

**DRAFT**

Output-Based Allocations

**Option Type:**

An output-based allocation system is one in which NO<sub>x</sub> allocations distributed to EGUs would be determined by the amount of electric generation from the source.

**Issues:**

The USEPA model rule for CAIR allocates NO<sub>x</sub> allowances to pre-2001 units based on the historical heat input. This rewards plants that consume more fuel and rewards those that are *less* efficient. Illinois EPA is considering output-based allocations, where the allocations are based on electric output rather than heat input to reward more efficient plants.

**Environmental Benefits:**

An output-based allocation system rewards the power sector economically when it operates more efficient plants. This type of system encourages the reduction of fuel usage, and therefore, emissions of all pollutants. Output based allocations also benefit newer and more efficient sources. Increased efficiency is a form of pollution prevention, which reduces emissions of all pollutants, including non-regulated emissions such as carbon dioxide (CO<sub>2</sub>).

**Model CAIR Rule:**

In the Model CAIR rule, allocations are determined by the heat input of the source. There is a provision for *new source* allocations to be determined by electric generation in the model rule. In a completely output-based allocation system, all NO<sub>x</sub> allowances in CAIR would be determined by their electric generation or a specified conversion to megawatt-hours. This system is not more stringent than CAIR because it does not reduce overall NO<sub>x</sub> emissions in Illinois due to trading, as the budget for NO<sub>x</sub> in CAIR remains the same. It is, however, a means for encouraging efficiency and newer, cleaner sources.

**How would output be measured?**

Gross electric output would be metered at the source. For any periods of time or situations where the source cannot meter its gross electric output, there are a number

of possible alternative approaches including converting heat input data to an output equivalent.