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Attached is a brief description of the proposal being developed by the Department of Economic and Community Development regarding an air emission allocation strategy for presentation on July 29, 1980 to the members of the House Economic Matters Committee, House Environmental Matters Committee and the Joint Energy Committee. This paper is meant to serve only as background to familiarize the members with the issues and proposals to be presented on July 29.

Both the attached and the presentation on July 29 are preliminary recommendations. As such, they should be viewed as interim to a final report in January, 1981.

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TENTATIVE DECD PROPOSALS FOR A STATE AIR EMISSION RIGHTS ALLOCATION STRATEGY

Currently state air quality regulations with regard to air emissions and the rights to allocate them have not been fully developed. For example, the state has not yet decided how it wants to handle requests for permits by firms which would add to the pollution in areas which are relatively "clean" - attainment areas. For areas of legally excessive pollution (non-attainment areas), the state has accepted the concept of pollution offsets and permit banking to attain federal air quality standards but has not established an implementation mechanism, thereby effectively slowing industrial growth in areas most likely to foster new or expanding industry.

Realizing these circumstances and understanding the costly economic development impact of an incomplete and perhaps disjointed policy, Governor Hughes has directed the Department of Economic and Community Development to lead an interdepartmental task force consisting of the Departments of Health and Mental Hygiene and State Planning to develop a proposal for the management of Maryland's air emissions rights and their allocation.

DECD has examined the EPA mandated State Implementation Plan (S.I.P.) as well as a number of alternatives to that proposal which deal with air quality control. We have concluded that any air emission rights allocation strategy must help existing and potential industry comply with Federal and State air quality standards as quickly and as inexpensively as practical.

The summary recommendations which follow accomodate industrial growth while building on the current regulatory practices of the State's air quality control program and on many features of the proposed State Implementation Plan pending before EPA.

DECD's recommendations can be summarized as follows:

1. <u>Establish an offset marketing system in non-attainment areas</u>.

In non-attainment areas (areas not meeting federal air quality standards) each new or expanding pollution source must obtain a more than offsetting reduction in pollution emission before it can be granted an emission permit. While the proposed State Implementation Plan provides for such offsets, it does not spell out the manner of their procurement.

DECD proposes that the right to emit air pollutants, inherent in the pollution emission permit, be made transferable among existing or potential polluters so long as no federal or state standards or regulations are compromised

by such transfers. Such rights would be acquired in the market from existing polluters by purchase or by other means. The sellers of pollution rights would thereby contract to curtail their emissions by the agreed upon amount and the state would be a party so as to insure the legality and full implementation of the terms of the agreement.

2. Marketing of Emission Rights would be allowed in rollback situations to reduce the necessity of high cost retrofitting.

In the case where the state imposes reductions across industry to bring about "reasonable further progress" toward meeting the ambient air quality standards, the marketing of air rights would mean that many firms able to curtail emissions inexpensively would curtail them by more than necessary and sell their surplus reductions to firms otherwise confronted by heavy emission abatement costs. Both parties to such transactions would gain. Attainment of the new standards would be facilitated and both the state's economy and its' air quality would be safeguarded.

3. Emission permits would be allowed on a "first come first served" basis in attainment areas.

In attainment areas - areas meeting federal air quality standards - the market system would be encouraged to work freely. Any applicant who meets all federal and state requirements could expect to obtain a permit. However, when such requests from new or expanding industry would push expected pollution levels beyond the limits allowed in the attainment area by Prevention of Significant Deterioration Rules, DECD proposes that a (simplified) version of the offset policy as described in Recommendation 1 above would then come into full play.

4. Emission permits would be granted for an indefinite term.

DECD proposes that emission permits be granted for an indefinite term and that unused permits in whole or in part be "banked" for future use or sale by the holder.

In the case of general area rollbacking, the write downs of banked permits would be by the same ratio as those in use.

5. Initiate a study of short-term leasing of emission rights.

DECD recommends that, once the marketing of emission rights is underway, the Air Quality Program study and consider inaugurating, if it appears feasible and useful, a program for short-term leasing of emission rights among plants.

In conclusion: EPA has mandated a certain level of clean air for a variety of important health reasons. In so doing, EPA has artificially made the right to pollute economically valuable because some industries must pollute the air to produce their product. The manner in which the state manages its air emission permitting and regulation system will directly affect the economic wellbeing of existing and potential industry. DECD's recommendations provide a well defined, market-oriented emission rights allocation strategy which will insure maximum industrial development potential while preserving and maintaining the quality of Maryland's air. Furthermore, by helping to reduce industry compliance costs and by facilitating industry accommodation to air quality regulation, DECD is confident that implementation of its proposals will strengthen the case for our air quality controls.

FACT SHEET
PROPOSED MARYLAND BUBBLE REGULATION

What is the purpose of the proposed bubble regulation?

It establishes procedures and requirements for sources that wish to comply with emission standards by averaging emissions from multiple installations. This averaging is called a bubble and is used to reduce pollution control costs while protecting air quality.

What sources will be affected by the proposed bubble regulation?

The regulation is limited to sources of Volatile Organic Compounds (VOC) in the Baltimore and Washington Control Regions (Areas III and IV). It limits bubbles to installations within individual premises.

How will individual bubbles be established?

The Department will evaluate an applicant's ability to conform to the proposed alternative. The Department must determine that the proposal is as manageable and enforceable as the present regulation. Bubbles must cause no more overall daily emissions for a given level of production than would be allowed by the existing emission standards. To ensure this, the Department will establish "alternative compliance emission standards" (ACES) for each installation within a bubble. ACES will replace existing emission standards and will be individually enforceable. Following an opportunity for public comment, the Department will grant or deny a proposed bubble, setting forth ACES and other conditions in consent orders and permits.

Example.

A company operates 3 lines that apply coatings (e.g. ink or paint) to a product. Volatile organic compounds evaporate as the coating dries. Existing standards limit the coatings to at most 3 pounds of VOC per gallon of coating. In order to use a special coating having 5 pounds of VOC per gallon, the company proposes to limit another coating to 1 pound per gallon. Each coating line operates 16 hours a day, applying 100 gallons per hour. Emissions are computed by multiplying the standard times the hours of operation times the gallons per hour. As shown below, the overall emissions are the same with the alternative compliance emission standards (ACES) as with the existing standard. "Compliance emissions" is a term for emissions allowed under existing regulations. "Calculated actual emissions" refers to emissions computed using ACES.

Line No.	Existing Standard (lbs/gal)	Compliance Emissions (lbs/day)	ACES (lbs/gal)	Calculated Actual Emissions (lbs/day)
1	3	4800	5	8000
2	3	4800	3	4800
3	3	4800	1	1600
		14400		14400

Will each bubble require EPA approval?

The Department will be able to approve bubbles under the proposed regulation without submitting each application to the U.S Environmental Protection Agency as a revision to the State Implementation Plan (SIP). In approving this regulation, EPA will grant a "generic" approval for this category of SIP revisions.

Will this regulation prohibit other averaging times?

If it is impossible for a source to comply with a 24 hour averaging period, the Department will consider other proposals. Other averaging times must be justified on a case by case basis. If it determines approval is warranted, the Department will submit other proposals which do not comply with this regulation to the EPA as SIP revisions.