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Ms. Jessica Montañez U.S. Environmental Protection Agency Air Quality Policy Division Office of Air Quality Planning and Standards Mail Code C505-03 Research Triangle Park, NC 27711

Atten: Docket No. EPA-HQ-OAR-2018-0048

Re: Comments of the American Public Power Association on the Environmental Protection Agency's Prevention of Significant Deterioration (PSD) and Nonattainment New Source Review (NNSR): Project Emissions Accounting; Proposed Rule: 84 Fed. Reg. 39,244 (August 9, 2019)

Dear Ms. Montañez:

The American Public Power Association (APPA) supports the proposed amendments to the suite of federal New Source Review (NSR) regulations that the Environmental Protection Agency (EPA or Agency) proposed on August 9, 2019, to clarify Project Emissions Accounting in the first Step of the NSR applicability emissions determination. These amendments would codify the Administrator's March 2018 Memorandum to the Regional EPA offices communicating the EPA's interpretation that emissions decreases as well as increases are to be considered at Step 1 of the NSR applicability process, provided they are part of single project. Pursuant to existing regulations, which APPA agrees already incorporates Step 1 project emissions accounting, if a project by itself does not exceed de minimis values in the NSR regulations for NSR regulated air pollutants, NSR does not apply.

¹ 84 Fed. Reg. 39244 (August 9, 2019), 40 C.F.R. §§ 51.166 and 51.165, 40 C.F.R. §§ 52.21 and Part 51, Appendix S (governing NSR in attainment areas under the "Prevention of Significant Deterioration (PSD)" program and "nonattainment area NSR (NNSR)."

² Memorandum from E. Scott Pruitt, Administrator, EPA to EPA Regional Administrators, "Project Emissions Accounting Under the New Source Review Preconstruction Permitting Program," March 13, 2018 ("March 2018 Memorandum").

³ The de minimis values, also known as "significance levels, are provided in the NSR definitions at 40 CFR §51.166(b)(23), and the corresponding regulations governing EPA delegated programs, SIP-approved NSR programs, NNSR permit programs, and NNSR programs pending adoption of a state program.

The American Public Power Association is the voice of not-for-profit, community-owned utilities that power 2,000 towns and cities nationwide. We represent public power before the federal government to protect the interests of the more than 49 million people that public power utilities serve, and the 93,000 people they employ. Our association advocates and advises on electricity policy, technology, trends, training, and operations. Our members strengthen their communities by providing superior service, engaging citizens, and instilling pride in community-owned power.

The electric power industry, including public power utilities, are in a period of dynamic flux, as a result of Clean Air Act (CAA) regulations, economically available renewable energy (accompanied by developing battery storage), and plentiful natural gas. APPA members are closely examining energy strategies for their communities in the near term and coming decades, including reducing greenhouse gas emissions via making heat rate improvements for complying with the Affordable Clean Energy (ACE) regulation, and evaluating carbon capture. Project emissions accounting can be particularly important to those strategies for numerous reasons. Most importantly, the resources of the Step 2 NSR analysis of plant-wide contemporaneous emissions increases and decreases from all emitting sources over five years can be demanding. In some municipal utilities that supply electric, water, waste and other services, the prospect of replacing older generation sources, and comparing emissions from these disparate emission units at a plant site under Step 2 of the NSR applicability test can be difficult. In APPA's view, the relative simplicity of Step 1 of the NSR applicability accounting system, comparing emission increases and decreases from the project "itself," is important for developing new generation resources and for implementing strategies for existing generation resources for complying with regulations such as ACE.

1. APPA Submits that the legal history of the NSR regulations and permit decisions reinforce a broad view of the program's application to "projects," and not "individual" plant changes.

The New Source Review regulations have a fraught legal history, and APPA will defer to others to recount it in its entirety. One trend does emerge over the past forty years of the law, and that is Congress understood—and the Courts upheld—the broad application of NSR to groups of changes, not a single change, because quite simply, that would not have worked in practice.

In brief, the NSR amendments to the modern CAA were adopted in 1977 modeled on EPA's nascent preconstruction permitting program, and first litigated in 1979 before the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) in *Alabama Power Co. v. EPA*. Pursuant to *Alabama Power*, the NSR rules were reissued in 1980, amended several times, including in 1981 with respect to applying the "bubble concept" in nonattainment areas to avoid NSR, which was then challenged and upheld by the U.S. Supreme Court in the landmark *Chevron USA v. Natural Resources Defense Council case*. NSR received an overhaul by EPA in the 2002 NSR Reform Rule, itself challenged and largely upheld by the D.C. Circuit in *New York v. EPA*. (The Supreme Court denied certiorari in *New York*.) Along the way and up until the

⁶ Chevron USA v. Natural Resources Defense Council, 467 U.S. 837 (1984).

⁴ Alabama Power Co. v. EPA, 636 F.2d 323 (D.C. Cir. 1979).

⁵ 45 Fed. Reg. 52676 (Aug. 7, 1980).

⁷ New York v. EPA, 413 F.3d 3 (D.C. Cir. 2005). (The Court did vacate two "reforms" adopted in the 2002 NSR Reform rule, the NSR exemptions for "Clean Units" and "Environmentally Beneficial Projects," because each could

present, individual NSR permits have been litigated almost continuously in the federal district courts and before state and federal administrative tribunals, reaching the U.S. Supreme Court in *Environmental Defense v. Duke Energy Corporation*.⁸ All the courts have agreed that NSR is complex, multi-layered, technically-challenging, and lacking in plain Congressional direction, leaving broad discretion to the EPA to interpret and apply the law, while instructing states, local agencies, and the tribes (SLTs) how to do the same.

Throughout this decades-long judicial review of the CAA, EPA has been allowed, if not encouraged by the Courts, to look at a plant and projects "source-wide" when reviewing NSR applicability broadly, based on two critical factual determinations. First, the courts agree that Congress was clear that it understood that the NSR programs would be applied to the continual routine and non-routine engineering changes that are required to operate facilities like power plants operating and to meet consumer demand. Second, the law also was clear that the NSR program was inherently a balancing act of competing goals to protect air quality and not interfere with the economy. Therefore, in the view of the federal courts, Congress did not intend for NSR to focus on individual changes at a plant, because that was neither realistic nor feasible given the continual physical changes that are required for industrial facilities and power plants to meet consumer demand and maintain complicated equipment, as well as for complying with ever-changing environmental regulatory requirements.

2. APPA believes that the 2002 NSR Reform Rule provided for "project emissions accounting" in Step 1 of an NSR analysis.

The 2002 NSR Reform Rule was adopted with the express purpose of simplifying and clarifying the 1980 NSR rule with regard to both steps of the NSR applicability analysis. ¹¹ The rule, in APPA's view, clarified, by using the term ""project," that a single change was the focus

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allow significant emission increases of one or more pollutants despite their overall benefits of a clean unit or an environmentally beneficial project.

⁸549 U.S. 561 (2007) (The Supreme Court upheld the EPA's determination that NSR was not based on the CAA Section 111 New Source Performance Standard emission rate increase applicability test, even though NSR borrowed the term "modification" from the NSPS program.

⁹ In Alabama Power the court held "that to apply the second construction of "increases" to every change "would require PSD review for many such routine alterations of a plant; a new unit would contribute additional pollutants, these increases could not be set off against the decrease resulting from abandonment of the old unit, and thus the change would become a "modification" subject to PSD review. Not only would this result be extremely burdensome, it was never intended by Congress in enacting the Clean Air Act Amendments." *Id. at 401.* EPA's rationale for the "project emissions accounting rule" is consistent with the reasoning in *Alabama Power*.

¹⁰/ Chevron involved the definition of a "major source," specifically in a nonattainment area, and the use of a nonattainment emissions trading concept called the "bubble" to avoid certain nonattainment pollution control requirements such as RACT controls. In upholding the revision of the NSR regulations that prohibited the use of the bubble in nonattainment areas up until the 1981 regulation, the Supreme Court held, "The fact that the agency has from time to time changed its interpretation of the term "source" does not, as respondents argue, lead us to conclude that no deference should be accorded the agency's interpretation of the statute. An initial agency interpretation is not instantly carved in stone. On the contrary, the agency, to engage in informed rulemaking, must consider varying interpretations and the wisdom of its policy on a continuing basis." See *Chevron* at 852-853 ("Section 117 of the bill, adopted during full committee markup establishes a new section 127 of the Clean Air Act. The section has two main purposes: (1) to allow reasonable economic growth to continue in an area while making reasonable further progress to assure attainment of the standards by a fixed date; and (2) to allow States greater flexibility for the former purpose than EPA's present interpretative regulations afford.)

¹¹ 67 Fed. Reg. 80,186 (Dec. 31, 2002) (2002 NSR Reform Rule).

of Step 1 of the NSR applicability analysis." In its common usage, the word "project" means one or a collection of activities. To reinforce this common usage of the term "project," the 2002 Reform Rule also included a "hybrid test" that provided for what EPA is now calling "project emissions accounting" as follows:

(f) Hybrid test for projects that involve multiple types of emissions units. A significant emissions increase of a regulated NSR pollutant is projected to occur if the sum of the emissions increases for each emissions unit, using the method specified in paragraphs (a)(2)(iv)(c) through (d) of this section as applicable with respect to each emissions unit, equals or exceeds the significant amount for that pollutant (as defined in paragraph (b)(23) of this section) (emphasis added). 13

Paragraphs (a)(2)(iv)(c) through (d) discuss how to account for credible increases in emissions and credible decreases in emissions. The use of the word "sum" means a group of pollutants, and the cited regulations directs a source regarding which "credible increases" and "credible decreases" of regulated NSR pollutants are summed. While perhaps mired in regulatory jargon, APPA maintains that the regulation allowing "project netting"—as it was then referred—was authorized in the 2002 Reform Rule. APPA's conclusion that project emissions accounting was provided for in the amendments is underscored by the Nonattainment New Source provisions in the 1990 Clean Air Act Amendments, which specifically refer to "special rules for modifications" in serious, severe, and extreme ozone areas, that references internal netting ratios for avoiding NSR in these areas. ¹⁴ For instance, CAA Sections 182(c)(7) and (8), applicable in serious areas, contain special rules for sources emitting "less than" and also "more than 100 tons," specifying "internal offset ration of at least 1.3:1" for each. CAA Section 182(c)(7), states—

In the case of any major stationary source of volatile organic compounds located in the area (other than a source which emits or has the potential to emit 100 tons or more of volatile organic compounds per year), whenever any change (as described in section 7411(a)(4) of this title) at that source results in any increase (other than a de minimis increase) in emissions of volatile organic compounds from any discrete operation, unit, or other pollutant emitting activity at the source, such increase shall be considered a modification for purposes of section 7502(c)(5) of this title and section 7503(a) of this title, except that such increase shall not be considered a modification for such purposes if the owner or operator of the source elects to offset the increase by a greater reduction in emissions of volatile organic compounds concerned from other operations, units, or activities within the source at an internal offset ratio of at least 1.3 to 1. If the owner or operator does not make such election, such change shall be considered a modification for such purposes, but in applying section 7503(a)(2) of this title in the case of any such modification, the best available control technology (BACT),

¹² 40 CFR § 52.21 (b)(52).

¹³ 40 CFR § 52.21 (a)(2)(iv)(f).

¹⁴ See CAA Section 182(c).

as defined in section 7479 of this title, shall be substituted for the lowest achievable emission rate (LAER). (emphasis added). ¹⁵

Importantly, despite the complex litigation in *New York v. EPA*, *supra*, the issue of NSR applicability analysis to a "project" in Step 1 was not challenged, and therefore APPA asserts it cannot be challenged at the conclusion of this proceeding, which only intendeds to clarify the existing regulation.

Some jurisdictions did not implement project emissions accounting, however, even though the agency clearly stated that Step 1 project emissions accounting to be a minimum NSR Permit Program element in the 2002 Reform Rule. ¹⁶ In 2006, the Agency proposed clarifications to the netting rule in the same notice as a proposed "project aggregation" rule that was intended to clear up confusion about NSR applicability to "synthetic minor" projects that are, in fact, related. ¹⁷ While EPA finalized the aggregation policy part of the 2006 rulemaking in a 2009 rule, the agency did not finalize the proposed project netting part of the rulemaking. ¹⁸ (Indeed, the 2006 proposed "project netting" rule may have contributed to both confusion and frustration around the meaning and the use of the 2002 Reform Rule). Hence, APPA and many other entities responded to the President's 2017 Executive Order 13777, "Enforcing the Regulatory Reform Agenda" by requesting that EPA clarify that project netting was allowed, identifying the confusion around the applicability of project emissions accounting, and asserting that this confusion was interfering with the domestic economy by creating an "un-level" permitting and operating field in many states. ¹⁹

The narrow focus of the August 9, 2019 Notice of Proposed Rulemaking (NPRM or Proposal), is three-fold:

- (1) to clarify the meaning of a "project" in Step 1 of the NSR applicability analysis;
- (2) to put state and local CAA authorities on further notice that project emissions accounting in Step 1 of the NSR analysis is a minimum NSR program element; and
- (3) to provide the opportunity for public comment if additional monitoring, recordkeeping, and reporting (MRR) requirements are needed to ensure that Step 1 projects do not exceed NSR significance levels.

Because these changes are clarifications to the 2002 NSR Reform rule, they do not "reopen" the legality of project netting to further litigation. The Proposal, if finalized, would also formally withdraw the Agency's 2006 proposed "project netting" rule. ²⁰

¹⁵ In contrast, Section (d) and (e) that limit the use of "internal netting," but to avoid NNSR "Lowest Achievable Emission Reductions (LAER)," but no other elements of NSR permitting. ¹⁶ 80 Fed. Reg. at 80240.

¹⁷ J. Rasnic, U.S. EPA, "Applicability of New Source Review Circumvention Guidance to 3M – Maplewood (June 23, 1993).

¹⁸ 74 FR 2376 (Jan.15, 2009); NRDC subsequently sought administrative review of the aggregation rule, which EPA granted and stayed the rule, but subsequently the agency) lifted the stay and re-instated the 2009 aggregation rule in 2018. 83 FR 57324 (Nov. 15, 2018).

¹⁹ EPA- HQ-OA-2017-0190-36649.

²⁰ 71 Fed. Reg 54,235 (September 14, 2006).

3. APPA supports the proposed regulatory clarification of project emissions accounting and encourages EPA to finalize it, perhaps with two small additional changes.

With regard to Step 1 of the NSR applicability ability analysis, the EPA proposes to amend 40 CFR § 52.21(a)(2)(iv)(f) (and parallel provisions in 40 CFR Subparts 51.165, 51.166, and Part 51, App. 51, to state:

- (f) Hybrid test for projects that involve multiple types of emissions units. (a) "significant emissions increase of a regulated NSR pollutant is projected to occur if the sum of the difference for all emissions units, using the method specified in paragraphs (a)(2)(iv)(c) through (d) of this section as applicable with respect to each emissions unit, equals or exceeds the significant amount for that pollutant (as defined in paragraph (b)(23) of this section).
- (g) The "sum of the difference" as used in subparagraphs (c),(d) and (f) of this section shall include both increases and decreases in emissions calculated in accordance with those subparagraphs.

See 84 Fed. Reg. 39253-4.

a. APPA supports the proposed clarifications and agrees that changing the existing 2002 regulation to "illustrate" how this calculation is performed in Step 1 of an NSR applicability analysis is helpful, without changing the existing law in any material way.

APPA submits that the proposed regulatory changes—and particularly "new" subparagraph (g) —are intended to *clarify* that a source that intends to make a non-exempt²¹ "physical change or change to method of operation" at an existing source must compare that sum of the projected emissions increases from individual units and other changes with the proposed changes and sum those increases with the decreases in historical actual emissions that will be achieved from other parts of the same "project" (based on their historical emissions during the baseline period). If the resulting emission increases of each NSR regulated air pollutant are less than the relevant significant levels, NSR does not apply. If they are significant, then the source would proceed to Step 2 of the NSR analysis to determine if it applies. (The March 13, 2018 Project Emissions Accounting Memorandum stated the same thing.)

b. EPA should clarify in the proposed regulatory language that the Step 1 test applies to both "new and existing units."

In response to EPA's request for comment on the proposed clarified regulatory text, APPA agrees that the agency should include the phrase "new and existing" when it finalizes both 40 CFR § 52.21 (a)(2)(iv)(a)(f), and (g), perhaps as follows:

²¹ i.e., not "routine maintenance, repair, or replacement" that is exempted from the NSR definition of "physical change or change in the method of operation." See, e.g., 51.166(b)(11).

(f) Hybrid test for projects that involve multiple types of <u>new and existing</u> emissions units. A significant emissions increase of a regulated NSR pollutant is projected to occur if the sum of the emissions increases for each emissions unit, using the method specified in paragraphs (a)(2)(iv)(c) through (d) of this section as applicable with respect to each emissions unit, for each type of emissions unit equals or exceeds the significant amount for that pollutant (as defined in paragraph (b)(23) of this section).

Alternatively, or in addition, that phrase "new and existing," could be added to (f), as follows:

Hybrid test for projects that involve multiple types of emissions units, a "significant emissions increase" of a regulated NSR pollutant is projected to occur if the sum of the difference for all <u>new and existing</u> emissions units, using the method specified in paragraphs (a)(2)(ii)(C) through (D) of this section as applicable with respect to each emissions unit, equals or exceeds the significant amount for that pollutant (as defined in paragraph (a)(1)(x) of this section).

APPA recommends this additional change would help to resolve confusion over the inclusion of emission decreases from older emitting units with new emitting units. This would be particularly helpful in the electric power industry to enable municipalities to offset nitrogen oxide (NOx) reductions from NOx increases for repowering projects and future carbon capture facilities, or for actions to comply with ACE (due to additional dispatch of units that have improved fuel efficiency), because both likely involve some increases in NOx and/or carbon dioxide (CO₂) due to natural gas combustion or the parasitic power load needed to operate a carbon capture system.

4. APPA submits respectfully that the discussion in the Proposal of the difference between "project emissions accounting" and "project aggregation" is too complicated.

APPA agrees with EPA's discussion at page 39,250 of the Proposal, beginning in column 2, that the use of the word "project" in "project emissions accounting" for Step 1 of the NSR emissions analysis is entirely different than how the word "project" is used in the "project aggregation rule." Some of that confusion may come from the fact that the two rules were initially proposed together in 2006, but only the aggregation rule was finalized 2009. ²³

In both "project emissions accounting" and "project aggregation," APPA believes a "project" is referring to group of physical changes or changes in the method of operation." In project netting, "a project" refers to counting all emissions changes a source is making at one time including increases from new emitting units and decreases by removing old emitting units or applying additional controls at those units to lower emissions. In contrast, "project aggregation" refers to a planning step or deliberations by a source's owners/operators that is intended to ensure that emissions changes that are substantially related based on technical and/or economic grounds are not separated in PSD permitting.²⁴ Projects may want to consider whether all emissions increases and decreases involved in a "project" are included; whether separate

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²² The project aggregation rule was finalized 83 Fed. Reg. 57324 (Nov. 15, 2018).

²³ See footnote 19, supra.

²⁴ 84 Fed. Reg. at 39,521, col 1.

pieces of a "project" are substantially related technically (i.e., one piece won't run without the other) and economically (i.e., they are being financed together). The Association believes taking account of emission decreases at Step1 of the NSR applicability determination does not warrant additional requirements to ensure NSR circumventions does not occur. We respectfully suggest the Agency clarify this discussion in the final rule.

6. Additional monitoring and recordkeeping changes are not needed for "project emissions accounting," and if additional tracking is needed, APPA would discourage the agency from adopting § 52.21(r)(6) "demand growth" monitoring, recordkeeping and reporting (MRR) requirements for this purpose.

EPA requests comment on whether additional MRR requirements should be adopted to ensure that project emissions accounting changes do not exceed significance levels. The agency specifically asks whether 40 CFR § 52.21(r)(6) provisions, related to projected actual emissions for purposes of determining whether a new project has a reasonable possibility of exceeding NSR significance levels will occur.

First, APPA does not think that the reference to § 52.21(r)(6) MRR provisions related to projected emissions increases (in this industry over a five- year period) if "projected actual emissions," is necessarily applicable or wise. These provisions admittedly seem to be subject to their own set of interpretational issues currently before EPA and they only apply to situations when projected actual emissions exceed 50 percent of the "significant" values for regulated NSR pollutants. More importantly, in APPA's view, existing MRR provisions in state and federal laws that cover all NSR-affected "major sources," and particularly the requirements for Clean Air Market, semiannual reporting, compliance reporting and certifications, and periodic emissions inventory reporting under Title V permits are stringent and adequate to assure that NSR violations will not occur as a result of project emissions accounting (or NSR projects generally).

7. Implementation of project emissions accounting in states with EPA- approved SIP may still require notice and comment.

APPA appreciates the clarifications included in the Proposal, considering the Agency's existing interpretation that the existing NSR regulations allow project emissions accounting. As discussed in the March 2018 Memorandum, state and local permitting authorities with approved NSR programs do not need to wait until finalization of this Proposal to allow for project emissions accounting if their local rules and state implementation plans (SIPs) contain the same language as EPA's regulations. Some existing state and local rules are similar, if not identical to, EPA's 2002 NSR Reform rule and will accommodate netting, even if the permitting authority has been unsure up until these clarifications that "project netting" is required as a minimal NSR program element. However, other states such as Georgia, have adopted parts of the 2002 NSR Reform rule by reference, while modifying parts of the 2002 Reform Rule with state-specific provisions. Georgia is likely to proceeded through a full notice and comment period and submit all parts of the regulation to EPA as a SIP revision.

EPA also requests comment on whether EPA should determine that the revisions to 40 CFR 51.165(2)(ii)(f) and (g); to 40 CFR 51.166(a)(7)(iv)(f) and (g); to (IV)(I)(1)(v) and (vi) to

Appendix S to part 51; and to 40 CFR 52.21(a)(2)(iv)(f) and (g) that are proposed constitute minimum program elements, must be included in order for state and local agency programs implementing part C or part D to be approvable under the SIP. To the extent that these proposed changes are clarifications of the regulations adopted by the 2002 NSR Reform Rule, APPA believes that they, too, are minimum elements that States, and local agencies must adopt.

8. Project emissions accounting is environmentally beneficial, because it encourages replacement of older emissions sources with cleaner emission units and processes, enhancing the economic productivity of the country without sacrificing air quality.

As is clear from the Legislative History of the CAA and the 1977 and 1990 amendments, Congress stated that the purpose of NSR was "to ensure that economic growth will occur in a manner consistent with the preservation of existing clean air resources." ^{25,26} Project emissions accounting is consistent with Congress's stated intent to accommodate a thriving U.S. economy and the enhancement of the environment by requiring state of the art air pollution controls. APPA and numerous other types of entities in responding to the President's Directive 13371 and Executive Order 13777 in 2018, pointed out that either confusion fueled by the meaning of the NSR regulations, or simply the resistance of certain stakeholders to instituting "project netting" was stifling technology advancements and opportunities to respond to consumer demand for new or improved technologies, such as carbon capture in the future. Allowing new processes to be accommodated by retiring old equipment as part of a "project" makes economic and environmental sense. Otherwise, the emissions reductions might be overlooked, and new projects foregone because of Step 2 NSR analysis data needs and complexity.

APPA appreciates the opportunity to submit these comments. Carolyn Slaughter can be reached at 202-467-2900, or at cslaughter@publicpower.org if you have questions regarding these comments.

Respectfully,

Carolyn Slaughter

Director, Environmental Policy American Public Power Association

Carolyn Slaughter

²⁵ See, e.g., CAA Section 7470(3).

²⁶ In nonattainment the purpose of enacting NNSR in nonattainment areas was the same as for PSD area. See *Chevron* at 852-853 ("Section 117 of the bill, adopted during full committee markup establishes a new section 127 of the Clean Air Act. The section has two main purposes: (1) to allow reasonable economic growth to continue in an area while making reasonable further progress to assure attainment of the standards by a fixed date; and (2) to allow states greater flexibility for the former purpose than EPA's present interpretative regulations afford).