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Blas J. Coy, Jr., *Public Interest Counsel*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

December 5, 2008

LaDonna Castañuela, Chief Clerk
Texas Commission on Environmental Quality
Office of the Chief Clerk (MC-105)
P.O. Box 13087
Austin, Texas 78711-3087

2008 DEC -5 PM 2:12
CHIEF CLERKS OFFICE
TEXAS
COMMISSION
ON ENVIRONMENTAL
QUALITY

**RE: NAVASOTA WHARTON ENERGY PARTNERS, L.P.
TCEQ DOCKET NO. 2008-0851-MIS-U**

Dear Ms. Castañuela:

Enclosed for filing is the Public Interest Counsel's Response to the Appeal of the Executive Director's Determination regarding Navasota Wharton Energy Partners, LP.

Sincerely,

A handwritten signature in cursive script that reads "Christina Mann".

Christina Mann, Attorney
Assistant Public Interest Counsel

cc: Mailing List

Enclosure

REPLY TO: PUBLIC INTEREST COUNSEL, MC 103 • P.O. BOX 13087 • AUSTIN, TEXAS 78711-3087 • 512-239-6363

P.O. Box 13087 • Austin, Texas 78711-3087 • 512-239-1000 • Internet address: www.tceq.state.tx.us

TCEQ DOCKET NO. 2008-0851-MIS-U

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IN THE MATTER OF
THE APPEAL BY
WHARTON COUNTY
APPRAISAL DISTRICT
OF THE EXECUTIVE
DIRECTOR'S USE
DETERMINATION
REGARDING
NAVASOTA WHARTON
ENERGY PARTNERS,
L.P.

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BEFORE THE CHIEF CLERKS OFFICE
TEXAS COMMISSION
ON ENVIRONMENTAL
QUALITY

**THE OFFICE OF PUBLIC INTEREST COUNSEL'S
RESPONSE TO APPEAL OF USE DETERMINATION**

TO THE HONORABLE MEMBERS OF THE TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY:

The Office of Public Interest Counsel (OPIC) of the Texas Commission on Environmental Quality (the Commission or TCEQ) files this response to the Appeal of the Executive Director's use determination regarding Navasota Wharton Energy Partners, L.P. (Navasota).

I. Introduction

On May 23, 2008, Navasota applied to the TCEQ for a Tier IV Use Determination for Pollution Control Property. Navasota requested a use determination for the Combined-Cycle Gas Turbine Plant Heat Recovery Steam Generators (HRSGs) and the Steam Turbines located at the Colorado Bend Energy Center in Wharton County, Texas. In support of the application Navasota provided to the ED a proposed formula for calculating the pollution control values of the HRSGs and the turbine system. The ED rejected the proposed formula but nevertheless issued a 100% positive determination for

the two HRSG units concluding that the equipment was pollution control equipment and was installed to meet or exceed federal and/or state regulations. The ED made a negative determination for the steam turbine because the use of the steam turbine provides no environmental benefit to the site and is not considered pollution control equipment. In rejecting the applicant's proposed formula for calculating the pollution control value of the HRSGs and steam turbines the ED concluded that the outcome from the applicant's formula is outcome determinative and did not focus on the pollution control aspects of the property. The ED provided no further explanation or analysis supporting his decision.

As required by 30 TAC § 17.25, Wharton County Appraisal District timely appealed the 100% positive use determinations for the HRSGs. Wharton County states that the HRSGs are production equipment, not pollution control equipment, and therefore do not qualify for any exemption. In addition, Wharton County states that any pollution control equipment associated with the HRSGs has already been exempted under Use Determination 07-11925. No appeal was filed by Navasota related to the Steam Turbines.

We take no position on the merits of the Appellant's issues with the ED's decision at this time because we find that the ED provided no basis for the percentages he concluded were appropriate. Based on the limited information in the record, we conclude that while the ED may reject an applicant's proposed formula for determining the percentages of equipment associated with pollution control, he must provide an explanation of the specific method and analysis used to determine the percentages he recommends. For this reason, OPIC recommends that the Commission remand this

matter for a new technical review and new use determination that fully lays out the method and formula used to reach the correct percentage for the use determination.

II. Applicable Law

The applicable TCEQ rules concerning tax relief for property used for environmental protection are found in Title 30 of the Texas Administrative Code (TAC), Chapter 17. Parts of Chapter 17 were amended to be effective February 7, 2008. Because Navasota's applications were deemed administratively complete on April 8, 2008, after the February 7, 2008 effective date of the Chapter 17 amendments, the current Chapter 17 rules apply to these applications.

To obtain a positive use determination, "the pollution control property must be used, constructed, acquired, or installed wholly or partly to meet or exceed laws, rules, or regulations adopted by any environmental protection agency of the United States, Texas, or a political subdivision of Texas, for the prevention, monitoring, control, or reduction of air, water, or land pollution." 30 TAC § 17.4(a). Chapter 17 contains a list of items (the Equipment and Categories List, or ECL) that have been predetermined as used either wholly or partly for pollution control purposes. 30 TAC § 17.14. The ECL contains two parts: "Part A is a list of the property that the executive director has determined is used either wholly or partly for pollution control purposes, [and] Part B is a list of categories of property which is located in Texas Tax Code (TTC), §11.31(k)." 30 TAC § 17.14(a). In addition, there are four different types of use determination applications;

Tier I-- An application which contains property that is in Part A of the figure in §17.14(a) or that is necessary for the installation or operation of property located on Part A of the Equipment and Categories List; 30 TAC § 17.2(13)

Tier II- An application for property that is used wholly for the control of air, water, and/or land pollution, but not on the Equipment and Categories List, located in §17.14(a); 30 TAC § 17.2(14)

Tier III- An application for property used partially for the control of air, water, and/or land pollution but that is not included on the Equipment and Categories List, located in §17.14(a); 30 TAC § 17.2(15)

Tier IV-- An application containing only pollution control property which falls under a category located in Part B of the figure in §17.14(a). 30 TAC § 17.2(16).

Section 17.15(a) and (b) provide Decision Flow Charts for making use determinations.

There are two Decision Flow Charts, one for non-Tier IV applications, and one for those applications with just items from Part B of the ECL. 30 TAC § 17.15(a) and (b).

In addition, a partial use determination “must be requested for all property that is either not on Part A of the ECL... or does not fully satisfy the requirements for a 100% positive use determination.” 30 TAC § 17.17(a). To calculate partial use for Tier IV applications, the cost analysis procedure in § 17.17(d) must be used. Section 17.17(d) states that “[i]t is the responsibility of the applicant to propose a reasonable method for determining the use determination percentage. It is the responsibility of the ED to review the proposed method and make the final determination.” 30 TAC § 17.17(d).

Under 30 TAC § 17.25, an appraisal district or applicant has 20 days to appeal a use determination issued by the ED. 30 TAC § 17.25(a)(2)(A) and (B); 30 TAC § 17.25(b). Upon a timely appeal, the Commission may either “deny the appeal and affirm the ED’s use determination” or “remand the matter to the ED for a new determination.” § 17.25(d)(2). Should the Commission remand the use determination, the ED shall conduct a new technical review and issue a new use determination. 30 TAC § 17.25(e)(1)(A) and (B). This determination may be appealed under the same Chapter 17

procedures as the initial determination. 30 TAC § 17.25(e)(2). If the Commission denies the appeal, and affirms the use determination, this decision is final and appealable. 30 TAC § 17.25(d)(3).

III. Analysis and Conclusion

Navasota requested a 100% tax exemption for the value for HRSGs based upon an avoided emission approach to determine the pollution control percentage of the HRSGs. Wharton County argues that all the pollution control equipment associated with the HRSGs was previously exempted under Use Determination 07-11925. OPIC has reviewed the technical review document for Use Determination 07-11925 and finds that there has been no duplication of equipment considered. The HRSGs are the only pieces of equipment considered in this instance, and not the secondary pollution control equipment (such as demisters and secondary containment equipment) previously exempted under Use Determination 07-11925.

In his Use Determination analysis, the ED disagrees with Navasota's proposed formula for calculating the pollution control value of the HRSGs. Nevertheless, the ED recommends a 100% exemption for the HRSGs and concludes that "the most appropriate formula has been determined by the Executive Director." However, the ED does not explain what the formula is or how he reached the conclusion of a 100% positive use determination even though he disagrees with the calculation methodology provided by Navasota. As described in 30 TAC § 17.17(d), the ED is required to review the proposed method and make the final determination. However, it is impossible to review that determination in this appeal without more information about how the ED calculated the use determination percentage. Therefore, OPIC recommends the Commission remand the

matter to the ED for a new determination with instructions that the ED conduct a new technical review and issue a new use determination based upon a specific method and supporting analysis to assess a use determination percentage for the HRSGs. ¹

Respectfully submitted,
Blas Coy, Jr.
Public Interest Counsel

By 
Christina Mann
Assistant Public Interest
Counsel, TCEQ
State Bar No. 24041388
P.O. Box 13087 MC 103
Austin, Texas 78711
(512)239-6363 PHONE
(512)239-6377 FAX

CERTIFICATE OF SERVICE

I hereby certify that on December 5, 2008, 7 copies of the Office of Public Interest Counsel's response to Appeal of Use Determination was served upon the Chief Clerk of the TCEQ and a true and correct copy on all persons listed on the attached Mailing List via hand delivery, facsimile transmission, Inter-Agency Mail or by deposit in the U.S. Mail.


Christina Mann, Assistant Public Interest Counsel

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¹ As allowed by 30 TAC § 17.25(d)(2) 30 TAC § 17.25(e)(1)(A) and (B).

Mailing List
Navasota Wharton Energy Partners LP
TCEQ Docket No. 2008-0851-MIS-U

Tylene Gamble
Chief Appraiser
Wharton County Appraisal District
2407 ½ N. Richmond Road
Wharton, Texas 77488
979/532-8931 FAX 979/532-5691

Bridget Bohac
TCEQ Office of Public Assistance MC 108
P.O. Box 13087
Austin, Texas 78711-3087
512/239-4000 FAX 512/239-4007

Navasota Wharton Energy Partners LP
403 Corporate Woods
Magnolia, Texas 77354

Greg Maxim
Duff and Phelps LLC
919 Congress Ave., Suite 1450
Austin, Texas 78701
512/671-5580 FAX 512/671-5501

Hugh L. Landrum & Associates
Attn: Mr. Hugh L. Landrum Jr.
12621 Featherwood, Suite 325
Houston, Texas 77034
281/484-7000 FAX 281/484-7272

Chris Ekoh
TCEQ Environmental Law Division MC 173
P.O. Box 13087
Austin, Texas 78711-3087
512/239-0600 FAX 512/239-0606

Ron Hatlett
TCEQ Small Business & Environmental
Assistance Division MC 110
P.O. Box 13087
Austin, Texas 78711-3087
512/239-3100 FAX 512/239-5678

Docket Clerk
TCEQ Office of Chief Clerk MC 105
P.O. Box 13087
Austin, Texas 78711-3087
512/239-3300 FAX 512/239-3311