



San Joaquin Valley Air Pollution Control District

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www.valleyair.org

DATE: December 16, 2004

TO: SJVUAPCD Governing Board

FROM: 
David L. Crow, Executive Director/APCO
Project Coordinator: Dave Warner

RE: RECEIVE AND FILE DISTRICT'S ANNUAL
OFFSET EQUIVALENCY REPORT TO THE
FEDERAL ENVIRONMENTAL PROTECTION
AGENCY

RECOMMENDATION:

Receive and file the District's annual offset equivalency report (attached), submitted to the federal Environmental Protection Agency (EPA) for the 12-month period from August 20, 2003 through August 19, 2004.

BACKGROUND:

Under the District's New and Modified Source Review (NSR) Rule, new facilities and modifications to existing facilities that cause increases in emissions above certain levels are required to provide emission reduction credits as mitigation. Although the District's NSR rule, overall, is more stringent than the federal regulations, it does not exactly match the federal requirements in all respects. In particular, the District's NSR rule does not require discounting of ERCs at the time of use. Discounting is a process of reducing the value of ERCs by adjusting them for emissions reductions that have been required by newer rules adopted since the original ERC banking action.

After years of negotiation with EPA and stakeholders, the parties agreed to an offset equivalency system designed to assess overall equivalency with EPA regulations on an annual basis. The details of this equivalency system have been embodied in the District's NSR rule, Rule 2201, since December 19, 2002.

DISCUSSION:

To demonstrate equivalency with the federal NSR offsetting requirements, the annual offset equivalency report must demonstrate both of the following:

1. The District has required an equivalent or larger amount of offsets from new and modified stationary sources as would have been required under direct implementation of federal regulations; and
2. The amount of reductions required by the District from new and modified stationary sources, after discounting at the time of use, equals or exceeds the amount of ERCs required under federal regulations.

The concept of an equivalency demonstration is only possible because the District's NSR program is, in several ways, more stringent than the federal requirements. Under federal NSR, offsets are only required for new major sources and major modifications to existing sources. For instance, for nitrogen oxides (NOx) and volatile organic compounds (VOC), the federal offsetting requirements would have been triggered at facility emission levels of 25 tons per year. In contrast, the District's NSR rule, as mandated by the California Clean Air Act, requires offsets for facilities emitting 10 tons per year of NOx or VOC. In addition to requiring offsets from smaller sources, the District's program is more stringent than the federal program in other ways, allowing for further credits towards the equivalency demonstration. Additional reductions that go beyond federal requirements and are therefore used by the District to show equivalency include the following:

- Higher offset ratios
- Extra discounting of credits at the time of banking
- Reductions from application of BACT to existing minor sources
- "Orphan" shutdowns (reductions from facility shutdowns for which ERCs are not granted to the owner)

During this reporting period there were no major modifications. However, there was one new major source of NOx that received its final pre-construction permits during this reporting period. As shown in the attached report, reductions required by the District exceed the amount required under the federal regulations.

Although equivalency was shown for this reporting period, future equivalency demonstrations will be more difficult due to the following:

- Pending permit actions for two large power plants requiring large quantities of offsets.

*SJVUAPCD Governing Board
RECEIVE AND FILE DISTRICT'S ANNUAL OFFSET EQUIVALENCY REPORT TO
THE FEDERAL ENVIRONMENTAL PROTECTION AGENCY
December 16, 2004*

- Continued development of additional rules by the District will limit the quantity of surplus reductions available for the equivalency demonstration.

In pursuit of solutions to the potential shortfall in our equivalency tracking system, District staff held a public meeting on June 15, 2004 with ERC owners and other stakeholders interested in the issue. In addition, the California Air Pollution Control Officers Association, including staff from the San Joaquin Valley Air District, has met with various stakeholders to find ways to address the general statewide lack of available emission reduction credits. These efforts will continue through 2005.

Attachment: Offset Equivalency Report to EPA (4 pages)



San Joaquin Valley
Air Pollution Control District

November 18, 2004

Deborah Jordan, Director
Air Division
U.S. EPA, Region IX
75 Hawthorne Street
San Francisco, CA 94105-3901

Re: Offset Equivalency Report

Dear Ms. Jordan:

As required by the District's New Source Review Rule, the District has completed an annual offset equivalency report for the twelve-month period from August 20, 2003 to August 19, 2004. The attached report incorporates the following:

- The quantity of offsets that would have been required from new major sources and major modifications to existing sources under a federal NSR program.
- The quantity of offsets actually required by the District.
- The surplus-at-time-of-use value of the emission reductions used to offset emissions increases from stationary sources.
- The quantity of shortfall or excess carry-over credits.

As you can see from the attached report, the District required more offsets than would have been required under federal offset requirements, and the surplus value of the reductions used exceeded those required under federal NSR. Therefore, equivalency is demonstrated and no remedial actions are necessary.

For your information, there were two projects of interest this reporting period, San Joaquin Valley Energy Center and Modesto Irrigation District. Modesto Irrigation District is a proposed new major source, and received its final air permits during this reporting period. It is therefore included in this report as a trackable project. However, San Joaquin Valley Energy Center, a proposed new major source, has not received its Prevention of Significant Deterioration permit from the federal EPA, and therefore is prohibited from beginning construction under federal NSR regulations. In addition, the project proponent has reported that they will be

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Ms. Jordan
November 18, 2004
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submitting new applications for a modified proposal that will stage the construction of the facility by installing simple cycle turbines in phase I and changing them to combined cycle for phase II. This change in their proposal will negate our original permitting action. For these reasons, this project is not a trackable project and is not included in this report.

Please call me at (559) 230-5900 if you have any questions regarding this matter, or if you need additional details.

Sincerely,

A handwritten signature in black ink, appearing to read "David Warner", with a long horizontal flourish extending to the right.

David Warner
Director of Permit Services

cc: Mike Tollstrup, CARB

San Joaquin Valley APCD Annual Offset Equivalency Report

Summary for 8/20/2003 through 8/19/2004

Pollutant	Number of New Major Sources	Number of Major Mods	Offsets Required under Federal NSR*	Offset Requirement Equivalency*				Surplus at the Time of Use Equivalency*				
				Offsets Required under District NSR	Excess or Shortfall this Year	Excess or Shortfall previous Year	Total Excess or Shortfall	Shortfall from Previous Year	Reduction (surplus at the time of use) used for equivalency this year	Shortfall this year	Reductions eliminated by discounting at the time of use**	Unused Carry-over Creditable Reductions
NOx	1	0	57.9	453.1	395.2	1245.0	1640.2	0.0	57.9	0.0	1532.4	294.0
VOC	0	0	0.0	71.5	71.5	368.2	439.7	0.0	0.0	0.0	191.2	702.0
PM10	0	0	0.0	14.2	14.2	296.4	310.6	0.0	0.0	0.0	0.0	588.0
CO	0	0	0.0	0.0	0.0	11.9	11.9	0.0	0.0	0.0	0.0	16.0
SOx	0	0	0.0	69.6	69.6	220.5	290.1	0.0	0.0	0.0	0.0	452.0

* All numbers are in Tons per Year

** Total quantity of discount since initiating tracking in August 2001

San Joaquin Valley APCD

Annual Offset Equivalency Report - Detail

Transaction details for 8/20/2003 through 8/19/2004

Pollutant Company Name and Address

NOx

MODESTO IRRIGATION DISTRICT
S STOCKTON AVE. AND DOAK BLVD., RIPON

Surplus at the time of use Reductions Used to Mitigate this Increase

<i>Tracking ID for ATC</i>	<i>Fed Offsets Req'd</i>	<i>ATC Date</i>	<i>Tracking ID for Reduction</i>	<i>Credit (t/y)</i>	<i>Time of Use</i>
2004-N-1030648-1307-0	57.9	3/1/2004	2004-N-1030648-1341-1	4.2	3/1/2004
2004-N-1030648-1307-0	53.7	3/1/2004	2004-N-1030648-1342-1	12.2	3/1/2004
2004-N-1030648-1307-0	41.5	3/1/2004	2003-C-1021493-684-1	1.0	3/1/2004
2004-N-1030648-1307-0	40.5	3/1/2004	2003-N-9992005-331-1	1.8	3/1/2004
2004-N-1030648-1307-0	38.7	3/1/2004	2004-S-1010632-856-1	0.4	3/1/2004
2004-N-1030648-1307-0	38.3	3/1/2004	2004-C-9990358-525-1	6.6	3/1/2004
2004-N-1030648-1307-0	31.7	3/1/2004	2004-N-980147-868-1	6.7	3/1/2004
2004-N-1030648-1307-0	25.0	3/1/2004	2003-C-1020868-1353-1	22.0	3/1/2004
2004-N-1030648-1307-0	3.0	3/1/2004	2004-S-1011383-1352-1	3.0	3/1/2004

Total Reductions, this reporting period, for this project 57.9