



South Coast Air Quality Management District

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May 4, 2007

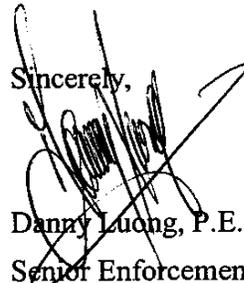
To: Interested Parties
Subject: Second Working Group Meeting to Support Evaluation and Review of the Compliance and Enforcement Aspects of the RECLAIM Program

The South Coast Air Quality Management District (AQMD) Governing Board found that the average annual price of compliance year 2010 NO_x RECLAIM Trading Credits (RTCs) traded in calendar year 2006 exceeded \$15,000 per ton. Therefore, consistent with Rule 2015(b)(6), the Governing Board directed staff to conduct an evaluation and review of the compliance and enforcement aspects of the RECLAIM program, and to assess the existing methodology for determining average annual RTC prices and propose a recommended methodology for determining average prices for infinite-year blocks of RTCs. In addition, the Governing Board also directed staff to assess the need to amend the RECLAIM program pursuant to Health & Safety Code §39616(f). A Working Group was formed to participate in the execution of these items and the first Working Group meeting was held on April 17, 2007 at AQMD's Diamond Bar headquarters.

You are invited to the second Working Group meeting to be held on Thursday, May 17, 2007 from 1:30 p.m. to 4:30 p.m. at AQMD's Diamond Bar headquarters, Conference Room GB. A final Working Group meeting is planned for June. We look forward to your participation in the second Working Group meeting. Please find enclosed an agenda containing the issues to be discussed in this meeting and a summary of the issues discussed in the previous meeting. Please also carefully consider the agenda items and be prepared to provide any specific comments or suggestions you may have.

Feel free to contact Mitch Haimov at (909) 396-3129/mhaimov@aqmd.gov if you have any questions regarding the Working Group meeting or the program review.

Sincerely,



Danny Luong, P.E.

Senior Enforcement Manager

DL:MH:ST
Enclosures

RECLAIM Working Group

May 17, 2007

AGENDA

Welcome

Summary of First Meeting

Presentation of Survey Results

Calculation Methodologies—Infinite-Year Block Trades

Applicable Review Threshold for Infinite-Year Block Trades

Investor Participation in RECLAIM Trading Credit Market

Compliance & Enforcement Aspects of RECLAIM

Schedule

Discussion Summary
RECLAIM Working Group Meeting
April 17, 2007

A presentation was first shown to explain the issues for which inputs from the Working Group are sought. Based on the findings presented in the RECLAIM Annual Audit Report for the 2005 Compliance Year, the annual average price for RTCs valid for Compliance Year 2010 was found to have exceeded the \$15,000/ton threshold provided under Rule 2015(b)(6). This high RTC price was partially due to trades involving infinite year blocks for which price reporting has been inconsistent, and therefore, the price did not reflect the true cost of compliance. The primary purposes of the Working Group are to develop a more appropriate method of evaluating and reporting prices for infinite-year block RTCs and to provide input on the enforcement aspects of the program.

Comments from participants are summarized as follows:

- Price averaging methods for infinite-year block RTC trades:
 - One standard reporting period (e.g. 15 years)
 - Annuity with a percentage
 - interest rate of 4% or 5%;
 - amortized over a specified period (e.g. 15 years)
 - inflation adjusted for future years
- AQMD needs to carefully monitor whether or not growth projections used in 2005 to determine “RTC shave” amount are reflective of actual growth rates.
- AQMD should consult with other agencies, including EPA’s Acid Rain Program and Houston APCD, to find out how infinite block trades are handled.
- AQMD should look at statistics of trades to determine what percentage of RTC availability is due to installation of controls vs. facility shut-downs.