



# California Council for Environmental and Economic Balance

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December 1, 2006

Mr. Joseph Cassmassi  
Planning and Rules Manager  
South Coast Air Quality Management District  
21865 Copley Drive  
Diamond Bar, CA 91765

RE: Initial Comments – 2007 Draft Air Quality Management Plan

Dear Mr. Cassmassi:

The California Council for Environmental and Economic Balance (CCEEB) is a coalition of business, labor and public leaders that strives to advance collaborative strategies that protect public health and the environment while allowing California's economy to grow. Following are CCEEB's initial comments regarding the 2007 Air Quality Management Plan (AQMP). These comments and questions are offered in a constructive spirit. We sincerely appreciate the early release of the draft.

## **GENERAL COMMENTS**

### Important to Reach Agreement Quickly with ARB on Inventory and Carrying Capacity

CCEEB is aware that there is a difference in the approaches used by Air Resources Board (ARB) and the District in developing the inventory and in calculating the carrying capacity. While we do not have the technical ability to express an opinion on the correct number, we do wish to convey our strong desire for the two agencies to come together in agreement in determining the correct carrying capacity. Without having agreement on the carrying capacity, it is difficult, if not impossible, to fully evaluate the draft plan.

### Command-and-Control versus Incentive-Based Regulation

With the tremendous task at hand, CCEEB understands the need to include command-and-control style regulations in the plan. However, because of the many obstacles facing the District, including jurisdictional issues, we believe you will also need to incorporate incentive-based regulations. There is a delicate balance here in that including overly aggressive command-and-control measures in the plan may eliminate or greatly reduce the possibility to go after the same emissions through an incentive-based approach. Our message here is simple: with more command-and-control rules, the opportunity for incentive programs to work is greatly reduced.

### Agencies Should Use the Jurisdiction They Have

A part of CCEEB's mission is to help "integrate federal and state programs effectively." In its current form, the plan calls for new authority over mobile sources for the District when that authority is currently assigned by statute to either the U.S. Environmental Protection Agency and/or the ARB. While we recognize that both EPA and ARB need to do more to deliver the emission reductions under their control, a shift in authority to the District will lead to confusing and conflicting obligations in the regulated community and a patchwork of different requirements around the state for sources, which are by their nature, mobile.

### Commitment to Work with the District to Find Additional Funding for Incentive-Based Programs

CCEEB commits to work with the District and other stakeholders to build on the success of legislation from 2005 that resulted in the significant expansion of the Carl Moyer Program. The Governor also recognized the need for incentive programs. Item 10 of his recent Executive Order on Climate Change:

The Secretary for Environmental Protection shall coordinate with the Climate Action Team to develop a plan by June 1, 2008, which is based on input from the Economic and Technology Advancement Advisory Committee, that will incentivize investment and compliance, enhance research, and develop and demonstrate greenhouse gas emission reduction technologies through a variety of options including, but not limited to: research tax credits, monetary and non-monetary incentives, public/private partnerships, investment tax credits, and accelerated depreciation.

CCEEB encourages the District to build on these same incentive programs identified in the Governor's executive order to help achieve the necessary AQMP reductions.

### SIP Credit for all Incentive-Based Programs

With the challenges facing the District in its efforts to reach attainment, it is critical that the District seeks and EPA grants SIP credit for all incentive-based programs. CCEEB is very pleased with the progress being made to gain SIP credit for emission reductions that are being funded by the Carl Moyer Program. We believe this effort should expand to include SIP credit for other incentive-based programs, such as those we expect as the result of the passage of Proposition 1B – the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006.

## COMMENTS ON SPECIFIC CONTROL MEASURES

### MCS -01 Facility Modernization

CCEEB recognizes that this measure is at the forefront of the plan. We commit to work with you in an effort to better understand the concept and to work through the numerous issues we see associated with this measure. In this initial comment letter, we are not taking a position on this measure, but instead, present you with a series of questions and comments that we believe staff needs to address in order for us to adequately review and evaluate this measure.

- Would EPA or the District consider these replacements to be an NSR event? If so, we fear it will exasperate the problems associated with the shortage of ERCs.
- We find it difficult to understand how this measure will work effectively. In most cases, replacement is associated with other needs, such as increased production. We fear NSR would be triggered if a facility did anything except for like replacement. It is our experience that most projects will be highly cost ineffective doing just like replacement.
- Even though equipment may have zero book value, it could still serve a function of value for many years. How will this proposal avoid the pre-mature retirement of capital? How will the District be able to equitably determine equipment life?
- We question whether the District currently has the legislative authority to fully implement this control measure. Specifically, we question whether the District has the authority to require BACT for existing facilities.
- We would like a clearer understanding on how this measure will interface with measures for NO<sub>x</sub> (LTM-02), SO<sub>x</sub> (CMB-02) RECLAIM, etc. and what facilities will be impacted.
- We would like a clearer understanding of the method used to calculate the emission reductions the District expects to gain from this measure.
- We have concerns about cost effectiveness, rule time horizon and the availability of incentive programs for facilities such as refineries and power plants.

### CMB-02 Reduction of Emissions in RECLAIM (BARCT)

CCEEB was an active player when the District went through this process for NO<sub>x</sub> and we stand ready to work with you during the SO<sub>x</sub> exercise. As with the NO<sub>x</sub> effort, we believe that any shave that is deemed necessary should be applied across the board to all participants. We also learned to be careful not to go too deep too fast.

#### CMB-01 NO<sub>x</sub> Reduction from Non-RECLAIM Ovens, Dryers and Furnaces

CCEEB has some general concerns about this proposed measure. Specifically, is it cost effective? Has staff performed sufficient evaluation of the technology to ensure its availability in a timely manner? Have you considered economic useful life, as compared to the economic life as claimed by equipment manufacturers or vendors?

#### CMB-04 Natural Gas Fuel Specifications

CCEEB believes the California Public Utilities Commission is the rightful authority to set such standards, as the distribution of natural gas moves through numerous air districts. If each air district were to establish its own standard, it would create a patchwork system of requirements that would be unworkable for the natural gas distribution operators. The proposed measure suggests that the District plans to seek legislative authority to regulate fuel standards. CCEEB would oppose this effort.

#### BCM-02 PM Emission Hot Spots – Localized Control Program

For PM control, CCEEB generally supports the concept of developing an alternate strategy to control outliers.

#### MOB-01 Mitigation for Federal Sources

As discussed in our general comments, we believe authority for these sources lies with the federal government and as such, cannot support this measure. However, we agree that the federal government has not fulfilled its responsibility in securing the necessary emission reductions from the sources it controls. CCEEB commits to work with the District to find other mechanisms to persuade the federal government to meet its obligations.

#### MOB-02 Extended Exchange Program

CCEEB supports the concept of accelerated turnover of in-use small off-road engines and other such engines through voluntary exchange programs so long as consideration is given to the impact to potential credit programs. These programs could be targeting prime sources for potential credit generation. At a minimum, it is critical that this type of equipment remain surplus until the District or ARB implements a regulation.

#### MOB-03 Backstop Measure for Indirect Source of Emissions from Ports and Port-Related Facility

Our primary concern with this measure is a fear that litigation would cause the District to implement these controls in addition to the Ports' implementation of the CAAP.

#### MOB-04 Emission Reductions from the Carl Moyer Program

CCEEB supports this measure and the District's efforts to gain SIP approval from the associated emission reductions.

#### LTM-02 Further Emission Reduction from NO<sub>x</sub> RECLAIM Facilities

Phase I: CCEEB opposes this measure. We highly question the basis for assuming an emission increase of 2.5 tons per day of NO<sub>x</sub> as a result of the introduction of natural gas with a Wobbe Index between 1360 and 1385. First of all, the CPUC recently took action reducing the gas quality specification for gas transported in the Southern California Gas system that makes the specifications tighter, by reducing the Wobbe index from approximately 1450 to a maximum Wobbe number of 1385. Any increase in emissions from the use of natural gas between 1360 (proposed by the SCAQMD) and 1385 Wobbe is highly speculative. Additionally, regardless of the amount of added emissions, if any, we find it entirely inappropriate to target only RECLAIM facilities to make up an emissions increase. A further shave as described in this measure would overlap with the planned shaves approved by your Board in 2005 and further exasperate the price of RECLAIM Trading Credits. Natural gas is used widely throughout the basin in residential, commercial, and industrial applications. Any fluctuation in emissions from the use of natural gas between 1360 and 1385 Wobbe should be determined first by examining the actual use, keeping in mind that most gas used is a result of blending. If long-proven ways of managing changes in gas quality are unable to completely reduce any increase, only then should the SCAQMD consider how any increases should be offset.

Phase II: We fear that by reducing the RECLAIM market by another 3 to 5 tons per day or 20 percent, the District is going well beyond the original intentions of the program. This action would appear to take the market beyond BARCT, a point beyond the design and legal authority of the program.

#### LTM-04 Concurrent Reductions from Global Warming Strategies

We are perplexed at how the District arrived at 40 tons per day. Combustion sources make up about 14 percent of the emissions in ARB's reduction strategy. Through the market mechanisms the Governor has indicted he supports, many of these reductions may occur outside California. Considering these facts, we simply cannot see how the District arrived at 40 tons per day. Additionally, we caution the District to not set up a system in a manner that GHG reductions become required by the SIP and thus enforceable through CAA suits. Finally, we ask the District to not trump the rule development process under AB 32. ARB is devoting considerable time and energy in gearing up for this process. We believe that this process should be allowed to go forward.

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Thank you for considering our views. We would be pleased to meet with you and others at the District should you wish to discuss our comments in greater detail.

Sincerely,

William J. Quinn