DATES: The public hearing originally scheduled for June 18, 1997, beginning at 10 a.m., is cancelled.

FOR FURTHER INFORMATION CONTACT: Evangelista C. Lee of the Regulations Unit, Assistant Chief Counsel (Corporate), (202) 622–7190 (not a tollfree number).

supplementary information: The subject of the public hearing is proposed amendments to the Income Tax Regulations under section 905 of the Internal Revenue Code. A notice of public hearing on proposed rulemaking appearing in the Federal Register on Thursday, April 17, 1997 (62 FR 18730), announced that a public hearing would be held on Wednesday, June 18, 1997, beginning at 10 a.m., in room 3313, Internal Revenue Building, 1111 Constitution Avenue, NW, Washington, DC 20224.

The public hearing scheduled for Wednesday, June 18, 1997, is cancelled. Cynthia E. Grigsby,

Chief, Regulations Unit, Assistant Chief Counsel (Corporate).

[FR Doc. 97–15443 Filed 6–11–97; 8:45 am] BILLING CODE 4830–01–U

ENVIRONMENTAL PROTECTION AGENCY

40 CFR Part 52

[WI75-01-7304; FRL-5840-7]

Approval and Promulgation of Implementation Plan; Wisconsin

AGENCY: Environmental Protection Agency.

ACTION: Proposed rule.

SUMMARY: The Environmental Protection Agency (EPA) proposes to approve Wisconsin's request to grant an exemption for the Milwaukee severe and Manitowoc County moderate ozone nonattainment areas from the applicable Oxides of Nitrogen (NO_X) transportation conformity requirements. On July 10, 1996, the Wisconsin Department of Natural Resource (WDNR) submitted to the EPA a State Implementation Plan (SIP) revision request for an exemption under section 182(b)(1) of the Clean Air Act (Act) from the transportation conformity requirements for NO_X for the Milwaukee severe and Manitowoc County moderate ozone nonattainment areas. The request is based on the urban airshed modeling (UAM) conducted for the attainment demonstration for the Lake Michigan Ozone Study (LMOS) modeling domain. The rationale for this proposed approval is set forth in SUPPLEMENTARY INFORMATION; additional

information is available at the address indicated.

DATES: Comments on this proposed action must be received by July 14, 1997.

ADDRESSES: Written comments should be sent to: Carlton T. Nash, Chief, Regulation Development Section, Air Programs Branch (AR-18J), USEPA, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604-3590. Copies of the SIP revision, public comments and EPA's responses are available for inspection at the following address: United States Environmental Protection Agency, Region 5, Air and Radiation Division, 77 West Jackson Boulevard, Chicago, Illinois 60604. (It is recommended that you telephone Michael Leslie at (312) 353-6680 before visiting the Region 5 Office.)

A copy of this SIP revision is available for inspection at the following location: Office of Air and Radiation (OAR) Docket and Information Center (Air Docket 6102), room M1500, United States Environmental Protection Agency, 401 M Street S.W., Washington, D.C. 20460, (202) 260–7548.

FOR FURTHER INFORMATION CONTACT: Michael G. Leslie, Regulation Development Section (AR–18J), Air Programs Branch, Air and Radiation Division, United States Environmental Protection Agency, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604, Telephone Number (312) 353–

SUPPLEMENTARY INFORMATION:

I. Background

Clean Air Act section 176(c)(3)(A)(iii) requires, in order to demonstrate conformity with the applicable SIP, that transportation plans and Transportation Improvement Programs (TIPs) contribute to emissions reductions in ozone and carbon monoxide nonattainment areas during the period before control strategy SIPs are approved by USEPA. This requirement is implemented in 40 CFR 51.436 through 51.440 (and §§ 93.122 through 93.124), which establishes the so-called "build/no-build test." This test requires a demonstration that the "Action" scenario (representing the implementation of the proposed transportation plan/TIP) will result in lower motor vehicle emissions than the "Baseline" scenario (representing the implementation of the current transportation plan/TIP). In addition, the "Action" scenario must result in emissions lower than 1990 levels.

The November 24, 1993, final transportation conformity rule 1 does not require the build/no-build test and lessthan-1990 test for NO_X as an ozone precursor in ozone nonattainment areas, where the Administrator determines that additional reductions of NO_X would not contribute to attainment of the National Ambient Air Quality Standard (NAAQS) for ozone. Clean Air Act section 176(c)(3)(A)(iii), which is the conformity provision requiring contributions to emission reductions before SIPs with emissions budgets can be approved, specifically references Clean Air Act section 182(b)(1). That section requires submission of State plans that, among other things, provide for specific annual reductions of volatile organic compounds (VOCs) and NO_X emissions "as necessary" to attain the ozone standard by the applicable attainment date. Section 182(b)(1) further states that its requirements do not apply in the case of NO_X for those ozone nonattainment areas for which USEPA determines that additional reductions of NO_X would not contribute to ozone attainment.

For ozone nonattainment areas, the process for submitting waiver requests and the criteria used to evaluate them are explained in the December 1993 USEPA document "Guidelines for Determining the Applicability of Nitrogen Oxides Requirements Under Section 182(f)," and the May 27, 1994, and February 8, 1995, memoranda from John S. Seitz, Director of the Office of Air Quality Planning and Standards, to Regional Air Division Directors, titled "Section 182(f) NO_X Exemptions—Revised Process and Criteria."

On July 13, 1994, the States of Illinois, Indiana, Michigan, and Wisconsin (the States) submitted to the USEPA a petition for an exemption from the requirements of section 182(f) of the Clean Air Act (Act). The States, acting through the Lake Michigan Air Directors Consortium (LADCo), petitioned for an exemption from the Reasonably Available Control Technology (RACT) and New Source Review (NSR) requirements for major stationary sources of NO_X. The petition also asked for an exemption from the transportation and general conformity requirements for NOX in all ozone nonattainment areas in the Region.

On March 6, 1995, the USEPA published a rulemaking proposing approval of the $NO_{\rm X}$ exemption petition

¹ "Criteria and Procedures for Determining Conformity to State or Federal Implementation Plans of Transportation Plans, Programs, and Projects Funded or Approved under Title 23 U.S.C. of the Federal Transit Act" November 24, 1993 (58 FR 62188)

for the RACT, NSR and transportation and general conformity requirements. A number of comments were received on the proposal. Several commenters argued that NOx exemptions are provided for in two separate parts of the Act, in sections 182(b)(1) and 182(f), but that the Act's transportation conformity provisions in section 176(c)(3) explicitly reference section 182(b)(1). In April 1995, the USEPA entered into an agreement to change the procedural mechanism through which a NO_X exemption from transportation conformity would be granted (EDF et al. v. USEPA, No. 94-1044, U.S. Court of Appeals, D.C. Circuit). Instead of a petition under 182(f), transportation conformity NO_X exemptions for ozone nonattainment areas that are subject to section 182(b)(1) now need to be submitted as a SIP revision request. The Milwaukee and the Manitowoc ozone nonattainment areas are classified as moderate or above and, thus, are subject to section 182(b)(1).

The transportation conformity requirements are found at sections 176(c) (2), (3), and (4). The conformity requirements apply on an areawide basis in all nonattainment and maintenance areas. The USEPA's transportation conformity rule was amended on August 29, 1995 (60 FR 44762) to reference section 182(b)(1) rather than 182(f) as the means for exempting areas subject to section 182(b)(1) from the transportation conformity NO_X requirements.

The July 10, 1996, SIP revision request from Wisconsin was submitted to meet the requirements in accordance with 182(b)(1). Public hearings on this SIP revision request were held on January 11 and 12, 1995.

In evaluating the 182(b) SIP revision request, the USEPA considered whether additional $\mathrm{NO_X}$ reductions would contribute to attainment of the standard in Milwaukee severe and Manitowoc County moderate ozone nonattainment areas and also in the downwind areas of the LMOS modeling domain.

The role that NO_X emissions play in producing ozone at any given place and time is complex. NO_X primarily represents a sum of two oxides of nitrogen, namely nitrogen oxide (NO) and nitrogen dioxide (NO2). In the presence of sunlight, NO_X photodissociates into NO and a single oxygen atom. The oxygen atom reacts with molecular oxygen (O2) to form ozone (O_3) . NO, on the other hand, near its source area readily reacts with ozone to form O₂ and NO₂. The generated NO₂ is then free to photo-dissociate and lead to ozone formation further downwind. The reaction of NO with ozone, which

locally reduces ozone concentrations, is referred to as ozone scavenging and is one of the primary local sinks for ozone in the lower atmosphere in and near NO source areas. Since emissions of NO_X from fuel combustion sources, whether internal combustion engines or stationary combustion sources, such as industrial boilers, contain significant amounts of NO, it is expected that ozone concentrations immediately downwind of such NO_X sources will be reduced through ozone scavenging. Therefore, reducing NO_X emissions can lead to increased ozone concentrations in the vicinity of the controlled NO_X emission sources, whereas reducing NO_X emissions may lead to reduction in ozone concentrations further downwind. Reducing NO_X emissions in VOC-limited areas (areas with low VOC emissions relative to NO_x emissions) may produce minimal ozone reductions or even ozone increases.

As outlined in relevant USEPA guidance, the use of photochemical grid modeling is the recommended approach for testing the contribution of NO_X emission reductions to attainment of the ozone standard. This approach simulates conditions over the modeling domain that may be expected at the attainment deadline for three emission reduction scenarios: (1) Substantial VOC reductions, (2) substantial NO_X reductions, and (3) both VOC and NO_X reductions. If the areawide predicted maximum one-hour ozone concentration for each day modeled under scenario (1) is less than or equal to those from scenarios (2) and (3) for the corresponding days, the test is passed and the section 182(f) NO_X emissions reduction requirements would not apply.

In making this determination under section 182(b)(1) that the NO_X requirements do not apply, or may be limited in the Lake Michigan area, the USEPA has considered the national study of ozone precursors completed pursuant to section 185B of the Act. The USEPA has based its decision on the demonstration and the supporting information provided in the SIP revision request.

II. Summary of Submittal

On July 10, 1996, the State of Wisconsin submitted as a revision to the SIP, a request for a waiver from the transportation conformity NO_{X} requirements. The submittal included the LMOS UAM modeling for the attainment demonstration for 3 ozone episodes during 1991. The modeling supported the request by documenting that NO_{X} reductions in the LMOS modeling domain would not contribute

to attainment and, in fact, would be detrimental to the goal of reaching attainment. The WDNR held public hearings on the submittal on January 11 and 12, 1995.

Pursuant to 40 CFR Part 93, Subpart A, 40 CFR Part 51, Subpart T, the SIP revision request seeks an exemption from the transportation conformity requirements for NO_X in the Milwaukee severe and Manitowoc moderate ozone nonattainment area. The States have utilized the UAM to demonstrate that reductions in NO_X in the LMOS modeling domain will not contribute to attainment of the standard. To conduct the modeling analysis, the following steps were followed: (a) Emissions were projected to 1996 (the deadline for implementation of the 15 percent reasonable further progress reduction) and 2007 (the attainment deadline for the severe nonattainment areas) from the 1990 base year, (b) it was assumed that a 40 percent VOC emission reduction beyond that achieved as a result of emission controls mandated by the Act would be necessary to attain the ozone standard in the LMOS modeling domain, (c) a 40 percent NO_X emission reduction in grid B (that portion of the LMOS modeling domain that is essentially composed of the ozone nonattainment areas within the modeling domain) beyond the projected emission levels was assumed for all anthropogenic NO_x emissions, (d) a 40 percent VOC emission reduction and a 40 percent NO_X reduction in grid B beyond projected emission levels were assumed for all anthropogenic VOC and NO_X emissions and (e), the ozone modeling results for (b), (c), and (d) were compared considering the modeled domain-wide peak ozone concentrations and temporal and spatial extent of modeled ozone concentrations above 120 parts per billion (ppb).

For all modeled days using 1996 and 2007 conditions, domain-wide peak ozone concentrations for "VOC-only" controls were found to be lower than or equal to those for "NO $_{\rm X}$ -only" controls or those for "VOC plus NO $_{\rm X}$ " controls. In addition, consideration of daily peak ozone isopleth maps (these maps are included in the documentation of the section 182(b) SIP revision request) shows that the "VOC-only" control scenario leads to the smallest areas with predicted peak ozone concentrations exceeding 120 ppb.

Additional sensitivity tests were conducted for a 40 percent NO_X emission reduction that was applied only to point sources in Grid B for episode 2 and 1996 conditions for both an assumed NO_X reduction alone and a 40 percent reduction in both VOCs and

 ${
m NO_X}.$ These sensitivity tests compared to the scenarios with across the board anthropogenic ${
m NO_X}$ reductions demonstrated that control of ground level ${
m NO_X}$ sources (such as transportation sources) did not contribute to attainment of the standard and in fact increased the domain wide peak ozone concentrations exceeding 120 ppb and the number of hours that exceeded 120 ppb. This result was more pronounced than with the point source only ${
m NO_X}$ control.

III. Analysis of the Submittal

Review of the modeling results show a very definite directional signal indicating that application of NO_X controls in the Milwaukee severe and Manitowoc County moderate ozone nonattainment areas would exacerbate peak ozone concentrations not in the LMOS modeling domain. The LMOS modeling domain includes Chicago, Northwest Indiana, Western Michigan and Eastern Wisconsin. The States and LADCo have now completed the validation process for the UAM modeling system used in the demonstration of attainment for the LMOS modeling domain. Therefore, documentation supporting the validity of the modeling results has been submitted with the SIP revision request.

It is noted that the use of simple, areawide emission projection factors raises some uncertainty in the modeling results for 1996 and 2007. Some changes in modeling results may be expected if area-specific and source categoryspecific projection factors are used instead of the average factors used in these analyses. These more detailed projection factors will be used in the final demonstration of attainment for the LMOS domain. These changes, however, are not expected to reverse the directional signal of the modeling done to date, which shows that NO_X reductions will not contribute to attainment in Milwaukee severe and Manitowoc County moderate ozone nonattainment areas and throughout the LMOS domain.

Although ozone concentrations modeled further downwind from the urban source areas increase as a result of increased NO_X point source emissions, this is not the case with the ground level NO_X sources. LADCo and the States view the potential increase in outflow ozone concentrations with increasing NO_X point source emissions to be marginal. More importantly, the SIP revision request demonstrates that additional reductions in NO_X would not contribute to attainment of the ozone standard in the LMOS domain. These results are believed to be consistent

with USEPA's section 185B report to Congress. Therefore, based on the report's conformance with USEPA guidance, the USEPA believes the State of Wisconsin's demonstration is adequate, and thus is proposing to approve the transportation conformity waiver request. It is noted by LADCo, however, that subsequent modeling analyses may lead to an ozone attainment plan which includes, for specified portions of the LMOS domain only, both $\overline{\mbox{NO}_X}$ and VOC emission controls. The modeling indicates that these NO_X emission controls most likely will be limited to rural areas, will not be required in the Wisconsin nonattainment area and will not be applied to ground level sources.

Monitoring data such as concentrations of non-methane hydrocarbons and NO_X and derived/ monitored ozone production potentials of air parcels, collected for the urban source areas during the 1991 field study, generally supports the approval of the NO_X waiver. However, the primary basis for approval of the NO_X waiver is the modeling results submitted in support of the waiver. The 1991 field data by themselves do not provide adequate support for the waiver, since these data are limited in nature and do not assess the impacts of post-1991 NO_X controls on LMOS modeling domain peak ozone concentrations.

VOC and NO_X emission reductions were found to produce different impacts spatially. In and downwind of major urban areas, within the ozone nonattainment areas, VOC reductions were effective in lowering peak ozone concentrations, while NO_X emission reductions resulted in increased peak ozone concentrations. Farther downwind, within attainment areas, VOC emissions reductions became less effective for reducing ozone concentrations, while NO_X emission reductions were effective in lowering ozone concentrations. The magnitude of ozone decreases farther downwind due to NO_X emission reductions was less than the magnitude of ozone increases in the ozone nonattainment areas as a result of the same NO_x emission reductions.

Analyses of ambient data by LMOS contractors provided results which corroborated the modeling results. These analyses identified areas of VOC and NO_X -limited conditions (VOC-limited conditions would imply a greater sensitivity of ozone concentrations to changes in VOC emissions; the reverse would be true for NO_X -limited conditions) and tracked the ozone and ozone precursor concentrations in the urban plumes as

they moved downwind. The analyses indicated VOC-limited conditions in the Chicago/Northwest Indiana and Milwaukee areas and NO_X -limited conditions further downwind. These results imply that VOC controls in the Chicago/Northwest Indiana, Milwaukee, and Western Michigan areas would be more effective at reducing peak ozone concentrations within the Lake Michigan ozone nonattainment areas.

The consistency between the modeling results and the ambient data analysis results for all episodes with joint data supports the view that the UAM modeling system developed in the LMOS may be used to investigate the relative merits of VOC versus NO_X emission controls. The UAM–V results for all modeled episodes point to the benefits of VOC controls versus NO_X controls in reducing the modeled domain peak ozone concentrations.

For a more detailed analysis of the modeling analysis results, please see the August 22, 1994 memorandum entitled "Technical Review of a Four State Request for a Section 182(f) Exemption from Oxides of Nitrogen (NO_X) Reasonably Available Control Technology (RACT) and New Source Review (NSR) Requirements", which is contained in the docket for this action.

The USEPA believes LADCo's UAM application has adequately met the requirement to demonstrate that NO_{X} controls within the Milwaukee severe and Manitowoc County moderate ozone nonattainment areas and throughout the LMOS domain will not contribute, but instead will interfere with attainment of the ozone standard.

IV. EPA Action

The EPA is proposing approval of the transportation conformity NO_X waiver SIP revision for the State of Wisconsin. In light of the modeling completed thus far and considering the importance of the Ozone Transport Assessment Group (OTAG) process and attainment plan modeling efforts, EPA proposes to approve this NOx waiver on a contingent basis. When the results of OTAG technical work are available, EPA intends to require appropriate States to submit SIP measures to ensure emissions reductions of ozone precursors needed to prevent significant transport of ozone. The EPA will evaluate the OTAG technical work, along with EPA's emissions reduction requirements, to determine whether the NO_X waiver should be continued, altered, or removed.

The EPA also reserves the right to require NO_X emission controls for transportation sources under section 110(a)(2)(D) of the Act if future ozone

modeling demonstrates that such controls are needed to achieve the ozone standard in downwind areas.

V. Miscellaneous

A. Applicability to Future SIP Decisions

Nothing in this action should be construed as permitting, allowing or establishing a precedent for any future request for revision to any SIP. The EPA shall consider each request for revision to the SIP in light of specific technical, economic, and environmental factors and in relation to relevant statutory and regulatory requirements.

B. Executive Order 12866

This action has been classified as a Table 3 action for signature by the Regional Administrator under the procedures published in the **Federal Register** on January 19, 1989 (54 FR 2214–2225), as revised by a July 10, 1995 memorandum from Mary Nichols, Assistant Administrator for Air and Radiation. The Office of Management and Budget has exempted this regulatory action from E.O. 12866 review.

C. Regulatory Flexibility

Under the Regulatory Flexibility Act, 5 U.S.C. 600 *et seq.*, EPA must prepare a regulatory flexibility analysis assessing the impact of any proposed or final rule on small entities (5 U.S.C. 603 and 604). Alternatively, EPA may certify that the rule will not have a significant economic impact on a substantial number of small entities. Small entities include small businesses, small not-forprofit enterprises, and government entities with jurisdiction over populations of less than 50,000.

This approval does not impose any requirements on small entities. Therefore, I certify that this action does not have a significant economic impact on any small entities.

D. Unfunded Mandates Reform Act

Under section 202 of the Unfunded Mandates Reform Act of 1995 ("Unfunded Mandates Act"), signed into law on March 22, 1995, the EPA must prepare a budgetary impact statement to accompany any proposed or final rule that includes a Federal mandate that may result in estimated costs of \$100 million or more to State, local, or tribal governments in the aggregate; or to the private sector, of \$100 million or more. Under section 205, the EPA must select the most costeffective and least burdensome alternative that achieves the objectives of the rule and is consistent with statutory requirements. Section 203 requires the EPA to establish a plan for

informing and advising any small governments that may be significantly or uniquely impacted by the rule.

The EPA has determined that the approval proposed does not include a Federal mandate that may result in estimated costs of \$100 million or more to either State, local, or tribal governments in the aggregate, or to the private sector.

This Federal document does not imposes any Federal requirements. Accordingly, no additional costs to State, local, or tribal governments, or the private sector, result from this action.

List of Subjects in 40 CFR Part 52

Environmental protection, Air pollution control, Hydrocarbons, Intergovernmental relations, Ozone, Oxides of Nitrogen, Transportation conformity, Transportation—air quality planning, Volatile organic compounds.

Authority: 42 U.S.C. 7401–7671q. Dated: May 30, 1997.

Valdas V. Adamkus,

Regional Administrator.

[FR Doc. 97–15412 Filed 6–11–97; 8:45 am] BILLING CODE 6560–50–P

ENVIRONMENTAL PROTECTION AGENCY

40 CFR Part 52

[MI51-01-7259; FRL-5840-6]

Approval and Promulgation of Implementation Plan; Michigan

AGENCY: Environmental Protection Agency.

ACTION: Proposed rule.

SUMMARY: The Environmental Protection Agency (EPA) proposes to approve Michigan's request to grant an exemption for the Muskegon County ozone nonattainment area from the applicable Oxides of Nitrogen (NO_X) transportation conformity requirements. On November 22, 1995, the Michigan Department of Environmental Quality (MDEQ) submitted to the EPA a State Implementation Plan (SIP) revision request for an exemption under section 182(b)(1) of the Clean Air Act (Act) from the transportation conformity requirements for NO_X for the Muskegon ozone nonattainment area, which is classified as moderate. The request is based on the urban airshed modeling (UAM) conducted for the attainment demonstration for the Lake Michigan Ozone Study (LMOS) modeling domain. The rationale for this proposed approval is set forth in SUPPLEMENTARY **INFORMATION**; additional information is available at the address indicated.

DATES: Comments on this proposed action must be received by July 14, 1997.

ADDRESSES: Written comments should be sent to: Carlton T. Nash, Chief, Regulation Development Section, Air Programs Branch (AR–18J), EPA, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604–3590. Copies of the SIP revision, public comments and EPA's responses are available for inspection at the following address: United States Environmental Protection Agency, Region 5, Air and Radiation Division, 77 West Jackson Boulevard, Chicago, Illinois 60604. (It is recommended that you telephone Michael Leslie at (312) 353–6680 before visiting the Region 5 Office.)

A copy of this SIP revision is available for inspection at the following location: Office of Air and Radiation (OAR) Docket and Information Center (Air Docket 6102), room M1500, United States Environmental Protection Agency, 401 M Street S.W., Washington, D.C. 20460, (202) 260–7548.

FOR FURTHER INFORMATION CONTACT:

Michael G. Leslie, Regulation Development Section (AR–18J), Air Programs Branch, Air and Radiation Division, United States Environmental Protection Agency, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604, Telephone Number (312) 353– 6680.

SUPPLEMENTARY INFORMATION:

I. Background

Clean Air Act section 176(c)(3)(A)(iii) requires, in order to demonstrate conformity with the applicable SIP, that transportation plans and Transportation Improvement Programs (TIPs) contribute to emissions reductions in ozone and carbon monoxide nonattainment areas during the period before control strategy SIPs are approved by EPA. This requirement is implemented in 40 CFR 51.436 through 51.440 (and §§ 93.122 through 93.124), which establishes the so-called "build/ no-build test." This test requires a demonstration that the "Action" scenario (representing the implementation of the proposed transportation plan/TIP) will result in lower motor vehicle emissions than the "Baseline" scenario (representing the implementation of the current transportation plan/TIP). In addition, the "Action" scenario must result in emissions lower than 1990 levels.

The November 24, 1993, final transportation conformity rule ¹ does not

¹ "Criteria and Procedures for Determining Conformity to State or Federal Implementation