



Working Group on Implementation of Chairman's 2008 Initiative Regarding Emission Reduction Credits

April 24, 2008

RECLAIM – Issue 1

- Issue 1: Are additional safeguards needed for RTC market?
- Findings
 - Majority of IYB RTCs from facility shutdowns
 - Recent investor activity in IYB trades:
 - NOx: 70% for 2006, 55% for 2007 (by volume)
 - SOx: 47% for 2006, 76% for 2007 (by volume)
 - Price of IYB RTCs below thresholds for all trades, whether investor is buyer or seller

RECLAIM - Issue 1

(Continued)

- Potential Approaches
 - Option A: Monitor RTC market employing possible safeguards when needed
 - Option B: Set up AQMD RTC Reserve
 - Any facility that shuts down would be required to offer original allocation portion of IYB RTC to the AQMD
 - AQMD could elect to purchase the IYB RTC at a “not to exceed” specified price
 - Use of the IYB RTC would be for any new or existing facility operating at BACT level
 - Restrictions on total District holding of RTCs and on credit price

RECLAIM – Issue 1

(Continued)

- Additional Considerations: Evaluate additional credit generation opportunities
 - Limited, but open to new suggestions

RECLAIM – Issue 2

- Issue 2: RTC holdings for new & modified sources
- Findings
 - New & modified sources need 1st year's RTCs
 - Rule 2005 requires facilities to secure RTCs up to PTE
 - Able to sell quarterly with permit condition
 - Securing RTCs up to PTE may result in credit price increase
- Potential Approaches
 - Suggested approach to RECLAIM issue #1 may address credit needs for new/modified facilities
 - Modified vs. new facilities
 - Flexibility to treat differently
 - AQMD evaluating NSR equivalency issues

NSR – Issue 1

- Issue 1 - Price and Supply of ERCs
- Findings
 - Price of NO_x, SO_x, and PM₁₀ ERCs increasing (since 2004)
 - Latest PM₁₀ traded price at \$230,000 per pound
 - PM₁₀ ERCs are “unavailable”

NSR – Issue 1

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- Potential Approaches
 - Evaluating mechanism to encourage overcontrol to generate ERCs
 - Restricting use of ERCs for non-NSR purposes
 - Periodic updating of certificate holder information
 - Other?

NSR - Issue 2

- Issue 2 – Enhancements needed to increase transparency and improve efficiency of generating ERCs
- Findings
 - Preliminary determination of ERC amount within 180 days after application deemed complete
 - Total time to issue ERC varies
 - Average time for new applications decreasing

NSR - Issue 2

(Continued)

- Potential Approaches
 - Staff still evaluating current ERC process to identify areas where streamlining can occur
 - AQMD evaluating issues related to NSR debt
 - Evaluating means to post ERC pricing more frequently

NSR - Issue 3

- Issue 3 – Current ERC discounting method
- Findings
 - BACT discounting can have a substantial impact on opportunity to generate ERCs
- Potential Approaches
 - AQMD evaluating whether BARCT discounting at time of use is more viable for certain scenarios

NSR - Issue 4

- Issue 4 – Should ERC use be limited to NSR?
- Findings
 - ERCs being used for non-NSR purposes (e.g., Hearing Board, mobile sources)
- Potential Approaches
 - Restrict the use of ERCs for non-NSR purposes
 - Allow other on- and off-site mitigation measures or pay mitigation fee to offset Rule 1306(g) – mobile source requirements

Next Steps

- Continue to evaluate recommendations and additional new suggestions
- White Paper
- Next Working Group Meeting