Emission Reduction Credit Program
Public Advisory Workgroup

February 3, 2022

Overview

OFFSET EQUIVALENCY AND AMENDMENTS TO THE DISTRICT RULE 2201

GENERATING CREDITABLE EMISSION REDUCTIONS FROM MOBILE SOURCES

Offset Equivalency and Changes to District Rule 2201

District Offset Equivalency Program

- District performs an annual evaluation to determine if District's ERC program continued to be at least as stringent as federal offsetting requirements
  - Demonstration submitted to EPA and CARB annually for review and presented to Governing Board at public hearing
- Annual report must demonstrate both of the following:
  - Test 1: The quantity of offsets required by Rule 2201 equals or exceeds the quantity of federal offsets that would have been required
  - Test 2: The surplus value of offsets required by Rule 2201, plus the surplus value of additional creditable emission reductions, equals or exceeds the quantity of federal offsets that would have been required
- Should the system fail to demonstrate equivalency, Rule 2201 contains tailored remedies that are enacted

2020-2021 Offset Equivalency Demonstration

- Offset Equivalency Report Results:

Equivalent?	NOx	VOC	PM10	PM2.5	CO	SOx
Test 1: Offset Quantity	Yes	No	Yes	Yes	Yes	Yes
Test 2: Surplus Value	No	No	Yes	Yes	Yes	Yes

- No change from previous year's results
- District sent the 2020-2021 Offset Equivalency Report to EPA on November 19, 2021
- The 2020-2021 Offset Equivalency Report was received by the District's Governing Board on December 16, 2021

District's New Source Review Rule

- District Rule 2201 (New and Modified Stationary Source Review)
  - Designed to meet both federal and state NSR requirements
- Key elements of Rule 2201 include:
  - Best Available Control Technology (BACT) – mandates emission controls to minimize emission increases
  - Emission Offsets - requires emissions above specified offset threshold levels to be mitigated with either concurrent reductions or past reductions which have been banked as emission reduction credits (ERC)
  - Federal Offset Equivalency – system to ensure local NSR offset requirements are at least as stringent as federal requirements and remedies to be enacted in the case of equivalency failure
  - Public notification - a notice period prior to issuance of an Authority to Construct (ATC) to garner comments on projects that result in emissions above specified levels

Necessary Amendments to District Rule 2201

- In accordance with the offset equivalency remedies contained within Rule 2201, the District must now amend Rule 2201 requirements associated with federal offsetting of VOC and NOx
- Proposed amendments to District Rule 2201 will include:
  - Adopting the full federal offsetting program for NOx and VOC to ensure ongoing compliance with federal offsetting requirements for new major source and federal major modification projects
  - Amendments to offset qualification calculations, offset exemptions, and other administrative requirements will be necessary
  - Amendments to existing offset equivalency remedies since the District continues to demonstrate offset equivalency with PM10, PM2.5, SOx, and CO
- District will hold a scoping meeting to kick-off public rule development process in late 1st quarter or early 2nd quarter of 2022
- Public Advisory Workgroup will help inform rule development process

Compliance with Federal Offset Obligations

- The 2020-2021 offset equivalency report identified a NOx shortfall in the offset quantity test (Test 1)
  - Test 1 equivalency for NOx was maintained using the NOx carry-over balance
  - Annual shortfall in the quantity of NOx offsets required highlights the possibility that the current Test 2 remedy in District Rule 2201 may not ensure the District will be able to remain equivalent with federal offsetting requirements
- Consistent with the District's effort to evaluate the offsetting program and ensure all state and federal requirements can be met on an ongoing basis:
  - District staff plan to take an item to the Governing Board in February 2022
  - Recommend that the Board take action to require that all new major sources or federal major modifications triggering offsets for NOx be required to provide ERCs for the full federal offset quantity and that those credits be surplus at time of ATC issuance
  - NOx offset requirements would be consistent with current VOC requirements

Generating Creditable Emission Reductions from Mobile Sources

Emission Reductions from Mobile Sources

- Allow the banking of emissions reductions from mobile sources to create mobile source emission reduction credits (MSERCs)
- MSERCs may be generated by any mobile source emission reduction strategy that creates actual mobile source emission reductions
- MSERCs may not be generated from the following strategies:
  - Shutdown or replacement of a mobile source unless that source is rendered permanently inoperable
  - Through the transfer of emissions from one mobile source to another mobile source;
  - Reductions funded through a state or federal program, unless specifically allowed under that program;

Mobile Sources

- Mobile sources are defined as:
  - Vehicles, engines, and equipment, that are either on-road mobile sources (e.g. trucks, buses, passenger cars, and motorcycles) or non-road mobile sources (e.g. locomotives, marine vessels, construction equipment, lawn, garden and snow equipment, personal recreation equipment, etc.)
- Mobile sources may operate throughout the San Joaquin Valley Air Basin, throughout California and even throughout the United States
- District is precluded from regulating mobile sources

Understanding Mobile Source ERCs

- Detailed review of existing programs and regulations at other agencies
  - Maricopa County Air Quality Department – Arizona
  - Texas Commission on Environmental Quality (TCEQ)
  - San Diego County Air Pollution Control District (SDCAPCD)
- Working with staff from the other agencies
  - Obtained copies of rules and regulations, permits and permit conditions imposed on the stationary sources as well as the fleets, and other related documents
  - Looking to understand the framework on how these agencies established programs that meet the ERC criteria (Quantifiable, Permanent, Real, Enforceable, Surplus)
- Working closely with CARB and EPA throughout this process
  - Methodologies will need to be approved by CARB and EPA

Potential Mobile Source Banking Opportunities

- Captive fleets (e.g. a stationary source with its own fleet of vehicles/trucks)
  - Reductions must be surplus of rules/requirements
  - Requirements to ensure permanence/enforceability can be added to existing stationary source permits
  - Recordkeeping and inspections of records can be done through traditional stationary source verification/inspection methods
  - District is still exploring requirements for fleets not associated with a facility with stationary source permits

Crediting Emission Reductions from Mobile Sources

- Since mobile sources are not typically regulated by the District, additional monitoring/recordkeeping will be required
  - Additional monitoring/recordkeeping will be required through modified stationary source permits or
  - Facilities without permits will be required to obtain a voluntary permit or enter in to an agreement with the District to ensure emission reductions are real, permanent, and enforceable

District's Existing Mobile Source ERC Rule

- District Rule 2303 - Mobile Source Emission Reduction Credits
- Adopted in May 19, 1994 and was based on a model rule by CARB
  - Rule 2303 was never included in the District's State Implementation Plan (SIP)
- No emission reductions were banked under this Rule
- Rule 2303 would need to be amended to ensure federal offset criteria can be satisfied
  - New mobile source ERC banking program guidelines would supersede District Rule 2303 requirements

Continuing Work to Develop Mobile Source ERC Program

- Through the development of the Mobile Source ERC program, resolution of key questions will need to be answered:
  - What happens if the actual emissions reductions from the fleet after banking the mobile source ERCs are less than the amounts quantified for a stationary source project?
  - What happens if mobile source ERCs are used in a stationary source project and the fleet used to generate the ERCs is shutdown or no longer utilized?
  - Would the burden of ensuring the validity of the ERCs after banking need to be shifted from the reducing facility to the facility that uses the ERCs? Is this feasible?

Next Steps

- Begin rule amendment process for District Rule 2201
- Continue refining the mobile source ERC program guidelines
- Continue to identify and evaluate new methods to create surplus creditable emission reductions
- Continue to collaboratively work with EPA/CARB

Comments/Questions