

NSR Stakeholders Working Group

April 16, 2009

Overview

- Status Report on NSR Activities
 - State and federal court litigation
 - Permitting status
 - State legislative update
 - Re-adoption of PR1315, R1309.1, & amend R1309.2
- Prioritization of strategies via Reg XIII rule amendments
 - USEPA and CARB staff initial comments

Near Term Solutions

Timing of Surrendering Offsets

■ Proposal

- Surrender offsets prior to start of equipment operation

■ Discussion

- Consistent with federal NSR
- No variance for surrendering of offsets allowed
- PC conditioned to require surrendering of offsets prior to start of operation
- Cease of start of operation if in violation of offset provisions

■ Initial Agency Comments

- No anticipated issues

Recall Shutdown Offsets to AQMD Where No Offsets Previously Provided

■ Proposal

- Require offsets generated from shutdowns to be returned to the AQMD if sources did not previously provide their own offsets (non-orphans)

■ Discussion

- On an equipment-by-equipment basis
- Offsets to be auctioned off to all sources
- Offsets are non-tradable and can be leased from the district for the first 5 years
- If unused, offsets to be returned to the district with applicable discount
- When equipment shuts down, offsets return to the district
- Open to long-term leasing discussion
- Fees collected to be re-invested for emission reduction projects in the impacted communities

■ Initial Agency Comments

- Does not regulate the ownership of offsets

Annual Credits

■ Proposal

- Issue new ERCs and convert existing ERCs to annual instead of daily credits

■ Discussion

- ERC issuance in total #/year based on R1306(c)(1) and modified (c)(4)
- Offset requirements also in #/yr (modified R1306 (b))
- Existing ERC conversion to annual credits based on prior records
 - If not available (orphan shutdowns), assuming 40 hrs/wk and 52 wks/year (~ RECLAIM procedures)

■ Initial Agency Comments

- All other air districts use annual credits
- CARB: SB288 demonstration needed

Pre-Consultation Prior to Generating ERCs

■ Proposal

- Establish procedures for pre-consultation
- Define scope of pre-consultation
- Flat fee for cost recovery

■ Discussion

- Efficiency improvement
- Can potentially lead to more credit generating opportunities
- Provides additional information for market participants
- Potential staff resource impacts
- Reg III amendments for cost recovery

■ Initial Agency Comments

- None

Aggregate Emission Sources – Functional Replacement

■ Proposal

- Allow existing equipment to lower its emission cap through *enforceable permit conditions* and such reductions not assumed in the SIP (see R1304(c)(2)(A) thru (D))
- Emissions from new sources, at BACT, must be equal to or less than reductions from existing sources (above)
- No offsets required from open market or AQMD account

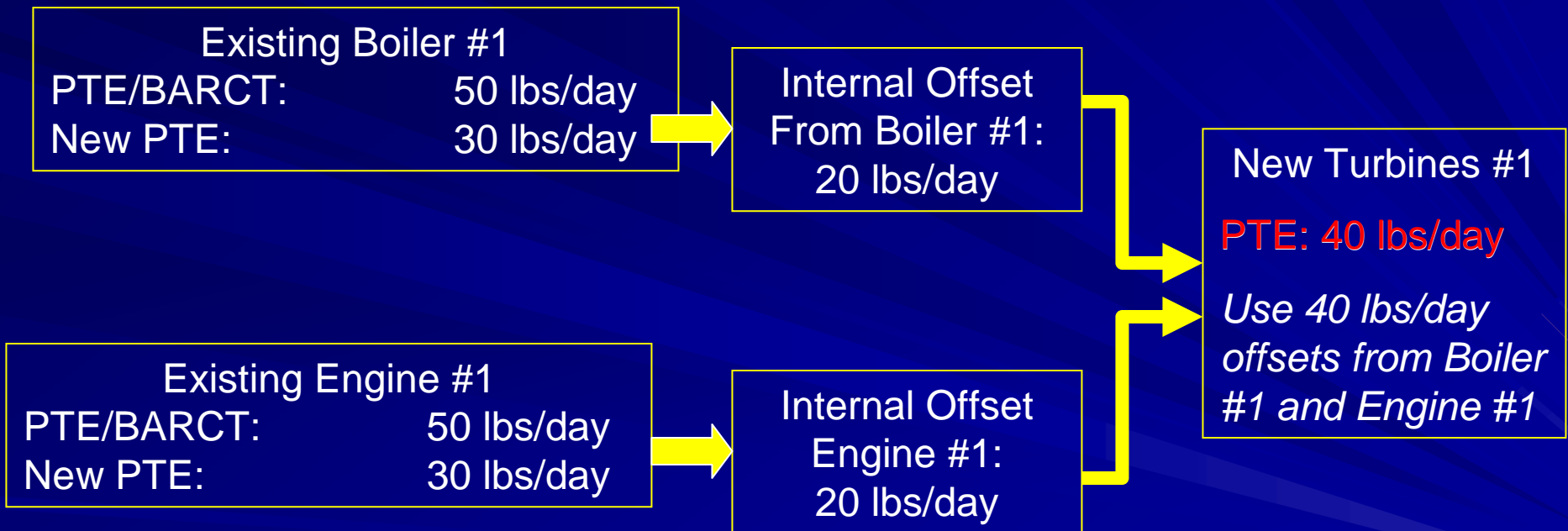
■ Discussion

- Equipment involved can be one to many or many to one and serve similar function
- Onsite use only, not tradable
- Limited banking (e.g., new permit applications filed within one year of reductions)
- Allow base-load power plants to peakers that have higher generation capacity (MW), but lower load factor

■ Initial Agency Comments

- No anticipated issues

Example for Aggregating Emission Sources



Example for Replacement by Equipment Family

Existing Boiler – 40 MMBTU

PTE/BARCT: 75 lbs/day



New Boiler – 55 MMBTU

PTE/BACT: \leq 75 lbs/day

Concurrent Facility Modification

■ Proposal

- Expand R1304 (c)(2) Concurrent Facility Modification
- Remove R1306 reference
- No offset required from open market or AQMD account

■ Discussion

- On-site only, not tradable
- Emission reductions can occur prior to submittal of permit application, but not to exceed 12 months
- Existing equipment to lower its emission cap through enforceable permit conditions and reductions meet the requirements R1304(c)(2)(A) thru (D)

■ Initial Agency Comments

- USEPA: Need to make sure this is not “internal netting” out of NSR which is prohibited for “severe” non-attainment.
- CARB: SB288 demonstration needed

Adjust NSR Debt to BARCT

■ Proposal

- Adjust positive NSR balance to reflect current BARCT level when paying back debt (i.e., at the time of applying for ERCs)

■ Discussion

- May be implemented through policy change

■ Initial Agency Comments

- USEPA: None
- CARB: SB288 concern if implemented through rule amendment

BARCT/BACT Discount Approach

■ Proposal

- ERCs 2-tiered discount at time of issuance
 - BARCT discount applicable for the first five years; BARCT=R1304 (c)(2)(A) thru (D)
 - BACT discount from 6th year and thereafter

■ Discussion

- Value of ERCs depending on when used
- Potentially creating 5-year credit stream

■ Initial Agency Comments

- USEPA: Consistent with CAA NSR requirements of discount at time of use
- CARB: SB288 demonstration needed that it is not a relaxation

Mid-Term Solutions

Innovative Credit Approach

■ Concept

- Evaluate additional mechanisms for increasing credit generating opportunities

■ Discussion

- Rule 1625 – Generation of ERCs for Particulate Matter
- Rule 2511 – Credit Generation Program for Locomotive HEP
- Bonnet system to capture emissions from hotelling ships and idling locomotives
- Port Sources
- Restaurant PM Controls

■ Initial Agency Comments

- USEPA: Permit Life = Credit Life; 30 years ≠ Permanent
- CARB: ?

Creation of Mobile Source Account

■ Concept

- Create a Mobile Source Account (Short-term Credits)
- Users pay a fee
- AQMD manage Mobile Source Account where credits can be used:
 - For compliance with mobile source offset requirements
 - For non-NSR use such as CEQA mitigation

■ Discussion

- Can encourage generation of credits for non-traditional sources of equipment (e.g., off-road equipment)
- Fee based on technology and transaction costs
- Need to define project life for permitted sources

■ Initial Agency Comments

- See “Innovative Credit Approach”

Long Term Solutions

Issue Discrete Credits for Limited Life Reductions

■ Concept

- Issue ERCs as discrete credits for reductions with limited life reductions through protocol specific regulations

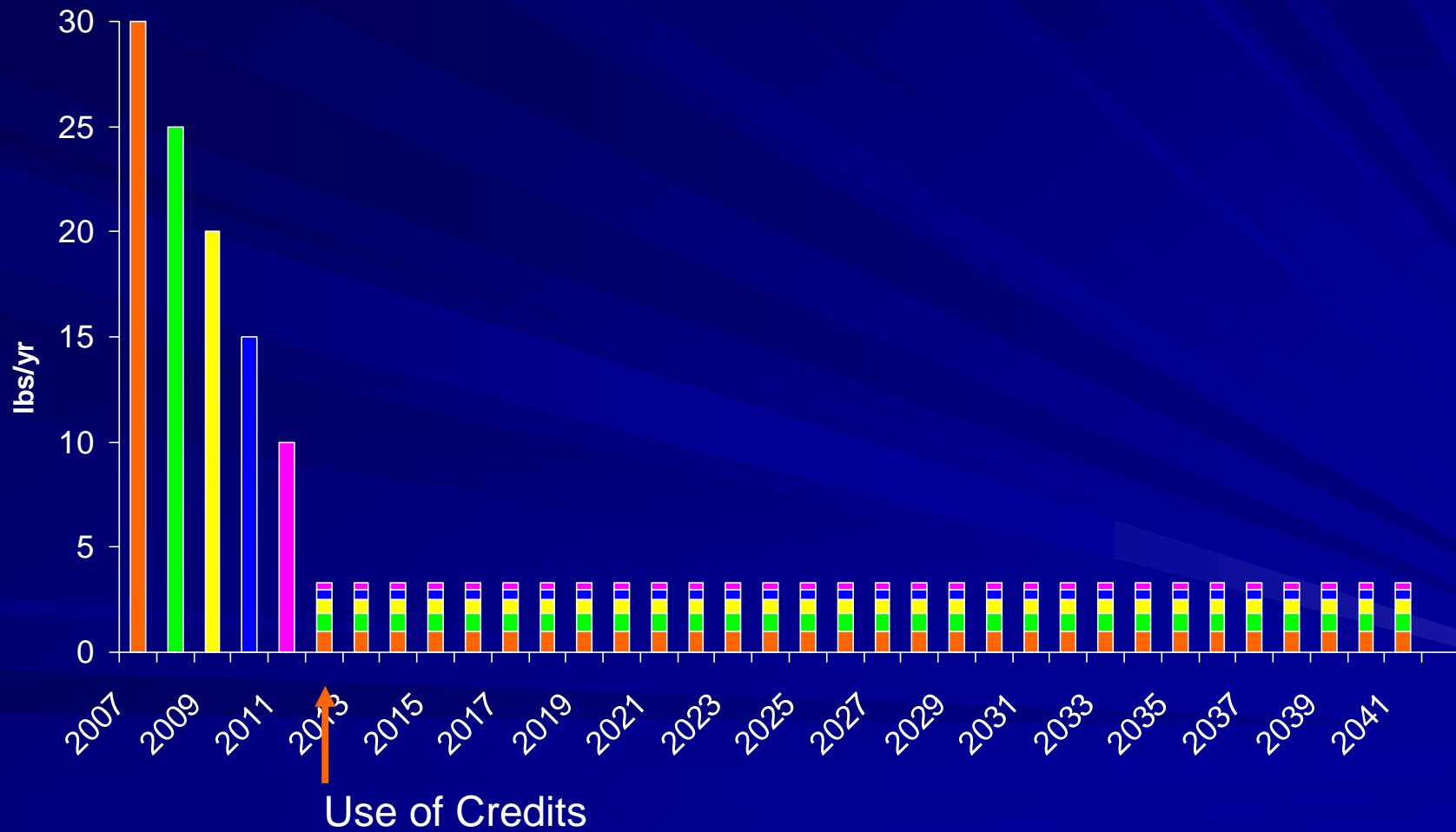
■ Discussion

- Greater flexibility of ERC use
- Can encourage generation of credits for equipment with limited life

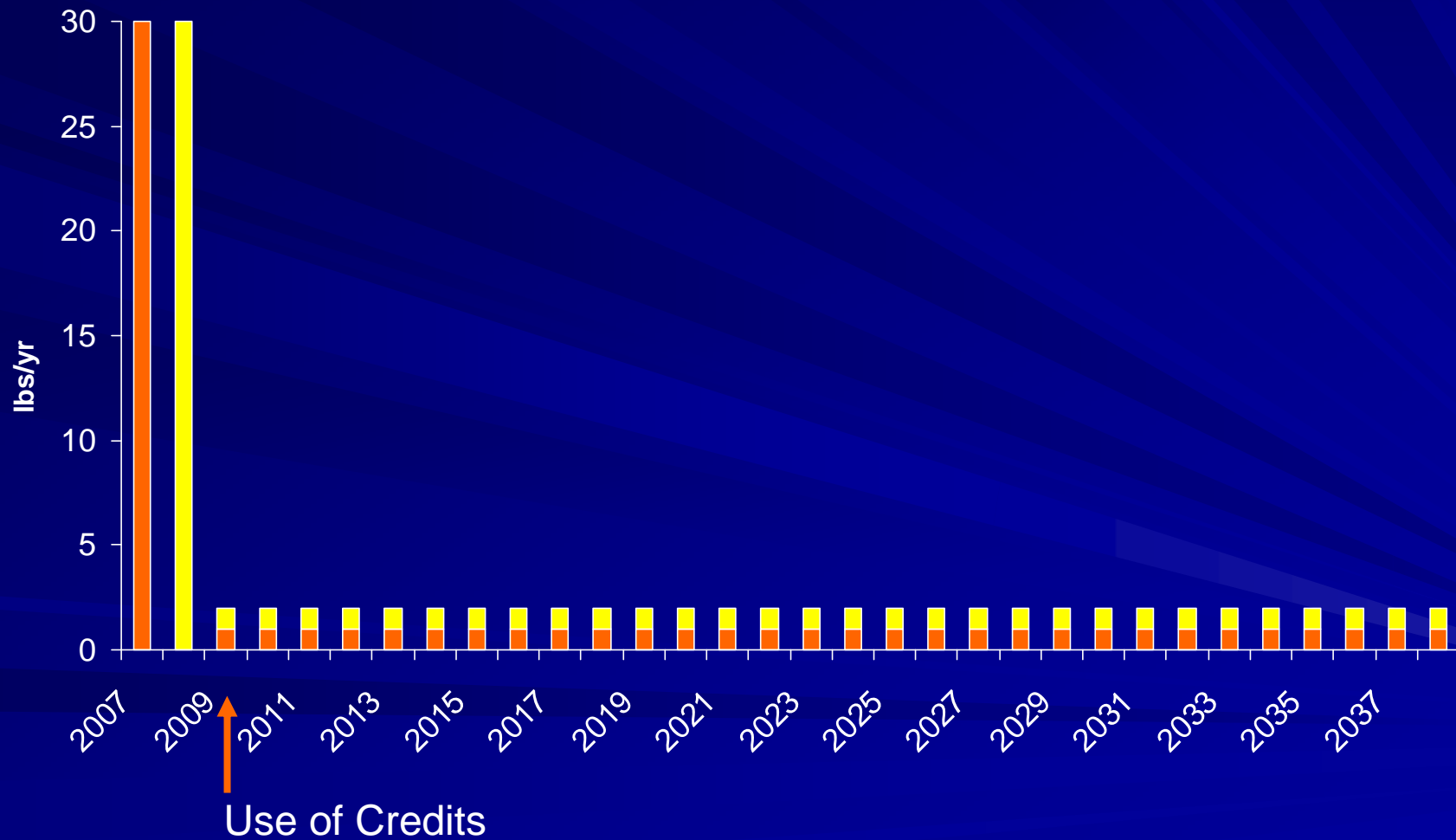
■ Initial Agency Comments

- USEPA: May not meet the current CAA NSR requirements
- AB288: Major change to NSR

Example of Early Reductions



Example of 100 pounds Distributed Over 30 years



Mitigation Fee

■ Concept

- Replace offset requirements in Clean Air Act with a mitigation fee
- Mitigation fee to be invested in affected communities
- New sources must meet BACT

■ Discussion

- Generate current reductions to mitigate community specific impacts

■ Initial Agency Comments

- Clean Air Act amendments needed