



# NO<sub>x</sub> Budget Trading Program Progressive Flow Control

Clean Air Markets Division

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## Overview of Progressive Flow Control

Flow control provisions were designed to discourage extensive use of banked allowances in a particular ozone season. Flow control is triggered if the total number of banked allowances from all sources exceeds 10 percent of the region-wide NO<sub>x</sub> emissions budget. EPA determines flow control as follows:

- After completing compliance deductions for an ozone season, EPA tabulates the total number of banked allowances.
- If the total bank is less than 10% of the regional trading budget, no flow control will apply in the following season.
- If the total bank is greater than 10% of the regional trading budget, EPA then calculates the flow control ratio.

This ratio indicates the percentage of banked allowances that sources can use with no discount for compliance in the following ozone season (“1-for-1”) and the percentage of banked allowances that, if used, must be discounted and deducted at a rate of two allowances for each ton of emissions (“2-for-1”).

The discount ratio only applies to allowances when a source uses them for compliance purposes. Allowances sold or traded on the allowance market are never subject to flow control at the time they are traded.

The flow control ratio is recalculated each year after compliance is completed.

## How Does Flow Control Work?

Assume a total regional trading program budget of 500,000 allowances.

Assume after year 1, sources have banked 200,000 allowances.

Since the bank is more than 10 percent of total budget ( $200,000/500,000 = 40$  percent), a flow control ratio will apply in year 2 when banked allowances are used for compliance.

The flow control ratio would be 0.25 (determined by dividing 10 percent of the total trading program budget by the total number of banked allowances, or  $50,000/200,000$ ).

The flow control ratio is applied to banked allowances in each source's allowance accounts at the time of compliance reconciliation. If a source holds 50 banked allowances at the end of year 2, it will be able to use 13 of them on a 1-for-1 basis, but will have to use the remaining 37, if necessary, on a 2-for-1 basis for compliance.

### Scenario 1:

If the source needed to cover 30 tons of emissions with banked allowances, 13 allowances would be deducted 1-for-1 and 34 allowances would be deducted 2-for-1 (leaving 3 unused allowances.)

### Scenario 2:

If the source needed to cover 13 tons of emissions with banked allowances, 13 allowances would be deducted 1-for-1 (leaving 37 unused allowances.)