

# RECEIVE AND FILE DISTRICT'S 2019-20 ANNUAL OFFSET EQUIVALENCY REPORT TO THE FEDERAL ENVIRONMENTAL PROTECTION AGENCY

San Joaquin Valley Air Pollution Control District  
Governing Board Meeting  
December 17, 2020

# District Air Quality Efforts

- Long history of developing and implementing air quality strategies, with numerous plans achieving significant emissions reductions
  - Adopted nearly 650 of the most stringent rules in the nation for stationary sources under District jurisdiction
  - Innovative clean air incentive programs accelerating deployment of cleanest technologies (\$3 billion public/private investment)
- Stationary source NO<sub>x</sub> emissions (primary precursor for both ozone and PM<sub>2.5</sub>) have been reduced by over 90%
- District also implements a permitting program designed under state law to ensure on a regional basis there is no net increase in emissions for new or modified sources

# District's New Source Review Permitting Process

- Offsetting emission increases with ERCs only one component of District's stringent and rigorous permitting program for new/modifying equipment
- Other components include:
  - All new or modifying permitted sources must be equipped with the best available air pollution control technology (BACT)
  - Prohibition on new/modifying equipment that would generate a significant health risk to the surrounding population
  - Public notification with an opportunity to comment prior to permit issuance for significant projects
- Only after these actions, ERCs enter into the permitting process and require provide further mitigation of emissions increases
  - ERCs cannot be used in lieu of meeting air pollution control requirements

# CARB Review of ERC Program

- At January 2019 board meeting, CARB Board directed their staff to review the District's ERC program
  - Response to request from environmental advocacy organizations
  - CARB review focused on District's ERC program, including equivalency demonstration, relative to overarching federal, state, and local regulations
- District worked with CARB staff to:
  - Communicate concerns and expectations, including that the review be conducted objectively and in context of state, federal, and District regulations
  - Aid in the understanding of the District's ERC system and permitting program
  - Provide all requested information
- CARB final report released June 5, 2020
- CARB Board hearing held June 26, 2020
  - Approved their staff's recommendations including commitment to support the District's local process moving forward

# District Response to CARB Review

- District appreciates CARB's general recognition of the stringency of the District's air quality programs and the success in reducing emissions from stationary sources in the Valley
- CARB's review points to the need to revisit and potentially enhance aspects of the ERC and offset equivalency program moving forward
- District has committed to:
  - Enhancing transparency in offset equivalency process and taking specific actions to revisit emission reduction categories used in the equivalency demonstration
  - Holding a public workshop on the draft annual equivalency demonstration prior to submitting the report to the District Governing Board (*held November 5, 2020*)
  - Convening a public advisory workgroup consisting of affected stakeholders to assist in developing solutions related to the offset equivalency program

# Public Advisory Workgroup

- Created by Board in late Aug 2020 / Kick-off in Sep 2020
- Provides a forum for discussion/suggestions to assist the District in developing solutions/enhancements related to the ERC and offset equivalency system, as needed to maintain an effective permitting system that allows for the protection of public health and strong economic growth in the Valley
- Hear perspectives and receive input on the ERC and offset equivalency systems from stakeholders
- Provides workgroup members and interested members of the public the knowledge and tools necessary to meaningfully participate

# District Offset Equivalency Program

- District performs an annual demonstration that the District's ERC program is at least as stringent as federal offsetting requirements
  - Approach approved by EPA and CARB in 2001
  - 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

# Components of Equivalency



## Federal NSR (increases)

- Federal Offset Quantity for New Major Sources
- Federal Offset Quantity for Major Modifications



## District NSR (decreases)

- ERCs Reserved/Withdrawn (District Offset Quantity)
- ERCs Surrendered
- ERCs Newly Issued (AQID)
- Orphan Shutdowns
- *BACT on Existing Minor Sources*



# 2020 Offset Equivalency Demonstration

- Tracking year: August 20, 2019 through August 19, 2020
- Tracked federal projects:
  - 15 Federal Major Modifications (3 NO<sub>x</sub> only, 8 VOC only, and 4 both NO<sub>x</sub> and VOC)
  - 0 New Major Sources
- Significant adjustments incorporated into 2020 Demonstration:
  - Incorporate Board's action regarding removal of AG-ICE and orphan shutdown credits (affects PM<sub>10</sub>, PM<sub>2.5</sub> and SO<sub>x</sub>; affects surplus test)
  - Address cancelled/non-implemented projects (affects all pollutants; affects tracked increases and decreases; affects quantity and surplus tests)
  - Federal Offset Ratio correction (affects NO<sub>x</sub> and VOC tracked increases from 8/20/2010 to 8/19/2014; affects quantity and surplus tests)
- Enhancing process and report to increase transparency

# 2019-20 Offset Equivalency Report Summary

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

# San Joaquin Valley APCD

## Annual Offset Equivalency Report

### Offset Quantity Equivalency

Summary for 08/20/2019 through 08/19/2020

Pollutant	Number of New Major Sources	Number of Federal Major Mods	Offsets		Current Year Excess or Shortfall	Previous Year-End Total Carry- over Excess or Shortfall	Year-to-Year Adjustment to Carry-over Balance	Year-End Total Carry- over Excess or Shortfall
			Required under Federal NSR	Offsets Required under District NSR				
NOx	0	7	18.8	26.8	8.0	4,319.9	(3,968.8)	359.1
VOC	0	12	50.0	35.0	(15.0)	733.4	(2,820.6)	(2,102.2)
PM10	0	0	0.0	15.1	15.1	837.5	(529.7)	322.9
PM2.5	0	0	0.0	0.0	0.0	377.7	(185.4)	192.3
CO	0	0	0.0	0.0	0.0	198.1	0.0	198.1
SOx	0	0	0.0	8.5	8.5	2,863.6	(1,696.1)	1,176.0

Notes:

- All values are in tons per year

# San Joaquin Valley APCD

## Annual Offset Equivalency Report

### Surplus Value Equivalency

Summary for 08/20/2019 through 08/19/2020

Pollutant	Number of New Major Sources	Number of Federal Major Mods	Offsets Required under Federal NSR	Surplus Reductions Used for Equivalency This Year	Current Year Excess or Shortfall	Previous Year-End Total Carry-over Creditable Reductions	Year-to-Year Adjustment to Carry-over Balance	Current Year New Creditable Reductions	Year-End Total Carry-over Creditable Reductions
NOx <sup>1</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
VOC <sup>1</sup>	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
PM10	0	0	0.0	0.0	0.0	1,898.0	(1,583.2)	15.2	330.0
PM2.5	0	0	0.0	0.0	0.0	1,020.0	(823.0)	0.0	197.0
CO	0	0	0.0	0.0	0.0	763.0	0.0	0.0	763.0
SOx	0	0	0.0	0.0	0.0	2,038.0	(1,702.2)	2.3	338.2

*Notes:*

- All values are in tons per year

<sup>1</sup> Effective September 17, 2020, NOx and VOC were no longer Surplus Value equivalent and Rule 2201 remedy was enacted to require surplus at time-of-use ERCs for projects requiring NOx and VOC offsets under Rule 2201. Therefore, these pollutants are not included in Surplus Value demonstration.

# Implications of Equivalency Demonstration

- VOC
  - Effective Nov. 20, 2020, all projects triggering federal offsets are required to satisfy the full federal offset quantity and ERCs used to satisfy the requirements must be surplus at time of ATC issuance
- NO<sub>x</sub>
  - Effective Sep. 17, 2020, all ATCs requiring NO<sub>x</sub> offsets under the District NSR rule for a new major source or federal major modification are required to supply ERCs that are surplus at time of ATC issuance
- PM<sub>10</sub>, PM<sub>2.5</sub>, SO<sub>x</sub>, and CO
  - No change to the offset quantity and ERC surplus value requirements at this time

# Next Steps

- Work to educate stakeholders on current status of offsetting requirements
- Actively engage project proponents to navigate potentially significant impacts of federal offsetting requirements
- Work with stakeholders through Public Advisory Workgroup in pursuit of solutions to correct the shortfalls and ensure adequate supply of credits to meet offset obligations
- Provide regular progress reports to the Board

# Next Steps: Inter-district Transfer of ERCs

- Consistent with state law and Board direction, the District considers the transfer of ERCs from the Valley to other regions on a case-by-case basis
- The current supply of surplus ERCs may not be sufficient to support longer-term economic growth and development in the Valley
- District is considering suspending the inter-district transfer of surplus credits to other regions
- District will begin a public process of solicit feedback on this potential change and will return to the Board with recommendations at a future date

# Recommendation

- Receive and file the District's Final Annual Offset Equivalency Report submitted to the federal Environmental Protection Agency (EPA) for the 12-month period from August 20, 2019 through August 19, 2020