PROPOSED AMENDED RULE 2015. BACKSTOP PROVISIONS

(a) Purpose

This rule specifies REgional CLean Air Incentives Market (RECLAIM) program auditing requirements and backstop provisions.

(b) Program Audits

(1) Annual Audits

The District South Coast AQMD will conduct an annual program audit. The annual audit will assess:

(A) emission reductions;

(B) per capita exposure to air pollution;

(C) facilities permanently ceasing operation of all sources;

(D) job impacts;

(E) average annual price of each type of RECLAIM Trading Credit (RTC);

(F) availability of RTCs;

(G) toxic risk reductions;

(H) New Source Review permitting activity;

(I) compliance issues, including a list of facilities that were unable to reconcile emissions for that compliance year;

(J) emissions trends/seasonal fluctuations;

(K) emission control requirement impacts on stationary sources in the program compared to other stationary sources identified in the Air Quality Management Plan (AQMP); and

(L) emissions associated with equipment breakdowns pursuant to paragraph (d)(3).

As part of the first three annual program audits, the Executive Officer will review the effectiveness of enforcement and protocols and recommend revisions to the protocols to achieve improved measurement and enforcement of RECLAIM emission reductions while minimizing administrative cost to the District South Coast AQMD and RECLAIM participants. The first audit will be presented to the Governing Board in a public hearing on or before January 1996, and by March of each subsequent
year. Annual audits will be duly noticed to the public, including a statement that the list specified in subparagraph (b)(1)(I) is available. The audit report will be included henceforth in the District South Coast AQMD annual performance report to the California legislature. The Executive Officer will cease conducting annual audits of the NOx RECLAIM program once the annual audit for Compliance Year 2025 is completed.

(2) Mapping of Emissions

The Executive Officer will maintain, on an quarterly basis, a District South Coast AQMD-wide map indicating the most current sum of certified emissions. The information used to maintain the map will be obtained from the Quarterly Certification of Emissions and APEP required of Facility Permit holders pursuant to Rule 2004 — Requirements.

(3) Three-Year Audit

In 1997, at the close of the third year of trading, the District South Coast AQMD will conduct or commission a comprehensive audit to evaluate the performance of RECLAIM. This comprehensive audit will be presented to the Governing Board in a public hearing in the year 1998. The Governing Board will evaluate the performance of the program against the following criteria:

(A) RECLAIM has produced the emission reductions required;
(B) public health exposure to criteria air pollution has been significantly reduced, and public health exposure to toxics has not significantly increased as a result of RECLAIM;
(C) RECLAIM has not accelerated business shutdowns, job loss or shifts in the occupational structure of the region;
(D) the price of credits and the trading activity in each market has demonstrated adequate supply and demand;
(E) the emission monitoring, recordkeeping, and penalty provisions of RECLAIM have produced a strong compliance program and adequate deterrence of violations;
(F) RECLAIM is consistent with the provisions of the Federal Clean Air Act and the California Clean Air Act;
(G) the emission factors listed in Rule 2002 — Allocations for Oxides of Nitrogen (NOX) and Oxides of Sulfur (SOX), Tables 1 and 2 are consistent with and appropriate for any recent technology advancements;
(H) RECLAIM has not resulted in disproportionate impacts measured in terms of required emission reductions, on stationary sources in the program, compared to other stationary sources identified in the AQMP;

(I) whether RECLAIM should include a broad spectrum of sources, including mobile, area and stationary; and

(J) control technology has advanced as much as projected under the AQMP.

(4) Reports to the Governing Board

The Hearing Board will present a written report to the District South Coast AQMD Governing Board regarding any increases in annual Allocations issued pursuant to permit appeals. The Executive Officer will report to the District South Coast AQMD Governing Board, any recommendations necessary to maintain equivalency. These reports shall be incorporated into the Annual Program Audit Report prepared pursuant to paragraph Rule 2015(b)(1). The Executive Officer will propose to the Governing Board, any AQMP amendments necessary to make up for any shortfall resulting from adjustments to Allocations issued pursuant to Hearing Board appeals. In addition, the Executive Officer will propose to the Governing Board rule amendments to adjust RECLAIM Allocations if the Hearing Board issues Allocation adjustments that create a shortfall and are of a type which, if made by the Executive Officer during the issuance of initial Facility Permits, would have resulted in altered Allocations and rates of reduction for RECLAIM facilities.

(5) Program Amendment

The District South Coast AQMD reserves the right to amend the program pursuant to program evaluations. Nothing in District South Coast AQMD rules shall be construed to limit the District’s South Coast AQMD’s authority to condition, limit, suspend or terminate any RTCs or the authorization to emit which a Facility Permit represents.

(6) Should the average RTC price be determined, pursuant to Rule 2015 (b)(1)(E), to have exceeded $15,000 per ton, within six months of the determination thereof, the Executive Officer shall submit to the Air Resources Board and the Environmental Protection Agency the results of an evaluation and review of the compliance and enforcement aspects of the RECLAIM program, including the deterrent effect of Rule 2004 paragraphs
(d)(1) through (d)(4). This review shall be in addition to the audits to be performed pursuant to Rule 2015. The evaluation shall include, but not be limited to, an assessment of the rates of compliance with applicable emission caps, an assessment of the rate of compliance with monitoring, recordkeeping and reporting requirements, an assessment of the ability of the South Coast Air Quality Management District to obtain appropriate penalties in cases of noncompliance, and an assessment of whether the program provides appropriate incentives to comply. The Executive Officer shall submit, with the results of the evaluation, either a recommendation that paragraphs (d)(1) through (d)(4) be continued without change, or amendments to the RECLAIM rules setting forth revisions to paragraphs (d)(1) through (d)(4) of Rule 2004, if the District's Governing Board determines that revisions are appropriate in light of the results of the evaluation.

(67) Power Producing Facilities shall rejoin the full RECLAIM program in the 2004 compliance year only if it is determined by the Governing Board in a public hearing prior to July 2003 that their reentry will not result in any negative impact on the remainder of the RECLAIM facilities or on California's energy security needs.

(c) AQMP Revisions

(1) In conjunction with the preparation of future AQMP revisions, the Executive Officer shall evaluate the relative potential emission reductions between RECLAIM and non-RECLAIM sources. Said evaluation shall include consideration of technology advancements and cost-effectiveness. The Executive Officer will propose to the Governing Board, AQMP revisions which ensure that any increases in Allocations which occur based on any adjustments made pursuant to Rule 2002 paragraph (c)(12), paragraph Rule 2015-(c)(2), and subdivision Rule 2015 (e) shall be offset in the AQMP.

(2) In conjunction with the preparation of future AQMP revisions, the Executive Officer will quantify additional energy demand and the potential need for increased Allocations resulting from implementation of the AQMP. In accordance with the results of the evaluation, the Executive Officer will propose amendments to Rule 2002, if appropriate, and if amendments are adopted, the Executive Officer will recalculate the
Allocations for the year 2003 and subsequent years, and will issue these Allocations to affected electric generating and natural gas distribution facilities. The Executive Officer's evaluation will establish a need for any such increase in Allocations.

(3) Evaluation of Emission Factors

(A) In conjunction with the preparation of the 1994 AQMP revision, the Executive Officer will complete the evaluation of the ending emission factors found in Tables 1 and 2 of Rule 2002 for the source categories listed in subparagraph (c)(3)(B) of this rule. The Executive Officer shall take into account the environmental, energy, and economic impacts by each source category in evaluating the achievability of NOx emission reduction technologies for each source category. In accordance with the results of the evaluation, the Executive Officer will propose amendments to Rule 2002, if appropriate, and if amendments are adopted, the Executive Officer will recalculate and reissue all affected Allocations for RECLAIM facilities in the source categories found in subparagraph (c)(3)(B). The Executive Officer will propose that any increases in Allocations which occur based on any adjustments made pursuant to this provision shall be offset in the AQMP.

(B) The Executive Officer will reevaluate the ending emission factors for the following source categories in accordance with subparagraph (c)(3)(A):

(i) glass melting furnaces;
(ii) gray cement kilns;
(iii) steel slab reheating, flat rolled product annealing and flat rolled product galvanizing furnaces;
(iv) metal melting furnaces;
(v) hot mix asphalt operations; and
(vi) petroleum coke calciners (NOx only).

(C) The Executive Officer will reevaluate the accuracy of emission factors for SO3 emissions from petroleum refineries. In accordance with the results of the evaluation, the Executive Officer will propose amendments to Regulation XX – Regional Clean Air
Incentives Market (RECLAIM), which may include, but are not limited to:

(i) enhanced monitoring requirements; and
(ii) revision of Allocations.

(D) For gray portland cement kilns, the operator may submit a plan no later than August 1, 1996, for the Executive Officer’s approval which sets forth an alternative to the NOx emissions factor listed in Table 1 of Rule 2002. The plan shall include: (i) a demonstration of indirect firing with a low-NOx burner and mid kiln firing NOx reduction technologies; and (ii) emission testing pursuant to South Coast AQMD District approved methods of such demonstration that shall be completed and submitted to the AQMD by March 1, 1998. If the demonstration is completed in accordance with the requirements and timeline specified in this subparagraph and the demonstration of this emission factor shows a higher NOx emission factor than the emission factor listed in Table 1 of Rule 2002, the Executive Officer shall change the NOx ending emission factor and reissue all affected Allocations for RECLAIM facilities for gray cement kilns.

(d) Program-Specific Backstops

(1) Based on annual and three-year audits conducted pursuant to paragraphs (b)(1) and (b)(3), or upon discovery by the Executive Officer, the Executive Officer will propose that the Governing Board amend the program to address any specific program problems. In addition, upon discovery that actual emissions from RECLAIM sources exceeded Allocations for any annual period by five percent or greater, the Executive Officer will propose amendment to the RECLAIM program to the Governing Board. Recommendation may include, but are not limited to:

(A) restricting trading;
(B) requiring pre-approval of trades;
(C) enhanced monitoring;
(D) increasing rates of reduction;
(E) implementing technology-specific emission reductions; and
(F) increased penalties.
(2) If such program adjustments are determined to have failed to correct the specific program problems, the Executive Officer shall recommend that the Governing Board, after holding a Public Hearing, consider reinstating all or a portion of the source category-specific emission limits or control measures contained in the then current AQMP in lieu of the RECLAIM program.

(3) Beginning with the Annual Audit for the 2004 compliance year, conducted pursuant to paragraph (b)(1), the Executive Officer will:

(A) annually compare the total quantity of NOx and SOx breakdown emissions that were not counted against RECLAIM facility annual Allocations, pursuant to Rule 2004 subparagraph (i)(3)(D), to the amount of unused RTCs for the entire RECLAIM program for the same compliance year covered in the Annual Audit, and

(B) subtract the full amount of unmitigated breakdown emissions from unused RTCs available, and if the unmitigated breakdown emissions exceed the unused RTCs for the same compliance year covered by the Annual Audit, any excess breakdown emissions remaining will either be offset:

(i) by adjusting all RTC holdings from the facilities that had unmitigated breakdown emissions from the compliance year following the completion of the Annual Audit based on a proportion of each facility’s contribution to the total amount of unmitigated breakdown emissions, applied to the excess breakdown emissions remaining, and rounded to the nearest pound; and/or

(ii) with RTCs obtained by the Executive Officer from the compliance year following the completion of the Annual Audit in an amount sufficient to offset the unmitigated breakdown emissions.

(e) Severability, Effect of Judicial Order

In the event that any portion of this regulation is held by judicial order to be invalid or inapplicable with respect to any source or category of sources, such order shall not affect the validity or applicability of this regulation to any other sources. In such event, all emission limitation provisions listed in Rule 2001 Applicability Table 1 and Table 2, which in the absence of Rule 2001 would be
applicable to such source or category of sources, shall become effective immediately; or if the emission limitation provisions require the installation of control equipment, one year after such order. In addition, the Executive Officer will, as expeditiously as possible, propose rules for adoption by the Governing Board which will require that each source or source category affected by the order comply with emission limitations representing Best Available Retrofit Control Technology, as defined in Health and Safety Code Section 40406.