COMMONWEALTH OF VIRGINIA
DEPARTMENT OF ENVIRONMENTAL QUALITY
AIR DIVISION

INTRA AGENCY MEMORANDUM

TO: File

FROM: Mary E. Major
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SUBJECT: Meeting Minutes,–September 15, 2005- Regulatory Ad Hoc Advisory Group Concerning Clean Air Interstate Rule (Rev. E05)

DATE: September 21, 2005

INTRODUCTION

At 1:00 p.m., September 15, 2005, a meeting of the ad hoc advisory group concerning the Clean Air Interstate Rule (CAIR) was held in the First Floor Conference Room, Department of Environmental Quality, 629 East Main Street, Richmond, Virginia. A record of meeting attendees is included as Attachment A.

SUMMARY OF DISCUSSION

The meeting opened with a review of the unit specific revisions of the data presented last week. Staff also reviewed the Integrated Planning Model (IPM) projections for capacity, utilization and emissions into the future. There was a presentation and discussion on energy efficiency and the need for an allowance set aside to facilitate the use of renewable and energy efficiency. The group also discussed timeframes for implementation, role, if any for an auction of allowances, geographic coverage for trading, and BART implications.

1. Energy Efficiency Discussion

No consensus achieved. Additional discussion necessary.

Discussion on this issue:

Pertains to wind
Using current landfill gas doesn't reduce NOx
No solar at this time-need more refined data analysis

Renewable and energy efficiency can assist in reducing costs for power.

However, buying wind power doesn't clean the air unless allowances are retired. New Jersey has protocol for submitting information to ensure credit is granted for reductions due to efficiency for renewable forms or energy. Massachusetts has procedures for approving reductions. Data is submitted to ensure that reductions are achieved and are federally enforceable. To get SIP credit, allowances must be retired.

Most of the Ozone Transport Region includes entire states in the North East that are identified as nonattainment, therefore, any efficiency or renewable project could demonstrate an impact in a nonattainment area. Virginia only has Northern Virginia in the OTR and the entire state is not identified as nonattainment. How would renewable or efficiency projects in attainment areas demonstrate improvement in nonattainment areas?

How would benefits be determined and from which power producer?. Once power is sent to the grid it becomes very difficult to determine where benefits occur.

Difficult to see a direct correlation to nonattainment monitors. The set aside reduces the cap for Virginia. Buying wind power from other states penalizes Virginia sources by reducing the allocations available to Virginia sources.

Some indicated that addressing SIP issues is not something that should be undertaken with this rulemaking. CAIR is not an attainment strategy. Conversely, EPA has indicated the purpose of CAIR is to assist states with achieving attainment in areas where air quality is negatively impacted by up-wind sources. Thus implementing CAIR does have importance with respect to non-attainment and maintenance areas in the state.

Unused allocations go to existing sources.

The group discussed pros and cons of creating a set aside for renewable and energy efficiency. The issues reported herewith are identified as either pro or con, however, it should be noted that the group did not reach consensus as to the appropriate identification of each item being either a pro or con.

<u>Pro (not in any order of priority)</u>

Reduces NOx emissions
Efficient at achieving a lower CAIR budget, i.e. lower emissions of pollutants
Reduces the economic costs of a lower state cap
Model STAPPA/ALAPCA regulatory language exists for ease of incorporating into Virginia regulation.
EPA offered guidance on how states can do it
May actually improve electric grid transmission stability
New energy technology; new jobs
Reduced haze in Shenandoah Nation Park and Shenandoah Valley
Provides a head start on encouraging emerging technologies and the direction of power production in the future

Provides emergency/disaster relief-Homeland security issues
More federal dollars to Virginia; Federal monies available-those required to purchase renewables will go elsewhere if Virginia doesn't have a program
Reduced emissions means healthier people-reduced health car costs
Reduces the deposition into the Chesapeake Bay

Con (not in any order of priority)

Regulatory timeframe insufficient to address specifics for crafting a set aside
Difficult to make reductions quantifiable and enforceable
Probably no great local impact on nonattainment areas given the dispersion aspects of pollution
Unfairly lowers cap for Virginia sources
Threatens electricity reliability
Set aside becomes a cost to existing generators because it removes allowances from the state cap
Impairs utilities statutory obligation to serve every customer by having fewer allowances available
Could cost jobs due to increased cost of generating electricity
Windmills impact vistas,-can have other negative environmental impacts

Issues discussed pertaining to the pros and cons suggested that the pros pertained more to the benefits of renewable energy in general, not to the specifics of crafting a set aside. Some of the pros listed address the feasibility of crafting a set-aside while others address the effectiveness of ancillary benefits gained by having such a set aside. Many of the issues listed as benefits needed to be quantified and studied further. Discussions of the set aside indicate that new sources don't want the allocations coming from their share of the allocations; everyone wants to make sure that none of their allocations get reduced. Where does the set aside come from?

2. Timeframes

No consensus achieved. Committee members are encouraged to submit separate position papers to DEQ to include with information forwarded to the State Air Pollution Control Board.

Discussion on this issue:

Move the second phase compliance date from 2015 to 2012.

Incentives for early reductions: Timeframes are too long for real reductions to occur for health and environmental benefits.

Difficult for some members to see how any incentives for early reductions would work. Any early reduction credits (ERCs) generated by Virginia sources would be gone once the new compliance date arrived. Sources in other states would have additional years (later compliance date) to use their ERCs. That places Virginia sources at an

economic disadvantage because sources in other states would have those ERCs to use until the later compliance date.

Sources indicated that it will be difficult to meet the existing federal timeframes, much less an accelerated compliance schedule.

3. Role of Auction

Consensus achieved. No support for an auction of allowances.

Discussion on this issue:

Industry pays twice, once for the control technology, the second time to buy the allowances.

4. Geographic Coverage of Trading

Consensus may be achieved pending further committee discussions. Committee members are encouraged to submit separate position papers to DEQ to include with information forwarded to the State Air Pollution Control Board.

Discussion on this issue:

States must either agree to the EPA trading program or craft their own individual state program. One member voiced a concern about interstate trading, indicating concerns about deposition into the Chesapeake Bay….(allowing a source near the Bay to buy reductions from a source in Missouri won't help reduce the atmospheric deposition into the Bay). Although all members are not pleased with the large geographic trading area, the EPA regulation does require that trading domain or require the state to develop its own trading program. The committee is in agreement that the state should not develop its own trading program.

5. BART Discussion

No consensus was met on this issue. Committee members are encouraged to submit separate position papers to DEQ to include with information forwarded to the State Air Pollution Control Board.

Discussion on this issue:

Federal position is that CAIR is better than BART in reducing pollutants that impact regional haze.

Some indicate BART program needed to reduce particulate matter.

INFORMATION TO BE DISCUSSED AT THE NEXT MEETING, SEPTEMBER 22, 2005

DEQ staff was asked to explore any options regarding non-EGU budget to be used for a set aside if non-EGUs are included in the seasonal program and to explore any options regarding the SO_2 budget.

The group did agree that additional discussion was necessary on the following issues:

- Allocation methodology
  - Heat input vs. output base allocation
  - Fuel neutral allocation
  - Initial baseline period (as it affects “new” source pool)
  - Permanent vs. updating baselines
  - Reduced allocation lead time to bring new units in more quickly
  - Improved treatment of combined heat and power
  - Definition of “new” source
  - Adjustment of size of set aside considering, but not limited to the follow: covered sources, timing of reallocation, baseline updating and statutory limitations

- New source set aside
  - Definition of “new” source
  - Adjustment of size of set aside considering, but not limited to the follow: covered sources, timing of reallocation, baseline updating and statutory limitations

- Renewable and energy efficiency
  - Set aside
  - Direct allocation (based on output)

Attachments