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 29, 2005- Regulatory Ad Hoc Advisory Group Concerning Clean Air Interstate Rule (Rev. E05)

DATE: October 4, 2005

INTRODUCTION

At 1:00 p.m., September 29, 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 reminding members 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 Friday, November 4, 2005. (Please note change: previous minutes indicated the 14th.)

The facilitator also listed the issues that the group identified as needing additional discussion from the previous meeting which included the following:

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

It was decided that the STAPPA/ALAPCO language addressed most of the issues so it would be best to just review that language to determine if the group could reach consensus

The document used can be found here:
http://www.4cleanair.org/Bluestein-cairallocation-final.pdf

The following identified all areas where consensus was achieved:

Definitions

Include definition of "Renewable Energy": delete reference to hydroelectric and include biomass and landfill gas. One percent of the new source set aside will be reserved for renewable/efficiency. The renewable/efficiency set aside will be a rolling three years with the ability to bank for up to three years; then residual allocations revert to existing source pool for distribution. New sources including renewable/efficiency sources must make a request every year for an allocation from the set aside.

Include definition of "Efficiency": Efficiency will be included with renewable energy sources.

Definition for "Covered source" should include EGUs and non-EGUs identified in the NOx SIP Call for the purpose of the seasonal NOx trading program only-all other trading programs (NOx annual and SO2) include only EGUs. The seasonal NOx budget should be increased by the amount of the non-EGU NOx SIP Call budget (4101 tons).

Allocation Methodology: Initial Allocation

Utilize the EPA model language for the hybrid approach that provides for a heat input based allocation for existing sources and an output based allocation for new sources. Identify new source as commencing operation after January 1, 2006. Modify dates in EPA Model Rule as appropriate to correspond to Virginia Law found at:

http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+10.1-1322.3

The January 1, 2006 date moves sources operating now into the existing source allocation system. Under EPA model rule language 25 of the sources operating now would be considered "new sources" and would not get rolled into the existing source allocation pool until the next allocation update.

Allocation Methodology: Subsequent Allocation

Provide an annual reallocation with a six year lead time i.e. allocations for 2016 would be done in 2010.

2. Initial Baseline

Consensus achieved:

Use average of three highest years during the five years: 2001 to 2005. Where fewer than three full years of data are available, use available full year data.

3. Treatment for Combined Heat and Power (CHP) Facilities

For "new sources", use STAPPA/ALAPCO language. Existing CHP facilities will be treated the same as other EGUs (allocated based on heat input).

4. New Source Set Aside

One percent of the new source set aside will be reserved for renewable/efficiency. It will be a rolling three years with the ability to bank for up to three years; then residual allocations revert to existing source pool for distribution. New sources including renewable/efficiency sources must make a request every year for an allocation from the set aside. State law requires that the new source set aside will decrease after the first five year allocation period to 2 percent. The renewable percentage of 1 percent will not change.

5. Public Health Set Aside.

Regulation should include a voluntary Public Health set aside: a repository for allocations that sources could contribute to. The allocations placed in the set aside would be permanently retired and would result in a lowering of the overall state cap.

The following are issues that the group did not achieve consensus:

1. Fuel Weighting

The EPA model rule contains provisions for allocations to be based on a formula contingent on the fuel used. Some utilities had no position on this issues because they operate generators that utilize several types of fuel. Others that operate primarily coal support the fuel weighting provisions. Dominion has a neutral position on this as they have facilities that burn many different types of fuel. Environmental groups and utilities that burn oil and gas support fuel neutral allocation approach as do owners of the newer, mostly gas-fired EGUs.

2. Eventual Transition to Output Based Allocation

Discussion addressed the need to eventually move all allocations to an output based approach. Not supported by companies that are forced to install controls at a significant cost; would result in a reduction of economic incentives to over control.

3. Geographic Coverage for Trading Domain

Discussion addressed the need to limit the trading domain so that sources would be sure to clean up locally and not trade credits to states located farther away. Virginia rate-payers should not pay for clean-up that does not benefit Virginia. Much discussion as to whether clean-up in Mid-western or states located further away benefit Virginia.

It was pointed out that a broader western trading domain creates the market for the emissions reductions in the east. Virginia sources are already cleaner that those of surrounding states. A limited trading domain would penalize the Virginia sources.

The focus for CAIR is to address regional transport of pollution, not local nonattainment issues.

4. Size of allocation for Non-EGUs in Program

Discussion addressed whether the allocations for non-EGUs included in the program should be reduced; equity question, EGU cap reduced, non-EGU cap should be reduced as well. Most non-EGUs not at the table, utility representatives did not want to address non-EGU concerns.

TEMPLATES\PROPOSED\AH08
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Attachments