



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGION 5  
77 WEST JACKSON BOULEVARD  
CHICAGO, IL 60604-3590

AUG 14 2007

REPLY TO THE ATTENTION OF:

(AR-18J)

Don Smith, Supervisor  
Air Quality Permits Section  
Minnesota Pollution Control Agency  
520 Lafayette Road  
St. Paul, Minnesota 55155

Re: Nested Source Applicability Determination  
Northstar Bioenergy Proposed Facility – Hallock, Minnesota

Dear Mr. Smith:

This letter is in response to a March 29, 2007, letter from the NorthStar Bioenergy, LLC (NorthStar) facility to the Minnesota Pollution Control Agency (MPCA). In this letter NorthStar requested a Prevention of Significant Deterioration (PSD) applicability determination for a proposed oilseed extraction plant and bio-diesel manufacturing facility, to be located in Hallock, Minnesota. In addition, NorthStar asked the opinion of the United States Environmental Protection Agency (U.S. EPA) as to whether the biodiesel facility could be considered a 'nested' source within the larger canola oilseed processing plant.

Before making such a determination, however, we first need to determine whether the biodiesel facility and canola oil extraction plant should be considered a single source--or two separate sources--for PSD permitting purposes. The PSD regulations define stationary source as, "any building, structure, facility, or installation which emits or may emit a regulated New Source Review pollutant" 40 CFR 52.21(b)(5). They define "building, structure, facility, or installation" as:

"...all of the pollutant-emitting activities which belong to the same industrial grouping, are located on one or more contiguous or adjacent properties, and are under the control of the same person (or persons under common control). Pollutant-emitting activities shall be considered as part of the same industrial grouping if they belong to the same "Major Group" (i.e., which have the same first two digit code) as described in the *Standard Industrial Classification Manual*...." 40 CFR 52.21(b)(6)

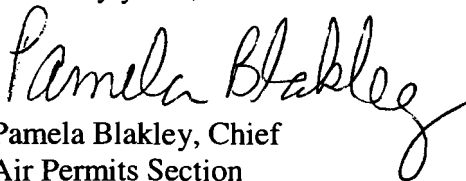
In the case of NorthStar, the two plants will clearly be located on the same contiguous or adjacent properties and will be under the common control of NorthStar. It is unclear, however, whether the two plants would be considered as belonging to the same industrial grouping. As stated in NorthStar's request, the two facilities do not belong to the same

first two-digit Standard Industrial Classification (SIC) code. The preamble to the U.S. EPA's August 7, 1980, PSD regulations states, however, that "support facilities" that "convey, store, or otherwise assist in the production of the principal product or group of products produced or distributed, or services rendered" should be considered under one source classification, even when the support facility has a different two-digit SIC code (45 FR 52676, 52695). The proposed extraction plant and biodiesel facility do not appear to have the typical support facility type relationship discussed in the 1980 PSD preamble. NorthStar has stated that the primary product of the two facilities will be canola oil, with the extraction plant producing 32 million gallons of canola oil per year and the biodiesel facility only 2.7 million gallons. The biodiesel facility clearly does not support the canola extraction plant nor the extraction plant the biodiesel facility. NorthStar has further stated that the biodiesel facility will receive, at a maximum, less than 10 percent of the canola oil manufactured at the extraction plant to manufacture biodiesel and it is planning to begin operating the biodiesel plant utilizing only soybean oil imported from other facilities due to current market conditions.

Therefore, although NorthStar has stated that the two plants are co-locating to utilize some shared resources (e.g., boiler capacity), we do not find a strong support relationship between the two plants based on the information provided. We correspondingly do not believe that these two plants need to be permitted as a single stationary source. This determination is based on the information provided to date. If the relationship between the two plants changes in the future, a new determination may need to be made at that time. Conversely, if NorthStar currently has plans to expand its biodiesel plant in the near future, that information should be provided to the MPCA to avoid any concerns about "sham permitting." Finally, based on the current proposal and under current regulations and policy, if at some point these two plants were to develop the support facility relationship necessary to being considered a single source, we agree that the biodiesel facility would be considered a smaller nested source subject to a 100 ton per year PSD threshold.

If you have any questions please feel free to contact Ethan Chatfield, of my staff, at (312) 886-5112.

Sincerely yours,



Pamela Blakley, Chief  
Air Permits Section

cc: Elizabeth Henderson, Wenck Associates, Inc.  
Neil Juhnke, Northstar Bioenergy  
Lea A. Nyberg, MPCA