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April 9, 2008

Mr. Manuel Salinas
San Joaquin Valley Unified Air Pollution Control District
1990 East Gettysburg Avenue
Fresno, CA 93726

RE: CLFP and MCCV Socioeconomic Impact Analysis of SJVUAPCD Draft Rules 4320

Dear Manuel:

The California League of Food Processors (CLFP) and Manufacturers Council of the Central Valley (MCCV) appreciate the opportunity to provide comments to the District regarding the potential socioeconomic impact of Draft Rule 4320. It is our belief that the compliance costs incurred by industry will be very large and will impose a hardship on the many firms that have invested substantial sums of money in the last few years to comply with previous boiler emissions standards. Many of these firms are located in medium to small-sized cities and are important sources of income and employment in their communities and in the entire region.

Background

There are many types of food processors in the District with large boilers, including fruit and vegetable processors, dairy processors, meat and poultry processors, and others such as sugar, beverage, and grain processors. Many are struggling with rising energy prices and commodity costs, and most operate in very a competitive global marketplace that limits financial margins and the funds available for environmental compliance.

As a result of the District's 2005 amendments to Rule 4306 most of these firms have already invested significant sums to retrofit their boilers to meet or exceed NOx emissions of 9 ppmv. Our review of the District's database indicates that there are 220 boiler units with capacities greater than 20 MMBtu located at food processing facilities. We estimate that about 90 percent of these units have installed ultra low-NOx burners and most of the rest have already added SCR retrofits. These firms will incur large costs to reduce their emissions by just a few parts per million. As a result those funds will not be available for capital improvements, hiring new staff, expanding production, or developing new products. CLFP and MCCV are very concerned that this rule, if enacted, would send a very unfortunate signal to industry about the role of economics in District policy decision making.

CLFP and MCCV would like to stress that the following points be considered in the District's socioeconomic analysis of the Draft Rule:

The District's data indicates that SCR retrofits are not cost effective for any size boiler if the retrofit will only reduce emissions from 9 ppmv to 5 ppmv.

- Tables 3 and 4 in Appendix C of the Draft Rule indicate that regardless of the capacity factor or boiler size, for every SCR retrofit where the emissions reduction is from 9 ppmv to 5 ppmv the cost effectiveness figures exceed the District's threshold of $24,500 per ton. In some cases the estimates are 2 – 5 times higher than the threshold value.
- The proposed alternative of allowing firms to opt to pay an Annual Emissions Fee does not solve the fundamental problem that this rule is not remotely cost effective. Payment of the fee simply delays the date of the inevitable retrofit and adds to the total cost of the project. Further, the proposed fee will result in costs so high that this option will not be attractive to most firms.

The District's cost effectiveness estimates are much lower than the actual costs incurred by firms that have installed SCR systems.

- Although the District's cost estimates are high, the actual costs may be much higher based on data collected by CLFP and MCCV (Table 5, appendix C). The actual costs incurred by firms reducing emissions from 9 ppmv to 5 ppmv may be double, or more, than the estimates provided by the District.
- For example, two food processors have already installed SCR units on boilers rated at between 150 – 200 MM Btu. They estimated their cost effectiveness value at $22,283/ton - $66,488/ton, which is 2 – 5 times higher than the District's estimates for boilers in that size range.
- CLFP & MCCV have collected data for five boilers all rated at between 90 – 100 MM Btu that were retrofit with SCR in the last three years. The firms estimated the cost effectiveness at $22,441/ton - $66,706/ton, much higher than the District's estimates for most boilers in that size category. This data was submitted to the District by CLFP and MCCV in January.
- How can the District account for the huge discrepancy between the *actual* costs incurred and their projections? The projected data collected by CLFP and MCCV is consistent with, or much higher than, the actual costs reported rather than the District's projections. This seems to be an ongoing problem with District rules regarding stationary sources that should be addressed.

The estimated food processing industry total compliance costs for Rule 4320 are unreasonable

- The District indicates that there are 1,168 units larger than 20 MM Btu that will be affected by the Rule. Data collected by the District indicate that the capital costs for installing SCR units range from $225,000 - $472,500 per unit, depending on the unit size. This implies that the total capital costs imposed on industry will range from $263 million to $552 million.

- With the addition of annual operating and maintenance costs, the total cost to industry over the 10-year cost recovery cycle will be about $428 million - $898 million. This is an enormous amount of money to achieve a 4 ton per day reduction in NOx.
- Food processors collectively have about 220 boilers with capacity greater than 20 MM Btu. Our information indicates that about 20 of those units have already been retrofit with SCR. Applying the same analysis (and the District's cost estimates) as in the previous bullet to the 200 units yet to be retrofit, the total 10-year compliance cost for the food processing industry will be about $73 million - $153 million. However, based on the actual retrofit cost data collected by CLFP and MCCV we believe that the total costs will be *much higher.*
- Many food processors operate on a seasonal basis, limiting their ability to recoup their costs. CLFP and MCCV recommend that the District factor this into its socioeconomic analysis.

The District's claims do not bear scrutiny that firms that ULN burners installed as a result of the 2005 revisions to Rule 4306 do not have a problem with stranded costs.

- For example, a number of firms installed ULN systems since 2005. By 2015, they will have to add SCR to further reduce emissions to 5 ppmv. If they had known in 2005 that the target was 5 ppmv and had installed SCR at that time, the additional investment in ULN would have been avoided altogether.
- The District's statement in the Staff Report that firms can "still use the (ULN) burner system currently in operation" is true but is not reasonable to assume that this is a net benefit to the facilities. The companies will now have to spend huge amounts of money to reduce emissions from 6 ppmv to 5 ppmv and the ultra low NOx equipment will not be necessary to achieving that goal. Given the difficulty associated with operating ultra low NOx burners with variable system load the burners may turn out to be more of a hindrance to system operators than a benefit.

Cumulative compliance costs should be considered.

A major concern to the business community in California is the ever growing cumulative cost of complying with new environmental regulations. For example, food processors must not only meet new boiler emissions limits, but also new forklift emissions standards, wastewater discharge requirements, and a host of other state and federal environmental regulations. In addition, new emissions standards for diesel trucks and farm equipment are forthcoming, and the California climate change initiative will have a profound impact on virtually all industries. In addition, processors must cope with rising costs for energy and water and increasing commodity prices, all of which include embedded environmental compliance costs. Although the District is not compelled to consider cumulative compliance costs, MCCV and CLFP ask the District to factor into its socioeconomic analysis how the accelerated time frame for reducing boiler emissions will add to the cost of doing business in Central California and put local businesses at a distinct economic disadvantage relative to firms in other areas.

Regional Economic Impact

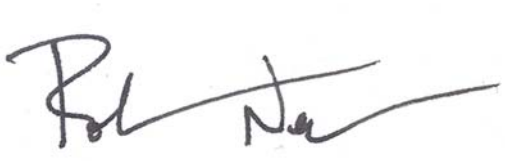
Food processors have an enormous impact on the economy of the San Joaquin Valley. Hundreds of farmers rely on food processors as a market for their product. Food processors purchase large quantities of supplies and services, including packaging, equipment, food ingredients, energy, insurance, and trucking. All of these sectors are affected when food processors curtail or cease production.

Food and beverage manufacturing generated a total of $61 billion in sales and $6.5 billion in payroll in California in 2002.[1] In the Central Valley, the direct economic effects of agricultural processing include $20.5 billion in sales, 65,000 jobs, and $5.5 value added in the economy.[2] Total effects, including regional multipliers, are estimated at 228,000 jobs (nearly a quarter of the region's workforce) and $7.9 in labor income. However, these large numbers don't tell the entire story. In many small rural towns like Los Banos and Williams farming and food processing comprises much of the local economy, and the closure or curtailment of activities at a food processing facility will ultimately be felt in every store and coffee shop in town.

CLFP and MCCV does not have direct access to the IMPLAN or RIMS regional economic impact models to generate specific multiplier estimates, and we do not have the time or resources to conduct detailed analysis for every company that may be affected by the Rule. However, a recent study indicates that for every 100 jobs created in agriculture and the food industry, there are an additional 94 jobs created, and for every dollar generated there is an additional $1.28 added to the economy.[3] This estimate highlights the substantial multiplier effect that the food processing sector has on the regional economy.

CLFP and MCCV contend that imposing a total of $73 million to $153 million in new boiler retrofit costs on the food processing industry will have a very negative financial impact on firms, and that impact will be felt through the economy of the entire region. For this reason, the District should not proceed with the rule as currently structured.

Sincerely,



Jan Marie Ennenga
MCCV Executive Director

Rob Neenan
CLFP Director of Regulatory Affairs

[1] "The Measure of California Agriculture". UC Davis, 2006
[2] Ibid
[3] Ibid