

# Draft Market Trading Forum Charge And Work Plan for FY 2003

July 25, 2002

## **Mission**

The Market Trading Forum (MTF) shall make recommendations to the Western Regional Air Partnership (WRAP) and related WRAP forums regarding emission control strategies for stationary sources, and the development of integrated, market-based programs that include other source categories, such as mobile and area sources. The MTF shall use the following broad guidelines.

1. Develop information and supporting documentation that will be needed by states and tribes to implement the provisions of the Annex in the state and tribal implementation plans (SIPs and TIPs) in 2003.
2. Where possible, use innovative, market-based strategies to achieve the emission goals for stationary sources. Consider the development of multi-pollutant, multi-source trading programs that will encourage the most cost-effective emission reductions to achieve visibility improvement goals.
3. Consider other regulatory requirements, such as new source review and the development of new SIPs and TIPs for PM<sub>2.5</sub> to ensure that the scope and timing of emission control strategies are integrated with complementary programs.

## **Background:**

The Market Trading Forum began meeting in August 1997 to develop the details of the stationary source recommendations of the Grand Canyon Visibility Transport Commission (GCVTC), primarily the establishment of emission milestones for SO<sub>2</sub> and a backstop regional cap-and-trade program for SO<sub>2</sub> that would be implemented if the milestones were not met through voluntary means.

In July 1999, the EPA published a revision to 40 CFR Part 51, Subpart P, Protection of Visibility, that accepted the recommendations of the GCVTC recommendations and established requirements for western states and tribes to develop SIPs and TIPs by December 31, 2003, based on these recommendations. States and tribes also have the option to develop SIPs and TIPs using different strategies to improve visibility at western Class I areas at a later date.

The WRAP submitted the Annex by October 1, 2000, as required by the rule, that established emission milestones and the details of a backstop cap-and-trade program. On May 6, 2002, EPA proposed amendments to section 309 of the regional haze rule to incorporate the provisions of the Annex. In order for a state to submit a SIP or TIP under Section 309, it must adopt the

necessary provisions of the Annex into its SIP and submit the revision to EPA by December 31, 2003. Tribes may submit TIPs at a later date. A plan revision must then be submitted in 2008 to address additional stationary source provisions for NO<sub>x</sub> and PM.

States and tribes also have the option to develop SIPs and TIPs using different strategies to improve visibility at western Class I areas. Implementation Plans that are not based on the Grand Canyon Commission strategies will be due sometime between 2004 and 2008, depending on the circumstances in each area.

## **Related References**

*Voluntary Emission Reduction Program for Major Industrial Sources of Sulfur Dioxide in Nine Western States and a Backstop Market Trading Program, an Annex to the Report of the Grand Canyon Visibility Transport Commission, Western Regional Air Partnership, September 29, 2000.*

*Recommendations for Improving Western Vistas, Report of the Grand Canyon Visibility Transport Commission to the United States Environmental Protection Agency, June 10, 1996.*

40 CFR Part 51, Subpart P, Protection of Visibility

*Voluntary Emissions Reduction Program for Major Industrial Sources of Sulfur Dioxide in Nine Western States and A Backstop Market Trading Program: An Annex to the Report of the Grand Canyon Visibility Transport Commission, and Appendices, Western Regional Air Partnership, September 29, 2002.*

Additional background information, including meeting minutes, technical materials, and working draft documents can be found on the MTF page on the WRAP web site, located at [www.wrapair.org](http://www.wrapair.org).

## **Structure of the Forum**

A number of critical tasks need to be completed to address the stationary source requirements for the regional haze rule, as well as the development of market based strategies to achieve the visibility improvement goals in the most cost effective manner. These tasks need to be coordinated to ensure that there is consistency with the recommendations of the GCVTC report and the Annex, however, the tasks will also require the input of a large number of stakeholders and technical experts. The MTF relies on a number of targeted workgroups to address the specific tasks outlined in this workplan. These workgroups will develop specific recommendations under the broader policy guidance and supervision of the MTF. The remaining tasks in this workplan that do not require additional expertise will be addressed directly by the MTF. This discussion of the subject matter jurisdiction for these workgroups is intended to provide general guidance. Once the workgroups are formed, the MTF will work with the workgroups to refine their scope of work as appropriate.

### **Allocations Workgroup (Utility and Non-utility).**

Finalize allocation estimates for all source categories, and provide examples of how the various pieces of the allocation methodology will work together.

### **Tracking and Record Keeping Workgroup.**

The Annex provides an overview of the tracking and record keeping requirements both prior to and after the backstop program has been triggered. Additional detail will be needed in the 309 SIPs and TIPs.

1. Monitoring Protocols. Detailed monitoring protocols should be developed for all source categories that are subject to the backstop trading program to ensure that the monitoring is equivalent to the requirements of 40 CFR Part 75.
2. Allowance and emissions tracking system (after program is triggered). If the backstop trading program is triggered, an allowance and emissions tracking system will be needed to determine compliance with the program. The system itself does not need to be created at this time, but a framework is needed that a contractor could then use to build a system in the future. The acid rain ATS and ETS could be used as the starting point for the system, or a new system could be designed to meet the needs of the WRAP.
3. New energy development impacts on milestone assumptions. Track the development of new and planned energy sources (utilities, refineries, renewable energy sources) Prepare a report to submit to the WRAP at their Spring 2003 meeting that describes the SO<sub>2</sub> emissions from these new energy sources, as well as SO<sub>2</sub> emission changes from existing energy production and other industrial sources.

### **MTF Tasks and Deliverables**

1. RAVI/Geographic Enhancements. The SO<sub>2</sub> milestones were developed to meet the requirements for regional haze visibility impairment through a backstop trading program, in lieu of case-by-case BART determinations. Prior to 2018 when BART will be satisfied for all eligible BART sources participating in the 309 backstop regional trading program, there may be “hot spot” issues, where individual sources or a small group of sources uniquely affect visibility at a Class I area. The visibility rule addresses this issue through the application of BART due to reasonably attributable visibility impairment (RAVI). The interaction between these two requirements in the context of a trading program in lieu of BART is referred to as geographic enhancements.

- (i) Finalize the draft MOU between the states, tribes, and the federal land managers to address the circumstances under which the FLMs would determine that reasonably attributable visibility impairment (RAVI) is occurring at a Class I area. This MOU will be submitted as part of the implementation plans in 2003.

(ii) Prepare a consensus document that describes how the RAVI/BART process will be implemented under the Annex. Discussions continue among interested stakeholders participating in the MTF to specify areas of concern to each affected interest and work toward agreement on how to resolve differences.

2. Tribal Set-Aside. The Annex contains a tribal set-aside of 20,000 tons of SO<sub>2</sub> allowances. The process for distributing these allowances among tribes needs to be defined. The WRAP comments on EPA's proposed approval of the Annex noted that the tribal set-aside distribution methodology was not needed in the short term, but should be completed no later than 1 year after the program has been triggered. The IOC does not anticipate that the program will be triggered in the near term. The MTF should provide support to the tribal caucus, as requested, when the tribal caucus addresses this issue.

3. Model Rule and MOU. The MTF should work with the Air Managers Committee to finalize the model rule and MOU for use in the section 309 SIPs and TIPs and to ensure that these documents are consistent with the Annex agreements.

A. Develop additional protocols and guidance documents for the backstop trading program, as identified by the Air Managers Committee in their review of the model rule and MOU, to ensure regional consistency.

B. Review, modify if necessary and adopt, as appropriate, the products of the AMC/WESTAR process on adapting the MOU and Model Rule for implementation into SIPs and TIPs.

4. Stationary Source NO<sub>x</sub> and PM. The MTF should prepare a report, as outlined in 40 CFR 51.309(d)(4)(v), that addresses stationary source emissions of NO<sub>x</sub> and PM. This report should be submitted to the WRAP for consideration by the spring of 2003 to allow states and tribes time to include the report in their SIP/TIP submittals in December 2003. The report should address the following items.

A. Assessment of emissions control strategies. Prepare a report, as outlined in 40 CFR 51.309(d)(4)(v) which assesses emission control strategies for stationary source NO<sub>x</sub> and PM and the degree of visibility improvement that would result from such strategies.

B. Backstop Trading Program. Evaluate and discuss the need to establish milestones for NO<sub>x</sub> and PM to avoid any net increase in these pollutants from stationary sources within the Grand Canyon visibility transport region, and to support future development and implementation of a multi-pollutant, and possibly multi-source market-based program. backstop trading program for NO<sub>x</sub> and PM.

(i) Evaluate the benefits and possible difficulties that would be encountered by allowing interpollutant trading for stationary sources to meet the visibility improvement goals for the region.

(ii) Evaluate the benefits and possible difficulties that would be encountered by expanding the backstop trading program to other source categories, such as area sources and mobile sources.

(iii) Develop a support document that proposes mechanisms and their feasibility for expanding the program to include non-GCVT Region states and tribes.

C. Impact on Tribal Lands. Identify potential effects that stationary source emission reduction strategies for NO<sub>x</sub> and PM may have on tribal lands, including impacts on economic development. Identify any critical data gaps regarding stationary source emissions on tribal lands, and make recommendations for addressing these data gaps.

D. BART Requirements for section 309 SIPs. The 2003 SIP/TIP must provide for an implementation plan revision by December 31, 2008 that contains any long-term strategy and BART requirements for stationary source PM and NO<sub>x</sub>. The report in 2003 should address the potential for emission reductions that will be achieved due to the establishment of milestones and a backstop trading program for SO<sub>2</sub>.

(i) The report should also address whether the MTF should consider the establishment of milestones for NO<sub>x</sub> and PM, as outlined in task 2, that will achieve greater reasonable progress than would be achieved through the installation and operation of source-specific BART.

(ii) If a trading program is not recommended, the report should identify options and supply background technical information to assist states and tribes in the development of case-by-case BART analyses for NO<sub>x</sub> and PM .

E. BART Requirements for section 308 SIPs. The report should identify options and supply background technical information to assist states and tribes in the development of BART determinations for all visibility impairing pollutants, as required in 40 CFR 51.308(e).

## 5. Section 308 stationary sources.

1. The MTF should prepare a report that identifies stationary source categories in the region, projected emissions from these categories, emission control options including costs and expected benefits, and recommendations regarding the need for regional control strategies to address the visibility impact due to emissions from these sources. This report is intended to provide background information that states and tribes may use to determine whether additional emission reduction strategies, beyond those required to meet the requirements for BART, are needed to meet the visibility improvement goals of section 308 of the regional haze rule.

(i) Evaluate the use of innovative, market-based solutions to achieve emission reductions from stationary sources in the region, including trading programs, clean air investment funds, and emission fees.

B. Expansion of Backstop Trading Program to WRAP states and tribes outside of the Grand Canyon Transport Region. Make recommendations regarding the expansion of the regional SO<sub>2</sub> milestones and backstop trading program to WRAP states and tribes that are outside of the Grand Canyon visibility transport region.

- (i) Evaluate the effect of expansion on the demonstration that the SO<sub>2</sub> milestones achieve greater reasonable progress than BART.
- (ii) Identify any regulatory barriers that would prevent expansion of the program.

Tribal issues and capacity development. Overarching issue that should be addressed by the MTF and each of the workgroups in regards to the individual tasks

*Note: The Tribal Caucus is currently evaluating the issue of data development, and the best way to provide tribal input into the various forums of the WRAP. This language is included as a placeholder, and will be revised as part of this broader tribal effort.*

1. Identify tribal cultural considerations that may affect the control of stationary source emissions in the region. Identify potential regulatory burdens or other economic impacts that may affect tribal lands due to specific stationary source emission reduction strategies.
2. Identify data gaps, including emissions data for tribal stationary sources, as well as other technical limitations that need to be addressed before strategies can be developed for specific source categories or geographic regions. Make recommendations regarding ways to resolve these data gaps and improve the technical basis.

### **Collaborative Requirements**

The MTF should coordinate with other forums to ensure that common issues are addressed and to ensure that there are not significant overlapping work products, or significant gaps that are not being addressed by any forums. In particular, the MTF should maintain on-going communication with the Emissions Forum, Modeling Forum and the Pollution Prevention Forum to ensure that overlapping issues are addressed.

### **Process Requirements**

The Market Trading Forum should:

- 1 Follow the general guidelines developed by the WRAP for all forums
- 2 Adhere to the objectives described above, and meet schedules for deliverables
- 3 Provide meeting minutes to the IOC, as well as short quarterly reports that will be posted on the web

## **Membership Criteria**

The MTF should be comprised of a mixture of policy and technical experts. Experience with the development of the Annex is important to ensure that the overall goals of the Annex are maintained, however, additional expertise will be needed to complete the tasks outlined in this post-Annex workplan. The IOC recommends that the composition of the MTF be re-evaluated to ensure broad stakeholder representation. This evaluation will consider the current stakeholder categories and the number of participants for each category. Once the stakeholder categories and numbers are defined, the MTF will consider applications for membership. The MTF will give special consideration to the input of the stakeholder groups in identifying new and continuing members. At least 50% of the membership should have experience with developing the Annex to ensure that the broad goals and negotiated agreements of the Annex are maintained.

In addition, the MTF should establish workgroups, as needed, that are comprised of technical and policy experts to develop some of the specific work products as discussed above. Joint workgroups that are coordinated with the TOC may be needed in some cases. The MTF will designate individuals to participate in the workgroups, although the workgroups will be given the opportunity to add members in order to address specific technical or policy needs. As stated above, all work products developed by the workgroups must be reviewed by the MTF.