

The AIM Act: 2024 HFC Allocation Rule

Stakeholder Meeting

March 30, 2022

Agenda

- Welcome & Introductions
- Opening Remarks
- AIM Act Overview
- 2021 HFC Allocation Framework Rule Overview
- 2024 HFC Allocation Rule Feedback and Next Steps
- Discussion

Welcome & Introductions

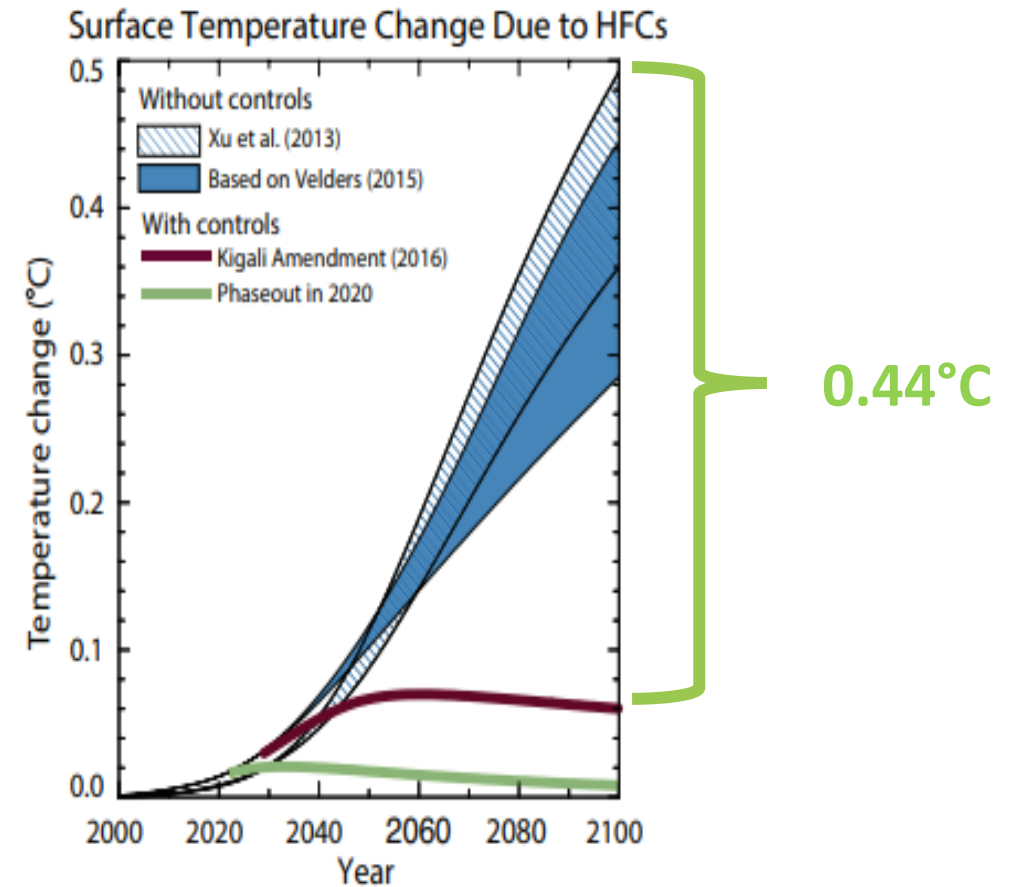
Opening Remarks

Chris Grundler

Director, Office of Atmospheric Programs

Climate Benefits of the Global Phasedown

- HFCs are potent greenhouse gases with global warming potentials (GWPs) hundreds to thousands of times higher than carbon dioxide (CO₂)
- Absent effective regulations, HFC use and emissions are expected to continue increasing rapidly worldwide
- A global HFC phasedown is expected to avoid up to 0.5°C of global warming by 2100



WMO 2018: Executive Summary: Scientific Assessment of Ozone Depletion

The American Innovation and Manufacturing (AIM) Act



- Enacted December 27, 2020
- Phases down HFC production and consumption by 85% by 2036
- The AIM Act authorizes EPA to address HFCs in three main ways:
 - Phase down HFC production and consumption through an allowance allocation and trading program
 - Facilitate sector-based transitions to next-generation technologies through restrictions on HFCs
 - Promulgate certain regulations for purposes of maximizing reclamation and minimizing releases of HFCs and their substitutes from equipment

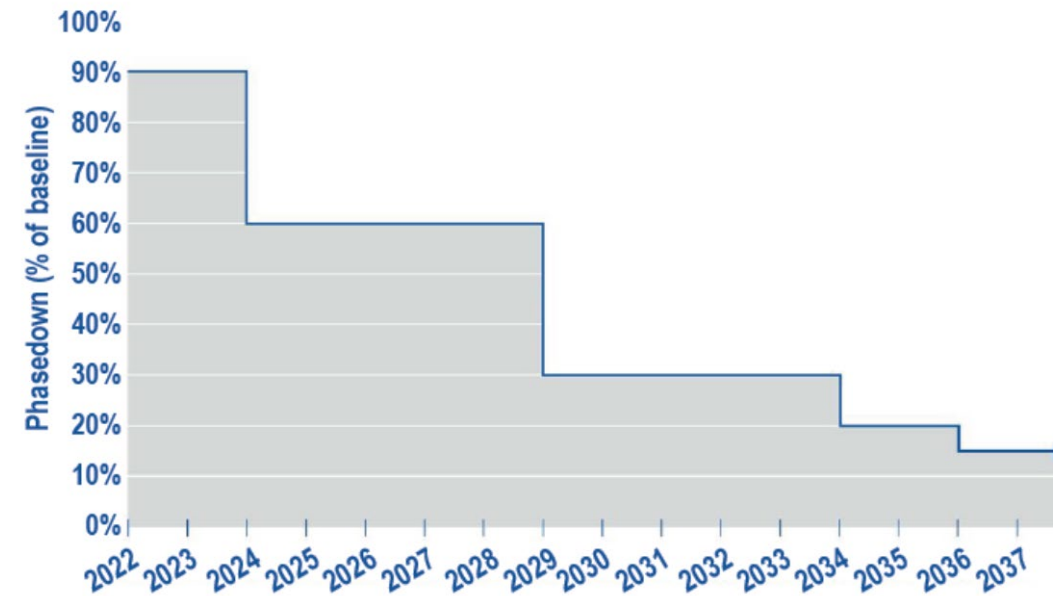
HFC Allocation Rule Background

- HFC Allowance Allocation and Trading Program Final Rule (86 FR 55116)
 - Published in the Federal Register on Oct. 5, 2021
 - Establishes an HFC allowance allocation and trading system to phase down HFCs
 - From 2022 to 2050, cumulative net benefits are estimated to be over \$272 billion, and total emission reductions are projected to be the equivalent of 4.6 billion metric tons of CO₂ or nearly equal to three years of U.S. power sector emissions at 2019 levels
- HFC allowances for calendar year 2022 were issued Oct. 1, 2021
 - Set-aside allowances to be issued tomorrow (March 31)

Date	Consumption & Production Caps, Relative to Baseline
2022–2023	90 percent
2024–2028	60 percent
2029–2033	30 percent
2034–2035	20 percent
2036 & after	15 percent

AIM Act: Allocation Framework Rule

- As of January 1, 2022, allowances are needed to produce or import bulk HFCs (with limited exceptions)
 - Producing HFCs requires expending both production and consumption allowances
 - Importing HFCs requires expending consumption allowances
 - Application-specific allowances may be expended to either produce or import HFCs for use in the six applications listed in the AIM Act
- 40 percent reduction from baseline starting January 1, 2024



AIM Act: Allocation Framework Rule – Enforcement and Compliance Mechanisms

- The HFC Allowance Allocation and Tracking Program also has a robust enforcement and compliance system:
 - Requires advance reporting so EPA can monitor imports in real time and flag suspect shipments
 - Requires electronic tracking for movement of HFCs through commerce (QR codes) starting January 2025
 - Over the next 5 years, phases in use of only refillable cylinders and prohibits single-use disposable cylinders
 - 2-step process: first, starting in July 2025, eliminate new disposable cylinders and then, starting in Jan 2027, retire those that remain in the market
 - Administrative consequences (e.g., revoke or retire allowances) are available in addition to potential civil and criminal enforcement actions
 - Requires recordkeeping and reporting, labeling, auditing, and data transparency

AIM Act: 2024 HFC Allocation Rule – Stakeholder Feedback and Next Steps



- For today’s meeting, EPA is seeking feedback on two main topics:
 - Whether to revise the approach we took in the 2022/23 rule for general pool allocations
 - Specific reporting challenges experienced thus far
- Next Steps:
 - Publish proposed rulemaking, followed by notice-and-comment period

AIM Act: Allocation Framework Rule – Stakeholder Feedback

- EPA took advance comment in the proposed Allocation Framework Rule on different approaches to allocating allowances, including:
 - Past production and consumption from a set number of years
 - Reevaluating with data from recent years, including accounting for transfers between allowance holders
 - Past data, with a fee for production or imports
 - Auctions, in part or in whole
 - A mix, such as phasing in an auction or fee over time

Questions for Discussion

General Pool Allocation Methodology

- Are there challenges if EPA continues issuing allowances using the same approach we used in 2022 and 2023 for 2024 and later years?
 - Are there advantages to continuing this approach?
- If EPA were to make periodic changes to each company's share of allowances, for example based on using more recent data (e.g., use 2022-2024 production and consumption for 2026-2029 allowances), would this create challenges?
 - Are there advantages to using this approach?
 - If an allowance is transferred in one year, how should EPA attribute that transfer in future year allocations?
- This rule likely will establish an allocation methodology to be used for a longer period than the 2021 rule. Should EPA consider planning to revisit the methodology again in the future, for example the next step down (i.e., 2029) or between steps?
- Is there interest in multi-year allocations? If so, what would be a mechanism for allowing EPA to continue to issue application-specific allowances at the level of need?

Questions for Discussion, cont'd

Alternate General Pool Allocation Methodologies

- What are the advantages and disadvantages of instituting an auction of allowances?
- What are the advantages and disadvantages of instituting a fee for allowances?
Under both scenarios, any funds received would go to the Treasury and not back to EPA
- Would auctions or fees have advantages or disadvantages for companies entering or exiting the allowance allocation program?

HFC Allowance Allocation Program Entrance/Exit

- Can EPA improve how we consider companies that want to enter or exit the allowance allocation program?
- Does the fact that this is a phasedown and not a phaseout make a difference?

Feedback on reporting requirements

- Are companies finding any of the reporting requirements challenging? Is this due to the timing or clarity of the requirements? Other reasons?

- Protecting Our Climate by Reducing Use of HFCs:

<https://www.epa.gov/climate-hfcs-reduction>

- HFC Framework Rule

<https://www.epa.gov/climate-hfcs-reduction/final-rule-phasedown-hydrofluorocarbons-establishing-allowance-allocation>

- Contact EPA at HFCAllocation@epa.gov

Thank You