

**SACRAMENTO METROPOLITAN  
AIR QUALITY MANAGEMENT DISTRICT**

For Agenda of: January 22, 2004

To: Members, Board of Directors  
Sacramento Metropolitan Air Quality Management District

From: Norm Covell  
Air Pollution Control Officer

Subject: Emission reduction credits from rice burning - Letter from Honorable Paul  
McNamara, Chair Feather River Air Quality Management District

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**Recommendation** Staff recommends the Board authorize Chair Collin sign the attached letter responding to Mr. McNamara.

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**Introduction** During the electricity crisis, some power plant developers proposed using rice burning emission reduction credits banked in other air districts to mitigate their emissions. Since EPA had not yet acted on our emission reduction credit (ERC) rule, staff submitted a proposal to EPA to ensure that rice burn credits (and other agricultural burning credits) would receive required EPA approvals. The power plant application was subsequently withdrawn, and EPA never responded to the District's proposal.

Because the California Rice Industry Association and its members were interested in the potential market for rice burn credits, they continued to pursue EPA approval of these credits. There are several issues regarding the use of rice burn credits. At this point, the issues fall into two categories: 1) whether the rice burn credits are eligible for banking, and 2) whether the rice burning emissions are included in the SIP inventory. Recently, staff received correspondence from EPA on how to resolve the inventory issue. Feather River AQMD has requested (attached) that staff follow the procedures identified by EPA.

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**Background** California Health and Safety Code section 40709 requires that districts establish, by regulation, a system by which all reductions in the emission of air pollutants which are to be used to offset future increases in emissions are banked prior to their use as offsets. This section also limits the bankable emission reduction credits to those that are not otherwise required by any federal, state, or district law, rule, or regulation. Such emission reductions are commonly referred to as "surplus".

The Connelly-Areias-Chandler Rice Straw Burning Reduction Act of 1991 (Connelly bill) required a reduction in rice stubble burning on an annual basis. The phase down began in 1992 and, beginning in 2001, allowed burning only for those fields with the certified presence of disease, not to exceed 25 percent of the acres planted. Since, the rice burning reductions were mandated by state law, they would ordinarily not be "surplus" and eligible for banking. But the Connelly bill included a special

provision declaring that the reductions qualified for banking, provided those reductions would otherwise qualify for credits. The bill also encouraged districts to develop banking rules.

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### **District credits**

The Board of Directors originally approved Rule 204, Emission Reduction Credits, in 1992, and amended it in 1996. This rule governs the generation of emission reduction credits from all sources, including rice burning and is consistent with the Connelly Bill. Rule 204 established, among other things, a generally applicable 60-day deadline for applying for emission reduction credits. In response to comments from the California Rice Commission, however, staff extended the deadline for application for agricultural burning credits to one year. In addition, the rule established requirements, consistent with federal policies, setting the amount of claimable credits equal to the average burning emission from the preceding two years. If the last two years are not representative, applicants may use the average of any two consecutive representative years in the last five years.

To date, no credits have been issued in Sacramento County for reduction in rice burning. One request for credits was denied for failure to demonstrate that rice had been planted or burned within the last five years. One application is currently being reviewed.

Although credits can be banked under Rule 204, they cannot be used to offset growth in major source emissions unless they are included in the SIP inventory. The 1994 SIP inventory included VOC emissions from agricultural burning, including rice straw burning, but did not include NOx emissions. The proposed new inventory for 1999 emissions includes both VOC and NOx. The absence of NOx emissions in the 1994 SIP is one of several issues identified by EPA as hampering the eligibility and use of rice burn credits<sup>1</sup>. In Sacramento, the 1994 SIP inventory is irrelevant, because the time for applying for credits passed several years ago.

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### **Other districts**

The other eight air districts in the Sacramento Valley Air Basin adopted their credit rules beginning in 1993 following development of a model rule from the Sacramento Valley Basin Control Council. The model rule established an application deadline of 1996. The Connelly bill does not require districts to extend the application deadline, but Feather River AQMD nonetheless later extended and in 2001 eliminated the application deadline for rice burning. Although other districts in northern Sacramento Valley have granted extensions, no other district in the Sacramento Federal Ozone Nonattainment Area (SFNA) has agreed to eliminate the deadline or adopt additional extensions.

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<sup>1</sup> Letter from Jack Broadbent, EPA Region 9, to Mr. Paul Buttner, California Rice Commission, June 13, 2002

**Request**

Feather River AQMD is requesting that districts in the SFNA increase the actual emission inventory to include pre-1999 emissions in the SIP inventory to allow credits to be used at all sources, including major sources, throughout the SFNA. The appropriate actions to be taken depend on the rules and credits approved by each district, but, at a minimum, only emissions associated with banked or bankable credits should be included in the inventory. Staff used the list of banked credits from the 2002 Milestone Report to prepare a submittal to ARB for including banked credits into the SIP inventory. Rice burn credits issued by Yolo-Solano under their current rules were included in that list. Feather River did not provide a list of credit actions for the 2002 Milestone Report, so none were included. At this time, only the Feather River AQMD has extended the application deadline and allows pre-1999 emissions to be eligible for credits. Therefore, only the additional pre-1999 emissions from banked credits in Feather River AQMD need to be included in the SIP inventory.

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**Conclusion**

Because Feather River AQMD has already extended the application deadline and granted credits, staff is willing to work with their staff to include those emissions in a future plan update, if appropriate<sup>2</sup>. Staff continues to work with ARB staff on whether and how to include banked credits in a future SIP update. Staff anticipates that in the SIP update each district will mitigate its banked credits, therefore, staff recommends that the additional rice burn credit emissions, as well as any other banked credits, be fully mitigated through requirements imposed on sources in Feather River AQMD.

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Respectfully submitted,

Norm Covell  
Air Pollution Control Officer

**Attachments**

- 1) Letter from Paul McNamara to Illa Collin, December 5, 2003
- 2) Proposed response letter

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<sup>2</sup> Note that EPA has proposed to remove Feather River from the Sacramento Federal Ozone Nonattainment Area. If EPA finalizes that decision in April 2004, the plan that is submitted to EPA may not include Feather River AQMD. If Feather River is not included in the nonattainment area, credits from Feather River cannot be used by major sources inside the Sacramento nonattainment area.