

CHAPTER 2 - PROJECT DESCRIPTION

Project Location

Project Background

Project Objectives

Project Description

PROJECT LOCATION

The SCAQMD has jurisdiction over an area of 10,473 square miles (referred to hereafter as the district), consisting of the four-county South Coast Air Basin (Basin) and the Riverside County portions of the Salton Sea Air Basin (SSAB) and the Mojave Desert Air Basin (MDAB). The Basin, which is a subarea of the SCAQMD's jurisdiction, is bounded by the Pacific Ocean to the west and the San Gabriel, San Bernardino, and San Jacinto Mountains to the north and east. The 6,745 square-mile Basin includes all of Orange County and the nondesert portions of Los Angeles, Riverside, and San Bernardino counties. The Riverside County portion of the SSAB and MDAB is bounded by the San Jacinto Mountains in the west and spans eastward up to the Palo Verde Valley. The federal nonattainment area (known as the Coachella Valley Planning Area) is a subregion of both Riverside County and the SSAB and is bounded by the San Jacinto Mountains to the west and the eastern boundary of the Coachella Valley to the east (Figure 1-1).



Figure 1-1
South Coast Air Quality Management District

PROJECT BACKGROUND¹

Development of RECLAIM

On October 15, 1993, the SCAQMD Governing Board adopted the NO_x and sulfur oxides (SO_x) RECLAIM programs (Regulation XX). This program was developed and adopted in consultation with representatives of a wide variety of interest groups including local, state, and federal agencies, regulated industry, environmental groups, academic institutions, market experts, and the public.

RECLAIM generally applies to facilities emitting four tons or more per year of NO_x or SO_x in the year 1990 or any other subsequent year². Currently, there are approximately 350 facilities under the RECLAIM program.

RECLAIM was adopted with the intention of gaining a greater certainty in meeting emission reduction targets while providing affected industries with the flexibility to seek the most cost-effective solution to reduce their emissions. The RECLAIM program replaced several command-and-control rules and control measures specified in the 1991 AQMP. RECLAIM is designed to achieve by year 2003 the same level of emissions reduction as would have been achieved in aggregate by implementing the replaced rules and control measures.

Under RECLAIM, SCAQMD established annual NO_x and/or SO_x allocations for RECLAIM facilities for each compliance year from 1994 to 2010 and beyond based on historical reported actual emissions and the types of emission sources the facilities operated. The allocation is generally reduced for each year from 1994 to 2003, then remains stable. The NO_x and SO_x allocations are expressed as RECLAIM Trading Credits (RTC) where one pound of allocation for a specific compliance year is equal to one unit of RTC with expiration date at the end of the compliance year. RECLAIM requires facility owners to ensure that each year their facility-wide NO_x and/or SO_x emissions do not exceed the amount of RTCs available in their allocation account. Under this program, SCAQMD gives RECLAIM facilities the responsibility to decide which method of compliance is appropriate for meeting their facility-wide NO_x and/or SO_x emissions "budget". When the SCAQMD Governing Board adopted the RECLAIM program, it anticipated that the program would encourage RECLAIM facilities to embark upon innovative ideas in the areas of process change, adding new control equipment and replacing or refurbishing equipment with state-of-the-art technology to reduce emissions. Alternatively, it was expected that some types of RECLAIM facilities would purchase RTCs from other RECLAIM facilities that reduce emissions below their allocations.

In anticipation of economic growth in the district and the resulting need for additional credits for facilities subject to RECLAIM, the SCAQMD adopted in 1993 the first in a series of mobile source emission reduction credit (MSERC) rules under Regulation XVI – Mobile Source Offset

¹ Some of this background discussion is derived from the report entitled White Paper on Stabilization of NO_x RTC Prices (SCAQMD, 2001a). This report is available at SCAQMD Headquarters, by calling the SCAQMD Public Information Center at (909) 396-2039, or by accessing the SCAQMD's website at <http://www.aqmd.gov>.

² Certain types of sources are excluded from the RECLAIM program. Rule 2001 – Applicability, specifies criteria for inclusion in RECLAIM.

Programs, and area source credit (ASC) rules under Regulation XXV³. These voluntary programs set forth protocols for generating MSERCs and ASCs. These credits have historically been used as an alternative method of compliance with the SCAQMD's ridesharing rule, Rule 2202 – On-Road Motor Vehicle Mitigation Options and some rules in Regulation XI – Source Specific Standards. Some of the MSERCs and ASCs have also been used to comply with stationary source rules, including Regulation XX. Since the Regulation XVI rules and Rule 2506 have not been federally approved, however, stationary sources that use credits generated pursuant to these rules as an alternative to directly complying with source specific rule requirements may be subject to federal enforcement actions and citizen suits. This has discouraged the demand for these credits by stationary sources.

Rule 2008 establishes criteria for and requirements on utilizing emission reductions generated from Regulation XVI series rules as RTCs⁴. The only limitation on MSERC generation is that the Executive Officer can approve plans for scrapping vehicles pursuant to Rule 1610 for no more than 30,000 vehicles per year. This limitation applies only to the annual number of scrapped vehicles, and is not intended to limit the amount of MSERCs entering the RECLAIM market. The limitation was included based on the CEQA analysis for Rule 1610 (SCAQMD, 1993), which concluded that emissions from combustion sources at scrapping facilities could exceed the 55 pound per day significance threshold if more than 30,000 vehicles were scrapped per year. Neither Regulation XX nor Rule 2506 places limits on the amount of ASCs that can be converted to RTCs.

Table 2-1 lists the tons per year of RTCs actually converted from MSERCs and ASCs for the years 1994 through 2002 (SCAQMD, 2001a).

RECLAIM Compliance History

Health and Safety Code §39616(c) specifies that any market incentives program adopted by any air districts board “will result in an equivalent or greater reduction in emission at equivalent or less cost compared with current command and control strategies”. According to the report Review of RECLAIM Findings presented at the Governing Board's October 20, 2000, public hearing, emission reduction goals for years 1994 through 1999 have been met. Even though the region experienced economic growth, emissions have decreased and have not exceeded allocations. During the first five years of RECLAIM implementation (1994-1998), excess RTCs were available in the market through facility shutdown, relocation outside the SCAQMD jurisdiction, improved housekeeping, and improved process efficiency. RTCs were generally available at a much lower cost than the installation cost of control equipment. As predicted when RECLAIM was originally adopted, the rate of actual reduction in emissions has not kept up with the rate of reduction in allocations. The imbalance of the two rates of reduction caused emissions to approach the level of allocation, especially for NOx emissions, in 1999.

³ The major SCAQMD mobile source programs include Rules 1610 – Old Vehicle Scrapping, 1612 – Credits for Clean On-Road Vehicles, and 1620 – Credits for Clean Off-Road Mobile Equipment. The major area source credit program is Rule 2506 - Area Source Credits for NOx and SOx.

⁴ The use of ASCs as RTCs is set forth in Rule 2506(k)(1): “The Executive Officer shall allow the conversion of NOx and SOx ASCs to NOx and SOx RTCs. Each ten pounds of ASCs converted shall generate nine pounds of RTCs.”

Table 2-1
NOx RTCs Converted from Mobile and Area Source Credits
 (tons per year)

Year	Amount (tons)	Source of Credits
1994	33	Rule 1610
1995	36	Rule 1610
1996	36	Rule 1610
1997	4	Rule 1610
1999	50	Rule 1612
2000	150	Rule 1612
2000	68	Rule 2506
2001	10	Rule 1612
2001	68	Rule 2506

Source: SCAQMD, 2001b

Rule 1610 - Old Vehicle Scrapping

Rule 1612 - Credits for Clean On-Road Vehicles

Rule 2506 - Area Source Credits for NOx and SOx

Since the adoption of RECLAIM, an active trading market has developed for both NOx and SOx RTCs. During the early years of the RECLAIM program, RTCs could be obtained at a very low price. Therefore, many RECLAIM operators relied on purchasing credits rather than making investments in air pollution control equipment. The average price per ton of SOx RTCs from 1996 to 2000 remained relatively stable, ranging from \$1,500 to \$3,000 per ton. However, the price of NOx RTCs increased dramatically in 2000. Beginning in June 2000, RECLAIM program participants experienced a sharp and sudden increase in NOx RTC prices for both 1999 and 2000 compliance years sold during the second half of that year. The average price of 1999 NOx RTCs traded in 2000 was \$15,377 per ton, which was almost ten times higher than the average price of \$1,827 per ton of NOx RTCs traded in 1999 for the same compliance year. More significantly, the average price for NOx RTCs for compliance year 2000, traded during the first ten months in 2000, increased sharply.

As part of the RECLAIM rules, backstop provisions were included into the program design under Rule 2015 – Backstop Provisions. Rule 2015 (b)(6) requires the Executive Officer to submit an evaluation and review of the compliance and enforcement aspects of the RECLAIM program to the California Air Resources Board (CARB) and the U.S. Environmental Protection Agency (EPA). This evaluation must be submitted within six months of the determination that the average RTC price has exceeded \$15,000 per ton. This finding was formally made on March 16, 2001, thereby triggering the six-month clock for submitting the evaluation. Additionally, Rule 2015 (d) requires the Executive Officer, upon discovery, to propose that the Governing Board amend the program as appropriate to address any specific problems.

The convergence of several factors resulted in higher demand for NO_x RTCs for Cycle 2 of the 1999 compliance year. These factors include decrease of annual allocations to the point where allocations and emissions are roughly equal, restructuring of the electric utility industry resulting in the change of ownership of ten local power plants, creation of an open market for the sale of electricity, and electricity shortages during the summer of 2000 resulting in the need to generate more electricity than anticipated. This was particularly true for Cycle 2 (RTC expiration June 2000). The fixed supply of NO_x RTCs and the high demand resulted in quickly rising prices for year 2000 NO_x RTCs.

Of the factors identified that lead to higher NO_x RTC prices, the major factor appears to be the high demand for NO_x RTCs from the utility sector during the year 2000. During this period the utility sector purchased 60 percent of NO_x RTCs which expired in June 2000 and 67 percent of NO_x RTCs expiring in December 2000. Such high demand from the utility sector quickly depleted the supply of available NO_x RTCs in the market, resulting in the sharp increase in the NO_x RTC prices.

The substantial increased demand for RTCs by the utility sector is directly related to the statewide electricity crisis. The electricity crisis is causing an extreme wholesale price fluctuation of natural gas and electricity which, coupled with the partial deregulation of the electric utilities market, has caused an economic hardship on some electricity providers in California⁵. The higher costs of natural gas and wholesale electricity cannot be passed on to consumers as state law limits the price that the utilities can charge their customers. As a result of the finances of the electric utilities, some out-of-state electricity producers have been reluctant to sell power to California utilities for fear of not being paid. In addition, the Northwest's supply of hydroelectric power to California has been limited. Consequently, numerous Stage 3 power alerts⁶ have been issued and, in some instances, electric utilities have imposed "rolling blackouts". The issue is being urgently addressed at the state and federal level.

A consequence of these events is that local power producers have generated additional electricity to make up for the shortfall of imported supplies. The need to generate additional electricity to meet the state's power requirements has caused or may cause some facilities in the utility sector to exceed their future RECLAIM allocations. Thus, demand for RTCs, and their price, has rapidly and substantially increased.

In response to the state of emergency due to the electricity crises, the California Governor has issued a series of Executive Orders in order to protect public health, safety, and welfare. Executive Order D-24-01 requires local air pollution control districts to modify emissions limits in air quality permits that limit the hours of operation of facilities that provide power to ensure that such facilities are not restricted in their ability to operate. The Order further states that the districts shall require a mitigation fee for all applicable emissions in excess of the previous limits in the air quality permits (see Appendix G).

⁵ Three local utilities generate their own power and have not been affected by the recent natural gas/electricity price fluctuations (Los Angeles Department of Water and Power (LADWP), the Public Service Department for the cities of Burbank and Glendale, and the Water and Power Department for the City of Pasadena).

⁶ A Stage 3 alert is called when electricity reserves fall below 1.5 percent of demand.

Likewise, SCAQMD Executive Order #01-03 states in pertinent part that “emissions occurring during the period this Order is in effect shall not be counted toward quarterly or annual compliance required to be reconciled with RTCs (RECLAIM trading credits) for RECLAIM-power-producing facilities having the capacity to produce 50 MW or more, provided that:

1. The facility has used all RTCs held by the facility or any entity under common ownership or control prior to January 12, 2001, and has not sold any such RTCs to any entity other than a RECLAIM-power-producing facility under common ownership or control;
2. The facility operator pays to the South Coast Air Quality Management District a mitigation fee of \$7.50 per pound of NO_x emissions in excess of those emissions accounted for by RTCs referred to in condition #1; such payment to be made together with the quarterly or annual report required by Rule 2004; and, District staff shall deposit such funds in an account to be used only for purposes of mitigation of such emissions;
3. Any NO_x emissions not accounted for by the RTCs referred to in condition #1 are deducted from the facility’s allocations for the subsequent compliance year 2003;
4. All facilities owned by the facility owner or persons under common control shall be operated on the basis of "environmental dispatch" pursuant to any existing agreement with the South Coast Air Quality Management District;
5. The facility owner or operator continues to comply with any schedule for the installation of air pollution control equipment at all its facilities contained in any existing settlement agreement or abatement order with the South Coast Air Quality Management District;
6. The facility operates units not equipped with best available control technology or best available retrofit control technology only upon the request of the California Independent Systems Operator or the State of California;
7. The facility sells power generated when it is subject to the provisions of this order only within the State of California;
8. The facility maintains records demonstrating compliance with the terms of this Order and submits such records to the Executive Officer upon request; and
9. The facility agrees to provide the District with written notification 24 hours prior to generating excess emissions subject to the application of this Order.

The SCAQMD Executive Order and proposed amendments are consistent with the Governor’s Executive Order, with the additional provision of deducting exceedances from future years’ RTC holdings. This additional provision is intended to protect public health and ensure progress towards attaining ambient air quality standards.

PROJECT OBJECTIVES

Considering the circumstances described in the preceding section, the objectives of the proposed project are to:

- 1) comply with section (d)(1) of Rule 2015 – Backstop Provisions, which requires the Executive Officer to propose that the Governing Board amend the RECLAIM program to address any specific program problems;
- 2) respond to Governing Board direction at the January 19, 2001, public hearing that staff proceed with the recommendations presented in the White Paper on Stabilization of NOx Prices to lower and stabilize RTC prices by increasing supply, reducing demand, and increasing RTC trading information availability and accuracy;
- 3) respond to the Governor Executive Order #D-24-01, which states in part, "local air pollution control and air quality management district (hereafter "district") shall modify emissions limits that limit the hours of operation in air quality permits as necessary to ensure that power generation facilities that provide power under contract to the Department of Water Resources are not restricted in their ability to operate. The districts shall require a mitigation fee for all applicable emissions in excess of the previous limits in the air quality permits. The Board is directed to ensure that appropriate modifications are made in all applicable permits of the districts or other local or regional agencies (hereinafter "agencies"). In the event that such modifications do not occur expeditiously, the Board or the Executive Officer shall immediately exercise the powers of the districts or agencies and modify the permits consistent with this order. In exercising the powers of the districts or agencies, the Board or the Executive Officer shall not be required to comply with the provisions of the Administrative Procedure Act, or with the normally required notice and hearing procedures specified in Division 26 of the Health and Safety Code"; and
- 4) facilitate state and federal efforts to assure a reliable statewide electricity supply by providing greater flexibility to power plants in meeting the requirements of Regulation XX while maintaining regulations protective of public health.

PROJECT DESCRIPTION

The SCAQMD is proposing an integrated set of actions to improve the NO_x RECLAIM program. The comprehensive proposal is intended to work together to lower and stabilize RTC prices by increasing supply, reducing demand, and increasing RTC trading information availability and accuracy. The proposal includes proposed amendments to a number of existing RECLAIM rules, three new proposed rules to be added to the RECLAIM program, and several NO_x mobile source emission reduction credit (MSERC) and area source credit (ASC) generation rules. A brief description of the proposed rules and amendments is presented below. Appendix A includes the text of the proposals.

RECLAIM – Proposed Rule Amendments and Proposed New Rules

Summaries of the proposed RECLAIM amendments and proposed new RECLAIM rules are provided in the following subsections.

Proposed Amended Rule 2000 – General

Rule 2000, provides definitions for terms found in Regulation XX – RECLAIM. New definitions for best available retrofit control technology (BARCT), power-producing facility, and

structural buyers have been added to support the proposed Regulation XX amendments. In addition, definitions for the proposed Mitigation Fee Program and RECLAIM Air Quality Investment Program (AQIP) have been added.

Proposed Amended Rule 2001 – Applicability

Rule 2001 establishes the general requirement for including facilities in the RECLAIM program. It includes provisions pertaining to facility listing, RECLAIM cycles, High Employment/Low Emission (HILO) facilities, voluntary entry into RECLAIM, generation of RTCs by non-RECLAIM facilities, and exemptions from RECLAIM.

The proposed amendments would allow electric generating facilities in any area within the jurisdiction on the SCAQMD that are ~~initially totally permitted~~ submit complete applications on or after January 1, 2001, to opt in to the NO_x RECLAIM program. Currently, only facilities within the South Coast Air Basin are eligible for entry into the RECLAIM program. Also, clarifying language has been added relative to existing facilities electing to enter the SO_x RECLAIM market.

Proposed Amended Rule 2002 – Allocations for Oxides of Nitrogen and Oxides of Sulfur

For power plants opting into SO_x RECLAIM, it is necessary to add additional SO_x categories to Table II of Rule 2002 to designate ending emission factors for turbines and boilers used to generate electric power. These factors are based on an equivalent level of emissions based on natural gas consumption as compared to light diesel fuel and residual oil.

Proposed Amended Rule 2004 – Requirements

Rule 2004 establishes the requirements for operating under the RECLAIM program. It includes provisions pertaining to permits, allocations, reporting, variances, breakdowns, and missing data. It also gives details of the compliance periods and how quarterly and annual reconciliation are to be done. The proposed project includes adding provisions to Rule 2004 for the use of the Mitigation Fee Program and the RECLAIM AQIP.

The proposed amendments to Rule 2004 specify which facilities are qualified to use the Mitigation Fee Program and RECLAIM AQIP to mitigate excess emissions. A new rule, PR 2020 - RECLAIM Reserve, which is described later in this chapter, includes requirements for these two programs.

The Mitigation Fee Program can be used by through the 2004 compliance year power-producing facilities that exceed their annual allocations and meet the following criteria:

1. the facility has not transferred or sold RTCs to any RECLAIM facility other than facilities under common ownership since January 11, 2001, for any future compliance year during which the Mitigation Fee Program is being used, and
2. the facility has complied with the schedule and actions specified in its approved Compliance Plan (as specified in PR 2009).

As discussed below amendments to Rule 2010 would require deductions from future year allocations in the event that sufficient emission reductions are not obtained through the Mitigation Fee Program in full or in part. Specifically, the Executive Officer will deduct RTCs from the facility's allocation ~~no later than the second compliance year after the exceedance is verified in an amount equivalent to the exceedance for which mitigation fees were paid into the Mitigation Fee Program.~~ in an amount equal to the amount of emissions in the approved request for the Mitigation Fee Program and no later than the second compliance year for compliance years 2001, 2002, and 2003. In the event the Mitigation Fee Program achieves at least 75 percent reductions, in aggregate, by the second compliance year, the Executive Officer may deduct the balance of emissions from the following (third) compliance year, during which reductions will continue to be generated. Emissions requested from the Mitigation Fee Program for compliance years 2004 would be deducted from a facility's annual RTC holdings in the 2005 compliance year. Currently, Rule 2010 requires deductions in the compliance year immediately after the compliance year in which the exceedance is verified. Exceedances after 2003 would be deducted from a facility's annual RTC holdings in the compliance year immediately after the exceedance is verified. The Executive Officer will replace the credits on a prorated basis according to the amount of credits generated.

The RECLAIM AQIP may be used by RECLAIM facilities that meets the definition of structural buyer, which includes limiting the program to facilities with emissions less than or equal to six tons per year as reported in the 1999 compliance year.

In addition, language has been added to Rule 2004 regarding modeling requirements. If the actual NOx or SOx emissions from a RECLAIM facility exceed its initial allocation by forty (40) tons per year or more, the facility permit holder must conduct air quality modeling to analyze the potential impact of the increased emissions.

Other minor changes are being made to coordinate existing rule language with new provisions.

Proposed Amended Rule 2006 – Permits

Rule 2006 defines procedures for issuance and amendments to Facility Permits and the RTC Listing. The Facility Permit includes an itemization of all sources at the facility, including sources of non-RECLAIM pollutants, conditions necessary to maintain BACT, public notice and appeals requirements, toxic review and Sensitive Zones requirements, compliance strategies for attaining reduction requirements, procedures for incorporating sources not previously required to have a permit, and requirements for tracking progress towards attainment of air quality standards.

Currently, appeal of a permit decision is required to be made in writing within ten days after receipt of notification from the Executive Officer of the issuance of the permit or permit amendments. The Hearing Board must commence a public hearing within thirty days of receiving the appeal and shall determine whether or not the permit or permit amendments were properly issued. Recent changes in the California Health and Safety Code (Sections 42302 & 42302.1) have increased the time frame in which appeals can be made from ten days to thirty days. No other changes are proposed.

Proposed Amended Rule 2007 – Trading Requirements

Rule 2007 specifies requirements for RTC trades. Power-producing facilities greater than or equal to 50 MW are prohibited from using RTCs to reconcile emissions for any quarter starting on or after January 1, 2001, unless the RTC was acquired prior to January 12, 2001, or generated under an approved emission reduction program (i.e., approved MSERC or ASC generation protocols), other than RECLAIM. In addition, the proposed amendments limit the trading of RTCs by power-producing facilities.

The Facility Permit holder of a power producing facility may sell RTCs to the District at a price not to exceed \$7.50 per pound. Such sales shall not disqualify the facility from participating in the Mitigation Fee Program. Power-producing facilities can transfer RTCs among facilities under common ownership at any time, by any amount, including RTCs from original allocation issued by the SCAQMD. RTCs above the original allocations issued by the SCAQMD can be sold to another RECLAIM facility (power or non-power-producing facilities) at any cost. Transfer of RTCs to any party, other than the District or facilities under common ownership, shall disqualify the facility from participating in the Mitigation Fee Program for any year in which the transfer took place. ~~RTCs below original allocations can only be sold to the SCAQMD at no more than \$7.50 per pound. Any facility under common ownership that sells RTCs to another facility not under common ownership cannot participate in the Mitigation Fee Program for any year for which such trade occurred.~~

The proposed amendments also enhance information availability and accuracy of trade data available to the public. Under the proposed amendments, the sellers and buyers of RTCs must jointly file a registration of RTC transfer within five business days of the date of the trading transaction. The registration information will include identification of either the seller and buyer, agent, broker, or other intermediary, the volume of the transaction the actual date of the trading transaction, and purchase agreement or transaction confirmation. Other minor changes are being proposed to coordinate with proposed rule changes.

Proposed New Rule 2009 – Compliance Plans for Power-producing Facilities and New Rule 2009.1 – Compliance Plans and Forecast Reports for Non-Power-producing Facilities⁷

The purpose of PR 2009 is to establish requirements for submittal of Compliance Plans for power-producing facilities greater than or equal to 50 MW. PR 2009.1 will require the submittal of Compliance Plans for non-power-producing facilities reporting 50 tons or more of NOx emissions. Under PR 2009.1, forecast reports will be required for facilities with NOx emissions between 25 to 50 tons per year.

PR 2009 describes the requirements for power-producing facility Compliance Plans for power-producing facilities greater than or equal to 50 MW. Under the proposal, power-producing facilities would have to submit the plan no later than September 1, 2001, and would have to achieve BARCT emission levels for all NOx emitting equipment, except equipment subject to Rule 219 – Equipment Not Requiring a Written Permit Pursuant to Regulation II, by the date specified. The proposed compliance date to meet the required emission limits is at the earliest feasible date, but no later than January 1, 2003, for electric generating units, other than turbines

⁷ Rules 2009 and 2009.1 would **not** be submitted to the state to become part of the State Implementation Plan.

used as peaking units, and January 1, 2004, for peaking units. The proposed amendments also list the information required to be submitted in the Compliance Plan.

In keeping with the objective of minimizing emissions from power generation, this proposed rule also requires facility operators to incorporate in the compliance plan a method to operate less polluting power generating units (NOx-emitting equipment only) over dirtier units under common ownership.

PR 2009.1 requires Compliance Plans for non-power-producing facilities reporting 50 tons or more of NOx emissions in Compliance Year 1999 or 2000, subsequent years. Under the proposal, a non-power-producing facility reporting 50 tons or more of NOx emissions in Compliance Year 1999 or 2000 would be required to submit the plan no later than September 1, 2001. A non-power-producing facility reporting 50 tons or more of NOx emissions for the first time subsequent to Compliance Year 2000 would be required to submit the plan within 90 days after the end of the reconciliation period or within 90 days after NOx emissions reportable under the RECLAIM program were 50 tons or more. The Compliance Plans shall demonstrate either (1) that the facility complies with its annual NOx allocation for each compliance year beginning 2001 through 2005, or (2) that all RECLAIM NOx emitting equipment in the facility has achieved BARCT or will achieve BARCT at the earliest feasible date, but no later than January 1, 2003.

Facilities other than power-producing facilities that reported between 25 to 50 tons per year of NOx emissions for the Compliance Year 1999 or 2000 will be required under PR 2009.1 to submit a forecast report no later than December 31, 2001, demonstrating that the facility complies with its annual NOx allocation for each compliance year beginning 2001 through 2005.

Proposed Amended Rule 2010 – Administrative Remedies and Sanctions

Amendments to Rule 2010 are proposed to ensure that an adequate amount of emission reductions are available to offset exceedances from power-producing facilities for a given compliance year. Amendments to Rule 2010 would require deductions from future year allocations in the event that emission reductions are not obtained through the Mitigation Fee Program in full or in part. Specifically, the Executive Officer will deduct RTCs from the facility's annual RTC holdings no later than the second compliance year ~~after the exceedance is verified in an amount equivalent to the exceedance for which mitigation fees were paid into the Mitigation Fee Program~~ in an amount equal to the emission reductions requested from the Mitigation Fee Program for compliance years 2001 through 2003. If the Mitigation Fee Program achieves a 75 percent reduction, in aggregate, by the second compliance year, the balance of emissions may be deducted from the following compliance year, during which reductions will continue to be generated. Currently, Rule 2010 requires deductions in the compliance year immediately after the compliance year in which an exceedance is verified. Exceedances after 2003 would be deducted from a facility's annual RTC holdings in the compliance year immediately after the exceedance is verified. The Executive Officer will replace the credits on a prorated basis according to the amount of credits generated.

All other enforcement provisions are unchanged.

Proposed Amended Rules 2011 & 2012 – Requirements For Monitoring, Reporting, and Recordkeeping for Oxides of Sulfur (SO_x) and Oxides of Nitrogen (NO_x) Emissions

Under the proposed amendments to Rules 2011 and 2012, facilities that do not report daily emissions and daily status codes would be given an additional 72 hours (for a total of 96 hours) to deliver the previously unreported data. These rules currently only allow an additional 24 hours to report the daily data if the required transmission failed due to a power failure, computer problem, or other system failure. In addition, the use of the 96-hour extension would be limited to no more than three non-consecutive occurrences per year provided the raw data as obtained by the direct monitoring system is stored at the facility. Lack of transmitted data beyond the 96-hour extension or third occurrence would require the application of the existing missing data procedures. If the failure to report is demonstrated to not be the fault of the facility, then the missing data procedures would not apply and emissions debited against the facility's allocation would be reconciled and fees adjusted as appropriate.

Proposed Amended Rule 2015 – Backstop Provisions

As a result of the proposed RECLAIM program rule amendments, power-producing facilities generating more than 50 megawatts per year of electricity will be bifurcated from the broader RECLAIM market. It is intended, however, that the bifurcated power-producing sector would in the future be rejoined to the broader RECLAIM market. Amendments to Rule 2015 are proposed that would require the power-producing facilities to be rejoined to the full RECLAIM program in the 2004 compliance year only if there is Governing Board approval in a public hearing prior to July 2003. The Board approval would occur only if it is determined by the SCAQMD Governing Board that their reentry would not result in any negative impact on the remainder of the RECLAIM facilities or security of the California energy needs.

Proposed New PR 2020 – RECLAIM Reserve

The purpose of PR 2020 is to establish a reserve of NO_x emission reductions that can be used for the Mitigation Fee Program and RECLAIM AQIP. The Reserve for PR 2020 will also include emission reductions from the State Emission Reduction Credit Bank pursuant to Executive Order D-24-01 dated February 8, 2001 and modified by Executive Order D-28-01 dated March 8, 2001, and a subsequent Letter of Agreement. The Reserve is designed as a temporary program, where the Executive Officer will select and fund emission reduction projects submitted by January 1, 2004, where emission reductions generated through funded projects will be placed in the Reserve for the life of the projects.

The concept for the Mitigation Fee Program is to allow power producing facilities to pay a fee for exceeding allocations, including RTCs purchased as of January 12, 2001, and the collected fees will be used to generate emission reductions to mitigate emission exceedances. The concept of the RECLAIM AQIP is to provide an alternative compliance option to select RECLAIM facilities to purchase reductions from a Reserve to offset emissions to meet their annual allocation. The State Emission Reduction Credit Bank includes emission reductions that can be leased for 3 years by certain peaking units that will be in operation by this summer.

PR 2020 establishes participation requirements for Mitigation Fee Program, ~~and~~ RECLAIM AQIP, and the State Emission Reduction Credit Bank participants. Participation in either program is limited through the 2004 compliance year. Applicability requirements for using the

emission reductions from the Reserve are specified in PAR 2004. Under PR 2020, the Executive Officer will collect a participation fee of \$7.50 per pound of NO_x reductions needed from Mitigation Fee Program and RECLAIM AQIP participants. All NO_x emission reductions issued to RECLAIM AQIP or Mitigation Fee Program participants will be designated as non-tradable, where credits cannot be transferred or sold.

PR 2020 establishes requirements for the person or interested party that submits a control strategy proposal, referred to as the emission reduction “provider.” Requirements for the provider are designed to ensure that emission reductions are quantified and generated pursuant to an approved emissions quantification protocol.

The proposed rule establishes the selection, implementation, and funding process for control strategy proposals. The SCAQMD staff will strive to pre-fund control strategy proposals to ensure that emission reductions can be put in the Reserve and are available for RECLAIM AQIP participants upon adoption of PR 2020. The proposed rule also includes requirements for verifying emission reductions, updating the Reserve and penalty requirements for providers that fail to generate anticipated emission reductions. In addition, PR 2020 includes an annual program review to evaluate the efficacy of the program, identify any issues, and to recommend adjustments to the participation fee, if needed.

Summary of Compliance Options under Proposed Modifications to NO_x RECLAIM

The proposed amendments would, in effect, isolate power-producing facilities greater than or equal to 50 MW from the rest of RECLAIM market, limiting their RTC transaction options. The proposal would also require power-producing facilities greater than or equal to 50 MW to prepare and submit a Compliance Plan. As discussed above, the Compliance Plan must specify the schedule by which the facility would install BARCT. After implementation of the terms set forth in the Compliance Plan, power-producing facilities would have the option to pay into a Mitigation Fee Program for exceedances of their RTC holdings. Exceedances of RTC holdings would be deducted from the facilities RTC holdings in an amount equal to the amount of emissions in the approved request for the Mitigation Fee Program and no later than the second compliance year for compliance years 2001, 2002, and 2003. In the event the Mitigation Fee Program achieves at least 75 percent reductions, in aggregate, by the second compliance year, the Executive Officer may deduct the balance of emissions from the following (third) compliance year, during which reductions will continue to be generated. Emissions requested from the Mitigation Fee Program for compliance years 2004 would be deducted from a facility’s annual RTC holdings in the 2005 compliance year. ~~no later than two years after the exceedance is verified for those power producing facilities that pay into the Mitigation Fee Program (for exceedances through 2003).~~ The Executive Officer will replace the credits, on a prorated basis according to the amount of credits generated, no later than the compliance year for which the credits were deducted. The proposed Mitigation Fee Program would apply only to power-producing facilities greater than or equal to 50 MW and would sunset after the 2004 compliance year. The SCAQMD would use monies from the Mitigation Fee Program to fund NO_x emission reduction projects. Power producing facilities can also purchase MSERCs or ASCs from the open market to offset excess emissions.

Facilities, other than power-producing facilities, greater than or equal to 50 tons per year would be required to prepare and submit a Compliance Plan. Unlike the requirements for power-

producing facilities greater than or equal to 50 MW, the Compliance Plan for facilities greater than or equal to 50 tons per year would be allow purchases of additional RTCs to show compliance with their annual allocation.

New power plants and facilities less than six tons per year that have BARCT on all their equipment would have the option of accessing a temporary RECLAIM AQIP on a first-come first-served basis. Facilities with access to the RECLAIM AQIP could pay a specified dollar per pound of emissions. SCAQMD will use these funds to obtain NOx emission reductions.

Facilities other than power-producing facilities that reported between 25 to 50 tons per year of NOx emissions for the compliance year 1999 or 2000 will be required under PR 2009.1 to submit a forecast report containing all information required by the Compliance Plans for those facilities emitting 50 tons per year or more, plus information on any intended actions to be taken to reconcile emissions with RTCs, as required, if the facility is expected to have any shortfall.

Proposed Pilot Credit Generation Rules

In addition to the proposed amendments to the RECLAIM program, a series of proposed pilot credit generation rules is being developed. These proposed credit generation rules would provide opportunities for sources to generate NOx emission reductions from select mobile and area sources, provided specific requirements are met. The purpose of these proposed rules is to develop emission reduction protocols that can be approved by EPA and ARB, where NOx emission reductions can be used directly by RECLAIM facilities, or for the Mitigation Fee Program or RECLAIM AQIP. The proposed new rules included in this proposal are⁸:

- ◆ PR 1631 – Pilot Credit Generation Program for Marine Vessels;
- ◆ PR 1632 – Pilot Credit Generation Program for Hotelling Operations;
- ◆ PR 1633 – Pilot Credit Generation Program for Truck/Trailer Refrigeration Units; and
- ◆ PR 2507 – Pilot Credit Generation Program for Agricultural Pumps.

The four proposed rules are designed as a voluntary program that allows sources that elect to generate NOx MSERCs (for PRs 1631, 1632, and 1633) and NOx ASCs (for PR 2507) to participate. The applicability requirements specify which types of mobile or area source emission reduction projects are eligible for participation for each specific rule. The proposed rules also include applicability requirements to exclude projects that would result in emission reductions that would otherwise occur, such as projects that receive public monies from air

⁸ Rule 1612.1 – Mobile Source Credit Generation Pilot Program, was adopted by the SCAQMD Governing Board on March 16, 2001. The Staff Report (which includes the rule) and Final EA for that project is available at SCAQMD Headquarters, by calling SCAQMD Public Information Center (909) 396-2039, or by accessing <http://www.aqmd.gov>. As described herein, four additional credit generation rules are being developed and will be considered by the SCAQMD Governing Board in May 2001. These credit rules will complement the amendments to the RECLAM program in stabilizing the RTC market. For the purposes of this CEQA analysis, the proposed project consists of the amendments to the RECLAIM program and the four proposed credit generation rules. The potential adverse environmental impacts of the four MSERC and ASC proposals, along with the use of RTCs generated pursuant Rule 1612.1, are analyzed in Chapter 4 of this EA. Additionally, the potential adverse environmental impacts of Rule 1612.1 are included as part of the cumulative impacts analyses in Chapter 4 of this EA.

quality related public funding. In addition the proposed rules also exclude emission reductions that are generated pursuant to any legal requirement (e.g., settlement agreement, order of abatement, etc.).

PRs 1631, 1632, 1633 and 2507 specify the requirements that a credit generator must meet in order to generate MSERCs or ASCs. Each of the proposed rules includes requirements that are common to the four proposed rules. These requirements include the following: application must be submitted prior to generating credits, compliance with applicable monitoring recordkeeping, and reporting (MRR) requirements, penalty provisions, demonstration that purchase agreements are not initiated prior to specified dates, and the demonstration that the project is located within the district boundaries. In addition to these general requirements, the proposed rules include the following requirements that are specific to the individual rules:

- ◆ PR1631 requires any person that elects to generate MSERCs to repower or replace an existing diesel-fueled marine vessel engine with an engine certified to meet applicable emission standards.
- ◆ PR1632 requires any person that elects to generate MSERCs to use electric power generated by fuel cells in lieu of onboard auxiliary diesel-fueled engines to provide power for lights, ventilation, loading, offloading, and other “hotelling” operations on marine vessels that are docked at harbors.
- ◆ PR1633 requires any person that elects to generate MSERCs to use electric power in lieu of diesel engines to power the refrigeration unit on a truck or trailer that is used at distribution centers.
- ◆ PR2507 requires any person that elects to generate ASCs to replace an existing diesel-fueled engine with an electric motor that is used to power an agricultural pump.

In addition, the proposed rules include additional requirements for issuing credits to ensure generation and use are contemporaneous, reconciliation and penalty provisions to ensure any emission reduction shortfalls are made up and a source category evaluation to ensure future emission reductions remain surplus. The four proposed rules also include a program review to evaluate the efficacy of the pilot programs.