Bridget McCann
Manager, Technical and Regulatory Affairs

January 30, 2019

Dr. Philip Fine
Deputy Executive Officer, Planning and Rules
South Coast Air Quality Management District
21865 Copley Drive
Diamond Bar, CA 91765

sent via email: pfine@aqmd.gov

Re: WSPA Comments on Proposed Rule 1109.1, NOx Emission Reductions for Refinery Equipment

Dear Dr. Fine,

Western States Petroleum Association (WSPA) appreciates this opportunity to provide feedback on the transition of the Regional Clean Air Incentives Market (RECLAIM) program to a command-and-control regulatory structure (RECLAIM Transition Project) and Proposed Rule 1109.1 (PR1109.1) which would be applicable to equipment located at Southern California refineries. WSPA is a non-profit trade association representing companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in five western states including California. WSPA has been an active participant in air quality planning issues for over 30 years. WSPA-member companies operate petroleum refineries and other facilities in the South Coast Air Basin that are within the purview of the RECLAIM program administered by the South Coast Air Quality Management District (District or SCAQMD) and they will be directly impacted by PR1109.1. We offer the following comments on PR1109.1 and the forthcoming proposed Best Available Retrofit Control Technology (BARCT) requirements.

1. **The District is obligated to demonstrate that proposed BARCT requirements are both technically feasible and cost effective. To that end, the District needs to provide stakeholders with the technical and economic information and analyses upon which the demonstration is based.**

The California Health and Safety Code defines BARCT as follows:

> *"Best available retrofit control technology means an emission limitation that is based on the maximum degree of reduction achievable, taking into account environmental, energy, and economic impacts by each class or category of source."* [1]

[1] CHSC §40406.

In establishing BARCT, a district must do the following:

> *CHSC §40920.6(a) Prior to adopting rules or regulations to meet the requirement for best available retrofit control technology pursuant to Sections 40918 , 40919 , 40920 , and 40920.5 , or for a feasible measure pursuant to Section 40914, districts shall, in addition to other requirements of this division, do all of the following:*
>
> *(1) Identify one or more potential control options that achieves the emission reduction objectives for the regulation.*
> *(2) Review the information developed to assess the cost-effectiveness of the potential control option. For purposes of this paragraph, "cost-effectiveness" means the cost, in dollars, of the potential control option divided by emission reduction potential, in tons, of the potential control option.*
> *(3) Calculate the incremental cost-effectiveness for the potential control options. To determine the incremental cost-effectiveness under this paragraph, the district shall calculate the difference in the dollar costs divided by the difference in the emission reduction potentials between each progressively more stringent potential control option as compared to the next less expensive control option.*
> *(4) And consider the effectiveness of the proposed control option, the cost-effectiveness of each potential control option, and the incremental cost-effectiveness between the potential control options.*

In short, prior to adopting updated BARCT requirements, the District Governing Board must find that the proposed emission limitation is both: (a) achievable; and (b) cost effective. These findings must be based on information and analyses contained in the rulemaking record.[2] This must include technical information concerning emissions performance, energy impacts, and environmental effects, as well as information concerning the capital and operating costs associated with the proposed BARCT. Such detailed information, as long as the data is not confidential business information (CBI), must be openly provided to Working Group stakeholders so they have the opportunity to understand and evaluate the basis for Staff's recommendations and provide comments as appropriate, thereby making the rulemaking a legally meaningful exercise. High-level summaries in District Staff presentations are generally insufficient for meeting this objective.

With respect to the finding of cost effectiveness, California Health & Safety Code Section 40703 requires that when adopting any regulation "the district shall consider, pursuant to Section 40922, <u>and make available to the public</u>, its findings related to the cost-effectiveness of a control measure, <u>as well as the basis for the findings and the consideration involved</u>." Thus, the District is required by statute, unless the information is CBI, to make public the basis of its findings that the proposed and adopted BARCT standards are cost-effective.

Finally, claims of confidentiality related to information that forms the basis of Staff's recommendations must be carefully evaluated and weighed against the public's right to participate in the rulemaking process in an informed and meaningful way. Legitimate substantiated claims of confidentiality must be respected...

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[2] CHSC §40728(c).

2. Mandating equipment replacement exceeds the SCAQMD's authority.

Mandating replacement of basic equipment exceeds the authority of the SCAQMD to adopt BARCT standards for existing sources, as set forth in the California Health & Safety Code, and therefore runs afoul of the well-established legal principle that a regulatory agency must act within the scope of the authority delegated to it by the legislature. Citing the *American Coatings* case, Staff has taken the position that the agency's authority is essentially unbounded as long as the requirement is not arbitrary and capricious, or without reasonable or rational basis, or lacking in evidentiary support. However, as the cases relied upon in *American Coatings* make clear, a critical consideration in evaluating whether or not an agency action meets this standard is whether or not the action is within the scope of the agency's delegated authority. As stated in *Yamaha Corp. of America v. State Bd. of Equalization* (1998) 19 Cal.4th 1, citing *Wallace Berri & Co. v. State Bd. of Equalization* (1985) 40 Cal.3d 60, 65: " '[I]n reviewing the legality of a regulation adopted pursuant to a delegation of legislative power, the judicial function is limited to determining whether the regulation (1) is "within the scope of the authority conferred" [citation] and (2) is "reasonably necessary to effectuate the purpose of the statute" [citation].' [Citation.]"

This issue was previously addressed in the following WSPA comments letters which are incorporated herein by reference.

- Attachment 1: July 3, 2018 comments from WSPA
- Attachment 2: August 15, 2018 comments from Latham & Watkins LLP on behalf of WSPA
- Attachment 3: November 1, 2018 comments from Latham & Watkins LLP on behalf of WSPA

3. New Source Review (NSR) issues must be fully addressed before Title V facilities are transitioned out of RECLAIM program.

WSPA continues to actively participate in the working groups for the RECLAIM transition as well as the individual BARCT rulemakings. In these forums the District has indicated that it is continuing discussions with U.S. Environmental Protection Agency (USEPA) staff regarding a variety of NSR issues. These include issues that will impact RECLAIM facilities both during the transition of their permits from the RECLAIM program (i.e., SCAQMD Regulation XX) to the District's command-and-control NSR program (i.e., Regulation XIII), and also affect how future NSR actions are regulated. At the present time, neither Regulation XX nor Regulation XIII includes USEPA-approved provisions to address these issues for RECLAIM facilities.

Since permits for Title V facilities are federally enforceable, and Regulation XX is USEPA-approved under the District's State Implementation Plan (SIP), Title V facilities will likely need to continue operating under the Regulation XX RECLAIM program at least until such time that the RECLAIM transition rules are formally approved by USEPA into the District's SIP and replaced Regulation XX provisions are rescinded. This would require an effective date tied to USEPA approval which will be sometime after the Governing Board's adoption of the transition rules.

Otherwise, Title V facilities could be left having to comply simultaneously with two different, and mutually exclusive, programs.

4. The timetable for transition to command-and-control BARCT could materially affect what is achievable, and whether it is cost effective.

Under RECLAIM's market-based design, covered facilities have successfully reduced aggregate program emissions for NOx in accordance with the program's' declining RTC caps. Due to program design, RECLAIM facilities within a given sector may have pursued widely varied strategies and now find themselves in widely varied situations with respect to their basic equipment and currently installed emissions controls. Given these varied starting points, the implementation schedule for command-and-control BARCT rules will be an important factor in defining what is achievable or cost effective as BARCT.

Proposed BARCT requirements must consider both what will be required (i.e., the emission limit) and when (i.e., schedule). This is particularly true for complex refinery facilities where the installation of process equipment must be coordinated with turnaround schedules in order to allow the refinery to function in a safe, efficient manner. Such capital projects have long planning and engineering schedules.

Finally, there are important considerations of fundamental fairness, equity, and ensuring a continuing smoothly functioning refining sector. If implemented in a manner that does not maintain a strong, productive refining sector, the entire economy of the State could be adversely affected.

5. The California Environmental Quality Act (CEQA) analysis for the RECLAIM transition project has been piecemealed.

It is a fundamental principle of California Environmental Quality Act (CEQA) review that environmental effects for the whole of a project must be analyzed together. In this case, the "project" is the RECLAIM transition project as a whole as required by Control Measure CMB-05 as adopted in the 2016 Air Quality Management Plan (AQMP). Yet, staff has continued to conduct CEQA review of RECLAIM transition rules through a series of Supplemental Environmental Assessments (SEA) that analyze only the impacts associated with individual BARCT "landing" rules. Staff argues that this approach is acceptable because each SEA "tiers off" the March 2017 Final Program Environmental Impact Report (EIR) for the 2016 AQMP and several other earlier certified CEQA documents. However, the March 2017 Final Program EIR for the 2016 AQMP, which was completed in January 2018, did not analyze the transition of the RECLAIM program because the transition was not even part of CMB-05 as proposed at that time. Therefore, tiering off the earlier CEQA documents to support rule amendments that seek to implement the transition is not possible (or valid) because there was no comprehensive analysis in the earlier documents. In the absence of a program level CEQA analysis that includes the whole of the RECLAIM transition project, Staff's segmented analysis of each proposed rulemaking action constitutes a classic "piecemealing" in violation of CEQA. This

issue was addressed in more detail in the following attachments which are incorporated herein by reference.

- Attachment 4: May 1, 2018 comments from WSPA
- Attachment 5: September 7, 2018 comments from Latham & Watkins LLP on behalf of WSPA

Thank you for considering these comments. We look forward to continuing to work with you and your Staff on the RECLAIM rulemakings which are critically important to stakeholders as well as the regional economy. If you have any questions, please contact me at (310) 808-2146 or via e-mail at bridget@wspa.org.

Sincerely,

Bridget McCann
Manager, Technical and Regulatory Affairs

Cc: Wayne Nastri, SCAQMD
Susan Nakamura, SCAQMD
Michael Krause, SCAQMD
Tom Umenhofer, WSPA
Patty Senecal, WSPA

July 3, 2018

Dr. Philip Fine
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Via e-mail at: pfine@aqmd.gov

Re: WSPA Comments on RECLAIM Transition Project Rules
- ***Proposed Amended Rule 1135 (NO_X Emissions from Electric Power Generating Systems)***
- ***Proposed Amended Rule 1134 (NO_X Emissions from Stationary Gas Turbines)***
- ***Proposed Rule 1109.1 (Refinery Equipment)***

Dear Dr. Fine:

Western States Petroleum Association (WSPA) appreciates this opportunity to provide feedback on the transition of the Regional Clean Air Incentives Market (RECLAIM) program to a command-and-control regulatory structure (RECLAIM Transition Project). WSPA is a non-profit trade association representing companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in five western states including California. WSPA has been an active participant in air quality planning issues for over 30 years. WSPA-member companies operate petroleum refineries and other facilities in the South Coast Air Basin that are within the purview of the RECLAIM program administered by the South Coast Air Quality Management District (District or SCAQMD) and they will be impacted by the RECLAIM Transition Project. We have several comments concerning pending rulemakings to implement new Best Available Retrofit Control Technology (BARCT) requirements.

WSPA and its members are active participants in the working groups related to the RECLAIM Transition Project. We respectfully offer the following comments on Proposed Amended Rule (PAR) 1135, NO_X Emissions from Electric Power Generating Systems, PAR 1134, NO_X Emissions from Stationary Gas Turbines, and Proposed Rule (PR) 1109.1, Refinery Equipment.

1. **BARCT must be established, for each class and category of equipment. BARCT determinations for one class may be different than another class. Caution should be exercised when referencing or applying BARCT determinations from other classes within a category.**

The California Health and Safety Code (CHSC) defines BARCT as follows:

"Best available retrofit control technology means an emission limitation that is based on the maximum degree of reduction achievable, taking into account environmental, energy, and economic impacts by each class or category of source."[1] [Emphasis added]

Under District BARCT rules, an equipment category may consist of multiple classes. These classes may be defined by different design criteria or operational factors. Examples might include throughput ratings, duty cycles, or usage level (e.g., low v. high use). Such classifications within a category are necessary to establish what is technologically feasible and cost effective as required in the determination of BARCT.

The District is presently considering BARCT rules for a number of equipment types within the RECLAIM Transition Project. Due to their inclusion in the RECLAIM program, many of these equipment types have not undergone an evaluation for command-and-control BARCT since the RECLAIM program's launch in 1993, at least with respect to equipment situated at RECLAIM facilities. In many cases, an equipment category is comprised of several different classes and therefore addressed under several different rules. Some notable examples include:

- Stationary gas turbines, which will be covered under a number of different classes pursuant to PAR 1134, PAR 1135 and PR 1109.1.
- Process heaters and boilers, which will be addressed under a number of different classes pursuant to PAR 1146, PAR 1146.1, PAR 1146.2, and PR 1109.1.

Despite similarities within the broader categories, BARCT determinations must be conducted specific to each class of equipment within a category. Take for example a stationary gas turbine; a given make/model of turbine might be deployed in a refinery cogeneration system, or an electric generating facility (EGF). However, operational design differences would place this equipment in different classes. That classification could be defined based on differences in fuel type (e.g., refinery fuel gas and/or utility quality natural gas), or duty (e.g., baseload vs. demand response, etc.).

We appreciate that the District is in the process of conducting a thorough BARCT analysis for these sources across the different proposed rules including PR 1109.1. Such BARCT analyses for refinery sources must be specific to refinery applications and BARCT determinations for similar types of equipment in non-refinery application may not be relevant because what is technologically feasible and cost effective in one application may not be in another application. For this reason, caution should be exercised when referencing or applying BARCT determinations from other classes within a category.

2. If a technically feasible endpoint is not cost effective, it cannot be considered BARCT since cost effectiveness is a fundamental requirement of BARCT. Some

[1] CHSC §40406.

endpoints presented by SCAQMD Staff to recent RECLAIM landing rule working groups exceed the District's $50,000 per ton NOx reduced cost effectiveness threshold.[2]

In establishing BARCT, a district must do all of the following:[3]

1) Identify one or more potential control options which achieves the emission reduction objectives for the regulation.
2) Review the information developed to assess the cost-effectiveness of the potential control option. For purposes of this paragraph, "cost-effectiveness" means the cost, in dollars, of the potential control option divided by emission reduction potential, in tons, of the potential control option.
3) Calculate the incremental cost-effectiveness for the potential control options. To determine the incremental cost-effectiveness under this paragraph, the district shall calculate the difference in the dollar costs divided by the difference in the emission reduction potentials between each progressively more stringent potential control option as compared to the next less expensive control option.
4) Consider the effectiveness of the proposed control option, the cost-effectiveness of each potential control option, and the incremental cost-effectiveness between the potential control options.

In short, BARCT must represent an emission limitation which is both technologically feasible and cost effective.

We note that District Staff recently presented at least one preliminary BARCT recommendation which Staff's (preliminary) analysis indicated was not cost effective. Staff presented the PAR 1135 Working Group with a "BARCT Recommendation" for "Combined-Cycle Turbines" as 2 ppm NO_X, despite data suggesting that every affected unit in the class would exceed the District's cost effectiveness threshold.[4] Given that data, BARCT cannot be 2 ppm NO_X for the class/category and the District's BARCT recommendation would require revision.

3. BARCT must be established at a class/category level. Device-level limitations are not appropriate unless the source class/category is classified to include a single device.

As noted above, BARCT must represent an emission limitation which is both technologically feasible and cost effective for each class/category of source.[5] In one instance, the District Staff presented a working group with a preliminary BARCT recommendation that would effectively establish device-level throughput limits as part of the BARCT rule.[6] The District Staff's analysis for the category (i.e., EGF Utility Boilers) clearly indicated that the Staff's proposed BARCT level was not cost effective for the class/category. As part of that (preliminary) determination, Staff proposed "low use

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2 SCAQMD presentation to Proposed Amended Rule 1135 Working Group Meeting, 13 June 2018. Slides 30-46
3 CHSC §40920.6.
4 SCAQMD presentation to Proposed Amended Rule 1135 Working Group Meeting, 13 June 2018. Slides 27 and 30
5 CHSC §40406.
6 SCAQMD presentation to Proposed Amended Rule 1135 Working Group Meeting, 13 June 2018. Slides 40-43.

exemptions" would be imposed in the form of new operating limits for each of the individual devices to be calculated as a function of cost effectiveness. Such device-level limitations are not appropriate for a BARCT determination when the class/category consists of multiple devices. If the District wishes to establish a low-use exemption, it must set a class/category threshold above which the BARCT recommendation would be cost effective for the class/category.

4. **Requirements which effectively force retirement of basic equipment must be accounted for in the cost effectiveness analysis for the proposed rule. Such a requirement would also need to be accounted for in the District's socioeconomic analysis for the Proposed Rule.**

   In the recent working group meetings for PAR 1135 and PAR 1134, District Staff indicated they are considering a "replacement requirement" for older equipment.[7,8] In both cases, the concept of a replacement requirement appeared to be driven by Staff's desire to impose a control level that was not demonstrated to be cost effective. BARCT is by definition a retrofit standard that applies to existing sources. The requirement that BARCT standards be both technologically achievable and cost effective is an acknowledgement that it may not be possible to achieve the same level of control on an existing source as might be possible with a new source. If there are no more stringent controls that are cost effective for a class or category of source, then that source is at BARCT and the analysis is concluded. To instead require replacement of that source (perhaps without any regard to the technological feasibility or cost effectiveness) with a new source (presumably equipped with best available control technology) renders the technological feasibility and cost effectiveness limitations in the BARCT definition meaningless. The Health and Safety Code grants the District authority to impose best available control technology (BACT) on new and modified sources and BARCT on existing sources.[9] We are not aware of any authority that allows the District to compel replacement of an existing source when it finds that there are no cost effective retrofit controls. We do, however, support measures that would make it easier for a facility to replace aging equipment if it elects to do so on a voluntary basis, including streamlined new source review and available sources of emission offsets.

5. **The timetable for transition to command-and-control BARCT could materially affect what is achievable, and whether it is cost effective.**

   Under RECLAIM's market-based design, covered facilities have successfully reduced aggregate program emissions for NOx and SOx in accordance with the program's declining RTC caps. Facilities have implemented custom compliance strategies to meet these caps, which included installing emissions controls on equipment where it was cost effective and using the compliance market where physical changes were not cost effective. The District is now planning to transition RECLAIM facilities to command-and-control (under various directives).

   Due to program design, RECLAIM facilities within a given sector may have pursued widely varied strategies and now find themselves in widely varied situations with respect

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[7] SCAQMD presentation to Proposed Amended Rule 1135 Working Group Meeting, 13 June 2018. Slide 48.
[8] SCAQMD presentation to Proposed Amended Rule 1134 Working Group Meeting, 13 June 2018. Slide 42.
[9] CHSC §40440(b)(1).

to their basic equipment and currently installed emissions controls. The investments and construction needed to achieve command-and-control BARCT limits have not yet been defined. Given these varied starting points, the implementation schedule for command-and-control BARCT rules could be an important factor in defining what is achievable or cost effective as BARCT. We recommend that BARCT discussions need to include consideration of both what will be required (i.e., the emission limit) and when (i.e., the schedule). This is especially true for refinery sector facilities where such investments must be coordinated with turnaround schedules and capital projects that require long planning and engineering timetables.

Thank you for considering these comments. We look forward to continuing to work with you and your Staff on these rulemakings which are critically important to stakeholders as well as the regional economy.

If you have any questions, please contact me at (310) 808-2146 or by email at bmccann@wspa.org.

Sincerely,

cc: Wayne Nastri, SCAQMD
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August 15, 2018

VIA EMAIL

Dr. Philip Fine
Deputy Executive Officer
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Re: SCAQMD Staff Proposal to Require Equipment Replacement as BARCT

Dear Dr. Fine:

We are submitting these comments on behalf of our client Western States Petroleum Association ("WSPA") on an important issue that has arisen in connection with the transition of the Regional Clean Air Incentives Market ("RECLAIM") program to a command-and-control regulatory structure. WSPA is a non-profit trade association representing companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in five western states including California. WSPA has been an active participant in air quality planning issues for over 30 years. WSPA-member companies operate petroleum refineries and other facilities in the South Coast Air Basin that will be impacted by the transition out of the RECLAIM program.

South Coast Air Quality Management District ("SCAQMD") staff has recently taken the position that a best available retrofit control technology ("BARCT") standard may require total replacement of the emitting piece of equipment. SCAQMD staff has articulated this position in various meetings and documents produced in connection with the RECLAIM transition. The most detailed explanation of the staff's position of which we are aware is contained in the July 2018 Draft Staff Report in support of proposed amendments to SCAQMD Rule 1135 ("Rule 1135 Staff Report") at pages 2-1 through 2-2.

In the Rule 1135 Staff Report, staff makes two arguments in support of its position. First, it cites to dictionary definitions of "retrofit" and concludes that "replacement" is not specifically excluded from those definitions. Second, it cites to a California Supreme Court case, *American Coatings Ass'n v. South Coast Air Quality Mgt. Dist.*, 54 Cal 4th 446 (2012), for the proposition that a BARCT standard may require replacement of the emitting equipment in its entirety. We provide a response to each of these arguments below.

"Common Sense Definition" Argument

The SCAQMD's "common sense definition" argument is flawed in that it focuses on whether or not "replacements" are specifically excluded from the definitions of "retrofits," as opposed to whether or not they are included within the definition. The SCAQMD's backward approach to interpreting dictionary definitions is non-sensical. Under this approach, because the definition of "apple" does not specifically exclude "orange," an orange may be an apple notwithstanding the fact that the definition of apple clearly does not include orange. When one focuses on what is included within the definitions of "retrofit," as opposed to what is not excluded, it is clear that while replacement of certain elements of any particular object may be a "retrofit," replacement of the object in its entirety is not.

One of the definitions relied upon by the SCAQMD is the following from the on-line Merriam-Webster Dictionary:

> 1: to furnish (something, such as a computer, airplane, or building) with new or modified parts or equipment not available or considered necessary at the time of manufacture, 2: to install (new or modified parts or equipment) in something previously manufactured or constructed, 3: to adapt to a new purpose or need: modify.

This definition makes clear that a "retrofit" involves an existing object – "(something, such as a computer, airplane, or building)" – upon which the act of retrofitting occurs, and which continues to exist following that action. The Rule 1135 Staff Report states: "This definition does not preclude the use of *replacement parts* as a retrofit." (emphasis added). This statement is true, but it does not support the position taken by the SCAQMD that a retrofit may include the replacement of the entire object that is the subject of the retrofit. Note that in the case of BARCT, we are discussing retrofitting a piece of equipment and thus, the second of the definitions in Merriam Webster, "to install (new or modified parts or equipment) in something previously manufactured or constructed," is the most applicable definition. When one retrofits equipment, such as a heater, the parts, such as a burner, may be updated, but the original heater itself remains.

It becomes even more clear that the staff's interpretation of the term "retrofit" is incorrect when one considers the definition of the term "replace" from the same source:

> 2: to take the place of especially as a substitute or successor.

The distinction between these two terms is clear – in the case of "retrofit," the pre-existing object that is the subject of the action continues to exist following the action, but in an altered state; whereas, in the case of "replace," the pre-existing object of the action no longer exists following the action. So, if you replace a heater, the original heater no longer exists.

The other definition relied upon by the staff is from the on-line Dictionary.com:

> 1. To modify equipment (in airplanes, automobiles, a factory, etc.) that is already in service using parts developed or made available after the time of original manufacture, 2. To install, fit, or adapt (a device or system) or use with something older; to retrofit solar heating to a poorly insulated house, 3. (of new or modified parts, equipment, etc.) to fit into or onto existing equipment, 4. To replace existing parts, equipment, etc., with updated parts or systems.

Again, this definition makes clear that a retrofit involves the modification of existing equipment (e.g., airplane, automobile, factory), which continues to exist following such action. To the extent that the term "replacement" is used in the definition, it clearly refers to the replacement of *some element* of that object (e.g., parts of an airplane, equipment in a factory), and not to replacement of the entire object altogether.

And again, the distinction between the two terms becomes even clearer when one considers the definition of "replace" from the same source:

> 1: to assume the former role, position, or function of; substitute for (a person or thing), 2: to provide a substitute or equivalent in the place of.

"Replace" and "retrofit" are different terms with different meanings, and to suggest that the use of one term somehow includes the other, without some explicit statement of intent to do so, simply ignores the distinction between the two terms.

Furthermore, both "retrofit" and "replace" or "replacement" are terms commonly used in air quality statutes and regulations, and the difference between the terms is well understood. When a statute or regulation is intended to require, or apply to, "replacements," that intention is typically clear on its face. When a legislative body means "replacement," it says so explicitly, and to suggest that the California legislature intended to include "replacement" within the scope of a definition that uses the term "retrofit," flies in the face of the distinction between these two terms that is embodied throughout the universe of air quality statutes and regulations. If the legislature had intended that equipment be replaced, they would have used the word "replacement" (best available replacement control technology). The SCAQMD staff cannot ignore the word "retrofit" in the term "best available retrofit control technology." It is a fundamental principle of statutory interpretation that each term be given meaning.

"*American Coatings*" Argument

Neither the language from the *American Coatings* decision quoted in the Rule 1135 Staff Report, nor anything else in the decision, supports the proposition that a BARCT standard may require the replacement of the primary emitting equipment to which the standard is being applied. In fact, this issue is not even addressed in the case.

The *American Coatings* case addresses the issue of whether or not there are certain circumstances where an adopted BARCT standard may be more stringent than the currently applicable best available control technology ("BACT") standard for the same class or category of source. The court concludes that it is acceptable for an adopted BARCT standard *with a future compliance date* to be more stringent than the BACT standard that exists at the time the more stringent BARCT standard is adopted. *American Coatings, 467.* In explaining its decision, the court pointed out that a BARCT standard with a future compliance date need not be met until some point in the future after which advances in technology have occurred; whereas, a BACT standard must be met immediately in order for a source to obtain a pre-construction permit. The court also pointed out that BARCT standards with future compliance dates that could not be achieved as of the date of adoption are consistent with the concept that BARCT standards may be "technology-forcing."

The Rule 1135 Staff Report correctly articulates the *American Coatings* holdings described above but does not contain any analysis to support the staff's position that a BARCT standard can require the complete replacement of the emission unit. It simply includes the following conclusory statement: "Therefore, the SCAQMD may establish a BARCT emissions level that can cost-effectively be met by replacing existing equipment rather than installing add-on controls . . ." Rule 1135 Staff Report, p. 2-2. The staff report is devoid of any legal analysis or authority, including the *American Coatings* decision, that supports this conclusion.

Thank you for considering these comments. We look forward to continuing to work with you on these rulemakings which are critically important to stakeholders as well as the regional economy. If you have any questions, please contact me at (714) 401-8105 or by email at michael.carroll@lw.com, or Bridgit McCann of WSPA at (310) 808-2146 or by email at bmccann@wspa.org.

Sincerely,

Michael J. Carroll
of LATHAM & WATKINS LLP

cc: Cathy Reheis-Boyd, WSPA
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November 1, 2018

VIA EMAIL

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Re: SCAQMD Staff Proposal to Require Equipment Replacement as BARCT

Dear Bayron and Barbara:

Thank you for your October 3, 2018 letter responding to our August 15, 2018 comments submitted on behalf of the Western States Petroleum Association ("WSPA"), and our August 24, 2018 comments submitted on behalf of the Regulatory Flexibility Group ("RFG"), regarding South Coast Air Quality Management District ("SCAQMD") staff's position that a best available retrofit control technology ("BARCT") standard may require total replacement of the emitting piece of equipment. Portions of your response reassert arguments that staff has made in the past in support of its position; namely, that neither the statutory definition of BARCT nor common dictionary definitions of "retrofit" specifically exclude replacements, and that the *American Coatings Ass'n v. South Coast Air Quality Mgt. Dist.*, 54 Cal 4th 446 (2012) case ("*American Coatings*") is supportive of staff's position. We responded to those arguments in our previous comment letters and will not revisit them here. This letter responds on behalf of WSPA and RFG to your assertions that the staff's position is supported by public policy considerations, and that we have failed to present any policy rationale for our position.

Staff asserts that requiring replacements under certain circumstances is supported by policy justifications, and, therefore, public policy supports an expansive interpretation of its authority that would include the authority to mandate replacements. This reasoning is contrary to two important public policies that are also well enshrined in administrative law. The first is that regulatory agencies must act within the scope of the authority delegated to them by the legislature, even if that means the agency may not undertake certain actions that it might otherwise view as sound public policy. The second is that public agencies may not substitute their own judgment for that of the legislature as reflected in the statutory grant of authority. These public policies and legal requirements support our position that staff cannot mandate replacements as BARCT.

Public policy and well established law dictate that the SCAQMD act within the scope of authority granted to it by the legislature.

An agency can adopt, administer or enforce a regulation only if it is within the scope of authority conferred on it by other provisions of law. Cal Gov. Code § 11342.1. No regulation is valid unless it is consistent and not in conflict with the statute conferring authority to the agency. Cal Gov. Code § 11342.2. As explained in our previous comment letters, the statutory provisions defining BARCT and the SCAQMD's authority to adopt and implement BARCT standards are clear. "In the construction of a statute or instrument, the office of the Judge is simply to ascertain and declare what is in terms or in substance contained therein, *not to insert what has been omitted*, or to omit what has been inserted . . ." Cal. Civ. Proc. Code § 1858 (emphasis added). The role of an agency charged with implementing a statute is no different. In this case, staff seeks to insert what has been omitted by arguing that the term "retrofit" encompasses replacement, notwithstanding that there are numerous examples of the distinction between those terms throughout the statute.

Finding ambiguity where there is none, staff then invokes "public policy" to support an expansive interpretation of its authority. Relying on the example of replacing engines on Santa Catalina Island, staff argues that because the replacements would further the broader statutory purpose of reducing emissions, a mandate to do so is sound public policy, and, therefore, public policy supports an expansive interpretation of the agency's authority to impose such a mandate.

According to staff's reasoning, the scope of the agency's authority should be interpreted to encompass any action which the agency deems sound public policy, regardless of the specific language contained in the statutory grant of authority. In fact, you argue in your letter, citing *American Coatings,* that the agency's authority is essentially unbounded as long as the requirement is not arbitrary and capricious, or without reasonable or rational basis, or lacking in evidentiary support. However, as the cases relied upon in *American Coatings* make clear, a critical consideration in evaluating whether or not an agency action meets this standard is whether or not the action is within the scope of the agency's delegated authority. As stated in *Yamaha Corp. of America v. State Bd. of Equalization* (1998) 19 Cal.4th 1, citing *Wallace Berri & Co. v. State Bd. of Equalization* (1985) 40 Cal.3d 60, 65: " '[I]n reviewing the legality of a regulation adopted pursuant to a delegation of legislative power, the judicial function is limited to determining whether the regulation (1) is "within the scope of the authority conferred" [citation] and (2) is "reasonably necessary to effectuate the purpose of the statute" [citation].' [Citation.]"

The scope of authority delegated to an agency may not authorize it to take any and all actions that the agency deems sound public policy in light of its overall mission. In fact, acting as it does from a broader perspective, and balancing a broader range of policy considerations, the very reason the legislature imposes limitations on the authority of regulatory agencies is to prevent them from undertaking actions that they might otherwise be inclined to take because they deem them sound public policy. The fact that a proposed action may reflect sound public policy in the view of the agency does not mean that it is within the scope of the authority granted by the legislature.

Staff's position is contrary to the legislature's policy considerations embedded in the relevant statutory provisions.

By including economic impacts as one of the factors in the definition of BARCT, and by specifying the process for evaluating the cost-effectiveness of proposed BARCT standards, it is clear that one of the policies of the legislature was to balance the goal of achieving additional emission reductions from existing sources against the costs of achieving those reductions, and to impose limits on the costs that would be borne by existing sources to further control emissions.[1] The legislature determined that stationary sources should bear the cost of implementing cost-effective retrofits. If cost-effective retrofits are determined to be unavailable, then that is the end of the inquiry. There may be specific cases where the outcome results in foregone emission reductions, but it was the judgment of the legislature that this regulatory scheme struck the proper public policy balance between achieving air quality goals and imposing additional costs on regulated sources. It is not the place of the agency to substitute its own public policy considerations for those of the legislature when the language of the statute is clear, as it is here.

Furthermore, the fact that a replacement project may be cost-effective in a situation where available retrofits are not is irrelevant. Staff seems to suggest that if a replacement project would cost no more than a cost-effective retrofit project (if one existed), then the cost to the source is no greater than what the legislature intended, and, therefore, requiring replacement in such situations does not undercut any economic considerations that the legislature may have had in mind when adopting the statute. However, in situations where there are no available cost-effective retrofits, the legislature determined that the cost to the source for installing additional controls would be zero. Therefore, staff's determination that it can mandate replacement when there are no cost-effective retrofits, as long as the replacement is cost-effective, imposes costs on existing sources that go beyond what the legislature contemplated. The fact that the cost of a replacement may be less than, or more cost-effective than, available retrofits does not mean that the agency is entitled to mandate replacements.

Conclusion

SCAQMD staff is attempting to use policy rationale to read something into the statute that simply is not there. That approach is not only poor public policy, it is contrary to the law. Whether or not a particular course of action may be good public policy in the judgment of the agency does not mean it is within the authority of the agency to mandate it. Furthermore, in this case, that rationale elevates the judgment of the agency over that of the legislature with regards to the appropriate balance between furthering air quality objectives and maintaining a viable economy. There are limits on the rulemaking authority of the SCAQMD, and those limits may well preclude it from pursuing what it might otherwise view as good public policy in order to accomplish the broader policy objectives of the legislature.

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[1] Health & Safety Code Sections 40406 and 40920.6.

LATHAM&WATKINS LLP

Thank you for considering these comments. We look forward to continuing to work with you on these rulemakings which are critically important to stakeholders as well as the regional economy. If you have any questions, please contact me at (714) 755-8105 or by email at michael.carroll@lw.com.

Sincerely,

Michael J. Carroll
of LATHAM & WATKINS LLP

cc: Robert Wyman, Latham & Watkins LLP
John Heintz, Latham & Watkins LLP
RFG Members
Bridget McCann, WSPA

Western States Petroleum Association
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Oyango A. Snell, Esq.
General Counsel

May 1, 2018

Dr. Philip Fine
Deputy Executive Officer, Planning and Rules
South Coast Air Quality Management District
21865 Copley Drive
Diamond Bar, CA 91765

Via e-mail at: pfine@aqmd.gov

Re: WSPA concerns with Proposed Amended Rules 1146, 1146.1 and 1146.2 and RECLAIM Landing Rules

Dear Dr. Fine:

Western States Petroleum Association (WSPA) appreciates the ability to participate in working groups related to the transition of the Regional Clean Air Incentives Market (RECLAIM) program and Proposed Amended Rules (PAR) 1146, 1146.1 and 1146.2 and the opportunity to make comments. WSPA is a non-profit trade association representing companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in five western states including California. WSPA has been an active participant in air quality planning issues for over 30 years. WSPA-member companies operate petroleum refineries and other facilities in the South Coast Air Basin that are within the purview of the RECLAIM Program administered by the South Coast Air Quality Management District (AQMD or District).

PAR 1146, 1146.1 and 1146.2 represent essential "landing rules" which, if adopted, would apply to many WSPA member and non-member facilities which stand to be transitioned from RECLAIM's market-based structure into new command-and-control Best Available Retrofit Control Technology (BARCT) requirements. We have several comments and concerns with the District's current proposals for these PARs.

1. Staff has not conducted a BARCT assessment for the boilers, steam generators, or process heaters at facilities that would be transitioning from RECLAIM under PAR 1146, 1146.1 and 1146.2.

State law defines BARCT as "an emission limitation that is based on the maximum degree of reduction achievable, taking into account environmental, energy, and economic impacts by each class or category of source." (Health & Saf. Code § 40406). Under the current proposal, District Staff has not conducted a BARCT assessment for boilers, steam generators, or process heaters located at facilities transitioning from RECLAIM to command and control. Rather, the current Staff proposal would simply extend the requirements of existing Rules 1146, 1146.1 and 1146.2 to this large number of facilities. These RECLAIM facilities were not part of the universe of facilities or equipment considered when the District adopted the BARCT requirements currently found in Rules 1146, 1146.1, or 1146.2. Therefore, the District has not analyzed the environmental, energy, and economic impacts for the entire class or category of source. The District cannot simply extend existing requirements to a new universe of facilities and equipment without first conducting new (or supplementary)

BARCT determinations to demonstrate that proposed emission limitations and/or other requirements are both technically feasible and cost effective. Such a demonstration is required under California Health & Safety Code Section 40406.

RECLAIM facilities have been subject to market-based emissions control requirements since 1994. For this reason, the boilers, steam generators, and process heaters at these facilities will widely vary in terms of their physical configurations (e.g., basic equipment, emissions controls) and their emissions performance. Furthermore, many of the compliance requirements (e.g., averaging periods) in these rules differ from RECLAIM and cannot readily be applied to RECLAIM equipment and facilities. It is inappropriate to assume that the BARCT requirements, and supporting technical feasibility and cost effectiveness analyses, can apply equally and equitably to facility equipment that was not part of the original BARCT analysis. The District needs to demonstrate that those requirements or alternative BARCT requirements are both technically feasible and cost effective for this new group of facilities being transitioned from RECLAIM where they have operated for two plus decades.

2. The environmental and socioeconomic impacts for PAR 1146, 1146.1 and 1146.2 should be considered in CEQA and Socioeconomic Assessments for the entire RECLAIM Transition Project.

Under the California Environmental Quality Act (CEQA), CEQA Guidelines and SCAQMD Rule 110, the SCAQMD Governing Board (as the lead agency under its certified regulatory program) is required to identify and evaluate environmental impacts of its rulemaking activities, as well as feasible means and alternatives to reduce, avoid or eliminate significant impacts. More specifically, "an accurate, stable and finite project description is the sine qua non of an informative and legally sufficient EIR." (*County of Inyo v. City of Los Angeles* (1977) 71 Cal.App.3d 185, 193.) The entire project being proposed must be described in the EIR, and the project description must not minimize project impacts. (*City of Santee v. County of San Diego* (1989) 214 Cal.App.3d 1438, 1450.) Furthermore, CEQA forbids piecemealing[1] and the Court has explicitly found that it is inappropriate to divide a project into small segments in order to avoid preparing an EIR. (*Bozung v. Local Agency Formation Com.* (1975) 13 Cal.3d 263, 283-284.)

The California Supreme Court has also held that EIRs may need to address future environmental effects of a proposed project. In Laurel Heights I, the court set forth the standards for determining whether reasonably foreseeable future activities must be included in an EIR project description and for determining whether the impacts of those activities must be analyzed in the EIR:

> "We hold that an EIR must include an analysis of the environmental effects of future expansion or other action if: (1) it is a reasonably foreseeable consequence of the initial project; and (2) the future expansion or action will be significant in that it will likely change the scope or nature of the initial project or its environmental effects." (*Laurel Heights Improvement Assn. v. Regents of the University of California ("Laurel Heights I")* (1988) 47 Cal.3d 376, 396.)

[1] "Piecemealing" or "segmenting" means dividing a project into two or more pieces and evaluating each piece in a separate environmental document. The rule of forbidding piecemealing arises from the definition of "project" under CEQA, where "project" is defined as "the whole of an action." (14 Cal. Code Regs. § 15378(a).)

As previously noted, PAR 1146, 1146.1 and 1146.2 are part of the District's larger effort to transition RECLAIM program facilities from RECLAIM's market-based design to a command-and-control design. This has been described to the Working Group, and documented in the District's staff report:

> "The proposed amendments in Rules 1146, 1146.1 and 1146.2 initiate the transition of the NOx RECLAIM program to a command-and-control regulatory structure." [2]

This transition is also noted in the District's preliminary environmental assessment, which was drafted for compliance with the California Environmental Quality Act (CEQA):

> "As a result of control measure CMB-05 from the 2016 AQMP and ABs 617 and 398, SCAQMD staff has been directed by the Governing Board to begin the process of transitioning equipment at NOx RECLAIM facilities from a facility permit structure to an equipment-based command-and-control regulatory structure per SCAQMD Regulation XI – Source Specific Standards. SCAQMD has begun this transition process by proposing amendments to Rule 1146 – Emissions of Oxides of Nitrogen from Industrial, Institutional, and Commercial Boilers, Steam Generators, and Process Heaters; Rule 1146.1 – Emissions of Oxides of Nitrogen from Small Industrial, Institutional, and Commercial Boilers, Steam Generators, and Process Heaters; and Rule 1146.2 – Emissions of Oxides of Nitrogen from Large Water Heaters and Small Boilers and Process Heaters. Proposed Amended Rules (PAR) 1146, 1146.1, and 1146.2 (collectively referred to herein as the PAR 1146 series) will be the first set of rules to be amended to initiate the transition of equipment from the NOx RECLAIM program to a command-and-control regulatory structure while achieving BARCT." [3]

We believe the District needs to prepare an environmental assessment that considers the entire RECLAIM Transition Project, its rulemakings and its other associated components, across impacted facilities and equipment. While the District prepared a Final Program Environmental Impact Report (Final Program EIR) regarding the 2016 AQMP (certified in March 2017), the analysis focused solely on the implementation of CMB-05. CMB-05 was a general directive from the 2016 AQMP, requiring an assessment of further NOx reductions from the RECLAIM program. (Final Program EIR for the 2016 Air Quality Management Plan (January 2017) p. 2-17.) More specifically, the Final Program EIR describes CMB-05 as "identif[ying] a series of approaches, assessments, and analyses *that can be explored* to make the program more effective…" (Emphasis added. Final Program EIR at p. 2-17.) The Final Program EIR lists the control methodology of CMB-05 as "re-examination of the RECLAIM program, including voluntary opt-out and the additional control equipment and SCR/SNCR equipment." (Final Program EIR at p. 4.1-2.) Additionally, the Final Program EIR also sets forth the air quality impact, as it relates to CMB-05, as "potential emissions as a result of construction to install new equipment, generation of ammonia emissions from the operations of SCR/SNCR equipment, and potential air quality and GHG emissions from electricity to operate equipment." (Final Program EIR at p. 4.1-2.) The Final Program EIR never addresses the concept of, much less the impacts related to, sunsetting the RECLAIM program.

As shown above, CMB-05 lacks the specifications set forth in the RECLAIM Transition Project and its rulemakings. More importantly, the RECLAIM Transition Project had not yet even been created when CMB-05 was conceived or evaluated under the Final Program EIR. In fact, the RECLAIM Transition Project is still

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[2] SCAQMD Preliminary Draft Staff Report for Proposed Amended Rule (PAR) 1146, PAR 1146.1, PAR 1146.2 and Proposed Rule 1100, January 2018, see page 3.

[3] SCAQMD Draft Subsequent Environmental Assessment for PAR 1146 – Emissions of Oxides of Nitrogen from Industrial, Institutional, and Commercial Boilers, Steam Generators, and Process Heaters; 1146.1 – Emissions of Oxides of Nitrogen from Small Industrial, Institutional, and Commercial Boilers, Steam Generators, and Process Heaters; 1146.2 - Emissions of Oxides of Nitrogen from Large Water Heaters and Small Boilers and Process Heaters; and PR 1100 – Implementation Schedule for NOx Facilities, March 2018, page 1-2.

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currently under development on an ongoing basis, as District Staff continues to determine how to approach the applicability of several landing rules and whether some rules will even be included in the Project. Given the Final Program EIR's reliance on general directives like CMB-05 and the RECLAIM Transition Project not yet existing at the time of assessment, the Final Program EIR fails to properly evaluate the potential environmental impacts specifically related to the RECLAIM Transition Project and its rulemakings.

As prior amendments to the Regulation XX program were considered under CEQA, we believe the overall group of RECLAIM Transition rulemakings[4] needs to be collectively considered under CEQA, as well. Rules to advance the RECLAIM Transition Project, including these proposed amendments to the 1146 series rules, should not be adopted and facilities should not be removed from RECLAIM until the District has completed and certified a CEQA assessment that evaluates the entire Project. Undertaking these RECLAIM Transition Project rulemakings in a fragmented manner constitutes a piecemealing of the project, which is explicitly forbidden by CEQA as described above. Given that the 1146 series rules are clearly part of the larger RECLAIM Transition Project, we believe the District's current draft CEQA document is improperly scoped.

Additionally, Health & Safety Code Section 40440.8 requires that "[w]henever the south coast district intends to propose the adoption, amendment, or repeal of a rule or regulation that will significantly affect air quality or emissions limitations, the district . . . shall perform an assessment of the socioeconomic impacts of the adoption, amendment, or repeal of the rule or regulation." (Health & Saf. Code § 40440.8(a)). One of the specific factors that the Board is to take into consideration is the "availability and cost-effectiveness of alternatives to the rule or regulation . . ." (Health & Saf. Code § 40440.8(b)(4)). Health & Safety Code Section 40728.5 sets forth substantively identical requirements for all air districts. Similarly, Health & Safety Code Section 40440.5(c)(3) requires that if an environmental assessment is prepared in connection with a proposal to adopt, amend or repeal any rule or regulation, "the staff report shall also include social, economic, and public health analyses." Stakeholders have not yet seen the District's draft socioeconomic assessment for these proposed rules, but we similarly recommend that the District conduct a program-level socioeconomic assessment that considers the socioeconomic effects of the overall RECLAIM Transition Project, including all associated Regulation XI rulemakings, and the 1146 series rules. This should be completed to support related Governing Board rule adoptions prior to the District transitioning individual RECLAIM facilities out of the program.

WSPA continues to be concerned that the RECLAIM transition could cause significant negative impacts to Southern California businesses, air quality and the regional economy. Similar to the Final Program EIR described above, the Final Socioeconomic Report for the 2016 AQMP analyzed the socioeconomic impacts for the 2016 AQMP, which focused solely on CMB-05. As discussed above, CMB-05 did not include a transition of the RECLAIM program to a command-and-control scheme like that described in the RECLAIM Transition Project or in the Project's associated rulemakings. Given that fact, the RECLAIM Transition rulemaking proposals cannot rely on the 2016 AQMP's Socioeconomic Assessment to cover the RECLAIM Transition Project.

3. The District needs to resolve critical questions about New Source Review (NSR) requirements and Federal NSR equivalency before transitioning individual RECLAIM facilities out of the program.

Under PAR 1146, 1146.1 and 1146.2, Staff has proposed that RECLAIM facilities covered by these rules would begin to be transitioned out of the RECLAIM program after the rules' adoption. This raises a number of serious concerns due to the lack of transition framework, particularly on the topic of NSR. There remain a number of complex questions (legal and otherwise) over how the District will satisfy EPA requirements to demonstrate equivalency with the Federal NSR program. Since a transition model has not been agreed upon between EPA and

[4] At this time, RECLAIM Transition project includes proposed amendments to Regulation XX rules, as well as PAR 301, PAR 1109 and/or PR 1109.1, PAR 1110.2, PAR 1118.1, PAR 1134, PAR 1135, PAR 1146, 1146.1, and 1146.2, and PAR 1147, 1147.1, and 1147.2.

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the District, facilities are left with uncertainty regarding their permit transition requirements and how future permit changes will impact their operations. RECLAIM facilities should not be transitioned from the program until SCAQMD has resolved these key NSR issues with EPA.

In light of these important issues, PAR 1146, 1146.1 and 1146.2 are not ready for the Governing Board's consideration. Any scheduled or proposed hearing should be delayed until these issues have been adequately addressed.

Thank you for considering these comments. We look forward to continuing to work with you and your Staff on this rulemaking which is critically important to stakeholders, as well as the regional air quality and economy.

If you have any questions, please contact me at (916) 325-3115, or by email at osnell@wspa.org.

Sincerely,

cc: Cathy Reheis-Boyd, WSPA
Patty Senecal, WSPA
Bridget McCann, WSPA
Wayne Nastri, SCAQMD
Clerk of the Board, SCAQMD

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033950-0007

September 7, 2018

VIA EMAIL

Dr. Philip Fine
Deputy Executive Officer
South Coast Air Quality Management District
21865 Copley Drive
Diamond Bar, CA 91765

Re: Proposed Amended Rules 2001 and 2002

Dear Dr. Fine:

We are submitting these comments on behalf of our client Western States Petroleum Association ("WSPA") on the most recent round of proposed amendments to South Coast Air Quality Management District ("SCAQMD") Rules 2001 and 2002. The amendments are being proposed in connection with the transition of the Regional Clean Air Incentives Market ("RECLAIM") program to a command-and-control regulatory structure. WSPA is a non-profit trade association representing companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in five western states including California. WSPA has been an active participant in air quality planning issues for over 30 years. WSPA-member companies operate petroleum refineries and other facilities in the South Coast Air Basin that will be impacted by the transition out of the RECLAIM program.

General Comments

The proposed amendments to Rules 2001 and 2002 are primarily interim measures intended to establish new eligibility criteria for exiting RECLAIM, provide opt-out procedures, and address, on a temporary basis, unresolved issues surrounding compliance of new source review ("NSR") for former RECLAIM facilities once they have transitioned out of the RECLAIM program. As WSPA and others have expressed in numerous meetings, workshops and hearings conducted in connection with the RECLAIM transition, we have serious concerns about the lack of clarity surrounding NSR in a post-RECLAIM regime.

We believe current SCAQMD staff's ("staff") proposed approach is premature, as staff has not addressed all of the underlying issues surrounding a RECLAIM sunset. RECLAIM is a comprehensive, complex program that was adopted as a whole. In the development of RECLAIM, staff not only determined current and future effective best available retrofit control

technology ("BARCT"), but also examined and addressed NSR, reviewed socioeconomic impacts, mitigated implications of emissions trading, resolved enforcement and monitoring issues, and understood a host of other consequences of adopting such a program. This comprehensive approach ensured the overwhelming success of the RECLAIM program as it was designed. In contrast for this rulemaking, staff is dismantling the RECLAIM program without analyzing any of the consequences of the proposed approach. Most importantly, staff has not addressed NSR, nor the environmental and socioeconomic impacts of a RECLAIM sunset.

Our strong preference is that staff prioritizes resolution of the NSR issues and conduct an analysis of the entire RECLAIM transition project comparable with the same full analysis that was done during the implementation of RECLAIM before initiating rulemaking. There is no evidence that this has been done to date. We believe that addressing fundamental programmatic issues that will affect all former RECLAIM facilities, such as NSR, early in the transition process, and then moving on to the more narrowly applicable landing rules, would result in a more orderly and efficient transition in the following ways:

- It would provide facilities with an understanding of the NSR requirements and procedures that will apply to modifications required to comply with updated BARCT rules. It is not possible to develop a final and comprehensive plan for implementing new BARCT requirements without knowing the NSR requirements and procedures and how those will impact post-RECLAIM operating permits.

- It would result in a more efficient use of staff resources. For example, the proposed amendments to Rules 2001 and 2002 are essentially "stop-gap" measures that are necessary because the NSR and other programmatic issues remain unresolved. If the NSR and other programmatic issues were addressed, it would not be necessary to develop and implement such measures.

- It would avoid the current ad hoc, piecemeal approach to the RECLAIM Transition Project which results in additional confusion and uncertainty. This is illustrated by the fact that staff's positions with respect to certain issues related to the proposed amendments to Rules 2001 and 2002 are quite different than positions taken when these two rules were amended in January of this year in what we view as a rush to get the RECLAIM transition process underway.

- It would avoid legal vulnerabilities that we believe are inherent in the current ad hoc, piecemeal approach because the environmental and socioeconomic assessments of incremental rulemaking are disjointed and incomplete.

Should the District continue with this piecemeal approach, we offer the comments set forth below on the proposed amendments:

Specific Comments on Proposed Amended Rule 2002(f)(11) – "Stay-In" Provision

The proposed amendments to Rule 2002 would allow facilities to remain in the RECLAIM program, and thereby avail themselves of the RECLAIM NSR program set forth in SCAQMD Rule 2005 for some period of time. Our understanding, which was confirmed by staff during the RECLAIM Working Group meeting on August 9, 2018, is that the decision of whether or not to remain in the RECLAIM program is completely within the discretion of the facility (assuming the facility meets the specified criteria). Some of the language in the proposed amendments could be read to grant the Executive Officer discretion (beyond merely confirming that the facility meets the specified criteria) to decide whether or not the facility may remain in the program. The following proposed changes are intended to better reflect staff's intent.

> (11) An owner ~~of~~ **or** operator of a RECLAIM facility that receives an initial determination notification may elect **that** ~~for~~ the facility ~~to~~ remain in RECLAIM **by submitting** ~~if~~ a request to the Executive Officer to remain in RECLAIM ~~is submitted~~, **together with** ~~including~~ any equipment information required pursuant to paragraph (f)(6).
>
> (A) Upon **receiving a request to remain in RECLAIM and any equipment information required pursuant to paragraph (f)(6),** ~~written approval by~~ the Executive Officer **shall notify the owner or operator in writing** that the facility shall remain in RECLAIM **subject to the following**:
>
> (i) The facility shall remain in RECLAIM until a subsequent notification is issued to the facility that it must exit by a date no later than December 31, 2023.
>
> (ii) The facility is required to submit any updated information within 30 days of the date of the subsequent notification.
>
> (iii) The facility shall comply with all requirements of any non-RECLAIM rule that does not exempt NOx emissions from RECLAIM facilities.

Specific Comments on Proposed Amended Rule 2002(f)(10) – "Opt-Out" Provision

Proposed Amended Rule 2002 includes an "opt-out" provision for those facilities that may be ready to voluntarily exit RECLAIM prior to the time that they might otherwise be transitioned out. The current staff proposal differs from previous proposals in that it places

certain restrictions on facilities after they have exited the program that we believe are unfair and unwarranted. Specifically, proposed paragraph (f)(10)(B) would prohibit such facilities from taking advantage of otherwise available offset exemptions in SCAQMD Rule 1304. In the event that an NSR event requiring offsets were to occur after the facility exited the RECLAIM program, it would be required to obtain emission reduction credits on the open market, which the staff acknowledges are "scarce." (July 20 Preliminary Draft Staff Report, p. 8).[1] We believe that it is unnecessary, unfair, and possibly contrary to state law, to deny former RECLAIM facilities advantages that they would otherwise be entitled to and that are available to all other non-RECLAIM facilities.

The Preliminary Draft Staff Report expresses concern that the potential impacts associated with emission increases from facilities that might exit the RECLAIM program, even if limited to the 37 facilities the staff initially identified as eligible to exit, could impose a demand on Rule 1304 offset exemptions that could approach or surpass the cumulative emissions increase thresholds of SCAQMD Rule 1315. (Preliminary Draft Staff Report, p. 8). In other words, staff is concerned that if former RECLAIM facilities were permitted to utilize Rule 1304 offset exemptions, the demand on the SCAQMD's internal emission offset bank, which supports the offset exemptions, might exceed previously analyzed levels. This concern seems inconsistent with positions taken by staff in connection with the January 2018 amendments to these two rules, and with more recent statements by staff suggesting that it believes the internal emission offset bank is the most viable source of emission offsets for former RECLAIM facilities on a long-term basis.

The January 2018 amendments established the criteria and procedures pursuant to which eligible facilities would be identified and exited from RECLAIM. According to the Final Staff Report, ". . . the proposed amendments would remove approximately 38 facilities from NOx RECLAIM." (January 5 Final Staff Report, p. 2).[2] Staff determined that the impact of exiting the initial round of facilities, including impacts associated with reduced demand for RTCs, would be minimal:

> Given the analysis above and the fact that the 38 facilities—which are potentially ready to exit out of the NOx RECLAIM program into command-and-control—account for about one percent of NOx emissions and NOx RTC holdings in the NOx RECLAIM universe, staff concludes that the potential impact of PAR 2002 on the demand and supply of NOx RTC market is expected to be

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[1] References herein to "July 20 Preliminary Draft Staff Report" refer to the Preliminary Draft Staff Report, Proposed Amendments to Regulation XX- Regional Clean Air Incentives Market (RECLAIM), Proposed Amended Rules 2001 – Applicability and 2002 – Allocations for Oxides of Nitrogen (NOx) and Oxides of Sulfur (SOx), dated July 20, 2018.

[2] References herein to "January 5 Final Staff Report" refer to the Final Staff Report Proposed Amendments to Regulation XX – Regional Clean Air Incentives Market (RECLAIM) Proposed Amended Rules 2001 – Applicability and 2002 – Allocations for Oxides of Nitrogen (NOx) and Oxides of Sulfur (SOx), dated January 5, 2018.

> minimal and large price fluctuations in the NOx RTC market are unlikely to result directly from the potential exit of the 38 directly affected facilities out of the NOx RECLAIM program. Therefore, PAR 2002 would have minimal impacts on the existing facilities that are not yet ready to exit the NOx RECLAIM program. (January 5 Final Staff Report, p. 12.)

To support its conclusion that exiting the initial round of facilities from the program would have minimal impacts as a result of foregone market demand for RTCs, staff analyzed three scenarios in which NOx emissions from the subject facilities were: i) 5% below 2015 NOx emissions; ii) the same as 2015 NOx emissions; and iii) 5% above 2015 NOx emissions. (January 5 Final Staff Report, p. 11). Staff determined that foregone market demand for RTCs associated with exiting the initial group of facilities under each of the three scenarios would be 0.073 tons per day (TPD), 0.080 TPD, and 0.086 TPD, respectively. Based on this analysis, staff concluded that the anticipated future demand for NOx RTCs associated with the exiting facilities was minimal, and that eliminating that demand would not materially impact the remaining market. In other words, staff concluded that the exiting facilities would have a negligible demand for RTCs in the future, including RTCs required to satisfy NSR requirements. As stated in the Summary of the Proposal:

> Considering the past market behavior by these facilities, staff concludes that the potential impact of PAR 2002 on the demand and supply of NOx RTC market is expected to be minimal and large price fluctuations in the NOx RTC market are unlikely to result directly from the potential exit of these facilities out of the NOx RECLAIM program. (Summary of Proposal, Agenda Item No. 18, January 5, 2018, p. 3.)

Notably, staff did not even address the impact that the January 2018 amendments might have on the internal bank even though those amendments were intended to result in precisely the situation about which staff is now expressing concern – the removal of 38 facilities from the RECLAIM program that would then be eligible to take advantage of offset exemptions in Rule 1304 like any other RECLAIM facility.

In contrast with the January 2018 Final Staff Report, the July 2018 Preliminary Draft Staff Report expresses serious concerns about the potential for increased NOx emissions from facilities exiting the program, stating that "[e]ven among the first 37 facilities identified that may be eligible to exit, any impacts from potential emissions increases are unknown and if significant enough, can approach or surpass the cumulative emissions increase thresholds of Rule 1315." (July 2018 Preliminary Draft Staff Report, p. 8).

Clearly, the conclusions reached by staff in the January 2018 Final Staff Report, upon which the Governing Board relied when it adopted the current versions of Rules 2001 and 2002, are inconsistent with the concerns being raised by staff in the current proposal. Either staff erred in January by underestimating the impacts on the RECLAIM market and failing to even analyze

the potential impacts on the internal bank, or it is overstating the potential impacts associated with the current proposal. In either case, this inconsistency illustrates the problem with undertaking the RECLAIM transition in an ad hoc, piecemeal fashion.

California Environmental Quality Act Considerations

WSPA and others have expressed concerns regarding the "piecemeal" manner in which the California Environmental Quality Act ("CEQA") analysis for the RECLAIM transition is being conducted. ". . . CEQA's requirements 'cannot be avoided by chopping up proposed projects into bite-size pieces which, individually considered, might be found to have no significant effect on the environment or to be only ministerial.' [Fn. omitted.]" *Lincoln Place Tenants Assn. v. City of Los Angeles* (2005) 130 Cal.App.4th 1491,1507 quoting *Plan for Arcadia, Inc. v. City Council of Arcadia* (1974) 42 Cal.App.3d 712, 726. Staff explained its CEQA strategy for the RECLAIM transition in an April 25, 2018 letter to the Los Angeles County Business Federation in which it stated:

> The potential environmental impacts associated with the 2016 AQMP, including CMB-05, were analyzed in Program Environmental Impact Report (PEIR) certified in March, 2017 . . . In other words, the environmental impacts of the entire RECLAIM Transition project . . . were analyzed in the 2016 AQMP and the associated PEIR, which was a program level analysis . . . Since the SCAQMD has already prepared a program-level CEQA analysis for the 2016 AQMP, including the RECLAIM Transition, no additional program-level analysis is required and further analysis will be tiered off the 2016 AQMP PEIR. (http://www.aqmd.gov/docs/default-source/rule-book/Proposed-Rules/regxx/aqmd-response-letter-to-bizfed-042518.pdf?sfvrsn=6).

Consistent with the staff's explanation described above, SCAQMD staff has prepared a Draft Subsequent Environmental Assessment ("Draft SEA") to analyze environmental impacts from the proposed amendments to Rules 2001 and 2002. (http://www.aqmd.gov/home/research/documents-reports/lead-agency-scaqmd-projects). The Draft SEA attempts to tier off of the March 2017 Final Program Environmental Impact Report for the 2016 AQMP and tries to obscure the issue by citing to several other previously certified CEQA documents, including the December 2015 Final Program Environmental Assessment completed for the amendments to the NOx RECLAIM program that were adopted on December 4, 2015, and the October 2016 Addendum to the December 2015 Final Program Environmental Assessment completed for amendments to Rule 2002 to establish criteria and procedures for facilities undergoing a shutdown and for the treatment of RTCs. Consistent with the staff's earlier explanation, the Draft SEA states:

> "The decision to transition from NOx RECLAIM into a source-specific command-and-control regulatory structure was approved by the SCAQMD Governing Board as control measure CMB-05 in

> the 2016 AQMP and the potential environmental impacts associated with the 2016 AQMP, including CMB-05, were analyzed in the Final Program EIR certified in March 2017. This Draft SEA relies on the analysis in the March 2017 Final Program EIR for the 2016 AQMP." (Draft SEA, p. 2-5).

The proposed amendments to Rules 2001 and 2002 implement that portion of control measure CMB-05, written after the Governing Board's adoption of the 2016 AQMP that calls for the transition of the RECLAIM program to a command and control regulatory structure. As stated in the July 2018 Preliminary Draft Staff Report, "Proposed Amended Rules 2001 and 2002 will continue the efforts to transition RECLAIM facilities to a command-and-control regulatory structure . . ." (July 2018 Preliminary Draft Staff Report, p. 2). The problem with the proposal to tier the CEQA analysis for the currently proposed amendments to Rules 2001 and 2002 off from the March 2017 Final Program EIR for the 2016 AQMP is that control measure CMB-05 as proposed at the time the March 2017 Final Program EIR was prepared did not include a transition out of the RECLAIM program. That language was added well after the CEQA analysis was complete. Furthermore, no additional CEQA analysis was conducted to address the changes to CMB-05.

The Final Draft 2016 AQMP, which was ultimately presented to the SCAQMD Governing Board, was released in December 2016. Control measure CMB-05 called for an additional five tons per day of NOx reductions from sources covered by the RECLAIM program by the year 2031. CMB-05 also called for convening a Working Group to consider replacing the RECLAIM program with a more traditional command-and-control regulatory program, but did not include a mandate to undertake such a transition. SCAQMD Governing Board action on the Final Draft 2016 AQMP was noticed for February 3, 2017. When the 2016 AQMP item came up on the agenda, SCAQMD staff made a presentation, as is typical. No substantive questions were asked of the staff by Board Members, and no Board Members indicated an intention to offer amendments to the staff proposal. The public was then provided an opportunity to comment, and approximately five hours of public comment ensued.

Following the close of the public comment period, Board Member Mitchell stated her intention to introduce amendments to the staff proposal for control measure CMB-05 that would: i) accelerate the additional five TPD of reductions to 2025 from 2031; and ii) transition to a command-and-control program as soon as practicable. Board Member Mitchell did not provide any specific proposed language and did not make a formal motion to amend the staff proposal. For reasons that are not relevant here, action on the item was continued to the March 3, 2017 Governing Board hearing. The Governing Board stated its intention not to take additional public comment on the item at the March 3, 2017 hearing.

At the hearing on March 3, 2017, Board Member Mitchell introduced the following amendments to CMB-05 that included a direction to staff to develop a transition out of the RECLAIM program:

> BE IT FURTHER RESOLVED, that the SCAQMD Governing Board does hereby direct staff to modify the 2016 AQMP NOx RECLAIM measure (CMB-05) to achieve the five (5) tons per day NOx emission reduction commitment as soon as feasible, and no later than 2025, and to transition the RECLAIM program to a command and control regulatory structure requiring BARCT level controls as soon as practicable and to request staff to return in 60 days to report feasible target dates for sunsetting the RECLAIM program.

There was no Board Member discussion of the proposed amendments, and they were approved on a vote of 7-6.

The CEQA analysis supporting the 2016 AQMP commenced with a Notice of Preparation of a Draft Environmental Impact Report ("EIR") released on July 5, 2016. The Draft EIR was released on September 16, 2016, with the comment period closing on November 15, 2016. In mid-November 2016, four public hearings related to the AQMP were held in each of the four counties within the SCAQMD territory, at which comments on the Draft EIR were taken. After incorporating comments and making minor textual changes, the Final EIR was released in January 2017. No material changes or additional analysis were undertaken subsequent to the release of the Final EIR, which was certified by the Governing Board on March 3, 2017 as the March 2017 Final Program Environmental Impact Report for the 2016 AQMP, upon which staff now seeks to rely.

Thus, the transition out of the RECLAIM program, which the currently proposed amendments to Rules 2001 and 2002 seek to implement, was not included in the version of CMB-05 presented to the Governing Board as part of the 2016 AQMP. The March 2017 Final Program EIR for the 2016 AQMP, which was completed in January 2018, did not analyze the transition of the RECLAIM program because that was not prescribed by the CMB-05 measure at that time. Therefore, tiering off of the March 2017 Final Program EIR for the 2016 AQMP to support rule amendments that seek to implement the transition is not possible since there is no analysis from which to tier off. In the absence of a program level CEQA analysis that includes the RECLAIM transition, staff's segmented analysis of each proposed rulemaking action in the transition process constitutes classic "piecemealing" contrary to the requirements of CEQA.

Staff's attempt to tier without having completed a programmatic analysis of the RECLAIM Transition Project ignores the fact that RECLAIM is a comprehensive program that includes an assessment of BARCT for all of the sources in the program. It was adopted as a whole, a single package, not as a series of individual rules and regulations. There are no separate BARCT regulations in the RECLAIM program. Because RECLAIM allows for BARCT to be implemented on an aggregate basis, all BARCT determinations had to be made together. Furthermore, all RECLAIM rules are dependent upon one another, and none of these can stand alone. By attempting to analyze the impact of a single RECLAIM rule, i.e., BARCT determination, staff is ignoring the interdependency of the program, and thus, improperly disregarding the impacts of the comprehensive program.

In the draft SEA, staff claims that it is speculative to determine what BARCT may be for all the various sources under the RECLAIM program. This underscores the fact that a comprehensive program transitioning RECLAIM sources to command and control rules was never developed or analyzed. Rather, staff is piecemealing the analysis of the RECLAIM transition. Such an approach has been rejected by the courts: "Instead of itself providing an analytically complete and coherent explanation, the FEIR notes that a full analysis of the planned conjunctive use program must await environmental review of the Water Agency's zone 40 master plan update, which was pending at the time the FEIR was released. The Board's findings repeat this explanation. To the extent the FEIR attempted, in effect, to tier from a *future* environmental document, we reject its approach as legally improper under CEQA." *Vineyard Area Citizens for Responsible Growth, Inc. v. City of Rancho Cordova* (2007) 40 Cal.4th 412, 440 [emphasis in original].

Furthermore, RECLAIM is an emissions trading program. It allows facilities to choose to implement specific controls or to purchase emissions credits. Staff's piecemealing of the analysis does not account for those facilities that have implemented other means to comply with the program and the additional impacts the transition to individual command and control rules may have on these facilities. Additionally, these impacts cannot be captured in a single rule analysis. Rather, staff's piecemealing further ignores the impacts on facilities that are subject to multiple BARCT determinations.

Health & Safety Code Section 39616

The current staff proposal for amending Rule 2002 to prevent former RECLAIM facilities from accessing offset exemptions in Rule 1304 would place former RECLAIM facilities at a significant disadvantage relative to other non-RECLAIM facilities. California Health & Safety Code Section 39616(c)(7) prohibits imposing disproportionate impacts, measured on an aggregate basis, on those stationary sources included in the RECLAIM program compared to other permitted stationary sources. Creating a new category of sources without access to either RTCs or Rule 1304 offset exemptions to satisfy NSR requirements runs afoul of this prohibition.

Statement Pertaining to SCAQMD Rule 1306

The July 2018 Preliminary Draft Staff Report contains the following statement: "Moreover, Rule 1306 – Emission Calculations would calculate emission increases of exiting RECLAIM facilities based on actual to potential emissions, thereby further exacerbating the need for offsets." (Preliminary Draft Staff Report, p. 8). It is not clear why this would be the case. Furthermore, it is premature to make such assertions outside the context of an overall analysis of what the NSR requirements for former RECLAIM facilities might be. This is a critical issue that must be addressed in the overall development of the NSR program for former RECLAIM facilities.

Conclusion

Thank you for considering these comments. We look forward to continuing to work with you on these rulemakings which are critically important to stakeholders as well as the regional economy. If you have any questions, please contact me at (714) 401-8105 or by email at michael.carroll@lw.com or Bridget McCann of WSPA at (310) 808-2146 or by email at bmccann@wspa.org.

Sincerely,

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