

## SETTLEMENT AGREEMENT

As a result of good faith negotiations between the SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT, on behalf of itself and the People of the State of California, ("SCAQMD" or "District") and SOUTHERN CALIFORNIA GAS COMPANY ("SoCalGas") (each, a "Party," and collectively, the "Parties"), the following settlement agreement ("Agreement") was entered into by and between the Parties on this day, February 7, 2017 ("Effective Date").

### RECITALS

- A. On or about October 23, 2015 natural gas began leaking from the Aliso Canyon Natural Gas Storage Facility (the "Facility") from well SS-25 (the "Incident").
- B. On November 23, 2015, the District issued Notice of Violation P62646 to SoCalGas alleging an ongoing public nuisance pursuant to California Health and Safety Code Section 41700 and District Rule 402 as a result of the Incident.
- C. On January 26, 2016, the District filed a lawsuit against SoCalGas in the Los Angeles County Superior Court entitled *People of the State of California ex rel. South Coast Air Quality Management District v. Southern California Gas Company*, Case No. BC608322, for violations of the California Health & Safety Code and District Rules. On July 13, 2016, the District filed a First Amended Complaint adding a Seventh Cause of Action for Declaratory Relief seeking a declaration, among others, that the Abatement Order requires SoCalGas to fund the reasonable costs of a health study not limited to a "health risk assessment" (as amended, the "Complaint").
- D. On January 23, 2016, the Hearing Board of the South Coast Air Quality Management District ("Hearing Board") approved a Petition for a Stipulated Order for Abatement and issued Findings and Decision for an Order for Abatement Upon Stipulation (as the same has been amended, the "Abatement Order"). The Abatement Order requires that SoCalGas perform a number of actions to address conditions and mitigate potential health hazards arising from the Incident.
- E. On February 18, 2016, the California Department of Conservation's Division of Oil, Gas and Geothermal Resources confirmed that the leaking well SS-25 was successfully sealed.
- F. Paragraph 12 of the Conditions and Increments of Progress ("Condition 12") of the Abatement Order requires SoCalGas to provide a written commitment for funding the "reasonable costs" to conduct a health study relating to the Incident.
- G. On May 26, 2016, SoCalGas committed in writing to pay up to FOUR HUNDRED THOUSAND DOLLARS (\$400,000) to fund a health study relating to the Incident. SoCalGas also provided a scope of work and a proposed plan for the health study, which included a literature review, determination of released chemicals, assessment of exposure

points and concentrations; development of chronic toxicity values for THT and TBM, and estimating chronic cancer risk and non-cancer hazard indices. SoCalGas contends that this commitment satisfied its obligations under Condition 12.

- H. District Rule 301(e) provides for the payment of an annual emissions fee, and potential late fees, based on the total weight of emissions of each of the contaminants specified in the rule from specific equipment used by an operator (hereinafter referred to as "AER Fees"). SoCalGas and the District disagree as to whether and to what extent emissions resulting from the Incident should be subject to such AER Fees in 2015 and 2016. On March 1, 2016, SoCalGas and the District entered into an Emissions Fee Payment Agreement ("Emissions Fee Agreement") preliminarily addressing the disputed 2015 AER Fees with respect to the Facility. Pursuant to this Emissions Fee Agreement, SoCalGas deposited with the District, which in turn deposited the funds into its "Accounting Agency Fund (11)" (the "Accounting Agency Fund"), FOUR MILLION TWO HUNDRED THOUSAND DOLLARS (\$4,200,000) (the "AER Fee Deposit") pending the resolution of the dispute. The Parties have a similar disagreement with respect to the Facility's 2016 AER Fees that are due March 1, 2017.
- I. The District previously withdrew TWO HUNDRED THOUSAND DOLLARS (\$200,000) of the AER Fee Deposit from the Accounting Agency Fund, representing the undisputed portion of the 2015 AER Fees for the Facility.
- J. The Parties agree that it is in their mutual interest and in the interest of the public to resolve these issues without further litigation as set forth below.

### AGREEMENTS

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree to the following:

1. **Obligations Under Abatement Order.** The Parties agree that SoCalGas has fully complied with and satisfied the terms, conditions and obligations in the Abatement Order except Condition 12. The Parties hereby agree that the payment set forth in Section 3(a)(i) below shall constitute full compliance with, satisfy and discharge in full SoCalGas' obligations under Condition 12.
2. **Scope.** This Agreement is intended to resolve and to satisfy any and all claims, disputes and causes of action, including claims for penalties and injunctive relief, that were raised or could have been raised by the District arising out of or related to the Incident and the potential violations that were or could have been asserted by the District as a result of or related to the operation of the Facility, except for AER or other District fees that are not attributable to the Facility. This includes, but is not limited to, the claims alleged or that could have been alleged based on the facts in the Complaint – such as the Seventh Cause of Action for Declaratory Relief – as well as claims made in any Notice of Violation and the Abatement Order proceeding, claims for AER Fees required to be paid by SoCalGas for emissions from the Facility, including without limitation, emissions arising from the

Incident, for compliance years 2015 and 2016, that are attributable to the Facility and any claims for legal fees or costs arising out of or related to the Incident.

**3. Obligations of SoCalGas under this Agreement.**

(a) Settlement Payments. In exchange for the releases and other terms and conditions specified in Sections 3(b) and 4 below, SoCalGas shall pay the District a total sum of EIGHT MILLION FIVE HUNDRED THOUSAND DOLLARS (\$8,500,000.00), which will be applied as follows:

- (i) ONE MILLION DOLLARS (\$1,000,000) in full satisfaction of the funding of the health study recommended by the District as set forth in Exhibit A to this Agreement as required pursuant to Condition 12 (the "Health Study").
- (ii) FIVE MILLION SIX HUNDRED AND FIFTY THOUSAND DOLLARS (\$5,650,000) in full satisfaction of AER Fees required to be paid by SoCalGas for emissions from the Facility pursuant to District Rule 301 for calendar years 2015 and 2016, of which ONE MILLION DOLLARS (\$1,000,000) shall be applied by the District to fund a project or projects or an investment in Kore Infrastructure, LLC, subject to the District and KORE entering into an agreement on appropriate and acceptable terms. If KORE and the District are unable to reach agreement, the money shall fund a project or investment in clean-air technology development to be selected and administered by the District's Governing Board.
- (iii) ONE MILLION SIX HUNDRED THOUSAND DOLLARS (\$1,600,000) for full reimbursement of air quality monitoring costs incurred by the District as a result of the Incident, including monitoring as required by paragraph 10 of the Abatement Order.
- (iv) TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000) for full reimbursement of legal fees and costs incurred by the District as a result of the Incident.

(b) Payment and Release of Funds.

- (i) On the Effective Date, the District is authorized to withdraw ONE MILLION DOLLARS (\$1,000,000) from the Accounting Agency Fund to fund the Health Study.
- (ii) Within three (3) days of the Effective Date, SoCalGas shall deposit with the District FOUR MILLION THREE HUNDRED THOUSAND DOLLARS (\$4,300,000).
- (iii) The District shall deposit the sum referenced in Section 3(b)(ii) above into the Accounting Agency Fund.

- (iv) Upon receipt of confirmation from SoCalGas of its receipt of a final, non-appealable order terminating the Abatement Order, the District shall be authorized to withdraw the remaining SEVEN MILLION FIVE HUNDRED THOUSAND DOLLARS (\$7,300,000) (which includes the amounts previously deposited in the Accounting Agency Fund pursuant to the Emissions Fee Agreement) from the Accounting Agency Fund.

4. **Obligations of the District under this Agreement.**

- (a) **Dismissal of Claims.** Within seven (7) days of the Effective Date, the District will file with the Court papers dismissing the First Amended Complaint with prejudice.
- (b) **Release of Claims.** As of the Effective Date, the District fully, completely, finally and forever releases, relinquishes and discharges (a) SoCalGas and Sempra Energy, and any of their respective affiliates and subsidiaries; (b) the past, present, and future owners, lessors, sub lessors, managers, franchisees and operators of, and any others with any interest in, the Facility; and (c) the respective officers, directors, shareholders, subsidiaries, affiliates, agents, principals, employees, attorneys, successors and assigns of the persons and entities described in (a) and (b) immediately above (each of (a), (b), and (c) are a "Released Party" and collectively, the "Released Parties") relating to any and all claims, actions, causes of action, demands, rights, debts, agreements, promises, liabilities, damages, accountings, costs and expenses, whether known or unknown, suspected or unsuspected, of every nature whatsoever which the District have or may have against the Released Parties arising directly or indirectly out of the Incident (each a "Released Claim" and, collectively, the "Released Claims"). The Released Claims include any and all causes of action asserted and allegations made, or that could have been made or asserted, by the District in the Complaint, Notice of Violation P62646, Abatement Order proceeding or in any other action against the Released Parties relating to or arising from the Incident, or with respect to SCAQMD Rule 301 requiring payment of the Facility's 2015 and 2016 AER Fees.
- (c) **California Civil Code Section 1542 and Intent of Parties.** It is the intention of the Parties that this Agreement shall be effective as a full and final accord and satisfaction and release of each and every Released Claim. In furtherance of this intention, the District acknowledges that it is familiar with California Civil Code section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

The District hereby waives and relinquishes all of the rights and benefits that it has, or may have, under California Civil Code section 1542 (as well as any similar rights and benefits which it may have by virtue of any statute or rule of law in any other state or territory of the United States). The District acknowledges that it may hereafter discover facts in addition to, or different from, those which it now knows or believes to be true with respect to the Incident and the Released Claims, but that notwithstanding the foregoing, it is the District's intention hereby to fully, finally, completely and forever settle and release each, every and all Released Claims, and that in furtherance of such intention, the release herein given shall be and remain in effect as a full and complete general release, notwithstanding the discovery or existence of any such additional or different facts.

- (d) Covenant Not to Sue. As of the Effective Date, the District covenants not to sue or take administrative action against SoCalGas or any other Released Party for any Released Claims
- (e) Termination of Abatement Order. Within 7 days of the Effective Date, the District shall initiate formal proceedings to terminate the Abatement Order and thereafter take all steps necessary to effectuate the final, non-appealable termination of the Abatement Order. SoCalGas shall cooperate with the District in this effort.

5. No Admissions. Nothing in this Agreement, nor the payment of any amount by SoCalGas, shall be construed as an admission by SoCalGas or any other Released Party that any action that SoCalGas or any other Released Party may have taken, or failed to take, violates any provision of the California Health & Safety Code, including sections 41700, 42402-42402.2, and 25510, or District Rule 402, or any other state or federal law, statute or regulation. Neither SoCalGas nor any other Released Party makes any admission, implied or otherwise, that it caused or created a nuisance, whether public or private, continuing or permanent, relating to the Incident. The Parties enter into this Agreement to avoid further litigation and without the admission or adjudication of any issue of fact or law. Neither SoCalGas nor any other Released Party admits, and each reserves the right to controvert in any subsequent proceedings, if any, any and all facts or issues of law set forth in the Complaint and the Abatement Order. Neither SoCalGas nor any other Released Party concedes the basis the District asserts for the calculation of the AER Fees for the Facility for calendar years 2015 and 2016, including the applicability of the AER Fees to any or all of the leaked emissions, and SoCalGas and each other Released Party reserves the right to oppose any AER Fees assessed or applied on such basis in the future. Nothing in this Agreement shall prejudice, waive, or impair any right, remedy, or defense that SoCalGas or any of the Released Parties shall have against any entity not a party to this Agreement.

6. Settlement Not To Be Used As Evidence In Any Other Proceeding. Neither this Agreement, nor any document referred to herein, nor any action taken to carry out this Agreement, shall be construed as giving rise to any presumption or inference of

admission or concession by SoCalGas or the Released Parties as to any fault, wrongdoing or liability whatsoever. Except in a proceeding to enforce this Agreement, neither the existence of this Agreement, nor its terms or provisions, nor the negotiations or other proceedings connected with it, nor any other action taken to carry out this Agreement, by any of the Parties hereto, shall be used in any subsequent District proceeding.

7. **Third Parties.** This Agreement is binding upon the Parties, who are responsible for performing the obligations set forth herein. The District's releases and covenants not to sue set forth in this Agreement are not intended to waive, modify or affect any claim of the California Attorney General, the City of Los Angeles, or the County of Los Angeles brought individually or on behalf of the People of the State of California with respect to the Incident.

8. **General Provisions.**

- (a) **Warranty of Authority.** Each of the Parties hereby represents and warrants that it has the full power and authority to enter into this Agreement and perform its respective obligations under this Agreement.
- (b) **Successors and Assigns.** The provisions of this Agreement shall be deemed to obligate, extend to, and inure to the benefit of the Parties hereto, and the legal successors, assigns, transferees, grantees, and heirs of each Party hereto, including those who may assume any or all of the above-described capacities subsequent to the Effective Date.
- (c) **Integration.** This Agreement constitutes the final and complete agreement of the Parties with respect to the subject matter of the Agreement and supersedes all prior or contemporaneous negotiations, promises, agreements, including without limitation the Emissions Fee Agreement, or representations concerning any matters directly, indirectly or collaterally related to the subject matter of this Agreement. It is the intention of the Parties that this Agreement shall constitute an integration of all of their agreements, and each Party understands that in the event of any subsequent litigation, controversy, or dispute concerning any of its terms, conditions, or provisions, no Party shall be permitted to offer or introduce any oral or extrinsic evidence concerning any other collateral or oral agreement between the Parties not included herein.
- (d) **Recital Incorporation.** The Recitals are made a part of this Agreement as if they were fully written therein.
- (e) **Captions, Headings and Severability.** Captions and headings used herein are for convenience only and shall not be used in construing this Agreement. If any provision of this Agreement is found by a court of competent jurisdiction to be illegal, invalid, unlawful, void, or unenforceable, then such provision shall be enforced to the extent that it is not illegal, invalid, unlawful, void, or unenforceable, and the remainder of this Agreement shall continue in full force and effect.

- (f) Counterparts. This Agreement may be signed in counterparts and shall be binding on the Parties as if all of said Parties executed the original hereof. The Parties agree that the delivery of facsimile and/or electronic signatures shall be acceptable and shall for all purposes be deemed to have the same force and effect as original signatures.
  - (g) Waiver. No waiver by any Party to this Agreement of any provision of the Agreement shall be deemed to be a waiver of any other provision of the Agreement or of any subsequent breach of the same or any other provision of the Agreement.
  - (h) Amendment. This Agreement may not be amended or modified except by a writing executed by the Parties that clearly expresses, by its terms, an intention to modify this Agreement.
  - (i) Law of California Governs. Any dispute regarding the interpretation of this Agreement, the performance of the Parties pursuant to the terms of this Agreement, or the claims of any Party arising from or related to any breach of this Agreement shall be determined under the laws of the State of California, regardless of the choice-of-law provisions of the State of California or any other jurisdiction.
  - (j) Construction of Agreement. The Parties acknowledge and warrant that they have been represented by independent counsel of their own selection in connection with the pursuit and defense of claims arising from the Incident, the negotiation of this Agreement, and the drafting of this Agreement; and that in any interpretation of this Agreement, the terms of the Agreement will not be considered to have been drafted by any one Party and will not be construed in favor of or against any Party as a result of who may have drafted such terms.
9. Notice. Any and all notices between the Parties provided for or permitted under this Agreement, or by law, shall be in writing and shall be deemed duly served: (a) when personally delivered to a party, on the date of such delivery; or (b) when sent via facsimile to a party at the facsimile number set forth below, or to such other or further facsimile number provided in a notice sent under the terms of this Section, on the date of the transmission of that facsimile; or (c) when deposited in the United States mail, certified, postage prepaid, addressed to such party at the address set forth below, or to such other or further address provided in a notice sent under the terms of this Section, three days following the deposit of such notice in the mail.

If to the District:

Kurt R. Wiese, General Counsel  
**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**  
21865 Copley Drive  
Diamond Bar, California 91765  
Facsimile: 909.396.2961

If to SoCalGas:

Sharon Tomkins, VP and General Counsel  
**SOUTHERN CALIFORNIA GAS COMPANY**  
555 West 5th Street, GT21C2  
Los Angeles, CA 90013  
Facsimile: (213) 244-8293

Copies to:

James D. Dragna, Esq.  
**MORGAN, LEWIS & BOCKIUS LLP**  
300 South Grand Avenue  
Twenty-Second Floor  
Los Angeles, CA 90071  
Facsimile: (213) 612-2501

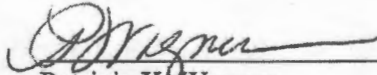
Robert A. Wyman, Esq.  
**LATHAM & WATKINS LLP**  
355 South Grand Avenue  
Los Angeles, CA 90071  
Facsimile: (213) 891-8763



IN WITNESS THEREOF, the Parties have executed this Agreement by their duly authorized representatives as of the date set forth below their respective signatures:

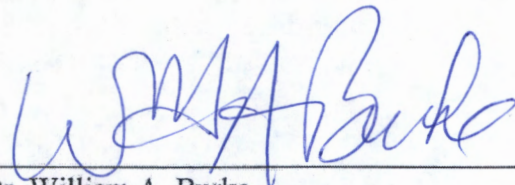
**For Southern California Gas Company**

Dated: 2-6-2017

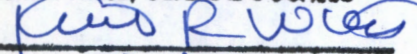
  
\_\_\_\_\_  
Patricia K. Wagner  
Chief Executive Officer

**For the South Coast Air Quality Management District**

Dated: 2-7-17

  
\_\_\_\_\_  
Dr. William A. Burke  
Chairman of the SCAQMD Governing Board

**APPROVED AS TO FORM  
KURT R WIESE, GENERAL COUNSEL**

By:   
Date: 2/7/2017

**Exhibit A**  
**Scope of Health Study**

- **Enhanced exposure modeling based on reconciliation of the model with measured concentrations;**
  - a. Use available facility, perimeter and community monitoring data, as well as emissions data, to model the concentrations of chemicals the community may have been exposed to as a result of the release from the facility.
  - b. The exposures will be modeled using appropriate methodologies.
  
- **A Community Health Survey of reported symptoms; and**
  - a. The survey would be developed using information from the peer-reviewed literature and agency documents to guide and prioritize what questions would be asked.
  - b. The survey may include questions regarding short-term (acute) health impacts, long-term (chronic) health impacts, and carcinogenic impacts.
  
- **An analysis of potential associations between community reported symptoms and estimated exposures.**
  - a. Using appropriate methodologies, analyze the potential associations of quantitative estimates of exposures with the health symptoms from the Community Health Survey.
  - b. Adverse health effects evaluated may include short-term (acute) impacts, long-term chronic impacts, and the potential for carcinogenic impacts.
  - c. Evaluate the plausibility and consistency of the findings in light of other studies in the peer-reviewed literature and agency documents.