



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

June 17, 2014

Ms. Kathryn Tronsberg Macciocca
Director
Duff & Phelps, LLC
2000 Market Street, Ste 2700
Philadelphia, PA 19103

Re: Notice of Negative Use Determination
Cottonwood Energy Company, LP
Cottonwood Energy Center Unit 1
Deweyville (Newton County)
Regulated Entity Number: RN100226109
Customer Reference Number: CN602765687
Application Numbers: 15505
Tracking Numbers: CC-2011-48

Dear Ms. Macciocca:

This letter responds to Cottonwood Energy Company, LP's Application for Use Determination for the Cottonwood Energy Center Unit 1, originally submitted on July 5, 2011 and remanded to the executive director (ED) on December 5, 2012 by the Texas Commission on Environmental Quality (TCEQ) commissioners. Your Tier III application seeks a use determination for a Heat Recovery Steam Generator (HRSG) and dedicated ancillary systems.

The ED has completed the review for application #15505 and the associated notice of deficiency (NOD) responses and has issued a Negative Use Determination for the property in accordance with Title 30 Texas Administrative Code (TAC) Chapter 17. The Negative Use Determination is issued for the following reasons: 1) the ED cannot find that the property is used, constructed, acquired, or installed wholly or partly to meet or exceed any cited 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; and 2) even if there were an applicable law cited in the application for the subject property, the ED does not find your methods for determining the use determination percentage to be reasonable.

Commission rule at 30 TAC §17.10(d) requires an applicant to cite to a specific law, rule, or regulation that is being met or exceeded by the use, construction, acquisition, or installation of the pollution control property. As specified in 30 TAC §17.4(a) and authorized by Article VIII, § 1-1, of the Texas Constitution, for a property to be eligible for an exemption from ad valorem taxation, all or part of property must be used,

constructed, acquired, or installed wholly or partly to meet or exceed rules or regulations adopted by any environmental protection agency of the United States, Texas, or a political subdivision for the prevention, monitoring, control, or reduction of air, water, or land pollution. Commission rules do not allow an applicant to omit the requirement to cite a specific environmental law even for property that is specified on the list of property in Texas Tax Code §11.31(k).

The ED does not require a citation to a law or rule that mandates the installation of a specific type of equipment. However, the ED does not find that the HRSG is used to meet or exceed any of the environmental laws that were cited in your application. While the application and responses provided numerous rule citations, none were to rules that the HRSG was required to meet. Therefore, the HRSG does not meet the applicability requirements of 30 TAC §17.4(a) to be eligible for exemption from ad valorem taxation.

After careful review of the three methods for calculating a partial positive use determination included in the applicant's submittals, the ED has determined that all but one of the methods are unacceptable. The two methods proposed by the applicant do not reasonably distinguish the proportion of the HRSG and dedicated ancillary systems that provides a purported pollution control benefit from the proportion of the HRSG and dedicated ancillary systems that produces steam that is used in a process or to produce electricity for use or sale. The one method that the ED does find acceptable, the Cost Analysis Procedure (CAP) adopted by the commission, produces a negative number. Therefore, the property is not eligible for a positive use determination.

The following is an explanation of the ED's review of the methodologies presented in your application:

- **Modified CAP Calculation (87%):** Capital Cost New (CCN) includes dedicated ancillary systems. Allowing Capital Cost Old (CCO) to be equal a spool piece ignores that HRSGs are alternative production equipment. CCO is the cost of comparable equipment without the pollution control. If the HRSGs produce steam, then comparable equipment that produces steam without pollution control is a boiler. The ED does not find it reasonable to equate CCO to a spool piece.
- **Modified CAP Calculation (87%):** Capital Cost New (CCN) includes dedicated ancillary systems. Allowing Capital Cost Old (CCO) to be \$0 ignores that HRSGs are alternative production equipment. CCO is the cost of comparable equipment without the pollution control. If the HRSGs produce steam, then comparable equipment that produces steam without pollution control is a boiler. The ED does not find it reasonable to attribute \$0 cost to CCO in the CAP.
- **CAP as proposed by the executive director (-340%):** The CAP formula was adopted by the commission to provide a methodology for determinations that distinguishes the proportion of property that is used to control, monitor, prevent, or reduce pollution from the proportion of property that is used to produce goods

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or services. The fact that the CAP calculated results in a negative number shows that the HRSG's and dedicated ancillary equipment's pollution prevention benefit is negated by its ability to produce a product.

Please be advised that a Negative Use Determination may be appealed. The appeal must be filed with the TCEQ Chief Clerk within 20 days after the receipt of this letter in accordance with 30 TAC §17.25.

If you have questions regarding this letter or need further assistance, please contact Ronald Hatlett of the Tax Relief for Pollution Control Property Program by telephone at (512) 239-6348, by e-mail at ronald.hatlett@tceq.texas.gov, or write to the Texas Commission on Environmental Quality, Tax Relief for Pollution Control Property Program, MC-110, P.O. Box 13087, Austin, Texas 78711-3087.

Sincerely,

A handwritten signature in black ink, appearing to read "David Brymer", is enclosed in a thin black rectangular border.

David Brymer, Director
Air Quality Division

DB/rh

cc: Chief Appraiser, Newton County Appraisal District, 109 Court St., Newton,
Texas, 75966-3202