

Industrial Facility Modernization

Working Group Meeting #2

September 23, 2015



South Coast
AQMD

Cleaning The Air That We Breathe...

Scope of White Paper

- ▶ **Stationary sources**
 - ▶ Individual and facility-wide
 - ▶ New and existing
- ▶ **Mobile sources**
 - ▶ That are dedicated to a stationary source facility
 - ▶ Associated with permitting for new sources and for CEQA projects
- ▶ **NO_x and PM as those are the reductions most needed for the 2016 AQMP**

Key Comments Raised by Stakeholders

- ▶ White Paper should also focus on retaining existing business
- ▶ Addressing NSR issues should be key component
- ▶ Cap and trade program for non-RECLAIM facilities would encourage facilities to modernize
- ▶ Clean Air Investment Fund could be used to help address credit offset price and availability issues
- ▶ Make credit offset leasing available to facilities
- ▶ Convert ERCs to annual credits
- ▶ Expand Rule 1304 - Exemptions

Approach to Facility Modernization

- ▶ Identify key objectives
- ▶ Identify hurdles and barriers that have impeded facility modernization
- ▶ Use an incentive-based approach
 - ▶ Encourage businesses to choose ultra clean technologies, where feasible
 - ▶ Consistent with comments regarding business retention

Three Objectives

Objective 1: Provide incentives to replace older higher-emitting equipment with newer lower emitting equipment, which can apply to a single source or an entire facility

Objective 2: Provide incentives for existing businesses to implement zero and near-zero emission technologies throughout their operations

Objective 3: Encourage new businesses that use and/or manufacture near-zero and zero emission technologies to site in the Basin

Objective 1: Provide incentives to replace older higher-emitting equipment with newer lower emitting equipment

- ▶ Encourage businesses to replace older higher-emitting equipment with lower emitting equipment sooner
- ▶ Purpose is to realize emission reductions sooner than would occur without incentives
- ▶ SCAQMD's regulatory program generally allows equipment to reach its useful life
 - ▶ BARCT – retrofit requirements
 - ▶ Manufacturer requirements upon replacement
- ▶ Encouraging zero and near-zero emission technologies is always a goal, but not purpose of this objective (Objective 2)

Objective 2: Provide incentives for existing businesses to implement zero and near-zero emission technologies

- ▶ Promote use of zero- and near-zero emission stationary and mobile source technologies at stationary sources
- ▶ Stationary combustion sources
 - ▶ Identify opportunities to implement zero and near-zero emission technologies
- ▶ Mobile sources dedicated to a stationary source facility such as fork lifts, yard equipment, or other off-road equipment
- ▶ Advantage: Implementing zero emission technologies provides certainty that no further reductions required
- ▶ Reduce Facility Emissions and Fees paid

Objective 3: Encourage new businesses that use and/or manufacture near-zero and zero emission technologies to site in the Basin

- ▶ Additional incentives for new businesses that use or manufacture zero or near-zero technologies
- ▶ Include incentives for California Environmental Quality Act (CEQA), NSR, permitting, annual permitting and emissions fees, etc.
- ▶ Potential for long-term benefits to encourage ultra-clean facilities to site in the Basin
- ▶ Supports need to implement and use zero-emission technologies

Potential Benefits

- ▶ Additional NO_x and PM reductions sooner
- ▶ Reach emission sources that may be difficult through a traditional regulatory approach
- ▶ Approach is consistent with business retention
- ▶ Potential for additional business certainty when zero or near zero-emission technologies are employed
- ▶ Supports need to implement and use zero or near zero-emission technologies

We Need to Tip the Scale

- ▶ Many variables involved when a business is deciding to replace equipment or to decide to use ultra clean technologies
- ▶ Must tip the scale to make Facility Modernization meaningful
 - ▶ Must address key barriers
 - ▶ Must provide incentives
 - ▶ Identify opportunities – find the low hanging fruit
- ▶ Must prioritize incentives and barriers to achieve the objectives

Barriers and Hurdles to Facility Modernization

- ▶ Cost
 - ▶ Cost of replacing equipment
 - ▶ Cost of zero and near-zero technologies – capital and operating costs
- ▶ New Source Review
 - ▶ Supply of existing ERCs
 - ▶ Generation of new ERCs – mainly shutdowns
 - ▶ ERC Cost (NO_x and PM)
- ▶ Other?

Facility Modernization Incentives

- ▶ **Economic Incentives:** Identifies incentives using grants and loans
- ▶ **Permitting and Fee Incentives:** Expansion of pre-approved permit equipment categories and reduced fee programs for advanced technologies
- ▶ **Credit Offset and NSR Incentives:** Expansion of Exemptions and use of Priority Reserve, Clean Air Investment Fund, and short-term leasing offset program
- ▶ **CEQA Incentives:** CEQA-related incentives
- ▶ **Branding Incentives:** Clean-Air and advanced technology labeling and recognition
- ▶ Others?

Concepts for Economic Incentives

- ▶ Grants and loans for lower emitting equipment purchases (INC-01)
- ▶ Stationary source grant program similar to Carl Moyer
- ▶ Explore potential to use Clean Fuels Program to fund stationary source projects
- ▶ Direct penalty/mitigation monies to fund stationary source projects
- ▶ Key issue: Identify source of funding

Concepts for Permitting and Fee Incentives

- ▶ Expedited permit processing for near zero emission projects (zero emission sources exempt from permit)
- ▶ Expand pre-approved list of equipment and controls to speed processing times and provide business certainty
- ▶ Development of tiered or fee sliding scale based on advanced technology – reduced permitting and/or annual emission fees

Concepts for Credit Offset & NSR Incentives

- ▶ Allow use of ERCs for short-term leasing of non-tradable credit offsets on a temporary basis
 - ▶ Limited to a specific number of years (e.g., for the first 5 years)
 - ▶ If unused, credit offsets could then be returned to the SCAQMD with any applicable emission offset discounts
- ▶ Expand use of priority reserve for new manufacturing facilities that emit within a specified annual emission range (e.g., 4 to 10 tpd)

Concepts for Credit Offset & NSR Incentives *(Continued)*

- ▶ Establish pre-funded clean air investment fund administered by SCAQMD or other publicly-accountable entity
 - ▶ Facilities would pay a benchmark fee to use offset credits
 - ▶ Monies collected would be used to invest in zero and near-zero emission technologies (mobile and stationary sources)
- ▶ Calculate future ERC and convert existing ERCs to annual instead of daily credits
- ▶ Expand Rule 1304 – Exemptions for zero- or near-zero emissions technologies
- ▶ Investigate modifications to the discounting of newly generated ERC for zero- or near-zero emission technologies

Concepts for Branding & CEQA Incentives

- ▶ Provide incentive for new facilities to receive recognition for zero and near-zero technologies – similar to LEED program
- ▶ CEQA document preparation assistance (INC-02)

Next Steps

- ▶ Release of Draft White Paper
- ▶ Schedule another Working Group Meeting
- ▶ November/December Governing Board Meeting