FACT SHEET
Final Rule:
Revised Cross-State Air Pollution Rule Update
for the 2008 Ozone NAAQS

Allowance Bank Conversion

Both the 2016 CSAPR Update and the 2021 Revised CSAPR Update address states’ obligations under the Clean Air Act’s good neighbor provision with regard to the 2008 ozone National Ambient Air Quality Standards (NAAQS). The CSAPR Update established budgets for emissions of nitrogen oxides (NO\textsubscript{x}) from electricity generating units in 22 states during the May-September ozone season, implemented through requirements for the sources to participate in the CSAPR NO\textsubscript{x} Ozone Season Group 2 Trading Program starting in 2017. The Revised CSAPR Update establishes more stringent NO\textsubscript{x} emission budgets for sources in 12 of the states,\textsuperscript{1} implemented through requirements for these sources to instead participate in the new CSAPR NO\textsubscript{x} Ozone Season Group 3 Trading Program starting in 2021. Sources in the remaining 10 states will continue to participate in the Group 2 trading program.

To promote compliance flexibility without relaxing the program stringency identified as appropriate to address states’ obligations under the good neighbor provision, EPA is creating a limited initial bank of allowances for use in the new Group 3 trading program (“Group 3 allowances”) by converting allowances banked in 2017-2020 under the existing Group 2 trading program (“Group 2 allowances”) using a formula-based conversion ratio. EPA will carry out the conversion process on or about August 13, 2021. The conversion will apply to Group 2 allowances held in Group 3 sources’ compliance accounts. If the Group 3 bank target is not reached, the conversion will also apply to Group 2 allowances held in general accounts. Group 2 allowances held in Group 2 sources’ compliance accounts will not be affected.

The main elements of the bank conversion provisions are summarized below:\textsuperscript{2}

- The initial Group 3 bank target amount is based on the sum of the 12 affected states’ “variability limits” – that is, the amounts by which emissions from a given state’s units can exceed the state’s emission budget before incurring a penalty surrender ratio. For a full ozone season, this target amount would be 21,777 allowances. The full-season target amount is being prorated downward to 13,379 to reflect the portion of the 2021 ozone season remaining after the rule’s June 29, 2021 effective date.
- The conversion ratio is calculated by a formula. The numerator of the formula is the portion of the existing Group 2 allowance bank attributable to Group 3 states (specifically, the sum of these states’ 2017-2020 budgets under the Group 2 program

\textsuperscript{1} The 12 “Group 3 states” are Illinois, Indiana, Kentucky, Louisiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, Virginia, and West Virginia.

\textsuperscript{2} For a more complete discussion of the creation of the initial Group 3 bank, refer to section VII.C.4.b. of the preamble for the final Revised CSAPR Update. For the official regulatory text, refer to 40 CFR 97.826(d)(1).
plus the portion of the initial Group 2 allowance bank attributable to these states minus the sum of the 2017-2020 emissions of these states’ sources). The denominator is the initial Group 3 bank target amount (before prorating). Using January 2021 data, the formula yields a rounded conversion ratio of 8:1.

- EPA will allocate Group 3 allowances up to the initial Group 3 bank target amount to Group 3 sources at the 8:1 conversion ratio in proportion to the holdings of 2017-2020 Group 2 allowances in each source’s compliance account immediately before the conversion. If the Group 3 sources’ compliance accounts collectively hold fewer allowances than the amount required to reach the Group 3 bank target, EPA will also allocate Group 3 allowances to general accounts at the same 8:1 conversion ratio in proportion to each general account’s holdings of 2017-2020 Group 2 allowances immediately before the conversion, up to the Group 3 bank target amount.

- Eight Group 2 allowances will be deducted for each Group 3 allowance allocated, on a first-in, first-out basis.

For questions concerning the allowance bank conversion provisions, please contact Garrett Powers at 202-564-2300 or powers.jamesg@epa.gov.