

**SACRAMENTO METROPOLITAN AIR QUALITY
MANAGEMENT DISTRICT**

For Agenda of **March 23, 2006**

To: Board of Directors
Sacramento Metropolitan Air Quality Management District

From: Larry Greene
Air Pollution Control Officer

Subject: Request by Aerojet for Emission Reduction Credits from the Community Bank

Recommendation

Approve the attached resolution transferring 1,110 pounds per quarter (lb/qtr) of particulate matter (PM10) and 280 pound per quarter (lb/qtr) of reactive organic compounds (ROC) to Aerojet from the Community Bank.

Executive Summary

Rule 205, Community Bank and Priority Reserve Bank, requires that requests for emission reduction credits (ERCs) from the Community Bank be brought before the Board when the term of the loan is greater than 5 years or the loan amount is greater than 900 pounds per quarter. Staff has received requests from Aerojet for two loans. The first loan application (C06-1001) is for the purchase of 1,110 lbs/qtr of PM10 emission credits for a 20-year term from the Community Bank in order to offset PM10 emissions from two rocket motor test stands. This request requires Board approval.

The second loan application (C06-2004) is for extending an existing loan of 280 lbs/qrt of ROC for an additional two years. The original loan is due to expire on April 3, 2006 and was originally issued on April 3, 2001. This request will extend this loan of credits to eight years and, therefore, requires Board approval.

The Community Bank currently does not have enough PM10 emission credits to provide offsets for Aerojet's loan. To ensure that adequate credits are available in the Community Bank, Staff is also requesting in a separate action that the Board approve the transfer of 1,500 lbs/qrt of PM10 emission credits from the Military Base Account of the Priority Reserve Bank to the Community Bank. If the transfer is approved, enough PM10 credits will be available to loan Aerojet. The Community Bank has enough ROC credits to loan Aerojet.

Background

Rocket Motor Test Stand: Aerojet is increasing operation of a solid rocket motor test stand. They are also permitting another test stand. The test stands are designed so that many types of test fixtures may be used in any stand of comparable design. The two test stands are combined under one emission limit that is based on a maximum of 300 pounds of propellant per day and 3,000 pounds of propellant per quarter. Aerojet exceeds the offset trigger for PM10 under Rule 202, New Source Review. The permitting of these two test stands will require 1,110 lbs/qrt of

PM10 credits. Aerojet does not currently own a PM10 credit certificate. Aerojet has requested a loan of 1,110 lbs/qrt (4,440 lbs/year) of PM10 credits from the Community Bank for a twenty-year term to provide offsets for Authority to Construct 18853 and 18859. An offset ratio of 1 to 1 for PM10 will be applied to this loan transaction.

Paint Spray Booth: Aerojet currently has a permit (P/O 15602) for the coating of Atlas V solid rocket motors. This permit covers the cleaning of the space vehicle parts and tooling and the coating of motor core tooling with mold release. This permit triggered ROC offsets and Aerojet obtained a five year loan from the Community Bank. The permit and the loan will expire on April 6, 2006. Aerojet has applied to modify the permit and to extend the use of the ROC emission reduction credits. This permit requires 280 lbs/qrt of ROC emission reduction credits. Aerojet has requested a loan of ROC credits from the Community Bank for a two-year term to provide offsets for Authority to Construct 18840. Aerojet does not currently own a ROC credit certificate. An offset ratio of 1.3:1 has been included in the 280 lbs/qrt request.

Community Bank Approval Process

Rule 205, Section 310 states that the District Board of Directors must approve loan applications to the Community Bank prior to disbursement. This request is for the March 23, 2006 Board hearing so that the emission credits are effective on April 1, 2006.

In approving a loan request, the Board must consider the extent to which cleaner innovative technologies have been used to minimize credit needs and may conditionally grant loans to protect the health of the bank or to promote cleaner, innovative technology. The Board may deny any application if the Board determines that the denial is in the best interest of the Sacramento Federal Ozone Nonattainment Area.

Use of Clean Technology

Aerojet's rocket motor test stands emit more than 10 lb/day of PM10 and therefore are subject to Best Available Control Technology (BACT) requirements. Staff had previously prepared a Top-Down BACT analysis for another solid rocket motor test stand (P/O 14841) that was subject to the MACT standards under Title III of the Federal Clean Air Act. The analysis was required since hydrochloric acid (a toxic air contaminant) emissions from that test stand were greater than 10 tons per year. The analysis found that there were no add-on controls that were feasible or other good operating practices or work practice standards that could be imposed to limit emissions. Since that analysis, EPA has published the proposed NESHAP 40 CFR Part 63, Subpart PPPPP for engine test cells/stands and that regulation also found that there were no other controls that could be feasibly implemented for rocket engine testing.

The paint spray booth, limited to a maximum emission of less than 10 pounds per day, is less than the BACT requirement of 10 pounds per day. The solvent cleanup and mold release coatings used in this permit are below the Rule 456, Aerospace Assembly and Component Coating Operations emission limitations.

Rule 205, Section 310.5 allows the Board the authority to place conditions on loan approvals in order to protect the health of the bank or promote clean technology. Staff recommends that no additional conditions be placed on these loans.

Loan Applications Under Consideration

In addition to the aforementioned requests, which require Board approval, there is an additional request for credits from the Community Bank. This additional request is for a small, short-term loan that is exempt from the requirement of Board approval.

Office of State Printing has requested a loan of ROC emission credits in the amount of 95 lbs/qrt for a one-year term. The emission offsets for this existing printing press are currently provided by a loan from the Community Bank that will expire on April 1, 2006. The requested loan is to replace the expiring loan. The Air Pollution Control Officer intends to approve this request.

Health of the Bank

The current ROC, NOx, and PM10 balances in the three accounts are:

Pollutant	Account Balances (pounds per year)			Total (tons per year)
	Military Base	Essential Public Services	Community Bank	
ROC	421,673.0	51,692.5	517,817.50	495.59
NOx	76,085.4	68,137.0	29,415.0	86.82
PM10	15,465.6	16,893.6	172.4	16.27

If the request for transfer of credits to the Community Bank is approved and the withdrawal of credits from the Community Bank is also approved, there will be 1,732 lb/year of PM10 left in the Community Bank Account and a total of 34,092 lb/year of PM10 in all three accounts. Additionally, if this ROC loan application is approved along with the approval of the Office of State Printing loan application, there will be 516,318 lb/yr of ROCs left in the Community Bank Account and a total of 989,683 lb/yr of ROCs in all three accounts.

Priority Determination

Rule 205, Section 311, Community Bank Loan Prioritization, states that if loan requests exceed the quarterly funding cap, all loan applications in the funding cycle shall be prioritized. The total amounts of credits requested from the Community Bank for these loans are 1,110 lb/year of PM10 for the first loan and 375 lb/qrt for the two ROC loans, which do not exceed the funding caps.

Conclusion

Staff recommends that the Board approve a loan of 1,110 lb/qtr (4,440 lb/year) of PM10 credits from the Community Bank to Aerojet for a twenty-year term. The loan fee is estimated to be \$46,495.68 plus an annual administrative fee. Staff also recommends that the Board approve a loan of 280 lb/qtr (1120 lb/yr) of ROC credits from the Community Bank to Aerojet for a 2-year term. The loan fee is estimated to be \$1,041.82 plus and annual administrative fee.

Respectfully submitted,

Larry Greene
Air Pollution Control Officer
Sacramento Metropolitan
Air Quality Management District

Approved as to form:

Katherine Pittard
District Counsel
Sacramento Metropolitan
Air Quality Management District

Attachment: Resolution

RESOLUTION NO. AQM _____
BOARD OF DIRECTORS
OF THE SACRAMENTO METROPOLITAN AIR QUALITY
MANAGEMENT DISTRICT

WHEREAS, the Board of Directors of the Sacramento Metropolitan Air Quality Management District adopted Rule 205, COMMUNITY BANK AND PRIORITY RESERVE BANK; and

WHEREAS, pursuant to Rule 205, Section 101, the Community Bank is a depository of certified emission reduction credits which may be loaned for compliance with rules and regulations or for offset requirements of new source review; and

WHEREAS, there are no PM10 or ROC emission reduction credits in the possession of Aerojet at this time; and

WHEREAS, Rule 205, COMMUNITY BANK AND PRIORITY RESERVE BANK, Section 310 requires that loan applications to the Community Bank for amounts greater than 900 pounds per quarter and/or longer than 5 years must be approved by the District Board of Directors prior to disbursement; and

WHEREAS, pursuant to Rule 205, Section 310, the Board of Directors of the Sacramento Metropolitan Air Quality Management District may conditionally grant loans to protect the health of the bank; and

WHEREAS, pursuant to Rule 205, Section 310, the Board of Directors of the Sacramento Metropolitan Air Quality Management District considered the extent to which cleaner innovative technologies have been used to minimize the credits needed and imposes no additional conditions on these transfers.

NOW, THEREFORE, BE IT RESOLVED THAT the Board of Directors of the Sacramento Metropolitan Air Quality Management District authorizes and directs the transfer of the following PM10 emission reduction credits from the Community Bank to Aerojet for use with Sacramento Metropolitan Air Quality Management District permit number 18853/18859 for a term of twenty years:

PM10 Community Bank Transfer to Aerojet (Pounds per Calendar Quarter)					
Permit #	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total lb/yr
18853/18859	1,110	1,110	1,110	1,110	4,440

NOW, THEREFORE, BE IT RESOLVED THAT the Board of Directors of the Sacramento Metropolitan Air Quality Management District authorizes and directs the transfer of the following ROC emission reduction credits from the Community Bank to Aerojet for use with Sacramento Metropolitan Air Quality Management District permit number 18840 for a term of two years:

ROC Community Bank Transfer to Aerojet					
(Pounds per Calendar Quarter)					
Permit #	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total lb/yr
18840	280	280	280	280	1120

BE IT ORDERED that, pursuant to Rule 205, Section 310.4, the transfers be effective April 1, 2006.

ON A MOTION by Director _____, seconded by Director _____, the foregoing resolution was passed and adopted by the Board of Directors of the Sacramento Metropolitan Air Quality Management District, State of California, this 23rd day of March 2006, by the following vote, to wit:

AYES: Directors

NOES: Directors

ABSENT: Directors

 Chairperson of the Board
 Sacramento Metropolitan Air
 Quality Management District
 State of California

(SEAL)

ATTEST: _____
 Clerk of the Board
 Sacramento Metropolitan Air Quality Management District