



Banking of Creditable Emission Reductions (CERs, Emission Credits) FREQUENTLY ASKED QUESTIONS

1. Where I can find information about New Jersey's Emission Credits Banking program?

All information, including lists of banked emission credits, banking and transfer application forms, link to New Jersey's emission credits rule (the Emission Offset rule), procedure for using credits as emission offsets, a guidance document for banking and securing emission credits, and the FAQ are posted at New Jersey Department of Environmental Protection's (NJDEP, the Department) emission credits banking webpage: <http://www.nj.gov/dep/aqpp/bec.html>.

2. When and how do I submit an application to bank emission credits?

Banking application can be submitted using the form CER01-Application for Banking and/or Verifying Creditable Emission Reductions, available at <http://www.state.nj.us/dep/aqpp/bec.html>. The banking application must be submitted to the Department no later than 12 months after emission reductions occur (shutdown of an equipment or over control). For shutdown equipment, the Department must be notified at least 60 days prior to removal of equipment.

3. I want to bank my emissions for a shutdown. How do I determine what they are?

Facilities can bank only the "actual emissions", i.e. the actual rate of emissions of an air contaminant from a source operation, equipment, or control apparatus. The actual rate of emissions shall equal the average rate at which the air contaminant was emitted during the two calendar years that are immediately preceding the banking application date. Note that actual emissions are generally reported in the annual Emission Statements submitted to the Department. For further details check the definition of "actual emissions" in N.J.A.C. 7:27-18.

4. Equipment has stopped operating for over a year. However, the equipment remained in an "installed" status, permits are still active, and the equipment could be turned on at any time. Has a shutdown occurred?

If the equipment is fully functional and capable of being used at any time, the permit is active and the emissions were not used as emission offsets at the facility in a determination of a net emission increase or a significant net emission increase as per N.J.A.C. 7:27-18.7, the equipment is not considered shutdown. To be considered shutdown, the equipment must be disconnected, removed from the permit, and the Department has been notified.

5. Can a third party own emission credits in New Jersey?

No. The Emission Offset Rule (N.J.A.C. 7:27-18) applies to facilities that have (or have applied for) air permits pursuant to N.J.A.C. 7:27-8 or N.J.A.C. 7:27-22. Hence, emission credits can only be owned by facilities in New Jersey that have (or have applied for) Preconstruction permits or a Title V Permit.

6. How are emission credits transferred from one facility to another?

Transfer of emission credits is a two-step process:



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Step 1: Facilities submit Form CER02 - Identification of Creditable Emission Reductions (CERs) for Transfer. This form is available at <http://www.state.nj.us/dep/aqpp/bec.html>. The Department will review the application, verify the amounts of CERs banked, and notify the applicant to submit a joint request for transfer (CER03).

Step 2: Facilities submit Form CER03 - Joint Request for Transfer of Creditable Emission Reductions. The Department will review the joint request for transfer and issue a letter confirming the transfer.

7. I have heard of various discounts that apply when emission credits are proposed to be used as Emission Offsets. What are these discounts?

There are two types of discounts that apply to shutdown emission credits (resulting from equipment shutdown) when these credits are proposed for use as emission offsets:

- **RULE DISCOUNT:** If a State or federal rule decreases an allowable emission limit for an air contaminant, the value of any banked CERs of that air contaminant is reduced accordingly. See details at N.J.A.C. 7:27-18.8(e).
- **TIME DISCOUNT:** The value of banked CERs which remain unused as emission offsets for more than five years is discounted by 50 percent. CERs which remain unused as emission offsets for 10 years revert to the State. See details at N.J.A.C. 7:27-18.8(f) and (g).

Note that for emission credits resulting from over control, only the rule discount applies. See additional details below.

8. Do the time discount provisions apply to over control credits if the over controlled equipment subsequently shuts down after the CERs were banked?

Yes, the time discount provisions apply to over control credits if the over controlled equipment subsequently shuts down after the CERs were banked. The time discount provisions apply from the date the equipment shuts down. See the discount schedule below, which is the same as any other shutdown.

- 5 years after the shutdown date, the CERs will be discounted by 50%.
- 10 years after the shutdown date, the CERs will be discounted by 100% (all unused CERs revert to the State).

Consider the following example:

2015	Facility's actual emissions:	100 TPY
2016	Facility's actual emissions:	100 TPY
2017	Facility installs controls and reduces emissions 40% beyond regulatory requirements (over control 40%)	
2017	Facility banks over control emissions:	40 TPY emission credits



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2017 Facility's actual emissions: 60 TPY
2018 Facility's actual emissions: 60 TPY

2019 Facility shuts down over controlled equipment on 1/1/19. Upon notification of the shutdown, the 40 TPY over control emission credits will now be treated as shutdown credits, starting the discount clock from the shutdown date as follows:

- 5 years after 1/1/19, the CERs will be discounted by 50% (reducing to 20 TPY).
- 10 years after 1/1/19, the CERs will be discounted by 100% (reducing to zero).

2019 Facility can bank the "new" shutdown emissions based on the two-year average of actual emissions, i.e. 2017 and 2018. This will provide 60 TPY of new shutdown credits, subject to time discount provision starting from the entry date (application date).

9. How will the Department ensure that facilities notify the Department if the over controlled equipment shuts down after the CERs were banked? (Since the shutdown date is necessary to apply the discount schedule).

For over-control banking applications, the Department will include shutdown notification provisions in the approval letter, requiring facilities to notify the Department when the over controlled equipment shuts down.

10. What is the significance of the Entry Date in the emission credit reports? Is this the date that the discounting time period is based off?

Yes. All calculations for the banked emission credit discounts are calculated from the entry date of banking applications in the New Jersey's emission credits registry maintained by the Department. This date is also listed in all banking reports posted at the emission credits banking webpage: <http://www.state.nj.us/dep/aqpp/bec.html>.

11. When do CERs become "used" and they are no longer subject to the 50% or the 100% discounting?

CERs become used when they are proposed as emissions offsets or used in calculating the proposed net emission increase for a proposed project. Note that transfer of CERs is on "as is" basis (i.e. time discount and rule discount clocks do not stop during the transfer process). Discounting stops when CERs are applied to the project, not at the time of transfer.

12. When a CER transfer application is submitted to NJDEP and it is approved, are the CERs verified at that time (i.e. before transfer) or must one go through a separate process to have these verified before purchasing them from the seller? Our concern is to purchase verified CERs which NJDEP will approve as offsets for the project.

CERs available in the banking database, before any applicable discount, have generally gone through an initial verification and validation process. NJDEP issues an approval letter after completing the initial verification and validation process. The banked CERs registered with the Department are considered valid.



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13. If CERs in New Jersey's banked emission credits registry have been previously verified by NJDEP and are in the same non-attainment area, are there any circumstances which NJDEP would not approve of their use as offsets? N.J.A.C. 7:27-18.8(f) discusses 50% discounting of "unused" emission offsets for those banked emission reductions that remain unused as emission offsets for more than five years after the date the emission reductions are submitted for banking.

The banked CERs will not be available for use if the CERs were generated through shutdown/curtailment and the CER entry date is more than 10 years old. Only 50% of the banked CERs will be available for use, if the CER entry date is more than 5 years old. All calculations for the banked emissions discounts from the shutdown are calculated from the entry date of the banking application.

14. I am purchasing CERs from a company that banked a shutdown over 5 years ago, but I don't plan to use them for a few years. Once the CERs are transferred to me is the 50% discounting of the credits still calculated from the original date of the credits, or does the clock starts at "0" with my purchase? What if my project is not completed within the next discount period, and I already have received the transferred CERs, do I lose them?

All calculations for the banked emissions discounts from shutdowns are calculated from the entry date of the banking application in the emission credits registry. The discounting clock stops when the transferred credits are committed for their use as emission offsets in a permit application submitted to the Department or when CERs are applied to the project.

15. Can a facility resell excess emission credits that were acquired for a specific project and not all credits were used as emission offsets? For example, if a facility bought 12 TPY of NO_x emission credits when only 10 TPY of NO_x credits were needed to offset emissions, can they sell the 2 TPY of NO_x credits to another facility.

Consistent with N.J.A.C. 7:27-18.5(i), emission credits used as emission offsets or used in calculating the proposed net emission increase may not be used again as emission offsets. Essentially, this provision restricts the "resale" of any credits that were acquired for a specific project. Based on this, the 2 TPY of NO_x credits that were bought for a specific project cannot be sold to another facility.

Facilities should carefully establish the need for emission offsets by following the procedures for determination of emission increase (netting analysis) specified at N.J.A.C. 7:27-18.7. In addition, several examples for calculating appropriate amounts needed for emission offsets can be found in our guidance document posted at <http://www.nj.gov/dep/aqpp/permitguide/CERGuidance.pdf>.

16. How many CERs do I need to secure for my project?

The CER needed to be secured for a project are equal to the value of "NI" calculated using the equation in N.J.A.C 7:27-18.7. You must also calculate the discounted value of the banked emission credits and compare the CER needed for the project and the discounted value of the banked credits to verify if sufficient CER have been identified. Check details in the guidance document posted at <http://www.state.nj.us/dep/aqpp/permitguide/CERGuidance.pdf>.



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17. Company B is buying Company A. The purchase is to include emission credits that company A had banked in the past. What is the proper procedure to transfer the ownership of these credits?

Follow the procedures for transfer of credits specified above in this document and make sure to check the box for "Transfer of Facility Ownership" (item 5) in the CER02 form. Without that, the ownership of the banked credits will remain with the original owner.

18. Company A merged with Company B. During merger talks Company A shutdown some equipment but failed to submit the application to bank the shutdown emissions within one year due to the merger process. Can the Department still accept the application using discretionary consideration because of the filing delay because of the merger process?

No. The rule is clear. N.J.A.C. 7:27-18.8(c) clearly states that application shall be made no later than 12 months after the emission reduction occurs.

19. Can a facility in Southern New Jersey use credits from a facility located in Northern New Jersey?

Use of CERs from a source located in Southern New Jersey to offset emission increases from a new or modified source located in Northern New Jersey is prohibited for the following reasons:

New Jersey's northern counties are classified as "severe-17" non-attainment area for 1-hour ozone standard and New Jersey's southern counties are classified as "severe-15" non-attainment area for 1-hour ozone standard pursuant to 40 CFR 81.307. The Clean Air Act (CAA) Section 173(c)(1) states that the owner or operator of a new or modified major stationary source may comply with any offset requirement for increased emissions of any air pollutant only by obtaining emission reductions of such air pollutant from the same source or other sources in the same nonattainment area, except that the State may allow the owner or operator of a source to obtain such emission reductions in another nonattainment area if (a) the other area has an equal or higher nonattainment classification than the area in which the source is located and (b) emissions from such other area contribute to a violation of the national ambient air quality standard in the nonattainment area in which the source is located.

However, consistent with the above provisions new or modified sources located in southern New Jersey (severe-15 classification) may be able to purchase credits from sources located in northern New Jersey (severe-17 classification) but the reverse is not true.

