



South Coast Air Quality Management District

Rule 118 Executive Order #01-03

(Supercedes Order #01-02, dated February 6, 2001)

Extended to April 9, 2001

WHEREAS, District Rule 118 authorizes the Executive Officer to suspend all or part of any District rule for emergency activities in up to 10-day increments during a state of emergency declared by the Governor; and

WHEREAS, on January 17, 2001, the Governor proclaimed a State of Emergency resulting from the imminent threat of widespread and prolonged disruption of electrical power; and

WHEREAS, the Governor's proclamation declared that a condition of extreme peril to the safety of persons and property within the state exists by virtue of the threat of disruption of electrical power, particularly disruption of power to emergency services, law enforcement, schools, and hospitals; and

WHEREAS, continued availability of electric power from facilities in the South Coast Air Quality Management District is necessary to assure adequate power supplies to protect the safety of persons and property within the State of California; and

WHEREAS, certain power-producing facilities within the District are subject to Regulation XX, the Regional Clean Air Incentives Market (RECLAIM), which imposes quarterly and annual caps on NOx emissions; and

WHEREAS, certain RECLAIM-power producing facilities may not be able to maintain ongoing compliance with RECLAIM caps if they continue to provide power as requested by the California Independent Systems Operator or the State of California; and

WHEREAS, NOx emissions in excess of those provided for under the RECLAIM program can result in significant amounts of excess air pollution that adversely affects public health; and

WHEREAS, in order to protect public health from the adverse effects of air pollution resulting from operation of power facilities and to mitigate such emissions, it is necessary to impose reasonable conditions on such operations; and

WHEREAS, under the provisions of Rule 118(d)(1), I hereby determine and declare that strict compliance with District Rule 2004 for RECLAIM-power producing facilities with a capacity to produce 50 MW or more would delay or prevent critical actions necessary for emergency power generation;

NOW, THEREFORE, pursuant to the authority vested in me pursuant to District Rule 118 (d) (1), I hereby suspend District Rule 2004(b)(1), 2004(b)(4) and 2004(d)(1) only to the extent that

emissions occurring during the period this Order is in effect shall not be counted toward quarterly or annual compliance required to be reconciled with RTCs (RECLAIM trading credits) for RECLAIM-power producing facilities having the capacity to produce 50 MW or more, provided that:

1. The facility has used all RTCs held by the facility or any entity under common ownership or control prior to January 12, 2001, and has not sold any such RTCs to any entity other than a RECLAIM-power producing facility under common ownership or control;
2. The facility operator pays to the South Coast Air Quality Management District a mitigation fee of \$7.50 per pound of NOx emissions in excess of those emissions accounted for by RTCs referred to in condition #1; such payment to be made together with the quarterly or annual report required by Rule 2004; and, District staff shall deposit such funds in an account to be used only for purposes of mitigation of such emissions;
3. Any NOx emissions not accounted for by the RTCs referred to in condition #1 are deducted from the facility's allocations for the subsequent compliance year 2003;
4. All facilities owned by the facility owner or persons under common control shall be operated on the basis of "environmental dispatch" pursuant to any existing agreement with the South Coast Air Quality Management District;
5. The facility owner or operator continues to comply with any schedule for the installation of air pollution control equipment at all its facilities contained in any existing settlement agreement or abatement order with the South Coast Air Quality Management District;
6. The facility operates units not equipped with best available control technology or best available retrofit control technology only upon the request of the California Independent Systems Operator or the State of California;
7. The facility sells power generated when it is subject to the provisions of this order only within the State of California;
8. The facility maintains records demonstrating compliance with the terms of this Order and submits such records to the Executive Officer upon request; and
9. The facility agrees to provide the District with written notification 24 hours prior to generating excess emissions subject to the application of this Order.

This Order expires on February 16, 2001, at noon, or when the State of Emergency declared by the Governor on January 17, 2001, ceases to exist, whichever is earlier.

Executed at Diamond Bar, California, on February 8, 2001.

Barry R. Wallerstein, D.Env.

Executive Officer

WHEREAS, I hereby determine that the conditions requiring suspension of the rules and conditions referenced in this order (Executive Order #01-03 dated February 8, 2001) continue to exist, and that the limitations upon operation imposed in this order continue to exist;

IT IS ORDERED that the prohibition of sale in condition #1 shall not apply to sale of RTCs expiring December 31, 2000.

IT IS FURTHER ORDERED that this Order is extended until March 12, 2001, or whenever the

State of Emergency declared by the Governor on January 17, 2001, ceases to exist, whichever is earlier.

Executed at Diamond Bar, California, on February 23, 2001.

Barry R. Wallerstein, D.Env.

Executive Officer

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South Coast Air Quality Management District

Rule 118 Executive Order #01-04

Extended to April 9, 2001

WHEREAS, District Rule 118 authorizes the Executive Officer to suspend all or part of any District rule for emergency activities in up to 10-day increments during a state of emergency declared by the Governor; and

WHEREAS, on January 17, 2001, the Governor proclaimed a State of Emergency resulting from the imminent threat of widespread and prolonged disruption of electrical power; and

WHEREAS, the Governor's proclamation declared that a condition of extreme peril to the safety of persons and property within the state exists by virtue of the threat of disruption of electrical power, particularly disruption of power to emergency services, law enforcement, schools, and hospitals; and

WHEREAS, continued availability of electric power from facilities in the South Coast Air Quality Management District is necessary to assure adequate power supplies to protect the safety of persons and property within the State of California; and

WHEREAS, certain power-producing facilities within the District include natural gas-fired peaking turbines which are subject to permit limits on their hours of operation under the District's New Source Review rules; and

WHEREAS, operation in excess of allowable hours would result in excess emissions of carbon monoxide that could adversely affect public health; and

WHEREAS, the California Independent System Operator (Cal ISO) has determined that electricity generation from these facilities is essential to avoid or limit blackouts or maintain essential reserve margins of three percent or less when the facility peaking units are operating solely at the request of Cal ISO; and

WHEREAS, in order to protect public health from the adverse effects of air pollution resulting from operation of such peaking facilities and to mitigate such emissions, it is necessary to impose reasonable conditions on such operations; and

WHEREAS, under the provisions of Rule 118(d)(1), I hereby determine and declare that strict compliance with District Rule 1303 for peaking turbines subject to limits on hours of operation would delay or prevent critical actions necessary for emergency power generation;

NOW, THEREFORE, pursuant to the authority vested in me pursuant to District Rule 118(d)(1), I hereby suspend any permit conditions limiting operations of peaking turbines which were imposed to limit carbon monoxide emissions pursuant to New Source Review during the period this order is in effect, provided that:

1. The peaking turbine is operated only at the request of Cal ISO to avoid or limit blackouts

- or maintain essential reserve margins;
- 2. The facility operator pays to the South Coast Air Quality Management District a mitigation fee of \$1.10 per pound for any emissions in excess of those otherwise authorized by the permit; such payment shall be made on a quarterly basis, and District staff shall deposit such funds in an account to be used only for purposes of mitigation of such emissions;
- 3. If the facility operates any peaking unit subject to this Order in excess of 1500 hours in any one calendar year, the facility shall install appropriate carbon monoxide controls as determined by the Executive Officer on an expeditious schedule, as determined by the Executive Officer in consultation with the Cal ISO and California Energy Commission;
- 4. The facility maintains records demonstrating compliance with the terms of this order and submits such records to the Executive Officer upon request.

This order expires on February 23, 2001, at noon, or when the State of Emergency declared by the Governor on January 17, 2001, ceases to exist, whichever is sooner.

Executed at Diamond Bar, California, on February 13, 2001.

Barry R. Wallerstein, D.Env.

Executive Officer

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South Coast Air Quality Management District

Summary of AQMD Governing Board Actions

March 16, 2001

- ✖ AQMD Chairman Burke Reappointed to Four-Year Term
- ✖ Board Approves Mobile Source Credit Generation Rule
- ✖ Air Quality Improvement Funds Approved
- ✖ RECLAIM Issues Discussed at Pre-Hearing
- ✖ Board Sets April Hearings for Power Plant, RECLAIM Rules

In Other Action

AQMD CHAIRMAN BURKE REAPPOINTED TO FOUR-YEAR TERM

AQMD Governing Board Chairman William A. Burke, Ed.D. has been reappointed to a four-year term on the board starting Jan. 15, 2002 through Jan. 15, 2006.

Burke was reappointed by Speaker of the Assembly Robert M. Hertzberg, D-Van Nuys. One of AQMD's 12 Board members is appointed by the speaker of the state Assembly.

Burke has served as the speaker's representative on the AQMD Board since 1993. He was elected by the Board to serve as Vice Chairman in 1994 and as Chairman in 1997.

In April 2000, Governor Gray Davis appointed Burke to serve as a Board Member for the State of California Air Resources Board.

Burke is founder and President of the City of Los Angeles Marathon. He is married to Los Angeles County Supervisor Yvonne Brathwaite Burke.

BOARD APPROVES MOBILE SOURCE CREDIT GENERATION RULE

The Board approved a pilot program for generating nitrogen oxide emission reduction credits by voluntarily replacing certain kinds of diesel-fueled trucks and equipment. The credits can be used in RECLAIM, the region's emissions reduction and credit trading program for some 360 facilities.

The rule is one of several AQMD measures aimed at increasing the supply, reducing the demand and stabilizing the price of nitrogen oxide credits in the RECLAIM program.

Rule 1612.1 -- Mobile Source Credit Generation Pilot Program, will allow facilities to generate mobile source emission reduction credits by replacing heavy-duty diesel trucks, warehouse yard hostlers or refuse trucks exempt from AQMD's Rule 1193 -- Clean On-Road Residential and Commercial Refuse Collection Vehicles with clean-fueled, lower-emission models.

Replacing such equipment will reduce toxic diesel emissions in neighborhoods where they are used. The program also will help clean the air as 9% of the credits generated will be retired and thus will not be eligible for use in RECLAIM.

AQMD currently has several rules allowing generation of mobile source emission reduction credits, but none have been approved so far by the U.S. Environmental Protection Agency. AQMD has developed Rule 1612.1 in close collaboration with EPA and the California Air Resources Board to ensure that it meets state and federal requirements.

AQMD plans to propose four additional mobile source credit generation programs this spring for the use of fuel cells to power ships in port, electrification of truck and trailer refrigeration units and replacement of diesel-fueled agricultural pumps.

Applications to generate credits under Rule 1612.1 would have to be submitted by Jan. 1, 2004.

For more information, contact Jill Whynot at (909) 396-3104.

AIR QUALITY IMPROVEMENT FUNDS APPROVED

The Board approved the expenditure of \$11 million from an air pollution violation settlement with AES Alamitos LLC, for the following projects:

- ✦ Pre-funding an Air Quality Investment Program for RECLAIM, \$2 million;
- ✦ Enhanced education and outreach to African-American, Hispanic and Asian communities, \$1.5 million;
- ✦ Funding for Adopt-A-School-Bus Foundation to buy clean-fuel school buses, \$1 million;
- ✦ Funding for the Jurupa Unified School District to purchase compressed natural gas-powered school buses, \$3 million;
- ✦ Cost-sharing a railroad overpass in Montclair to reduce traffic congestion and air pollution, \$500,000;
- ✦ Clean air advertisement program with Palm Springs airport taxis, \$250,000;
- ✦ Replace airport taxis with compressed natural gas-powered models, \$250,000;
- ✦ Energy efficiency programs, \$350,000;
- ✦ Assist in funding low-polluting microturbines in Orange, Riverside and San Bernardino counties to generate electricity, \$1.8 million; and
- ✦ Demonstration of residential fuel cells, \$350,000.

AES settled a RECLAIM violation in December 2000 for \$17 million. Last month, the Board approved spending \$6 million of the settlement on natural gas fueling stations.

RECLAIM ISSUES DISCUSSED AT PRE-HEARING

The Board conducted a preliminary public hearing to take testimony on proposed changes to the RECLAIM program aimed at increasing the supply and stabilizing the prices of nitrogen oxide trading credits.

The Board is expected to conduct a final public hearing and consider adopting proposed changes to RECLAIM on May 11.

The proposal includes:

- ✘ Temporarily separating power plants from the RECLAIM market for the next several years and requiring them to install air pollution controls on an expedited schedule;
- ✘ Establishing a mitigation fee program, where power plants would pay to AQMD \$7.50 per pound of nitrogen oxide emissions in excess of their RECLAIM credit holdings. AQMD would use the fees collected to seek emission reductions from mobile, area and stationary sources. Excess emissions would be deducted from the facility's future account holdings. Once emission reductions were generated from the mitigation fees, deductions would be credited back to the facility's account.
- ✘ Requiring other RECLAIM facilities that do not produce electricity but do emit more than 50 tons per year to submit compliance plans demonstrating how future RECLAIM allocations can be met; and
- ✘ Creating a short-term Air Quality Investment Program for new and some small RECLAIM facilities to offset nitrogen oxide emissions by paying a fee of \$7.50 per pound. In a related action, the Board agreed to pre-fund this program with \$2 million.

AQMD staff has developed these proposals with ongoing input from power producers, other industries, environmental groups and other air quality agencies during numerous RECLAIM working group meetings over the last several months. AQMD will continue to refine proposed changes to RECLAIM during the next two months utilizing feedback from the Board and working group participants.

For more information, contact Elaine Chang at (909) 396-3186.

BOARD SETS APRIL HEARINGS FOR POWER PLANT, RECLAIM RULES

The Board set a public hearing for April 20 on a measure that would increase the supply of particulate emission offsets to new and expanding power plants for the next three years.

State and federal laws require that all emission increases from new and modified sources be offset. Large sources typically offset emissions by purchasing emission reduction credits on the open market, but power plants are currently having difficulty finding PM₁₀ credits available.

Proposed Amended Rule 1309.1 -- Priority Reserve would allow power plants to purchase PM₁₀ emission reduction credits from AQMD's Priority Reserve for \$25,000 per pound per day through 2003.

AQMD's Priority Reserve is an account of emission reduction credits now available only to essential public service providers, such as publicly owned sewage treatment plants, as well as innovative technology and research projects.

The Board also set public hearings for April 20 to consider:

- ✘ Amending Rule 1303 -- New Source Review Requirements and Rule 2005, New Source Review for RECLAIM; and
- ✘ Amending Regulation IX -- Standards of Performance for New Stationary Sources, and Regulation X -- National Emission Standards for Hazardous Air Pollutants.

For more information, contact Elaine Chang at (909) 396-3186.

In other action the Board:

- ✱ Adopted Rule 1425 - Film Cleaning and Printing Operations, to reduce air toxic emissions from motion picture operations;
- ✱ Amended Rules 2011 and 2012 regarding monitoring, reporting and record keeping requirements for RECLAIM facilities;
- ✱ Amended Rules 3003 and 3005 regarding permit revisions and adopted Rule 3008 on potential to emit limitations;
- ✱ Approved the submitting of mobile source emission reduction projects funded by the AB2766 program to the California Air Resources Board for possible use in offsetting emissions from peaker power plants;
- ✱ Approved submittal of an application to receive funds from the California Air Resources Board for a Zero Emission Vehicle incentive program;
- ✱ Designated \$2.5 million to fund a nine-month program to reduce the permit application backlog; and
- ✱ Adopted a Technology Advancement Plan for 2001 and approved the 2000 annual report for AQMD's Technology Advancement Office.

The Board approved all other items on the agenda except item 14, Report to the Legislature, which was rescheduled for the April Board meeting.

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South Coast Air Quality Management District

BOARD MEETING DATE: March 16, 2001 AGENDA NO. 35

PROPOSAL:

Pre-Hearing on Proposed Changes to RECLAIM

SYNOPSIS:

At the January 19, 2001 Board Meeting, the Board directed staff to initiate rule development to help stabilize RTC prices and address California energy issues. Key proposed changes for power producing facilities include temporarily removing the influence of power producing facilities from the market and requiring installation of controls. For other RECLAIM facilities, compliance plans are proposed for larger facilities and forecast reports are proposed for medium sized facilities. Other changes include development of temporary credit assistance programs to offset excess emissions from utilities and assist certain small or new RECLAIM facilities. Information requirements for trade registration and revised procedures for late or missing electronic reports will also be proposed.

COMMITTEE:

Stationary Source, February 23, 2001, Reviewed

RECOMMENDED ACTION:

Receive and file.

Barry R. Wallerstein, D.Env.
Executive Officer

Background

The Regional Clean Air Incentives Market (RECLAIM) program was adopted in October 1993. The program sets an emissions cap and declining balance for many of the largest NOx and SOx facilities in the Basin. The program was designed to provide additional incentives for industry to reduce emissions and advance pollution control technologies. In addition, the program was designed to give facilities added flexibility in meeting emission reduction requirements. Facilities within the RECLAIM program have the option of complying with their allocation allowance by either installing control equipment or purchasing RECLAIM Trading Credits (RTCs) from other facilities.

Each year, an annual report on RECLAIM has been presented to the Governing Board. These reports highlighted that there would be a crossover point in approximately 1998 or 1999 where aggregate actual emissions would approach total allocations unless facilities installed control equipment.

Between compliance year 1994 and compliance year 1999, NOx emissions at RECLAIM facilities, in aggregate, were below allocations, and the price of NOx RTCs remained relatively stable. However, beginning June 2000, RECLAIM program participants experienced a sharp and sudden increase in NOx RTC prices for both 1999 and 2000 compliance years. This was due mainly to an increased demand for power generation and delayed installation of controls by power plants. The electric power industry purchased a large quantity of RTCs. This situation was compounded because only a few RECLAIM facilities added control equipment.

The Governing Board, at its October 2000 meeting, directed staff to form an Advisory Committee to help examine issues affecting the price of NOx RTCs and recommend actions that could be taken to stabilize RTC prices. This effort resulted in staff's development of a White Paper, which was presented to the Governing Board at the January 11, 2001 meeting. The White Paper included a series of recommendations developed to help address the energy situation and stabilize RTC prices. These recommendations included the basic elements that are part of the proposed rule changes that are currently being developed.

Purpose of the Pre-Hearing

This Board letter and the pre-hearing process are intended to provide the Board with a status update on the rule development process, describe key elements of the draft rule proposals, identify key issues, give the public an opportunity to testify, and for the Board to give any additional guidance to staff.

Public Process

Through the rule-making process, AQMD staff has been working with the RECLAIM Working Group which includes power producers, other RECLAIM facilities, environmental groups, EPA, ARB, CEC, and other interested parties. Many of these individuals and organizations participated in the Advisory Committee process that assisted staff in development of the White Paper. Since the January 11, 2001 Board meeting, AQMD staff has held numerous working group meetings to discuss proposed amendments to RECLAIM rules. A public workshop was also held on February 28, 2001. In addition, an advisory letter has been mailed to RECLAIM Facility Permit holders to provide information on available, cost-effective control options. AQMD staff has also scheduled technology meetings in each county to help disseminate information on available control options.

Proposal

At the January Board Meeting, the Governing Board directed staff to form a working group to develop rule amendments that will implement realistic, effective solutions that may reduce and stabilize NOx RTC prices. In developing proposals for the Governing Board's consideration, one of staff's priorities is to protect public health and ensure adequate progress toward meeting clean air mandates. At the same time, it is vital to ensure that air pollution regulations do not inadvertently hinder the State's efforts to ensure adequate power supplies. Staff believes that stabilizing RTC prices will contribute significantly to both these goals.

Staff has developed an integrated set of proposed amendments to the RECLAIM program and a proposed rule to lower and stabilize RTC prices by increasing supply, reducing demand, and increasing the exchange of RTC trading information. The amendments are also designed to expedite installation of the emissions control equipment contemplated during the initial RECLAIM program design, while reducing the impacts of the California electricity crisis on the RECLAIM market and facilitating the development of reliable statewide electricity supply. The proposed rule and amendments include the following key elements:

- For large power plants: temporary bifurcation from the rest of the RECLAIM market, requiring

installation of controls through compliance plans, and a temporary mitigation fee program for emissions in excess of allocations;

- Initiation of a temporary, limited, pilot RECLAIM Air Quality Investment Program (AQIP);
- Requiring large RECLAIM facilities to file a compliance plan to outline steps to be taken to comply with NOx RTCs;
- Improving registration and timely reporting of RTC trades; and
- Modifying procedures for late electronic reports.

In addition to modifying several existing rules, a new proposed rule (PR 2020 – RECLAIM Reserve) will include a Mitigation Fee Program for power producing facilities and a RECLAIM Air Quality Investment Program (AQIP) for certain facilities.

The main elements of the proposed amendments to Regulation XX are summarized briefly below:

Power Producing Facilities

The proposed rule changes will separate power producing facilities from the rest of the RECLAIM market for the next several years while energy supply issues are being addressed. The proposed rules would require a compliance plan for power producing facilities over 50 megawatts and require installation of best available retrofit control technology on an expedited schedule. Trading would be limited to isolate the rest of the market from credit demands from power producing facilities. RTC purchases after January 11, 2001 could only be used to reconcile facility emissions if the RTCs are from facilities under common ownership or have been generated from EPA approved mobile source credit generation programs.

Mitigation Fee Program

A temporary mitigation fee program is proposed for power producing facilities that exceed their RTC holdings. The facility would pay \$7.50 per pound of NOx to the District, who would seek to achieve emission reductions from a variety of mobile source or other credit generation avenues. The current rules require that excess emissions be deducted from the subsequent year allocation to ensure that the environment is not impacted by additional emissions. In this proposed amendment, staff recommends the deduction of excess emissions from the second year to account for the lead time necessary for installation of control equipment at the power producing facilities. If enough emission reductions are secured from the Reserve by the District, the deduction would be credited back to the facility. This element of the proposal would be available through the 2004 compliance year.

Compliance Plans and Forecast Reports for other Facilities

For facilities other than power producing facilities, compliance plans are proposed for facilities with 1999 emissions greater than or equal to 50 tons per year (tpy). These compliance plans provide flexibility by including options for installing controls or purchasing credits. The plans are being designed to allow as much flexibility as possible, while requiring timely commitments to be made to ensure compliance.

Facilities between 25 and 50 tpy emissions in 1999 will be required to submit best effort forecast reports. Compliance plans and forecast reports from the large and medium facilities will help ensure adequate advance planning by facilities to meet the overall RECLAIM program emission targets.

RECLAIM Air Quality Investment Program (AQIP)

Another short-term credit assistance program, the RECLAIM AQIP, is being proposed for use by certain facilities through the 2004 compliance year. This program would be available for structural buyers, such as new facilities and small facilities with installed controls at a minimum of Best Available Retrofit Control Technology (BARCT). Facilities that request participation would pay \$7.50 per pound of NO_x and use the RECLAIM AQIP only if reductions are available. No deduction from allocations is proposed for this program since emission reductions must be available prior to use. Pre-funding of the AQIP program with emission reduction credits is also under consideration as a policy option.

All non-power plant RECLAIM facilities continue to have the option to purchase credits from the private market. The RECLAIM AQIP is intended to be a limited program to provide necessary assistance, but not to take over the market function or provide the vast majority of credits.

Other Rule Changes

In response to concerns regarding incomplete and delayed market information to provide proper market signals, the proposed rules would require identification of both the seller and buyer of RTCs after the completion of a trade. In addition, timely filing of trades is proposed to help facilitate market information.

Staff has also proposed that more time be afforded for submittal of late (or missing) electronic reports, provided the original data is stored at the facility. The proposed amendments include a provision that missing data requirements would not apply if the problem is due to the receiving end of the transmission.

Key Issues

Several key issues have been identified and are being discussed through the working group and public process. Attachment A highlights the key issues and staff's preliminary recommendations. Each of the key issues is also described briefly below.

Power Producing Facilities

Key issues for power producing facilities include concerns about deductions from future allocations should the AQMD fail to produce adequate reductions for the mitigation fee program and would prefer less trading restrictions. Staff is committed to work diligently in funding reduction projects and is working with ARB and EPA on several mobile source credit rules that can be quickly approved by these agencies to increase credit generation opportunities. Deductions from future allocations are a necessary element to ensure integrity for the environment. Staff is considering additional revisions to the trading elements regarding power plants to minimize adverse influence on the remaining RECLAIM market while affording flexibility to power plants.

Compliance Plans

The business community has expressed concerns about proposed requirements for compliance plans. Staff has made significant revisions to the initial proposed rule amendments that were developed to implement recommendations in the White Paper. The White Paper recommendation was to require plans and addition of controls for all facilities over 10 tpy emissions in 1999. The proposed amendments would require plans for facilities over 50 tpy and afford the option of adding controls or securing credits.

Another issue related to compliance plans is that the facilities do not want an enforceable commitment which they believe would be difficult to change and cumbersome for Title V facilities.

There are also concerns about the confidential information contained in plan submittals which may offer advantages to competitors if that information was disclosed. Staff will continue to work with interested parties to further refine the proposal.

RECLAIM AQIP

Several facilities have requested that access to the RECLAIM AQIP be expanded to allow more facilities to use this program. Others have expressed the concern that the RECLAIM AQIP may discourage credit generation from the private market. Staff is trying to balance the need for providing market stability and direct AQMD assistance with the function of a private market.

Other Issues

Other issues include the use of mobile source credits by RECLAIM facilities, the function and structure of the market, and how to make better market information available. Some environmental representatives remain unchanged in their position that the use of mobile source credits should not be included in RECLAIM. Staff is working with these groups to help address the issues that they raise to make a better program. AQMD staff believes that mobile credit programs will help stabilize RTC prices. In addition, state law directs AQMD to allow for mobile source trading in RECLAIM (see Health & Safety Code §40440.1), and mobile source trading was included in the original design of RECLAIM as reflected in Rule 2008.

As part of the rule development, several noted economists have been retained to evaluate the proposed changes. They will also provide their expert opinion on whether there should be additional changes in the structure or function of the RECLAIM market to help facilitate better information on prices and availability of credits.

Some refineries may also request adjustments for clean fuels. AQMD staff is willing to consider this request and solicits more information to help evaluate if there is need for such a request and what would be the potential impacts.

Executive Orders

Due to the statewide electrical energy shortage, the Governor of California declared a State of Emergency on January 17, 2001, citing that the energy supply emergency poses a threat to public health, safety, and welfare. This declaration resulted in a series of state-level Executive Orders designed to facilitate a continuous flow of electricity in both the short and long term. Similarly, a series of Executive Orders has been issued by the AQMD Executive Officer that would facilitate implementation of the state Executive Orders at the local level and provide greater regulatory flexibility to local power producers for continuous electrical generation, while still meeting air quality objectives. The proposed rule changes are complementary to the Governor and AQMD Executive Orders.

California Environmental Quality Act (CEQA)

Pursuant to the California Environmental Quality Act (CEQA) and the AQMD's Certified Regulatory Program (Rule 110), staff will prepare a Draft Environmental Assessment (EA) for the proposed amendments to Regulation XX – RECLAIM. A Notice of Preparation (NOP) of a Draft EA and Initial Study have been prepared and released for a public review and comment ending March 5, 2001. Once available, the Draft EA will also be available for public review and comment. The anticipated release date for the Draft EA is mid-March 2001. Tentative options for project alternatives are summarized in Attachment B.

Socioeconomic Assessment

Staff will also prepare a socioeconomic assessment to identify potential market effects and cost impacts to facilities affected by the proposed amendments. Impacts would result from the installation of control equipment, purchasing credits, or paying into a RECLAIM Air Quality Investment Plan or Mitigation Fee Program.

Schedule and Public Process

Staff will continue to hold working group meetings every one to two weeks, as necessary. Input from the public workshop on February 28, 2001 and the March 16, 2001 Board pre-hearing will be considered as the rule proposals are further refined. It is critical that staff continue to work closely with ARB and EPA to ensure their ability to expedite approval of the program changes.

Staff anticipates setting the public hearing at the April 20, 2001 Board meeting for a May 11, 2001 public hearing.

Recommendation

AQMD staff will continue to work with the RECLAIM working group to develop proposals for the Governing Board's consideration.

Attachments

Summary of Issues and Preliminary Recommendations
Proposed Project Alternatives for CEQA Analysis

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AQMD Home Page

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 9th day of April, 2001.

Bradley R. Miliauskas

David B. Rubin

Bradley R. Miliauskas

Swidler Berlin Shereff Friedman, LLP

3000 K Street, N.W.

Washington, D.C. 20007