

# Texas Commission on Environmental Quality

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## INTEROFFICE MEMORANDUM

To: Commissioners' Work Session Date: August 16, 2004

Thru: Randolph Wood, Deputy Director  
Office of Environmental Policy, Analysis, and Assessment

From: Candice Garrett, Director  
Environmental Planning and Implementation Division

Subject: Texas Emissions Reduction Plan (TERP) Emissions Reduction Incentive Grants

**Issue** Consideration of and update on the status of the Texas Emissions Reduction Plan (TERP), the use of current and future TERP funding, legislative reporting requirements, input from TERP Advisory Board meeting, and other issues regarding the TERP incentive programs.

**Background and Current Practice** Attachment A provides information on the status of revenue and funding under the Texas Emissions Reduction Plan (TERP) to date. Attachment B represents staff's understanding of direction of the Commission from the July 22 worksession.

### **Issues for Consideration**

1. Based on direction provided at the last worksession, staff has developed potential allocations for achieving the emission reduction goals in the Houston-Galveston (HGA) and Dallas-Fort Worth areas by 2007. This allocation approach also provides for a minimum 2 tons per day (tpd) of reductions by 2006 in the San Antonio (SAT) and Austin (AUS), with some funding to Beaumont-Port Arthur (BPA), Tyler-Longview (TYL), El Paso County (ELP), Corpus Christi (CC), and Victoria County (VIC). Staff anticipate annual commission review and direction regarding allocations.

**Discussion:** As noted on Table B-1, using the original revenue estimates, 2 tpd can be achieved in the AUS and SAT areas and meet the 2007 goals for HGA and DFW. This table provides a lesser amount of funding to the other areas. The staff has not projected allocations beyond FY 2006 pending guidance from the Commission.

Table B-2 includes an additional \$15 million in revenue for FY 2005. Staff estimates that our FY 2004 revenue for the TERP grants will exceed the original projections by about \$15 million, but that funding is not certain at this time. This additional revenue would be available to spend in FY 2005. Staff have provided one illustration that allocates this \$15 million in FY 2005 to areas other than HGA, DFW, AUS, and SAT. Additional illustrations that present other allocations can be developed upon guidance from the Commission.

2. The Commission has indicated that infrastructure grants should not exceed 50% of the costs of such infrastructure. While the discussion with the commission was focused on fixed infrastructure such as fueling stations, etc., staff realizes that under the provisions of SB 5, on-vehicle auxiliary power units may be classified as infrastructure. Staff wishes to clarify that the intent of the Commission was to apply the 50% limit to fixed infrastructure projects.

Attachments

**Attachment A  
Texas Emissions Reduction Plan (TERP)  
Emissions Reduction Incentive Grants Program  
Summary**

**TERP grant contracts FY 2002-2003**

Area	Grant Amount	% of Total	Total Tons of NOx	% of Total	Tons Per Day	% of Total	Cost Per Ton
<b>Total</b>	<b>\$26,070,366</b>		<b>4,094</b>		<b>2.75</b>		<b>\$6,367</b>
DFW	\$9,972,527	38.25%	2,131	52.04%	1.20	43.62%	\$4,680
HGA	\$16,097,839	61.75%	1,964	47.96%	1.55	56.38%	\$8,198

**TERP grant contracts FY 2004 (1st round):**

Area	Grant Amount	% of Total	Total Tons of NOx	%of Total	Tons Per Day	% of Total	Cost Per Ton
<b>Total</b>	<b>\$15,749,329</b>		<b>3,085</b>		<b>1.90</b>		<b>\$5,105</b>
DFW	\$781,337	4.96%	507	16.44%	0.39	20.40%	\$1,541
HGA	\$7,446,750	47.28%	1,177	38.17%	0.77	40.67%	\$6,325
AUS	\$514,423	3.27%	41	1.33%	0.01	0.56%	\$12,495
BPA	\$400,000	2.54%	120	3.90%	0.10	5.05%	\$3,326
CC	\$15,432	0.10%	3	0.11%	0.00	0.14%	\$4,672
ELP	\$1,475,000	9.37%	327	10.61%	0.16	8.60%	\$4,506
SAT	\$5,116,387	32.49%	908	29.44%	0.47	24.58%	\$5,632

**FY 2004 TERP Grant Awards and Obligations**

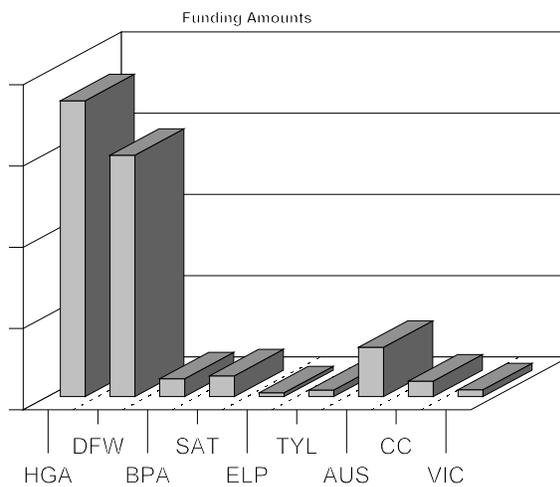
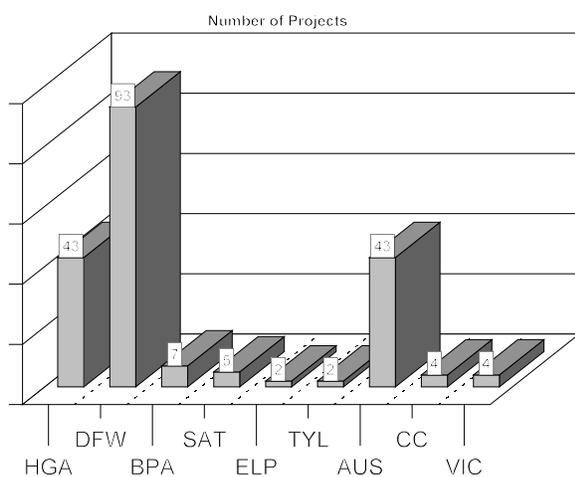
<b>FY 2004 1st Round Grants</b>	63 grants awarded and accepted	\$15,749,329
<b>Railroad Commission of Texas</b>	Pilot 3rd-party grant for forklift rebate program (pending)	\$1,000,000
<b>City of Houston</b>	Grant selected in FY 2003 (and reflected in the FY 2002-2003 table), but contract executed in FY 2004	\$512,140
<b>Small business grants</b>	3 grants approved or pending	\$234,655
<b>Additional Grants Pending from FY 2004 1st Round</b>	Submitted under FY 2004 1st round RFA. Grant acceptance pending. If not accepted, funds would become available under FY 2005 grant round	\$5,817,761
<b>FY 2004 2nd Round Grant Selections</b>	Initial selection has been made. Acceptance of the grants is pending	\$80,894,367
<b>TOTAL FY 2004 (approved or pending)</b>		<b>\$104,208,253</b>

**Attachment A**  
**Texas Emissions Reduction Plan (TERP)**  
**Emissions Reduction Incentive Grants Program**  
**Summary**

**TERP grant selections FY 2004 (2nd round):**

Area <sup>1</sup>	No. of Projects	% of Total	Grant Amount	% of Total	Total Tons of NOx	% of Total	Tons Per Day	% of Total	Cost per ton
<b>Total</b>	<b>203</b>		<b>\$80,894,367</b>		<b>13,574</b>		<b>9.55</b>		<b>\$5,960</b>
HGA	43	21.2%	\$36,408,518	45.01%	5,691	42.0%	3.72	38.95%	\$6,398
DFW	93	45.8%	\$29,693,983	36.71%	5,564	41.0%	3.78	39.58%	\$5,337
BPA	7	3.4%	\$2,181,910	2.70%	426	3.0%	0.29	3.04%	\$5,116
SAT	5	2.5%	\$2,547,923	3.15%	389	3.0%	0.26	2.72%	\$6,557
ELP	2	1.0%	\$457,018	0.57%	114	1.0%	0.09	0.94%	\$4,012
TYL	2	1.0%	\$799,450	0.99%	123	1.0%	0.10	1.05%	\$6,513
AUS	43	21.2%	\$6,069,179	7.50%	872	6.0%	0.59	6.18%	\$6,961
CC	4	2.0%	\$1,907,996	2.36%	275	2.0%	0.22	2.30%	\$6,929
VIC	4	2.0%	\$828,390	1.02%	120	1.0%	0.51	5.34%	\$6,910

<sup>1</sup>Some projects may operate in more than one area. Project information is listed by a primary area.



**Attachment B**  
**Texas Emissions Reduction Plan (TERP)**  
**Summary of Commission Direction, July 22 Work Session**

**1. Allocation Approach**

- Achieve goals for Houston-Galveston and Dallas-Fort Worth in 2007.
- Achieve 2 tons per day (tpd) in reductions in 2006 in San Antonio and Austin.
- Achieve additional tpd in reductions in the other areas, with Tyler-Longview and Beaumont-Port Arthur receiving a higher percentage of funding than the remaining three areas.
- Discuss options for the funding needed in each area to achieve these tons.

**2. Small Business Grants**

- Up to 5% of the FY 2005 budget (\$6.3 million) would be available for the Small Business Grants Program
- Cap funding at \$8,500 per ton of NO<sub>x</sub> reduced.
- Staff is developing plans for small business seminars and a public outreach campaign.

**3. TERP Regular Grants**

- Cap funding at \$7,000 per ton of NO<sub>x</sub> reduced.
- Fund up to 50% of the incremental costs for onsite refueling or onsite electrification and idle reduction infrastructure projects.
- For grants that would assist in the start-up or expansion of a business, the selection process will include consideration of the risks associated with this type of project.
- Continue to fund leases.

**4. Third-Party Grants**

- Pursue opportunities for third-party grants with governmental entities, where such projects will help address the goals of the program.

# Table B-1: TERP Grants Allocation

## Expected Revenue

FY 2004	\$ 104,210,750
FY 2005	\$127,378,125
FY 2006	\$130,820,000
FY 2007	\$133,880,000
FY 2008	\$135,130,000

**Total \$ 631,418,875**

Area	tpd needed	tpd reduced in 2004	Funding Percentage 04 (%)	2004 2nd round grants	tpd reduced in 2005	Funding Percentage 05 (%)	2005 allocation	tpd reduced in 2006	Funding Percentage 06 (%)	2006 allocation	tpd reduced in 2007
HGA	32.9	1.55	34.94%	\$36,408,518	6.05	61.00%	\$77,700,656	18.48	69.00%	90,265,800	32.9
DFW	16.3	1.20	28.49%	\$29,693,983	7.61	18.50%	\$23,564,953	11.38	23.50%	30,742,700	16.3
BPA			3.05%	\$2,181,910	0.39	2.00%	\$2,547,563	0.79	1.50%	1,962,300	1.1
SAT	2.0		9.14%	\$2,547,923	0.73	6.25%	\$7,961,133	2.00	1.50%	1,962,300	2.3
AUS	2.0		12.19%	\$6,069,179	0.60	6.85%	\$8,725,402	2.00	1.50%	1,962,300	2.3
TYL			3.05%	\$799,450	0.10	2.00%	\$2,547,563	0.51	1.50%	1,962,300	0.8
ELP			7.32%	\$457,018	0.25	1.13%	\$1,443,619	0.48	0.50%	654,100	0.6
CC			3.05%	\$1,907,996	0.22	1.13%	\$1,443,619	0.45	0.50%	654,100	0.6
VIC			3.05%	\$828,390	0.51	1.13%	\$1,443,619	0.74	0.50%	654,100	0.8
<b>TOTALS</b>				<b>\$80,894,367</b>	<b>16.46</b>		<b>\$127,378,125</b>	<b>36.84</b>		<b>\$130,820,000</b>	<b>57.77</b>

## Assumptions

1. Projects in all areas will have an average project life of 5 years.
2. Projects will result in an average cost per ton of \$5,000.
3. Emission reduction projections are based on an assumed 250-day operational year.
4. FY 2004 grant amounts and emission reductions are based on current recommendations. Final amounts will depend upon final grant awards and acceptance.

## Tiers

1. 2 tpd for Austin (AUS) and San Antonio (SAT) in 2006
2. Tons per day goal for Dallas-Fort Worth (DFW) and Houston-Galveston (HGA) to be achieved in 2007.

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**Table B-2: TERP Grants Allocation (w/additional \$15 million in FY 2005)**

<b>Expected Revenue</b>	
FY 2004	\$ 104,210,750
FY 2005	\$142,378,125
FY 2006	\$130,820,000
FY 2007	\$133,880,000
FY 2008	<u>\$135,130,000</u>
<b>Total</b>	<b>\$ 646,418,875</b>

Area	tpd needed	tpd reduced in 2004	Funding Percentage 04 (%)	2004 2nd round grants	tpd reduced in 2005	Funding Percentage 05 (%)	2005 allocation	tpd reduced in 2006	Funding Percentage 06 (%)	2006 allocation	tpd reduced in 2007
HGA	32.9	1.55	34.94%	\$36,408,518	6.05	54.50%	\$77,596,078	18.46	69.00%	90,265,800	32.9
DFW	16.3	1.20	28.49%	\$29,693,983	7.61	17.00%	\$24,204,281	11.48	23.00%	30,088,600	16.3
BPA			3.05%	\$2,181,910	0.39	4.79%	\$6,819,912	1.48	1.45%	1,896,890	1.8
SAT	2.0		9.14%	\$2,547,923	0.73	5.56%	\$7,916,224	2.00	1.45%	1,896,890	2.3
AUS	2.0		12.19%	\$6,069,179	0.60	6.15%	\$8,756,255	2.00	1.45%	1,896,890	2.3
TYL			3.05%	\$799,450	0.10	4.79%	\$6,819,912	1.19	1.45%	1,896,890	1.5
ELP			7.32%	\$457,018	0.25	2.40%	\$3,421,821	0.80	0.73%	959,347	1.0
CC			3.05%	\$1,907,996	0.22	2.40%	\$3,421,821	0.77	0.73%	959,347	0.9
VIC			3.05%	\$828,390	0.51	2.40%	\$3,421,821	1.06	0.73%	959,347	1.2
<b>TOTALS</b>				<b>\$80,894,367</b>	<b>16.46</b>		<b>\$142,378,125</b>	<b>39.24</b>		<b>\$130,820,000</b>	<b>60.17</b>

Assumptions

1. Projects in all areas will have an average project life of 5 years.
2. Projects will result in an average cost per ton of \$5,000.
3. Emission reduction projections are based on an assumed 250-day operational year.
4. FY 2004 grant amounts and emission reductions are based on current recommendations. Final amounts will depend upon final grant awards and acceptance.

Tiers

1. 2 tpd for Austin (AUS) and San Antonio (SAT) in 2006
2. Tons per day goal for Dallas-Fort Worth (DFW) and Houston-Galveston (HGA) to be achieved in 2007.

08/11/04

**TERP Grants Allocation  
Maximum SIP Credit @ \$5,000 Per Ton  
Assumptions and Approach**

**Assumptions**

- \$5,000 per ton.
- 5 year average project life.
- 250 day operational year.
- Funding awarded in the 1st half of FY 2007 will result in creditable reductions in 2007.

**Tons Allotted**

- 2 tpd by 2006 in Austin Area (AUS) and San Antonio Area (SAT).
- 3 tpd by 2007 in Beaumont-Port Arthur Area (BPA).
- 2.5 tpd by 2007 in AUS and SAT.
- 1.5 tpd by 2007 in Tyler-Longview Area (TYL), El Paso County (ELP), Corpus Christi Area (CC), and Victoria County (VIC).
- Remaining tons by 2007 allotted to Houston-Galveston Area (HGA) and Dallas-Fort Worth Area (DFW). Allotted tons exceed the minimum needed of 32.9 tpd in HGA and 16.3 tpd in DFW by 2007.
- Tons after 2007 allotted to HGA and DFW on a 50/50 basis.

**Allocation Approach**

- Determined total funding needed in each area to achieve the tons allotted by a certain date, based on \$5,000 per ton.
- Subtracted funding provided to date (through FY 2004) from the total needed in each area.
- Funding in FY 2005, FY 2006, and FY 2007 (1st half) allocated to achieve tons allotted for each area, at \$5,000 per ton.
- After FY 2007 (1st half), all funding allocated to HGA and DFW on a 50/50 basis.

August 13, 2004

# TERP GRANTS ALLOCATION (Maximum SIP Credit @ \$5,000 Per Ton)

Example for Discussion Purposes Only. Not Final Allocation.

## Expected Revenue

FY 02/03	\$25,558,226	( <i>\$28 million received, \$26 million in accepted contracts</i> )
FY 2004	\$103,214,252	( <i>Budget of \$104,378,125. Remaining funds obligated, but areas not yet assigned</i> )
FY 2005	\$142,378,125	
FY 2006	\$130,820,000	
FY 2007		
(1st half)	\$66,940,000	
<b>Subtotal</b>	<b>\$468,910,603</b>	

FY 2007		
(2nd half)	\$66,940,000	
FY 2008	\$135,130,000	
<b>Subtotal</b>	<b>\$202,070,000</b>	

**Total \$670,980,603**

Area	FY 2002/2003		FY 2004 funding	tpd by 2005	FY 2005 allocation	tpd by 2006	FY 2006 allocation	FY 2007 (1st half) allocation		tpd by 2007	FY 2007 (2nd half) allocation		tpd by 2008	FY 2008 allocation	tpd by 2009	tpd by 2010
	funding	tpd by 2004						tpd by 2007	tpd by 2007							
HGA	\$15,585,699	1.6	\$44,367,408	6.0	\$74,409,288	21.5	\$71,595,459	\$36,635,072	38.8	\$33,470,000	44.1	\$67,565,000	53.4	48.9		
DFW	\$9,972,527	1.2	\$36,495,236	7.6	\$37,610,014	13.5	\$36,187,770	\$18,517,118	22.2	\$33,470,000	27.5	\$67,565,000	37.2	30.7		
BPA			\$2,581,910	0.4	\$6,591,828	1.5	\$6,342,554	\$3,245,456	3.0	\$0	3.0	\$0	3.0	2.6		
SAT			\$7,702,810	0.7	\$4,797,190	2.0	\$2,067,215	\$1,057,785	2.5	\$0	2.5	\$0	2.5	1.8		
AUS			\$6,583,602	0.6	\$5,916,398	2.0	\$2,067,215	\$1,057,785	2.5	\$0	2.5	\$0	2.5	1.9		
TYL			\$799,450	0.1	\$3,496,303	0.7	\$3,364,089	\$1,721,389	1.5	\$0	1.5	\$0	1.5	1.4		
ELP			\$1,932,018	0.3	\$3,034,549	0.8	\$2,919,795	\$1,494,046	1.5	\$0	1.5	\$0	1.5	1.3		
CC			\$1,923,428	0.2	\$3,038,051	0.8	\$2,923,165	\$1,495,770	1.5	\$0	1.5	\$0	1.5	1.3		
VIC			\$828,390	0.5	\$3,484,504	0.7	\$3,352,736	\$1,715,580	1.5	\$0	1.5	\$0	1.5	1.0		
<b>Totals</b>	<b>\$25,558,226</b>		<b>\$103,214,252</b>		<b>\$142,378,125</b>		<b>\$130,820,000</b>	<b>\$66,940,000</b>		<b>\$66,940,000</b>		<b>\$135,130,000</b>				

08/13/04