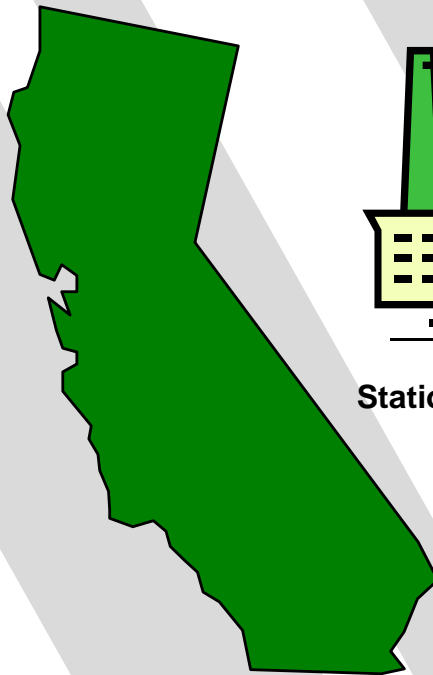


Emission Reduction Offset Transaction Costs Summary Report for 2010



ERC Bank



Stationary Source Offsets



ERC Trading

California Environmental Protection Agency



Air Resources Board

State of California
California Environmental Protection Agency

AIR RESOURCES BOARD

**Emission Reduction Offset Transaction Costs
Summary Report for 2010**

February 2012

Prepared by

Project Support Section
Project Assessment Branch
Stationary Source Division

This report has been reviewed by the staff of the California Air Resources Board. Publication does not signify that the contents necessarily reflect the views and policies of the Air Resources Board.

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EXECUTIVE SUMMARY

BACKGROUND

Since 1993, Health and Safety Code Sections 40709 and 40709.5 have required local air quality management and air pollution control districts (districts) to collect information regarding the cost of offset transactions from stationary source owners who purchase offsets as required by district New Source Review (NSR) programs. State law also requires districts to adopt emission reduction credit (ERC) banking programs. Districts are required to collect specific information about offset transactions including the price paid in dollars per ton, the pollutant traded, the amount traded and the year of the transaction. Districts are also required to annually publish this information without disclosing the identity of the parties involved with the transaction. Districts that are not required to submit a plan for attainment of State ambient air quality standards and those that also meet federal air quality standards are exempt from such requirements.

SUMMARY OF 2010 DATA

The Air Resources Board (ARB) has compiled information regarding NSR offset transactions collected from all 35 districts and assembled it into this report. This report summarizes statewide emission reduction offset transactions in California for the year 2010. Districts reported to ARB regardless of whether they had any offset transactions or whether the reporting requirements apply. A total of 159 transactions were reported to have taken place in California in 2010. This report does not include information covering 21 subsidiary transactions where there were no associated costs. In addition, information covering three particulate matter with aerodynamic diameter less than 10 microns (PM₁₀) transactions and one sulfur oxides (SOx) transaction from South Coast Air Quality Management District (SCAQMD) were included, but not averaged with the rest of the State, due to permitting issues specific to this jurisdiction that have resulted in significantly higher PM₁₀ and SOx offset costs in recent years (see Tables 14 through 17 and Charts 6 through 7 for a separate analysis of SCAQMD PM₁₀ and SOx data). Of the remaining 134 transactions, 25 were for nitrogen oxides (NOx), 80 were for hydrocarbons (HC), 11 were for PM₁₀, 3 were for carbon monoxide (CO), and 15 were for SOx. These transactions generally represent trades of offsets that are valid for the lifetime of the permitted source. This is in contrast to other types of credits that are valid for much shorter time frames (e.g., Regional Clean Air Incentives Market (RECLAIM) trading credits that are valid for one year).

Table 1 presents the average, median, high, and low costs for NOx, HC, PM₁₀, CO, and SOx offset transactions reported by 13 districts in 2010. Mean values in Table 1 represent the statewide average cost of a transaction, where each transaction is weighted equally in the calculation regardless of the number of tons traded per transaction. A specific breakdown of all transactions by district is presented in Table 2 (see page 10).

	NOx	HC	PM ₁₀	CO	SOx
Average	\$38,988	\$19,554	\$28,710	\$4,713	\$22,341
Median	\$50,000	\$15,263	\$30,000	\$5,479	\$21,000
High	\$90,000	\$52,055	\$70,000	\$8,359	\$70,000
Low	\$8,359	\$2,250	\$1	\$300	\$8,359

The following districts reported offset transactions: Bay Area AQMD, Imperial County APCD, Mojave Desert AQMD, Placer County APCD, Sacramento Metro AQMD, San Diego County APCD, San Joaquin Valley Unified APCD, Santa Barbara County APCD, Shasta County AQMD, South Coast AQMD, Tehama County APCD, Ventura County APCD, and Yolo Solano AQMD.

* Does not include South Coast PM₁₀ and SOx data.

DATA TRENDS

ARB has collected and reported statewide data on all offset transactions since 1993. The number of districts reporting transactions has stayed between 11-16 districts each year. In 2010, 13 districts reported transactions. The number of reported transactions has increased through the years, but decreased in 2002 through 2004 and in 2009. In 2010, 159 transactions were reported, which is approximately half of what was reported in 2009.

Summary Charts A, B, and C illustrate the trends that have occurred during the past sixteen years for the average transaction cost per ton of the three most actively traded criteria pollutants (NOx, HC, and PM₁₀).

Summary Chart A illustrates that the average transaction cost of NOx emission credits remained constant at approximately \$18,000 per ton until 2000. By 2003, the cost per transaction more than doubled to approximately \$40,000 per ton. The cost fluctuated between 2004 and 2008, peaking at \$80,000 per ton in 2006 before leveling off in 2007 and 2008 to approximately \$40,000 per ton. In 2009, there was a slight decrease in the average transaction cost to approximately \$38,000 per ton. In 2010, the cost per transaction was approximately \$39,000 per ton.

Summary Chart B shows that the average transaction cost of HC emission credits fluctuated slightly between 1993 and 2006, averaging approximately \$10,000 per ton. The average cost more than doubled in 2007 to approximately \$25,000 per ton, and increased again in 2008 to over \$40,000 per ton. In 2010, the cost per transaction decreased to an average cost of approximately \$20,000 per ton.

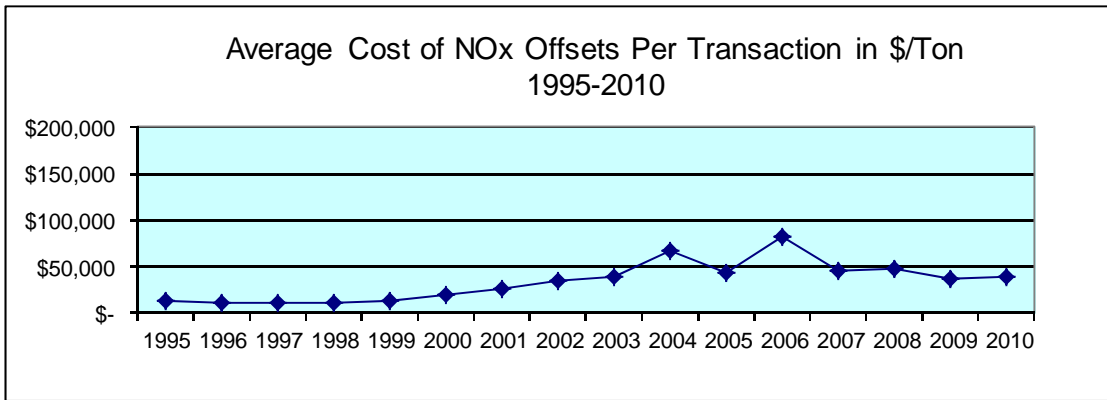
Summary Chart C shows that the average transaction cost of PM₁₀ emission credits stayed relatively constant until 2001, when it more than doubled to approximately \$50,000 per ton. In 2005, it climbed to approximately \$90,000 per ton. In 2006, the cost dropped to below \$40,000, followed by wide fluctuations. The average transaction cost was approximately \$17,000 per ton in 2009. In 2010, the average transaction cost increased to over \$28,000 per ton.

Summary Charts D and E illustrate the trends for the number of transactions and the number of tons traded during the past sixteen years for the three most traded pollutants (NO_x, HC, and PM₁₀). Summary Chart D illustrates that the number of transactions for all three pollutants generally increased between 1993 and 2001, and decreased between 2002 and 2004. The number of transactions increased again in 2005 for HC, and in 2006 for PM₁₀ and NO_x. In 2010, the number of reported transactions for all three pollutants decreased. Over the years, HC transactions have consistently outnumbered those of other pollutants.

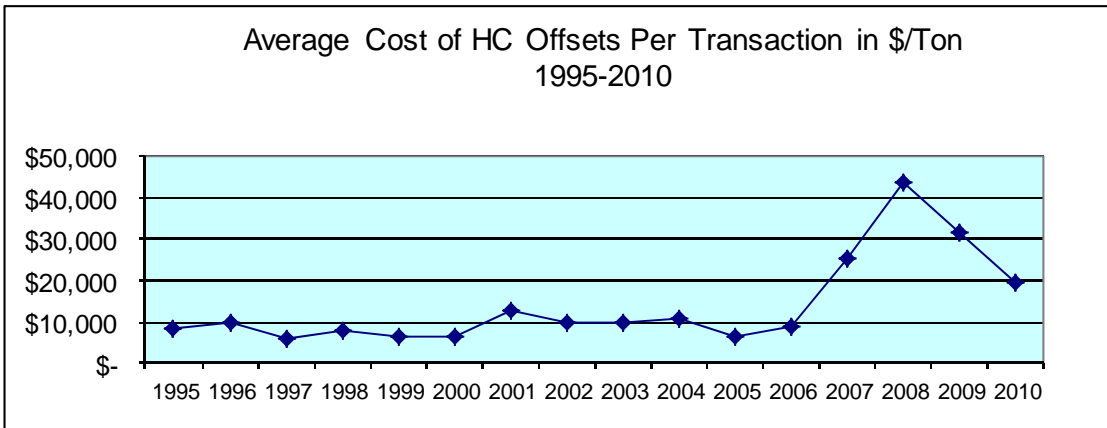
Summary Chart E shows that the number of tons traded by pollutant has remained fairly constant over the years, with the exception of a sharp increase in 2000 and 2001. In 2009, the number of tons traded decreased by about half from 2008. In 2010, the number of tons traded for all three pollutants decreased.

Further information on California offset transactions that occurred from 1999 through 2010 can be found at ARB's Emission Reduction Credit Offsets webpage at: www.arb.ca.gov/nsr/erco/erco.htm.

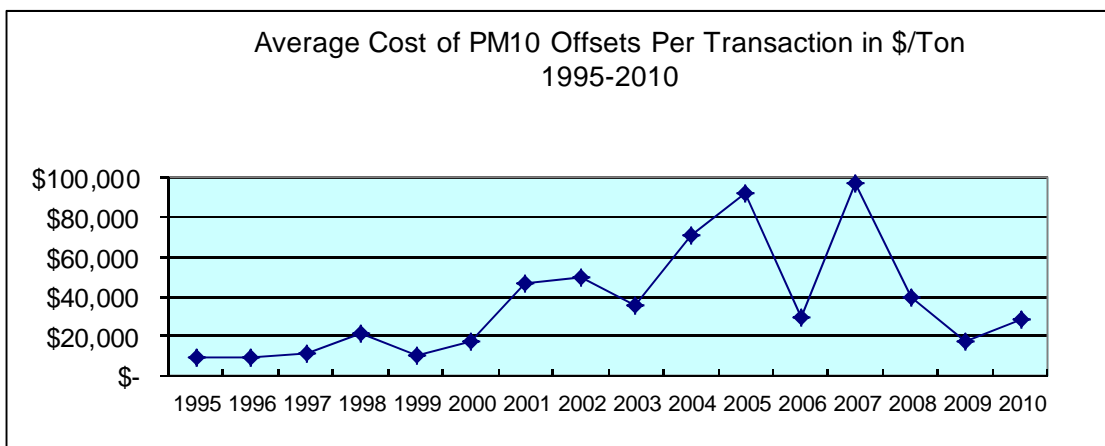
Summary Chart A



Summary Chart B

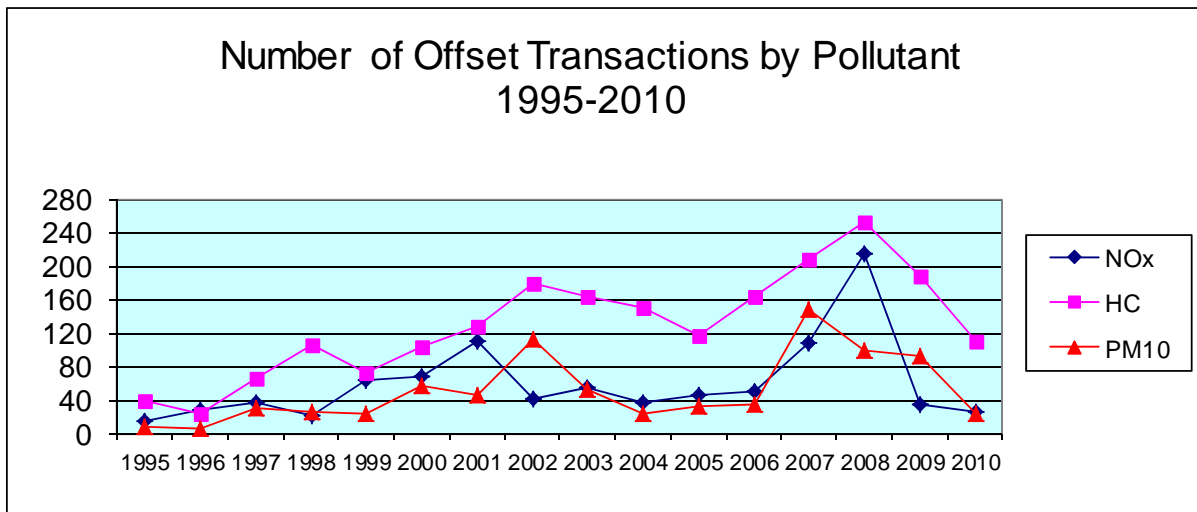


Summary Chart C*

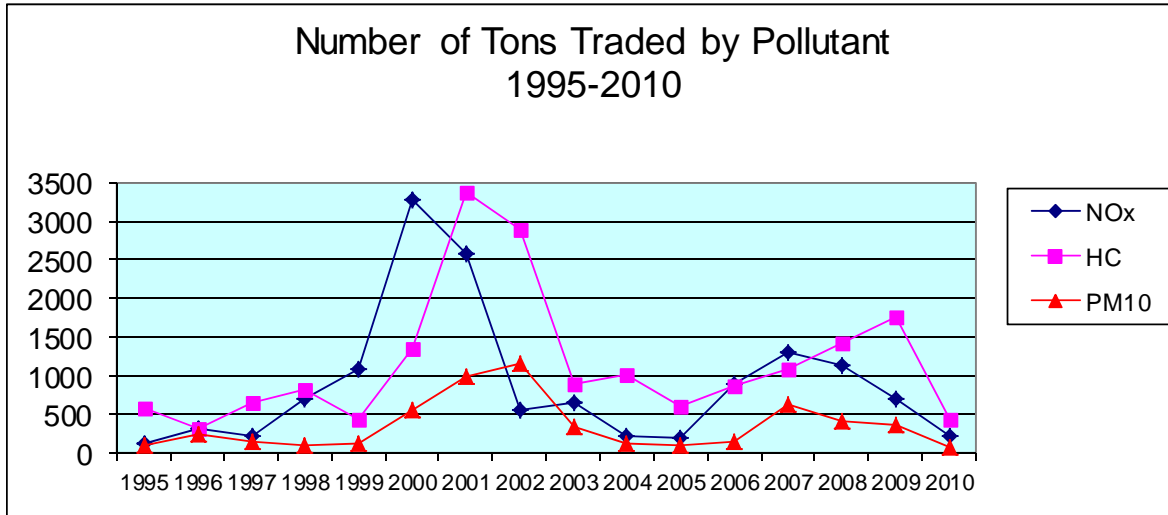


*Does not include South Coast PM₁₀ data

Summary Chart D*



Summary Chart E*



*Does not include South Coast PM₁₀ data.

INTRODUCTION

Section 40709.5(e) of the Health and Safety Code mandates that local air quality management and air pollution control districts (districts), that are not exempt under Health and Safety Code Section 40709, collect information regarding the cost of offsets from stationary source owners who purchased offsets as required by district NSR programs. This report presents a compilation of the transactions in California from January 1 through December 31, 2010, as supplied by the districts.

California's NSR program is designed to accommodate industrial growth while protecting public health and the environment. The use of ERCs that are purchased from the open market to offset emissions from new or modified sources gives industry the flexibility to mitigate emissions in the most cost-effective manner.

This report summarizes the prices paid for offsets. The report also presents a summary of the number and type of transactions taking place in California's Emission Credit market. This report does not attempt to analyze the cost data collected or attempt to predict future prices or offset availability. As required by Health and Safety Code Section 40709.5(e), this report does not contain information that identifies the parties involved in the transactions.

Trading credits from the South Coast Air Quality Management District's Regional Clean Air Incentives Market (RECLAIM) program are not included because they are not directly comparable to ERCs used to satisfy NSR requirements. Also, tables and calculations do not include data on the cost of leasing credits from the Solutions for the Environment and Economic Development (SEED) program of the Sacramento Metropolitan Air Quality Management District.

NEW SOURCE REVIEW AND CALIFORNIA'S AIR QUALITY MANAGEMENT PROGRAM

The responsibility for controlling emissions from stationary sources of air pollution rests with California's local districts. The California Clean Air Act requires districts to adopt a NSR program that results in no net increase in emissions from new and modified stationary sources that have the potential to emit over a specified amount of nonattainment pollutants or their precursors. As part of NSR, stationary sources are required to apply the Best Available Control Technology (BACT) to reduce emissions. In some cases, stationary sources must provide emission reduction offsets to mitigate the impact of emissions that remain from the source after the application of BACT. These emission reduction offsets are sometimes called ERCs. To be used as mitigation, offsets must meet certain criteria: the emission reductions must be surplus to any federal, State or local laws or regulations and must be real, enforceable, quantifiable and permanent. California's offset requirements, reflected in district rules, generally apply to more permitting actions than federal offset requirements and are also triggered at smaller facilities.

EMISSION REDUCTION CREDIT BANKING AND TRADING

Emission reduction credit banking is defined as "a system... by which reductions in emissions may be banked or otherwise credited to offset future increases... or a calculation method which enables internal emission reductions to be credited against increases" (Health and Safety Code Section 40709.5). Once created, ERCs may be banked with the district for future use by the source that generated them, used concurrently to offset new projects, or sold to other sources for use as mitigation.

The most common method of creating ERCs is to control or curtail the emissions from an existing stationary source. Control of emissions is generally from the application of emission control technology beyond that which is required by any regulation or rule. Curtailment could be from a change in operating hours of a source, or through the shutdown of a source. Another method of creating ERCs is to reduce emissions from mobile sources beyond what is required. Additionally, credits may be generated from the reductions in emissions from agricultural operations. For example, from curtailing field burning of agricultural wastes or from using agricultural water pumps equipped with cleaner engines. Credits must be generated pursuant to district rules and regulations, and must be reviewed and certified by the district. The legal requirements of credit generating programs are specified in the Health and Safety Code and further defined by rules in place in each district.

REQUIREMENTS TO REPORT COST OF OFFSETS

Sections 40709 and 40709.5 of the Health and Safety Code requires districts that are not exempt to establish banking programs for ERCs and establishes a mechanism for districts to collect data regarding the price paid for offsets. The text of Health and Safety Code Sections 40709 and 40709.5 and Government Code Section 6254.7 can be found in Appendix A. The following is a summary of the requirements of those sections of the Government Code and the Health and Safety Code:

- Section 6254.7(f) of the Government Code authorizes districts to obtain information on the cost of offsets from applicants.
- Section 40709 of the Health and Safety Code makes an emission reduction banking system mandatory in every district except any district that is not required to submit a plan for attainment of State ambient air quality standards and if
 - The district is not in a federal nonattainment area for any national ambient air quality standard unless the sole reason for nonattainment is air pollutant transport and
 - A source has not petitioned the district to establish a banking system.
- Section 40709(c) of the Health and Safety Code specifies that emission reductions proposed to offset simultaneous emissions increases within the same stationary source need not be banked prior to use as offsets.

- Section 40709.5(e) requires that any district that has established a banking system is required to develop a program that provides the following information as public record:
 - Annual publication of the costs in dollars per ton, of emission offsets purchased for new and modified emission sources, excluding the identity of the parties involved.
 - The annual publication shall specify for each offset purchase transaction:
 - The date of the offset transaction (year only)
 - The amount of offset purchased by pollutant
 - The total cost, by pollutant of the offsets purchased
 - Each application for use of emission reductions banked shall provide sufficient information, as determined by the district, to perform the cost analysis.

DATA COLLECTION PROCESS

In 1994, a subcommittee of the California Air Pollution Control Officers Association (CAPCOA) Engineering Managers worked with ARB to develop a uniform reporting form for collecting data from the districts for this report. The reporting form was designed to transmit information to ARB without disclosing the names of the transaction parties.

The form distinguishes between the methods of generating ERCs. Possible generating methods include stationary, mobile, and agricultural offsets. The prices paid for credits may be affected by the type of source from which reductions are obtained. This is particularly true with mobile sources that have a finite life span.

The lifespan of the credit may significantly affect the price paid for offsets. The form allows the district to identify the length of useful life if the credit life is limited. Mobile source credits and lease agreement transactions can be distinguished using this section of the form.

The reporting form records the type of payment agreement, such as direct sale of the credit, barter for services or equipment, a transaction between subsidiary parties, or an assets transfer within a company. In each case, the type of transaction agreement may affect the price of the transaction.

Knowing these facts about each transaction will aid in analysis of market values for credits by interested parties. A copy of the reporting form and instructions is in Appendix B and a Glossary of Terms is located in Appendix C.

DESCRIPTION OF 2010 DATA

Table 1 presents the statewide average, median, high, and low costs for NO_x, HC, PM₁₀, CO, and SO_x offsets reported in 2010 (see page 2).

Table 2 presents the 159 reported pollutant transactions that took place in California in 2010, listed by individual district.

There are 25 transactions listed in Table 2 that are not used in calculating the results of Tables 4 through 13, and Charts 1 through 5. As discussed earlier, staff did not include 21 subsidiary transactions for which there were no associated costs. In addition, 3 PM₁₀ transactions from SCAQMD and 1 SO_x transaction from SCAQMD were included, but not averaged with the rest of the State, due to permitting issues specific to this jurisdiction that have resulted in significantly higher offset costs in recent years. A separate analysis for SCAQMD PM₁₀ and SO_x data is provided in Tables 14 through 17, and Charts 6 through 7.

Transactions which are not included, leased, or valid in specific quarters are identified as such in the "Notes" column of Table 2. Leased and quarterly transaction costs are annualized for inclusion in the average cost figures presented throughout the report. The methodology used to annualize transactions can be found on page 38.

The majority of the transactions that are reported are emission reductions from stationary sources. Of the 134 cost transactions, 25 were for NO_x, 80 were for HC, 11 were for PM₁₀, 3 were for CO, and 15 were for SO_x. Districts reported to ARB regardless of whether they had any offset transactions. Table 3 lists the districts that reported no transactions in 2010.

Tables 4, 6, 8, 10 and 12 present information by district for NO_x, HC, PM₁₀, and SO_x, respectively. Each table lists the cost per ton of pollutant, the total tons of pollutant traded, and additional explanatory notes. The price paid per ton was calculated by dividing the cost of the transaction by the number of tons traded in that transaction. The tables were grouped by district since offset markets and costs per ton may vary from district to district. Districts are reported alphabetically, and the districts' transactions are ordered by increasing cost per ton of pollutant.

Tables 5, 7, 9, 11 and 13 provide the average, the median, and the high and low of the price paid per transaction per ton of pollutant. These tables exclude asset transfer, subsidiary, barter, and other non-monetary transactions where there were no associated costs.

Table 2
2010 California
Emission Reduction Credit Transaction Costs By District
Reported in Total Tons Traded

District	Pollutant	\$/ton	Tons	Notes
Bay Area Total of 21 Transactions	HC	\$7,000	14.09	
	HC	\$8,350	0.12	
	HC	\$8,350	4.70	
	HC	\$8,350	2.37	
	HC	\$8,350	20.16	
	HC	\$8,450	9.00	
	HC	\$8,450	5.00	
	HC	\$8,500	13.08	
	HC	\$8,500	20.25	
	HC	\$8,500	5.80	
	HC	\$9,800	0.39	
	HC	\$9,800	13.84	
	HC	\$11,000	3.00	
	NOx	\$10,000	0.62	
	NOx	\$11,250	1.17	
	NOx	\$11,250	66.06	
	NOx	\$11,250	23.13	
	NOx	\$13,000	0.50	
	PM10	\$30,000	6.44	
	PM10	\$30,000	25.13	
	SOx	\$15,000	4.96	
Imperial County Total of 21 Transactions	CO	\$300	3.00	
	HC	\$2,250	4.26	
	HC	\$2,500	6.06	
	HC	\$2,500	3.60	
	HC	\$2,600	5.00	
	HC	\$2,600	6.86	
	HC	\$2,600	7.52	
	HC	\$2,600	3.76	
	HC	\$2,600	5.09	
	HC	\$2,600	25.51	
	HC	\$2,700	4.16	
	HC	\$2,700	6.96	
	HC	\$2,700	2.55	
	HC	\$3,000	2.63	
	HC	\$3,000	0.85	
	HC	\$3,000	1.07	
	HC	\$3,000	0.69	
	HC	\$3,000	0.88	
	HC	\$3,000	1.32	
	PM10	\$450	1.00	
PM10	\$500	1.50		

Mojave Desert	NOx	\$10,000	17.00	
Total of 1 Transaction				
Placer County	HC	\$10,000	1.79	
Total of 1 Transaction				
Sacramento Metro	CO	\$8,359	0.36	
Total of 10 Transactions				
	HC	\$8,359	8.17	
	HC	\$15,000	0.77	
	HC	\$16,050	0.77	
	NOx	\$8,359	0.42	
	NOx	\$20,000	4.98	
	NOx	\$39,000	1.00	
	NOx	\$50,309	0.25	
	PM10	\$8,359	0.19	
	SOx	\$8,359	<0.01	
San Diego County	HC	\$4,762	0.42	
Total of 2 Transactions				
	HC	\$5,000	0.10	
San Joaquin Valley	CO	\$0	0.12	
Total of 43 Transactions				
	HC	\$0	0.01	
	HC	\$11,500	4.00	
	HC	\$12,500	3.00	
	HC	\$13,399	0.23	
	HC	\$13,399	2.84	
	HC	\$16,370	0.29	
	HC	\$16,370	3.11	
	HC	\$16,370	9.32	
	HC	\$17,000	11.00	
	HC	\$17,000	2.00	
	HC	\$19,000	35.00	
	HC	\$23,500	29.25	
	HC	\$35,000	<0.01	
	HC	\$35,000	0.08	
	HC	\$35,000	0.02	
	NOx	\$0	0.14	
	NOx	\$52,000	1.08	
	NOx	\$52,000	2.94	
	NOx	\$57,000	11.67	
	NOx	\$57,000	3.00	
	NOx	\$57,000	0.38	
	NOx	\$65,000	20.20	
	NOx	\$90,000	0.09	
	PM10	\$1	0.63	
	PM10	\$40,000	0.63	
	PM10	\$45,000	4.82	
	PM10	\$45,000	0.18	
	PM10	\$46,500	0.70	
	PM10	\$70,000	0.10	
	SOx	\$13,500	1.65	

District	Pollutant	\$/ton	Tons	Notes
San Joaquin Valley (Cont'd)	SOx	\$16,500	26.37	
	SOx	\$16,500	48.00	
	SOx	\$16,500	20.20	
	SOx	\$16,750	14.29	
	SOx	\$21,000	16.50	
	SOx	\$21,000	16.50	
	SOx	\$21,000	22.45	
	SOx	\$21,000	7.35	
	SOx	\$23,000	2.01	
	SOx	\$25,000	15.00	
	SOx	\$30,000	49.00	
	SOx	\$70,000	3.09	

Santa Barbara

Total of 5 Transactions

HC	\$52,000	0.28	
NOx	\$50,000	12.00	
NOx	\$50,000	5.17	
NOx	\$52,000	14.54	
NOX	\$52,000	5.17	

Shasta County

Total of 1 Transaction

PM10	\$0	0.92	
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South Coast

Total of 49 Transactions

CO	\$5,479	0.18	
HC	\$0	6.94	
HC	\$0	9.13	
HC	\$0	1.28	
HC	\$0	2.56	
HC	\$0	0.55	
HC	\$0	1.10	
HC	\$0	2.56	
HC	\$0	1.83	
HC	\$0	1.28	
HC	\$0	0.37	
HC	\$0	0.91	
HC	\$0	0.18	
HC	\$0	2.19	
HC	\$0	8.40	
HC	\$0	2.74	
HC	\$15,525	1.1	
HC	\$21,918	0.18	
HC	\$27,397	0.73	
HC	\$27,397	2.74	
HC	\$27,397	4.93	
HC	\$29,041	3.29	
HC	\$31,507	1.1	
HC	\$31,507	2.92	
HC	\$31,507	3.65	
HC	\$33,973	1.1	
HC	\$33,973	3.29	
HC	\$34,521	0.18	
HC	\$35,616	2.01	

South Coast (Cont'd)	HC	\$37,808	0.91	
	HC	\$38,356	0.18	
	HC	\$38,356	0.37	
	HC	\$38,356	1.1	
	HC	\$38,356	1.83	
	HC	\$38,356	2.92	
	HC	\$41,096	21.54	
	HC	\$42,740	0.18	
	HC	\$43,836	0.18	
	HC	\$43,836	0.18	
	HC	\$45,205	0.91	
	HC	\$49,315	0.18	
	HC	\$50,411	0.37	
	HC	\$52,055	0.18	
	NOX	\$54,795	2.19	
	PM10	\$0	6.75	
	PM10	\$958,904	7.30	
	PM10	\$1,351,233	0.55	
	PM10	\$1,351,233	1.28	
	SOx	\$452,055	0.18	

Tehama County

Total of 1 Transaction

SOx	\$0	0.03	
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Ventura County

Total of 3 Transactions

HC	\$30,000	0.09	
NOx	\$20,000	22.98	
NOx	\$40,000	13.5	

Yolo Solano

Total of 1 Transaction

NOx	\$41,480	0.483	
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Table 3

Districts with No Offset Transactions to Report in 2010

Amador County Air Pollution Control District

North Coast Unified Air Quality Management District

Antelope Valley Air Pollution Control District

Northern Sierra Air Quality Management District

Butte County Air Quality Management District

Northern Sonoma County Air Pollution Control District

Calaveras County Air Pollution Control District

San Luis Obispo County Air Pollution Control District

Colusa County Air Pollution Control District

Siskiyou County Air Pollution Control District

El Dorado County Air Quality Management District

Tuolumne County Air Pollution Control District

Feather River Air Quality Management District

Glenn County Air Pollution Control District

Great Basin Unified Air Pollution Control District

Kern County Air Pollution Control District

Lake County Air Quality Management District

Lassen County Air Pollution Control District

Mariposa County Air Pollution Control District

Mendocino County Air Pollution Control District

Modoc County Air Pollution Control District

Monterey Bay Unified Air Pollution Control District

Table 4
2010 California
NOx Emission Reduction Credit Transaction Costs
Reported in Total Tons Traded

District	\$/ton	Tons	Notes
Bay Area	\$10,000	0.62	
	\$11,250	1.17	
	\$11,250	66.06	
	\$11,250	23.13	
	\$13,000	0.50	
Mojave Desert	\$10,000	17.00	
Sacramento Metro	\$8,359	0.42	
	\$20,000	4.98	
	\$39,000	1.00	
	\$50,309	0.25	
San Joaquin Valley	\$52,000	1.08	
	\$52,000	2.94	
	\$57,000	11.67	
	\$57,000	3.00	
	\$57,000	0.38	
	\$65,000	20.20	
	\$90,000	0.09	
Santa Barbara	\$50,000	12.00	
	\$50,000	5.17	
	\$52,000	14.54	
	\$52,000	5.17	
South Coast	\$54,795	2.19	
Ventura County	\$20,000	22.98	
	\$40,000	13.5	
Yolo Solano	\$41,480	0.483	

Table 5

2010 Summary Statistics For a Total of 25 NOx Transactions*

	\$/ton	Tons
Total Tons Traded		230.52
Average (mean)	\$38,988	
Median	\$50,000	
High	\$90,000	
Low	\$8,359	

* Excludes asset transfer, subsidiary, barter, and other non-monetary transactions with no cost data.

Chart 1

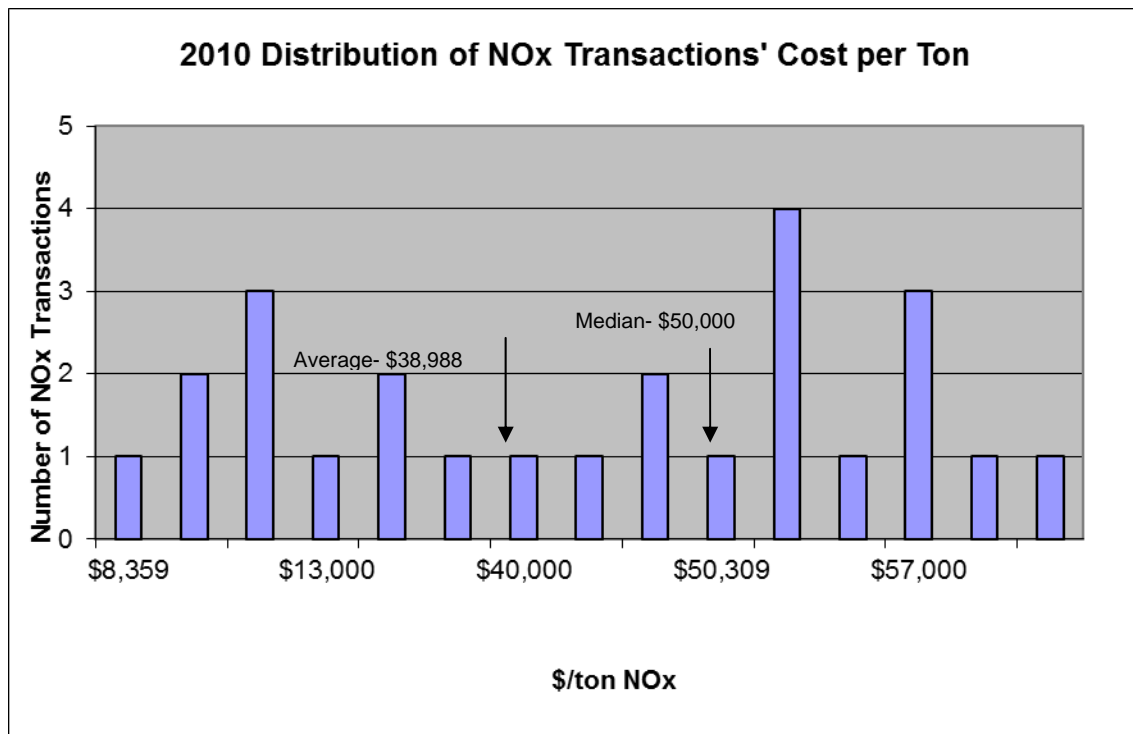


Table 6
2010 California
HC Emission Reduction Credit Transaction Costs
Reported in Total Tons Traded

District	\$/ton	Tons	Notes
Bay Area	\$7,000	14.09	
	\$8,350	0.12	
	\$8,350	4.70	
	\$8,350	2.37	
	\$8,350	20.16	
	\$8,450	9.00	
	\$8,450	5.00	
	\$8,500	13.08	
	\$8,500	20.25	
	\$8,500	5.80	
	\$9,800	0.39	
	\$9,800	13.84	
	\$11,000	3.00	
	Imperial County	\$2,250	4.26
\$2,500		6.06	
\$2,500		3.60	
\$2,600		5.00	
\$2,600		6.86	
\$2,600		7.52	
\$2,600		3.76	
\$2,600		5.09	
\$2,600		25.51	
\$2,700		4.16	
\$2,700		6.96	
\$2,700		2.55	
\$3,000		2.63	
\$3,000		0.85	
\$3,000		1.07	
\$3,000		0.69	
\$3,000		0.88	
\$3,000		1.32	
Placer County	\$10,000	1.79	
Sacramento Metro	\$8,359	8.17	
	\$15,000	0.77	
	\$16,050	0.77	
San Diego County	\$4,762	0.42	
	\$5,000	0.10	
San Joaquin Valley	\$11,500	4.00	
	\$12,500	3.00	

San Joaquin Valley (Cont'd)	\$13,399	0.23	
	\$13,399	2.84	
	\$16,370	0.29	
	\$16,370	3.11	
	\$16,370	9.32	
	\$17,000	11.00	
	\$17,000	2.00	
	\$19,000	35.00	
	\$23,500	29.25	
	\$35,000	<0.01	
	\$35,000	0.08	
	\$35,000	0.02	
	Santa Barbara		
	\$52,000	0.28	
South Coast			
	\$15,525	1.1	
	\$21,918	0.18	
	\$27,397	0.73	
	\$27,397	2.74	
	\$27,397	4.93	
	\$29,041	3.29	
	\$31,507	1.1	
	\$31,507	2.92	
	\$31,507	3.65	
	\$33,973	1.1	
	\$33,973	3.29	
	\$34,521	0.18	
	\$35,616	2.01	
	\$37,808	0.91	
	\$38,356	0.18	
	\$38,356	0.37	
	\$38,356	1.1	
	\$38,356	1.83	
	\$38,356	2.92	
	\$41,096	21.54	
	\$42,740	0.18	
	\$43,836	0.18	
	\$43,836	0.18	
	\$45,205	0.91	
	\$49,315	0.18	
	\$50,411	0.37	
	\$52,055	0.18	
Ventura County			
	\$30,000	0.09	

Table 7

2010 Summary Statistics For a Total of 80 HC Transactions*

	\$/ton	Tons
Total Tons Traded		371.35
Average (mean)	\$19,554	
Median	\$15,263	
High	\$52,055	
Low	\$2,250	

* Excludes asset transfer, subsidiary, barter, and other non-monetary transactions with no cost data.

Chart 2

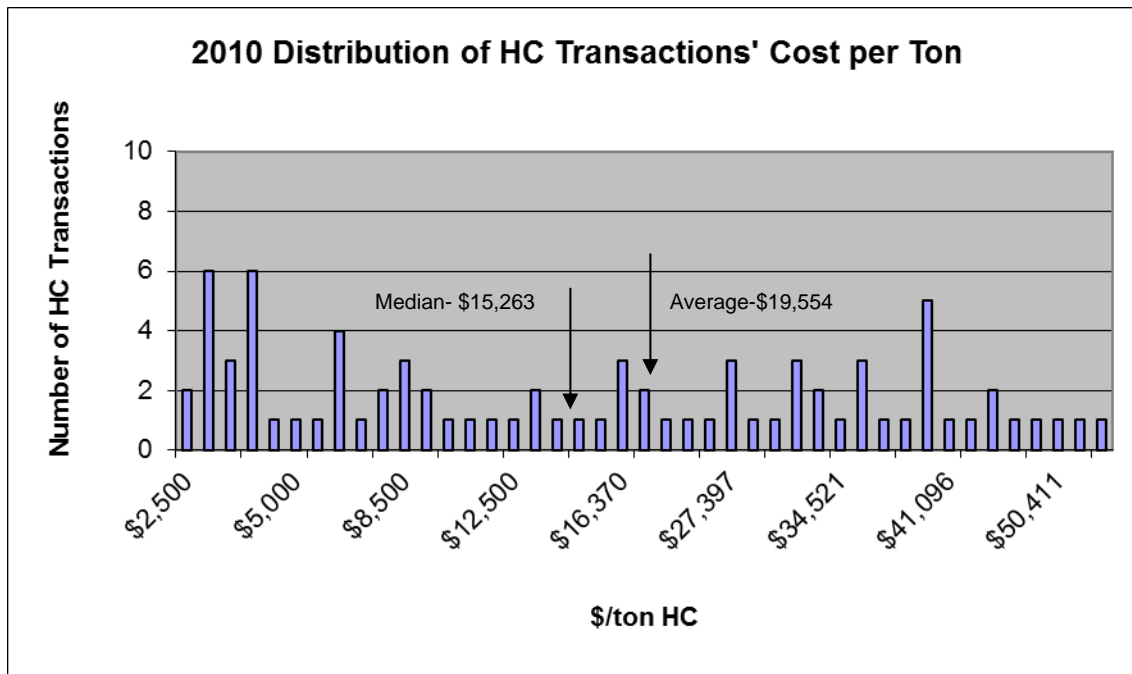


Table 8
2010 California
PM10 Emission Reduction Credit Transaction Costs
Reported in Total Tons Traded
(Not Including South Coast)

District	\$/ton	Tons	Notes
Bay Area	\$30,000	6.44	
	\$30,000	25.13	
Imperial County	\$450	1.00	
	\$500	1.50	
Sacramento Metro	\$8,359	0.19	
San Joaquin Valley	\$1	0.63	
	\$40,000	0.63	
	\$45,000	4.82	
	\$45,000	0.18	
	\$46,500	0.70	
	\$70,000	0.10	

Chart 9

2010 Summary Statistics For a Total of 11 PM10 Transactions*

	\$/ton	Tons
Average (mean)	\$28,710	
Median	\$30,000	
High	\$70,000	
Low	\$1	

* Excludes asset transfer, subsidiary, barter, and other non-monetary transactions with no cost data.

Chart 3

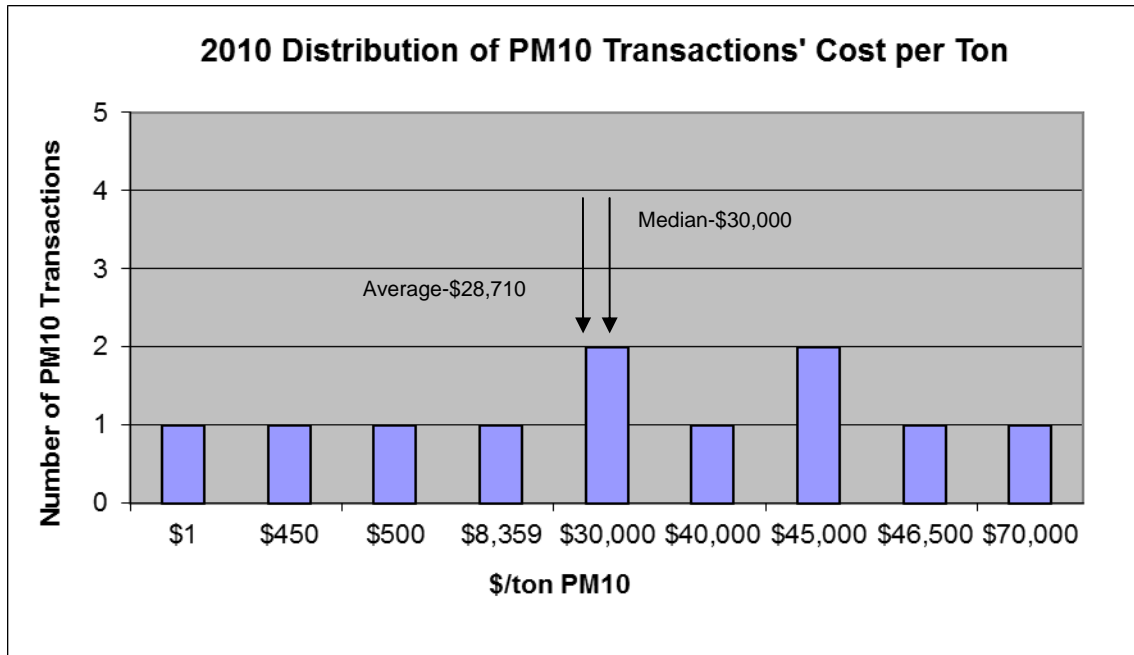


Table 10
2010 California
CO Emission Reduction Credit Transaction Costs
Reported in Total Tons Traded

District	\$/ton	Tons	Notes
Imperial County	\$300	3.00	
Sacramento Metro	\$8,359	0.36	
South Coast	\$5,479	0.18	

Table 11

2010 Summary Statistics For a Total of 3 CO Transactions*

	\$/ton	Tons
Total Tons Traded		3.54
Average (mean)	\$4,713	
Median	\$5,479	
High	\$8,359	
Low	\$300	

* Excludes asset transfer, subsidiary, barter, and other non-monetary transactions with no cost data.

Chart 4

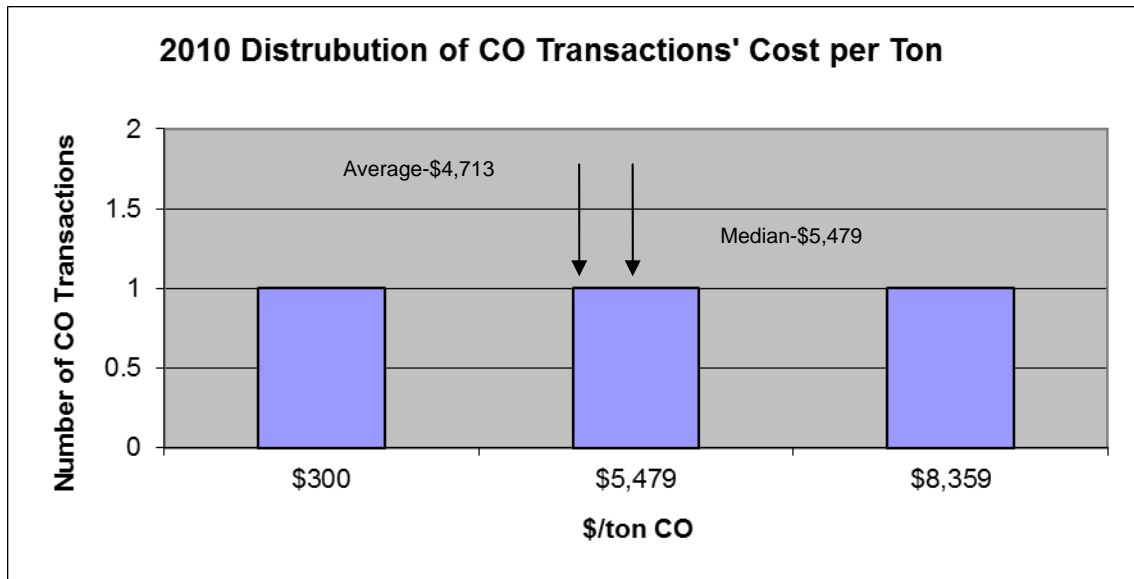


Table 12
2010 California
SOx Emission Reduction Credit Transaction Costs
Reported in Total Tons Traded
(Not Including South Coast)

District	\$/ton	Tons	Notes
Bay Area	\$15,000	4.96	
Sacramento Metro	\$8,359	<0.01	
San Joaquin Valley	\$13,500	1.65	
	\$16,500	26.37	
	\$16,500	48.00	
	\$16,500	20.20	
	\$16,750	14.29	
	\$21,000	16.50	
	\$21,000	16.50	
	\$21,000	22.45	
	\$21,000	7.35	
	\$23,000	2.01	
	\$25,000	15.00	
	\$30,000	49.00	
	\$70,000	3.09	

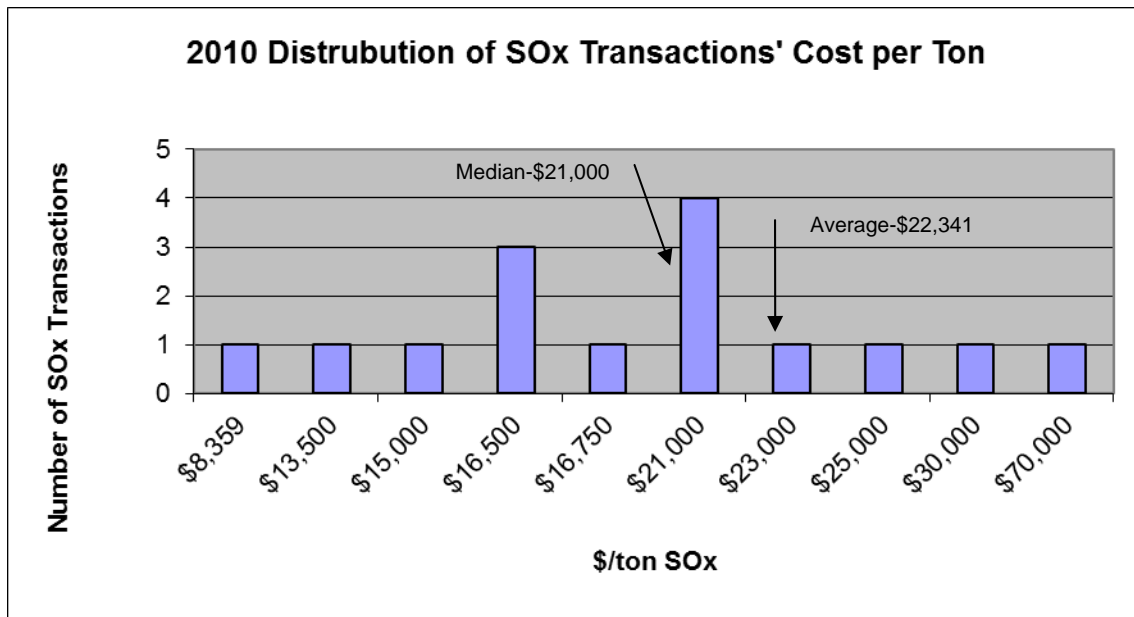
Table 13

2010 Summary Statistics For a Total of 15 SOx Transactions*

	\$/ton	Tons
Total Tons Traded		247.37
Average (mean)	\$22,341	
Median	\$21,000	
High	\$70,000	
Low	\$8,359	

* Excludes asset transfer, subsidiary, barter, and other non-monetary transactions with no cost data.

Chart 5



DESCRIPTION OF 2010 SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT PM₁₀ and SO_x DATA

As discussed earlier, staff did not include 3 PM₁₀ transactions and 1 SO_x transaction from SCAQMD in its primary analysis prior to this section. In SCAQMD, the availability of ERCs on the open market is scarce and in some cases very expensive, especially for PM₁₀ and SO_x. Since 2000, the cost of PM₁₀, and SO_x ERCs has increased significantly relative to the drop in supply. Because this degree of offset demand-supply imbalance is a situation unique to SCAQMD, ARB staff excluded these transactions, because they would skew statewide average values. Although SCAQMD PM₁₀ and SO_x data were not incorporated in the primary analysis, a separate analysis for SCAQMD PM₁₀, and SO_x data is provided in Tables 14 through 17, and Charts 6 through 7.

Table 14
2010 California
PM10 Emission Reduction Credit Transaction Costs
Reported in Total Tons Traded
South Coast Only

District	\$/ton	Tons	Notes
South Coast Air	\$958,904	7.30	
	\$1,351,233	0.55	
	\$1,351,233	1.28	

Table 15

2010 Summary Statistics For a Total of 3 PM10 Transactions*
South Coast Only

	\$/ton	Tons
Total Tons Traded		9.13
Average (mean)	\$1,220,457	
Median	\$1,351,233	
High	\$1,351,233	
Low	\$958,904	

* Excludes asset transfer, subsidiary, barter, and other non-monetary transactions with no cost data.

Chart 6

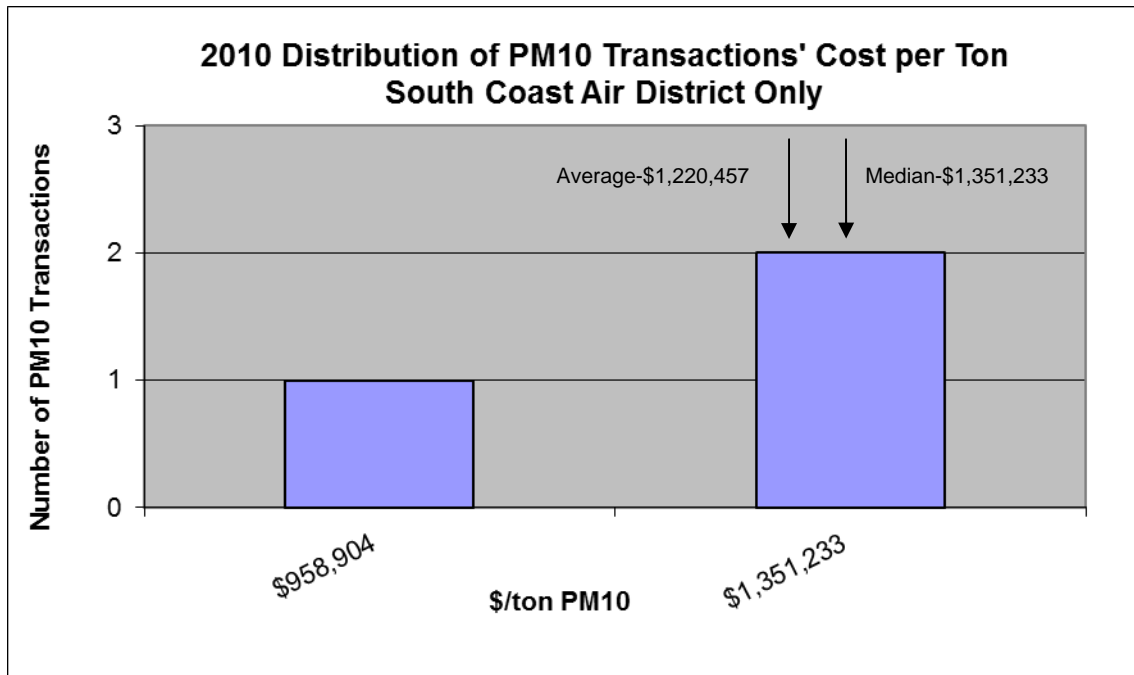


Table 16
2010 California
SOx Emission Reduction Credit Transaction Costs
Reported in Total Tons Traded
(Not Including South Coast)

District	\$/ton	Tons	Notes
South Coast	\$452,055	0.18	

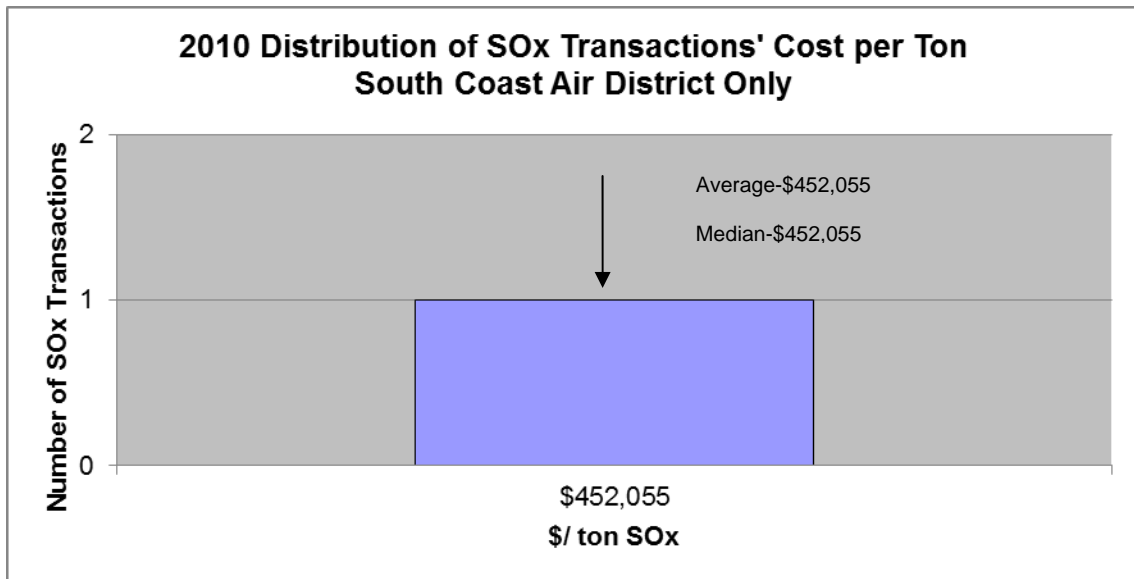
Table 17

2010 Summary Statistics For a Total of 1 SOx Transaction*
South Coast Only

	\$/ton	Tons
Total Tons Traded		0.18
Average (mean)	\$452,055	
Median	\$452,055	
High	\$452,055	
Low	\$452,055	

* Excludes asset transfer, subsidiary, barter, and other non-monetary transactions with no cost data.

Chart 7



APPENDIX A

**HEALTH & SAFETY CODE SECTIONS 40709 & 40709.5,
AND GOVERNMENT CODE SECTION 6254.7**

H&SC; 40709 DISTRICT BANKING AND OFFSET SYSTEM

(a) Every district board shall establish by regulation a system by which all reductions in the emission of air contaminants that are to be used to offset certain future increases in the emission of air contaminants shall be banked prior to use to offset future increases in emissions. The system shall provide that only those reductions in the emission of air contaminants that are not otherwise required by any federal, state, or district law, rule, order, permit, or regulation shall be registered, certified, or otherwise approved by the district air pollution control officer before they may be banked and used to offset future increases in the emission of air contaminants. The system shall be subject to disapproval by the state board pursuant to Chapter 1 (commencing with Section 41500) of Part 4 within 60 days after adoption by the district.

(b) The system is not intended to recognize any preexisting right to emit air contaminants, but to provide a mechanism for districts to recognize the existence of reductions of air contaminants that can be used as offsets, and to provide greater certainty that the offsets shall be available for emitting industries.

(c) Notwithstanding subdivision (a), emissions reductions proposed to offset simultaneous emissions increases within the same stationary source need not be banked prior to use as offsets, if those reductions satisfy all criteria established by regulation pursuant to subdivision (a).

(d) This section does not apply to any district that is not required to prepare and submit a plan for attainment of state ambient air quality standards pursuant to Section 40911 if both of the following apply to the district:

(1) The district is not in a federal nonattainment area for any national ambient air quality standard unless the sole reason for the nonattainment is due to air pollutant transport.

(2) An owner or operator of a source or proposed source has not petitioned the district to establish a banking system.

(Amended by Stats. 2000, Ch. 729, Sec. 5.)

H&SC; 40709.5 REVIEW OF EMISSION CREDIT SYSTEMS

40709.5. Any district which has established a system pursuant to Section 40709 by which reductions in emissions may be banked or otherwise credited to offset future increases in the emissions of air contaminants, or which utilize a calculation method which enables internal emission reductions to be credited against increases in emissions, and as of January 1, 1988, is within a federally designated nonattainment area for one or more air pollutants, shall develop and implement a program which, at a minimum, provides for all of the following:

(a) Identification and tracking of sources possessing emission credit balances accruing from the elimination or replacement of older, higher emitting equipment.

(b) Periodic analysis of the increases or decreases in emissions which occur when credits are used to bring new or modified emission sources into operation.

(c) Procedures for verifying the emission reductions credited to the bank or accruing to internal accounts and for adjusting of credited emissions based on current district requirements.

(d) Periodic evaluation of the extent to which the system has contributed or detracted from the goal of allowing economic growth and modification of existing facilities, and has contributed to or detracted from the district's progress toward attainment of ambient air quality standards.

(e) Annual publication of the costs, in dollars per ton, of emission offsets purchased for new or modified emission sources, excluding information on the identity of any party involved in the offset transactions. This publication shall specify, for each offset purchase transaction, the year the offset transaction occurred, the amount of offsets purchased, by pollutant, and the total cost, by pollutant, of the offsets purchased. Each application to use emissions reductions banked in a system established pursuant to Section 40709 shall provide sufficient information, as determined by the district, to perform the cost analysis. The information shall be a public record.

(Amended by Stats. 1992, Ch. 612, Sec. 3. Effective January 1, 1993.)

GOVERNMENT CODE SECTION 6254.7

- (a) All information, analyses, plans, or specifications that disclose the nature, extent, quantity, or degree of air contaminants or other pollution which any article, machine, equipment, or other contrivance will produce, which any air pollution control district or air quality management district, or any other state or local agency or district, requires any applicant to provide before the applicant builds, erects, alters, replaces, operates, sells, rents, or uses the article, machine, equipment, or other contrivance, are public records.
- (b) All air or other pollution monitoring data, including data compiled from stationary sources, are public records.
- (c) All records of notices and orders directed to the owner of any building of violations of housing or building codes, ordinances, statutes, or regulations which constitute violations of standards provided in Section 1941.1 of the Civil Code, and records of subsequent action with respect to those notices and orders, are public records.
- (d) Except as otherwise provided in subdivision (e) and Chapter 3 (commencing with Section 99150) of Part 65 of the Education Code, trade secrets are not public records under this section. "Trade secrets," as used in this section, may include, but are not limited to, any formula, plan, pattern, process, tool, mechanism, compound, procedure, production data, or compilation of information which is not patented, which is known only to certain individuals within a commercial concern who are using it to fabricate, produce, or compound an article of trade or a service having commercial value and which gives its user an opportunity to obtain a business advantage over competitors who do not know or use it.
- (e) Notwithstanding any other provision of law, all air pollution emission data, including those emission data which constitute trade secrets as defined in subdivision (d), are public records. Data used to calculate emission data are not emission data for the purposes of this subdivision and data which constitute trade secrets and which are used to calculate emission data are not public records.
- (f) Data used to calculate the costs of obtaining emissions offsets are not public records. At the time that an air pollution control district or air quality management district issues a permit to construct to an applicant who is required to obtain offsets pursuant to district rules and regulations, data obtained from the applicant consisting of the year the offset transaction occurred, the amount of offsets purchased, by pollutant, and the total cost, by pollutant, of the offsets purchased is a public record. If an application is denied, the data shall not be a public record.

APPENDIX B
REPORTING FORM AND INSTRUCTIONS

ANNUAL EMISSION REDUCTION CREDIT TRANSACTION REPORT INSTRUCTIONS

General:

One transaction record per pollutant should be filled out for each transaction that takes place in the district between two or more parties.

Transactions should be reported in the year in which the final transaction occurs and money, or barter agreements, are exchanged.

The annual report should be submitted to ARB no later than January 15 of each year. The ARB will compile all data from the districts and publish a statewide report on the cost of offsets.

For cases of offset transactions that occur across district boundaries, transactions should be reported in the district in which the offsets are credited. This is the district that will most likely have access to the transaction cost information necessary for reporting.

ANNUAL EMISSION REDUCTION CREDIT TRANSACTION REPORT FOR 2008 TRANSACTIONS

		DISTRICT ID# _____	
<u>POLLUTANT</u> _____ NOx _____ SOx _____ CO _____ HC _____ PM10 _____ Other	<u>CREDIT SOURCE</u> _____ STATIONARY _____ MOBILE _____ AGRICULTURAL _____ OTHER	QUANTITY of POLLUTANT (TONS/YEAR) _____	
		PRICE PAID (\$/TON) _____	
<u>ANNUAL or QUARTER?</u> <u>Q1</u> <u>Q2</u> <u>Q3</u> <u>Q4</u> _____		BARTER TRANSACTION? _____ SUBSIDIARY TRANSACTION? _____ LENGTH OF LIFE/LEASE _____	

DISTRICT ID# _____		
<u>POLLUTANT</u> _____ NOx _____ SOx _____ CO _____ HC _____ PM10 _____ Other	<u>CREDIT SOURCE</u> _____ STATIONARY _____ MOBILE _____ AGRICULTURAL _____ OTHER	QUANTITY of POLLUTANT (TONS/YEAR) _____
		PRICE PAID (\$/TON) _____
<u>ANNUAL or QUARTER?</u> <u>Q1</u> <u>Q2</u> <u>Q3</u> <u>Q4</u> _____		BARTER TRANSACTION? _____ SUBSIDIARY TRANSACTION? _____ LENGTH OF LIFE/LEASE _____

DISTRICT ID# _____		
<u>POLLUTANT</u> _____ NOx _____ SOx _____ CO _____ HC _____ PM10 _____ Other	<u>CREDIT SOURCE</u> _____ STATIONARY _____ MOBILE _____ AGRICULTURAL _____ OTHER	QUANTITY of POLLUTANT (TONS/YEAR) _____
		PRICE PAID (\$/TON) _____
<u>ANNUAL or QUARTER?</u> <u>Q1</u> <u>Q2</u> <u>Q3</u> <u>Q4</u> _____		BARTER TRANSACTION? _____ SUBSIDIARY TRANSACTION? _____ LENGTH OF LIFE/LEASE _____

1. **District ID #:** The district ID # should be in the format:

AAYYXXX

Where AA is a two letter district code (a list of district codes is attached), YY is a two digit year (in which the transaction occurs) identifier (e.g. 07 for 2008), and XXX is a three-digit transaction number from 001 to 999. This ID number will only be used to track the origin of data and for data validation. The assignment of a transaction number will ensure quality control of data transfer between the district and the Air Resources Board. Individual transactions will not be identified in Air Resources Board summary reports.

2. **Pollutant:** Please check one pollutant per transaction. If trade involved more than one pollutant, use separate transaction records for each pollutant traded. HC is equivalent to other acronyms used for hydrocarbons such as POC, ROC, ROG and VOC.
3. **Credit Source:** Please indicate the source of emission reduction credits (ERC). This information will aid in the analysis of ERC prices paid. Stationary source credits typically do not have a finite useful life, whereas mobile and agricultural source ERCs have specific limiting conditions that limit useful life. It is important that a distinction be made between these kinds of offsets when analyzing the cost of offsets.
4. **Annual/Quarter:** Please indicate if credits are valid on an annual basis or quarterly. Additionally, if credits are valid quarterly, indicate in which quarter they can be used. This applies to seasonal credits or credits that are only valid in a specific quarter.
5. **Quantity of Pollutant:** Regardless of district recording practices or the transaction agreement, please provide the quantity of pollutant in tons/year.

Example 1: For Data Given as a Single Quarter Transactions

$$1 \frac{lb}{quarter} = 1 \frac{lb}{quarter} \times 4 \frac{quarters}{year} \times \frac{1 ton}{2000 lbs} = 0.0020 \frac{tons}{year}$$

Example 2: For Data Provided as an Annual Transactions

$$1 \frac{lb}{day} = 1 \frac{lb}{day} \times 365 \frac{days}{year} \times \frac{1 ton}{2000 lbs} = 0.1825 \frac{tons}{year}$$

Example 3: For Quarterly Credits Used to Offset Annual Sources

$$(Q_1 + Q_2 + Q_3 + Q_4) = \frac{lbs}{year} \quad \text{Convert to tons per year}$$

6. **Price Paid:** This is the bottom line price paid by the purchaser to the owner of the credit. Government Code Section 6254.7 authorizes the district to obtain this information from applicants. Net present value should not be calculated for lease transactions. If price is given in dollars per pound, please convert to dollars per ton by multiplying by 2000 lb/ton.
7. **Barter and Subsidiary Transactions:** If barter was involved and/or no money was exchanged for the offsets, the district should request the applicant to calculate a dollars/ton value for the credit transaction. Barter can include one company (A) placing controls on another (B) to generate credits. The price paid should then reflect what company A paid to install equipment at company B and any additional fees paid to company B as part of the agreement. The price paid for offsets should be the value of the offset at the time of the transaction.

If a transaction occurred between two subsidiaries of the same parent company, check the subsidiary transaction box. This also applies to transactions that occur between agencies of the same governmental system for example between two agencies of the county. Since the price charged in barter and subsidiary transactions may not reflect the market value of credits, this information will be helpful in analyzing prices paid for credits.

8. **Length of Use/Lease:** Please indicate the valid length of credit life for this transaction. This applies to stationary source credits that are sold as a limited life lease agreement, or to other types of credit that have a finite useful life. If no limit is placed on the useful life, leave this box blank.

DISTRICT TWO-LETTER CODES

AM	Amador County APCD	SJ	San Joaquin Valley Unified APCD
AV	Antelope Valley APCD	SL	San Luis Obispo County APCD
BA	Bay Area AQMD	SB	Santa Barbara County APCD
BT	Butte County APCD	SH	Shasta County AQMD
CA	Calaveras County APCD	SI	Siskiyou County APCD
CO	Colusa County APCD	SC	South Coast AQMD
ED	El Dorado County APCD	TE	Tehama County APCD
FR	Feather River AQMD	TU	Tuolumne County APCD
GL	Glenn County APCD	VE	Ventura County APCD
GB	Great Basin Unified APCD	YS	Yolo-Solano AQMD
IM	Imperial County APCD		
KE	Kern County APCD		
LA	Lake County AQMD		
LS	Lassen County APCD		
MA	Mariposa County APCD		
ME	Mendocino County AQMD		
MO	Modoc County APCD		
MD	Mojave Desert AQMD		
NC	North Coast Unified AQMD		
NO	Northern Sierra AQMD		
NS	Northern Sonoma County APCD		
PL	Placer County APCD		
SM	Sacramento Metropolitan AQMD		
SD	San Diego County APCD		

APPENDIX C
GLOSSARY OF TERMS

Agricultural Source: Source of air pollution used in the production of crops, or the raising of fowl or animals located on contiguous property under common ownership.

Barter: To trade without using money.

Mobile sources: Sources of air pollution such as automobiles, motorcycles, trucks, off-road vehicles, boats and airplanes.

Stationary sources: Non-mobile sources such as power plants, refineries and manufacturing facilities which emit air pollutants.

Subsidiary: Serving to assist or supplement.