



California Council for Environmental and Economic Balance

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August 26, 2016

Mr. Gary Quinn, P.E.
Planning, Rule Development and Area Sources
South Coast Air Quality Management District
21865 Copley Drive
Diamond Bar, CA 91765

RE: Proposed RECLAIM Amendments – Shutdown Provisions

Dear Mr. Quinn:

We are pleased to submit the following comments on behalf of the California Council for Environmental and Economic Balance (“CCEEB”). CCEEB is a non-profit, non-partisan association of business, labor, and public leaders, which advances balanced policies for a strong economy and a healthy environment. CCEEB represents major mobile and stationary sources across California and is an active stakeholder at the South Coast Air Quality Management District (“SCAQMD”). Many of our members participate in the REgional CLean Air Incentives Market (“RECLAIM”) Program. We offer the following comments for your consideration on the issue of permanently removing RECLAIM Trading Credits (“RTCs”) associated with facility shutdowns from the RECLAIM credit market:

1. Need for Analysis of Potential Impacts of Proposal

CCEEB had strong concerns with the language on shutdown credits that staff brought to the Board at its December 4, 2015 meeting. This was, and continues to be, a significant issue to our members and to the RECLAIM program as a whole. We were pleased that the Board adopted a resolution that states in part:

Subparagraph (i) of Rule 2002 that was originally proposed by staff on November 4, 2015 and released in rewritten form on November 28, 2015 is NOT adopted at this time. Staff shall return it to the NOx RECLAIM Working Group for further discussion and analysis of that proposal’s potential implications on the entire NOx RECLAIM Program and consideration of possible alternatives that would allow a closer alignment of the treatment of shutdown credits in RECLAIM and command-and-control programs short of full forfeiture. Following this process, staff may bring its original proposal or some other alternative back to the Governing Board for consideration for adoption.

The current proposal focuses on full facility shutdowns, as compared to the December proposal that looked at partial facility or equipment shutdowns. This is an improvement.

That said, we look forward to seeing the analysis as directed by the Board in the resolution shown above.

2. Effective Date of Amendment

CCEEB recommends the date of Board adoption as the effective date of this amendment.

3. Credit for Going Beyond BARCT

Section 1 of the proposal provides the calculation to determine a shut-downed facility's available RTCs, after adjusting for BARCT. Section 2 provides language for a further reduction to the initial BARCT-adjusted NOx allocation based on any offsets provided by the SCAQMD pursuant to Rule 1304.

CCEEB believes an additional provision is needed to credit back to the facility any emission reductions that resulted from installation of control equipment going beyond BARCT. One of the basic premises of the RECLAIM program is the incentive for facilities to install equipment beyond BARCT. We do not believe it is appropriate to penalize a facility for this type of investment at the time of closure. We are also concerned that without such a provision, the District may inadvertently discourage future investments in beyond-BARCT control technologies.

4. Recognition of "Common Ownership"

CCEEB is pleased to see that the proposal recognizes the importance of common ownership and allows the transfer of RTCs between commonly owned facilities. The current language proposes the use of the 6-digit North American Industry Classification System (NAICS) to determine common ownership. We believe this approach is too restrictive and would unfairly limit many facilities from the use of this provision. Instead, we suggest the following language, which we believe still meets the objectives of the District:

(6) The requirements specified in this subdivision shall not apply to facility shutdowns where the RTCs are transferred to another facility that is under common ownership, including parent or subsidiary thereof, at the time of rule adoption.

5. Planned Non-Operational (PNO) Status - Discrete Credits

In the current proposal, all NOx RTCs from facilities with PNO status become non-tradable. CCEEB believes that this trade restriction should only apply to trades of infinite year blocks (IYBs). The shutdown rule is intended to prevent transactions that delay the installation of BARCT because of the sudden availability of a large influx of RTCs that become available from the shutdown of a large facility. Individual year (discrete) credits do not give a facility the operational assurance that IYB holdings provide. Therefore, we do not believe the sale of discrete RTCs will interfere with BARCT installations. However, the fluctuation of supply created by suspending and then unsuspending RTCs could be disruptive to the market and lead to volatility.

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6. De-Minimus Levels

As stated above, CCEEB understands that the goal of the shutdown rule is to avoid the delay of BARCT installations due to large shutdowns providing a large influx of RTCs into the market. Smaller facility shutdowns would not carry this same risk and would be cumbersome within the administration of SCAQMD under the program. There is additional concern that smaller facilities may not sell IYBs due to the risk involved with the shutdown provision, which could impede new growth in the SCAQMD region. Without the incentive of being able to sell IYBs, these facilities have little incentive to install controls, effectively removing the upside of a market-based program. CCEEB recommends that the shutdown rule apply only to Table 7 & Table 8 facilities.

We would be pleased to meet with you and your colleagues should you wish to discuss any of our comments in greater detail.

Thank you for considering our views.

Sincerely,

A handwritten signature in blue ink that reads "Bill Quinn". The signature is written in a cursive, flowing style.

William J. Quinn

Chief Operating Officer

cc: Mr. Wayne Nastri, SCAQMD Acting Executive Officer
Dr. Philip Fine, SCAQMD Deputy Executive Officer
Mr. Tracy Goss, SCAQMD Manager
Mr. Gerald Secundy, CCEEB President
Ms. Janet Whittick, CCEEB Policy and Communications Director
Members, CCEEB's South Coast Air Project