

ILLINOIS POLLUTION CONTROL BOARD

IN THE MATTER OF:)
PROPOSED NEW 35 ILL. ADMIN.)
CODE 217, SUBPART W, THE NOX) R01-9
TRADING PROGRAM FOR) (Rulemaking-Air)
ELECTRICAL GENERATING UNITS,) P.C.#10
AND AMENDMENTS TO 35 ILL.)
ADMIN. CODE 211 AND 217)

NOTICE OF FILING

TO: Dorothy M. Gunn, Clerk
Illinois Pollution Control Board
Thompson Center
100 W. Randolph Street
Chicago, IL. 60601

Persons on the Service List

Please take notice that I have today filed with the Clerk of the Illinois Pollution Control Board the original and nine copies of the Comments of the Chicago Department of Environment in the above-captioned matter, a copy of which is herewith served upon you.

BY: Carol B. Brown
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DATE: October 13, 2000
Chicago Department of Environment
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THIS FILING IS SUBMITTED ON RECYCLED PAPER



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ILLINOIS POLLUTION CONTROL BOARD

IN THE MATTER OF:)	
)	
NOx SIP CALL PLAN)	
AMENDMENTS TO PARTS 217)	R01-9
AND 211 OF THE ILLINOIS)	(Rulemaking -Air)
POLLUTION CONTROL BOARD)	
REGULATIONS)	

Comments of the Chicago Department of Environment

The Chicago Department of Environment (CDOE) is pleased to have the opportunity to provide comments to the Illinois Pollution Control Board regarding the Illinois Environmental Protection Agency's (IEPA) proposal to implement the U.S. Environmental Protection Agency's "NOx SIP Call" requirements. Because the City of Chicago is within a severe non-attainment area, improving air quality is a priority for CDOE, and for the City of Chicago generally. In 1998, under the leadership of Mayor Richard M. Daley, the Chicago metropolitan region initiated a cooperative effort to improve air quality through voluntary strategies.

CDOE generally supports IEPA's proposed NOx emissions cap, which is expected to result in a 74% reduction in NOx emissions by the year 2007, including the proposal for a statewide NOx cap of 0.15 lb/mmBtu on emissions from electrical generating units ("EGUs"). Implementation of this standard should improve overall air quality and help move the Chicago metropolitan area significantly closer to the goal of attaining the federal air quality standard for ozone. CDOE encourages IEPA to remain steadfast in its decision to implement the proposal without additional delays associated with the appeal of the NOx SIP call.

Despite general support for the proposal, however, CDOE has several specific concerns. Our concerns are as follows:

1. *The proposal should include an "Energy Efficiency and Renewable Energy Set-Aside."*

CDOE is disappointed that IEPA is not proposing to include an energy efficiency and renewable energy (EE/RE) set-aside in the proposal. An EE/RE set-aside would not only provide a key opportunity to cost effectively meet the requirements of the NOx SIP Call, but it would also provide incentives for sources to go beyond compliance while improving regional energy reliability.



The U.S. EPA strongly recommended that states include an EE/RE set-aside as an important element of programs designed to reduce NOx in accordance with the NOx SIP Call requirements. We agree with the reasons advanced by the U.S. EPA for including an EE/RE set aside:

1. reduction of the total economic cost of meeting the proposed NOx cap;
2. promotion of energy efficiency by accelerating the adoption of energy efficient practices and technologies; and
3. reduction of future CO2-related liabilities.

Emissions reduction activities should not simply focus on EGUS's but also on reducing demand and advancing the use of cleaner sources and providing incentives to do so.

As the IEPA knows, the public and private sector in the Lake Michigan non-attainment area are jointly addressing the issue of non-attainment in the region by seeking ways for sources of all types to reduce their emissions. In particular the region is focused on how businesses, households and local governments can reduce emissions from their own actions. One of the key recommended actions is the implementation of energy efficiency programs. However, as the members of this cooperative effort have recognized, incentives are critical to the success of our regional efforts. Chicago and other municipalities have expressed the desire to receive credits for their actions that reduce emissions -- credits that they can use to both encourage economic development in their communities and improve air quality. By not including the EE/RE set aside, IEPA has eliminated a key incentive to reducing regional NOx levels. It is inconsistent with current regional efforts for the IEPA to exclude energy efficiency and renewables set-aside from this proposal.

The City of Chicago is not only investing significant resources in energy efficiency but also in the development and use of renewables. These investments are environmentally beneficial to Chicago and the region and, as such, we should receive the benefit from these actions.

An EE/RE set-aside would appropriately reward those who invest in energy efficiency and renewables, instead of providing the benefit of these actions to EGUS's as the current proposal would do. The exclusion of the set-aside is a failure to take advantage of an opportunity to cost effectively improve our region's air quality. The CDOE firmly believes that an energy efficiency and renewables set aside of at least 10% must be included.

2. *The proposal may inappropriately favor existing EGUs, and revisions may be necessary to achieve the maximum clean air benefits.*

First, the initial allocations negotiated between IEPA and existing EGUs favor existing units at the expense of new, potentially cleaner sources. New EGUs will be forced to compete for credits once the new source allocations are exhausted. Since these new sources will be forced to rely on new credits, excessive competition may drive the price of these credits to prohibitive levels and may result in a disincentive to building new EGUs in Illinois. This is likely to threaten Illinois' ability to generate enough electricity to meet demand, or it may cause huge price spikes during the summer months.

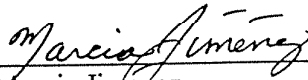
Second, instead of using a higher multiplier for EGUs that began operating before January 1, 1995, and a smaller multiplier for EGUs that began operating after January 1, 1995, IEPA should use a single multiplier to determine the allocation of allowances for *all* EGUs under the "flex" system. Using one multiplier to determine the allocations for all EGUs would provide a level and unbiased basis for allocating NOx allowances while still accounting for differences in the use and emission rates of various types of EGUs, *if* the multiplier is applied to the net heat input and emissions of each EGU. This method, applied to all EGUs would provide an equitable basis for allocating NOx allowances.

Third, the second allocation of NOx allowances should be based upon *net* heat inputs. Using net heat inputs and emissions rates would provide EGUs with an incentive to generate electricity more efficiently. Rather, the method proposed by IEPA provides EGUs with an incentive to produce high rates, since the amount of allowances allocated to it is, in part based upon the *highest* heat input and emission rate over a three year period.

Fourth, IEPA's proposed reduction of the new source set aside is inappropriate because estimates indicate that even 5% of the total NOx budget will be insufficient to meet the demand for new source allowances. Reducing the budget for the new source set aside would further bias this proposal in favor of existing sources by putting greater competitive pressures on the market for NOx credits. Even at the 5% rate, all EGUs that will begin operation before January 1, 2005 and all the EGUs that began operation after January 1, 1995 will be forced to compete for approximately 2000 NOx allowances. Furthermore, reducing the new source allocation budget is inadvisable because it would contravene the main goals of this regulation.

In summary, while CDOE favors implementation of the NOx SIP Call in Illinois regardless of the pending court appeal, CDOE believes that the proposal should be modified to include the EE/RE set-aside and to level the playing field between existing and new EGUs. These revisions would provide a superior environmental and economic benefit for the Chicago metropolitan region.

Respectfully Submitted,



Marcia Jimenez
1st Deputy Commissioner
Department of Environment
City of Chicago

Dated: October 13, 2000

CERTIFICATE OF SERVICE

I, Carol Brown, certify that on October 13, 2000, I served the attached notice of filing and comments of the Chicago Department of Environment to parties on the attached service list by depositing same in the United States Mail at 30 N. LaSalle Street, Chicago, Illinois 60602, with proper postage prepaid.

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R01-9 SERVICE LIST
PROPOSED NEW 35 ILL. ADM. CODE 217, SUBPART W, THE NO_x TRADING
PROGRAM FOR ELECTRICAL GENERATING UNITS, AND AMENDMENTS TO 35
ILL. ADM. CODE 211 AND 217

October 13, 2000

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