



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

July 17, 2008

Chairman's Initiative

- Re-evaluate NSR and RECLAIM programs focusing on:
 - Stabilizing credit prices
 - Encouraging clean technologies
 - Ensuring efficient use of credits

Findings from NSR Market

- Open Market
 - Demand in the open market exceeds available ERCs
 - Generation of ERCs is limited
 - Lack of non-permitted source protocols
 - Current discounting procedures
 - Holdings \neq Available Supply
 - Supply of credits in NSR account exceeds demand
- NSR Account
 - Annual report shows generation $>$ demand
 - Entire balance of credits in NSR account “available”

Design Objectives

- Allow for clean growth
- Do not inhibit facility modernization
- Increase supply of ERCs
- Greater flexibility on credit use
- Increase implementation efficiencies

NSR Reform Proposal

- Reduce demand in Open Market
 - Expand Use of NSR Account
 - Create a Mobile Source Account
- Increase supply of ERCs in the Open Market
 - NSR Balances
 - Credit Issuance
- Flexibility on credit use
- Efficiency Improvements

NSR Account - Background

- Current uses
 - R1304 exemptions
 - Facilities <4 tpy by pollutant
 - Others
 - R1309.1
 - Essential Public Services
 - Electrical Generating Facility (limited access)
- Current NSR Account funding sources
 - Per R1315 (c)(3)

NSR Account Activity - 2006*

Source	VOC	NOx	PM10
Rule 1309.1 (lbs/day)	-223	-201	0
Rule 1304 Exemptions (lbs/day)	-126	-693	-38
20% Offset Ratio (lbs/day)	-70	-179	0
Total NSR Debits (lbs/day)	-419	-1,073	-38
Total NSR Credits (lbs/day)	+12,280	+3,840	+2,380
Total NSR Credits (tons/day)	+6.14	+1.92	+1.19
BARCT Discount (tons/day)	-3.85	-0.45	0
Starting NSR Balance (tons/day)	64.43	23.14	11.1
Ending Balance (tons/day)	66.51	24.07	12.27

* Calendar Year 2006 Federal Offset Account

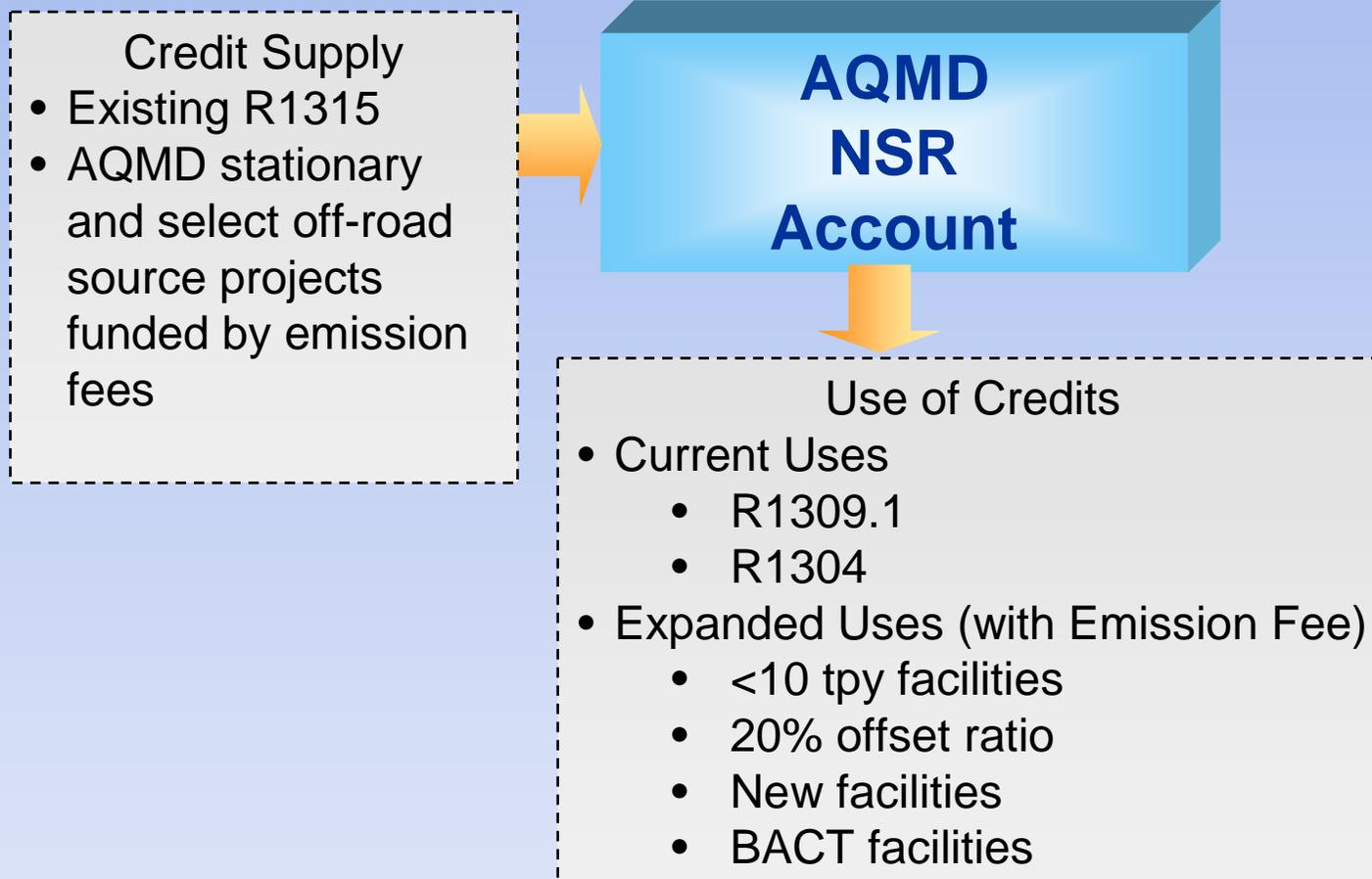
Proposal to Expand Use of NSR Account

- Potential new uses (with emission fee)
 - Facilities ≥ 4 to < 10 tpy for any pollutant
 - 20% offset ratio (NO_x, VOC)
 - New facilities
 - Sources where entire facility is at BACT
 - Fees based on technology and transaction costs
 - Emission fee applicable to facilities with annual emissions ≥ 4 for any criteria pollutant
- Discussion
 - Reduce demand to Open Market
 - Greater regulatory certainty
 - Increase ERC availability

New Credit Sources for NSR Account

- Continue to use existing NSR Account funding (R1315(c)(3))
- AQMD will generate additional emission reductions with fees collected
 - Stationary and select off-road sources
 - Priority for EJ areas
- Shutdown Credits from facilities <10 tpy by pollutant surrendered to AQMD if did not use ERCs from open market
- Non-responsive ERC Holders

Proposed NSR Account



* Priority for projects located in EJ areas

Creation of Mobile Source Account

- Create a Mobile Source Account (Discrete Reductions)
 - Contains only reductions from mobile sources
 - AQMD manage Mobile Source Account
- Use of credits in Mobile Source Account:
 - Open to all
 - Compliance with mobile source offset requirements under R1309(g)
 - 20% offset ratio
 - Non-NSR use such as CEQA mitigation
- Users pay fee
- Fee based on technology and transaction costs

Proposal to Reduce Demand to Open Market

**AQMD
NSR
Account**

- <4 tpy facilities
- R1309.1 facilities
- R1304 exempt facilities

**Concepts for Expanded
Uses with fees**

- <10 tpy facilities
- New facilities
- Existing BACT facilities

**AQMD
Mobile
Account**

- Any Facility to Participate
 - Mobile sources R1309(g)
 - 20% offset ratio

**Open
Market**

- ~~≥4 tpy facilities~~ ≥10 tpy facilities
- ~~Mobile sources~~
- 20% offset ratio

ERC Open Market Supply – Facility NSR Balances

- Pre-1990 NSR Balance
 - Forgive pre-1990 positive NSR balances if applying for overcontrols
- NSR Balance
 - Adjusts old emission currency to reflect current BARCT level
 - NSR Account carryovers ERCs already discounted to BARCT
- Discussion
 - Potentially increase supply of ERCs
 - May encourage generation of ERCs from overcontrols

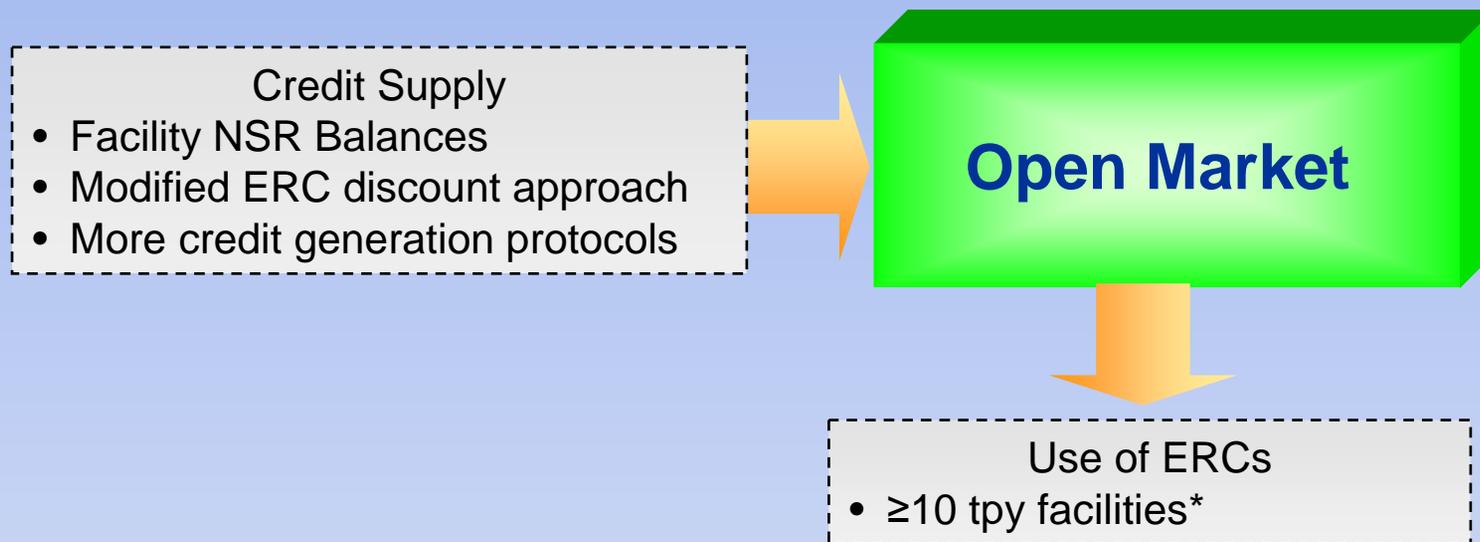
Modified ERC Discount Approach

- ERCs pre-determined at time of issuance
 - BARCT applicable if used within first five years
 - BACT applicable thereafter
- BACT will remain unchanged for first five years for purposes of ERC generation
- Creates more opportunities for credit generation from over-control

ERC Open Market Supply – ERC Generation

- Continue to investigate innovative ERC generation opportunities
- Develop protocols to generate ERCs

Proposal to Increase Supply of ERCs to Open Market



Optional: 1.2 offset ratio, new facilities, BACT facilities, mobile sources

Annual Credits

- Recommendation:
 - Issue annual instead of daily credits
 - Applicable to all credits – open market and NSR account
- Discussion
 - Allows greater flexibility for ERC use
 - Loss of ERCs due to operating factors in Rule 1304
 - Provides greater flexibility in managing offsets
 - More equitable

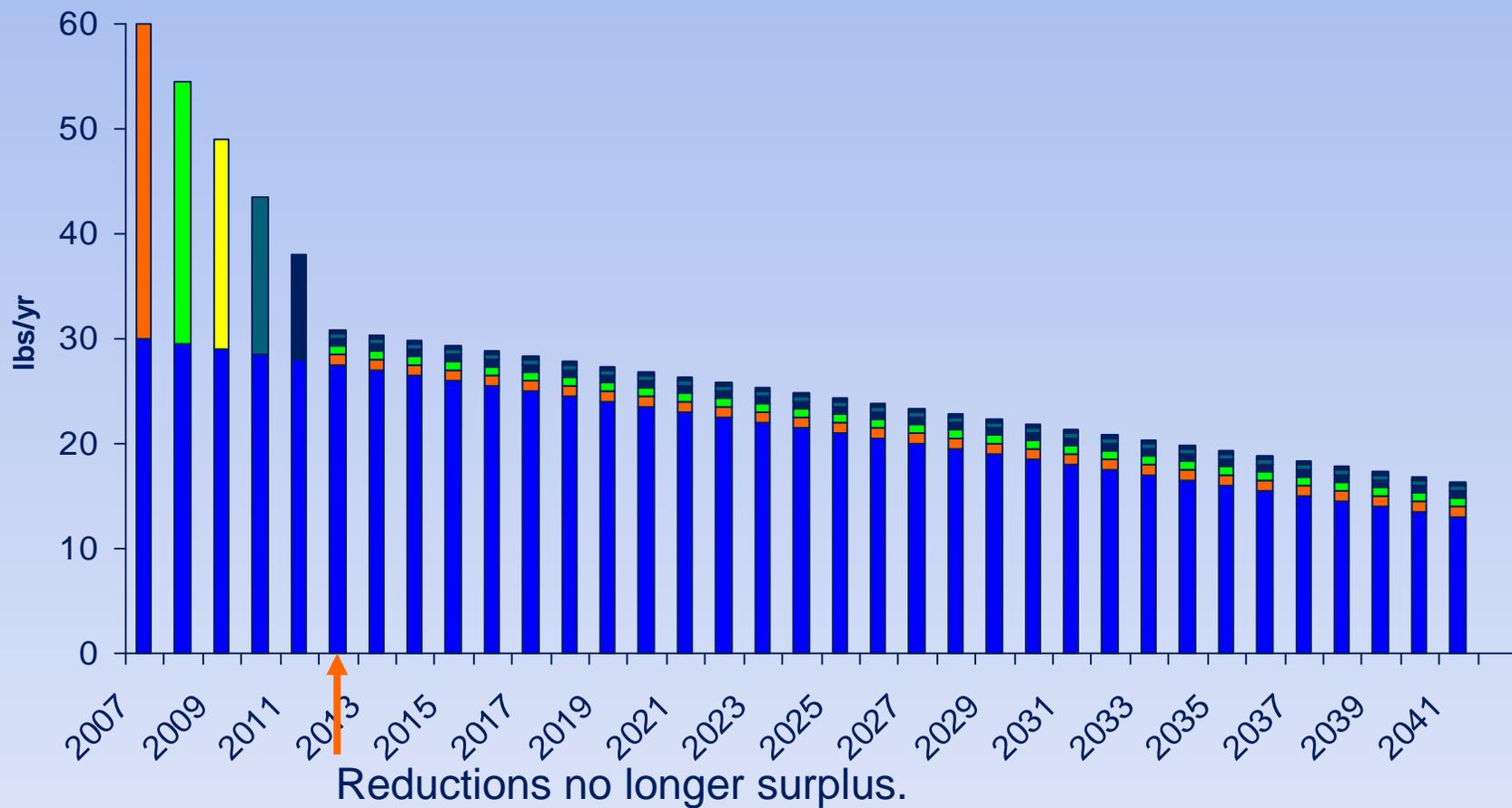
Allow discrete credits to be issued

- Recommendation:
 - Allow option to generate discrete credits from projects with limited equipment life such as mobile source projects
 - Considering limited credit life
 - Allow user to specify how credit is distributed to fit their need
 - Example: 50 pounds can be distributed over 5 years (i.e., short-term projects) or 30 years provided the discrete amount is the same
- Discussion
 - Greater flexibility of ERC use
 - Can encourage generation of credits with limited equipment life

Example of 100 pounds Distributed Over 30 years



Example of Early Reductions



Efficiency Improvements

- Increased transparency
 - Trading information
 - ERC price
 - Post rule interpretations
- Pre-consultation meetings prior to generation

Impacts on ERC Open Market

NSR Reform	Supply	Demand	Efficiency
Expand Use of NSR Account		√	√
Creation of Mobile Source Account		√	
Modified Discount Approach	√		
Adjust NSR Balance	√		√
Innovative Credit Generation	√		
Annual Credits	√	√	
Discrete Credits	√	√	
Increased Efficiency			√

RECLAIM

RECLAIM Approach

- Staff's recommendation: Require facilities to surrender the amount of initial RTC allocations from the AQMD (with shaving adjustment) at time of shutdown
- NOx market: Interaction with AB32 Scoping Plan
- Present Working Group comments to Board in the white paper

Next Steps

- Solicit working group input
- Agency discussion
- Assessment of implementation issues
- Refine proposal
- Complete white paper
- Next Working Group meeting
- Present findings to Board