TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
APPLICATION FOR USE DETERMINATION
FOR POLLUTION CONTROL PROPERTY

The Texas Commission on Environmental Quality (TCEQ) has the responsibility to determine whether a property is a pollution control property. A person or political subdivision seeking a use determination for pollution control property must complete the attached application or use a copy or similar reproduction. For assistance in completing this form refer to the TCEQ guidelines document, *Property Tax Exemptions for Pollution Control Property,* as well as 30 TAC §17, rules governing this program. For additional assistance please contact the TCEQ Tax Relief for Pollution Control Property Program at 512/239-6348. The application should be completed and mailed, with the appropriate fee, to: TCEQ MC-214, Cashiers Office, P.O. Box 13088, Austin, Texas, 78711-3088.

1. GENERAL INFORMATION

A. What is the type of ownership of this facility?

[ ] Corporation [ ] Sole Proprietor
[ ] Partnership [ ] Utility
[X] Limited Partnership [ ] Other _____

B. Size of company: Number of Employees

[ ] 1 to 99
[ ] 100 to 499
[ ] 500 to 999
[ ] 1,000 to 1,999
[X] 2,000 or more

C. Business Description: (Provide a brief description of the type of business or activity at the facility)
The refinement of crude petroleum to produce gasoline.

2. TYPE OF APPLICATION

A. [ ] Tier I $150 Application Fee
If all property listed in Section 8 of this application is on the predetermined equipment list (PEL) or is necessary for the installation or operation of equipment on the list, then check this box.

B. [X] Tier II $1,000 Application Fee
If any property listed in Section 8 is not on the PEL, and all of this property is used 100% for pollution control, then check this box.

C. [ ] Tier III $2,500 Application Fee
If any property listed in Section 8 is not on the PEL and if a partial use determination is being requested for ANY of the property included in the application, then check this box.

NOTE: Enclose a check or money order to the TCEQ along with the application to cover the required fee.

3. NAME OF APPLICANT

A. Company Name: Valero Refining – Texas, L.P.

B. Mailing Address (Street or P.O. Box): PO Box 690110

C. City, State, ZIP: San Antonio, TX 78269

4. PHYSICAL LOCATION OF PROPERTY REQUESTING A TAX EXEMPTION

A. Name of Facility or Unit: Houston Refinery

B. Type of Mfg. Process or Service: Petroleum Refinery

C. Street Address: 9701 Manchester

D. City, State, ZIP: Houston, TX 77012 Harris County

E. Tracking Number Assigned by Applicant (Optional): N A

731990
FE-17
2007 MAY -9 PM 2:28
CHIEF CLERKS OFFICE
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

06-10281

F. Company Number or Registration Number: _____
(Required)

5. APPRAISAL DISTRICT WITH TAXING AUTHORITY OVER PROPERTY

A. Name of Appraisal District: Harris County Appraisal District

B. Appraisal District Account Number: New Account

6. CONTACT NAME (must be provided)

A. Company/Organization Name: Valero Energy Corporation

B. Name of Individual to Contact: Trey Novosad

C. Mailing Address: PO Box 690110

D. City, State, ZIP: San Antonio, TX 78269-0110

E. Telephone number and fax number: 210-345-2700 fax:210-345-2495

F. E-Mail address (if available): Trey.Novosad@Valero.com

7. RELEVANT RULE, REGULATION, OR STATUTORY PROVISION

For each of the pollution control properties listed on this application, select the type of medium or media (air, water, waste) for which the property or device is required. Use the second column to cite the specific environmental rule, regulation, and/or law that is being met or exceeded by the installation of this property. The citation should be specific and should include the section and/or subsection of the rule, regulation, and/or law. Do not list permit numbers or registration numbers in this table. If the property or equipment was installed or constructed in response to an agreed order, do not list the order — list the rule, regulation, or law that requires the installation or construction of the property.

MEDIUM	RULE/REGULATION/LAW
Air	40 CFR, PART 80, REGULATION OF FUELS AND FUEL ADDITIVES, SUBPART H, GASOLINE SULPHUR.
Water	
Waste	

8. DESCRIPTION OF PROPERTY (Complete for all applications)

Provide a description and purpose of the property for which this application is being filed. This description must include the anticipated environmental benefits for the prevention, monitoring, control, or reduction of air, water, or land pollution that will be realized by the installation of the property. Do not simply repeat the description from the predetermined equipment list. Instead describe the property and how it will be used at your facility. Include sketches of the equipment and flow diagrams of the processes where appropriate.

Land: If a use determination is being requested for land, provide a legal description and an accurate drawing of the property in question. Only that land which is actually used for pollution control purposes or that houses pollution control property is eligible for a positive use determination.

Used Equipment: If the property identified above has been purchased from another owner who previously used the property as pollution control property. Provide information that shows that the property was not taxable on or before January 1, 1994, by any taxing unit in which the property is now located.

DESCRIPTION/PURPOSE:
OF GASOLINE DESULPHURIZATION PROJECT
AT VALERO'S HOUSTON REFINERY

EPA required that the sulphur content in gasoline be reduced to 30 PPM in 2006. Valero evaluated seven technologies and selected C.D. Tech as the most effective method to minimize octane loss and yield loss, which run about 50% of overall operating costs of $1.17 per barrel. Based on the design octane loss of .8R + M/2, with this method, estimated gasoline volume loss is 4,717 BPD.

Other technologies evaluated included UOP's ISAL, Phillips's 5ZORB, IFP's Prime G+, Mobil's Octgain, and Exxon's Scanfining.

Valero Energy Corporation, in compliance with federally mandated gasoline desulphurization requirements and at great expense, revamped its Houston refinery desulphurization equipment.

This environmental project necessitated the modification of "B" and "D" unifiners and the FCCU fractionator to function as gasoline hydrotreaters.

Valero constructed two hydrogen recycle compressors for "D" unifiner and an amine treating section for "A" unifiner. Also required to fulfill this mandate were three new reactor/exchangers, a new pre heater, a new S.H.U. reactor, new feed pumps, new coolers, pumps, an amine absorber, piping, and a new H.D.S. reactor.

Valero installed additional pretreatment, in the form of selective hydrogenation, besides the modifications to the fractionator and depentanizer towers.

Several new heat exchangers and a new K.O. drum were added, as were new reciprocating recycle gas compressors.

The overall effect of this massive project was to reduce to under 30 PPM the sulphur content, and was entirely for pollution control. Eventually the sulphur count will drop below 10 PPM. We are successfully producing 40,000 BPD clean fuel at this refinery.

EQUIPMENT LIST

ITEM	COST ($MM)
• New Stabilizer	4.8
• Exchangers/Air Coolers/Pumps	21.8
• Hydrogen Compressors	14.4
• SHU Reactors	4.6
• Vessels/Reactors/Heaters	9.4
• FCC Main Fractionator Modifications	10.7
	65.7

9. DECISION FLOWCHART

Each piece of equipment or process change must be processed through the following Decision Flow Chart. Each item of property listed on the application must result in a yes answer to boxes 3 and 5. Use the table in section 11 to document which box (7, 9 or 10) was the final destination of each piece of equipment.

The following instructions should be used with the flow chart. **The numbered items below do not correspond to the box numbers in the flow chart.**

1. Prepare a list of all process equipment and pollution control equipment that is considered to be pollution control property.

2. Each item on the list must be run through the flow chart separately. Some items will likely end at different points on the flow chart.

3. Determine whether the item is required to meet or exceed a state, local, or federal environmental regulation, rule or law. If no specific rule citation can be made, then this item does not qualify as pollution control property (Box 4).

4. Determine if there is an environmental benefit at the site where the equipment item is installed. A yes answer to this question is needed to continue evaluating the equipment. If the answer is no, then the equipment does not qualify (Box 4).

5. If the equipment is listed on the Predetermined Equipment List (PEL), then it qualifies as Tier I (Box 7). Determine the appropriate PEL number for each item.

6. Specify all PEL equipment for the project in a single list that is included with the application.

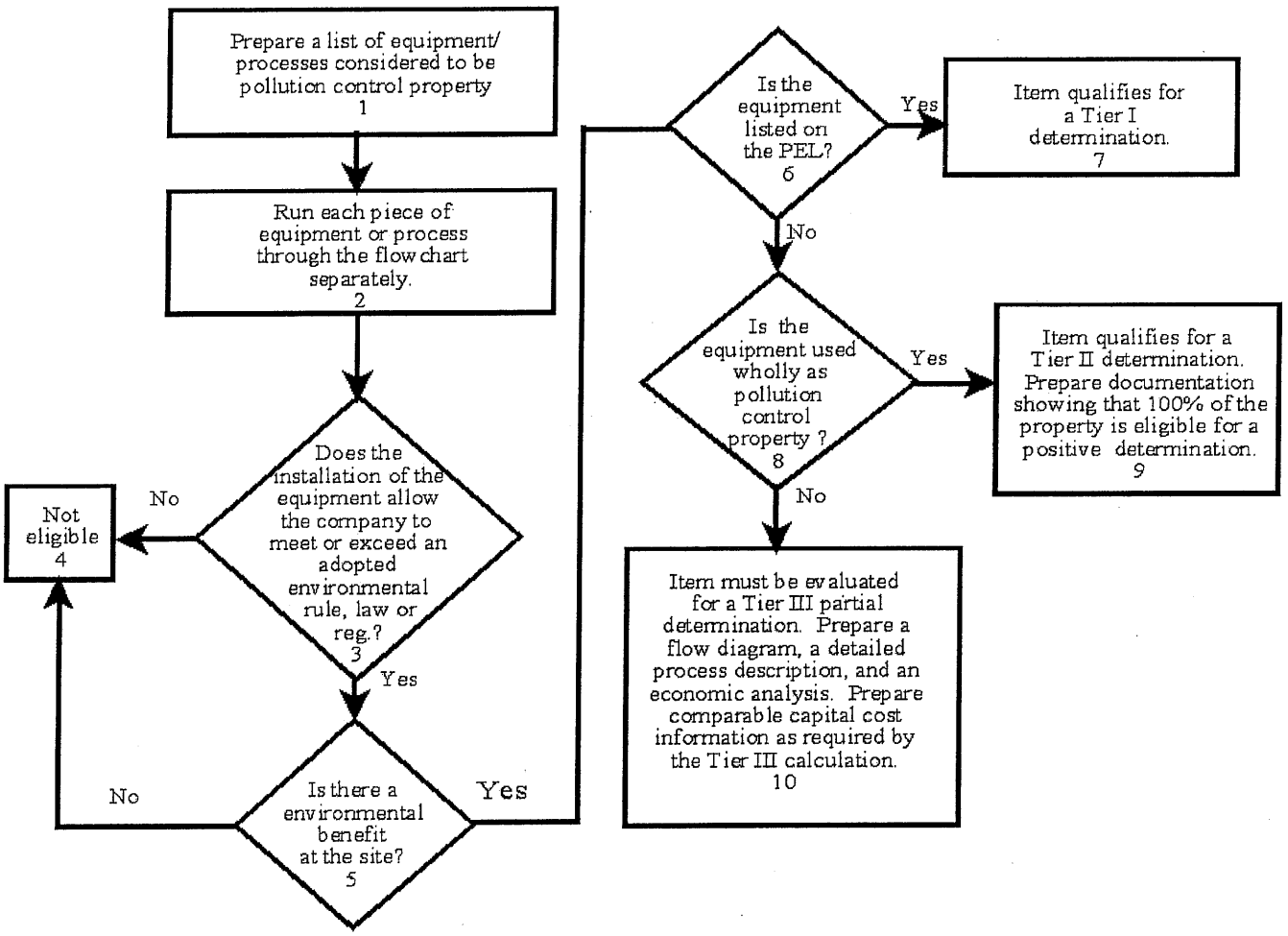
7. If the equipment is not on the PEL, then determine whether the equipment is used wholly for pollution control, i.e., the equipment is not production related and/or does not increase production or improve product quality.

8. If it is wholly for pollution control, then the equipment may qualify as 100% pollution control property under Tier II (Box 9). The applicant must provide sufficient written documentation and justification to prove that it qualifies.

9. If the equipment has both environmental and production elements, then the equipment must be evaluated as a Tier III partial determination (Box 10). The applicant must provide a detailed capital cost analysis following the procedures established in the Partial Determinations section of this document. The results of these calculations will determine the partial use percentage.

Prop 2 Decision Flow Chart

Applicants must use this flowchart for each piece of equipment or process. In order for a piece of equipment or process to be eligible for a positive use determination the item must generate 'yes' answers to the questions asked in boxes 3 and 5.



10. PARTIAL PERCENTAGE CALCULATION

This section is to be completed only for Tier III applications. Process changes or construction of new process equipment that results in pollution control may result in a partial determination. On one or more separate sheets of paper, explain how the partial percentage was determined using the Cost Analysis Procedure that is described in the attached *Instructions for Completing Application Form*. Include financial data that demonstrates how this percentage was calculated. Provide as detailed information as possible, since the information provided will be used by the TCEQ to evaluate the use percentage requested in the application. Attach sketches and/or flow diagrams showing the property and its function. Examples of partial determinations are shown in Appendix C of the technical guidance document.

11. PROPERTY CATEGORIES AND COSTS

Identify the category and the estimated purchase cost of the property listed in Section 8. List each piece of property for which a use determination is being sought. If the application is for property that is listed on the predetermined equipment list, list the appropriate item number(s) in the PEL column. Place an "N" in the second column to certify that the property was not taxable on or before January 1, 1994. Failure to answer this question for each piece of property will result in the issuance of a notice of deficiency letter and the possible rejection of the application. List

the which box, (7, 9, or 10), was the final destination of each piece of property. List the estimated or actual purchase cost of the property. If the property is not wholly used for the purpose of pollution control, list the estimated percentage of pollution control calculated using the Partial Determination Cost Analysis Procedure.

Property Houston Refinery	**Property Taxable on or Before 1/10/94**	**Decision Flow Chart Box 7, 8, or 10**	**PEL Number**	**Estimated Purchase Cost**	**Partial Percentage**
Land					
Property GASOLINE HYDROTREATING SYSTEM	N	9*	NA	$65,788,116	100%
Totals				$65,788,116	

12. EMISSION REDUCTION INCENTIVE GRANT

Will an application for an Emission Reduction Incentive Grant be filed for this property/project:

[ ] Yes [X] No

13. APPLICATION DEFICIENCIES

After an initial review of the application, the TCEQ may determine that the information provided with the application is not sufficient to make a use determination. The TCEQ may send a notice of deficiency, requesting additional information that must be provided within 30 days of the written notice.

14. FORMAL REQUEST FOR SIGNATURE

By signing this application, you certify that this information is true to the best of your knowledge and belief.

NAME: _____ DATE: 01/26/2007

TITLE: DIRECTOR - AD VALOREM TAX

COMPANY: VALERO ENERGY CORPORATION

*** Valero believes the subject property complies with the statutory requirements for a Pollution Control Property Tax Exemption.**

Under Texas Penal Code, Section 37.10, if you make a false statement on this application, you could receive a jail term of up to one year and a fine up to $2,000, or a prison term of two to 10 years and a fine of up to $5,000.

VALERO ENERGY CORPORATION

Ad Valorem Tax

Senders Record – Certified Article Number
7160 3901 9849 5897 0367
2007 TCEQ Appl – TX Valero Refineries

January 26, 2007

Texas Commission on Environmental Quality
MC-214, Cashiers Office
P.O. Box 13088
Austin, TX 78711-3088

RE: Application for Use Determination for Pollution Control Property
Houston Refinery Gasoline Desulphurization Project

Dear Sirs:

In accordance with the Texas Property Tax Code Section 11.31, Valero Refining – Texas, L.P., a Subsidiary of Valero Energy Corporation, respectfully submits the enclosed pollution control tax exemption application for our Houston refinery, along with the Tier II application fee of $1,000. This pollution control project was federally mandated by the Environmental Protection Agency, and will successfully eliminate the vast majority of the sulphur content from the product pool produced at our Harris County location.

This increasingly efficient process of sulphur reduction will continue to improve air quality by reducing sulphur emissions resulting from the combustion of petroleum products.

Respectfully yours,

Trey Novosad
Director – Ad Valorem Tax

TNN:srk

Enclosure

V:\ADVALTAX\Compliance - Applications\Texas\TCEQ 2007 - Refineries\2007 TCEQ - Houston Refinery Gasoline Cover Ltr.doc

Post Office Box 690110 • San Antonio, Texas 78269-0110 • Telephone (210) 345-2700 • Facsimile (210) 345-2495

Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
Glenn Shankle, *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

February 13, 2007

VALERO ENERGY CORP
TREY NOVASAD
PO BOX 690110
SAN ANTONIO TX 78269 0110

This letter is to inform you that Use Determination Application, 06-10281 , for:

HOUSTON REFINERY
9701 MANCHESTER DR
HOUSTON TX 77012

was determined to be administratively complete on 2/13/2007.

The next step in the Use Determination Application process is the technical review of the application. As per the program rules, 30 TAC 17.12(2), unless additional technical information is required the technical review of this application will be completed within sixty days of the administrative complete date. The TCEQ will notify you after the technical review has been completed. In accordance with the statute, the TCEQ has mailed a notice of receipt of this Use Determination Application to the HARRIS County Appraisal District. Please contact the Tax Relief for Pollution Control Property Program at (512) 239-6348 if you have any questions.

Sincerely,

Ronald L Hatlett

Ronald L Hatlett
Tax Relief for Pollution Control Property Program

Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
Glenn Shankle, *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

February 09, 2007

CHIEF APPRAISER
HARRIS COUNTY APPRAISAL DISTRICT
PO BOX 922004
HOUSTON TX 77292

This letter is to inform you that a Use Determination Application has been filed for:

VALERO REFINING COMPANY - TEXAS
HOUSTON REFINERY
9701 MANCHESTER DR
HOUSTON TX 77012

a facility located in HARRIS County.

A copy of the use determination application is attached to this letter.

This application has been assigned a tracking number of 06 -10281. We recommend that the appraisal district notify all affected taxing entities of the filing of this application. Please contact the Tax Relief for Pollution Control Property Program at (512) 239-6348 if you have any questions.

Sincerely,

Ronald L Hatlett

Ronald L. Hatlett
Tax Relief for Pollution Control Property Program

Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
Glenn Shankle, *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

March 7, 2007

CHIEF APPRAISER
HARRIS COUNTY APPRAISAL DISTRICT
PO BOX 922004
HOUSTON TX 77292

This letter is to inform you that during the technical review of Use Determination Applications has begun::

06-10268 & 06-10281
Valero Energy Corporation
Houston Refinery
9701 Manchester DR
Harris TX 77012

During the review it was determined that the following information is missing and/or incomplete:

See attached Letter

A copy of the applicant's response will be forwarded to your attention. If you have any questions about this letter please contact the Tax Relief for Pollution Control Property Program at 512/239-6348.

Sincerely,

Ronald L. Hatlett
Tax Relief for Pollution Control Property Program

Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
Glenn Shankle, *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

March 6, 2007

Valero Energy Corporation
Trey Novosad
PO Box 690110
San Antonio, TX 78269-0110

Mr. Novosad,

This letter is to inform you that the technical review of the following Use Determination Applications has begun:

06-10282	Diamond Shamrock - Mckee Refinery	Refinery Revamp Project
06-10283	Diamond Shamrock - Mckee Refinery	Gasoline Desulfurization Project
06-10280	Premcor Refining Grp - Port Arthur	Gasoline Desulfurization
06-10279	Premcor Refining Grp - Port Arthur	Ultra Low Sulfur Diesel Project
06-10281	Valero Refining - Houston Refinery	Gasoline Desulfurization
06-10268	Valero Refining - Houston Refinery	ULSD Houston Hydrotreater
06-10270	Valero Refining - Corpus Refinery	Gasoline Desulfurization
06-10271	Valero Refining - Corpus Refinery	Ultra Low Sulfur Diesel
06-10285	Valero Refining - Texas City Ref	ULSD Refinery Revamp
06-10284	Valero Refining - Texas City Ref	Gasoline Desulfurization Project

During the review it was determined that the following information is missing and/or incomplete:

These ten Tier II applications are for equipment installed in order to meet 40 CFR 80: Regulation of Fuels and Fuel Additives. This regulation requires refiners of gasoline and diesel to reduce the sulfur content in their end products. In order to qualify for a positive use determination the property in question must be processed through the Decision Flow Chart (DFC). In order for the property to successfully process through the DFC, 'yes' answers must be the result of evaluating the property against boxes 3 and 5. A yes answer is received for Box 3 since 40 CFR 80 is considered to be a valid adopted rule.

Box 5 requires that the installation and use of the property produces an environmental benefit at the site. When we evaluate these low sulfur projects with regard to the DFC we receive a 'no' answer at Box 5. The environmental benefit of these projects occurs when the consumer uses the low sulfur content fuels. These projects do not provide an environmental benefit at the site and as projects are not eligible for positive use determinations.

With that said, in looking at the equipment lists provided with these applications we see property which is located on the predetermined equipment list. This includes items such as Low NOx Burners. The next step is for you to perform the following:

1. Evaluate the equipment lists and remove the Tier I equipment. List these items separately in your response.

2. Evaluate the balance of the property using the DFC. If you find property which you consider to be 100% pollution control property, but which you can not find on the predetermined equipment list, list this property separately from the Tier I property. This property will be treated as Tier II property. Include an explanation of how this property serves only as pollution control with no other benefits.

3. If there is property which meets the requirements of the DFC and is used only partially for pollution control you will need to use the Cost Analysis Procedure (30 TAC 17.17) to determine the percentage of the property which qualifies as pollution control equipment.

If your decide to ask for a partial determination you will need to send an additional fee payment of $1,500 in order to turn the application into a Tier III application.

Please provide this additional information as soon as possible. As per 30 TAC 17.12(2) the applicant must respond to a notice of deficiency (NOD) by providing the additional information required within 30 days of receipt of the NOD or the application will be returned. Once the additional information has been received the technical review of this application will resume. If you have any questions or require assistance in developing the additional required information please contact the Tax Relief for Pollution Control Property Program at (512) 239-6348. Your response may be faxed to 512/239-6763, electronically mailed to rhatlett@tceq.state.tx.us, or sent by U.S. Mail to:

Tax Relief for Pollution Control
Property Program MC110
PO Box 13087
Austin TX 78711-3087

Sincerely,

Ronald Hatlett

Ronald Hatlett
Tax Relief for Pollution Control Property Program

TAX RELIEF FOR POLLUTION CONTROL PROPERTY: TECHNICAL REVIEW DOCUMENT

Reviewed By: RLH App. No.: 06 - 10281 Review Start Date: 3/6/2007
Company Name: VALERO REFINING COMPANY - TEXAS
Facility Name: HOUSTON REFINERY

TIER LEVEL
What Tier is this application? The application was filed as a Tier II application.

The equipment listed on this application is not located on the predetermined equipment list. Therefore it is not a Tier I application. Further review is required in order to determine if it is correctly filed as a Tier II or if it should be a Tier III.

RELEVANT RULE, REGULATION, OR STATUTORY PROVISION
The rule listed in the application is:
40 CFR 80 H

40 CFR 80 H: AIR PROGRAMS, REGULATION OF FUELS AND FUEL ADDITIVES, Subpart H--GASOLINE SULFUR. This is a vlid rule.

DESCRIPTION OF PROPERTY
Description: Is an adequate description and purpose of the property provided? Does it list the anticipated environmental benefits? Are sketches and flow diagrams provided if needed?

The property is described as:

Gasoline Desulfurization Equipment List: New Stabilizer; Exchanger/Air Cooler/Pumps; Hydrogen Compressors; SHU Reactors; Vessels/Reactors/Heaters; FCC Main Fractionator Modifications.

The description is adequate.

DECISION FLOWCHART

Mark the appropriate boxes: Box 3 Y Box 5 N Box 6 Box 8 Box 10
Reason this box was chosen:
This project does not make it through Box 5 with a yes answer.
TIER III APPLICATIONS
Did the applicant use the CAP? Recalculate the CAP. Does your calculation agree with the applicants?

There is no Tier III calculation provided.

PROPERTY CATEGORIES AND COSTS

Is the table completed correctly? Has the applicant certified that all listed property became taxable for the first time after January 1, 1994? Is all information necessary for conducting the technical review included.

Yes

TECHNICAL REVIEW
Is the application technically complete? If the answer is no, what is missing? Provide the language used in the NOD letter. If yes then develop the use determination language.

Technically complete when received: N

1st NOD: See file

NOD RESPONSE

1st NOD: Disagree that there is not any environmental benefit at the site.

Full Property Description:

Gasoline Desulfurization Equipment List: New Stabilizer; Exchanger/Air Cooler/Pumps; Hydrogen Compressors; SHU Reactors; Vessels/Reactors/Heaters; FCC Main Fractionator Modifications.

DETERMINATION

Provide the reason for your determination.

Equipment fails to make it through Box 5 of the DFC. Under the rules there is only one possible outcome. An additional reason for the negative determination is 11.31a of the Tax Code. Which states that a person is not entilted to a positive determination for producing a product which controls pollution.

Provide the language for the final determination.
A negative determination for this project.

********** ED Approval Required: N **********

Reviewed by: Gary E. McArthur Date: 4/13/2007

Peer Reviewed By: Ronald L Hatlett Date: 4/13/2007