



South Coast Air Quality Management District



21865 Copley Drive, Diamond Bar, CA 91765-4178
(909) 396-2000 • www.aqmd.gov

March 9, 2007

Terry O'Brien
Deputy Director
California Energy Commission
System Assignment & Facility Siting Division
1516 Ninth Street, MS-29
Sacramento, CA 95814-5512

DOCKET	
05-AFC-2	
DATE	MAR 09 2007
RECD.	MAR 19 2007

Subject: Rule 1309.1 – Priority Reserve

Dear Terry:

This is a follow-up to our telephone conversations and my subsequent meeting with the California Energy Commission (CEC) staff (Paul Richins and Joe Loyer) on February 1, 2007 regarding the South Coast Air Quality Management District's (AQMD's) Rule 1309.1 – Priority Reserve.

First I would like to thank you and your staff for your participation in the development of amendments to AQMD's New Source Review (NSR) rules, in particular Rule 1309.1 – Priority Reserve in relation to permitting of new or expansion/repowering of existing power plants. As you know, the AQMD has made several amendments to its NSR rules to address the California energy crisis which occurred in the early 2000s and most recently in 2006 to address CEC's projections for potential electrical generation shortfalls in Southern California (South of Path 23) for the upcoming summers by providing access to AQMD's offset accounts to obtain emission credits for construction of new power plants.

As part of our discussions, CEC has requested additional information regarding the AQMD's Priority Reserve and in particular regarding sources of credits used in AQMD's offset accounts. CEC has also inquired about the mitigation fees obtained for purchase of offset credits from AQMD's offset accounts. In response to CEC's inquires I have attached the official signed copy of AQMD Governing Board's Resolution for Rule 1309.1 amendments adopted on September 8, 2006. As you can see, on page 4 of the Resolution the Governing Board has directed staff as follows:

“BE IT FURTHER RESOLVED, that the Governing Board hereby directs that staff shall use all mitigation fee proceeds collected pursuant to paragraph (f) of PAR 1309.1 – Priority Reserve to fund PM-10, CO and SOx emission reduction programs as close as possible to the new or modified source of emissions and one third of the mitigation fee proceeds collected be used to promote the installation of renewable energy projects, including solar power, in communities where the new power plants will be located and to work with utilities and other interested parties to assist staff in establishing an effective process to implement this directive; monitor the cost of PM-10, CO and SOx reductions achieved; review and report, at least annually, on the adequacy of the mitigation fee level”

During our February 1, 2007 meeting with CEC staff we provided CEC with the following information:

- Summary of AQMD's NSR Tracking System
- AQMD's Annual Status Reports regarding Regulation XIII – New Source Review for the last ten years (1995-2005)
- AQMD's Board item regarding issuance of Request For Proposal for renewable energy projects in communities surrounding ten electrical generating facilities
- AQMD's letter to Roger Johnson of CEC dated May 19, 2006 providing information on past projects funded using Rule 1309.1 mitigation fees obtained from power plants

In addition, during our meeting we provided a breakdown by zip code and by equipment type for some of the sources of credits used in the AQMD's offset accounts for the period 2003-2004. We also provided CEC staff information related to AQMD's Board item dated October 6, 2006, on establishing a PM_{2.5} significant threshold and calculation methodology for estimating PM_{2.5} emissions. At the conclusion of our February 1, 2007 meeting CEC staff indicated that the information provided to them was very helpful and should address the main issues that CEC was trying to address regarding Priority Reserve credits. Subsequently CEC has requested that, in particular, we formally provide CEC with the information related to the breakdown of sources of credits for 2003-2004 reporting period so it can be used for your staff analysis of power plant applications.

I apologize for not getting this information to you earlier, but since our meeting AQMD staff has conducted further analysis of the sources of credits used in our AQMD offset accounts. As a result, attached please find information regarding breakdown by zip codes and equipment types of sources of credits for the reporting periods 2003-2004 (which was shared with CEC staff at our meeting), as well as for period 2002-2003.

Based on the information provided here, as well as the information provided to CEC staff previously and during our February 1, 2007 meeting, I am hopeful that we have addressed all of the main concerns and issues that CEC had commented to us related to AQMD's Rule 1309.1 – Priority Reserve. Please feel free to contact me at 909-396-2662 if you have any questions.

Sincerely,



Mohsen Nazemi, P.E.
Assistant Deputy Executive Officer
Engineering and Compliance

MN:ph

cc: Roger Johnson, CEC
Paul Richins, CEC
Joe Loyer, CEC

Barbara Baird, AQMD
Laki Tisopulos, AQMD

Attachments
(cecteryobrine3907)

RESOLUTION NO. 06-26

A Resolution of the Governing Board of the South Coast Air Quality Management District (Governing Board) certifying that the proposed adoption of Proposed Amended Rule 1309.1 – Priority Reserve is exempt from the requirements of the California Environmental Quality Act (CEQA).

A Resolution of the Governing Board amending Rule 1309.1 – Priority Reserve.

A Resolution of the Governing Board of the South Coast Air Quality Management District approving Inland Energy’s request for inter-district transfer of Volatile Organic Compound Emission Reduction Credits from the South Coast Air Quality Management District to the Antelope Valley Air Quality Management District and the Mojave Desert Air Quality Management District.

WHEREAS, the AQMD staff reviewed the proposed project and determined that it is exempt from the California Environmental Quality Act (CEQA) pursuant to Public Resources Code section 21080(b)(6) and CEQA Guidelines section 15271(A); and

WHEREAS, the Governing Board has determined in accordance with the Legislature’s intent, as expressed in Public Resources Code section 21080(b)(6), that it is appropriate to move forward with that portion of Rule 1309.1 dealing with thermal power plants (EGFs); and

WHEREAS, the Governing Board has determined that the socioeconomic impact assessment of Proposed Amended Rule 1309.1 – Priority Reserve, is consistent with the Governing Board March 17, 1989 and October 14, 1994 Socioeconomic Resolution for rule adoption; and

WHEREAS, the Governing Board has determined that the socioeconomic assessment of the Proposed Amended Rule 1309.1 – Priority Reserve, complies with the provisions of Health and Safety Code Sections 40440.8, 40728.5 and 40920.6; and

WHEREAS, the Governing Board has reviewed and considered the staff’s findings related to cost impacts of Proposed Amended Rule 1309.1 – Priority Reserve, as set forth in the socioeconomic impact assessment, and hereby finds and determines that the cost impacts are as set forth in that assessment; and

WHEREAS, a socioeconomic impact assessment concluded that Proposed Amended Rule 1309.1 – Priority Reserve, will not impose any additional compliance costs on affected sources, and as such, will not result in any adverse socioeconomic impacts; and

WHEREAS, the Governing Board has determined that Proposed Amended Rule 1309.1 – Priority Reserve, is not a control measure in the 1997 Air

Quality Management Plan (AQMP) amended in 1999 and thus is not ranked by cost-effectiveness relative to other AQMP control measures in the amended 1997 AQMP; and

WHEREAS, the Governing Board has determined that a need exists to amend Rule 1309.1 – Priority Reserve, to provide qualifying electrical generation facilities (EGFs) limited, temporary access to the priority reserve for PM-10, SOx and CO credits subject to meeting conditions specified in the rule; and

WHEREAS, the Governing Board obtains its authority to adopt, amend, or repeal rules and regulations from California Health and Safety Code Sections 39002, 40000, 40001, 40440, 40441, 40463, 40702, 40709.6 (inter-basin offsets), 40725 through 40728, 41508, and 42300; and

WHEREAS, the Governing Board has determined that Proposed Amended Rule 1309.1 – Priority Reserve, has been written or displayed so that its meaning can be easily understood by the persons affected by it; and

WHEREAS, the Governing Board has determined that Proposed Amended Rule 1309.1 – Priority Reserve, as proposed to be amended, is in harmony with, and not in conflict with or contradictory to, existing federal or state statutes, court decisions, or regulations; and

WHEREAS, the Governing Board has determined that Proposed Amended Rule 1309.1 – Priority Reserve, as proposed to be amended, does not impose the same requirements as any existing state or federal regulations and are necessary and proper to execute the powers and duties granted to, and imposed upon, the District; and

WHEREAS, the Governing Board in adopting Proposed Amended Rule 1309.1 – Priority Reserve, as proposed to be amended, references the following statutes which the AQMD hereby implements, interprets or makes specific: Health and Safety Code Sections 42300, 40709.6, 40920.5, federal Clean Air Act Sections 110, 172, 173, 182 and 189 (42 U.S.C. Sections 7410, 7502, 7503, 7511a, and 7513a); and Health and Safety Code Sections 40001, 40702, and 40900; and

WHEREAS, a public hearing has been properly noticed in accordance with the provisions of Health and Safety Code Section 40725; and

WHEREAS, the Governing Board has held a public hearing in accordance with all provisions of law; and

WHEREAS, the AQMD specifies the manager of Proposed Amended Rule 1309.1 – Priority Reserve, as the custodian of the documents or other materials which constitute the record of proceedings upon which the adoption of this proposed amendment is based, which are located at the South Coast Air Quality Management District, 21865 Copley Drive, Diamond Bar, California; and

WHEREAS, the Governing Board of the South Coast Air Quality Management District has received a request from Inland Energy to approve an inter-district offset transaction for Volatile Organic Compound Emission Reduction Credits; and

WHEREAS, the Governing Board of the South Coast Air Quality Management District obtains its authority to approve inter-district offset transactions from Section 40709.6 of the California Health and Safety Code and South Coast Air Quality Management District Rule 1309(i); and

WHEREAS, the Governing Board of the South Coast Air Quality Management District has determined that the South Coast Air Quality Management District is an upwind district to the Antelope Valley Air Quality Management District and the Mojave Desert Air Quality Management District; and

WHEREAS, the Governing Board of the South Coast Air Quality Management District has determined that the South Coast Air Quality Management District is in a worse state nonattainment status than the Antelope Valley Air Quality Management District and the Mojave Desert Air Quality Management District for ozone (for which Volatile Organic Compounds is a precursor); and

WHEREAS, the Governing Board of the South Coast Air Quality Management District has determined that the inter-district transfer request for Volatile Organic Compound Emission Reduction Credits by Inland Energy will not have an adverse impact on air quality, public health, or the regional economy; and

WHEREAS, the Governing Board of the South Coast Air Quality Management District has determined that the requested Volatile Organic Compound Emission Reduction Credits inter-district offset transfers meet the requirements specified in Section 40709.6 of the California Health and Safety Code and South Coast Air Quality Management District Rule 1309(i).

WHEREAS, the AQMD Governing Board finds and determines, taking into consideration the factors in §(d)(4)(D) of the Governing Board Procedures, that the modifications adopted which have been made to Proposed Amended Rule 1309.1 - Priority Reserve since notice of public hearing was published do not significantly change the meaning of the proposed rule within the meaning of Health and Safety Code §40726 and would not constitute significant new information pursuant to CEQA Guidelines §15088.5; and

NOW, THEREFORE, BE IT RESOLVED that the Governing Board of the South Coast Air Quality Management District does hereby approve the inter-district transfer of up to 2500 pounds per day for the Inland Energy City of Palmdale project and up to 2500 pounds per day for the Inland Energy City of Victorville project for a cumulative total of up to 5000 pounds per day of Volatile Organic Compound Emission Reduction Credits from the South Coast Air Quality Management District to Antelope

Valley Air Quality Management District and the Mojave Desert Air Quality Management District.

BE IT FURTHER RESOLVED, that the AQMD Governing Board does hereby certify the Notice of Exemption for Proposed Amended Rule 1309.1 – Priority Reserve, as proposed to be amended, has been completed in compliance with the CEQA Guidelines Sections 15002 (k)(i), 15061 (b)(i) and 15271 (a) and that it has been presented to the Governing Board, whose members reviewed, considered and approved the information therein prior to acting on Proposed Amended Rule 1309.1 – Priority Reserve; and

BE IT FURTHER RESOLVED, that the Governing Board does hereby approve the Socioeconomic Impact Assessment; and

BE IT FURTHER RESOLVED, that the Governing Board does hereby adopt, pursuant to the authority granted by law, Proposed Amended Rule 1309.1 – Priority Reserve, as set forth in the attached and incorporated herein by reference; and

BE IT FURTHER RESOLVED, that the Governing Board hereby directs staff to submit Proposed Amended Rule 1309.1 – Priority Reserve, to the United States Environmental Protection Agency for revisions to the State Implementation Plan; and

BE IT FURTHER RESOLVED, that the Governing Board hereby directs staff to monitor the status of project installations and report back to the Board if an extension of the 2008 sunset date in PAR 1309.1 – Priority Reserve is advisable; and

BE IT FURTHER RESOLVED, that the Governing Board hereby directs staff to monitor the PM-10, CO and SOx credit balance in the Priority Reserve and present the Governing Board with recommendations in the event that any of these credit balances does or is likely to fall below 500 pounds per day, including the transfer of up to 1,500 lbs per day of any of these pollutants to the Priority Reserve if available; and

BE IT FURTHER RESOLVED, that the Governing Board hereby directs that staff shall use all mitigation fee proceeds collected pursuant to paragraph (f) of PAR 1309.1 - Priority Reserve to fund PM-10, CO and SOx emission reduction programs as close as possible to the new or modified source of emissions and one third of the mitigation fee proceeds collected be used to promote the installation of renewable energy projects, including solar power, in communities where the new power plants will be located and to work with utilities and other interested parties to assist staff in establishing an effective process to implement this directive; monitor the cost of PM-10, CO and SOx reductions achieved; review and report, at least annually, on the adequacy of the mitigation fee levels; and

BE IT FURTHER RESOLVED, that the Governing Board directs the Executive Officer to conduct at least one community meeting in the vicinity of any power plant accessing credits from the Priority Reserve to solicit public input regarding local environmental impacts prior to the issuance of a preliminary determination of compliance required by CEC and issuance of permits to construct by SCAQMD; and

BE IT FURTHER RESOLVED, that the Governing Board directs staff return with recommendations as soon as practical to amend Rule 1309.1 – Priority Reserve to address issues of siting electrical generating facilities within communities in the AQMD, that are disproportionately impacted by adverse air quality.

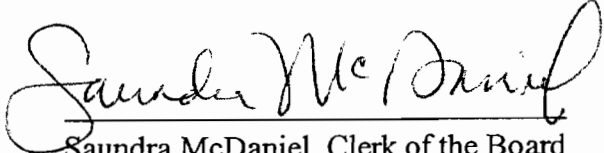
Attachments

AYES: Antonovich, Burke, Carney, Loveridge, Pulido, Silva, Wilson, and Yates.

NOES: Reyes Uranga.

ABSENT: Ovitt, Perry and Verdugo-Peralta.

Dated: 9-8-06


Saundra McDaniel, Clerk of the Board

**Orphan Shutdown & Orphan Reduction Credits to AQMD's Offset Accounts for 2003-2004
(pounds PM10 per day)**

Zip	Valid NSR Credit Total	Zip	Valid NSR Credit Total	Zip	Valid NSR Credit Total
91739	406	90802	9	91367	2
92223	394	92630	9	91506	2
91765	386	90222	8	92201	2
90001	208	91355	8	92583	2
91502	153	91406	8	92627	2
92705	147	92407	8	92801	2
91326	110	92683	8	92802	2
91706	96	90063	7	92841	2
90660	71	91710	7	90011	1
92553	64	92502	7	90014	1
90301	62	90247	6	90022	1
90023	57	90723	6	90033	1
92530	50	90744	6	90038	1
91352	46	91311	6	90066	1
92676	42	91711	6	90089	1
90245	34	92707	6	90201	1
91746	29	90045	5	90220	1
92373	27	90248	5	90262	1
92780	24	91732	5	90506	1
90250	22	91733	5	90710	1
91342	21	92335	5	90746	1
90036	20	92507	5	90805	1
90670	20	92883	5	91040	1
91702	20	90059	4	91383	1
91752	20	90501	4	91411	1
90003	18	90601	4	91423	1
90731	18	90813	4	91605	1
92509	18	90846	4	91768	1
90810	17	92220	4	91770	1
91748	17	92867	4	91786	1
91766	17	90012	3	92234	1
90241	16	90021	3	92262	1
91803	16	90047	3	92324	1
92704	16	90232	3	92408	1
92879	16	90249	3	92411	1
90040	14	90280	3	92504	1
92882	14	90502	3	92570	1
90803	12	91350	3	92614	1
91730	12	91763	3	92626	1
91745	12	91789	3	92650	1
91762	12	92648	3	92663	1
92337	12	92821	3	92708	1
92618	12	90024	2	92806	1
90058	11	90278	2	92807	1
91764	11	90503	2	92869	1
91107	10	90638	2	92870	1
91761	10	90720	2	92880	1
90640	9	90804	2		

Total for All Zip Codes: 3,130

Total for Top 13 Zip Codes: 2,204 (70% of Total)

Note: Credits deposited at 80 % of the values shown to reflect actual emissions.

**Orphan Shutdown & Orphan Reduction Credits to AQMD's Offset Accounts for 2003-2004
(pounds PM10 per day)**

Valid NSR	Equipment Description
986	ABRASIVE BLASTING
555	TURBINE ENGINE
304	SPRAYBOOTH
241	AGGREGATE OPERATIONS
158	HEATERS AND FURNACES
150	ASPHALT OPERATIONS
130	PAINT PRODUCTION
107	BOILERS
77	SPRAY EQUIPMENT OPEN
68	RUBBER PRODUCTION
45	TAR POT
41	TANKS PLATING AND SURFACE PREP
36	ICE
33	FLOUR AND FEED PRODUCTION
27	STORAGE SILOS AND TANKS
25	SOLDER LEVELING SOLDERING MACHINE
24	CONCRETE BATCH EQUIPMENT
22	OVENS
17	CLAY PRODUCTION
11	PLASTIC/RESIN SIZE REDUCTION
9	DROP FORGE
8	SAND HANDLING EQUIPMENT FOUNDRY
7	AFTERBURNERS AND FLARES
6	CIRCUIT BOARD ETCHER, OTHER
5	ELECTROLYTIC PROCESS
4	NATURAL FERTILIZER CONVEYING
3	TEXTILE PROCESSING
3	SOIL TREAT VAPOR EXTRACT GASOLINE UNDER
3	PRINTING PRESS
3	PETROLEUM COKE CONVEYING
3	DEEP FAT FRYER
3	CLEANING, MISCELLANEOUS SOLVENT WIPE
3	Activated Carbon Adsorber Drum Vent s.s.
2	SOFTENING AND PREEXPANSION SYSTEM
2	ALFALFA CONVEYING
1	SYNTHETIC FERTILIZER PRODUCTION
1	MISC MATERIALS SIZE CLASSIFICATION
1	GREEN WASTE SCREENING
1	GARNETTING PAPER/POLYESTER POLYESTER
1	FERRIC CHLORIDE PRODUCTION
1	DAY TANKER ASPHALTIC
1	Crude Oil/Gas/H2O Separation >=30<400BPD
1	CHROMIUM OXIDE REACTION
1	CARPET PROCESSING SYSTEM

Total: 3130

**Orphan Shutdown & Orphan Reduction Credits to AQMD's Offset Accounts for 2003-2004:
Breakdown by Equipment Category for Top 13 Zip Codes
(pounds PM10 per day)**

Valid

NSR	bcat/ccat_desc
920	ABRASIVE BLASTING (OPEN)
555	TURBINE ENGINE
155	AGGREGATE OPERATIONS
142	ASPHALT BLENDING/BATCHING EQUIPMENT
130	PAINT PRODUCTION
104	SPRAY BOOTH
63	SYNTHETIC RUBBER BLENDING
45	KILN AND FUNACES
22	STORAGE SILOS AND TANKS
16	BOILER
15	CONCRETE BATCH EQUIPMENT
10	BULK LOAD/UNLOAD SOLIDS FLOUR
10	FLOUR MILLING
9	OVENS
5	ICE
2	TANK, PLATING
1	PRINTING PRESS SCREEN (ALL)

Total: 2204

**Orphan Shutdown & Orphan Reduction Credits to AQMD's Offset Accounts for 2002-2003
(pounds PM10 per day)**

Zip	Valid NSR	Zip	Valid NSR	Zip	Valid NSR
92831	1809	92832	10	90640	2
90293	546	92833	10	90720	2
92335	209	92612	9	90746	2
92646	180	91311	8	91329	2
91768	175	92647	8	91802	2
92313	175	92801	8	92630	2
91706	102	92814	8	92653	2
90806	101	90221	7	92703	2
90670	75	90840	7	92823	2
90222	66	91722	7	92835	2
91765	66	90025	6	90003	1
90280	65	90091	6	90012	1
90745	55	90274	6	90021	1
91101	50	90807	6	90039	1
92408	49	91340	6	90245	1
90701	43	91733	6	90247	1
92602	41	91750	6	90250	1
91761	40	90404	5	90260	1
90723	38	91748	5	90262	1
90802	37	92316	5	90301	1
90744	30	92324	5	90602	1
90047	23	92557	5	90630	1
91789	22	90013	4	90706	1
92807	22	90031	4	91107	1
90040	21	90201	4	91343	1
90063	21	90805	4	91383	1
90813	21	91710	4	91504	1
91105	21	91767	4	91744	1
90058	18	92555	4	91763	1
92704	18	92606	4	91766	1
91406	17	92660	4	92201	1
92373	16	92868	4	92236	1
92627	16	90045	3	92276	1
91762	15	90249	3	92337	1
92376	15	90277	3	92503	1
91730	14	90610	3	92507	1
92618	14	90731	3	92570	1
90810	12	91016	3	92583	1
91702	12	91352	3	92648	1
92865	12	91355	3	92683	1
91745	11	91764	3	92728	1
90054	10	91803	3	92780	1
90248	10	90014	2	92883	1
91605	10	90261	2		

Total for All Zip Codes: 4599
 Total for Top 13 Zip Codes: 3569 (78 % of Total)

Note: Credits deposited at 80 % of the values shown to reflect actual emissions.

**Orphan Shutdown & Orphan Reduction Credits to AQMD's Offset Accounts for 2002-2003
(pounds PM10 per day)**

Valid NSR	Equipment Description
1948	ABRASIVE BLASTING
834	BOILER
411	TURBINE ENGINE
339	HEATER/FURNACE
146	AGGREGATE PRODUCTION
139	SPRAY OPERATIONS
111	ASPHALT OPERATIONS
86	FOOD AND FEED OPERATIONS
80	I C E
61	PETROLEUM COKE OPERATIONS
61	AFTERBURNER AND FLARE
60	CONCRETE OPERATIONS
48	PLATING AND SURFACE PREP
41	PAPER CONVEYING
29	COPPER OPERATIONS
26	PLASTIC/RESIN SIZE REDUCTION
24	OVEN
22	DROP FORGE
12	ORGANIC CHEMICALS MISC
12	PAINTS BLENDING
10	STORAGE TANK AND SILO
10	BAGHOUSE
7	CIRCUIT BOARD ETCHER
6	ADHESIVES BLENDING
6	CLAY BLENDING
6	LANDFILL GAS COLLECTION (>50 WELLS)
6	SOLDER OPERATIONS
6	WASTE WATER EVAPORATION
5	SEMICONDUCTOR MANUFACTURING OPERATIONS
4	CONTAINER FILLING INK
4	DEEP FAT FRYER
4	FLUX BLENDING
4	INDOOR TARGET SHOOTING
4	RAILROAD CAR UNLOADING
3	LIME & LIMESTONE BLENDING
3	POLYVINYL CHLORIDE EXTRUDER
3	RUBBER ROLL MILL (SYNTHETIC)
3	SAND HANDLING
2	"PLASTICS & RESINS, PRODUCTION"
2	BATTERY MANUFACTURING
1	"CLEANING, MISCELLANEOUS SOLVENT WIPE"
1	"FILLING MACHINE, DRY POWDER"
1	AUTO BODY SHREDDING
1	COFFEE CLEANING
1	ELECTRICAL INSULATING OIL TREATING
1	GALVANIZING EQUIPMENT
1	GYPSUM CLACINING
1	INK MFG/BLENDING
1	NATURAL FERTILIZER PACKAGING/PROCESSING
1	SOIL TREAT VAPOR EXTRACT GASOLINE UNDER
1	TIRE BUFFER

Total 4599

**Orphan Shutdown & Orphan Reduction Credits to AQMD's Offset Accounts for 2002-2003:
Breakdown by Equipment Category for Top 12 Zip Codes
(pounds PM10 per day)**

Valid	
NSR	bcat_desc
1899	ABRASIVE BLASTING
773	BOILER
342	TURBINE ENGINE
249	HEATER/FURNACE
100	AGGREGATE PRODUCTION
85	ASPHALT OPERATIONS
35	CONCRETE PRODUCTION
29	COPPER OPERATIONS
25	I C E
21	SPRAY EQUIPMENT
4	"TANK, OTHER AQUEOUS SOLUTION"
4	DEEP FAT FRYER
3	TAIL GAS INCINERATOR
Total	3569

