

RULE 1005 - MOBILE SOURCE EMISSION REDUCTION CREDITS/BANKING
(Adopted 07-19-94)

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100 GENERAL**101 PURPOSE:**

- 101.1 To provide a means by which regulated businesses and/or government agencies are able to develop flexible compliance programs that are tailored to the specific conditions and requirements of each business and/or government agency.
- 101.2 To minimize the cost of mobile source compliance with District rules, while providing the emissions reductions needed to attain the air quality goals of the Sacramento Metropolitan Air Quality Management District.
- 101.3 To establish a mobile source emissions reduction credit/banking system wherein emission reduction credits (MERC) may be administered.

102 APPLICABILITY:

- 102.1 This rule applies to all persons, companies, businesses, organizations, or public entities that are regulated by the District's Mobile Source Rules (Regulation 10).
- 102.2 Persons, companies, businesses, organizations, or public entities that are not subject to one of the District's Mobile Source Rules may register emissions reductions under this rule in order to generate MERC, subject to Section 401 .

200 DEFINITIONS

- 201 **ACTUAL EMISSIONS REDUCTION:** Emissions reductions that are enforceable, permanent, quantifiable, real, and surplus.
- 202 **ALTERNATIVE FUEL:** A motor vehicle fuel consisting of methanol, ethanol (including methanol and/or ethanol in combination with gasoline as approved by the California Air Resources Board as an alternative fuel), liquified petroleum gas (LPG), compressed natural gas (CNG), liquified natural gas (LNG), or electricity.
- 203 **BASE VEHICLE:** Any motor vehicle that is not a California Air Resources Board-certified reduced-emission vehicle.
- 204 **BURDEN:** A computer model for estimating the emissions from mobile and transportation sources by coupling the emission rates from EMFAC with vehicle activity information.
- 205 **CERTIFICATE OF ADVANCE PLACEMENT (CAP):** Acknowledgement of potentially surplus emissions reductions, for exceeding the obligation established by this rule for light-duty and medium-duty vehicles.
- 206 **EMFAC:** The computer model approved by the California Air Resources Board for estimating emission rates from mobile and transportation sources.
- 207 **ENFORCEABLE:** Verifiable and legally binding.
- 208 **ESCROW ACCOUNT:** An accounting system maintained by the District in which CAP are deposited prior to disbursement, and kept until matched with real, surplus, permanent, and quantifiable emissions reductions.
- 209 **FLEXIBLE FUEL VEHICLE (FFV):** A motor vehicle that is capable of being operated on gasoline or diesel fuel and an alternative fuel.
- 210 **MOBILE SOURCE EMISSION REDUCTION CREDIT (MERC):** Actual emissions reductions that are registered with the District in accordance with the requirements of this rule.
- 211 **OBLIGATION:** The requirement to provide emissions reductions, in order to comply with any of the District's Mobile Source Rules, Regulation 10.

- 212 **PERMANENT:** Credits are permanent if the life of the credit and the life of the obligation, as established in the pertinent rule, are the same.
- 213 **QUANTIFIABLE:** Ability to estimate emissions reductions in terms of the amount and characteristics. The same method of estimating emissions should generally be used to quantify emission levels before and after the reduction.
- 214 **REAL:** Actually occurring, implemented, and not artificially devised.
- 215 **REDUCED-EMISSION VEHICLE (REV):** Any reduced-emission vehicle regulated under the provisions of Rule 1003 - REDUCED-EMISSION FLEET VEHICLES/ALTERNATIVE FUELS.
- 216 **REGISTER:** The record maintained by the District of all MERC/CAP deposits, withdrawals, transfers, and transactions.
- 217 **RETROACTIVE CREDIT:** MERC and/or CAP, approved by the District, for an emissions reduction occurring prior to January 19, 1995.
- 218 **SPREADING:** The use of long-term MERC to meet short-term obligations.
- 219 **STACKING:** The use of short term MERC to meet a long term obligation which provides disproportionately high emissions reductions in one time period of the obligation, and disproportionate low (or no) emissions reductions at another time period of the obligation.
- 220 **SURPLUS:** Emission reductions in excess of any emission reduction which is:
- 220.1 required or encumbered by any laws, rules, regulations, agreements, orders, and unless such law by its terms states that the emission reduction shall be considered surplus, or
 - 220.2 attributed to a control measure noticed for workshop in the District, or proposed or contained in a State Implementation Plan, or
 - 220.3 proposed or contained as near-term measures in the District Air Quality Attainment Plan for attaining the annual reductions required by the California Clean Air Act. Temporary actual emissions reductions may be authorized if they meet all the requirements of this rule except they are not permanent, and shall cease to exist as temporary actual emission reductions upon implementation of the near-term control measure.
 - 220.4 Emissions reductions attributed to a proposed control measure may be re-eligible as surplus actual emissions reductions for:
 - a. control measures identified in the District Air Quality Attainment Plan or State Implementation Plan where no rule has been adopted within two years from the scheduled adoption date, provided, however, the Air Pollution Control Officer has not extended the scheduled adoption date, or
 - b. control measures not identified in the District Air Quality Attainment Plan or State Implementation Plan where no rule has been adopted and two years have elapsed beyond the date of the latest workshop notice, or
 - c. control measures [proposed in the District Air Quality Attainment Plan which are not included into the Plan adopted by the District Board.

300 STANDARDS

- 301 **GENERAL:**
- 301.1 Any persons, companies, businesses, organizations, or public entities not regulated by a District Mobile Source Rule may comply with the provisions of this rule in order to earn MERC.
 - 301.2 Pursuant to Section 301.1, any persons, companies, businesses, organizations, or public entities not regulated by a District Mobile Source Rule must exceed the same obligation, and the same terms and conditions, imposed upon any persons,

companies, businesses, organizations, or public entities regulated by a District mobile source rule, as if that rule were set forth in full here, in order to earn MERC/CAP.

- 302 **APPLICATION - CONTENTS:** Any person, company, business, organization, or public entity proposing to generate emissions reductions pursuant to this rule shall submit an application, for approval by the Air Pollution Control Officer, specifying the manner in which actual emissions reductions are to be achieved. Examples of emission reduction options acceptable to the District are listed in Appendix A.
- 302.1 The application shall include all of the information specified in Section 401; and
- 302.2 A fee, as provided for in Rule 304 - PLAN FEES.
- 303 **CERTIFICATION OF MERC:** Only actual emissions reductions that are in excess of an obligation, if applicable, shall be certified by the Air Pollution Control Officer as MERC's.
- 304 **USE OF MERC:** MERC may be banked for later use to satisfy an obligation, may be used immediately to satisfy an obligation, or may be sold or transferred. MERC that are used for stationary source offsets must comply with the requirements of Rule 206 - MOBILE AND TRANSPORTATION SOURCE EMISSION REDUCTION CREDITS.
- 304.1 Long term MERC may be spread over the life of a series of short term obligations, as provided in the applicable rule.
- 304.2 MERC stacking shall be permitted over the life of an obligation, provided that the obligation, averaged over any three year period of its life, is met with sufficient CAP or MERC, pursuant to the provisions of the rule in which the obligation is generated.
- 305 **CAP - CONVERSION TO MERC:**
- 305.1 CAP generated under the provisions of the District's mobile source rules (Regulations 10) that are not used within those rules to satisfy an obligation, may be placed in the escrow account.
- 305.2 CAP in the escrow account shall convert to MERC when matched with equivalent actual emissions reductions that accrue due to the registering ratio pursuant to Section 406, or to other actual emission reductions.
- 306 **MERC/CAP LIFE**
- 306.1 MERC, or CAP held in the escrow account may be held for a maximum of three (3) years without losing any credit life.
- 306.2 Except as provided by Section 306.1, the remaining life for MERC/CAP shall decrease by one year for each full calendar year following the date of credit issuance, and by one quarter calendar year for each calendar quarter following the date of issuance, or portion thereof, until it has no remaining life.
- 306.3 MERC/CAP life is dependent on the length in years of the actual emissions reductions activity.
- 306.4 The life of MERC/CAP generated by a District mobile source rule shall be established by the rule in which it is generated.
- 306.5 The lifetime of MERC earned by innovative programs, as approved by the Air Pollution Control Officer, shall be determined on a case by case basis.
- 307 **MERC VALUE:** The actual dollar value of MERC traded or sold shall be reported to the District pursuant to the requirements of Section 405.
- 308 **RETROACTIVE CREDIT:** Emission reductions occurring prior to the effective date of a mobile source rule, may be eligible for retroactive credit. In order for retroactive credit to be approved, an application meeting all of the requirements of Section 401 (with the exception of Section 401.4) must be submitted to, and be approved by, the Air Pollution Control Officer.

400 ADMINISTRATIVE REQUIREMENTS

- 401 **COMPLETE APPLICATION:** In order to be complete, the application specified in Section 302 shall include all of the following:
- 401.1 The specific emission reduction strategy, which must include all of the following:
- a. A clear demonstration that the emissions reductions proposed are actual emissions reductions, and
 - b. The data, and methodology used, for quantifying the proposed emissions reductions; and
 - c. The life of the proposed emission reductions.
 - d. A clear demonstration that the obligation or emissions reductions are achievable each year over a three year period.
- 401.2 A contractual agreement, between the applicant and the District, in which the applicant agrees to provide a specified amount of emissions reductions over a specified period of time.
- 401.3 The application shall clearly demonstrate, to the satisfaction of the Air Pollution Control Officer, that the emissions reductions proposed are actual emissions reductions.
- 401.4 The number of the rule in District Regulation 10 which regulates the applicant, if applicable.
- 401.5 The obligation incurred as a result of that rule, if applicable, expressed in pounds of pollutant(s) per year, as determined by the applicable calculations or worksheets provided in the applicable rule(s).
- 401.6 All emissions calculations provided in the application shall be in pounds of TOG or oxides of nitrogen, as required by the Air Pollution Control Officer.
- 401.7 Calculations demonstrating how the emissions reduction provided will be spread over the life of the obligation.
- 402 **APPLICATION - APPROVAL:**
- 402.1 The Air Pollution Control Officer shall determine the completeness of the application based on the requirements of this rule, within 90 days after submittal.
- 402.2 If the Air Pollution Control Officer determines that the application is complete, and that actual emissions reductions are generated, MERC or CAP shall be issued in accordance with Section 403.
- 402.3 If the Air Pollution Control Officer determines that the application is not complete, the applicant shall be notified in writing of the decision and specifying the information required.
- 402.4 Upon receipt of any resubmittal of the application, a new 90-day period to determine completeness shall begin. During the processing of the application, the Air Pollution Control Officer may request an applicant to clarify, amplify, correct, or otherwise supplement the information submitted in the application.
- 402.5 If the information required pursuant to Section 402.3 is not submitted, or if the Air Pollution Control Officer determines that actual emissions reductions are not achieved, the Air Pollution Control Officer shall deny the application.
- 403 **ISSUANCE OF MERC CERTIFICATE:**
- 403.1 If an obligation is exceeded, or if clearly demonstrated actual emissions reductions are generated, the Air Pollution Control Officer shall issue MERC Certificate(s) to the person, company, business, organization, or public entity generating the emission reduction, within 90 days of approval of the application as complete.
- 403.2 The Air Pollution Control Officer shall issue one copy of the MERC Certificate to the MERC owner(s) by mail or in person. Each MERC Certificate shall contain:
- a. Name of the person, company, business, organization, or public entity or to whom the MERC is issued.
 - b. MERC Certificate identification number,
 - c. Date of issuance,
 - d. Amount of emission reduction (in pounds per year),
 - e. Pollutant or pollutants reduced,

- f. Time period for which the credit is valid,
 - g. A statement regarding the possibility of invalidation of the MERC Certificate if, upon audit, it is determined by the Air Pollution Control Officer that the credit was fraudulently acquired, and absolving the District from any liability from any transaction involving the MERC Certificate.
 - h. Life of the credit, and
 - i. Signature of one responsible District official.
- 403.3 No MERC Certificate shall be issued for any emission reduction activity which has received an emission reduction credit from this District or any other air pollution/air quality management district.
- 403.4 CAP which have been placed in the escrow account may be converted to MERC once they have been matched with credits, pursuant to Section 406.
- 403.5 No MERC shall be granted for fuel transfer, refuelling, and evaporative emissions for heavy-duty diesel-powered vehicles that are converted to operate on an alternative fuel
- 404 **REGISTRATION:**
- 404.1 The issuance of a MERC Certificate pursuant to Section 403 shall not constitute compliance with the rules and regulations of the District, or a representation or assurance to the recipient upon which reliance is authorized or intended that the MERC represented by the MERC Certificate are available from the MERC Register established by this rule.
- 404.2 A copy of the MERC Certificate issued shall be maintained in the Register.
- 404.3 Multiple owners of emission reduction credits shall be separated according to agreements, filed with the District, between the owners with one MERC Certificate issued to each owner for their respective portion.
- 404.4 Upon transfer of MERC title between parties, the transferor's MERC Certificate, a copy of a writing, signed by the transferor and notarized by a notary public, which warrants that transferor title to the MERC is free and clear of any and all liens or other encumbrances, and authorizes the transfer of the MERC to the transferee. This writing must be surrendered to the Air Pollution Control Officer by the transferee, within 30 days of the date of the writing authorizing the transfer of MERC. The transferor shall indemnify District in any action by a third party arising out of a dispute over title to the transferred MERC.
- 404.5 Upon receipt and review of documents referred to in Section 404.4, the Air Pollution Control Officer shall issue a new MERC Certificate in the name of the transferee. By issuing a new certificate to a transferee, the Air Pollution Control Officer does not warrant that transferee takes title to the MERC free and clear of any lien or other encumbrance. If fewer than all of the transferor's MERC are transferred, a new Certificate shall be issued to the transferor showing the remaining MERC. The District may refuse to recognize any transfer of MERC that does not comply with the requirements of this section.
- 404.6 The original MERC Certificate surrendered by the registered owner shall be filed in the Register and marked with the date of issuance of the new MERC Certificate(s), the number of credits transferred, and the new MERC Certificate number(s). If fewer than all MERC are transferred, the new balance and the name of the original owner shall be entered in the Register.
- 405 **MERC REGISTER:**
- 405.1 The Register shall contain all of the following information for each MERC Certificate issued by the Air Pollution Control Officer:
- a. Certificate identification number, and
 - b. Date of issuance, and
 - c. Name and address of the registered owner, and
 - d. Amount of emissions reduction, in pounds per year, and
 - e. Source of the emission reduction(s); and
 - e. Type of pollutant or pollutants reduced; and
 - f. Date of MERC issuance and its expiration date; and

- g. Status of the MERC (e.g. being used, held, transferred, sold, etc.); and
 - h. Proposed use of the credit, if applicable; and
 - i. Rule number under which original obligation is incurred; and
 - j. Dollar value of the transaction.
- 405.2 Upon notice of transfer of a MERC Certificate, the Air Pollution Control Officer shall enter the following information in the Register:
- a. Original MERC Certificate number, and
 - b. New MERC Certificate number(s), and
 - c. Name and address of new owner(s), if applicable, and
 - d. Number of MERC being transferred; and
 - e. The remaining life of the MERC.
- 405.3 Upon the use of MERC to meet an obligation, the following information shall be entered into the Register by the Air Pollution Control Officer:
- a. All of the information required in Section 405.1, and
 - b. The date that the MERC Certificate was surrendered to the Air Pollution Control Officer, and
 - c. The name and address of owner or operator of the business where the MERC are being used to offset an obligation, and
 - d. The amount of MERC being used to offset an obligation.
- 406 **REGISTERING RATIO:**
- 406.1 All MERC issued pursuant to this rule must issue from the credit bank.
- 406.2 MERC which are registered will be converted at a ratio of 1.3:1, and disbursed as follows:
- a. Ten-thirteenths (10/13) to the owner of the MERC,
 - b. Two-thirteenths (2/13) to the District for air quality benefit, and
 - c. One-thirteenth (1/13) to the escrow account.
- 407 **REGISTERING RATIO TRACKING:** The Air Pollution Control Officer shall maintain records of the disbursement of all MERC to the owner(s) of the MERC, to the District for air quality benefit, and to the escrow account.
- 408 **RELEASE OF DOLLAR VALUE:** On an annual basis, the District shall disclose the range in dollar value paid for MERC/CAP, excluding information on the identity of any party involved in the purchase of MERC/CAP.
- 409 **APPEALS:** If the Air Pollution Control Officer denies an application pursuant to the provisions of Section 402, any person, company, business, organization, or public entity having made the application may appeal said decision to the Hearing Board.
- 500 **MONITORING AND RECORDS:**
- 501 If the provisions of this rule are used to satisfy the obligation established by any other District mobile source rule, the monitoring and record keeping requirements of that rule apply in this rule, as if set forth in full.
- 502 Records required by the Air Pollution Control Officer to substantiate emissions reductions under a contractual agreement.

APPENDIX A

RULE 1005 MOBILE SOURCE EMISSION REDUCTION CREDIT/BANKING

APPENDIX A

COMPLIANCE OPTIONS: The compliance options approved by the Air Pollution Control Officer for generation of MERC, pursuant to Section 401 are listed below. The District Rule (if any) that governs the compliance option is indicated in parenthesis following each option.

1. Introducing REV/ALTERNATIVE FUEL into a business or government agency that is not regulated by Rule 1003 - REDUCED-EMISSION FLEET VEHICLES/ALTERNATIVE FUELS, subject to the same terms and conditions of that rule. **(Rule 1003 - REDUCED EMISSION FLEET VEHICLES/ALTERNATIVE FUELS)**
2. Retrofitting or repowering an existing base vehicle with a reduced-emission/alternative fuel conversion that has been certified by the California Air Resources Board. **(Rule 1003 - REDUCED EMISSION FLEET VEHICLES/ALTERNATIVE FUELS)**
3. Providing enhanced inspection and maintenance of vehicles on an annual basis. **(Rule 1003 - REDUCED EMISSION FLEET VEHICLES/ALTERNATIVE FUELS)**
4. Provide a program for the accelerated retirement of old cars. **(Rule 1003 - REDUCED EMISSION FLEET VEHICLES/ALTERNATIVE FUELS)**
5. Elimination of vehicular trips (e.g. telecommuting).
6. Purchasing used REV/ALTERNATIVE FUEL vehicles that have remaining MERC value, provided that they are not purchased in the Sacramento Air Basin, San Joaquin Valley Unified Air Pollution Control District, or the Bay Area Air Pollution Control District. **(Rule 1003 - REDUCED EMISSION FLEET VEHICLES/ALTERNATIVE FUELS)**
7. Other, innovative, sources of emissions reductions as approved by the Air Pollution Control Officer, which are demonstrated to be actual emissions reductions.