

**Duke Energy Meeting with OMB on the draft Cross State Air Pollution Rule Update for the 2008
Ozone National Ambient Air Quality Standard
7/29/16**

Recommendation: EPA should not finalize a 4:1 surrender ratio for 2015/2016 banked CSAPR ozone season NO_x allowances but instead eliminate the surrender ratio approach altogether.

- 1) EPA proposes deep NO_x reductions, but does not provide coal-fired EGUs sufficient time to implement the solutions necessary to achieve those reductions.
 - a. EPA fails to recognize that EGUs have already made significant progress in reducing NO_x emissions and that ozone air quality conditions have improved significantly.
 - b. EPA's proposal incorrectly assumes that many coal-fired EGUs will retire in 2016 and that many coal-fired EGUs have "idled" their SCRs.
 - c. EPA also incorrectly assumes SCRs on coal-fired EGUs can operate at 0.075 lb/mmBtu. However, many of these SCRs cannot achieve this low an emission rate on a continuous basis because of their design, the need to operate as cycling units, and the need to use the SCRs to meet MATS emission rates.
 - d. A more reasonable expectation for SCR performance on coal-fired EGUs is 0.10 lb/mmBtu, but many SCRs need catalyst upgrades and other work to even achieve this level of performance on an ongoing basis.
 - e. Furthermore, a September 2016 final rule with a May 2017 compliance date does not allow the time to schedule outages, buy and replace SCR catalyst and perform other work needed to achieve even a 0.10 lb/mmBtu emission rate.
- 2) EPA should not finalize a surrender ratio for pre-2017 banked allowances.
 - a. The bank has helped to incentivize over-compliance with the CSAPR program, and is an essential tool in promoting market stability as we transition to lower NO_x budgets.
 - b. Furthermore, de-valuing allowances at this point undermines confidence in the CSAPR trading program and in future emission trading programs.
 - c. EPA's proposed rule is arbitrary and capricious because it provides no reasoned analysis to support the position that it must impose a 4:1 surrender ratio and thus carry over banked allowances into the 2017 ozone season only equal to the variability limit (~60,000 tons).
 - d. Because any emissions above the compliance assurance level (CAL) are already subject to a 3:1 surrender ratio, a 4:1 surrender ratio for banked allowances effectively becomes a 12:1 surrender ratio for all emissions above the CAL.
- 3) EPA's overly stringent budgets and compressed timeline for implementation make it essential to have full use of the earned bank of CSAPR allowances.
 - a. Banked allowances are needed to provide a bridge to future lower emission budgets.
 - b. As the final rule's timing will not allow for SCR improvements before compliance begins, coal-fired EGUs will need to rely on banked allowances for two to three ozone seasons to offset the gap between further reductions and the tight allocations while necessary upgrades to SCRs and other components are being implemented.
 - c. Depending upon the size of the final budget and the banked allowance surrender ratio, Duke Energy may not have sufficient allowances for the 2017 ozone season.
 - d. We anticipate the entire CSAPR ozone allowance bank could be exhausted in the 2017 season, leaving Duke Energy and industry with insufficient allowances for the 2018 season.