

UPDATE ON DISTRICT RESPONSE TO CALIFORNIA AIR RESOURCES BOARD'S REVIEW OF THE DISTRICT EMISSION REDUCTION CREDIT SYSTEM

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

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 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_x emissions (primary precursor for both ozone and PM_{2.5}) 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

District Offset Equivalency Program

- As allowed by the federal Clean Air Act, District's ERC program differs from a direct implementation of the federal offsetting requirements
 - EPA and ARB initially approved the District's approach in 2001
- District performs an annual demonstration that the District's ERC program is at least as stringent as federal offsetting requirements
 - Submitted to EPA, CARB, and presented to Governing Board at public hearing
- Annual report must demonstrate both of the following:
 - The quantity of offsets required by Rule 2201 equals or exceeds the quantity of federal offsets that would have been required
 - 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 remedies that are required to be enacted immediately

Equivalency Demonstration Assumptions

- District has utilized the surplus value of emission reductions across various categories to demonstrate offset equivalency
- CARB raised questions regarding the assumptions, quantification methodologies, and creditability of the emission reductions associated with two categories of emissions reductions in particular:
 - Agricultural engine electrification projects (AG-ICE)
 - Unbanked facility shutdowns (“orphan shutdowns”)
- District committed to revisiting the emission reductions used in the equivalency demonstration from these two categories

Recommendation

- After review and given significant remaining questions, staff recommends the following actions consistent with the Board's direction for proactive response to the review:
 - Provisional withdrawal of the emissions reductions from these categories from the equivalency system at this point
 - Reintroduction of the appropriate portion of the emission reductions from provisionally withdrawn projects once EPA and ARB accepted mechanisms and methodologies are developed
- Proposed action would allow the public process to inform the development of mechanisms and methodologies for the use of these and other types of creditable emission reductions in demonstrating equivalency

Impacts on Equivalency Demonstration

- With recommended provisional removal of AG-ICE and orphan shutdown projects, system would not demonstrate equivalency with the surplus value test for NOx and VOC
- As included in EPA-approved Rule 2201, surplus value test remedy would be enacted immediately for NOx and VOC
 - Any new major source or federal major modification triggering offsets under the District NSR rule would require “surplus at time of use” ERCs
 - Potential impact on ability to permit new or modified major sources
 - Would be in effect until the system could be brought back into equivalency
- Recommended action not anticipated to have impact on ability to demonstrate:
 - Surplus value test equivalency for PM10, PM2.5, or SOx
 - Offset quantity test equivalency for any pollutant

Next Steps

- If approved by your Board, in the annual offset equivalency report due November 20, 2020, staff will:
 - Incorporate today’s recommendations
 - Finalize the equivalency demonstrations for the surplus value test for PM10, PM2.5, and SOx
 - Finalize the offset quantity test for all pollutants
 - Conduct outreach to affected stakeholders
- Continue implementation of District commitments associated response to the CARB review
 - September 2020, kick-off of ERC Public Advisory Workgroup process
 - October 2020, public workshop on draft 2020 Annual Equivalency Demonstration
- Staff will provide regular progress reports to the Board