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January 30, 1990

Mr. Timothy J. Method
Assistant Commissioner
Office of Air Management
Indiana Department of Environmental Management
105 South Meridian Street
Post Office Box 6015
Indianapolis, Indiana 46206-6015

Dear Mr. Method:

The purpose of this letter is to comment on the permit proposed by the Indiana Department of Environmental Management (IDEM) for Northern Indiana Public Service Company's (NIPSCO) Bailly generating station. The permit provides for the construction of an air pollution control device and directly related improvements under the Clean Coal Technology (CCT) program. The Environmental Protection Agency (EPA) agrees with the determination by IDEM that the State and EPA rules for prevention of significant deterioration (PSD) and new source performance standards (NSPS) are not intended to apply to the CCT project at Bailly. In other words the project should not be considered a "major modification" under new source review (NSR) or a "modification" as set forth under NSPS provided certain requirements are met. In a separate but related issue, EPA also agrees with the determination by IDEM that the addition of a diesel generator as a backup power supply to the scrubber to be installed at Bailly is not a major modification if the limits on operating the generator agreed to by NIPSCO are federally enforceable.

Introduction

For NSPS purposes, a modification is defined as any physical change in, or change in the method of operation of, a stationary source which increases (in terms of hourly emissions capacity) the amount of any air pollutant regulated under the Clean Air Act (Act) which is emitted by such source, or which results in the emission of any air pollutant not previously emitted. For NSR purposes, a major modification is a modification which results in a significant net emissions increase (in terms of actual annual emissions).

The EPA has become aware that these definitions can be interpreted in such a manner as to subject to NSR or NSPS, or both, certain environmentally desirable activities at existing stationary sources which neither Congress nor EPA intended to be covered by the Act's new source requirements. Moreover, NSR or NSPS coverage would, in some instances, have the effect of discouraging such activities. The EPA believes that such activities, including CCT demonstration projects, are not physical changes or changes in the method of operation, so long as they meet certain criteria discussed herein and EPA issues an applicability exclusion. Hence, such activities are not "modifications" for NSPS purposes, or "major modifications" for NSR purposes.

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Over the past several months, EPA has held numerous internal meetings to discuss the Clean Air Act regulatory issues raised by the CCT program. As a result of these discussions, EPA has decided to issue an interpretative ruling as soon as possible to provide guidance on the definition of a physical or operational change as it applies to new source requirements. In a letter dated January 5, 1990, EPA advised NIPSCO of this intention.

Essentially, this ruling would clarify that if a source solely adds or enhances systems or devices whose primary functions are the reduction of air pollution, and that are determined to be not less environmentally beneficial (as determined by the Administrator) than any emission control system or device it replaces, if any, such activities would not constitute a physical or operational change triggering new source requirements. Consequently, NSPS and PSD and nonattainment new source review would not apply to these types of activities. This interpretative ruling would include permanent as well as temporary projects under the CCT program. However, it would not extend to projects that primarily are intended to extend the life of a plant or increase capacity. In addition, any changes, permanent or temporary, which are expected to significantly increase emissions to the atmosphere, such as changes which increase a source's hourly operating capacity (e.g., eliminating a bottleneck), hourly emissions rate (e.g., one pollutant decreases but another increases), or utilization rate (e.g., an anticipated increase in hours per year of operation resulting from the installation of controls) would still be subject to NSR and NSPS.

Based on our review of the draft permit, we believe that the Bailly project is consistent with the provisions EPA is developing for its interpretative ruling. On this basis, we have reached the conclusion that this project in particular is not subject to NSPS or major NSR requirements, so long as it continues to meet the criteria discussed herein.

The balance of our comments outlines the grounds for EPA's conclusion and contains a discussion of the anticipated terms of EPA's upcoming interpretative rule. The EPA is still deliberating the specific terms and provisions of its interpretative ruling. While today's comments reflect EPA's current expectations of what will be contained in that document, the actual terms of the ruling may differ from those discussed herein.

Background

A. The NSR and NSPS Provisions of the Clean Air Act

The NSR and NSPS provisions of the Act apply to wholly new facilities, and to modifications at existing facilities, when certain conditions are met. The rules governing the applicability of NSR and NSPS to modifications at existing facilities are described in detail in the EPA regulations (see 40 CFR 51.165 and Appendix S, 52.21, 60.14 and 60.15). In general, the modifications that would trigger these new source requirements are those involving physical or operational changes which increase emissions over baseline levels. (In addition, for NSPS purposes under EPA regulations, a reconstruction occurs and a source is considered "new" if the physical or operational change costs more than 50 percent of the replacement cost of the affected

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facility, regardless of whether an emissions increase occurs). The term "physical or operational change" is construed broadly and may include the installation, use, or dismantling of pollution control equipment.

1. Background of the NSPS and NSR Modification Provisions.

The 1970 Amendments to the Act required EPA to promulgate technology-based new source performance standards applicable to the construction or modification of stationary sources that cause or contribute significantly to air pollution which may reasonably be anticipated to endanger public health or welfare. 42 U.S.C. 7411(b)(1)(A). Congress decreed that, in addition to wholly new sources, NSPS would apply to the modification of an existing source, defined broadly as: any physical change in, or change in the method of operation of, a stationary source which increases the amount of any air pollutant emitted by such source or which results in the emission of any air pollutant not previously emitted. Clean Air Act section 111(a)(4), 42 U.S.C. 7411(a)(4).

The NSPS provisions were "designed to prevent new [air] pollution

problems" by regulating both newly constructed sources of pollution and existing sources that increase their emissions. National Asphalt Pavement Assoc. v. Train, 539 F.2d 775, 783 (D.C. Cir. 1976) [see also H.R. Rep. No. 1146, 91st Cong., 2d Sess. 3, reprinted in 1970 U.S. Code Cong. & Admin. News 5356, 5358]. The effect of including modified sources as well as newly-constructed sources under the provisions of section 111 was to establish a current level of emissions above which an existing source may not pollute without becoming subject to the NSPS. In August 1977, Congress adopted further extensive changes to the Act (Pub. L. 95-95). These included review-and-permitting programs for new and modified sources combining the technology-based approach of NSPS with specific measures to insure that ambient air quality goals under the Act are met. Congress intended NSR to apply "where industrial changes might increase pollution in an area." Alabama Power Co. v. Costle, 636 F.2d 323, 400 (D.C. Cir. 1979). Part D applies to areas which have not met national ambient air quality standards ("NAAQS") under section 109. To receive a permit in such areas, major new and modified sources must (among other things) obtain emissions offsets that assure reasonable progress toward attainment of the NAAQS and must comply with the "lowest achievable emission rate," which can be no less stringent than an applicable NSPS (see sections 171-173). The 1977 amendments also added a new Part C to the Act including, in sections 160 - 169, an NSR program for the prevention of significant deterioration of air quality (the "PSD" program) in areas which have attained the NAAQS. To receive a PSD permit, a prospective major new or modified source must (among other things) show that it will not exceed the available air quality "increment" (designed to prevent pollutant concentrations from deteriorating beyond certain levels), and will use the "best available control technology", which must be at least as stringent as any applicable NSPS. Both the Part D NSR program applicable to nonattainment areas and the Part C NSR program applicable to attainment areas adopted the NSPS definition of "modification," but not all the exclusions to that definition [see sections 171(4) and 169(2)(C)].

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It is evident from the structure of the NSR and NSPS programs that Congress sought to focus air pollution control efforts at an efficient and logical point: the making of substantial capital investments in, or other long-term decisions regarding, pollution-generating facilities. In adopting NSR measures in particular, Congress sought to reconcile the legislative goal of environmental protection with a concurrent desire for continued economic growth [see sections 160(1)-(4)]. Consequently, a key theme of the NSR program is the careful evaluation of, and public participation in, "any decision to permit increased air pollution" [see section 160(5)]. As discussed below, the current regulations implementing NSPS and NSR were designed to apply these programs in a manner consistent with their respective statutory purposes. Today's comments represent our interpretation of these existing regulations under the facts presented by the Bailly project. The EPA expects that its upcoming interpretative ruling will further focus EPA's position on the basic legislative intent of these important programs.

2. The Two-Step Test for Modifications

The modification provisions of the NSPS and NSR programs grow from a single statutory trunk, the very broad definition of "modification" in section 111(a)(4). Under both respective programs, EPA developed a two-step test for determining whether activities at an existing facility constitute a modification subject to new source requirements. In the first step, which is largely the same for NSPS and NSR, EPA determines whether a physical or operational change has occurred. If so, EPA proceeds in the second step to determine whether the physical or operational change will result in an emissions increase over baseline levels. In this second step, the applicable rules branch apart, reflecting the fundamental distinctions between the technology-based purposes of NSPS and the technology and air quality concerns of NSR. Briefly, the NSPS program is concerned with hourly emissions rates, expressed in kilograms or pounds per hour. [An hourly emissions rate is the product of the instantaneous emissions rate, i.e., the amount of pollution emitted by a source, after control, per unit of fuel combusted or material processed, (such as pounds of sulfur dioxide emitted per ton of coal burned) times the production rate (such as tons of

coal burned per hour)]. Emissions increases for NSPS purposes are determined by changes in the hourly emissions rates at maximum capacity. The NSR is concerned with total annual emissions to the atmosphere, expressed in tons per year. (Annual emissions are the product of the hourly emissions rate, which is the sole concern of NSPS, times the utilization rate, expressed as hours of operation per year). Emissions increases under NSR are determined by changes in annual emissions to the atmosphere.

3. Physical or Operational Change.

The very broad definition of physical or operational change in section 111(a)(4) could, standing alone, encompass the most mundane activities at an industrial facility -- even the repair or replacement of a single leaky pipe or a change in the way that pipe is utilized. The definition certainly is broad enough to encompass the addition or enhancement of pollution control equipment. However, EPA has always recognized that Congress obviously did not intend to require every activity to be potentially subject to new source requirements, and that it would be administratively impracticable to do so. Accordingly, EPA has substantially narrowed this term in its NSPS and NSR

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regulatory definitions through the adoption of common-sense exclusions. For example, both sets of regulations contain similar exclusions for routine maintenance, repair, and replacement; for certain increases in the hours of operation or in the production rate; and for certain types of fuel switches [see 40 CFR 60.14(e); see also, e.g., 40 CFR 52.21(b)(2)(iii)]. In addition, with respect to pollution control equipment, the NSPS regulations contain an exclusion for:

The addition or use of any system or device whose primary function is the reduction of air pollutants, except when an emission control system is removed or is replaced by a system which the Administrator determines to be less environmentally beneficial [40 CFR 60.14(e)(5)].

The EPA has held that this exclusion does not apply to a source which, upon original construction, employed wet scrubbers, but later (upon relaxation of a State plan under section 111(d)) desired to remove the control equipment, which would have resulted in much higher levels of pollution than the plant had ever emitted [National Southwire Aluminum Co. v. EPA, 838 F.2d 835 (6th Cir.), cert. denied, 109 S.Ct. 390(1988), herein after National Southwire]. In the past, EPA has taken various views as to whether the exclusion in section 60.14(e)(5) should apply for NSR purposes. As noted earlier, the NSR statutory definitions of modification simply adopt the NSPS definition in section 111(a)(4). In addition, the legislative history reflects that, as a general matter, Congress intended to conform the meaning of "modification" for PSD purposes to usage under NSPS [see 123 Cong. Rec. H11957 (Nov. 1, 1977)]. For this reason, EPA initially ruled that the NSPS exclusion for addition of control devices applied automatically to PSD. (Memorandum from Edward E. Reich, OAQPS, and William F. Pedersen, OGC, to EPA Region VI, April 21, 1983). The EPA reversed course in a 1986 applicability determination issued for both PSD and nonattainment NSR purposes, noting that the NSPS exclusion was highly qualitative, and failed to give due account to either the air quality management component or the largely quantitative orientation of the NSR applicability regulations. (Memorandum from Gerald A. Emison, Director, OAQPS, to Regional Air Division Directors, July 7, 1986).

Comments on NSPS Applicability

An NSPS modification is any "physical or operational change to an existing facility which results in an increase in the emission rate to the atmosphere of any pollutant to which a standard applies" (40 CFR 60.2). Under NSPS, emissions increases, for applicability purposes, are calculated by comparing the hourly emission rate immediately before and after the physical or operational change. All operating parameters which may affect emissions must be the same to the maximum feasible degree for the before

and after testing, and tests must be conducted under representative conditions. Absent the exclusions from modifications specified at 40 CFR 60.14(e), any increase in emissions to the atmosphere over the previous emissions rate will subject the modification to NSPS [see section 60.14(a) and (b)]. In addition, modifications which would cost 50 percent or more of the cost of a comparable new facility are classified as reconstruction (see 40 CFR 60.15) and are subject to NSPS as a new source even if there is no emissions increase.

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Thus, unless the reconstruction provisions come into play, it is clear that under the existing regulations NSPS would not apply to the installation or improvement of emission control equipment which reduces hourly emissions rates. If the reconstruction provisions do apply, then such changes would trigger NSPS.

Based on NIPSCO's permit application and representations made by NIPSCO's September 14, 1989 and December 4, 1989 information submittals to EPA, NSPS would not apply to the Bailly Station if the new scrubber is not removed (i.e., if it is a permanent demonstration) because hourly emission rates will not increase as a result of the addition of these CCT controls. As a permanent CCT demonstration project, it would satisfy the requirements of the exemption contained in 40 CFR 60.14(e)(5) for the addition or use of any control system or device whose primary function is the reduction of air pollution. (The definition of "modification" for NSPS is found at 40 CFR 60.14). In addition, the Bailly project would not qualify as a reconstruction under 40 CFR 60.15.

However, the NSPS provisions could also apply to major facilities with temporary CCT demonstration projects at the end of the demonstration when the control equipment is removed and emissions rise back to the level that existed before the demonstration. Thus, while the placement of CCT controls at Bailly will reduce the hourly sulfur dioxide (SO₂) emissions rate, if NIPSCO later dismantles the CCT controls, this would result in an increase in hourly SO₂ emissions up to pre-demonstration levels and the source could be considered subject to NSPS.

Today's comments reflect EPA's position that the Bailly plant would not be subject to NSPS at the conclusion of the project, if NIPSCO decides to make it only temporary, as the result of an increase in emissions rates back up to the levels which existed before the changes were made to accommodate the temporary demonstration project. The EPA expects that its forthcoming interpretative rule will take this position with respect to all temporary CCT and similar demonstration projects which reduce emission rates. Unlike the situation presented in National Southwire, it is clear that the addition of pollution control in a temporary CCT demonstration was never intended to result in permanent emissions reductions. In addition, removal of temporary controls will not result in a level of emissions higher than that experienced in the past. (Reconstruction provisions, however, could subject both temporary and permanent CCT demonstration projects, and certain other emission control system installations or improvements, to NSPS. Still, as indicated by the Bailly project, the reconstruction provisions of the Act should rarely, if ever, apply to the type of activity which would be considered for exclusion from the definition of a physical change or a change in the method of operation. Thus, the triggering of the reconstruction provisions is an indication that the proposed activities are more extensive than just the addition, or replacement, of an emission control system or device, and so are not appropriate for exclusion.)

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Comments on NSR Applicability

Modified sources are subject to NSR if the modification is "major." Major modifications must consist of a physical change or change in the method of operation of a major stationary source [40 CFR 52.21(b)(1)] which results in a net emissions increase of any pollutant subject to regulation

under the Act that is significant. Significance levels are expressed in tons per year and differ for each pollutant [40 CFR 52.21(b)(23)]. Net emissions increases are determined [40 CFR 52.21(b)(3)] by summing all contemporaneous creditable actual emissions increases and decreases. The definition of "actual emissions" is such that generally the comparison is between actual emissions before the physical or operational change in question and the potential to emit of the facility afterwards [40 CFR 52.21(b)(21)]. If the source has not been operating near full capacity, even the addition of a control device could be considered a significant net emissions increase when comparing historic actual emissions with a new potential to emit, even though there may be a substantial reduction from historic actual emissions.

Specifically, actual emissions before the change at a facility are generally determined by averaging the emissions for the 2 years prior to submittal of the permit application (or some other period if the last 2 years are not representative of normal unit operation) [see, e.g., section 52.21(b)(2)(ii)]. Since the emissions rate after a physical or operational change cannot be predicted in advance, EPA regulations assume that a source's actual emissions will equal its maximum "potential to emit", which is based on constant full load operation for an entire year (unless restricted by federally enforceable limitations) [see, e.g., sections 52.21(b)(21)(iv); 52.21(b)(4)]. Thus, a physical or operational change will trigger NSR if the annual potential to emit of the source is significantly greater after the change than its representative actual annual emissions before the change, unless the company agrees to federally enforceable operational restrictions which limit its potential to emit to levels not significantly greater than its actual emissions before the change. This actual-to-potential methodology applies to physical or operational changes at new or "modified" (i.e., altered or changed) emissions units [see 45 FR 52676, 52677, 52718 (1980)].

As explained below, EPA believes that this methodology generally serves the purposes of NSR because it subjects to review projects that might lead to an increase in actual pollution. However, the NSR provisions in the existing regulations could be interpreted to apply to major facilities simply installing or improving control equipment, including CCT demonstration projects, under circumstances where a permanent increase in pollution is highly unlikely.

Under EPA's prospective interpretative ruling, existing sources which would otherwise become subject to NSR only because they decide to install or improve emission controls, or participate in the CCT program or similar demonstration projects approved by EPA, would instead be excluded from NSR coverage, so long as certain criteria intended to ensure that permanent increases in actual emissions do not occur are met.

With respect to the Bailly project in particular, it appears that the plant has been operated at rather high level of approximately 60 percent of capacity, reflecting baseload utilization of the plant. There is no

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indication that NIPSCO intends to increase this level of usage at any time following installation of the CCT controls. In addition, it appears that the Bailly project will meet the criteria EPA expects to set forth in its interpretative ruling for both temporary and permanent projects.

The EPA now believes it is appropriate to devise and apply such criteria both for the Bailly project and for the upcoming interpretative ruling. The EPA has recommended the position taken in its 1986 memorandum, discussed earlier, regarding use of the NSPS exclusion in 40 CFR 60.14(e)(5). While EPA continues to believe that this exclusion does not apply automatically for NSR purposes, the criteria discussed herein provide due consideration of air quality management concerns and the need for quantitative analyses.

Conditions for Permanent Controls or Devices to be Considered Not Less
Environmentally Beneficial

As noted above EPA is preparing an interpretative ruling which will clarify that if a source solely adds or enhances systems or devices whose primary functions are the reduction of air pollution, and which are determined to be not less environmentally beneficial, such activities would not constitute a physical or operational change triggering new source requirements. At this time, EPA anticipates that its ruling will provide that such pollution controls will be considered not less environmentally beneficial, with respect to permanent controls, if they meet at least the following criteria:

- (1) The source will continue to meet all current requirements and standards applicable to existing sources under the Act. This includes meeting applicable NAAQS, PSD increments, permit conditions, and State implementation plan (SIP) limitations.
- (2) There is no environmental harm resulting from the proposed activities. This includes conditions that the proposed activities would not cause the source to:
 - (a) increase the maximum hourly actual emissions rate of any pollutant regulated under the Act;
 - (b) increase the annual emissions of any pollutant regulated under the Act as a result of an increase in capacity utilization rate;
 - (c) adversely impact an air quality related value (e.g., visibility) in any Class I area; or
 - (d) allow an increase in emissions of toxic pollutants not regulated by the Act which would cause an adverse health or welfare impact.

Based on the information provided by NIPSCO, it appears at this time that the Bailly project, if it is made permanent, will meet the above criteria. Accordingly, as to the Bailly project in particular, EPA believes that major NSR requirements clearly will not apply if the project is made permanent, so long as these criteria are in fact met.

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Temporary CCT Changes

In its upcoming interpretative ruling, EPA expects to follow criteria for "temporary" CCT projects which are somewhat different from those for permanent projects. The EPA likely will consider a project to be temporary if it lasts less than 5 years from the date the project commences construction. However, the ruling probably will provide that the Administrator would consider an additional period of time, up to 5 additional years, in certain cases. At the end of a temporary project, the facility would be returned to pre-demonstration conditions and hourly emission rates (or lower). It is not clear if the proposed Bailly station permit is for a permanent or temporary CCT project. It is our understanding that NIPSCO considers the first 3 years of the CCT demonstration project to be "temporary" and will view the changes as "permanent" for the following 17 years if they are continued after the 3 year period.

The EPA expects that its interpretative ruling will provide that for temporary demonstration projects, the conditions relating to actual emissions increases and hours of operation criteria under 2a,b and d above would not apply to minor, temporary variations from nominal operating conditions. Temporary increases may occur due to testing procedures or some failure in unique but unproven equipment, but should not willfully contribute to adverse health or welfare impacts. The EPA believes that the benefits inherent in CCT and other similar technology demonstration projects counterbalance the limited, temporary impacts that may occur during these temporary projects. Under the ruling, temporary demonstration project applications likely would have to meet all of the other criteria applicable to the permanent projects discussed above. This interpretation would provide the flexibility to encourage temporary demonstration projects

which are considered to be environmentally beneficial overall, despite unpredictable, temporary increases in emissions of some pollutants or in the hours of operation that may occur during the course of a demonstration.

The EPA expects the ruling to state that temporary changes would become permanent at any time during or at the end of a demonstration period if the owner/operator seeks a revised applicability determination addressing all criteria applicable to permanent air pollution control system improvements. In submitting these comments, EPA is applying the above criteria in its review of the Bailly project. If NIPSCO ultimately decides that the Bailly CCT project is to become a permanent CCT demonstration, the project should meet all the criteria discussed earlier for permanent projects at the time the project is to be converted to permanent status (i.e., after 3 years).

Procedures for Environmentally Beneficial Exclusions from Applicability

The EPA expects that under its forthcoming interpretative rule, an owner or operator proposing to make an environmentally beneficial change in an air pollution control system will be called upon to request an applicability determination from the appropriate NSR/NSPS permit authority. The request should include a general description of the facility and the proposed activity, information on the current and projected use of the facility, and

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sufficient information to justify a nonapplicability determination. For any air pollution control system improvement, the request should include a rationale for why the emission control system or device should be considered equal to or more efficient than existing control technology at the source.

The EPA also anticipates that its interpretative ruling will state that in providing information to the reviewing authority, an owner or operator should submit sufficient modeling to demonstrate that any new or increased emissions of unregulated toxic pollutants resulting from the change in control equipment will not cause or contribute to adverse health or welfare impacts. The owner or operator should also demonstrate that the source will not operate at greater hourly emissions rates, or for more hours, than it has been during the most recent 2 years (or some other period, if the last 2 years are not representative of normal operation). In assessing whether actual emission increases of any pollutant are likely to occur, the reviewing agency should consider the economic incentives to increase production rates or hours of operation associated with the change. Any change which could reasonably result in increased emissions due to possible increased utilization of the facility as a result of the changes should not be considered environmentally beneficial. The authority reviewing the proposed change should explicitly determine, based on consideration of these and other relevant criteria, that the net effect will not be one of environmental harm.

Operating Limits on New Diesel Generator

The EPA considers the addition of a backup diesel generator at Bailly not to be an integral part of the CCT demonstration, in that the generator could serve multiple functions once installed. In general, EPA views changes to be subject to NSR and NSPS if such changes are not strictly related to the addition of the improved air pollution control system and the changes have any possible additional application. However, EPA agrees with IDEM that the addition of a new diesel generator does not constitute a "major modification" if the State's limits on the generator's hours of operation, preventing concomitant increases in emissions from exceeding significance levels, are

federally enforceable.

In closing, EPA agrees with the State that NSPS and NSR do not apply

if the conditions outlined in this letter are met. If you have any further questions, please contact Mr. Ron Van Mersbergen at (312)886-6056 or Mr. Dom Abella at (312)886-6543.

Sincerely yours,

David Kee, Director
Air and Radiation Division (5AR-26)

cc: G. Emison, OAQPS (MD-10)
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