



# San Joaquin Valley Air Pollution Control District

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**Seyed Sadredin**  
Executive Director/  
Air Pollution Control Officer

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[www.valleyair.org](http://www.valleyair.org)

**DATE:** December 14, 2006

**TO:** SJVUAPCD Governing Board

**FROM:** Seyed Sadredin, Executive Director/APCO  
Project Coordinator: Dave Warner

**RE:** RECEIVE AND FILE DISTRICT'S ANNUAL  
OFFSET EQUIVALENCY REPORT TO THE  
FEDERAL ENVIRONMENTAL PROTECTION  
AGENCY

## RECOMMENDATION:

Receive and file the District's annual offset equivalency report (attached), submitted to the federal Environmental Protection Agency (EPA) for the 12-month period from August 20, 2005 through August 19, 2006.

## BACKGROUND:

Under the District's New and Modified Source Review (NSR) Rule, new facilities and modifications to existing facilities that cause increases in emissions above certain levels are required to provide emission reduction credits as mitigation. Although the District's NSR rule, overall, is more stringent than the federal regulations, it does not exactly match the federal requirements in all respects. In particular, the District's NSR rule does not require discounting of ERCs at the time of use. Discounting is a process of reducing the value of ERCs by adjusting them for emissions reductions that have been required by newer rules adopted since the original ERC banking action.

After years of negotiation with EPA and stakeholders, the parties agreed to an offset equivalency system designed to assess overall equivalency with EPA regulations on an annual basis. The details of this equivalency system have been embodied in the District's NSR rule, Rule 2201, since December 19, 2002.

**DISCUSSION:**

To demonstrate equivalency with the federal NSR offsetting requirements, the annual offset equivalency report must demonstrate both of the following:

1. The District has required an equivalent or larger amount of offsets from new and modified stationary sources as would have been required under direct implementation of federal regulations; and
2. The amount of reductions required by the District from new and modified stationary sources, after discounting at the time of use, equals or exceeds the amount of ERCs required under federal regulations.

The concept of an equivalency demonstration is only possible because the District's NSR program is, in several ways, more stringent than the federal requirements. Under federal NSR, offsets are only required for new major sources and major modifications to existing sources. For instance, for nitrogen oxides (NO<sub>x</sub>) and volatile organic compounds (VOC), the federal offsetting requirements would have been triggered at facility emission levels of 25 tons per year. In contrast, the District's NSR rule, as mandated by the California Clean Air Act, requires offsets for facilities emitting 10 tons per year of NO<sub>x</sub> or VOC. In addition to requiring offsets from smaller sources, the District's program is more stringent than the federal program in other ways, allowing for further credits towards the equivalency demonstration. Additional reductions that go beyond federal requirements and are therefore used by the District to show equivalency include the following:

- Higher offset ratios
- Extra discounting of credits at the time of banking
- Reductions from application of BACT to existing minor sources
- "Orphan" shutdowns (reductions from facility shutdowns for which ERCs are not granted to the owner)

During this reporting period there were no major modifications. However, there was one new major source of NO<sub>x</sub> that received its final pre-construction permits during this reporting period. As shown in the attached report, reductions required by the District exceed the amount required under the federal regulations.

Although equivalency was shown for this reporting period, future equivalency demonstrations will be more difficult due to the following:

- Pending permit actions for future new power plants requiring large quantities of offsets.

*SJVUAPCD Governing Board  
RECEIVE AND FILE DISTRICT'S ANNUAL OFFSET EQUIVALENCY REPORT TO  
THE FEDERAL ENVIRONMENTAL PROTECTION AGENCY  
December 14, 2006*

- Continued development of additional rules by the District will limit the quantity of surplus reductions available for the equivalency demonstration.

To facilitate the free flow of information and ideas in pursuit of solutions to the potential shortfall in our equivalency tracking system, District staff held a public meeting on July 13, 2006 with ERC owners and other stakeholders interested in the issue. In addition, the California Air Pollution Control Officers Association, including staff from the San Joaquin Valley Air District, has met with various stakeholders to find ways to address the general statewide lack of available emission reduction credits. These efforts will continue through 2007.

*Attachment: Offset Equivalency Report to EPA (5 pages)*



San Joaquin Valley  
Air Pollution Control District

November 17, 2006

Deborah Jordan, Director  
Air Division  
U.S. EPA, Region IX  
75 Hawthorne Street  
San Francisco, CA 94105-3901

**Re: Offset Equivalency Report**

Dear Ms. Jordan:

As required by the District's New Source Review Rule, the District has completed an annual offset equivalency report for the twelve-month period from August 20, 2005 to August 19, 2006. The attached report incorporates the following:

- The quantity of offsets that would have been required from new major sources and major modifications to existing sources under a federal NSR program.
- The quantity of offsets actually required by the District.
- The surplus-at-time-of-use value of the emission reductions used to offset emissions increases from stationary sources.
- The quantity of shortfall or excess carry-over credits.

As you can see from the attached report, the District required more offsets than would have been required under federal offset requirements, and the surplus value of the reductions used exceeded those required under federal NSR. Therefore, equivalency is demonstrated and no remedial actions are necessary.

For your information, there is one project of interest this reporting period, Merced Power. Merced Power involves a new Major Source for NO<sub>x</sub> emissions and received its final air permits during this reporting period. It is therefore included in this report as a trackable project.

Seyed Sadredin  
Executive Director / Air Pollution Control Officer

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Ms. Jordan  
Page 2

Please call me at (559) 230-5900 if you have any questions regarding this matter, or if you need additional details.

Sincerely,

A handwritten signature in black ink, appearing to read "David Warner", with a long, sweeping horizontal line extending to the right.

David Warner  
Director of Permit Services

cc: Mike Tollstrup, CARB

# San Joaquin Valley APCD Annual Offset Equivalency Report

Summary for 8/20/2005 through 8/19/2006

Pollutant	Number of New Major Sources	Number of Federal Major Mods	Offsets Required under Federal NSR*	Offset Requirement Equivalency*				Surplus at the Time of Use Equivalency*				
				Offsets Required under District NSR	Excess or Shortfall this Year	Excess or Shortfall previous Year	Total Excess or Shortfall	Shortfall from Previous Year	Reduction (surplus at the time of use) used for equivalency this year	Shortfall this year	Reductions eliminated by discounting at the time of use**	Unused Carry-over Creditable Reductions
NOx	1	0	79.9	427.2	347.3	1963.5	2310.8	0.0	79.9	0.0	2166.7	399.0
VOC	0	0	0.0	67.5	67.5	700.2	767.7	0.0	0.0	0.0	391.3	1166.0
PM10	0	0	0.0	33.7	33.7	337.2	370.9	0.0	0.0	0.0	6.2	886.0
CO	0	0	0.0	0.0	0.0	27.6	27.6	0.0	0.0	0.0	0.0	37.0
SOx	0	0	0.0	66.4	66.4	697.8	764.2	0.0	0.0	0.0	0.0	1005.0

\* All numbers are in Tons per Year

\*\* Total quantity of discount since initiating tracking in August 2001

# San Joaquin Valley APCD

## Annual Offset Equivalency Report - Detail

Transaction details for 8/20/2005 through 8/19/2006

**Pollutant      Company Name and Address**

**NOx**

MERCED POWER, LLC  
30 W SANDY MUSH ROAD, EL NIDO

**Surplus at the time of use Reductions Used to Mitigate this Increase**

<i>Tracking ID for ATC</i>	<i>Fed Offsets Req'd</i>	<i>ATC Date</i>	<i>Tracking ID for Reduction</i>	<i>Credit (t/y)</i>	<i>Time of Use</i>
2006-N-1011408-2480-0	79.9	10/3/2005	2007-C-9990339-2133-1	0.2	10/3/2005
2006-N-1011408-2480-0	79.7	10/3/2005	2007-C-9993363-2337-1	1.4	10/3/2005
2006-N-1011408-2480-0	78.3	10/3/2005	2007-C-9993480-2253-1	0.2	10/3/2005
2006-N-1011408-2480-0	78.1	10/3/2005	2007-N-9990300-2323-1	1.1	10/3/2005
2006-N-1011408-2480-0	77.1	10/3/2005	2006-C-9993714-2033-1	0.1	10/3/2005
2006-N-1011408-2480-0	77.0	10/3/2005	2007-C-9992002-2113-1	0.4	10/3/2005
2006-N-1011408-2480-0	76.6	10/3/2005	2006-N-1040517-2370-1	0.6	10/3/2005
2006-N-1011408-2480-0	76.0	10/3/2005	2007-N-9991181-2176-1	8.1	10/3/2005
2006-N-1011408-2480-0	67.9	10/3/2005	2007-N-9993270-2222-1	0.2	10/3/2005
2006-N-1011408-2480-0	67.7	10/3/2005	2006-C-1053278-2465-1	0.2	10/3/2005
2006-N-1011408-2480-0	67.5	10/3/2005	2007-C-9990147-2127-1	0.3	10/3/2005
2006-N-1011408-2480-0	67.2	10/3/2005	2007-C-9990188-2115-1	1.5	10/3/2005
2006-N-1011408-2480-0	65.7	10/3/2005	2006-C-999043-2102-1	1.9	10/3/2005
2006-N-1011408-2480-0	63.8	10/3/2005	2002-S-1010702-218-1	1.5	10/3/2005
2006-N-1011408-2480-0	62.3	10/3/2005	2007-S-1055472-2413-1	12.2	10/3/2005
2006-N-1011408-2480-0	50.1	10/3/2005	2007-S-1055248-2443-1	0.4	10/3/2005
2006-N-1011408-2480-0	49.7	10/3/2005	2007-S-1055248-2442-1	1.4	10/3/2005
2006-N-1011408-2480-0	48.3	10/3/2005	2007-S-1055248-2444-1	0.3	10/3/2005
2006-N-1011408-2480-0	48.0	10/3/2005	2007-S-1054372-2435-1	0.5	10/3/2005
2006-N-1011408-2480-0	47.5	10/3/2005	2006-S-1054372-2381-1	5.7	10/3/2005
2006-N-1011408-2480-0	41.8	10/3/2005	2007-N-1060086-2438-1	1.9	10/3/2005
2006-N-1011408-2480-0	39.9	10/3/2005	2007-S-9993281-2116-1	0.3	10/3/2005
2006-N-1011408-2480-0	39.6	10/3/2005	2006-C-999043-2095-1	2.2	10/3/2005
2006-N-1011408-2480-0	37.4	10/3/2005	2007-N-1054194-2475-1	0.1	10/3/2005
2006-N-1011408-2480-0	37.3	10/3/2005	2007-N-9993438-2239-1	0.3	10/3/2005
2006-N-1011408-2480-0	37.0	10/3/2005	2002-N-9990250-69-1	0.3	10/3/2005
2006-N-1011408-2480-0	36.7	10/3/2005	2002-N-9990211-250-1	0.2	10/3/2005
2006-N-1011408-2480-0	36.5	10/3/2005	2007-S-9990284-2200-1	13.9	10/3/2005
2006-N-1011408-2480-0	22.6	10/3/2005	2002-C-9990593-251-1	9.6	10/3/2005
2006-N-1011408-2480-0	13.0	10/3/2005	2002-C-9993253-61-1	0.1	10/3/2005
2006-N-1011408-2480-0	12.9	10/3/2005	2006-C-9990232-2073-1	1.3	10/3/2005
2006-N-1011408-2480-0	11.6	10/3/2005	2006-S-9992711-2079-1	1.1	10/3/2005

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**Pollutant    Company Name and Address**

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2006-N-1011408-2480-0

10.5    10/3/2005

2005-S-1040705-1879-1

10.5    10/3/2005

**Total Reductions, this reporting period, for this project**

**78.8**