

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (the "Agreement") is made and entered into as of October 17, 2006 (the "Effective Date") by and between the SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT (the "District") and CITY OF REDLANDS ("CITY").

RECITALS

A. The District is a political subdivision of the State of California created by the legislature to exercise responsibility for comprehensive air pollution control within the area of the South Coast Air Basin, with its headquarters located at 21865 Copley Drive, Diamond Bar, California 91765-0940.

B. The CITY is a California municipality which owns and operates a landfill-gas fired 1350 BHP, Internal Combustion Engine (ICE). The combustion system is monitored by a Continuous Emission Monitoring System (CEMs). The combustion system can operate up to 24-hours per day to supply electricity to operate the City of Redlands Wastewater Treatment and Recycling Facility and to supply power to heat water used in the digester. In addition, the CITY operates a landfill and digester gas flaring system. The facility is located at 2151 Nevada Street, Redlands, CA 92373. The CITY uses a mailing address of P.O. Box 3005, Redlands, CA 92373-8112.

C. The CITY operates the landfill gas combustion system which includes the ICE and the CEMs under Permit to Operate No. F61745, A/N 390032. Conditions 12 and 21 of that permit requires the CITY to conduct annual performance tests and furnish the SCAQMD written results of such performance tests within 30 days of the anniversary of the initial test per Rule 1150.1 requirements. Condition 17 of that permit requires that the monitoring system shall comply with the requirements of SCAQMD Rule 218.

D. The CITY was required to perform the annual testing of the ICE and the testing of the CEMs no later than March 2006 but Respondent has not performed the testing as required by the Rule and Permit requirements.

F. The CITY is in the process of repairing the ICE and the ICE has not been operating since approximately February 2006.

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual covenants, agreements, and releases 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. **Penalty.** The CITY agrees to pay a monetary penalty to the District, as follows:
 - A. For the on-going operation commencing October 18, 2006, the CITY will pay the sum of \$100 per day of non-compliant operation. The payments shall be made according to the following schedule:

Period Covered

Due Date

February 1-September 30, 2006	October 15, 2006
October 1-31, 2006	November 15, 2006
November 1-30, 2006	December 15, 2006
December 1-31, 2006	January 15, 2007
January 1-31, 2007	February 15, 2007
February 1-28, 2007	March 15, 2007

- B. The CITY shall not operate the ICE more than seven (7) days without commencing emission (Rule 1150.1) testing and without commencing (Rule 218.1) testing on the CEMs.
- C. The CITY shall schedule testing for November 7-8, 2006 and complete the testing unless prevented by means beyond the control of the CITY. If delayed, the CITY shall complete the testing as soon as possible thereafter.
- D. The CITY shall notify the District [Attn: Linda Dejbakhsh, AQ Engineer II, Telephone No. (909) 396-2614 and Rick Gluck, AQ Inspector II, Telephone No. (909) 396-2361] at least ten (10) days prior to the testing and immediately upon any change in the dates.

2. **No Admission of Liability.** This Agreement does not constitute an admission by any party of liability or responsibility. It is acknowledged that each party's covenants, agreements, and releases set forth herein is in consideration of this Agreement and is given for the purpose of avoiding the costs and expenses of any further legal proceedings.

3. **No Party Deemed Drafter.** The parties acknowledge that the terms of the Agreement are contractual and are the result of negotiations between the parties and their respective counsel. Each party and their respective counsel cooperated in the drafting and preparation of the Agreement.

4. **Authority to Execute.** Each party represents and warrants to the other party that the signatories to the Agreement have been duly authorized to execute the Agreement on behalf of the entities identified below.

5. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same document. The parties may execute and deliver this Agreement by transmitting an authorized signature by facsimile ("fax"), and copies of this Agreement signed and delivered by means of faxed signatures shall have the same effect as copies executed and delivered with original signatures.

6. **Reserves the Right.** The District reserves the right to rely upon the alleged violation and may offer proof thereof in connection with any future administrative or judicial proceeding.

7. **Timely Payment.** If timely payment is not made, the Agreement is void and the District may proceed on the underlying violations and seek the maximum penalties authorized by the Health and Safety Code.

8. **Binding.** This Agreement is binding on any and all successors in interest to the owner/operators entering into the Agreement.

9. **Notices.** All notices, requests, and other communications which may be given under or concerning this Agreement shall be made in writing and shall be deemed to have given when received. In each case notice shall be sent to:

For CITY OF REDLANDS:

Greg Gage, Capital Projects Manager
City of Redlands Municipal Utilities Dept.
P.O. Box 3005
Redlands, California 92373
Telephone No.: (909) 798-7698
Facsimile No.: (909) 798-7670
Email: ggage@cityofredlands.org

William Song
SCS Energy
3900 Kilroy Airport Way, Suite 100
Long Beach, CA 90806-6816
Telephone No.: (562) 426-9544, Ext. 3088
Facsimile No.: (562) 988-3183
Email: wsong@scsengineers.com

For the DISTRICT:

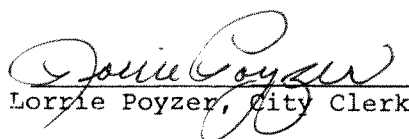
Carol L. Engelhardt, Esq.
Senior Deputy District Prosecutor
South Coast Air Quality Management District
District Prosecutor's office
21865 Copley Drive
Diamond Bar, California 91765-0940
Telephone No.: (909) 396-3400
Facsimile No.: (909) 396-2961
Email: cengelhardt@aqmd.gov

The District and the CITY hereby execute this Agreement by their authorized representatives.

CITY OF REDLANDS

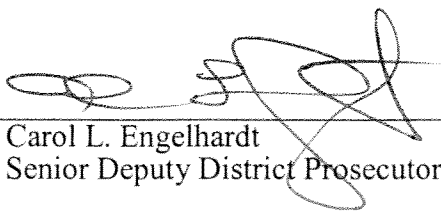
ATTEST:

Dated: October 17, 2006

By:  
Jon Harrison, Mayor Lorrie Poyzer, City Clerk

**SOUTH COAST AIR QUALITY
MANAGEMENT DISTRICT**

Dated October 17, 2006

By: 
Carol L. Engelhardt
Senior Deputy District Prosecutor