Ask CAMD: Implementation of the Good Neighbor Plan for Power Sector Sources

Tuesday, April 19, 2023, 1-3 PM

Thank you for joining – we will begin momentarily!

Welcome

- We are recording this session
- The full PowerPoint and agenda will be made publicly available on the GNP webpage and the ECMPS support site, alongside our notes from past webinars
- There will be an opportunity to ask questions at the end of each section.
  - 1st: Pre-submitted questions
  - 2nd: Chat questions (preferred)
  - 3rd: Verbal questions – raise hand to be unmuted
    - Folks on the phone can use *5 to raise/lower hands.
- Welcome from Rona Birnbaum, Director, Clean Air Markets Division

Agenda

1. Resources and Geography
2. Preset and Dynamic Budgets
3. Allowance Allocation and Recordation
4. Annual Group 3 Allowance Bank Recalibration
5. Unit-Specific Backstop Daily Emissions Rates
6. Assurance Levels, Assurance Provisions, and Unit-Specific Emissions Limitations Contingent on Assurance Level Exceedances
7. Transitional Provisions (prorating procedures, creating the additional Group 3 allowance bank, and recalling Group 2 allowances)

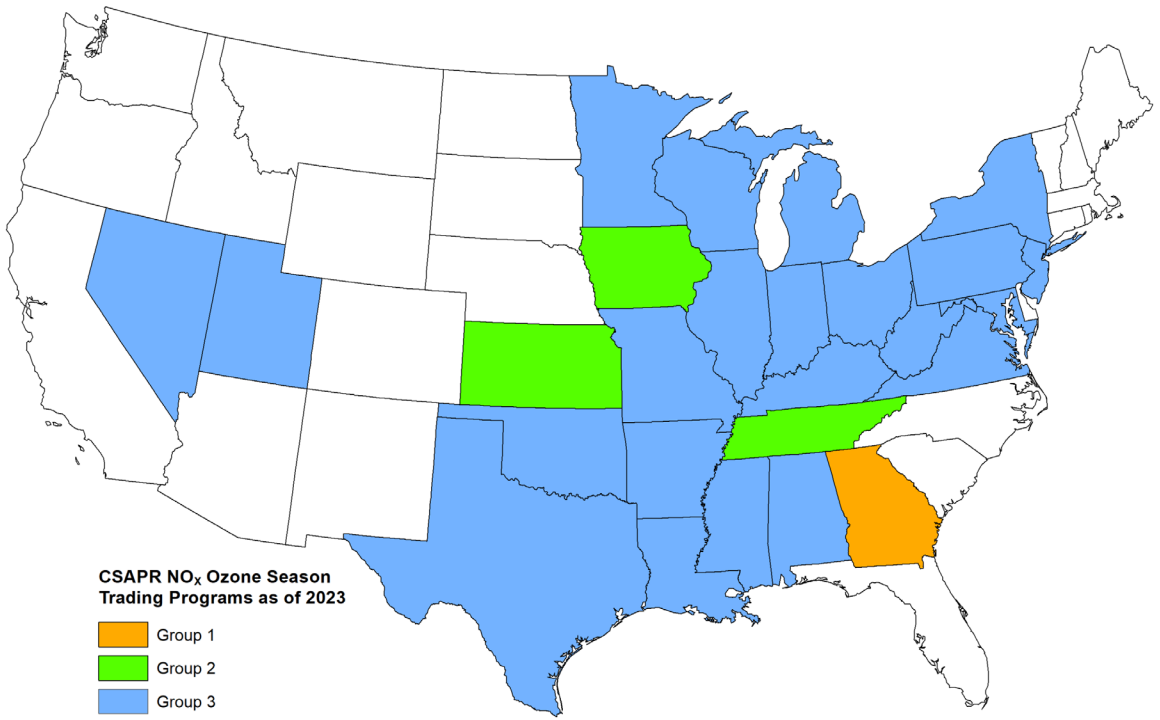
Questions will be answered at the end of topics 2-7

Good Neighbor Plan – Rule Resources

- GNP webpage
  - Pre-publication version of the rule preamble
  - Implementation fact sheets
  - 2023 and 2024 Important Dates webpage
  - Unit-level allocations spreadsheet
- Revised regulatory text for the Group 2 and Group 3 Trading Programs (40 CFR 97 subpart EEEEE and 40 CFR 97 subpart GGGGG) in pre-publication version of the preamble
- CBS webpage; getting started with CBS
- Email us at csapr@epa.gov for questions about the GNP

Trading Program Geography

- Sources in 12 current Group 3 states will continue to participate in the Group 3 program
  - IL, IN, KY, LA, MD, MI, NJ, NY, OH, PA, VA, WV
- Sources in seven Group 2 states will transition to the Group 3 program
  - AL, AR, MS, MO, OK, TX, WI
- Sources in MN, NV, UT are newly covered by a CSAPR ozone season program
- IA, KS, and TN sources will remain in Group 2 program



Preset and Dynamic Budgets

- EPA has determined and published preset emissions budgets for the 2023-2029 ozone seasons
- Preset budgets use heat input data from 2021, while dynamic budgets use heat input data from multiple years
- The preset budgets for 2023, 2024, and 2025 will be the state budgets for those years
- For 2026-2029, preset budgets serve as floors and may be replaced by a dynamic emissions budget EPA calculates for that control period, but only if the dynamic budget for a given state is higher than the preset budget for the state for the control period
- For 2030 and later ozone seasons, only dynamic budgets will be used (no preset budgets)

Calculating Dynamic Budgets

- Dynamic budgets use emissions rates identified in the final rule for each control period, together with heat input data updated for each control period based on the most recent five control periods of reported data

Calculating Dynamic Budgets

Steps for calculating dynamic budgets for a given state

1. For each unit operating in the most recent ozone season for which data were reported, EPA identifies the average of the 3 highest heat input values from the prior 5 ozone seasons (excluding any OS where a unit reported zero HI)
2. EPA sums the representative unit-level HI value for all units in each state
3. EPA divides each unit's representative unit-level HI by the state-level sum to get that unit's representative percent of the aggregated average HI values for all affected EGUs in that state
4. EPA calculates representative state-level HI by taking the average state-level total HI across affected EGUs from the most recent 3 ozone seasons and applies the unit-level HI percentages calculated in the previous step
    a) Multiplying representative unit-level HI percentages by the representative state-level HI yields a normalized HI value for each unit
5. EPA multiplies each normalized unit-level HI value by the emissions rate reflecting the assumed unit-specific control stringency for each particular control period to get a unit-level emissions estimate
6. EPA sums the unit-level emissions estimates to the state level to identify the state's dynamic budget for that control period

Calculating Dynamic Budgets

- For example: In early 2025, EPA will calculate the 2026 budget using 2022-2024 state-level HI data and 2020-2024 unit-level HI data
- EGU inventory and heat input will be updated for the dynamic budget calculation procedures using reported data for each control period, but emissions rate data will not be updated.
- EPA will publish FR notice each March 1 to provide preliminary calculations of state budgets, followed by 30-day opportunity for written objections to the data. FR Notice each May 1 of final calculations.
- For example, EPA's deadlines to publish preliminary and final NODAs regarding budget calculations for the 2026 control period are March 1, 2025 and May 1, 2025, respectively.

Calculating Dynamic Budgets: Q&A

Question: Please clarify which budgets are being established in the final rule and which budgets will be determined using the dynamic budget-setting procedure.

Answer: For control periods 2023-2025, the preset budgets established in the rule will serve as the state emissions budgets, with no dynamic budgeting involved. For the 2026-2029 control periods, EPA issued preset state budgets and will also calculate dynamic budgets in the year before each control period. For these four control periods, each state's preset budget serves as a floor and may be supplanted by the dynamic emissions budget EPA calculates for the state for that control period only if the dynamic budget is higher than the preset budget. For control periods 2030 and later, only dynamic budgeting will be used.

Calculating Dynamic Budgets: Q&A

Question: How will conversions from coal to natural gas affect states' future emissions budgets?

Answer: The preset budgets for 2023-2029 reflect emissions reductions from future gas conversions expected at the time of the final rule. For discussion of the how the preset budgets were determined, see the Ozone Transport Policy Analysis TSD posted on EPA's webpage for the final rule. The dynamic budgets for 2026 and beyond will be calculated in advance of each control period using a set of unit-specific emissions rates for the control period that have been fixed in the final rule in combination with reported heat input for a rolling multi-year historical period. For the unit-specific emissions rates that will be used in the dynamic budget calculations, see the "Dynamic Budget Template" tabs of Appendix A to the same TSD. Future changes in the plans or operations of any unit will not cause adjustments either to the preset budgets or to the unit-specific emissions rates used in the dynamic budget calculations.

Preset and Dynamic Budgets: Live Q&A

Type your questions about **preset and dynamic budgets** into the chat or raise your hand to be unmuted.

Allowance Allocation and Recordation: New Unit Set-Asides

- For 2023-2025, the amount of new unit set-aside will be 2% + projected emissions from planned new units or 5%, whichever is greater. For 2026 and later years, the NUSA amount will be 5% of budget and will not include projected emissions from planned new units.
  - Exception: NY NUSA set at 5% consistent with SIP
- Any unit with a monitor certification deadline no later than the start of the most recent control period whose data are being used to determine allocations for a given future control period that reported some heat input during that control period will be eligible to receive allowances as an existing unit for that future control period.
  - In general, once a new unit has reported operating data for at least one complete ozone season (May 1 – September 30), in future control periods the unit will receive allocations as an existing unit rather than from the NUSA.

Allowance Allocation and Recordation: New Unit Set-Asides

- EPA will publish a **Federal Register** notice by March 1 of each year to provide preliminary NUSA calculations, followed by a 30-day opportunity for written objections to the data.
- EPA will publish a **Federal Register** notice with final NUSA calculations, and will record allowances from the NUSA, by May 1 of each year.
- For example, EPA's target date to publish preliminary NUSA calculations for the 2023 control period is March 1, 2024. EPA's target date to publish final NUSA calculations and to record the allowances from the NUSA is May 1, 2024.

Allowance Allocation and Recordation: Schedule

- **90 days after rule's publication in the Federal Register**: deadline for EPA to record existing unit Group 3 allocations from 2023 and 2024 state budgets for sources that have fully complied with recall
- **For control periods in 2025 and later years**: July 1 of the year before the control period. For example, the deadline for EPA to record advance allocations of vintage 2025 Group 3 allowances will be July 1, 2024.

State-Determined Allowance Allocations and Recordation for 2024 Control Period

- **60 days after rule's publication in the Federal Register**: deadline for a state to submit to EPA a letter indicating its intent to submit a complete SIP revision to modify 2024 allowance allocations
- **September 1, 2023**: deadline for a state that submitted a letter of intent to submit to EPA a complete SIP revision to modify 2024 allowance allocations
- **September 15, 2023**: deadline for EPA to record EPA-determined default allocations for a state that submits a timely letter of intent but fails to submit a SIP revision
- **March 1, 2024**: deadline for EPA to record state-determined allocations for a state that submits a timely letter of intent followed by a timely SIP revision that is approved by EPA

State-Determined Allowance Allocations and Recordation for Control Periods after 2024

- **December 1, 2023**: deadline for a state to submit to EPA a complete SIP revision to modify allowance allocations or adopt a “full” CSAPR SIP for control periods starting with 2025
- **June 1, 2024**: deadline for states to submit state-determined advance allocations of vintage 2025 Group 3 allowances
- **Deadlines to start with each later control period would be one year later**: E.g., to start with the 2026 control period, these deadlines would be December 1, 2024, and June 1, 2025.

Allowance Allocation and Recordation: Q&A

Question: Will EPA make available illustrative unit-level allowance allocations for control periods in 2026 and beyond?

Answer: The final GNP includes unit-level allowance allocations through the 2025 control period. While the final rule includes preset emission budgets at the state level through the 2029 control period, the initial unit-level allowance allocations from 2026 onward will be determined based on data to be reported in the future. Those allowance allocations will be published in future NODAs ahead of the corresponding control period. We have heard interest by EGU operators in exploring potential, illustrative unit-level allowance allocations from 2026 onward. The final rule already makes available the allocation methodology by which EPA will calculate those allowance allocations once future reported data is available. Please contact us at csapr@epa.gov if you need technical assistance with applying the allocation methodology provided in the final GNP to whatever assumptions you choose to make about potential future year data.

Allowance Allocation and Recordation: Q&A

Question: If an entity announces its intent to shut down a CSAPR Group 3 facility after EPA finalized the rule, will EPA adjust the allocation said entity will receive?

Answer: Changes in a unit's plans and operations after the final rule was signed on March 15, 2023, will not affect the unit's allowance allocations under the final rule for the 2023, 2024, or 2025 control periods. Starting with the 2026 control period, allowance allocations to existing units will be determined the year before each control period using the information available at the time the allocations are being determined, and a unit that did not operate in the control period for which data were most recently reported – e.g., the 2024 control period, in the case of the allocations being determined in early 2025 for the 2026 control period – will not receive an allocation as an existing unit.

Allowance Allocation and Recordation: Q&A

Question: If a unit commencing operation in 2023 has a monitor certification deadline after September 30, 2023, will it receive or be required to hold any allowances? If the monitor certification deadline is before September 30, will the unit receive NUSA allowances equivalent to the entire control period this year, or just from the monitor certification deadline?

Answer: Under the Group 3 trading program regulations, no unit is required to surrender allowances for emissions occurring before the unit's monitor certification deadline. Emissions for which a unit is not required to surrender allowances are not considered when computing allocations of NUSA allowances.

Allowance Allocation and Recordation: Q&A

Question: If a unit commences operation in 2023, for which control periods will it be eligible to receive NUSA allocations?

Answer: For a unit whose monitor certification deadline is after May 1, 2021, the first control period for which the unit could be eligible to receive an allowance allocation as an existing unit under the revised Group 3 trading program regulations would be the 2026 control period. For any control period for which the unit is not eligible to receive allocations as an existing unit, emissions for which the unit is required to surrender allowances would be considered when computing allocations of NUSA allowances.

Allowance Allocation and Recordation: Live Q&A

Type your questions about **allowance allocation and recordation** into the chat or raise your hand to be unmuted.

Annual Group 3 Allowance Bank Recalibration

- In the 2024-2029 control periods, EPA will recalibrate the bank to meet the target bank level of 21% of the sum of the state emission budgets.
- In 2030 and later control periods, the target bank level is 10.5% the sum of the state emission budgets.
- Any recalibration will take place approximately August 1 of the year of the control period, beginning August 1, 2024.
  - EPA will provide an estimate of the recalibration ratio by March 1 of the year of the control period.

Annual Group 3 Allowance Bank Recalibration

- First, EPA determines if the overall Group 3 allowance bank exceeds the target bank level
- If the overall bank is less than the target bank level, then no bank recalibration will occur for that control period
- If the overall bank size exceeds target bank level, EPA determines the recalibrated amount for each account
  - Account's total holdings of banked allowances multiplied by the target bank amount divided by the total amount of banked Group 3 allowances, rounded up to the nearest allowance.
  - Banked allowances held in excess of the account's recalibrated amount will be deducted

Annual Group 3 Allowance Bank Recalibration: Calculations

1. Calculate bank ceiling target (rounded to nearest allowance)

$$sum\ of\ all\ state\ budgets\ for\ 2024\ control\ period \times 0.21$$

2. Determine total amount of Group 3 allowances issued for the 2023 and earlier control periods

3. If bank ceiling target is less than the total number of Group 3 allowances issued for the 2023 control period and earlier, then
   - Determine the total amount of allowances issued for the 2023 control period and earlier currently held in a given account
   - Determine that account's share of the bank ceiling target (rounded up to the nearest allowance)

Annual Group 3 Allowance Bank Recalibration: Calculations

$$\frac{\begin{array}{c}quantity\ of\ allowances\ issued\ for\ 2023\ control\ period\ and\ earlier \\ held\ in\ account\end{array}}{\begin{array}{c}quantity\ of\ allowances\ issued\ for\ 2023\ control\ period\ and\ earlier \\ held\ in\ all\ compliance\ and\ general\ accounts\end{array}} \times ceiling\ target$$

4. Deduct (by FIFO method) any allowances issued for 2023 and earlier control periods by following the following formula:

$$\begin{array}{c}total\ amount\ of\ allowances\ issued\ for\ 2023\ and\ earlier\ held\ in\ account \\ -\ account's\ share\ of\ bank\ ceiling\ target\end{array}$$

Annual Group 3 Allowance Bank Recalibration

Question: For banking and recalibration purposes, are allowances issued to units that have stopped operating treated any differently than other allowances?

Answer: All Group 3 allowances may be banked for use in future control periods - regardless of whether those allowances were allocated to sources with non-operating units – but are subject to the bank recalibration process beginning with the 2024 control period. For the 2024 control period, any banked Group 3 allowances vintage 2023 and earlier would be subject to the bank recalibration if the total quantity of the Group 3 allowance bank exceeds 21% of sum of the Group 3 states' 2024 budgets. If the total quantity of banked Group 3 allowances is less than 21% the sum of the Group 3 states' 2024 budgets, then the recalibration will not occur.

Annual Group 3 Allowance Bank Recalibration: Live Q&A

Type your questions about the **Group 3 allowance bank recalibration** into the chat or raise your hand to be unmuted.

Unit-Specific Backstop Daily Emissions Rates

- For the 2024-2029 ozone seasons the unit-specific backstop daily rate applies to coal-fired steam units serving generators with a nameplate capacity ≥100 MW that operate with SCR on or before September 30 of the preceding control period (except circulating fluidized bed units)
- Starting with the 2030 ozone season, the unit-specific backstop daily rate applies to all coal-fired steam units serving generators with a nameplate capacity ≥100 MW (except circulating fluidized bed units)
- A 3-for-1 allowance surrender ratio (instead of the usual 1-for-1 surrender ratio) will apply to emissions during the ozone season from any large coal-fired EGU subject to the backstop daily rate exceeding by more than 50 tons a daily average NOx emissions rate of 0.14 lb/mmBtu.

Unit-Specific Backstop Daily Emissions Rates

- Each day of control period any excess of reported emissions (in pounds) over the emissions that would have resulted from combusting that day's actual heat input at an average daily emissions rate of .14 lb/mmBtu. To determine the allowance surrender quantity, these daily amounts will be summed and converted from pounds to tons, and then any excess over 50 tons will be multiplied by two.
- Representatives and agents will surrender allowances associated with the backstop daily rate much like they surrender allowances for compliance at the usual 1-to-1 surrender ratio.

Unit-Specific Backstop Daily Emissions Rates: Live Q&A

Type your questions about the **unit-specific backstop daily emissions rates** into the chat or raise your hand to be unmuted.

Assurance Levels, Assurance Provisions, and Unit-Specific Emissions Limitations Contingent on Assurance Level Exceedances

- Starting with the 2023 control period, each state's variability limit for a given control period is the higher of 21% the state's budget or the percentage by which the total reported heat input (HI) of the state's EGUs in the control period exceeds the total historical HI of the state's EGUs as reflected in the state's budget for the control period
  - E.g., if the total reported HI of the state's EGUs for the 2025 control period is 130 percent of the historical HI used in computing the state's 2025 budget, then the state's variability limit for the 2025 control period is 30% the state's budget, instead of 21%
- Applies to both preset budgets and dynamic budgets

Assurance Levels, Assurance Provisions, and Unit-Specific Emissions Limitations Contingent on Assurance Level Exceedances

- All CSAPR trading programs include assurance provisions
- If a state's total emissions exceed the state's assurance level, two extra allowances must be surrendered for each excess ton of emissions
- The regulations include procedures for apportioning responsibility for a statewide exceedance of the assurance level among the groups of the state's sources represented by common designated representatives
- Sources apportioned responsibility for a share of a statewide exceedance of the state's assurance level are required to hold by November 1 of the year following the control period two additional allowances for each ton of their apportioned shares of the statewide exceedance

Assurance Levels, Assurance Provisions, and Unit-Specific Emissions Limitations Contingent on Assurance Level Exceedances

- A secondary emissions limitation is applicable to a unit for a given control period only if the state's assurance level is exceeded, responsibility for the exceedance is apportioned at least in part to the set of units represented by the unit's designated representative, the unit is equipped with post-combustion controls (i.e., SCR or SNCR), and the unit operated for at least 367 hours in both the control period and a previous control period in a CSAPR seasonal NOx program.
- Secondary emissions limitation is calculated by taking the unit's lowest previous seasonal average NOx rate under a CSAPR seasonal NOx program (when the unit operated for at least 367 hours) times 125%, or 0.10 lb/mmBtu if higher, multiplying that rate times the unit's heat input for the control period, and adding 50 tons.

Assurance Levels, Assurance Provisions, and Unit-Specific Emissions Limitations Contingent on Assurance Level Exceedances

- Exceedance of secondary emissions limitation would be subject to potential enforcement as a violation of the Clean Air Act
- Begins in the 2024 control period

Assurance Levels, Assurance Provisions, and Unit-Specific Emissions Limitations Contingent on Assurance Level Exceedances: Q&A

Question: Would the CAA's enforcement authorities ever apply to a unit that is apportioned a share of responsibility for an exceedance of a state's assurance level if no secondary emissions limitation is applicable to the unit?

Answer: Under the trading program regulations, bearing an apportioned share of responsibility for a statewide assurance level exceedance is not in itself a potential CAA violation. However, application of enforcement authorities is possible if a source fails to hold any allowances required to be surrendered under the assurance provisions by the relevant deadline. See 40 CFR 97.1006(c)(2)(iv)-(v).

Assurance Levels, Assurance Provisions, and Unit-Specific Emissions Limitations Contingent on Assurance Level Exceedances: Q&A

Type your questions about **assurance levels, assurance provisions, and unit-specific emissions limitations contingent on assurance level exceedances** into the chat or raise your hand to be unmuted.

Prorating Emissions Budgets, Assurance Levels, and Unit-Level Allowance Allocations in the Event of an Effective Date After May 1, 2023

- The EPA expects that the effective date of this rule will fall after the start of the Group 3 trading program's 2023 control period on May 1, 2023, because the effective date of the rule will be 60 days after the date of the final rule's publication in the **Federal Register**
- The EPA is addressing this circumstance by determining the amounts of emissions budgets for the 2023 control period on a full-season basis in the rulemaking and by also including provisions in the revised regulations to prorate the 2023 full-season amounts as needed to ensure that no sources become subject to new or more stringent regulatory requirements before the final rule's effective date
- Variability limits, assurance levels, and unit-level allocations for the 2023 control period will all be computed using the appropriately prorated emissions budgets amounts.

Prorating Emissions Budgets, Assurance Levels, and Unit-Level Allowance Allocations in the Event of an Effective Date After May 1, 2023

- After the rule is published in the Federal Register, the EPA will post an updated version of the “Unit-level allocations and underlying data for the final rule” spreadsheet showing the prorated emissions budgets and the calculations of unit-level allocations of allowances from the prorated emissions budgets and will provide public notice of the updated spreadsheet’s availability.

Prorating Emissions Budgets, Assurance Levels, and Unit-Level Allowance Allocations in the Event of an Effective Date After May 1, 2023

- In the case of the states (and Indian country within the states' borders) whose sources currently do not participate in any CSAPR trading program for seasonal NOx emissions – **Minnesota, Nevada, and Utah** – the sources will begin to participate in the Group 3 trading program as of the rule's effective date.
  - For these states, the EPA has computed the full-season emissions budgets that would have applied for the entire 2023 control period if the final rule was in effect for the entire 153-day control period from May 1, 2023, through September 30, 2023. Assuming that the final rule becomes effective after May 1, 2023, the EPA will determine prorated emissions budgets for the 2023 control period by multiplying each full-season emissions budget by the number of days from the rule's effective date through September 30, 2023, dividing by 153 days, and rounding to the nearest allowance.

$$\frac{state\ budget\ for\ 2023\ control\ period\ \times\ number\ of\ days\ from\ the\ rule\ effective\ date}{153}$$

Prorating Emissions Budgets, Assurance Levels, and Unit-Level Allowance Allocations in the Event of an Effective Date After May 1, 2023

- In the case of the states (and Indian country within the states' borders) whose sources currently participate in the Group 3 trading program – **Illinois, Indiana, Kentucky, Louisiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, Virginia, and West Virginia –** the sources will continue to participate in the Group 3 trading program for the 2023 control period, with prorated emissions budgets designed to ensure that the changes in 2023 emissions budgets and assurance levels will not substantively affect the sources' requirements prior to the rule's effective date.
  - For these states, the EPA has computed the full-season emissions budgets that would have applied for the entire 2023 control period if the final rule had become effective no later than May 1, 2023, but the EPA has also retained in the regulations the full-season emissions budgets for the 2023 control period that were established in the Revised CSAPR Update rulemaking. The emissions budgets promulgated in the Revised CSAPR Update will apply on a prorated basis for the portion of the 2023 control period before the final rule's effective date and the emissions budgets established in this rulemaking will apply on a prorated basis for the portion of the 2023 control period on and after the final rule's effective date. Specifically, the EPA will determine a blended emissions budget for each state for the 2023 control period, computed as the sum of the appropriately prorated amounts of the state's previous and revised emissions budgets. (For example, if the final rule becomes effective on the eleventh day of the 153-day 2023 control period, the blended emissions budget will equal the sum of 10/153 times the previous emissions budget plus 143/153 times the revised emissions budget, rounded to the nearest allowance.)

$$\frac{10}{153} \times previous\ state\ budget\ under\ RCU + \frac{143}{153}\ revised\ state\ budget\ under\ GNP$$

Prorating Emissions Budgets, Assurance Levels, and Unit-Level Allowance Allocations in the Event of an Effective Date After May 1, 2023

- In the case of the states (and Indian country within the states' borders) whose sources currently participate in the Group 2 trading program – **Alabama, Arkansas, Mississippi, Missouri, Oklahoma, Texas, and Wisconsin** – the sources will begin to participate in the Group 3 trading program as of May 1, 2023, with prorated emissions budgets designed to ensure that the transition from the Group 2 trading program to the Group 3 trading program will not substantively affect the sources' requirements prior to the rule's effective date.
  - The prorating procedures for these states mirror the procedures for the states currently in the Group 3 trading program, except that because no emissions budgets previously appeared in the Group 3 trading program regulations for the states that are currently covered by the Group 2 trading program, the EPA has added two sets of emissions budgets for these states to the Group 3 trading program regulations: first, the states' emissions budgets for the 2023 control period that currently appear in the Group 2 trading program regulations, which are being included in the revised Group 3 trading program regulations to represent the states' emissions budgets for the portion of the 2023 control period before the rule's effective date, and second, the emissions budgets for the 2023 control period established for the states in this rulemaking, which are being included in the revised Group 3 trading program regulations to represent the state's emissions budgets for the portion of the 2023 control period on and after the rule's effective date.

$$\frac{10}{153} \times previous\ state\ budget\ under\ G2\ program + \frac{143}{153}\ revised\ G3\ state\ budget$$

Creation of an Additional Group 3 Allowance Bank for the 2023 Control Period

- EPA will convert allowances banked for control periods before 2023 under the Group 2 trading program into allowances usable in the Group 3 trading program in control periods in 2023 and later years.
- The conversion will apply to vintage 2017-2022 Group 2 allowances held in all compliance and all general accounts, except for those held in the compliance accounts of sources in the three states remaining in the Group 2 trading program.
- EPA will execute the conversion approximately 45 days after the rule's effective date.

Creation of an Additional Group 3 Allowance Bank for the 2023 Control Period

- The conversion ratio will be determined as of the conversion date and will be the ratio of the total amount of vintage 2017-2022 Group 2 allowances held in the identified types of accounts prior to the conversion to the total amount of Group 3 allowances being created.
- The numerator of the conversion ratio (or the total amount of vintage 2017-2022 Group 2 allowances being converted) will be computed as the quantity of vintage 2017-2022 Group 2 allowances held in the following: (1) the facility accounts of all sources in the states transitioning from the Group 2 trading program to the Group 3 trading program, (2) the facility accounts of all sources in the states already participating in the Group 3 trading program, (3) the facility accounts of all sources in any other states not covered by the Group 2 trading program that happen to hold Group 2 allowances as of the conversion date, and (4) all general accounts.

Creation of an Additional Group 3 Allowance Bank for the 2023 Control Period

- The denominator of the conversion ratio (or the target amount of the Group 3 allowances that will be created in the conversion process) will be computed as the sum of the minimum 21 percent variability limits for the 2024 control period established for the 10 states being added to the Group 3 trading program. For a full ozone season, the target amount would be 23,094 Group 3 allowances.

$$\frac{sum\ of\ 2017-2022\ G2\ allowances\ held\ in\ eligible\ accounts}{21\%\ of\ the\ 10\ transitioning\ states'\ 2024\ G3\ budgets}$$

Creation of an Additional Group 3 Allowance Bank for the 2023 Control Period

- The target amount will be prorated to reflect the portion of the 2023 control period occurring on and after the effective date of the final rule. For example, if the effective date of the final rule is the eleventh day of the 153-day 2023 ozone season, the full-season initial bank target amount of 23,094 allowances would be prorated to an initial bank target amount of 21,585 allowances.
- The conversion ratio will be applied to each eligible account holding vintage 2017-2022 Group 2 allowances to determine the quantity of vintage 2023 Group 3 allowances to be recorded in each eligible account, rounded up to the nearest allowance.

$$\frac{sum\ of\ 2017-2022\ G2\ allowances\ deducted\ from\ individual\ account}{conversion\ factor}$$

Recall of CSAPR NOx Ozone Season Group 2 Allowances from Sources in States Newly Transitioning to the CSAPR NOx Ozone Season Group 3 Trading Program

- EPA is recalling CSAPR NOx Ozone Season Group 2 allowances equivalent in amount and usability to all vintage year 2023-2024 CSAPR NOx Ozone Season Group 2 allowances previously allocated to sources in states and areas of Indian country newly transitioning to the Group 3 trading program under this rule and recorded in the sources' compliance accounts
- The recall provisions apply to all sources in jurisdictions newly added to the Group 3 trading program in whose compliance accounts CSAPR NOX Ozone Season Group 2 allowances for a control period in 2023 or 2024 were recorded, including sources where some or all units have permanently retired or where the previously recorded 2023-2024 allowances have been transferred out of the compliance account.

Recall of CSAPR NOx Ozone Season Group 2 Allowances from Sources in States Newly Transitioning to the CSAPR NOx Ozone Season Group 3 Trading Program

- For each vintage 2023-2024 Group 2 allowance initially recorded in a newly transitioning Group 3 source's compliance account, the owners and operators of the source must surrender either the same specific vintage 2023-2024 Group 2 allowance or any Group 2 allowance with equivalent or greater usability under the Group 2 trading program. For example, the surrender requirement corresponding to a vintage 2023 Group 2 allowance could be satisfied through the surrender of any vintage 2017-2023 Group 2 allowance, and a surrender requirement with regard to a vintage 2024 Group 2 allowance could be satisfied through the surrender of any vintage 2017-2024 Group 2 allowance.

Recall of CSAPR NOx Ozone Season Group 2 Allowances from Sources in States Newly Transitioning to the CSAPR NOx Ozone Season Group 3 Trading Program

- The optional first deadline for owners and operators subject to the surrender requirements to satisfy the recall will be **15 days after the effective date of this rule**. As soon as practicable on or after this date, the EPA will make a first attempt to complete the deductions of Group 2 allowances required for each Group 3 source from the source's compliance account. Following the first attempt, the second deadline for owners and operators to satisfy the recall will be **September 15, 2023**, at which point EPA will make a second attempt to deduct Group 2 allowances from Group 3 sources' compliance accounts. The EPA will notify the designated representative and any alternate designated representative of for each source indicating the quantities and vintages of Group 2 allowances that must be held to satisfy the source's surrender requirements.
- No allocations of Group 3 allowances will be recorded in a source's compliance account until the source satisfies the surrender requirements with regard to vintage 2023-2024 Group 2 allowances.

Recall of CSAPR NOx Ozone Season Group 2 Allowances from Sources in States Newly Transitioning to the CSAPR NOx Ozone Season Group 3 Trading Program

- If the second attempt to deduct Group 2 allowances to meet the surrender requirements through deductions from the source's compliance account (or from a specified general account) is unsuccessful for a given source, as soon as practicable on or after November 15, 2023, to the extent necessary to address the unsatisfied surrender requirements for the source, the EPA will deduct the vintage 2023-2024 Group 2 allowances that were initially recorded in the source's compliance account from whatever accounts the allowances are held in as of the date of the deduction, except for any allowances where, as of April 1, 2022, no person with an ownership interest in the allowances was an owner or operator of the source, was a direct or indirect parent or subsidiary of an owner or operator of the source, or was directly or indirectly under common ownership with an owner or operator of the source. Before making any deduction under this provision, the EPA will send a notification to the authorized account representative for the account in which the allowance is held and will provide an opportunity for submission of objections concerning the data upon which the EPA is relying.

Recall of CSAPR NOx Ozone Season Group 2 Allowances from Sources in States Newly Transitioning to the CSAPR NOx Ozone Season Group 3 Trading Program

- Any failure of a source's owners and operators to comply with the surrender requirements will be subject to possible enforcement as a violation of the Clean Air Act, with each allowance and each day of the control period constituting a separate violation.
- To eliminate any possible uncertainty regarding the amounts of Group 2 allowances allocated for the 2023-2024 control periods (or earlier control periods) that the owners and operators of each Group 3 source are required to surrender under the recall provisions, the EPA has prepared the following lists, posted on the Good Neighbor Plan website and in the associated docket:
  - A list of the sources in the newly transitioning Group 3 states and areas of Indian country in whose compliance accounts allocations of vintage 2023-2024 Group 2 allowances were recorded, with the amounts of the allocations recorded in each such compliance account for the 2023 and 2024 control periods.
  - A list showing, for each newly added Group 3 source, the specific Group 2 allowances (batched by serial number) allocated for each control period and recorded in the source's compliance account and indicating whether, as of April 1, 2022, that batch of allowances was held in the source's compliance account, in an account believed to be partially or fully controlled by a related party (i.e., an owner or operator of the source or an affiliate of an owner or operator of the source), or in an account believed to be fully controlled by independent parties

Transitional Provisions and Wrap-Up: Live Q&A

Type your questions about the **transitional provisions (prorating procedures, creating the additional Group 3 allowance bank, and recalling Group 2 allowances), or any final questions** into the chat or raise your hand to be unmuted.

Thank you for attending today's session!

Questions? Email csapr@epa.gov.