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Board Agenda Item

TO: Air Pollution Control District Board

FROM: Terry Dressler, Air Pollution Control Officer

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SUBJECT: Fees for Diesel-fired Emergency Standby Engines

RECOMMENDATION:

Receive a report on fees the APCD will charge beginning in 2008 for permit reevaluations of emergency standby diesel-fired engines.

SUMMARY:

The APCD recently issued operating permits for more than 240 emergency standby diesel engines as a result of the March 2005 rescission of the permit exemption for these units. The vast majority of these engines have limited annual hours of operation for maintenance, but are allowed unlimited operating hours in an actual emergency (e.g., grid power failure). While approving the rule revision, the Board expressed concern about future fees and directed staff to return in December to propose reduced fees for future permitting (reevaluation) of these emergency standby units. Considering the Board's direction and our recent permitting experience, the APCD proposes to waive the usual Rule 210 engine reevaluation fees when we reevaluate these permits in 2008. Instead, for operators whose only permitted equipment is an emergency standby engine, the APCD will charge the minimum reevaluation fee allowed in Rule 210. With this approach, an operator of a 350-hp emergency standby engine will be charged approximately \$329 for 3 years of operation, and will save approximately \$670 in permitting costs. Operators who have a 350-hp emergency standby engine in addition to other permitted equipment will be charged approximately \$53 for that engine, plus the applicable reevaluation fee for their other equipment, and will save approximately \$947 in permitting costs. Based on experience to date, we expect the revenue from this modified fee approach, supplemented by other APCD fee revenue, to fund three years of permit, compliance, and inspection oversight, as well as diesel Air Toxic Control Measure enforcement for these emergency standby diesel engines.

DISCUSSION:

EXEMPTION AND ATCM: Prior to March 17, 2005, APCD Rule 202 (*Exemptions to Rule 201*) provided a permit exemption to any engine operated less than 200 hours per year used exclusively for emergency power generation and to diesel-fired engines rated less than 100 horsepower. The modification to Rule 202 approved by the Board of Directors on March 17, 2005 rescinded the permit exemption for these engines and they are now required to have an APCD permit. Permitting these previously-exempt engines enables the APCD to implement and enforce the statewide stationary diesel engine Air Toxic Control Measure (ATCM) that the Air Resources Board adopted in November, 2004 to reduce particulate matter emissions from these sources. The ATCM establishes, among other things, engine operating hour and emission limits, fuel use, and recordkeeping requirements, all of which are reflected in the more than 240 operating permits the APCD issued as a result of the rule change.

FEES: While a small number of permit holders operating in Santa Barbara County have “pay-as-you-go” reimbursement arrangements with the APCD, the vast majority pay permit fees that are calculated using fee schedules found in Rule 210. Using the Rule 210 fee schedule, permit fees for engines are typically calculated based on the amount of fuel an engine uses per hour and the heating value of that fuel. Upon issuance, an operating permit has a three-year term, after which the APCD reevaluates the permit (to update it and bring it current with APCD rules) and charges the permit fee for the next three years of operation. These fees are used to fund three years of the APCD’s ongoing costs for permitting, compliance and inspection oversight. Additionally, all permitted sources pay an annual emission fee which is used to fund general APCD programs.

Prior to the rescission of the exemption, permit fees had not been charged for engines used less than 200 hours per year or for individual engines under 100 horsepower, as these units were exempt. Now, however, with the loss of the exemption and our recent experience permitting more than 240 emergency standby diesel engines, it is reasonable to propose a fee approach that will cover the APCD’s legitimate permitting, compliance, inspection and ATCM enforcement costs without over-collecting fee revenue from operators of these lightly-used engines.

FEE APPROACH FOR EMERGENCY STANDBY ENGINES: For emergency standby diesel engines with annual operating hour limits for maintenance purposes, the APCD proposes to waive the typical engine reevaluation fees that are found in Rule 210 when we reevaluate these permits in 2008. Instead, for operators whose only permitted equipment is such an emergency standby engine, the APCD will charge the minimum reevaluation fee allowed in Rule 210. With this approach, an owner of a 350-hp emergency standby engine will be charged approximately \$329 for this three-year permit and will save approximately \$670 in permitting costs. An operator with a 350-hp emergency standby engine in addition to other permitted equipment will be charged approximately \$53 for that engine, plus the applicable reevaluation fee for their other equipment, saving approximately \$947 in permitting costs.

COST & REVENUE ANALYSIS: Based on experience to date, the reduced cost of the streamlined permit program, and estimated future workload, we are confident that the fees generated from these engines at the reduced reevaluation rate will cover three years of permit, compliance, and inspection oversight, as well as diesel Air Toxic Control Measure enforcement for these emergency standby diesel engines.