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STATE OF ILLIN
Pollution Control B

BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

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

CAM

NOTICE

TO: Dorothy Gunn, Clerk
Illinois Pollution Control Board
James R. Thompson Center
100 West Randolph, Suite 11-500
Chicago, IL 60601

Catherine Glenn, Esq.
Hearing Officer
Illinois Pollution Control Board
James R. Thompson Center
100 West Randolph, Suite 11-500
Chicago, IL 60601

SEE ATTACHED SERVICE LIST

PLEASE TAKE NOTICE that I have today filed with the Office of the Clerk of the Pollution Control Board the TESTIMONY OF KATHLEEN BASSI of the Illinois Environmental Protection Agency, a copy of which is herewith served upon you.

ILLINOIS ENVIRONMENTAL
PROTECTION AGENCY

By: _____
Laurel Kroack
Acting Associate Counsel
Division of Legal Counsel
Bureau of Air

DATED: August 18, 2000

1021 North Grand Avenue East
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Springfield, IL 62794-9276
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BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

IN THE MATTER OF:	)	
	)	
PROPOSED NEW 35 ILL.ADM.CODE 217, SUBPART W, THE NOx TRADING PROGRM FOR ELECTRICAL GENERATING UNITS, AND AMENDMENTS TO 35 ILL. ADM.CODE 211 AND 217.	)	R01-9 (Rulemaking – Air)

TESTIMONY OF KATHLEEN C. BASSI

My name is Kathleen Bassi. I have been employed at the Illinois Environmental Protection Agency (Illinois EPA or Agency), with the exception of one year, since 1985. In 1990, I was assigned to the Bureau of Air as manager of the Air Regulatory Unit for the Bureau of Air. Since 1995, I have been the Assistant for Program and Policy Coordination to the Chief of the Bureau of Air and, as such, have helped to staff the Agency's lead role in the Ozone Transport Assessment Group (OTAG) and participated in the development of today's proposal. I hold Bachelor and Master of Arts degrees from Western Illinois University and a Juris Doctorate from Northern Illinois University College of Law.

Background for the Proposal

Today's proposal is the culmination of years of work on the state and national levels to address ozone nonattainment in Illinois and the rest of the eastern U.S. As Mr. Lawler has testified, despite significant efforts on the part of the Agency and industry in Illinois to reduce emissions of volatile organic compounds (VOCs) within the state's nonattainment areas, monitored ozone levels in the Lake Michigan area continue to exceed the national ambient air quality standard (NAAQS). Modeling predicted that VOCs within the Chicago nonattainment area would have to be reduced at least 90% from 1990 levels in order for the area to attain. An

extensive and sophisticated air quality field study performed by the States of Illinois, Indiana, Michigan, and Wisconsin through the Lake Michigan Air Directors Consortium (LADCO) revealed elevated levels of ozone entering the nonattainment areas at a height several hundred meters above the surface of the earth, even where surface monitors indicated compliance. Other areas of the country were making similar discoveries.

As Mr. Lawler said, this common plight in the eastern half of the United States led to the formation of OTAG, an *ad hoc* committee formed by the Environmental Council of States, a national organization of states' environmental commissioners, and supported by the U.S. Environmental Protection Agency (U.S. EPA). Upwards of 1,000 representatives from 36 states and the District of Columbia, local governments, U.S. EPA, the Federal Regulatory Energy Commission, industry, the environmental community, and academia participated in OTAG. The former Director of the Illinois EPA served as Chairperson of OTAG, and Agency staff were very actively involved in the modeling study performed by OTAG and the investigation of control measures that would be appropriate to address ozone regionally. At the end of the two-year technical study, OTAG recommended to U.S. EPA a range of control measures to reduce emissions of nitrogen oxides (NOx) in the multi-state region to address ozone transport and that additional modeling analyses be conducted on a subregional basis.

In October 1998, U.S. EPA issued a final rulemaking requiring 23 jurisdictions in the eastern half of the U.S. to submit state implementation plans (SIPs) to reduce NOx emissions to address ozone transport. This rulemaking is commonly called the NOx SIP call (63 Fed.Reg. 57355 (October 28, 1998)). In the SIP call, U.S. EPA relied upon OTAG's technical study as well as other technical studies performed by U.S. EPA and other groups. Consistent with OTAG's recommendation, U.S. EPA found that reducing NOx emissions on a regional basis,

combined with VOC reductions in the nonattainment areas where necessary, presented the most effective means of addressing ozone transport. Reducing NOx on a regional basis meant that NOx must be reduced statewide, in both nonattainment and attainment areas, and even in states with no ozone nonattainment areas. Modeling analyses demonstrated that the cumulative reduction of NOx in the entire 23-jurisdictional region – as opposed to reducing emissions only in those states with nonattainment areas – has a much greater benefit in reducing ozone in the nonattainment areas.

In the SIP call, U.S. EPA established statewide budgets of NOx emissions for all jurisdictions subject to the NOx SIP call, including Illinois. These budgets were based, in part, upon reductions from specified source categories where U.S. EPA had determined control measures to be highly cost-effective. While the NOx SIP call does not require the implementation of the measures included in U.S. EPA's analysis of highly cost-effective control measures, as Mr. Forbes will testify, our examination of alternatives in Illinois led us to the conclusion that requiring reductions from the specified source sectors -- large electrical generating units (EGUs), large so called non-electrical generating units (non-EGUs)(*i.e.*, process steam stationary boilers, combustion turbines or combined cycle systems), cement kilns, and large stationary internal combustion engines was the most effective and the only probable means of reaching the reduction levels required by the NOx SIP call. The NOx SIP call also establishes a cap on NOx emissions from large EGUs and from large non-EGUs if the state chooses to control those source sectors.

Finally, U.S. EPA promulgated the elements of a federal NOx trading program that provides for allocations of NOx allowances to emission units and allows Account Representatives to acquire NOx allowances from or sell NOx allowances to the Account

Representatives of other units within the program to cover actual NOx emissions during the control period. U.S. EPA will administer the trading program for those states that incorporate the program by reference or adopt rules that are the same as the administrative portions of the rule. There are portions of the federal NOx trading program where states have flexibility to tailor the program to their unique situations. Other portions of the federal trading program are inflexible, and the state's rules must mirror the federal rule or incorporate the federal rule in order for the state to participate in the trading program.

Subpart W and 40 CFR Part 96

To create the federal NOx trading program, U.S. EPA promulgated 40 CFR Part 96 at the same time that it issued the NOx SIP call. While Part 96 is a voluntary program, participation in it requires that certain portions of states' rules be consistent in order to guarantee parity among the participating states. At the same time, there are areas of flexibility available to participating states, including the methodology for allocating NOx allowances, whether to allow low-emitting NOx emission units (*i.e.*, those that emit less that 25 tons in the control period based on potential to emit) to opt-out, whether to allow credits for reductions of NOx emissions obtained in the 2001 or 2002 control periods, and whether to allow smaller emission units to opt in to the federal trading program.

Proposed Subpart W provides for participation in the federal NOx trading program through incorporation by reference of certain segments of Part 96. This is consistent with Section 9.9 of the Environmental Protection Act, where the General Assembly found that trading is a cost-effective means of obtaining reductions of NOx emissions and then provided that the Agency propose and the Board adopt rules necessary to implement the federal trading program in

Illinois, including incorporation by reference of those sections and subparts of Part 96 necessary to accomplish the General Assembly's findings.

Proposed Subpart W also contains those elements of Illinois' rule where U.S. EPA provided flexibility to states participating in the federal NOx trading program, including NOx allowance allocation methodology; provisions for the set-aside of NOx allowances for new units, called the New Source Set-Aside; use of the Compliance Supplement Pool, a set of additional NOx allowances established by U.S. EPA in the NOx SIP call for each jurisdiction subject to the SIP call for use in 2003 and 2004; and inclusion of the opt-out provisions for low emitters and the provisions for allowing units not considered Core Sources (*i.e.*, EGUs serving generators greater than 25 MWe and non-EGU boilers and turbines greater than 250 mmbtu) by U.S. EPA in the SIP call to opt in.

- Incorporations by Reference and Elements of the Federal NOx Trading Program

Part 96 establishes a complete trading program, and states can incorporate the entirety of Part 96 if they choose, or they can incorporate only those portions that are necessary for the integrity of a national trading program administered by U.S. EPA and adopt rules to cover the flexible portions of the rule. Part 96 applies to all states that choose to participate in the federal trading program. U.S. EPA will administer the NOx trading program for all jurisdictions that may choose to participate. U.S. EPA has stated that it believes that certain elements of the program must be standard across the trading domain. These include the structure of trading accounts, the location of trading accounts, the requirement that each NOx emission unit have an Account Representative and that one Account Representative serve all units subject to the rules (called budget units) located at a single source. The federal rules also provide the method for deductions of NOx allowances for compliance, monitoring and reporting NOx emissions,

banking NOx allowances, flow control of NOx allowances, and other elements. Those elements that are totally under U.S. EPA's control do not need to be addressed in Illinois' rules other than through incorporation by reference. The Agency's proposal incorporates by reference the mechanics of the federal trading program. Some of the elements of the federally administered trading program need to be addressed in Illinois rules to provide program consistency (*e.g.* permitting) and to provide an element of completeness to the proposal.

Part 96 allows budget units in all states that properly incorporate by reference or adopt the program itself into their own rules to freely trade with any other budget unit in the program. Part 96 establishes the control period of May 1 through September 30. Part 96 defines *EGU* and *non-EGU* and requires that EGUs serving generators greater than 25 megawatts of electricity (MWe) and non-EGUs greater than 250 mmBtu be included in the program. Part 96 refers to these as core sources. States may include more sources or small EGUs or non-EGUs in their programs, but they must include, at a minimum, the core sources.

Part 96 requires that each unit have one Account Representative and that only the Account Representative may act as the source's or emission unit's representative within the federal trading program. One Account Representative may represent more than one source or emission unit, however. Given the large number of participants in this program, having one Account Representative per unit or source avoids placing U.S. EPA, as administrator of the trading program, in the position of having to determine who has authority to act on behalf of a source or unit, especially in the case of disputes.

The Account Representative is to establish a compliance account for each budget unit. The Account Representative may also establish an overdraft account for each source with multiple budget units. Anyone may have a general account and one does not need to own or

operate a unit or be an Account Representative in order to open a general account. For example, the state will have a general account into which U.S. EPA will deposit the allowances to be allocated to the sources in the state; environmental groups, brokers, and private citizens may also open general accounts.

The federal trading program allows for banking of allowances, and allowances do not have a fixed life. However, because allowances do not have a fixed life and so could theoretically exist in perpetuity, the federal system allows for flow control to minimize the effects of withdrawals from the bank that could adversely affect the environment. If Account Representatives are accumulating allowances in bank accounts, then the total emissions in the trading domain in a given year are less than those allowed cumulatively by the states' emission caps. However, with a trading system, the total emissions in a given state could exceed that state's cap, yet the units subject to the cap would be fully in compliance with the requirements of the program because of the trading element. Flow control is a mechanism to minimize exceedance of the domain-wide cap in the entire trading area because of the withdrawal of too many banked allowances in one year.

When the total number of banked allowances in the entire trading domain exceeds 10% of the total number of allowances in the budget in the entire trading domain for a given control period, flow control is triggered. When flow control is triggered, U.S. EPA will determine the ratio of 10% of the total budget to the total number of banked allowances. That is, U.S. EPA will multiply the total trading budget for a control period by 0.10 and divide that product by the total number of banked allowances held in all accounts. The Account Representative of a unit may withdraw up to that ratio multiplied by the total banked allowances for that unit on a one for one basis. However, withdrawal of any allowances beyond the number determined by the ratio

is permitted only on a two for one basis. Flow control does not restrict use of the allowances issued for the control period for which the flow control applies. For example, a source may use the allowances issued to it for 2008 in 2008 without restriction even though flow control is in effect. If 10% of the total trading budget is 25,000 allowances and there are a total of 30,000 banked allowances in the trading system, the ratio would be 0.83. If it had 100 banked allowances in addition to its allocations for 2008, it could withdraw 8 of them without restriction. Allowances must be whole; the unit may not withdraw 8.3 allowances. Conventional rounding applies. However, if the EGU needed to withdraw 15 allowances from its bank account in addition to those issued for use in 2008 in order to comply, it would have to surrender 22 allowances: 8 allowances at one for one and 14 allowances to make up the additional 7, at the flow control "penalty" of two for one

An element of the federal program that is inflexible and that must be included in all participating states' programs is continuous emissions monitoring pursuant to 40 CFR Part 75 and 40 CFR Part 96, Subpart H. Part 75 monitoring is already required of EGUs subject to the Clean Air Act's Acid Rain Program. Part 75 monitoring for all budget units ensures that a ton of NOx emitted in Georgia is equivalent to a ton of NOx emitted in Michigan and thereby assures the value of the currency of the trading program. Consistent with the requirements of Part 96, this proposal requires monitoring in accordance with the requirements of Part 75.

Part 75 requires 90% data capture, includes very stringent missing data requirements, and requires continuous emissions monitoring systems (CEMS) for mass NOx emissions. At the same time, Part 75 does include alternatives to CEMS in some instances and provisions for petitioning the Administrator of U.S. EPA and the Agency for approval of alternative monitoring plans.

Part 75 provides how emissions are to be calculated. Each budget unit's emissions are to be reported to U.S. EPA and the Agency consistent with the requirements of Parts 75 and 96 quarterly within 30 days following the end of the quarter. This means that NOx emissions for the control period must be reported to U.S. EPA and to the Agency for May and June by July 30 and for July, August, and September by October 30. Account Representatives have until November 30 following each control period to ensure that the compliance and/or overdraft accounts of the units for which they are responsible have allowances at least equal to the total number of tons of NOx emitted by each unit during the control period. If the number of allowances issued to the unit is insufficient to match its actual emissions, Account Representatives may obtain allowances from the marketplace to bring the unit's account into balance. On December 1 of each year, U.S. EPA will withdraw allowances from a unit's compliance account and then, if necessary, from the overdraft account available to the unit, if such overdraft account exists. If the compliance and overdraft accounts do not contain sufficient allowances, then the unit would be subject to deductions of three future allowances for each ton of NOx emitted in excess of the number of allowances available in the EGU's compliance or overdraft account as of December 1 as well as enforcement consistent with the Environmental Protection Act and/or federal enforcement through the SIP.

Part 96 allows low-emitting units to opt out of the trading program. Such units may take a federally enforceable permit condition (FESOP) limiting them to less than 25 tons of total mass NOx emissions during the control period. Only those units that are fueled by natural gas or fuel oil are eligible for low-emitter status. A state's source sector capped budget must be reduced by the number of tons of NOx included in the low-emitter's FESOP if the unit is an Appendix F unit or has ever been issued allowances by the state. If a low-emitter has never been issued

allowances by the state, then the capped budget does not have to be reduced and the unit will be treated as a small EGU, not subject to the EGU budget, although it must demonstrate compliance with the cap on its emissions as established in its permit. Illinois has included the provision for low-emitter status.

Another optional feature of the federal trading program incorporated into this proposal is to allow sources that are not Core Sources under Part 96 to opt in to in the program. As with low-emitters, if a state chooses to allow opt-ins, then it must follow the provisions for opt-ins contained in Part 96. Opt-in units must comply with Part 75 monitoring, establish a baseline, and then reduce emissions from that baseline.

- Unique Features of Subpart W

Allocation Methodology

The allocation methodology included in the proposal was a major focus of the meetings with the Appendix F EGUs and has been the subject of much comment and controversy. It is different from the optional allocation methodology included in Part 96. States were granted flexibility in developing allocation methodologies and were not required to use the federal approach.

Part 96 provides that allowances will be issued for the control period three years in the future based upon application of a rate of 0.15 lb/mmBtu to the unit's heat input during the year prior to the year in which the allocations are made. These allocations are based on unit's heat input four years prior to the control period for which the allocations are made. For example, allowances for 2008 would be made in 2005 based upon the unit's heat input in 2004. Part 96 makes no distinction between EGUs that commenced operation before January 1, 1995 (*i.e.*, the Appendix F units) and units that commenced operation on or after January 1, 1995. While Part

96 does not provide any flexibility with regard to the prospective allocations of allowances (*i.e.*, it requires that allowances be allocated three years in advance of the season during which they may be used), it does allow for flexibility in how a state determines what those allowances should be.

The first major difference of the Agency's proposal is what we call the "modified FIP" approach. The basis for allocating allowances is the average of the highest two control periods' heat input during the three-year period prior to the year in which allocations are made. For example, allowances for 2008 will be allocated in 2005, just as under Part 96. However, those allowances will be based upon the average of the two highest control period's heat input during the control periods in 2002, 2003, and 2004. This averaging addresses uneven operations for a unit. If the unit did not operate during a particular control period, it will not necessarily be penalized for its lack of operation four years hence. This particular feature was suggested by the EGUs and has been incorporated by U.S. EPA in its revisions to 40 CFR 97, the federally imposed trading system that U.S. EPA will use if it must adopt federal implementation plans (FIPs) for failure of a state to timely and adequately respond to the NOx SIP call.

Another difference is that the Agency has not proposed to base allocation of allowances for all budget units on the same emission rate. The proposed rule has retained the rate of 0.15 lb/mmBtu to be applied to the existing units, listed in Appendix F, as the most stringent emission rate to be applied to Appendix F units as allocations are determined. For new units, however, the rule proposes to apply the more stringent of either 0.15 lbs/mmBtu or the unit's permitted rate. In response to comments from EGUs, the proposal also includes a floor of 0.055 lb/mmBtu. A number of the new EGUs are subject to the best available control technology (BACT) requirements of the federal prevention of significant deterioration (PSD) program, and one

project has been subject to New Source Review and must meet the lowest available emission rate (LAER). These units, in particular, are pushing the bounds of current technology. They are natural gas-fired units with selective catalytic reduction (SCR) add-on control technology. The Agency believes that it would be very difficult for these units to obtain many more, if any, reductions beyond what is required by their permits except through trading. Because of the oversubscription to the EGU budget of 30,701 allowances, allowances will have to be pro-rated, which will have the effect of actually requiring these units to achieve rate more stringent than the 0.15 lbs/mmBtu emission rate upon which U.S. EPA based the EGU budget. The purpose of the 0.055 floor is to grant these new units some buffer from this effect. The decision to use the more stringent of the 0.15 lbs/mmBtu emission rate or the permitted rate upon which to base allowance allocations does not enjoy unanimous support. The representatives of new EGUs, in particular, have objected to this approach. However, the Agency believe this represents the most equitable means of distributing allowances given Illinois' current heavy reliance upon coal-fired electricity generation.

The proposed allocation methodology also includes what is termed the "fixed/flex" approach, and this also differs from the suggested federal allocation methodology. Part 96 provides that allowance allocations for Appendix F units will be made for the control periods in 2003, 2004, and 2005 at the time of submittal of the SIP. For these control periods, the allowances are 100% "fixed" as listed in Appendix F. For the control periods in 2006 and 2007, Appendix F EGUs will receive 80% of their initial allowances. This is the "fixed" portion of the allowance allocations during those two years.

The remaining 20% is the "flex" – or flexible – portion of the budget. In an attempt to place units that commenced operation between January 1, 1995, and April 30, 2002, for the 2006

control period and by April 30, 2003, for the 2007 control period in a position similar to that of the Appendix F EGUs, the Agency will apply the appropriate rate (*i.e.* the permitted rate or 0.15 lbs/mmbtu) to those units' heat inputs pursuant to the "modified FIP" approach. The Agency will first allocate from the "flex" portion of the budget the allowances corresponding to 80% of the total for which these units would be eligible to receive based upon their operations. If these units would require more allowances than are available from the "flex" portion of the budget, then the allowances will be pro-rated. If these units require fewer allowances than are available from the "flex" portion of the budget, then the Agency will determine 20% of these units' and the Appendix F units' heat input, apply the appropriate allocation rate, and pro-rate the remaining allowances in the "flex" portion of the budget among all units not receiving allowances from the new source set-aside.

Similarly, in 2008 and 2009, Appendix F units will receive 50% of their initial allocation, and the "flex" portion of the budget available for the newer units will be the remaining 50%. The newer units will first receive allowances from the flex portion based upon half of their heat input, and if there are any remaining allowances, they will be pro-rated among both the newer units and the Appendix F units according to 50% of their heat input and the applicable emission rate.

In 2010, the entire budget will be "flex." That is, allowances will be based totally upon heat input, as in Part 96, with the exception that Illinois will continue to use the "modified FIP" approach and the differential basis for determining the number of allowances for which each unit is eligible.

What has been referred to as the "fixed/flex" allocations of 80/20 and then 50/50 is actually less than that, as all units that receive allowances from the budget are subject to the 2%

set-aside for new sources commencing in 2006. In 2003 through 2005, the set-aside is 5% for new sources, so that the Appendix F units are actually receiving only 95% of their initial allocations. Appendix F includes columns that identify precisely the number of allowances that each unit will receive during the period between 2003 and 2009. The numbers of allowances included for each unit in these columns have been adjusted in some instances to provide for issuance of whole allowances by rounding as appropriate. The Agency will make similar adjustments as necessary for the newer units and in the allowances allocated from "flex" portion of the budget. Only whole allowances may be allocated.

The Agency must point out that the initial allocations made to Appendix F EGUs are negotiated numbers. The Agency and the Appendix F EGUs spent months attempting to develop a fair and appropriate method for making the initial allocations. Because EGUs' operations in 1995 or 1996 were the basis for determining the EGU portion of the capped budget, there were circumstances in a number of cases that precluded what the representatives of the Appendix F EGUs felt would be typical of those units' operations. For example, some unit might have operated at less than its "normal" operating capacity because of a breakdown at the unit. Representatives of some of the new EGUs – or those EGUs not listed in Appendix F – have commented that the lack of a replicable basis for the initial allowances is deficient. However, Part 96 provides that all of the initial allowances, except for a set-aside of 5%, will be allocated to those units operating before 1995, and this rule meets that provision.

The Agency has proposed this particular allocation methodology over some objection because it provides for a level of phasing in of the rule as applied to the existing EGUs that the federal approach does not.

New Source Set-Aside

Part 96 includes a NOx allowance set-aside for units that commence operation after January 1, 1995. During 2003 through 2005, the set-aside in Part 96 is 5% of the EGU budget. In 2006 and thereafter, the set-aside is 2% of the EGU budget. The Agency has proposed the same levels for the new source set-aside (NSSA) and notes that Section 9.9 of the Act provides that the NSSA may not exceed 5% of the EGU budget.

Part 96 provides for distribution of the NSSA on a first-come/first-served basis. Further, new sources may attach allowances into the future. The Agency's proposal departs from Part 96 in these areas. The Agency's proposal requires new sources to apply for allowances by March 1st of each year for which they are requesting allowances. The Agency will review the applications and verify that each applicant is eligible for the number of allowances requested. New EGUs are eligible for allowances on the same basis as allowances would be allocated from the "fixed/flex" portion of the budget, *i.e.* based on the more stringent of a 0.15 lbs/mmBtu emission rate or the permitted limit but no more stringent than the floor of 0.055 lb/mmBtu. By April 1, the Agency will notify new EGUs of the number of allowances to be allocated to them. If the requested number of allowances exceeds the number available for allocation, the Agency will pro-rate the allowances to all who have applied. If the number of allowances requested is less than the number available, each applicant will be allocated 100% of the number requested and that they are eligible to receive. During 2003 through 2005, any unused allowances in the NSSA will be allocated to the Appendix F sources as provided in Section 9.9 of the Act. Beginning in 2006, any unused allowances will remain in the state's general account until such time as a total of banked allowances in that account equals 3% of the EGU budget. Allowances in excess of that

3% amount will be returned to the EGUs issued allowances from the "fixed/flex" portion of the budget, *i.e.*, those EGUs not issued allowances from the NSSA.

Additionally, consistent with the requirements of Section 9.9 of the Act, new sources that commence operation on or after January 1, 2003, must purchase from the Agency the allowances issued them from the NSSA. The price of those allowances is to be the average price paid for allowances on the market the previous control period. During 2003, the price will be the average price for NOx allowances in the Ozone Transport Region in 2002.

Compliance Supplement Pool

U.S. EPA created a Compliance Supplement Pool of allowances in addition to those in the capped budgets for use by budget units only during the control periods of 2003 and 2004. Part 96 allows units to earn allocations of allowances from the Compliance Supplement Pool either by making early reductions during the 2001 and/or 2002 control periods or by demonstrating that the additional allowances are necessary to avoid potential electrical service reliability problems. States could choose to distribute the Compliance Supplement Pool allotted to them using either or both methods. The Agency proposes to distrubte the Compliance Supplement Pool only on the basis of early reductions made by EGUs during 2001 and 2002.

Part 96 requires that units requesting early reduction credits (ERCs) have implemented the provisions of Part 75 monitoring during the control period prior to the control period for which they are claiming early reductions. While the Agency's proposal does not directly address this requirement, we note that EGUs in the Acid Rain Program are currently subject to Part 75 monitoring by virtue of that program and the Account Representatives of any unit not subject to the Acid Rain Program can demonstrate that it complied with Part 75 monitoring during the requisite period.

The Agency's proposal providing for issuance of allowances for early reductions requires units requesting ERCs to reduce emissions 30% below the most stringent requirements applicable to the unit, such as the NOx levels required by the Acid Rain Program, NSPS requirements, or limitations included in the unit's permit. If the unit in question is part of a NOx averaging plan under the Acid Rain Program, then the reduction must be 30% below the averaging plan.

U.S. EPA allotted 200,000 allowances to the Compliance Supplement Pool and then assigned them to the jurisdictions subject to the NOx SIP call *pro rata*, determined by each jurisdiction's relative trading budget. Of the allowances allotted to Illinois, at least 15,261 have been reserved for EGUs. Half of them may be earned by units making early reductions during 2001. The Account Representatives of the units eligible for ERCs must apply for them by November 1, 2001, for those reductions made in 2001. By May 1, 2002, the Agency will verify eligibility and inform the Account Representative of the number of allowances that will be deposited in the account designated by the Account Representative prior to the 2003 control period. If the total number of ERCs for which units are eligible at the end of the 2001 control period exceeds 7,630, the allowances to be distributed will be pro-rated. The remaining half of the ERCs reserved for EGUs may be earned in 2002 in the same manner as the first half. However, following the 2002 control period and distribution of the ERCs for which Account Representatives have applied, the Agency will distribute to participating EGUs *pro rata* any ERCs that may be remaining. Additionally, if any allowances reserved for non-EGUs are not used, they will be distributed *pro rata* to eligible EGUs prior to commencement of the 2003 control period.

Conclusion

The Agency believes that this proposal addresses the requirements of the federal NOx trading program and provides a workable compromise to the divergent interests of the EGUs.

STATE OF ILLINOIS)
) SS
COUNTY OF SANGAMON)

PROOF OF SERVICE

I, the undersigned, on oath state that I have served the attached TESTIMONY OF KATHLEEN BASSI upon the person to whom it is directed, by sending a copy by facsimile to the (312) 814-3669 and by placing it with a courier for overnight delivery to the following:

TO: Dorothy Gunn, Clerk
Illinois Pollution Control Board
James R. Thompson Center
100 West Randolph, Suite 11-500
Chicago, IL 60601
(Overnight Mail)

Catherine F. Glenn, Esq.
Hearing Officer
Illinois Pollution Control Board
James R. Thompson Center
Suite 11-500
Chicago, Illinois 60601
(Overnight Mail)

SEE ATTACHED SERVICE LIST

from Springfield, Illinois on August 18, 2000.

Cynthia Sims

SUBSCRIBED AND SWORN TO BEFORE ME

This 18th day of August, 2000

Stephen C. Ewart
Notary Public

"OFFICIAL SEAL"
STEPHEN C. EWART
Notary Public, State of Illinois
My Commission Expires 11/16/02