AGENDA NO. 27

Background on Emission Offset Requirements and Priority Reserve

Governing Board Meeting

December 5, 2025

Background

- Recent comments regarding possible amendments to broaden the definition of Essential Public Services to include:
  - Composting[1] and
  - Renewable natural gas (RNG) projects[1]
- Today: Potential permitting program ramifications and considerations to expanding the definition of Essential Public Services

[1] New organic waste diversion facilities and sources to comply with Senate Bill 1383

Regulation XIII – New Source Review (NSR)

- NSR is a regulatory program required by the federal and state Clean Air Acts
- Ensures emission increases from new and modified sources do not interfere with progress towards state and federal air quality standards
- Before a permit is issued:
  - Equipment must meet Best Available Control Technology (BACT) - cleanest technology achievable; and
  - Any emission increase must be “offset” by emission reductions from other existing sources

Types of Offsets Under NSR

- Open Market Emission Reduction Credits or “ERCs”
  - Operator purchases ERCs on “open market” from ERC holder
  - ERC holder sets the price
- District maintains an Internal Account
  - Source of emission credits for Offset Exemptions and Priority Reserve
    - Essential Public Services draw credits from Priority Reserve
  - Internal Account primarily funded by orphan shutdowns
    - Equipment shutdowns with no request to generate ERC

Essential Public Services

- Rule 1302 defines Essential Public Services
- Requests to expand definition to include:
  - Composting
  - Renewable natural gas
- Staff concerned that expanding definition could significantly impact the Internal Account

Rule 1302 defined Essential Public Services

- Publicly owned sewage treatment
- Private and public landfill gas control or processing
- Prisons
- Police facilities
- Fire fighting facilities
- Schools
- Hospitals
- Water delivery operations
- Public transit

Rule 1315 – Federal NSR Tracking System

CEQA Provisions

- Rule 1315 establishes procedures for federal NSR equivalency
  - Requires reporting to Board twice every year
  - Includes two-year projection of Internal Account balances
- CEQA provisions ensure emissions do not exceed the rule's CEQA analysis
  - Thresholds for Cumulative Net Emissions Increases over the life of the rule
  - Triggers Backstop Provisions if thresholds are exceeded or projected to exceed
- Backstop Provisions
  - Cease all permitting for all minor and major sources that use Rule 1304 offset exemptions for contaminant exceeding threshold
  - All facilities would need to purchase ERC for any emission increases of applicable contaminant
  - Offset exemptions may resume once accounting is 10% less than Cumulative Net Emission Increase threshold

Assessing Potential Impacts

- Staff is assessing potential impacts of expanding the definition of Essential Public Services
- **Composting:** CalRecycle's 2018 projections in South Coast AQMD estimated 2.6 million tons of waste per year in organic diversion
  - Need more updated information to better assess potential impacts from composting facilities
- **RNG Projects:** Based on preliminary estimates, about 10 RNG projects could possibly exceed the Rule 1315 Cumulative Threshold for SOx Offsets[1] or drain SOx in Priority Reserve
- Permit moratorium for all permits using Offsets from the Priority Reserve or Offset Exemptions can occur if:
  - Projected or current Rule 1315 Cumulative thresholds exceeded

[1] Based on 0.22 ton per day, with a 1 to 1.2 offset ratio pursuant to Regulation XIII

Next Steps

- Full analysis is needed due to potential significant permitting impacts
  - Working on verifying 2018 CalRecycle estimates
  - More information needed on RNG operations
  - Composting emission factors undergoing review by air districts
- Working Group process for possible amendments to Regulation XIII will be initiated in January
- Facilities can continue to propose air pollution control equipment to reduce emissions and need for Offsets