MEMO

DATE: May 4, 2006

TO: Transportation and Communications Committee

FROM: Nancy Pfeffer, Senior Regional Planner
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SUBJECT: Maritime Goods Movement Coalition Proposal

SUMMARY:

Mr. Robert Wyman will be giving a presentation on a market-based strategy to reduce environmental impacts from goods movement. Mr. Wyman is currently an environmental attorney with the law firm of Latham and Watkins.

The attached document, entitled 'Maritime Goods Movement Coalition', is included as Appendix G of the California Air Resources Board Proposed Emission Reduction Plan for Ports and Goods Movement, released on March 21, 2006.

This document can be found at: http://www.arb.ca.gov/planning/gmerp/gmerp.htm.

DOCS# 120964

APPENDIX G

November 23, 2005

Maritime Goods Movement Coalition

Goods Movement Attainment Plan (GMAP) – Key Elements

The Maritime Goods Movement (MGM) Coalition is a coalition of stakeholders in the maritime goods movement sector who have joined together to develop a long-term, comprehensive goods movement plan that will allow the region to attain national air quality standards and address local public health concerns while still protecting the region's economy and ensuring continued economic growth. Current members include representatives of the ports, terminal operators and fuel and energy providers.

The Coalition has prepared the following summary of its proposed Goods Movement Attainment Plan (GMAP). We present this summary as an outline of elements that would describe an ideal program, recognizing that there are several elements that cannot be implemented immediately. For example, the Coalition strongly supports the development of a long-term (e.g., 20-year) master plan for the goods movement sector, which would address the interrelationship among the goods movement system, the Southern California communities it impacts, the customers it serves, the jobs it provides and other relevant considerations. But we recognize that we should not wait for the completion of such a master plan to address air quality or public health needs or to make the infrastructure investments necessary to improve the efficiency of the goods movement sector and to permit continued economic growth. Therefore, we set forth the description below with the expectation that the many of the most important air quality and public health improvement strategies, as well as several of the most essential infrastructure investments, should proceed promptly even before the master plan is completed. We envision that the master plan would develop in parallel with these initial air quality, public health and infrastructure investments, so that in the relatively near term the interrelated elements of the goods movement system could be fully integrated within a goods movement master plan. Accordingly, although the description below sets forth a comprehensive goods movement strategy that will take some time to develop fully, our expectation is that certain components of the strategy would commence promptly.

In the summary that follows, references to the South Coast Air Quality Management District (SCAQMD) or to Southern California are for illustration only and should be read equally to refer to the Bay Area Air Quality Management District or to the Bay Area.[1]

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1 San Diego is currently in attainment of the National Ambient Air Quality Standards and therefore is not directly addressed in this outline.

Set forth below are the Coalition's recommendations regarding (1) a long-term master plan for the goods movement sector, (2) a market for the goods movement sector to reduce emissions, improve public health and invest in transportation improvements, and (3) a system of enforcement and monitoring to ensure goals are achieved.

Element	Description
GMAP Master Plan	Under the GMAP, a 20-year master plan would be developed for the goods movement sector in each region of the state. Its purposes would include the enhanced efficiency and performance of the goods movement system, the attainment of the ozone and fine particulate standards and the improvement of public health in communities impacted by the goods movement sector. It would: (1) contain strategies for the expeditious improvement of air quality and public health in local communities: (2) define the state implementation plan (SIP) elements for the goods movement sector; (3) establish a baseline emissions inventory and projected emissions levels for future years, which anticipate and address growth in the sector; and (4) establish transportation conformity benchmarks for the sector that would be incorporated in SCAG's Regional Transportation Plan and the SIP. As noted above, we anticipate that certain elements of the GMAP would proceed promptly (e.g., in pilot form) and would be integrated with the master plan as it is developed.
Master Programmatic EIR/EIS	The plan would be supported by a programmatic Environmental Impact Report/Environmental Impact Statement (EIR/EIS) under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA), which would evaluate the potential environmental impacts of anticipated projects in the goods movement sector over the next 20 years. We recognize the sequencing challenge between the development of the goods movement master plan and the next SIP. Our expectation is that these two planning documents, and their respective environmental evaluation, would be integrated to the greatest extent possible.
Infrastructure Elements	The plan would identify those infrastructure investments that will be needed to reduce goods movement-related emissions and congestion in the region and to improve the efficiency of the goods movement system. It would identify potential public and private strategies for financing such projects, including the use of SIP credits, emissions

	credits and emissions fees as noted below. It also would include recommendations for process and operational improvements in the goods movement system that might increase efficiency and reduce emissions. We are developing a list of illustrations.
Administering Authority	At the outset, the GMAP would be initiated by existing state and regional authorities. However, as the master plan is developed and as activity associated with the plan increases, it seems appropriate that the GMAP be administered by a newly-established joint powers authority (the Goods Movement Authority (GMA)), consisting of representatives of agencies and entities with expertise in the goods movement sector, including, e.g., in Southern California, the Ports of Los Angeles and Long Beach and their respective Cities, the California Air Resources Board, the South Coast Air Quality Management District, and the Southern California Association of Governments, with an appropriate advisory role for the U.S. Environmental Protection Agency. An analogous organization would be established in Northern California, as appropriate.
Performance Targets and Timetables (i.e., the Schedule for Emission Reductions)	The GMAP would establish performance targets and timetables for the reduction of emissions from sources in the goods movement sector (e.g., cargo handling equipment, auxiliary and propulsion engines, harbor craft). These would be framed in terms of emissions per unit of output or other performance indicator. Performance targets and timetables would be contained in regulations adopted by appropriate regulatory agencies or the GMA, as part of the rulemaking process following properly noticed public workshops and hearings. Existing CARB regulations would be used as presumptive targets and timetables where they have already been adopted.
The GMAP Market	The GMAP would include as a primary element an emissions reduction market. This market could be designed either as an open or closed market, with specific characteristics noted below. 1. Assuring Environmental Performance. Both options are designed to ensure that the market will meet overall air quality and public health goals, including avoidance of creating excess, or "paper" credits, and mechanisms to ensure that the program will deliver local benefits notwithstanding credit trading. 2. Market Participation. Participation in the market would be required of some sources, while others would have the option of entering the market through an enforceable mechanism such as a memorandum of understanding (MOU), a lease provision or amendment, or other binding document. As noted below, **sources that do not meet the program's performance targets and timetables, either directly or**

	by obtaining sufficient credits to offset their emissions, would be required to pay an excess emissions fee into the GMAP investment fund as a condition of the use of the state's goods movement system. 3. Exclusion of Some Categories. In certain circumstances, it may be more appropriate to regulate one or more source categories outside of the GMAP market. Further analysis will be required to make this determination. 4. Market Transparency and Information. We recommend that, to provide clear price signals to market participants and to prevent errors due to misinformation regarding the supply of and demand for credits, the GMA would provide a web-accessible central data system reflecting all relevant market activity, including real-time information regarding credit supplies and the volume and price of credit transactions.
Allowances Under Option One – Open Market	No allowances issued. Credits are generated when the emissions *rate* of a regulated activity has been reduced early or beyond the applicable performance targets. The amount of credit in each case would equal the product of the degree of environmental improvement (e.g., the required emissions rate as specified in the performance standard less the actual or certified emissions rate) times the applicable activity level. Under the open market approach, the GMA would periodically adjust performance targets and timetables to ensure that the region's overall goods movement-related emissions remain on track.
Allowances Under Option Two – Closed Market	Allowances would be issued to existing sources subject to GMAP performance targets and timetables. We are currently evaluating options, but it may be appropriate to allocate allowances to terminal operators rather than to the specific vessels that visit the ports. Initial allowances would be based on current activity levels. Allowances for additional activity (i.e., growth) could be purchased from the market or the GMAP investment fund.
Eligible Credit Generators	Credits can be generated at any source that is subject to a performance target. We are currently analyzing options regarding the appropriate placement of emission reduction responsibility (i.e., whether responsibility should follow each source or be aggregated, e.g., at the terminal operator level). We envision that any person could invest in emission reductions at sources for which a performance target has been set and, through appropriate contract provisions or according to regulation, become a seller of credits.

Eligible Credit Users	Any source subject to a GMAP performance target, unless the source is located in a priority zone. Also, qualified sources outside of the GMAP (e.g., stationary sources) if the SCAQMD has determined that such sources are eligible to purchase credits for approved uses.
Approved Credit Uses	Regulated GMAP sources would be required to hold credits to offset any emissions in excess of GMAP performance targets. Qualified sources outside of the GMAP also could use credits as an alternative source of compliance with SCAQMD-designated rules, including select 1100-series rules (Source Specific Standards) and to meet the offset requirements of SCAQMD Regulation XIII (New Source Review). Sources could not purchase credits as an alternative means of complying with SCAQMD Regulation XIV (Toxic Air Contaminants).
Priority Zones and Priority Sources	Based on the continued air quality and public health studies conducted by the ARB, the SCAQMD and the California Office of Environmental Health and Hazard Assessment, the GMA would identify communities exposed to disproportionately high health risk from sources in the goods movement sector. These zones would be designated as priority zones for the purpose of accelerating investments to address air quality impacts. Sources that are identified as contributing significantly to the disproportionate risk in such zones also would be designated as priority sources for purposes of the GMAP program.
Special Investment Incentives and Trading Rules for Priority Sources Located in Priority Zones	Under the GMAP market, designated priority sources located in priority zones would be entitled to receive funding from the GMAP investment fund, from eligible credit users from within and without the goods movement sector (i.e., to accelerate investment in the priority zones). Priority sources located in priority zones **would not** be allowed to purchase credits from outside such zones for use within such zones (e.g., to defer or avoid emission reductions there). (We are considering whether and to what extent it might also be appropriate to accelerate investment in priority zones further by preferentially weighting credit generation in such zones. This element will require additional analysis.)
Special Targets and Tracking for Priority Zones	The **GMAP will establish accelerated emissions and risk reduction targets for priority zones.** The GMA will track program performance according to these targets on an annual basis and determine whether additional strategies are appropriate to ensure the reduction of risk and the improvement of public health in priority zones.

GMAP Investment Fund	Eligible sources would be entitled to purchase emission reduction credits from the GMAP investment fund. The GMAP investment fund would be used to finance the further reduction of emissions from the goods movement sector beyond otherwise applicable requirements, either by installing controls, converting fuels, improving the efficiency of the goods movement system or by investing in other appropriate emissions reduction or efficiency-enhancing measures.
Lease Provisions	The ports would continue to exercise their leasing authority; however, projects that participate in the GMAP market would satisfy the air quality-related conditions of any lease. Sources or projects that are not subject to the GMAP market would continue to be subject to project-specific air quality lease conditions.
Project-by-Project Review	Projects would continue to be evaluated under CEQA or NEPA to the extent previously required; however, participation in the GMAP market would be deemed to mitigate any project-related air quality impacts.
Excess Emission Fees	Sources that do not elect to participate in the GMAP market and that do not otherwise comply with the GMAP performance targets and timetables would be subject to an excess emissions fee as a condition of entry into the ports and participation in the goods movement system.
Fee Uses	Funds collected from the excess emissions fee would be used in the GMAP investment fund to improve the environmental, public health and transportation performance of the goods movement system. To the extent practicable, the funds would be used to mitigate directly the excess emissions of the source paying the fee (e.g., by financing surplus emission reductions through the construction and operation of controls or other emission reduction strategies).
Monitoring, Inspection, Reporting, Tracking and Other Accountability Mechanisms	Accounting would occur at several levels. At the source level, sources would be required to log and report their emitting activities when located within the goods movement zone (to be determined). These reports would be subject to periodic inspections. The GMA also would track and make publicly available data regarding overall sector activity and emissions in the region. Periodically, the GMA would compare program progress and performance, including analysis regarding the overall efficiency of the goods movement sector (e.g., by transit time), emissions and air quality improvement. The GMA also would publish promptly all relevant information regarding investments by the GMAP investment fund, including the cost of such investments and the emission reductions and other benefits achieved thereby. The GMAP market program would be subject to periodic independent audit by an appropriate authority.

Legal Authority and Enforcement Mechanisms	We are still evaluating the most appropriate means of assuring that the GMAP will be fully enforceable and effective in delivering the desired air quality and public health improvements and improvements in transportation efficiency. No determination has yet been made regarding the desirability or need for specific authorizing legislation at either the federal or state level. At the present time, however, we anticipate that the GMAP program can be implemented on the following basis. 1. Election to Binding Participation. Unless a source category is specifically excluded from participation in the GMAP market (see above), sources will be encouraged to elect binding participation. Material incentives include potential monetary gain through the generation and sale of credits, long-term certainty regarding the performance targets and timetables of the GMAP over the next 20 years, avoidance of unknown environmental mitigation measures as part of project-by-project lease review, higher confidence in the overall performance of a goods movement system that will be functioning in an integrated and well-planned manner. 2. Leasing Authority. To the extent that a source does not elect to binding participation in the GMAP market, it would continue to be subject to project-by-project standard setting as part of each port's leasing authority. 3. Excess Emissions Fee. Sources that do not comply with the GMAP performance targets or hold sufficient credits would be required to pay an excess emissions fee imposed by the port of entry as a condition of use of the port. 4. Inclusion in the SIP. By inclusion in the applicable SIP, performance commitments associated with the GMAP market and other program requirements would be subject to enforcement by EPA and citizens to the extent provided by the federal Clean Air Act.

November 22, 2005

Maritime Goods Movement Coalition

The Maritime Goods Movement Coalition has been formed to develop a long-term, comprehensive goods movement plan (the "Goods Movement Attainment Plan") that will allow the region to attain national air quality standards and address local public health concerns while still protecting the region's economy and ensuring continued economic growth.

There is consensus among policymakers that we must reduce emissions from the goods movement sector if we are ever to attain national health standards for ozone and fine particulate matter. Most other sources of emissions are already very heavily controlled. Not only are port and goods movement-related emissions relatively un- or undercontrolled, but total emissions from this sector will grow substantially as the sector experiences continued economic growth.

But regulating the goods movement sector is not a simple matter. To be effective, regulations must overcome unique legal obstacles, including the lack of legal authority to regulate certain major sources. Regulations also must be sufficiently integrated to avoid unintended consequences, such as increasing congestion or shifting goods from lower to higher emitting modes of transportation. They must be also be economically efficient if the region is to preserve the thousands of jobs related to the goods movement sector and to avoid wasting billions of dollars of scarce economic resources. The region's health and economic welfare are both at stake. Piecemeal regulation cannot possibly meet these multiple challenges. Instead, we will need an integrated, long-term strategy that can deliver clean air and reduce congestion while preserving the region's economic and employment opportunities.

The Maritime Goods Movement Coalition has been formed for the purpose of designing an integrated, market-based program that can best meet these multiple challenges. Properly designed, the program would dramatically and quickly improve both air quality and public health and encourage more efficient goods movement. By selectively using market tools, the proposal would significantly reduce the cost of achieving these objectives, provide greater flexibility to regulated sectors and allow the region to address activities that cannot be regulated in traditional ways.

A Comprehensive Air Quality Attainment Plan – the Goods Movement Attainment Plan

As initially envisioned, the Goods Movement Attainment Plan would set phased performance targets designed to enable the South Coast Air Basin to attain the national ozone standard as required by 2021 (or 2025) and the fine particulate standard by 2015. To achieve these air quality goals at the lowest cost, the plan would permit regulated sources to design solutions tailored to their own operations. The plan also would allow sources to generate and trade emission reduction credits to help finance emission reductions and to reward early actions. The plan would also include an investment fund financed by sources unable to meet the performance targets that would be invested in pollution control. A similar program could be developed for the Bay Area.

One important aspect of the plan is that it would incorporate anticipated growth in the volume of goods moved through the region and mitigate the air quality impacts of such growth through the plan's performance standards. This element would encourage conforming projects by streamlining CEQA review for such projects. Finally, the plan would provide significant near-term public health benefits, because it would preferentially credit the reduction of emissions that occur near communities and other sensitive receptors.

Plan Benefits

Relative to other plans that have been proposed, the Goods Movement Attainment Plan is designed to achieve the following benefits for the region in addition to achieving the targeted air quality objectives:

- ***Greater Flexibility*** – the plan would provide regulated entities with the flexibility to design solutions that are best suited to their own operations and that occur over a time frame commensurate with the national attainment deadlines (e.g., 2015 for particulate matter and 2021 (or 2025) for ozone);

- ***Greater Near Term Community Health Benefits*** – in the near term the plan could deliver greater public health benefits by attracting and accelerating investment in locations nearest to communities and other sensitive receptors.

- ***Lower Cost*** – the plan would reduce the cost of compliance by allowing sources involved in goods movement and in other sectors to generate and trade emission reduction credits;

- ***More Effective Regulation*** – by using market strategies, the plan can encourage emission reductions by sources that cannot be reached by traditional government regulation;

- ***Greater Economic Opportunities*** – the plan would protect reasonable economic growth at the ports by addressing conforming growth in the air quality plan and by ensuring a cost-effective means of meeting the plan's performance targets; and

- ***Fewer Future Project Hurdles*** – the plan would streamline approval of conforming projects at the ports by developing a master plan that incorporates mitigations into the plan's overall performance guidelines, thus reducing the uncertainties associated with project-specific CEQA review.

Questions and Answers

1. How would the Goods Movement Attainment Plan lower the overall cost of reducing emissions?

Answer: Under a market program, regulated sources can select the most cost-effective means of reducing emissions. They also can tailor controls to match their own unique operations in ways that often cannot be anticipated by regulators. Furthermore, under a market program, sources can time their expenditures to coincide with other investments. Historically, market programs implemented in the U.S. have demonstrated cost savings in the range of 25% or more.

As early as the 1970s the United States has used market strategies, such as emissions trading, to achieve emission reductions in the most cost-effective manner. One early program was the lead trading program, designed to remove lead from gasoline. More recent programs include the Regional Clean Air Incentives Market, or RECLAIM, which regulates large sources of oxides of sulfur and nitrogen in the South Coast Air Basin, and the acid rain program implemented nationally. Economic evaluations of such programs suggest that they achieve very substantial cost savings, lowering the cost relative to traditional command-and-control programs by as much as fifty percent (50%). *See, e.g.*, Ellerman, Jaskow and Harrison, "Emissions Trading in the U.S. – Experience, Lessons and Considerations for Greenhouse Gases," at 32 (Pew Center on Global Climate Change, May 2003).

2. How does a market program enhance environmental effectiveness?

Answer: A market program enhances environmental effectiveness by creating economic value for reducing emissions. In this circumstance, it also creates an opportunity to overcome potential legal impediments to regulation.

A well-designed market program enhances environmental effectiveness because it rewards conservation; it creates an economic incentive to accelerate investment in clean technologies; it provides a means of addressing economic hardship, which otherwise would serve to discourage, disable or diminish regulation; it aligns stakeholders and thus encourages consensus; and it creates rewards for innovation. Id. at 32-34. In this context, it also provides a means of overcoming otherwise formidable legal impediments to regulating emissions from sources such as rail engines and ocean-going vessels because such sources will have an incentive to participate in the market to realize economic opportunities. Furthermore, the fee mechanism is more likely to withstand legal challenge because it is tied directly to an activity's excess emissions, it can be avoided entirely if the source meets performance standards or provides offsets, and the funds would be directed to mitigate the activity's impact.

3. How can the plan prioritize public health benefits?

Answer: As currently envisioned, the plan will accelerate the reduction of emissions that pose the greatest risk to local communities. It will do this by establishing higher credit values for those investments that disproportionately benefit public health.

The proposed plan will create an economic incentive for those investments that yield the greatest health benefit. For example, the plan might pre-approve the generation of credits from reducing emissions that occur closest to local communities or to sensitive receptors or from reducing emissions that are considered the most toxic. The plan also may apply special weighting factors, or provide for expanded credit uses, so that such credits are valued more highly than other credits. The California Air Resources Board has recently evaluated health risk in local communities. The coalition intends to work with CARB, the SCAQMD and the local communities to identify those emission reductions that would deliver the greatest health benefits.

To ensure further that the desired emission reductions occur in local communities, we have crafted our proposal to prohibit sources from avoiding or deferring otherwise-required emission reductions by purchasing credits if their emissions significantly contribute to local risks in communities found by CARB or the SCAQMD to be exposed to disproportionately high risk. Of course, we want to encourage such sources to accelerate their emission reductions and, therefore, will recommend financial strategies to incentivize reductions beyond required levels. This can be achieved, among other means, by allowing them to generate credits for use outside of such higher-risk zones. This approach should further ensure that investments are attracted and accelerated in local communities that experience higher risk.

4. Wouldn't this program simply allow sources to "pay to pollute?"

Answer: For the first time, the plan will address all sectors of pollution in the ports, thus making all emissions sources accountable. Moreover, by creating financial value for emission reductions, the plan will make it possible to finance many otherwise orphan emission reductions (e.g., the existing truck fleets). Imposing accountability on all sectors will be necessary if the region is to attain the air standards.

The real problem under current law is that, in the goods movement sector, many polluters don't pay for their pollution, because, under current law, many port sources are not regulated at all. Even as government begins to regulate more goods movement sources, without using market strategies, it will be unable to address many if not most of the emissions, such as vessel emissions or emissions from the existing truck fleet.

The Goods Movement Attainment Plan is intended to address all of the sector's emissions either by imposing performance requirements on such sources or, in the case of existing vehicle fleets, by creating an efficient means of financing reductions from such fleets. The program thus ensures that all polluters are accountable, or in a sound bite, ensuring that "all polluters pay." Moreover, by establishing a new market for emission reductions in and around

the ports, the program would create a powerful economic incentive for emission reductions wherever and whenever they can be found.

5. What are the deadlines for meeting EPA's ozone and fine particle air quality standards?

Answer: 2021 or 2025 for ozone and 2015 for PM2.5.

Under the Clean Air Act, EPA issues national ambient air quality standards (NAAQS) for various classes of pollutants. Exposure to levels higher than such standards is considered unhealthful. Among other categories, EPA has set NAAQS for ozone and fine particles. In California, the most difficult air quality challenges exist in the South Coast Air Basin, which consists of Los Angeles, Orange and portions of Riverside and San Bernardino Counties. The Basin currently fails to meet the NAAQS for ozone and fine particulates.

A. Ozone Standard:

Ground level ozone pollution, commonly referred to as "smog," is formed when volatile organic compounds (VOC) react with oxides of nitrogen (NOx) in the presence of sunlight. Although EPA had previously defined the ozone standard on the basis of peak one-hour readings, in 1997 EPA revised the NAAQS for ground-level ozone, setting it at 0.08 parts per million averaged over an 8-hour time frame. The current ozone standard is thus commonly referred to as the "8-hour ozone standard."

EPA designates areas that do not meet the NAAQS as "nonattainment" for that pollutant. Based on current ozone readings in the South Coast, EPA has designated the South Coast Air Basin as a "Severe-17" nonattainment area. Under EPA's regulations, the South Coast has until the year 2021 (or 17 years from the June 15, 2004 effective designation date) to attain the current ozone standard. *See* 69 Fed. Reg. 23858, 23863, 23882 (April 30, 2004); 40 CFR § 81.305. This deadline would become 2025 if the region were designated an "Extreme" area, as currently contemplated by the SCAQMD.

EPA has announced its intention to revoke the previous 1-hour ozone standard, which had an earlier attainment date of 2010. The 1-hour standard will be revoked effective June 15, 2005. See 69 Fed. Reg. 23951, 23954 (April 30, 2004, effective June 15, 2004)("We will revoke the 1-hour standard in full, including the associated designations and classifications, 1 year following the effective date of the designations for the 8-hour NAAQS.")

B. Fine Particle Standard:

Fine particle pollution is a mixture of microscopic solids and liquid droplets suspended in air. Fine particles can be emitted directly or formed in the atmosphere from a variety of combustion sources. EPA has determined that fine particles less than or equal to 2.5 micrometers (μm) pose the greatest risk. EPA's NAAQS for PM2.5 include both an annual standard (15 $\mu g/m^3$ based on a 3-year average of annual mean PM2.5

concentrations) and a 24-hour standard (65 $\mu g/m^3$ based on 3-year average of 98th percentile of 24-hour concentrations).

EPA has designated the South Coast Air Basin as "nonattainment" for the PM2.5 NAAQS. Nonattainment areas that experience severe PM2.5 problems are eligible for a five-year extension beyond the initial 2010 attainment deadline, for a final compliance deadline of 2015. *See* 70 Fed. Reg. 944 (January 5, 2005, effective April 5, 2005).

The Goods Movement Attainment Plan would be designed to achieve gradually increasing emission reductions so as to enable the South Coast Air Basin to meet the 2021/2025 and 2015 final attainment deadlines for the ozone and fine particle standards.

6. How will the Goods Movement Attainment Plan set performance targets?

Answer: Sector-specific performance targets will be expressed as an expected emissions rate per unit of activity and will be phased in over time.

The coalition will evaluate each goods movement sector to determine the full range of strategies available to reduce emissions and improve air quality. For those strategies that are technologically feasible, cost-effective and clearly beneficial, the coalition will recommend their direct implementation over an appropriate time frame.

There will be many other areas for which significant uncertainties remain regarding the feasibility, cost or benefit associated with one or more strategies for certain sectors. In such cases, the coalition will recommend a sequence of phased emission reductions over the attainment period (i.e,. 16 or 20 years for ozone and 10 years for PM 2.5). Individual entities will retain the discretion to determine how to meet these reduction targets and will, in most cases, be encouraged to find approaches that are best suited to their own operations. Under the proposed market program, sources that do better than the phased emission reduction targets will generate emission reduction credits that can be traded and used in the market. Those who miss the targets will be required to hold sufficient offsetting credits or otherwise take mitigating action.

Example: Instead of mandating a particular approach for reducing ship emissions, the plan will establish phased emission reduction levels, probably expressed in terms of an emissions rate per unit of activity (e.g., pounds of emissions per unit of fuel consumed or power output). Under the plan, ships could use any means of meeting that target (e.g., exhaust treatment, barge control, sea water scrubbing, shore-side electrification).

7. How will the market work?

Answer: The market will allow sources to average their emissions to meet performance targets. Sources that act early or perform better than expected can generate tradable surplus emission reduction credits. Those that miss their targets will need to obtain offsetting credits or otherwise mitigate their excess emissions.

A. Credit Generation

Under the proposed plan, any source that is subject to a performance target will have the opportunity to generate tradable surplus emission reduction credits by achieving greater than expected reductions or by achieving reductions earlier than required.

B. Credit use

Under the proposed plan, any regulated source can purchase credits and use them as a means of demonstrating compliance with their own performance targets. Likewise, sources outside the goods movement sector can purchase credits from this program for their own compliance with air quality regulations or as a source of offsets for new business growth. One clear advantage of this proposal is to encourage investment in the goods movement sector from both within and outside the sector.

C. Targeted Mitigation Fee or Safety Valve

Under the proposed plan, regulated entities that fail to meet their performance targets and that have not otherwise demonstrated compliance (e.g., by purchasing credits), would be required to pay a mitigation fee for any excess emissions. This "safe harbor" mitigation fee would be applied either to port/goods movement infrastructure improvements or to other emissions mitigation strategies.

D. Ports/Goods Movement SIP and Periodic Adjustments

The plan can be designed as either a "closed" or "open" market (see other documents for a more detailed description of this design choice). If the plan is implemented as an "open" market that follows growth in the sector, it will be necessary periodically to evaluate whether the performance targets provide the desired level of progress towards attainment of the ozone and fine particle standards. Under the proposed plan, any necessary periodic adjustments would be made as part of a Ports/Goods Movement state implementation plan (SIP).

8. How will the plan address future growth?

Answer: The Ports/Goods Movement SIP will include projected emissions due to anticipated growth and will set performance targets accordingly.

Working with the Southern California Association of Governments and the air quality agencies, the Ports and Goods Movement participants would identify anticipated growth during the plan period (i.e., through the year 2021). The plan's performance targets would take such growth into account, subject to periodic adjustments as noted above. Because the plan would incorporate anticipated growth, provide performance expectations for all sources, and provide for mitigation of all material air quality impacts, the Goods Movement Action Plan would be designed to satisfy CEQA requirements for evaluating the air quality impacts of new projects. This would substantially streamline project-specific review for conforming projects.

Maritime Goods Movement Coalition

April 19, 2006

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Context

- Focus on air quality and public health impacts of goods movement
- Funding mechanism to ensure mitigation of goods movement sector impacts
- Program designed to encourage participation by major sources, many not subject to state or local control

Context – Why We Need a Comprehensive Goods Movement Air Quality Strategy

- We need a comprehensive air quality strategy for the ports and goods movement sector because:
  - Sector sources contribute disproportionately to air pollution and to local public health impacts
  - The region cannot attain the new ozone or fine PM standards (or demonstrate "reasonable further progress") without regulating this sector
  - Without such a strategy, sector growth will be stymied or significantly delayed by project-by-project CEQA challenges
  - Significant infrastructure investments will likely be delayed or prevented without such a strategy (e.g., due to CAA sanctions, conformity failures, CEQA challenges or political opposition)

Why a Comprehensive AQ Strategy?

- A comprehensive AQ strategy would permit the state to integrate otherwise piecemeal legislative and regulatory activities:
  - Port Leasing Policies
  - CARB Rulemaking
  - Governor's GMAP
  - State Legislation
  - SCAQMD Rulemaking
- Piecemeal measures will be extraordinarily costly and will likely restrict growth and employment

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MGM Coalition Mission

- Develop an integrated AQ plan with the following characteristics:
  - Contribute to attainment of the ozone and fine PM air quality standards
  - Address material local health impacts
  - Provide for lowest-cost solutions
  - Provide flexibility in designing solutions
  - Improve goods movement efficiency
  - Protect goods movement economy
  - Encourage investment in the sector
  - Secure the time needed to make necessary investments
  - Avoid costly and time-consuming project-by-project battles

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Proposal

- **Integrated, Attainment-Based Plan**
  - *Integrated* air quality attainment plan for the maritime goods movement sector
  - Tied to attainment dates for 8-hour ozone (2021-24) and the new fine PM (2015) standards
  - Plan would constitute the "state implementation plan" for the sector
- **Market-Based Performance Program**
  - Optimize for lowest cost subject to local health priorities
  - Set performance targets and timetables
  - Allow sources to comply with performance targets by designing their own strategies
  - Early actors generate tradable credits
  - Sources that fail to meet performance path must hold offsetting credits or pay "safe harbor" fee
  - Infrastructure improvements that reduce goods movement impacts could generate tradable credits

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Proposal (continued)

- Growth-Loaded Plan
  - By incorporating projected growth and identifyingair quality mitigation in advance, the MGM Plan should streamline CEQA review of specific conforming projects
  - Project impacts would be evaluated relative to the plan's emissions and risk performance targets
- Prioritize Public Health Benefits
  - Identify sources and locations of greatest exposure
  - Accelerate, pre-certify and, if appropriate, weight strategies that address target emissions
  - Encourage early reductions (credit generation) at higher-risk locations, defer credit use at such locations until risk benchmarks met

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Key Areas of Controversy: 1. Allowance-Related Risks

- Allowance risks
  - Potential Problems:
    - The program could fail to meet ***environmental*** goals if too many allowances (i.e., credits) are issued.
    - The program could fail to meet ***economic*** goals if participants comply by reducing activity instead of emissions.
  - Proposed Remedies:
    - Use an open market design, by which participants generate credits only by reducing the emissions rate of the regulated activity, or
    - If a closed market is preferred, then provide a mechanism (e.g., auction) for issuing more allowances if activity levels exceed expectations.

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"Open" vs "Closed" Market Design

- Emissions = AL x EF
  - AL - activity level (e.g., kilowatt hours, brake horsepower hours, fuel consumed)
  - EF - emission factor, or rate
- ***Closed*** markets allow credit when the product of AL and EF is negative (i.e., reductions below the cap).
  - Participants comply either by reducing AL or EF, or both.
- ***Open*** markets allow credit only when there is a reduction in EF.
  - Participants comply either by meeting the declining EF or by purchasing credits.
  - Credits can only be generated by reducing EF below the standard or by achieving reductions early.
- Periodic Program Adjustments in Open Market Systems
  - Because open market credit programs do not cap overall emissions, emission performance standards (i.e., the EF) are set based on projected activity levels (similar to traditional SIP planning). Depending upon actual economic activity, the program would be adjusted periodically to assure that overall emissions goals are met.

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Key Areas of Controversy: 2. Local Impacts of Trading

- Risk of not delivering local benefits:
  - Potential Problem:
    - Trading could result in a deferral or avoidance of emission reductions at locations where risk reductions are most needed.
  - Proposed Remedy:
    - Design the market program to ensure local benefits as follows:
      - Identify zones of higher risk due to sector emissions ("target zones");
      - Prohibit deferral of controls by sources that drive risk within target zones (i.e., one-way trading in target zones);
      - Pre-certify credits for emission reductions in target zones so as to attract and accelerate investment there;
      - Provide annual accounting to track emissions and risk reduction in target zones

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Key Areas of Controversy: 3. "Pay to Pollute" vs "Make Polluters Pay"

- Risk that participants will pay the "safe harbor" fee rather than reduce emissions.
  - Potential Problem:
    - Under the program, a source could just pay a fee in lieu of reducing emissions.
  - Potential Solution:
    - The fee ensures that sources that cannot reasonably reduce emissions or obtain credits can still operate. The fee is used to obtain offsetting emission reductions. Example: single visit vessels.
    - Setting the "safe harbor" fee at a price higher than the current credit price in the market ensures that the program will create a continuous incentive for efficiency and for reducing emissions, as sources will seek ways to avoid paying the fee.

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Implementation Timeline

- Near term (12 months)
  - Accelerated Investment in High-Impact Areas
    - Develop credit-generation protocols for select categories (e.g., cargo handling equipment, trucks, auxiliary engines)
    - Allow generation, sale and banking of credits
  - Develop 10-20 year performance standards and timetable for program
- Longer term
  - Develop joint powers authority or clarify entity/agency jurisdiction to ensure full integration
  - Implement full market

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