

**Technical Support Document (TSD) for the
Proposed Supplemental Rule to Add Five States to the Federal Good Neighbor Plan
EPA-HQ-OAR-2023-0402**

Addendum to Allowance Allocation Final Rule TSD for the Federal Good Neighbor Plan

September 2023

Introduction

For this proposed supplemental rule, EPA is proposing to allocate allowances from the state-level emissions budgets for electricity generating units (EGUs) in the five proposed additional states to the individual EGUs within the borders of the respective states by applying the allocation methodology finalized in the Federal Good Neighbor Plan. The allocation methodology is described in the preamble for the Federal Good Neighbor Plan final rule in section VI.B.9 (88 FR 36801-08) and in the “Allowance Allocation Final Rule TSD” for the Federal Good Neighbor Plan (referred to here as the “GNP Allowance Allocation TSD”) (Document ID EPA-HQ-OAR-2021-0668-1079, available at www.regulations.gov in Docket ID EPA-HQ-OAR-2021-0668). This addendum provides additional information relevant to the application of the allocation methodology to the five proposed additional states. Attachments to this addendum (available in accompanying Excel files) include:

- Attachment 1: Unit-level allocations and underlying data for the proposed supplemental rule.
- Attachment 2: Impact of coal consent decrees for the proposed supplemental rule.

This addendum addresses the following four topics:

- Options for states to replace EPA’s default unit-level allowance allocations with state-determined allocations.
- Control periods for which default allowance allocations have been calculated.
- New unit set-aside percentages.
- Analysis of potential impacts of consent decrees.

1. Options for states to replace EPA’s default unit-level allowance allocations with state-determined allocations

The GNP Allowance Allocation TSD notes the options states have under the Federal Good Neighbor Plan to submit state implementation plan (SIP) revisions which, upon approval, would allow the states to continue using the Federal Good Neighbor Plan’s emissions allowance trading program for EGUs as a mechanism for addressing the state’s good neighbor obligations with respect to EGUs but would replace EPA’s default unit-level allowance allocations with state-determined unit-level allowance allocations. The proposed supplemental rule would retain these options, which are described in sections VII.C.1 through VII.C.3 of the preamble for the proposed supplemental rule. The options are unchanged from the Federal Good Neighbor Plan except with respect to the control periods for which they would be available. For the five proposed additional states, the option to modify allocations only for the second covered control period would be available for the 2026 control period (instead of the 2024

control period), and the options to modify allocations on an ongoing basis through “abbreviated” or “full” SIP revisions would be available starting with the 2027 control period (instead of the 2025 control period).

2. Control periods for which default allowance allocations have been calculated

The GNP Allowance Allocation TSD included an attachment showing default unit-level allowance allocations to existing units for the 2023-2025 control periods, along with the data used to calculate the allocations. The comparable attachment to this addendum shows proposed allocations only for the 2025 control period, because the five proposed additional states would not be covered during the 2023 and 2024 control periods. Starting with the 2026 control period, unit-level allocations to existing units in all states, including the five proposed additional states, would be determined according to the procedures set forth in the CSAPR NO_x Ozone Season Group 3 Trading Program regulations at 40 CFR 97.1011. The proposed allocations to units in the five proposed additional states for the 2025 control period are shown in Attachment 1 to this addendum, “Unit-level allocations and underlying data for the proposed supplemental rule”.

EPA is not proposing any changes to the methodology for determining which units would be considered eligible to receive allowance allocations as “existing” or “new” units for a given control period. For discussion of the methodology, see the GNP Allowance Allocation TSD at 3-5.

3. New unit set-aside percentages

Based on application of the same methodology used in the Federal Good Neighbor Plan, for Arizona, EPA proposes to set the percentages of the state emissions budgets that would be set aside for potential allocation to new units at 11% for the 2025 and 2026 control periods and 5% for subsequent control periods. The data used to calculate the percentage for the 2025-2026 control periods reflect estimated historical emissions data for 22 units in the state that already operate but that do not currently report their emissions and operating data to EPA under 40 CFR part 75. (For information on these units, see section VII.A.1 of the preamble for the proposed supplemental rule.) Because the first control period for which these units would report to EPA under part 75 would be the 2025 control period, the first control period in which the units would be eligible to receive allowance allocations as existing units would be the 2027 control period (which would base allocations on data reported for control periods from 2021 through 2025). For the control periods in 2025 and 2026, these units would not yet be eligible to receive allocations as “existing” units and therefore would receive allowance allocations as “new” units from the new unit set-asides.

For Iowa, Kansas, New Mexico, and Tennessee, EPA proposes to set the percentages of the state emissions budgets that will be set aside for potential allocation to new units at the minimum 5% for all control periods.

The proposed amounts of the new unit set-asides for the 2025 control period for the five additional states are shown in Table 1.

Table 1: Proposed Amounts of 2025 New Unit Set-Asides

| State | Proposed state emissions budget (tons) | Proposed portion of budget set aside for new units (%) | Amount of new unit set-aside (tons) |
|--------------|---|---|--|
| Arizona | 8,195 | 11% | 901 |
| Iowa | 9,752 | 5% | 488 |
| Kansas | 4,763 | 5% | 238 |
| New Mexico | 2,211 | 5% | 111 |
| Tennessee | 3,983 | 5% | 199 |

Relatedly, the GNP Allowance Allocation TSD (at 3) stated that the portions of the state emissions budgets allocated to existing units would range from 91% to 95% of the total state budgets, reflecting EPA’s determinations in the Federal Good Neighbor Plan that the portions of the state emissions budgets set aside for new units would range from 5% to 9%. As discussed above, EPA proposes to establish new unit set-asides for one of the proposed additional states of 11% of the state emissions budgets for the 2025 and 2026 control periods, so the portions of the state emissions budgets allocated to existing units in the five proposed additional states would range from 89% to 95%.

4. Analysis of potential impacts of consent decrees

EPA analyzed the potential impacts of consent decrees on unit-level allocations for the five proposed additional states using the methodology described for the Federal Good Neighbor Plan in the GNP Allowance Allocation TSD. Based on this analysis, for the 12 units identified as subject to NO_x emissions rate limits under consent decrees, EPA found that if average heat input is assumed, allocations to the individual units exceeding any applicable emissions rate limits would total 5 allowances in 2025. Further, EPA also found that if maximum heat input is assumed, no unit’s allocations would exceed its applicable emissions rate limit. Based on this analysis, EPA proposes not to adjust the default unit-level allowance allocations for any state to account for the potential impacts of consent decrees for the same reasons EPA discussed with respect to the Federal Good Neighbor Plan in the GNP Allowance Allocation TSD at 11. For further information, see that discussion as well as attachment 2 to this addendum, “Impact of coal consent decrees for the proposed supplemental rule”.