

**COMMONWEALTH OF VIRGINIA
DEPARTMENT OF ENVIRONMENTAL QUALITY
AIR DIVISION**

INTRA AGENCY MEMORANDUM

TO: File

FROM: Mary E. Major
Environmental Program Manager

SUBJECT: Meeting Minutes,–September 22, 2005- Regulatory Ad Hoc Advisory Group Concerning Clean Air Interstate Rule (Rev. E05)

DATE: September 28, 2005

INTRODUCTION

At 1:00 p.m., September 22, 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 facilitator opened the meeting by announcing that any position papers members want to develop on issues the group is unable to achieve consensus on must be forwarded to the DEQ by Monday, November 14, 2005. The facilitator also reviewed the definition of consensus identified in the Ad Hoc Committee Protocol:

Consensus is defined as a willingness of each member of a group to be able to say that he or she *can live with the decisions reached and will not actively work against them outside of the process.*

The previous minutes were reviewed to ensure that the group still had consensus on the issues as identified. No changes were made to the previous minutes.

1. Allocation Methodology Discussion

Consensus achieved:

Existing units will use heat input, New units will use out put

Existing units include all units in operation at time of promulgation of regulation or

before January 1, 2006

New units include those that will come online after the date the regulation becomes effective or before January 1, 2006. New units also include renewable energy sources.

Discussion on this issue:

There are implications depending upon which allocation method is chosen:

Not all sources use the same type of fuel

Different types of sources; different ages.

If new sources are moved into the system as soon as possible then perhaps there will not be such a disparity between the sources. Of the sources listed to be affected by the regulation, 25 are "new sources" under the model rule definition yet are operating today.

Under an output basis, renewable energy sources are accounted for. There is no heat input for renewable energy sources; therefore, cannot support a heat input allocation.

Heat input works well for older, existing sources that use coal but sends the wrong message for new, clean, efficient energy. Some may be willing to consider output based system, however, once control equipment is in place it uses energy to operate and panelizes the systems that need to install equipment. Should use gross output, not net, but net output is more readily available through official reporting to Department of Energy.

Heat input is a system that is already in use in the NOx SIP Call. Monitoring in Part 75 is for heat input –it provides nothing for output. EPA model rule uses heat input.

Heat input rewards old, dirty facilities. Many new systems are more fuel efficient and therefore the regulation should reward new, cleaner, more efficient units. The market place should be used to reward efficiency. It was suggested that conversion of the allocation basis to output after the initial allocation would create an impetus for efficiency improvements. There were some members that supported the concept that it would be advantageous for this initial procedure to transition to one where all units would use gross (before emission control energy requirements) useful energy output at some point in the future. The length of time to achieve this transition was left open, as was whether to recommend such a transition.

The procedure of "Existing units will use heat input, Future units will use output" is most practical to use initially. To this point there was a consensus. However, recognizing that this approach gave a significant advantage to older sources, there were some members that supported the concept that it would be advantageous for this initial procedure to transition to one where all units would use gross (before emission control energy requirements) useful energy output at some point in the future. The length of time to achieve this transition was left open, as was whether to recommend such a transition.

The issue of whether to incorporate fuel weighting was also discussed. It was determined that additional discussion was necessary.

EPA also addressed a hybrid approach that used heat input for existing sources; new units based on out put then converted to heat input for allocation determination.

2. Initial Baseline

Consensus achieved:

Use average of three highest years during the five years: 2001 to 2005

Discussion on this issue:

Need a process for addressing sources that don't have 5-years of data. Two options were suggested: 1) Use as little as one full year of baseline data if that is all that is available or 2) Allow recently constructed units with less than three years of data the option of either utilizing less than three years of baseline data or participating in the new source set-aside for the given allocation period.

How to address sources that are retired or in shut-down mode due to maintenance, equipment installation, etc. About 25 percent of all Virginia EGUs, representing about 40 percent of the baseline heat input in 2004, will be 50 years old or older in 2009 and can be expected to eventually retire. One option is just to allow updated heat input data to drive reduced allocations to less utilized or retired units. (This would work best with frequent updating of the baseline information and frequent, perhaps annual, re-allocation). If re-allocation occurs less frequently, then issuance of substantial allocations to non-operating EGUs is likely to be a concern. Revocation of allocations to retired units was raised as a possible solution.

3. Updating vs. Permanent Allocation

Consensus achieved. Provide periodic update of allowance allocations based on updated baseline data:

Three year notification of subsequent allocations

Discussion on this issue:

Additional discussion necessary as to frequency of periodic updates.

Longer allocation periods provide enhanced certainty for planning of the major capital expenditure programs that will be needed to achieve compliance with the Rule.

4. New Source Set Aside

Consensus achieved:

New source EGUs will be rolled into the existing source pool upon reallocation, however, renewable energy sources will remain in new source set aside.

The new sources (commencing operation after January 1, 2006) that are made

part of the existing source pool would continue to be allocated on an output basis.
Any unused allocation in the set aside would revert to existing sources.

Discussion on this issue:

The size of the set aside must be consistent with Virginia law.

Total set aside including allowances for renewable energy should not exceed 5%

Designate a percentage of the set aside for renewable energy -1% that can be banked if not utilized for a given year instead of reverting to existing sources

INFORMATION TO BE DISCUSSED AT THE NEXT MEETING, SEPTEMBER 29, 2005

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

Allocation Methodology

Transition to output based allocation for all sources at some future time

Fuel neutrality of input based allocations: Should coal, oil, and natural gas have equal weightings? What about renewable energy?

Treatment of combined heat and power sources

Allocation needed for thermal output

New Source Set Aside

Should there be a percentage for renewable energy sources? If so, how much?

Early Reduction Credits

Review STAAPA/ALAPCO Language

TEMPLATES\PROPOSED\AH08
REG\DEV\E05-AH08-4

Attachments