SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Draft Socioeconomic Assessment For Proposed Amendments to Rule 1309.1–Priority Reserve–and 1302–Definitions

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EXECUTIVE SUMMARY

A socioeconomic analysis was conducted to assess the potential impacts of Proposed Amended Rule (PAR) 1309.1—Priority Reserve—and PAR 1302—Definitions—and the alternatives identified in the Environmental Assessment. A sensitivity analysis was conducted in an attempt to characterize potential impacts. A summary of the analysis and findings are presented below.

Elements of Proposed Rule Amendments	The proposed amendments to Rule 1309.1—Priority Reserve—and Rule 1302—Definitions—provide definitions for additional priority sources that are then eligible to get credits from the Priority Reserve. They include electrical generating facilities (EGFs) in the Basin and in downwind districts, Energy Projects of Regional Significance (EPRS), and biosolids processing facilities. The amendments would allow the Executive Officer to transfer credits from AQMD's NSR account when the Priority Reserve goes below 500 pounds/day; set aside credits exclusively for essential public services; and refund 80% of mitigation fees for projects cancelled beyond the control of their proponents.
Affected Facilities and Industries	The proposed amendments to Rules 1309.1 and 1302 will affect in-Basin EGFs, EPRS, out-of-Basin EGFs, and biosolids processing facilities that are anticipated to take advantage of the Priority Reserve. These sources will be located both within AQMD and in downwind districts. At the present time, four in-Basin EGFs and four EPRS and two out-of-Basin EGFs have been identified as potentially drawing credits from the Priority Reserve. These facilities belong to the industries of Fossil Fuel Electric Power Generation [North American Industrial Classification System (NAICS) 221112], Natural Gas Distribution (NAICS 221210), and Sewage Treatment Facilities (NAICS 221320). The number of biosolids processing facilities that may access the Priority Reserve is not known at this time.
Assumptions of Analysis	Two of the proposed in-Basin EGF projects are scheduled to go online in 2006 and the remaining two EGFs will go online in 2008 and 2009. The online dates for the EPRS and number of biosolids processing facilities are not known at this time and for the purpose of this analysis are assumed to be equally distributed across the years 2007 – 2010. Based on population growth, it is assumed that additional biosolids processing facilities are scheduled to go online after 2010, and are equally distributed between 2011 and 2012, although the exact online dates are not known, and additional facilities beyond 2012 are anticipated as population growth continues. The two out-of-Basin EGF

	projects currently identified are anticipated to go online in 2007 and other out-of-Basin EGF projects would go online between 2007-2010. The cost of future ERCs is calculated using average third-party market ERC prices for the first half of 2006, assuming ERCs are available in the market in the absence of PAR 1309.1. The cost of participating in the Priority Reserve is based on the mitigation fees established in PAR 1309.1.
Compliance Costs	Although a sensitivity analysis was conducted to illustrate the costs and potential savings to the affected facilities, it is difficult to assess the compliance costs. PAR 1309.1 is a voluntary program; facilities eligible to access the Priority Reserve do not have to purchase ERCs from the AQMD if such purchase does not make the proposed projects financially viable. However, if a facility chooses and is qualified to participate in the Priority Reserve, it would mean that the mitigation fees are a viable option to the proposed projects and are cheaper than the ERC prices in the third-party ERC market. Although the sensitivity analysis projects higher credit costs to purchase ERCs through the third-party ERC market than the Priority Reserve, the potential savings for affected sources is difficult to quantify since it is unclear how much these sources would pay for ERCs in light of potential excess demand in the third-party ERC markets. There is also a question of the stability of 2006 ERC prices since these are based on a small number of transactions and a limited supply of credits, and the scarcity of PM10, SOx and CO ERCs could drive their prices to extraordinarily high levels.
Impacts of CEQA Alternatives	There are five alternatives identified in the Environmental Assessment. Within the assumptions developed for this analysis, average annual savings from 2007 to 2012 for the CEQA alternatives ranges from $0 to more than $19.9 million. Alternative B—Extend Sunset Date for EGFs and EPRS to Access the Priority Reserve—has the highest potential savings among all of the alternatives, with a total average annual savings of more than $19.9 million from 2007 to 2012. The exact amount of savings is unknown since it is not known how many additional affected sources would access the Priority Reserve if the sunset date were extended for EGFs and EPRS.

INTRODUCTION

The proposed amendments to Rule 1309.1—Priority Reserve—and Rule 1302—Definitions—provide definitions for additional priority sources that are eligible to get credits from the Priority Reserve. They include electrical generating facilities (EGFs) in-Basin and in downwind districts, Energy Projects of Regional Significance (EPRS), and biosolids processing facilities. The amendments would allow the Executive Officer to transfer credits from AQMD's NSR account when the Priority Reserve goes below 500 pounds/day; set aside credits exclusively for essential public services; and refund 80% of mitigation fees for projects cancelled beyond the control of their proponents. The rules require payment of a mitigation fee to access the Priority Reserve, in most cases.

The socioeconomic analysis examines the impact of the proposed amendments as well as the five alternatives to the proposed amendments, identified in the Environmental Assessment for these two rules.

REGULATORY HISTORY

Rule 1309.1 was adopted in June 1990 as part of a series of Regulation XIII rules to establish guidelines for New Source Review. Specifically, Rule 1309.1 was created to establish credits for specific priority sources, such as low-emitting facilities and essential public services, to construct or modify their facilities. This rule has subsequently been amended five times.

In May 1991, Rule 1309.1 was amended to allow for-profit water delivery and public transit projects access to the Priority Reserve. The December 1995 rule amendment addressed state and federal regulatory requirements, replaced the community bank with a four ton per year exemption level, streamlined trading zones, forgave exempt emission increases due to the transition from ozone-depleting compounds, in addition to administrative changes. The May 1991 and December 1995 socioeconomic analyses were performed for all of the Regulation XIII rules and not for Rule 1309.1 specifically. The April 2001 amendment granted new EGFs temporary access to the Priority Reserve only for PM10 credits; the socioeconomic analysis estimated that the costs could range from $31.1 to $48.6 million for PM10 ERCs, depending on whether the third-party market or Priority Reserve was used to purchase ERCs. The November 2001 amendment allowed EGFs to access the Priority Reserve for SOx, CO, as well as PM10 credits, the transfer of these credits from the District's NSR account as necessary, and modification of a mandatory requirement for EGFs to sell electricity to the State of California. The socioeconomic impacts for the November 2001 amendments were determined not to be significant. The last amendment of Rule 1309.1 in May 2002 allowed a critical public works project access to the Priority Reserve.

LEGISLATIVE MANDATES

The socioeconomic assessments at the AQMD have evolved over time to reflect the benefits and costs of regulations. The legal mandates directly related to the assessment of the proposed amendments include the AQMD Governing Board resolutions and various sections of the California Health & Safety Code (H&SC).

AQMD Governing Board Resolutions

On March 17, 1989 the AQMD Governing Board adopted a resolution that calls for preparing an economic analysis of each proposed rule for the following elements:

- Affected Industries
- Range of Control Costs
- Cost Effectiveness
- Public Health Benefits

On October 14, 1994, the Board passed a resolution which directed staff to address whether the rules or amendments brought to the Board for adoption are in the order of cost effectiveness as defined in the AQMP. The intent was to bring forth those rules that are cost effective first.

Health & Safety Code Requirements

The state legislature adopted legislation that reinforces and expands the Governing Board resolutions for socioeconomic assessments. H&SC Sections 40440.8(a) and (b), which became effective on January 1, 1991, require that a socioeconomic analysis be prepared for any proposed rule or rule amendment that *"will significantly affect air quality or emissions limitations."* Specifically, the scope of the analysis should include:

- Type of Affected Industries
- Impact on Employment and the Economy of the district
- Range of Probable Costs, Including Those to Industries
- Emission Reduction Potential
- Necessity of Adopting, Amending or Repealing the Rule in Order to Attain State and Federal Ambient Air Quality Standards
- Availability and Cost Effectiveness of Alternatives to the Rule

Additionally, the AQMD is required to actively consider the socioeconomic impacts of regulations and make a good faith effort to minimize adverse socioeconomic impacts. H&SC Section 40728.5, which became effective on January 1, 1992, requires the AQMD to:

- Examine the type of industries affected, including small businesses
- Consider Socioeconomic Impacts in Rule Adoption

H&SC Section 40920.6, which became effective on January 1, 1996, requires that incremental cost effectiveness be performed for a proposed rule or amendment relating to ozone, carbon monoxide (CO), oxides of sulfur (SO_x), oxides of nitrogen (NO_x), and their precursors. Incremental cost effectiveness is defined as the difference in costs divided by the difference in emission reductions between one level of control and the next more stringent control.

AFFECTED FACILITIES

The proposed amendments to Rule 1309.1 and 1302 will affect in-Basin EGFs, EPRS, out-of-Basin EGFs, and biosolids processing facilities that are anticipated to take advantage of the

Priority Reserve. These Priority Reserve sources are located both within AQMD and in downwind districts. At the present time, four in-Basin EGFs, four EPRS, two out-of-Basin EGFs, and an unknown number of biosolids processing facilities have been identified as potentially drawing credits from the Priority Reserve. Table 1 shows the affected Priority Reserve sources with the estimated start date and the size of the respective projects. These facilities belong to the industries of Fossil Fuel Electric Power Generation [North American Industrial Classification System (NAICS) 221112], Natural Gas Distribution (NAICS 221210), and Sewage Treatment Facilities (NAICS 221320).

Table 1
Affected Priority Reserve Sources

Project (Size)	Estimated Start Date
In-Basin EGFs	
Sun Valley (500 MW)	2006
Walnut Creek (500 MW)	2006
City of Vernon (914 MW)	2008
BP Carson (500 MW)	2009
EPRS	2007-2010
SES Long Beach LNG Import	
Esperanza LNG Project	
Woodside LNG Project	
Terminal Pacific Energy Pier 400	
Out-of-Basin EGFs	
City of Victorville (500 MW)	2007
City of Palmdale (500 MW)	2007
Other EGFs	2007-2010
Biosolids Processing Facilities	2007-2012

Small Businesses

The AQMD defines a "small business" in Rule 102 as one which employs 10 or fewer persons and which earns less than $500,000 in gross annual receipts. In addition to the AQMD's definition of a small business, the federal Small Business Administration (SBA), the federal Clean Air Act Amendments (CAAA) of 1990, and the California Department of Health Services (DHS) also provide definitions of a small business.

The SBA's definition of a small business uses the criteria of gross annual receipts (ranging from $0.5 million to $25 million), number of employees (ranging from 100 to 1,500), or assets ($100 million), depending on industry type. The SBA definitions of small businesses vary by 6-digit NAICS code. Facilities in the utility industry or electricity generation/transmission/distribution establishments selling less than 4 million megawatt hours or sewage treatment establishments with revenue less than $6 million would be considered small businesses.

The CAAA classifies a facility as a "small business stationary source" if it: (1) employs 100 or fewer employees, (2) does not emit more than 10 tons per year of either VOC or NOx, and (3) is a small business as defined by SBA.

Under the above definitions, none of the priority sources affected by the proposed amendments would be considered small businesses.

COMPLIANCE COST

Without the proposed amendments, affected EGFs and EPRS, and biosolids processing facilities have to obtain offsets in the third-party ERC market. In order to analyze the cost impact of the proposed amendments on these facilities, a comparison of offset prices and mitigation fees is made.

The cost of future ERCs is calculated using average third-party market ERC prices for the first half of 2006, assuming ERCs are available in the market in the absence of PAR 1309.1. The cost of participating in the Priority Reserve is based on the mitigation fees established in PAR 1309.1.

Third-Party ERC Market

Table 2 shows the projected PM10, SOx, VOC, CO, and NOx offset demand (lbs/day) from 2007 through 2012 for each of the projects identified in Table 1. Demand covers the entire calendar year. Two of the proposed in-Basin EGF projects are scheduled to go online in 2006 and the remaining two EGFs will go online in 2008 and 2009. The online dates for the EPRS and number of biosolids processing facilities are not known at this time and for the purpose of this analysis are assumed to be equally distributed across the years 2007 – 2010. Based on population growth, it is assumed that additional biosolids processing facilities are scheduled to go online after 2010, and are equally distributed between 2011 and 2012, although the exact online dates are not known, and additional facilities beyond 2012 are anticipated as population growth continues. The two out-of-Basin EGF projects currently identified are anticipated to go online in 2007 and other out-of-Basin EGF projects would go online between 2007-2010.

Table 2
Projected Offset Demand by Project and Pollutant (lbs/day)

Calendar Year End						
Pollutant/Project	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
PM10						
In-Basin EGFs						
Sun Valley	717					
Walnut Creek	717					
City of Vernon		1434				
BP Carson			717			
EPRS						
SES Long Beach LNG Import	61					
Esperanza LNG Project		61				
Woodside LNG Project			61			
Terminal Pacific Energy Pier 400				17		
Biosolids Projects	10	10	10	10	11	11
TOTAL	1505	1505	788	27	11	11
SOx						
In-Basin EGFs						
Sun Valley	73					
Walnut Creek	73					
City of Vernon		146				
BP Carson			73			
EPRS						
SES Long Beach LNG Import	322					
Esperanza LNG Project		322				
Woodside LNG Project			322			
Terminal Pacific Energy Pier 400				148		
TOTAL	468	468	395	148	N/A	N/A
VOC						
Out-of-Basin EGFs						
City of Victorville (500 MW)	400					
City of Palmdale (500 MW)	400					
Other EGFs	1175	1175	1175	1175		
Biosolids Processing Facilities	226	226	226	226	245.5	245.5
TOTAL	2201	1401	1401	1401	245.5	245.5
CO						
In-Basin EGFs						
Sun Valley	1640.6					
Walnut Creek	1640.6					
City of Vernon		3281.2				
BP Carson			1640.6			
EPRS						
SES Long Beach LNG Import	122.0					
Esperanza LNG Project		122.0				
Woodside LNG Project			122.0			
Terminal Pacific Energy Pier 400				51.0		
Biosolids Projects	51.8	51.8	51.8	51.8	56.5	56.5
TOTAL	3455.0	3455.0	1814.4	102.8	56.5	56.5
NOx						
Biosolids Projects	11	10	10	10	11	11
TOTAL	11	10	10	10	11	11

Based on the supply in the third-party ERC markets (Table 3), there is likely to be an insufficient supply of PM10, SOx, and CO offsets in the third-party ERC market to cover the projected demand from all the projects in Table 2.

Table 3
Historic ERC Demand and Supply by Pollutant (lbs/day)

Calendar Year End						
Pollutant	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**[2]
PM10						
ERCs Used[1]	321	37	9	3	68	9
ERCs Generated	67	35	49	0	19	98
Market Balance	795	793	833	830	781	870
SOx						
ERCs Used	0	0	0	1	0	0
ERCs Generated	13	14	0	0	0	10
Market Balance	772	786	786	785	785	795
VOC Market Balance	22,267	19,489	18,367	17,239	15,368	13,338
CO Market Balance	4,729	3,663	3,579	2,873	3,111	2,283
NOx Market Balance	1,102	4,045	1,199	1,201	1,187	1,182

[1] ERCs used refers to ERC demand for that calendar year, ERCs generated refers to an additional supply of ERCs created through facility shutdowns, process modification, and other sources. Market balance refers to the balance of ERCs at the end of the calendar year.
[2] Includes 1/1/06 – 6/8/06

It is expected that future ERC prices would be higher than what they have been historically, as shown in Table 4. Because of the limited transaction frequencies and volume, in deriving the proposed mitigation fees in PAR 1309.1, staff relied on sales weighted prices over extended time periods prior to 2006. Since it is too speculative to project future ERC prices, for the purpose of the socioeconomic analysis, the average prices in the first half of 2006 in Table 4 were used to project the cost for the offset amounts in Table 2. However, it should be pointed out that because the current demand for credits with respect to several pollutants exceeds the supply of credits in the third-party ERC market and the fact that there were very few transactions with respect to PM10, SOx, and CO credits in the first half of 2006 this analysis may have its limitations and should only be viewed as a sensitivity analysis.

Table 4
Historic ERC Prices by Pollutant ($/lb)

Pollutant	Calendar Year Ended 2001	2002	2003	2004	2005	2006[1]
PM10						
Low	$12,706	$18,000	$20,125	$20,000	$23,000	$47,500
Average	$16,918	$21,710	$23,649	$25,372	$49,053	$85,893
High	$23,000	$25,000	$35,000	$28,000	$71,000	$90,000
SOx						
Low	$1,000	$4,667	$7,500	$7,286	$7,714	$30,000
Average	$5,179	$9,860	$7,500	$7,561	$14,260	$30,714
High	$15,000	$12,000	$7,500	$7,600	$30,500	$31,000
VOC						
Low	$1,000	$500	$950	$700	$900	$975
Average	$1,554	$1,539	$1,301	$1,268	$1,424	$2,672
High	$3,182	$2,250	$1,700	$4,000	$2,500	$3,500
CO						
Low	$1,000	$5,000	$100	$500	$4,100	$2,500
Average	$5,954	$7,352	$5,791	$3,703	$5,649	$6,178
High	$8,000	$8,650	$7,825	$6,000	$7,000	$7,500
NOx						
Low	$2,000	$7,000	$4,000	$7,000	$7,714	$15,000
Average	$8,008	$8,664	$9,683	$8,187	$23,086	$50,389
High	$11,000	$11,000	$14,500	$10,500	$32,000	$50,500

[1]2006 includes January through June 2006

As a sensitivity analysis and fully cognizant of its limitations as described above, staff has estimated the cost of procuring credits in the third-party ERC market, based on average ERC prices for the first half of 2006. On average, the affected sources would pay $75.4 million annually from 2007 to 2012 to purchase the required ERCs through the third-party market. The industry of fossil fuel electric power generation (NAICS 221112) would pay the majority of ERC costs, on average, $64 million annually between 2007 and 2012. Third-party ERC market costs by industry are shown in Table 5, using 2006 average ERC prices. Based on 2006 average ERC prices, the cost of ERCs for a 900 MW EGF represents 35% of the capital costs of the entire project.[1]

Table 5
Third-Party ERC Market Offset Costs by Industry

Industries (NAICS)	Cost (in millions of 2006 $) 2007	2009	2012	Average Annual (2007-2012)
Fossil Fuel Electric Power Generation (221112)	148.2	79.3	1.7	64.0
Natural Gas Distribution (NAICS 221210)	18.3	13.0	0.1	8.9
Sewage Treatment Facilities (221320)	5.0	2.9	0.7	2.5
TOTAL	$171.4	$95.3	$2.5	$75.4

[1] This assumes a 900 MW electrical generating facility with a total capital cost of approximately $424 million and $148 million in ERC costs.

Cost Impact

The Priority Reserve charges different mitigation fees for PM10 and SOx ERCs depending on the type of priority source and the calendar year in which a permit to construct was filed. In-Basin EGFs would be charged mitigation fees of $25,000/pound for PM10 and $8,900/pound for SOx for permits to construct filed in the years 2000 – 2003. In-Basin EGFs, EPRS, and non-public biosolids processing facilities which filed permits to construct in the years 2005 – 2008, would be charged $50,417/pound for PM10 and $15,083/pound for SOx. In-Basin EGFs, EPRS, and non public biosolids processing facilities would be charged $12,000/pound for CO. Public biosolids processing facilities would not be charged for accessing the Priority Reserve. Out-of-Basin EGFs would be charged $1,410/pound for VOC ERCs.

The affected sources would pay $55.5 million annually, on average, from 2007 to 2012 to purchase the required ERCs through the Priority Reserve. The industry of fossil fuel electric power generation (NAICS 221112) would again pay the majority of ERC costs, on average, $48.7 million annually between 2007 and 2012. Costs to purchase ERCs through the Priority Reserve by industry are shown in Table 6. Mitigation fees for the Priority Reserve for a 900 MW EGF represents 27% of the capital costs of the entire project.[2]

Table 6
Priority Reserve Offset Costs by Industry

Industries (NAICS)	Cost (in millions of 2006 $)			
	2007	2009	2012	Average Annual (2007-2012)
Fossil Fuel Electric Power Generation (221112)	113.0	60.0	1.4	48.7
Natural Gas Distribution (NAICS 221210)	11.2	7.5	0.1	5.3
Sewage Treatment Facilities (221320)	3.4	1.8	0.1	1.5
TOTAL	$127.5	$69.4	$1.6	$55.5

Although a sensitivity analysis was conducted to illustrate the costs and potential savings to the affected facilities, it is difficult to assess the compliance costs. PAR 1309.1 is a voluntary program; facilities eligible to access the Priority Reserve do not have to purchase ERCs from the AQMD if such purchase does not make the proposed projects financially viable. However, if a facility chooses and is qualified to participate in the Priority Reserve, it would mean that the mitigation fees are a viable option to the proposed projects and are cheaper than the ERC prices in the third-party ERC market.

Although the sensitivity analysis projects higher credit costs to purchase ERCs through the third-party ERC market than the Priority Reserve, the potential savings for affected sources is difficult to quantify since it is unclear how much these sources would pay for ERCs in light of potential excess demand in the third-party ERC markets. There is also a question of the stability of 2006 ERC prices since these are based on a small number of transactions and a limited supply of

[2] This assumes a 900 MW electrical generating facility with a total capital cost of approximately $424 million and $114 million in mitigation fees for the Priority Reserve.

credits, and the scarcity of PM10, SOx and CO ERCs could drive their prices to extraordinarily high levels. The primary goal of the proposed amendments is to make offsets available to affected sources as ERCs from the third-party market are dwindling.

CEQA ALTERNATIVES

There are five alternatives identified in the Environmental Assessment. Alternative A is the No Project Alternative and is the existing Rule 1309.1. Alternative B—Extend Sunset Date for EGFs and EPRS to Access the Priority Reserve—would extend the opportunity for other priority sources to access the Reserve. Alternative C—Adjust Fee to Fund Mitigation Program—would allow mitigation fees to be raised up to 10 percent without Board approval. Alternative D—Exclude EPRS from Access to the Priority Reserve—would prevent EPRS projects from accessing the Priority Reserve. The last CEQA alternative, Alternative E—Establish a Cap on Amount to be Accessed from the Priority Reserve—would prevent future identified projects from accessing the Priority Reserve, but would not affect the access of currently identified projects.

The impacts of all the alternatives are evaluated with respect to the existing Rules 1309.1 and 1302. As such, Alternative A incurs no additional cost and affected sources would continue to purchase ERCs through the third-party market. Alternative B could generate additional savings if other affected sources access the Priority Reserve. However, at this time, it is not known if there will be any additional projects. The provision in Alternative C allowing up to a 10 percent increase in mitigation fees without Board approval could reduce the savings for accessing the Priority Reserve by as much as 10 percent. Alternative D would reduce the amount of savings from accessing the Priority Reserve as EPRS would need to pay higher third-party market ERC prices while the remaining affected sources would experience a savings from paying the difference between the third-party market and the Priority Reserve. If there are more projects than what was identified in Table 1 in the future, the savings under Alternative E would be kept at the level of the proposed amendments.

The cost impacts of the proposed amendments and CEQA alternatives are presented in Table 7. Within the assumptions developed for this analysis, average annual savings from 2007 to 2012 for the CEQA alternatives ranges from $0 to more than $19.9 million. Alternative B has the highest potential savings among all of the alternatives, with a total average annual savings of greater than $19.9 million from 2007 to 2012.

Table 7
Cost Impacts of CEQA Alternatives

Alternative	Total Cost (in millions of 2006 $)
Proposed Amendments	-$19.9
Alternative A	$0.0
Alternative B	<-$19.9
Alternative C	-$17.9 - $19.9
Alternative D	-$7.4
Alternative E	-$19.9

RULE ADOPTION RELATIVE TO THE COST-EFFECTIVENESS SCHEDULE

On October 14, 1994, the Governing Board adopted a resolution that requires staff to address whether rules being proposed for adoption are considered in the order of cost-effectiveness. The 2003 Air Quality Management Plan (AQMP) ranked, in the order of cost-effectiveness, all of the proposed control measures for which costs were quantified. It is generally recommended that the most cost-effective actions be taken first. Since Rule 1309.1 is not part of the 2003 AQMP, cost-effectiveness is not applicable.

REFERENCES

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