Defensible Options for Allocating CATR SO2 Allowances

1. Original proposal with updated unit-specific information submitted during the comment period.

2. Original proposal (with updated unit-specific information) for first 3 years (2012, 2013, and 2014) and then a heat input approach beginning in 2015.

The NODA allocation approach undermines the rationale for Phase I

- As EPA has recognized, EGUs cannot add new controls in the 2012 - 2013 timeframe. The sole rationale for Phase I of CATR is to ensure that there will be no "backsliding" and that units "will run their existing, or already planned, pollution control devices when the units are operating." 75 FR 45318

- The original allocation approach would achieve this goal, but the NODA allocation approaches would not. Under the NODA, EGUs with "excess" allowances would have an economic incentive to "de-tune" existing controls or delay the installation of planned controls rather than sell their excess allowances.

- Relative to the original proposal, the NODA allocation approach will not achieve any environmental benefit, but will increase the cost of the rule (as discussed in the CRA study) and impose a wholly unnecessary burden on ratepayers.

- A heat-input-based approach is justified on fairness grounds when a group of regulated companies has sufficient lead time to make decisions about their compliance strategies.

- But when there is no lead time, and no time for regulated sources to invest in pollution controls, a heat-input approach simply forces a wealth transfer. The NODA approach would simply require certain companies to pay their competitors hundreds of millions of dollars a year; increase the total cost of the rule; and not achieve any additional environmental benefits relative to the original proposal.

- The NODA approach penalizes companies that have relied on EPA's past cap-and-trade programs and undermines the credibility of EPA trading programs in general.

- Companies that have installed scrubbers have already recovered some (or even all) of their scrubber investment by selling SO2 allowances. There is no justification for using CATR allowances to give them an extra windfall.