RULE 504 EMISSION REDUCTION CREDITS

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100 GENERAL

- **PURPOSE:** To provide an administrative mechanism for quantifying, adjusting and certifying surplus emission reductions for:
 - 101.1 Later use as offsets pursuant to District, state or federal rules or regulations, or
 - 101.2 transfer to other sources as offsets pursuant to Rule 502, NEW SOURCE REVIEW.
- **APPLICABILITY:** This rule shall apply to all emissions reduction credits generated or used at a stationary source or transferred to other sources.
- 110 EXEMPTION, CONCURRENT STATIONARY SOURCE MODIFICATION: Pursuant to Section 40709(c) of the California Health and Safety Code, emission reductions need not be banked prior to use as offsets, if those reductions satisfy all criteria established by this rule, Rule 501, GENERAL PERMIT REQUIREMENTS, and Rule 502, NEW SOURCE REVIEW. For the purposes of this exemption, "concurrent stationary source modification" means the simultaneous modification of emission units and/or the addition of new emissions units to a stationary source with all emission reductions occurring after the issuance of the Authority to Construct authorizing such reductions, but allowing for a 90 shakedown period after the start of operation of the new or modified emissions unit(s) with emission increases.
- **DEFINITIONS:** Unless otherwise defined below, the terms used in this rule are defined in Rule 502, NEW SOURCE REVIEW.
 - **ACTUAL EMISSIONS:** Emissions having occurred from a source, based on source test and actual fuel consumption or process data, or monitoring data. If source test or monitoring data is not available, other appropriate, APCO-approved, emission factors may be used. Fugitive emissions associated with the emissions unit shall be included in the actual emissions of the emissions unit.
 - **202 ACTUAL EMISSIONS REDUCTIONS (AER):** The decrease of actual emissions, compared to Baseline Actual Emissions, from an emissions unit. AER shall be real, enforceable, quantifiable, surplus, and permanent.
 - **BANKING:** The system of quantifying, adjusting, certifying, recording, and storing ERC's for future use and transfer. This system shall be called the Emission Reduction Credit Bank (ERC Bank).

204 BASELINE ACTUAL EMISSIONS (BAE):

- 204.1 Baseline Actual Emissions are the actual emissions for the existing emissions unit averaged over the consecutive two (2) year period immediately preceding the date of the application. If the last two years are unrepresentative of normal source operations as determined by the APCO, then any other 2 consecutive year period during the last five years which the APCO determines represents normal source operations may be used.
- 204.2 If, at any time during the 2 year period, actual emissions exceeded allowable emission levels, then actual emissions shall be reduced to reflect emission levels that would have occurred if the unit were in compliance with all applicable limitations and rules.

- 204.3 Where an emissions unit has been in operation for less than 2 years, a shorter averaging period of at least 12 months may be used, provided that the averaging period is representative of the full operational history of the emissions unit. If less than 12 months has passed since the date of issuance of the Permit to Operate then BAE shall be zero.
- 205 BEST AVAILABLE RETROFIT CONTROL TECHNOLOGY (BARCT): an emission limitation that is based upon the maximum degree of reduction achievable, taking into account environmental, energy, and economic impacts by each class or category of source.
- **206 CERTIFIED:** Emission reduction credits which have been evaluated under the requirements of this rule and other applicable District, state and federal rules and regulations and which have been authorized by the Air Pollution Control Officer.
- **207 ELECTRICAL POWER PLANTS:** An electrical generating facility located within the District that regularly generates electricity so the local electric utility can provide its daily energy requirements. Emergency electrical generating equipment are not considered electrical power plants.
- **208 EMISSION REDUCTION CREDITS (ERC):** Reductions of actual emissions from an emission unit that is certified by the District in accordance with the requirements of this rule.
- **209 EMISSIONS UNIT:** An identifiable operation or piece of process equipment such as an article, machine, or other contrivance which controls, emits, may emit, or results in the emissions of any air pollutant directly or as fugitive emissions.
- **210 ENFORCEABLE:** Verifiable and legally binding. Enforceable, for the purposes of federal requirements, means all federally enforceable limitations and conditions enforceable by the administrator, including: NSPS; NESHAP; requirements within any applicable State Implementation Plan; any permit requirement established pursuant to 40 CFR 52.21, 51.160-166; or federal operating permit requirements.
- **ERC CERTIFICATE:** A document certifying title to a defined quantity and type of ERC's issued by the District to the owner(s) identified on the Certificate.
- 212 NON-PERMITTED EMISSIONS: Those emissions of an NSR regulated pollutant which are not required to obtain a permit pursuant to Rule 501, GENERAL PERMIT REQUIREMENTS. Non-permitted emissions may include emissions from mobile sources, indirect sources, and exempt equipment.
- **213 OFFSET:** The use of an emission reduction credit to compensate for an emission increase of an NSR regulated pollutant from a new or modified source subject to the requirements of Rule 502, NEW SOURCE REVIEW.
- **PARCEL(S):** A legally identifiable piece of land as registered with the County Assessors' office for property tax purposes.
- **PERMANENT:** Permanent means the actual emission reductions continue or endure for the duration of any project utilizing the resulting ERCs as offsets.
- **PORTABLE EQUIPMENT:** Equipment that is periodically relocated and is not operated more than a total of 180 days at any one location in the District within any continuous twelve (12) month period.

- **PROPOSED EMISSIONS:** Emissions based on the potential to emit for the new or modified emissions unit which will be incorporated into the permit as legally and practically enforceable permit conditions.
- **QUANTIFIABLE:** Ability to reliably and replicably measure emission reductions by adhering to the quantification protocol.
- **219 QUARTERLY:** Calendar quarter beginning January 1, April 1, July 1, and October 1.
- **220 REAL:** Actually occurring, implemented, and not artificially devised.
- 221 REASONABLY AVAILABLE CONTROL TECHNOLOGY (RACT): The lowest emission limitation that a particular source is capable of meeting by the application of emission control technology that is reasonably available considering technical and economic feasibility.
- **222 REGISTER:** The document that records all ERC deposits, withdrawals, transfers, and transactions of the ERC Bank.
- **SURPLUS:** The amount of emission reductions that are, at the time of generation of an ERC, not otherwise required by federal, state, or local law, not required by any legal settlement or consent decree, and not relied upon to meet any requirement related to the California State Implementation Plan (SIP). However, emission reductions required by a state statute that provides that the subject emission reductions shall be considered surplus may be considered surplus for purposes of the Rule if those reductions meet all other requirements of this section. Examples of federal, state, and local laws and of SIP-related requirements include, but are not limited to, the following:
 - 223.1 The federally-approved California SIP;
 - 223.2 Other adopted State air quality laws, and regulations not in the SIP, including but not limited to, any requirement, regulation, or measure that: (1) the District or the State has included on a legally-required and publicly-available list of measures that are scheduled for adoption by the District or the State in the future; or (2) is the subject of a public notice distributed by the District or the State regarding an intent to adopt such revision;
 - 223.3 And other source- or source-category specific regulatory or permitting requirement, including, but not limited to, Reasonable Available Control Technology (RACT), New Source Performance Standards (NSPS), National Emission Standards for Hazardous Air Pollutants (NESHAP), Best Available Control Measures (BACM), Best Available Control Technology (BACT), and the Lowest Achievable Emission Rate (LAER); and
 - Any regulation or supporting documentation that is required by the federal Clean Air Act but is not contained or referenced in 40 C.F.R. Part 52, including but not limited to: assumptions used in attainment and maintenance demonstrations (including Reasonable Further Progress demonstrations and milestone demonstrations), including any proposed control measure identified as potentially contributing to an enforceable near-term emissions reduction commitment; assumptions used in conformity demonstrations, and assumptions used in emissions inventories.
- **SHUTDOWN:** The earlier of either the permanent cessation of emissions from a source or an emission unit or the surrender of that unit's or source's operating permit.

- **TEMPORARY SOURCE:** Temporary emission sources such as pilot plants, and portable facilities which will be terminated or located outside the District after less than a cumulative total of 90 days of operation in any 12 continuous months.
- **TRANSFER:** The change in ownership of an ERC from one person or legal entity to another.

300 STANDARDS

- **CERTIFICATION:** Prior to certifying an emission reduction as an ERC, the Air Pollution Control Officer shall verify that:
 - 301.1 The quantity of ERCs have been calculated according to Section 408,
 - 301.2 Public notice has been properly conducted,
 - 301.3 Fees have been paid according to Rule 601, PERMIT FEES,
 - 301.4 Emissions decreases shall be prescribed by enforceable emission limitations contained in Authorities to Construct and Permits to Operate, or result from the permanent surrender or the voiding of Permits to Operate, and
 - 301.5 If the emission reduction is created from an emission unit where the demand for the services or product could shift to other similar sources in the District, that data to document that such reductions will result in District-wide emission reductions has been submitted and approved by the Air Pollution Control Officer.

302 NON-PERMITTED SOURCES:

- 302.1 Except as provided in Section 302.2, non-permitted emissions units or stationary sources requesting emission reduction credits from such emissions units shall void the exemption from Rule 501, GENERAL PERMIT REQUIREMENTS. Such sources shall not operate such emissions unit or stationary source without first obtaining a permit pursuant to Rule 501, GENERAL PERMIT REQUIREMENTS.
- 302.2 If state or federal law prohibits the District from requiring an authority to construct or a permit to operate pursuant to Rule 501, GENERAL PERMIT REQUIREMENTS, the applicant for emission reduction credits shall execute a legally binding contract with one or more owner(s) or operator(s) of the non-permittable emissions unit that ensures the sum of all emission reductions will be provided in accordance with the requirements of this rule, and will continue for the life of the stationary source using the credits or life of the credits as provided in the application. Such a contract shall be filed with the District and, by its terms, be enforceable by the Air Pollution Control Officer. For sources subject to federal NSR requirements, in the absence of federally enforceable conditions, the execution of a source specific SIP revision is required.
- **303 SHUTDOWNS:** Shutdowns or curtailments claimed for emission reduction credit shall comply with the following:
 - 303.1 Applicants for emission reductions due to the shutdown of permitted or non-permitted emissions units shall demonstrate to the satisfaction of the Air Pollution Control Officer that such equipment will no longer be operated within the District.
 - 303.2 Emission reductions from the shutdown of retail dry cleaners and retail gasoline stations shall be prohibited.

- 303.3 An application for emission reduction credits from the shutdown of emissions units or stationary sources shall be submitted within 180 days after the last date of operation of such emissions unit or stationary source.
- **DEPOSITING ERC'S, BANKING:** ERC's may be banked for later use as offsets. The name of the owner shall be entered into the Register for the applicable ERC's.
- **WITHDRAWAL OF ERC'S, OFFSETS:** Banked ERC's may be used as offsets. Except as provided in Sections 306, 307, 308, and 309 such ERC's may not be returned to the bank following the start of operation of the stationary source or emissions unit using the ERC as offsets. ERC's may not be used to offset increases in toxic air contaminants.
- REDEPOSITS, USE OF ERC'S FOR TEMPORARY SOURCES: ERC's used as offsets for temporary stationary sources shall be returned in full to the owner upon verification of shutdown of the temporary stationary source or emissions unit by the Air Pollution Control Officer. ERC's must then be re-deposited in the Bank and re-entered into the Register by the owner, within 60 days.
- 307 REDEPOSITS, ISSUANCE OF PERMIT TO OPERATE: If the applicant for a Permit to Operate requests a lowering of the quarterly emission limitation as a result of emissions testing conducted pursuant to an Authority to Construct and the requested new emissions limitation has been demonstrated as achievable by such emissions testing and will be continuously achieved, the difference in emission reductions credits necessary to offset the emissions unit pursuant to Rule 502, NEW SOURCE REVIEW, shall be returned to the credit user and re-entered into the Register. The Authority to Construct or Permit to Operate shall be revised with enforceable conditions to reflect any lower emission limitations.
- 308 REDEPOSITS, USE OF ERC'S FOR ELECTRICAL POWER PLANTS: ERC's may be used at electrical power plants to offset emission increases resulting from increased power plant operation needed to compensate for reduced operation at other electrical power plant(s) within the District, due to emergency breakdown, pursuant to Rule 404, UPSET CONDITIONS, BREAKDOWNS OR SCHEDULED MAINTENANCE, or regularly scheduled maintenance. ERC's shall be returned in full to the owner upon verification of return to normal operation of the using electrical power plant. ERC's shall be returned to the credit user and re-entered into the Register. The application of the provisions of this Section shall be approved in writing by the Air Pollution Control Officer prior to use.

400 ADMINISTRATIVE REQUIREMENTS

401 APPLICATION PROCEDURES:

- 401.1 Any person or entity, or an authorized agent, which owns or operates a source at which an eligible emission reduction has occurred or will occur may apply for an ERC certificate in accordance with the requirements of this rule.
- 401.2 The person or entity requesting the ERC certificate shall make an application on forms supplied by the District.
- 401.3 The application may be for reductions in one or more NSR regulated pollutants. The application shall contain sufficient information to allow for adequate evaluation of actual emission reductions.
- 401.4 Applicants may claim confidentiality for submitted information to the extent allowed and provided for by provisions of the Federal Clean Air Act and the Administrative Procedures of the California Government Code.

401.5 To verify emission reductions claimed in conjunction with an application for an ERC certificate, the District may require source tests using California Air Resources Board and/or US Environmental Protection Agency approved methods, continuous monitoring, production records, fuel use records, or any other appropriate means.

402 COMPLETE APPLICATION:

- 402.1 The Air Pollution Control Officer shall determine whether the application for an ERC is complete not later than 30 days after receipt of the application for an ERC, or after such longer time as both the applicant and the Air Pollution Control Officer have agreed in writing. If the Air Pollution Control Officer determines that the application is not complete, the applicant shall be notified in writing of the decision specifying the information required. If specified information is not submitted by the applicant within 60 days from the notification from the District that the application is incomplete, the application shall be automatically canceled unless the applicant has requested an extension of time, in writing and prior to the end of the 60 day period, from the Air Pollution Control Officer. The Air Pollution Control Officer may grant an extension of time not to exceed 90 days. If the application is for a shutdown or curtailment emission reduction credit, failure to provide the additional information or failure to request an extension of time shall result in those emission reductions passing to the Priority Reserve Bank pursuant to Rule 505, PRIORITY RESERVE.
- 402.2 Upon receipt of any re-submittal of the application, a new 30-day period to determine completeness shall begin.
- 402.3 Completeness of an application or re-submitted application shall be evaluated on the basis of the information requirements set forth in District regulations as they exist on the date on which the application or re-submitted application was received. The Air Pollution Control Officer may, during the processing of the application, request an applicant to clarify, amplify, correct, or otherwise supplement the information submitted in the application.
- 402.4 A fee shall be required pursuant to Rule 601, PERMIT FEES.
- 402.5 The applicant shall submit to the Air Pollution Control Officer records required pursuant to Section 501.
- **PRELIMINARY DECISION:** Following acceptance of an application as complete, the Air Pollution Control Officer shall perform the evaluations required to determine compliance with all applicable District rules and regulations and make a preliminary written decision as to whether the emission reductions should be certified as an ERC. The decision shall be supported by a succinct written analysis.
- **PUBLICATION AND PUBLIC COMMENT:** Within ten calendar days following a preliminary decision, the Air Pollution Control Officer shall publish, in at least one newspaper of general circulation in the District, a notice stating the preliminary decision of the Air Pollution Control Officer, noting how the pertinent information can be obtained, and inviting written public comment for a 30-day period following the date of publication.
- **PUBLIC INSPECTION:** The Air Pollution Control Officer shall make available for public inspection at the Air Pollution Control District's office the information submitted by the applicant and the Air Pollution Control Officer's analysis no later than the date the notice of the preliminary decision is published, pursuant to Section 404. Information submitted

which contains trade secrets shall be handled in accordance with Section 6254.7 of the California Government Code and relevant sections of the California Administrative Code. Further, all such information shall be transmitted no later than the date of publication to the California Air Resources Board and the US Environmental Protection Agency regional office, and to any party which has requested such information in writing.

406 CERTIFICATION, FINAL ACTION:

- 406.1 Within 180 days after acceptance of an application as complete, the Air Pollution Control Officer shall take final action on the application after considering all written comments.
- 406.2 The Air Pollution Control Officer shall provide written notice of the final action to the applicant, any commentors, the US Environmental Protection Agency, and the California Air Resources Board.
- **WITHDRAWAL OF APPLICATION:** Withdrawal of an application for certification of an ERC by the applicant shall result in cancellation.
- **CALCULATION OF EMISSIONS, GENERAL:** Calculations performed pursuant to procedures specified in this Section shall not conflict with the requirements of state law. The following procedures apply to the calculation of ERC's for all sources, with the exception of emission reductions from 1) reduced open burning of rice straw, which are subject to Rule 516, or 2) stationary rail yard control which are subject to Rule 515:
 - 408.1 Actual emission reductions from modifications to, or shutdowns of, existing emissions units shall be calculated for each calendar quarter by subtracting the proposed emissions from baseline actual emissions. Any positive value shall qualify for conversion to an emission reduction credit.
 - 408.2 Credits for particulate matter emission reductions shall be expressed in terms of PM10 or PM2.5.
 - 408.3 Credits for nitrogen oxides, reactive organic compounds, carbon monoxide, sulfur oxides, PM2.5 and PM10 shall be quantified in terms of pounds of pollutants per quarter for each calendar quarter.
 - 408.4 Actual emission reductions shall be adjusted, as necessary, to meet the criteria of surplus, quantifiable, real, permanent, and enforceable.

PRIORITY RESERVE ADJUSTMENT OF CALCULATED CREDITS: Before the Air Pollution Control Officer may issue an ERC certificate, the emission reductions calculated in Section 408 shall be adjusted by reducing the calculated emission reductions by 5%. Emission reductions captured by this ERC adjustment shall pass to the Priority Reserve Bank pursuant to Rule 505, PRIORITY RESERVE.

410 ISSUANCE OF ERC CERTIFICATE:

- 410.1 Following certification of emission reduction credits and verification that the proposed emission reductions have been implemented, the Air Pollution Control Officer shall issue an original ERC Certificate to the owner(s) by certified mail or in person.
- 410.2 The ERC Certificate shall contain:
 - 410.2.1 Certificate number, and
 - 410.2.2 Date of issuance, and
 - 410.2.3 Type and quantity, and
 - 410.2.4 Street address and APN of site creating the surplus emissions reductions for which the ERC Certificate is issued, and
 - 410.2.5 Signature of the responsible District official, and
 - 410.2.6 The name of the owner shall be typed on the certificate and the owner shall sign the certificate. If the owner is a public or private business entity, a person authorized to sign on behalf of the owner shall sign the certificate, and
 - 410.2.7 Conditions of operation or use, including the life of the credit.
- 410.3 A copy of each ERC Certificate issued shall be maintained in the Register.
- 410.4 Multiple owners of emission reduction credits shall be separated according to agreements, filed with the District, between the owners with one ERC Certificate issued to each owner for their respective portion.
- 410.5 Upon transfer of ERC's between parties, the transferor's ERC certificate, and a copy of an agreement, signed by the transferor, authorizing and memorializing the transfer of the ERC to the transferee must be surrendered to the Air Pollution Control Officer by the transferee, within 30 days of the date of the writing authorizing the transfer of the ERC's.
 - Upon receipt and review of said documents the Air Pollution Control Officer shall issue a new ERC certificate in the name of the transferee. If fewer than all the transferor's ERC's are transferred, a new certificate shall be issued to the transferor showing the remaining ERC's. The District may refuse to recognize any transfer of ERC's that does not comply with the requirements of this section.
- 410.6 The original ERC Certificate surrendered by the registered owner shall be filed in the Register and marked with the date of issuance of the old and new ERC Certificate(s), the number of credits transferred, and the new ERC Certificate

- number(s). If fewer than all ERC's are transferred, the new balance in the name of the original owner shall be entered in the register.
- 410.7 Prior to the issuance of a permit allowing the use of ERC's, the registered owner shall surrender the ERC Certificate to the Air Pollution Control Officer. The certificate surrendered by the owner shall be filed in the Register and marked with the permit number, street address and APN of site of use, and the name of the owner using the ERC's. If a balance of ERC's remain, a new ERC Certificate shall be issued to the original owner and the original ERC Certificate shall be filed in accordance with the provisions of this rule.
- 410.8 Unless such records and information were previously submitted to the Air Pollution Control Officer, each ERC transaction must be accompanied by submittal of the information of Section 501.

411 ERC REGISTER:

- 411.1 The register shall contain the following information for each ERC Certificate issued by the Air Pollution Control Officer:
 - 411.1.1 Certificate number,
 - 411.1.2 Date of issuance,
 - 411.1.3 Name and address of the registered owner,
 - 411.1.4 Street address and APN of site creating the surplus emissions reductions for which the ERC Certificate is issued, and
 - 411.1.5 Type and quantity of ERC's registered.
- 411.2 Upon notice of a transfer of an ERC Certificate the Air Pollution Control Officer shall enter the following information in the register:
 - 411.2.1 Original ERC Certificate number,
 - 411.2.2 New ERC Certificate number,
 - 411.2.3 Name and address of new owner(s), if any, and
 - 411.2.4 Type and quantity of ERC's being transferred.
- 411.3 Upon use of the ERC's for offsets, the following information shall be entered in the register:
 - 411.3.1 All information required in Section 411.2,
 - 411.3.2 Date ERC Certificate was surrendered to the Air Pollution Control Officer.
 - 411.3.3 Permit number, to which ERC's are being applied,
 - 411.3.4 Name and address of ERC user,
 - 411.3.5 Name, if any, address, and APN of site where ERC's are being used as offsets, and

411.3.6 Type and quantity of ERC's being used for offsets.

500 MONITORING AND RECORDS

501 RECORDKEEPING:

501.1 <u>Cost of Offsets</u>: Each applicant seeking to trade or sell Emission Reduction Credits shall, as applicable, report to the District for each transaction; the amount of ERCs, by pollutant; the year the ERC transaction occurred; and the total cost, by pollutant, of the ERCs.