

The American Innovation and Manufacturing (AIM) Act: Allocation Rule

Proposed Rule

JULY 2021

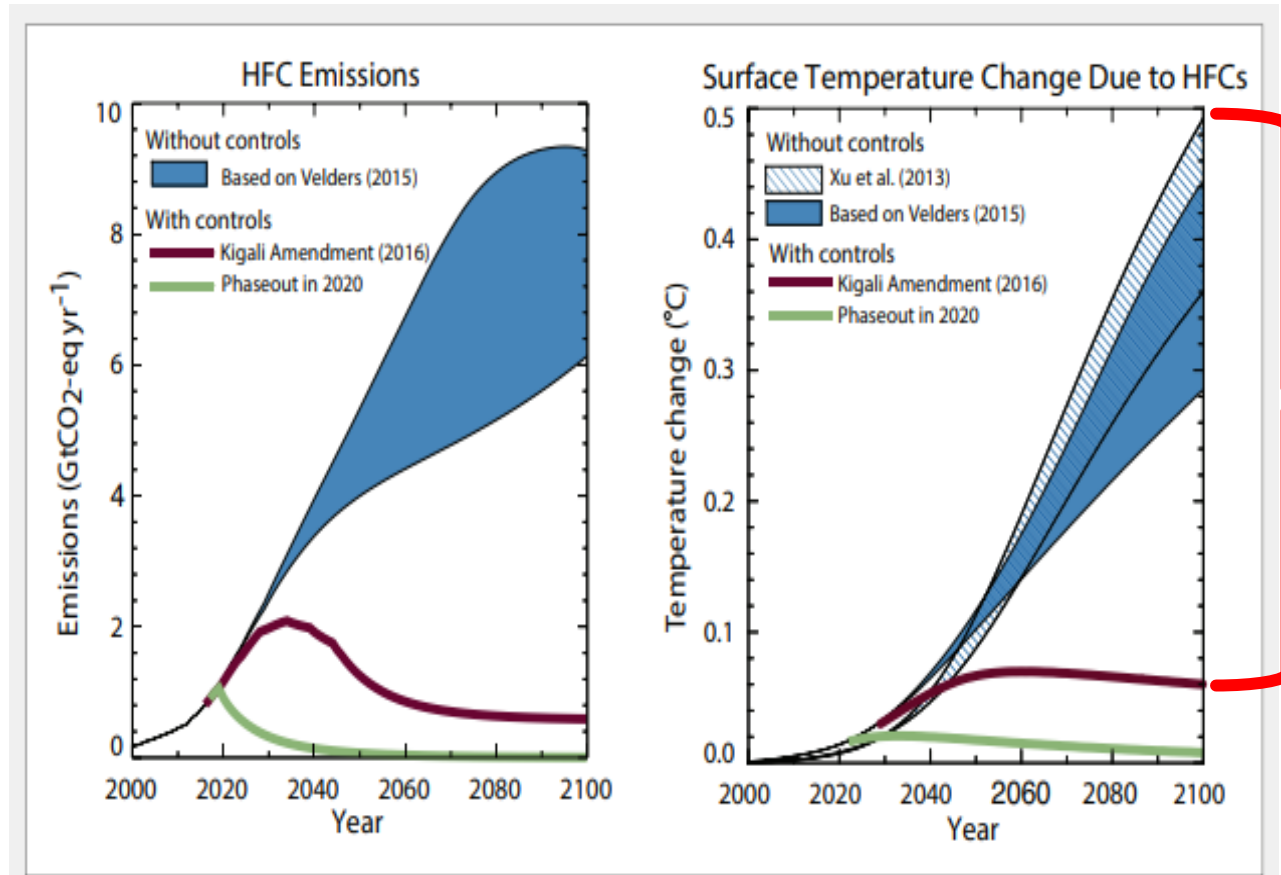
Agenda

- ▶ The AIM Act Overview
- ▶ Proposed Allocation Rule
- ▶ Sector Petitions
- ▶ Management of HFCs
- ▶ Questions



A global HFC phasedown is expected to avoid up to 0.5°C of global warming by 2100

- ▶ HFCs are used as replacements for ozone-depleting substances (ODS) in sectors including refrigeration, air conditioning, foam blowing, and fire suppression
- ▶ HFCs are potent greenhouse gases with global warming potentials (GWPs) hundreds to thousands of times higher than carbon dioxide (CO₂)
- ▶ HFC use is growing rapidly worldwide



WMO 2018: Executive Summary: Scientific Assessment of Ozone Depletion

The American Innovation & Manufacturing (AIM) Act

- ▶ The AIM Act establishes three main types of regulatory programs:
 - ▶ Phase down HFC production and consumption
 - ▶ Facilitate sector-based transitions to next-generation technologies
 - ▶ Management of HFCs and their substitutes
- ▶ Certain provisions are similar to provisions in CAA Title VI, but there are clear differences, including:
 - ▶ Phasedown, not a phaseout
 - ▶ Application-specific allowances
 - ▶ Includes a limited state pre-emption clause
 - ▶ Provides targeted small business technology grants

AIM Allocation Rule - Timing

- ▶ Important 2021 statutory deadlines:
 - ▶ 270 days after enactment EPA to issue phasedown regulations = **September 23**
 - ▶ **By October 1st** allocate allowances for 2022
- ▶ Proposed rule published May 19, 2021, in the Federal Register

Date	Caps: Consumption & Production
2022–2023	90 percent
2024–2028	60 percent
2029–2033	30 percent
2034–2035	20 percent
2036 & after	15 percent

Allocation Rulemaking: Issuing Allowances

The proposed rule would:

- ▶ Establish the HFC production and consumption baselines and codify phasedown schedule
- ▶ Establish an initial methodology for issuing allowances for 2022 and 2023, while seeking input for the longer term
- ▶ Allowances would be issued to companies that produced and/or imported HFCs in 2020 based on past volumes
 - ▶ Seeking comment on which years to use between 2011-2019
- ▶ Allowances will be issued by October 1st through a separate Notice

Allocation Rulemaking: Application-specific allowances and the set aside

The proposed rule would:

- ▶ Issue “application-specific allowances” directly to the entities, including the U.S. Department of Defense, that operate within the six applications listed in the AIM Act
 - ▶ These entities would be able to confer their allowances to producers or importers to acquire needed HFCs
- ▶ Set aside some allowances for application-specific end users and small importers that are identified after the public comment period ends
 - ▶ The set aside, as proposed, would be available in small quantities to new market entrants that are small businesses
 - ▶ If not used, these allowances would be allocated to companies that produced or imported in 2020

Allocation Rulemaking: Proposed compliance mechanisms

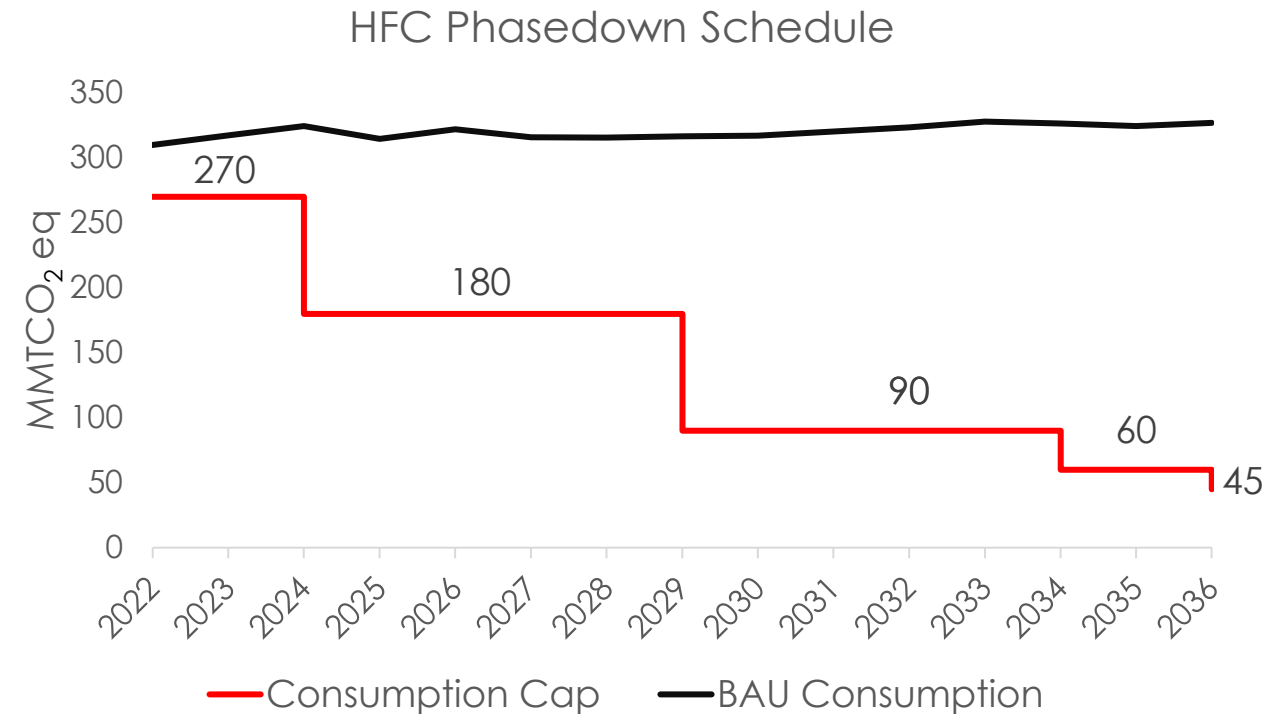
The proposed rule would:

- ▶ Establish an electronic tracking system for the movement of HFCs through commerce (universal QR codes)
- ▶ Require the use of refillable cylinders
- ▶ Establish administrative consequences (e.g., revocation or retirement of allowances) for noncompliance that would be in addition to any civil and criminal enforcement action
- ▶ Establish recordkeeping and reporting, third party auditing, and data transparency requirements



Regulatory Impact Analysis (RIA) Benefit Results

- ▶ RIA uses social costs of HFCs
- ▶ Benefits realized from a business-as-usual (BAU) scenario compared to the HFC reduction schedule
- ▶ Net present cumulative benefits through 2050 for the proposed rule: \$283.9 billion
- ▶ In 2036 alone, the year the final reduction step is made, this rule is:
 - ▶ expected to prevent 187 MMTCO₂e emissions – roughly equal to the annual GHG emissions from one out of every seven vehicles registered in the United States



Environmental Justice Analysis

- ▶ EPA conducted an environmental justice analysis that determined overall reductions in GHG emissions from this rule would benefit populations that may be especially vulnerable to damages associated with climate change
 - ▶ E.g., very young, elderly, poor, disabled, and indigenous populations
- ▶ EPA will further consider the impacts on at-risk communities to determine if there is a concern related to the HFC phasedown
 - ▶ We are taking comment on ways to be more transparent with data, e.g., on HFC production
 - ▶ We are taking advance comment for a future rule on ways to address potential distributional effects, e.g., differentiating allowance offsets based on local effects

Next-Generation Technologies: Opportunity to Accelerate Sector Transitions

- ▶ Under the AIM Act, EPA can further restrict HFC use to encourage transition to next-generation technologies
 - ▶ Extensive list of factors to consider
 - ▶ Petitions must be acted upon within 180 days and if granted, EPA must complete a rulemaking within 2 years
- ▶ First petitions to restrict use of HFCs received April 13th
 - ▶ As of July 19th, EPA has received 12 petitions
- ▶ Notice of Data Availability (NODA) alerting the public to the petitions and inviting information to inform our evaluation published May 25th



Management of HFCs

- ▶ The AIM Act directs EPA to establish a program for maximizing reclamation & minimizing releases of HFCs and their substitutes from equipment, and ensuring safety of technicians & consumers
 - ▶ Establish regulations to control, where appropriate, practices, processes, or activities regarding the servicing, repair, disposal or installation of equipment
 - ▶ Consider using authority to increase opportunities for reclaiming HFC refrigerants
- ▶ EPA may coordinate with any other similar regulations (e.g., CAA 608 regulations)
- ▶ Subject to appropriations, EPA shall establish a grant program for small businesses for purchase of recycling, recovery, or reclamation equipment for HFC substitutes (e.g., HFO-1234yf), including for servicing motor vehicle air conditioners

QUESTIONS & ADDITIONAL INFORMATION



Additional Information:

<https://www.epa.gov/climate-hfcs-reduction>

Public Hearing Registration:

<https://www.eventbrite.com/e/us-epa-public-hearing-proposed-hfc-allocation-rule-under-the-aim-act-tickets-154266690825>

Proposed Allocation Rule:

<https://www.federalregister.gov/documents/2021/05/19/2021-09545/phasedown-of-hydrofluorocarbons-establishing-the-allowance-allocation-and-trading-program-under-the>

Petitions:

<https://www.epa.gov/climate-hfcs-reduction/petitions-under-aim-act>

