

Area Source Emission Reduction Credits (ERCs)

Texas has some of the world's greatest natural resources in its shale gas reserves, and the revitalized domestic Oil & Gas industry is creating a long-term supply of favorably-priced natural gas with the potential to fuel a petrochemical manufacturing renaissance in Texas. The existing Gulf Coast chemical industry is planning historic investments, as evidenced by a series of multi-billion dollar expansions plans announced and underway by ExxonMobil, Dow, Chevron Phillips (CPChem), LyondellBassell, and other major chemical companies with Gulf Coast existing plants.

Major global chemical companies are also presently considering entering the US market with grass-roots investments in domestic manufacturing plant investments, which can provide high-paying jobs, local and state tax revenue, and spur further investments in the downstream chemical sectors and ancillary service sectors. These global chemical companies desire to locate in the Houston Gulf Coast market, which holds compelling investment advantages due to existing pipeline infrastructure, gas storage capacity (specifically in Mont Belvieu), reliable/affordable power, trained construction/operations personnel, and excellent transportation logistics (port, rail and trucking).

A primary obstacle for such investments is the EPA's designation of the Houston –Galveston – Brazoria (HGB) area as a “severe ozone nonattainment area.” Due to the requirements for ozone nonattainment areas, any new chemical or other manufacturing plant must first “offset” its potential new emissions by 130% before it can be constructed. One way of satisfying this offset requirement is with “emission reduction credits” (ERCs). ERCs are generated by permanently reducing emissions at existing sources in the HGB area. Historically, ERCs have been generated by very large plants making emitting facility reductions. Fortunately, the Texas Commission on Environmental Quality (TCEQ) adopted rules in 1997 that allow smaller and diverse emitting facilities, known as “area sources,” to generate ERCs (EPA approved these rules in September 2006). The ERC rules allowing area sources to participate via making emission reductions are unambiguous; *yet, to date, TCEQ has failed to allow such sources and the Texas economy to benefit from this innovative program.* HGB-area ERCs are in short supply and the price of ERCs has spiked, providing incentive and reward for area sources to reduce emissions. These emission reductions benefit the HGB non-attainment area, and should be authorized for trading to enable industrial development after providing a 30% overall emission reduction.

TCEQ must certify that ERCs meet legal requirements before they can be used. The TCEQ's ERC program concerns are easily solved with proper ERC program implementation. The benefits to the Texas economy and local and state tax base are too large to not take full advantage of the benefits and flexibility of the existing ERC program.

The alternatives to HGB area-based chemical development is transporting Texas natural resources to Louisiana for development or to foreign countries (via LNG export); both alternatives export skilled jobs, significant wages and tax revenue outside of Texas.

Submitted by R. Kinnan Golemon, President, KG Strategies, LLC