

SETTLEMENT AGREEMENT

This agreement is entered into as of June 4, 2003.

1. Background. The following organizations and representatives of organizations have filed appeals of the April 28, 2003 decisions by the City of Benicia Planning Commission to certify an Environmental Impact Report, adopt a Mitigation Monitoring and Reporting Program, and approve a use permit and related conditions and findings for the Valero Improvement Project (collectively "April 28, 2003 Planning Commission Decisions"): the Good Neighbor Steering Committee; the Solano County Green Party; the Sierra Club, Solano Chapter; Dana Dean; Doug MacDonald; and Jerri Curry (collectively "Appellants").

2. Purpose of Agreement. Valero Refining Company-California ("Valero") enters into this Agreement in good faith for the purpose of settling the disputes between Valero and the Appellants relating to the Valero Improvement Project, including Valero's desire to obtain the issuance of any necessary approvals and entitlements for the Valero Improvement Project.

3. Definitions. For the purpose of this agreement, the Valero Improvement Project ("VIP") is defined as that project permitted by the Benicia Planning Commission on April 28, 2003 and incorporating the amendments herein. The project does not include any subsequent environmental review.

4. Conditions. Valero agrees to be bound by the provisions of Paragraphs 5 through 7 below, subject to the following conditions:

(a) No later than 6:30 p.m. on June 4, 2003, all Appellants withdraw, in writing, their appeals of the April 28, 2003 Planning Commission Decisions;

(b) The City of Benicia accepts all Appellants' withdrawal of their appeals of the April 28, 2003 Planning Commission Decisions, and the April 28, 2003 Planning Commission Decisions become final decisions without further action by the City of Benicia Planning Commission or City Council;

(c) No person or entity appeals or otherwise challenges the April 28, 2003 Planning Commission Decisions or the City of Benicia's acceptance of the withdrawals of Appellants' appeals of the April 28, 2003 Planning Commission Decisions;

(d) Upon request by Valero, the Good Neighbor Steering Committee supports, in writing and in person, the approval and construction of the VIP. Support includes testifying on behalf of the VIP before the appropriate regulatory bodies. Approval for the purposes of this Agreement means City, BAAQMD, and RWQCB approvals necessary to build the VIP; and

(e) The Appellants do not object to, challenge, or appeal the approval or construction of the VIP. Approval for the purposes of this Agreement means City, BAAQMD, and RWQCB approvals necessary to build and operate the VIP.

5. Commitment to Water Reuse Project. Condition 13 of the Use Permit for the Valero Improvement Project, approved by the City of Benicia Planning Commission on April 28, 2002, ("Condition 13") provides "Valero shall continue to participate in the planning and development of the City's wastewater reuse project, consistent with its commitment to that project dated October 11, 2002, and signed by the Refinery Vice President and General Manager." Valero's October 11, 2002 Commitment of Support for Water Reuse at the Valero Benicia Refinery ("Commitment of Support") states in part "Valero's commitment of support will continue as long as the reuse project continues to be economically, regulatorily, and technically feasible." For purposes of the City of Benicia's interpretation and enforcement of Condition 13, Valero agrees "economically feasible," as used by Valero in its Commitment of Support shall be defined to reflect approximately \$15 million of financial support for the water reuse project so long as Valero is anticipated to receive, as agreed by Valero and the City, at least 1 million gallons of useable water per day from the water reuse project. The obligation to contribute to the water reuse project shall not be interpreted to require Valero to contribute more than the actual cost of the water reuse project. For example, should the water reuse project receive grants which reduce the cost of the project, or if other factors result in a project cost less than \$15 million, Valero shall only be obligated to contribute the actual cost even if the cost is less than \$15 million.

6. Air Quality Monitoring. Valero will take the following actions in order to enhance available air quality monitoring data:

(a) For an initial one-year period and to provide a comparison of the suitability of the two systems to monitor air quality and to provide data relevant to the Benicia Community and the Valero Refinery, Valero will support an SB 25 monitoring station as described herein.

(i) Upon CARB/BAAQMD approval, Valero shall assist in the location of an SB25 monitoring station in the City of Benicia. Assistance includes providing (1) financial support of up to \$30,000, if requested by CARB/BAAQMD, for a site assessment study to determine the appropriate location for the monitoring equipment, and (2) meteorological data consistent with air quality monitoring needs, as determined by CARB/BAAQMD. If CARB/BAAQMD requires additional meteorological data that is not available from existing sources, Valero agrees to install additional equipment, at a cost of up to \$15,000.00, to provide the required data.

(ii) If an additional open path air monitoring system such as CEREX is procured by the Good Neighbor Steering Committee and if approved by CARB/BAAQMD, the additional system shall be co-located based upon CARB/BAAQMD's initial site assessment or other further recommendation of CARB/BAAQMD. The cost of the additional system shall be borne by the City and/or the Good Neighbor Steering Committee. The City may use any excess funds from the site assessment study or the meteorological equipment discussed in paragraph 6(a)(i) above to fund its share of the additional monitoring system.

(b) At the end of the one-year period, the data from the two systems shall be reviewed by BAAQMD, Valero, the City and the Good Neighbor Steering Committee. BAAQMD, Valero, the City and the Good Neighbor Steering Committee shall meet and discuss the results. BAAQMD will determine if additional monitoring is required.

7. Main Stack Scrubber. Condition 14a of the Use Permit for the Valero Improvement Project, approved by the City of Benicia Planning Commission on April 28, 2002, ("Condition 14a") provides: "Valero shall construct and operate the main stack scrubber at the same time that the sulfur plant expansion is constructed." For purposes of the City of Benicia's interpretation and enforcement of Condition 14a, Valero agrees "sulfur plant expansion," shall be defined to include the new Pipestill Furnace described in section 3.4.3.5 of the Draft Environmental Impact Report for the Valero Improvement Project.

8. No Third Party Rights. Upon execution by Valero, this agreement shall be provided to the City of Benicia. The City of Benicia is the beneficiary of this agreement; and this agreement is enforceable only by the City of Benicia. This agreement is not intended to, and shall not, create any rights in favor of any persons or entities other than the City of Benicia.

9. Enforcement. In enforcing Conditions 13 and 14a, as those conditions have been defined in this agreement, the City shall have available to it all of the remedies that it normally has to enforce a condition of a use permit, including but not limited to, issuance of a stop work order.

10. Warranty of Authority. The signatory to this agreement hereby represents and warrants that he/she is duly authorized to execute this agreement on behalf of Valero Refining Company- California and to bind Valero to the terms of this agreement.

VALERO REFINING COMPANY -CALIFORNIA ---

Signed W.H. Buckalew

W. H. Buckalew

Vice President and General Manager