

(Adopted May 11, 2001)

**RULE 2020. RECLAIM RESERVE**

(a) Purpose

The purpose of this rule is to create a Reserve of NO<sub>x</sub> emission reductions that can be used for the RECLAIM Air Quality Investment Program (RECLAIM AQIP), Mitigation Fee Program, or natural gas turbine power plant peaking sources.

(b) Applicability

- (1) Use of emission reductions from the Reserve for the RECLAIM AQIP is limited to RECLAIM facilities that meet the criteria specified in Rule 2004 subdivision (p).
- (2) Use of emission reductions from the Reserve for the mitigation fee program is limited to existing power producing facilities that meet the criteria specified in Rule 2004 paragraph (o)(1).
- (3) Use of emission reductions from the State Emission Reduction Credit Bank is limited to natural gas turbine power plant peaking sources that meet the criteria of Executive Order D-24-01 dated February 8, 2001 and modified by Executive Order D-28-01 dated March 8, 2001, and Letter of Agreement executed on May 2, 2001.

(c) Definitions

- (1) CONTROL STRATEGY PROPOSAL means a stationary, area or mobile source emission reduction control strategy proposal where NO<sub>x</sub> emission reductions would be generated pursuant to an emissions quantification protocol as defined under paragraph (c)(2).
- (2) EMISSIONS QUANTIFICATION PROTOCOL OR PROTOCOL means an emissions quantification methodology contained in a District rule adopted after January 1, 2001 that authorizes the generation of emission reduction credits from specific activities within specific source categories for use in RECLAIM, such as paragraph (b)(1) of Rule 1612.1, Rule 1631, Rule 1632, Rule 1633, and Rule 2507. For the purpose of this rule, the term, "emission quantification protocol or protocol" shall include, as applicable, the following provisions of credit generation rules:

definitions, credit generation requirements, application, MSERC or ASC quantification, source category evaluation, credit issuance, monitoring, recordkeeping, and reporting, reconciliation and/or validation, credit use, loss or malfunction, and penalties.

- (3) NEW FACILITY means a facility where all of the equipment has been either constructed or installed on or after January 1, 2001 and meets or is less than Best Available Control Technology (BACT) emissions level, pursuant to Rule 2005.
- (4) PARTICIPATION FEE means the amount of money per pound of NO<sub>x</sub> emission reductions that must be paid to the District to obtain NO<sub>x</sub> emission reductions from the Reserve.
- (5) PROVIDER means any person or interested party that submits a control strategy proposal that agrees to provide NO<sub>x</sub> emission reductions for the Reserve for a specified amount of money per pound of NO<sub>x</sub> emission reductions.
- (6) RESERVE is a pool of emission reductions that has been generated, verified pursuant to an emissions quantification protocol and designated for use in the RECLAIM AQIP or Mitigation Fee Program and credits available from the State Emission Reduction Credit Bank.
- (7) STATE EMISSION REDUCTION CREDIT BANK is a bank of emission reductions established pursuant to Executive Order D-24-01 dated February 8, 2001 and modified by Executive Order D-28-01 dated March 8, 2001, and Letter of Agreement between the District and ARB executed on May 2, 2001 for use by natural gas turbine power plant peaking sources. The bank is funded from emission reductions made pursuant to the Carl Moyer Memorial Air Standards Attainment Program, established pursuant to the California Health and Safety Code, Chapter 9, Sections 44275, 44280 – 44288, 44290, 44291, 44295 – 44297, 44299, and 44299.1. Reductions in the bank were generated pursuant to the applicable criteria specified in the Carl Moyer Guidelines, Part II, dated February 1, 1999, and as amended pursuant to Health and Safety Code Section 44287(b), dated November 16, 2000, as follows:

- Chapter I: Program Requirements;
- Chapter II: On-Road Heavy-Duty Vehicles;
- Chapter III: Off-Road Equipment;

- Chapter IV: Locomotives;
- Chapter V: Marine Vessels;
- Chapter VI: Stationary Agricultural Engines;
- Chapter VII: Additional Source Categories (February 1, 1999 only);
- Chapter VII: Forklifts (added November 16, 2000);
- Chapter VIII: Airport Ground Support Equipment (added November 16, 2000);
- Chapter IX: Particulate Matter Emission Reduction Requirements and Goal (added November 16, 2000); and
- Chapter X: Auxiliary Power Units for Reducing Idling Emissions from Heavy-Duty Vehicles (added November 16, 2000).

(d) The Reserve

- (1) On and after May 11, 2001 the Executive Officer will create a Reserve of NO<sub>x</sub> emission reductions that can be used for:
  - (A) the RECLAIM AQIP;
  - (B) the Mitigation Fee Program; or
  - (C) peaking units that are qualified to use reductions from the State Emission Reduction Credit Bank.
- (2) Emission reductions in the Reserve, except for credits from the State Emission Reduction Credit Bank, shall be generated by an emission reduction provider that meets the requirements specified in subdivision (e). However, emission reductions obtained from the State Emission Reduction Credit Bank may be used in the Reserve so long as they are limited in their use pursuant to criteria set forth in Executive Order D-24-01 dated February 8, 2001 and modified by Executive Order D-28-01 dated March 8, 2001, and Letter of Agreement between the District and ARB executed on May 2, 2001.
- (3) Although no additional control strategy proposals will be accepted by the Executive Officer on and after January 1, 2004, all emission reductions generated through implementation of the project will be designated to the Reserve for the entire implementation of the project.

- (e) **Provider Requirements for the AQIP and Mitigation Fee Program**
  - (1) Any person that elects to generate NO<sub>x</sub> emission reductions for the Reserve for the AQIP and Mitigation Fee Program shall:
    - (A) Prior to January 1, 2004, submit a control strategy proposal to generate NO<sub>x</sub> emission reductions for use in the Reserve that meets the requirements specified in paragraph (e)(5);
    - (B) Receive written notification from the Executive Officer that the control strategy proposal was selected for implementation for a specified dollar amount per pound of NO<sub>x</sub> emissions reduced; and
    - (C) Upon notification by the Executive Officer to implement a Proposal, the Provider shall, within the time period specified in the Control Strategy Proposal implement the Proposal and comply with requirements specified in the applicable emissions quantification protocol including definitions and requirements for, but not limited to, credit generation, credit quantification, monitoring, recordkeeping, and reporting (MRR) requirements, credit reconciliation and/or validation, evaluation year, and penalties.
  - (2) Upon implementation, the Executive Officer will verify the amount of NO<sub>x</sub> emission reductions generated pursuant to the applicable emissions quantification protocol.
  - (3) In accordance with the credit issuance, credit reconciliation and/or validation provisions specified in the applicable emissions quantification protocol, the NO<sub>x</sub> emission reductions shall be placed in the Reserve for use in the RECLAIM AQIP or Mitigation Fee Program and the Provider will receive payment for the implementation of the approved control strategy proposal.
  - (4) All emission reductions generated through implementation of the control strategy shall be designated to the Reserve for the entire implementation of the control strategy in accordance with the protocol.
  - (5) **Control Strategy Proposal Requirements**

Each control strategy proposal to generate NO<sub>x</sub> emission reductions for the Reserve shall include the following information:

    - (A) A copy of the completed credit generation application required pursuant to the applicable emissions quantification protocol;

- (B) The amount of NO<sub>x</sub> emission reductions;
  - (C) Implementation cost of the control strategy proposal to achieve the stated NO<sub>x</sub> emission reductions calculated in dollars per pound of NO<sub>x</sub> emission reductions; and
  - (D) Implementation schedule, timeframe for achieving emission reductions which should include the credit generation period and anticipated credit issuance pursuant to the emissions quantification protocol.
- (6) Control strategy proposals will be prioritized by the Executive Officer for selection and implementation based on implementation cost and cost-effectiveness, amount of NO<sub>x</sub> reduced, type of control strategy, location of control strategy, potential adverse environmental impacts; and implementation period of control strategy.
- (f) RECLAIM AQIP, Mitigation Fee Program, or State Emission Reduction Credit Bank Requirements
- (1) Effective on and after May 11, 2001, any facility that elects to obtain emission reductions from the Reserve for the RECLAIM AQIP, the Mitigation Fee Program, or State Emission Reduction Credit Bank shall:
    - (A) demonstrate that the facility is eligible to use these programs; and
    - (B) submit an AQIP or Mitigation Fee Registration to the Executive Officer pursuant to subdivision (g) for emission reductions requested through the 2004 compliance year; and
    - (C) pay a Participation Fee as specified in subdivision (h);
  - (2) Participation by facilities using NO<sub>x</sub> emission reductions from the Reserve for the RECLAIM AQIP shall be temporarily halted if the emission reductions in the Reserve are less than the amount requested.
  - (3) Natural gas turbine power plant peaking sources that add new or expanded peaking capacity shall first access all available emission reductions via the State Emission Reduction Credit Bank pursuant to Executive Order D-24-01 dated February 8, 2001 and modified by Executive Order D-28-01, and Letter of Agreement executed on May 2, 2001. The sources shall meet the specified criteria of the Executive Orders and Letter of Agreement, including, but not limited to:
    - (A) the emission reduction credits will be leased, not to exceed 21 tons of NO<sub>x</sub> per year per peaking unit, for a period of no more

than three years or no later than November 1, 2003, which ever is sooner, unless modified by agreement between the District and ARB and approved by EPA; and

- (B) the facility pays the appropriate fees; and
- (C) requests for reduction credits do not exceed the available credits in the State Emission Reduction Credit Bank.

(g) Registration

- (1) Any person that elects to participate in the RECLAIM AQIP Program shall submit a completed Registration to the Executive Officer at least 60 days before the end of the quarter or compliance year in which emission reductions will be used. The Registration shall include the information as specified pursuant to paragraph (g)(4).
- (2) Any person that elects to participate in the Mitigation Fee Program shall submit a completed Registration to the Executive Officer no later than when RTCs are needed to reconcile quarterly emissions, except for the first quarter of calendar year 2001, in which case Registrations to use the Mitigation Fee Program shall be submitted by June 11, 2001, and at least 60 days before the end of the compliance year that will have emissions greater than the facility's allocation. The Registration shall include information as specified pursuant to paragraph (g)(4).
- (3) Any person that participates in the State Emission Reduction Credit Bank program shall submit a completed Registration to the Executive Officer.
- (4) The Registration shall include, but is not limited to the following information:
  - (A) Facility name, Facility Identification Number, and location of the facility;
  - (B) Demonstration that the facility meets the applicability requirements;
  - (C) The amount of NO<sub>x</sub> emission reductions requested; and
  - (D) The compliance year(s) in which the NO<sub>x</sub> emission reductions will be used.
- (5) The registration and participation fees are non-refundable upon acceptance of the submittal by the Executive Officer.

(6) Evaluation and Approval of the AQIP, Mitigation Fee Program, or State Emission Reduction Credit Bank Registration

The Executive Officer will approve or deny the AQIP, Mitigation Fee Program, or State Emission Reduction Credit Bank Registration within 30 days after a complete Registration is submitted to the Executive Officer. A Registration will be approved by the Executive Officer provided:

- (A) the Executive Officer has received the Participation Fee pursuant to subdivision (h), as applicable;
- (B) the Executive Officer has determined that the Registration is complete and demonstrates compliance with this rule; and
- (C) for RECLAIM AQIP facilities, that the requirements specified in paragraph (f)(2) are met.

(h) Fees

(1) The Participation Fee for obtaining NO<sub>x</sub> emission reductions from the Reserve for the Mitigation Fee Program and AQIP shall be set at \$7.50 per pound of NO<sub>x</sub> emission reductions unless, at a Governing Board meeting, the Governing Board approves a higher Participation Fee based on one or more of the following criteria.

- (A) Control Strategy Projects cannot achieve a cost-effectiveness at or below \$7.50 per pound of NO<sub>x</sub> emission reductions; or
- (B) Demand for AQIP emission reductions is increasing above the anticipated supply of reductions at \$7.50 per pound of NO<sub>x</sub> emission reductions.

(2) The participation fee for the State Emission Reduction Credit Bank shall be \$6,000 per ton or \$3,000 per ton for facilities that can demonstrate an agreement to sell their power under contract to the State Department of Water Resources.

(3) The Registration fee for submitting a request for either the AQIP or Mitigation Fee Program shall be assessed in accordance with Rule 306 – Plan Fees.

(i) Issuing Reductions from the Reserve

(1) NO<sub>x</sub> emission reductions used for the RECLAIM AQIP, Mitigation Fee Program, or State Emission Reduction Credit Bank shall be converted

into RTCs and shall be designated as non-tradeable RTCs for the current compliance year. NO<sub>x</sub> emission reductions generated for AQIP and Mitigation Fee Program shall not be converted into RTCs until the emission quantification protocols used to generate the reductions have been approved into the State Implementation Plan.

- (2) For AQIP participants, upon approval of a Registration, the Executive Officer will add RTCs pursuant to paragraph (i)(1) into the facility's allocation account specified in the approved Registration.
- (3) For Mitigation Fee Program participants, upon verification of emission reductions that are placed in the Reserve pursuant to paragraph (e)(3), NO<sub>x</sub> emission reductions used in the Mitigation Fee Program shall be designated for use in the compliance year(s) in which RTCs were deducted, pursuant to Rule 2010, replenishing the allocation account closest to the current compliance year first. The amount of emission reductions issued from the mitigation fee program shall be in accordance with Rule 2004, paragraph (o)(2).
- (4) The amount of NO<sub>x</sub> emission reductions available in the Reserve will be updated to reflect the amount of emission reductions:
  - (A) that are specified in approved Registrations; and
  - (B) that have been generated, verified, and issued pursuant to paragraph(e)(3).
- (5) The amount of NO<sub>x</sub> emission reductions placed in the Reserve shall represent the amount of emission reductions that are generated pursuant to the State Emission Reduction Credit Bank, or emissions quantification protocol (after application of any discounts) and credit issuance provisions pursuant to the protocol, as applicable. Emission reductions generated for the RECLAIM AQIP and Mitigation Fee Program shall not be used until the emission quantification protocols used to generate the reductions have been approved into the State Implementation Plan.
- (6) Any additional NO<sub>x</sub> emission reductions beyond those designated pursuant to Registrations generated through implementation of control strategy projects that are more cost-effective than the participation fee may be designated to the Reserve for use by the Executive Officer.
- (7) The Executive Officer may combine funding from the RECLAIM AQIP and Mitigation Fee Program to fund control strategy proposals.

(8) NO<sub>x</sub> emission reductions for each program and each control strategy proposal will be maintained separately.

(j) Penalties

Any Provider that fails to implement its approved control strategy proposal shall be subject to the applicable penalty provisions specified in the emissions quantification protocol.

(k) Program Review

The Executive Officer will submit a report to the Governing Board no later than April 1, 2002, and every 12 months thereafter until April 1, 2005. The report will include:

- (1) The amount of emission reductions that have been generated over the past 12 months, that have been obtained, and that remain in the Reserve;
- (2) Number and types of facilities, including location, that have participated in the RECLAIM AQIP and Mitigation Fee Program;
- (3) Description of the types of emission reduction control strategy projects that have been or are being implemented;
- (4) Location of the emission reduction control strategy projects;
- (5) Evaluation of the participation fee; and
- (6) For the State Emission Reduction Credit Bank:
  - (A) the amount of credits converted to RTCs;
  - (B) the amount of credits used at non-RECLAIM facilities; and
  - (C) the number of gas turbines, including location, capacity, date of operation, and projected and actual emissions, if available.