

BOARD MEETING

DATE: January 12, 1996

AGENDA NO. 24

PROPOSAL: Public Hearing on the First Annual RECLAIM Program Audit Report

SYNOPSIS: In accordance with Rule 2015 - Backstop Provisions, the first annual report on the NO_x and SO_x RECLAIM program has been prepared and is presented for a public hearing. The report assesses emission reductions, average annual price and availability of RTCs, job impacts, compliance issues and other measures of performance.

COMMITTEE: Stationary Source Committee, November 16, 1995, Approved.

RECOMMENDED ACTION:

1. Approve the attached report.

James M. Lents, Ph.D.

Executive Officer

PL:CC:CM:EMM:KCC:scs

Attachment

First Annual RECLAIM Program Audit Report

Background

On October 15, 1993, AQMD Governing Board adopted the RECLAIM program. The goal of the RECLAIM program is to provide facilities with added flexibility in meeting emission reduction requirements and lower the cost of compliance. The RECLAIM program was designed to meet all state and federal requirements for clean air programs as well as other performance criteria for air quality improvement, enforcement, implementation cost, job impacts and public health impacts.

Since RECLAIM is a significant departure from traditional command-and-control regulations, the RECLAIM rules provide for periodic program audits in order to verify that the RECLAIM objectives are being met. Rule 2015 requires both annual audits focusing on specific issues, and more comprehensive three-year audits. The results of the audits will be used to determine whether any program modifications are appropriate.

The first annual RECLAIM program audit report has been prepared by AQMD staff. The period covered by the audit includes the first full year of implementation of the program for all RECLAIM facilities. Pursuant to Rule 2015, the audit report is presented for a public hearing, and will be included in the AQMD annual performance report to the California legislature.


Audit Findings

The audit findings indicate that the implementation of RECLAIM during the first compliance year was highly successful. The analysis indicates that:

- RECLAIM is meeting its emission reduction goals. Aggregate actual emissions from RECLAIM facilities were below allocations for the first compliance year. If emissions and available credits remain constant at current levels, a "cross-over" point where the supply of RECLAIM Trading Credits (RTCs) equals emission levels will be reached in the 1997-98 time frame for NO_x and the 1998-99 time frame for SO_x. This excess of credits in the early years of the program is consistent with the program design.
- An active trading market for RTCs has developed. More than \$10 million of trades have been registered in the NO_x and SO_x markets combined, and sufficient RTCs are available to meet the demand of RECLAIM facilities. Average NO_x RTC prices range from \$26/ton for 1994 to about \$1,500/ton for 2010. Average SO_x RTC prices range from \$13/ton for 1994 to about \$960/ton for 1996 through 1998. These prices are well below the backstop price of \$15,000/ton established in Rule 2015.
- RECLAIM has not accelerated business closures. Eleven RECLAIM facilities, equal to three percent of the RECLAIM universe of 353 facilities, have gone out of business since the program began, but RECLAIM was cited as a contributing factor by only one of the eleven shutdown facilities. Two new facilities started operations under RECLAIM, and three existing facilities voluntarily joined the program.

- RECLAIM has had a minimal impact on employment. Total employment at RECLAIM facilities fell 7.2 percent from 165,713 jobs to 153,769 jobs during the first compliance year, for a total of 11,944 jobs lost. RECLAIM was cited by facility operators as the cause of 70 jobs lost, corresponding to a job loss of four-hundredths of one percent due to RECLAIM. Two facilities attributed two jobs gained to RECLAIM.
- AQMD staff conducted a comprehensive compliance program which included at least three visits to each facility to assist with questions and confirm compliance. Eighty-six percent of facilities complied with their allocations for the first compliance year. Most instances of non-compliance with allocations were due to a lack of familiarity with program requirements. Staff will perform additional outreach efforts to ensure a better understanding of rule requirements, and also take enforcement actions as appropriate. Some facilities encountered delays in meeting compliance deadlines for installing monitoring and reporting devices such as Continuous Emissions Monitoring Systems (CEMS) and Remote Terminal Units (RTUs). However, AQMD staff has worked with RECLAIM participants to resolve specific concerns through rule amendments and implementation guidance documents.
- Staff has conducted an extensive public outreach effort for RECLAIM participants which included workshops, training seminars, open forums and other meetings, as well as written guidance documents and informational mailings. This effort has been effective in explaining and clarifying rule requirements and resolving facility concerns in a timely manner.
- RECLAIM continues to meet the requirement for equivalency with the Air Quality Management Plan (AQMP). Allocation levels have changed slightly since program adoption based on control technology reviews and other new information. However, these changes would also have occurred under command-and-control rules and therefore do not affect the ability of RECLAIM to achieve reductions equivalent to the AQMP as required by Health and Safety Code Section 39616.

AQMD staff will continue to monitor and assess the performance of the RECLAIM program and work closely with RECLAIM participants to ensure continuing program success.

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