PSIP violations involved in this case is a maximum of \$500.00 per vehicle per violation per year. The penalty obtained for the PSIP violations involved in this case is \$1,000.00 for one vehicle over two years, or \$500.00 per vehicle per violation per year.

Off-Road Vehicle Rule Violations

The per vehicle penalty for the Off-Road rule violations involved in this case is a maximum of \$1,000 per vehicle per day for strict liability violations or \$10,000 per vehicle per day for negligent or intentional violations. The penalty obtained for BLY violations involved in this case is \$6,500.00 or \$500.00 per vehicle for 13 vehicles for an unspecified number of days.

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

PSIP Violations

The penalty provision being applied to the PSIP violations is HSC section 43016 because BLY failed to test, measure, record, and maintain records

of smoke emissions from its fleet of heavy duty diesel vehicles for the years 2011 and 2012 in violation of the PSIP regulation in title 13 CCR sections 2190 *et seq.*, for one vehicle. Since the PSIP regulation was adopted pursuant to authority granted in Part 5 of Division 26 of the HSC and since there is no specific penalty or fine provided for PSIP violations in Part 5, HSC section 43016 is the applicable penalty provision.

#### Off-Road Vehicle Rule Violations

The penalty provision being applied for the In-Use Off-Road Diesel Regulation (title 13 CCR, section 2449 *et seq.*) violations (including labeling) is HSC section 39674 because the Off-Road rule is a Toxic Air Contaminant Control Measure adopted pursuant to authority contained in HSC section 39660, *et seq.* and because BLY failed to label 13 vehicles as required by the In-Use Off-Road Diesel Regulation.

**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.**

#### PSIP Violations

The PSIP provisions cited above do prohibit emissions above a specified opacity or level of g/hp-hr. However, since the hours of operation of the non-compliant unit involved and its individual emission rate is not known, it is not practicable to quantify the excess emissions.

#### Off-Road Vehicle Rule Violations

The provisions cited above do not currently prohibit emissions above a specified level of g/hp-hr. However, since the hours of operation of the non-compliant units involved and their individual emission rates are not known, it is not practicable to quantify the excess emissions.

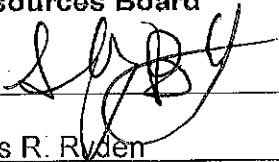
- (18) BLY acknowledges that ARB has complied with Senate Bill 1402 in prosecuting or settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC section 43024, has explained the manner in which the penalty amount was calculated, has identified the provision 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.
- (19) 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. Penalties in future cases might be smaller or larger on a per unit basis.

- (20) The penalty was based on confidential settlement communications between ARB and BLY that ARB does not retain in the ordinary course of business. The penalty is the product of an arms length negotiation between ARB and BLY and reflects ARB's assessment of the relative strength of its case against BLY, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that BLY may have secured from its actions.
- (21) Now therefore, in consideration of the payment on behalf of BLY to the Air Pollution control Fund and the Peralta Colleges Foundation, the ARB hereby releases BLY and their principals, officers, agents, predecessors and successors from any and all claims, the ARB may have or have in the future based on the circumstances described in paragraph (1) through (14) of the Recitals. The undersigned represent that they have the authority to enter into this Agreement.

**California Air Resources Board**

Signature: \_\_\_\_\_



Print Name: James R. Ryden

Title: Chief, Enforcement Division

Date: \_\_\_\_\_

05/28/14

**Boat Longyear Company**

Signature: \_\_\_\_\_



Print Name: \_\_\_\_\_

Robert Clossner

Title: \_\_\_\_\_

Regional General Counsel

Date: \_\_\_\_\_

5/14/14