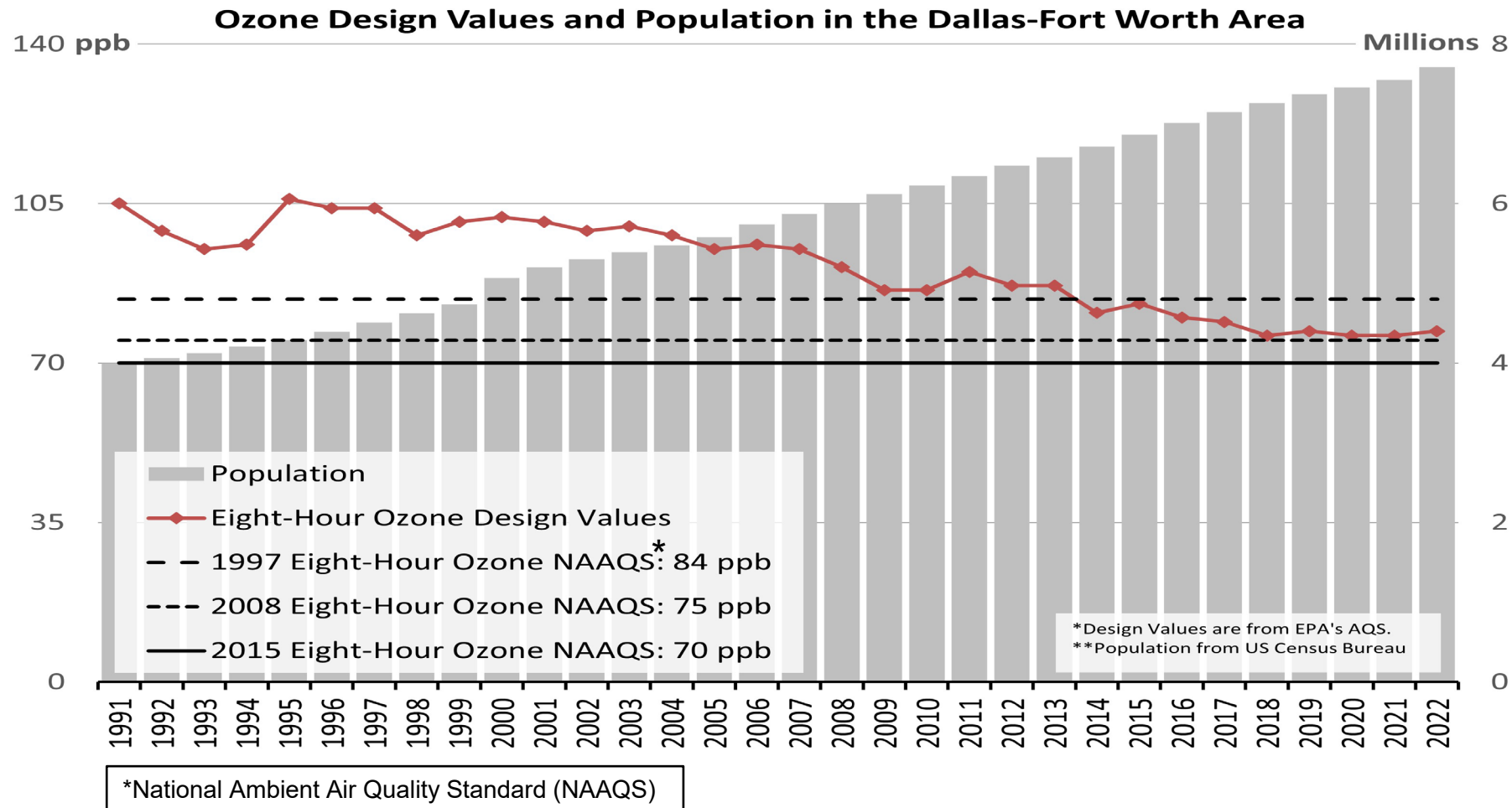




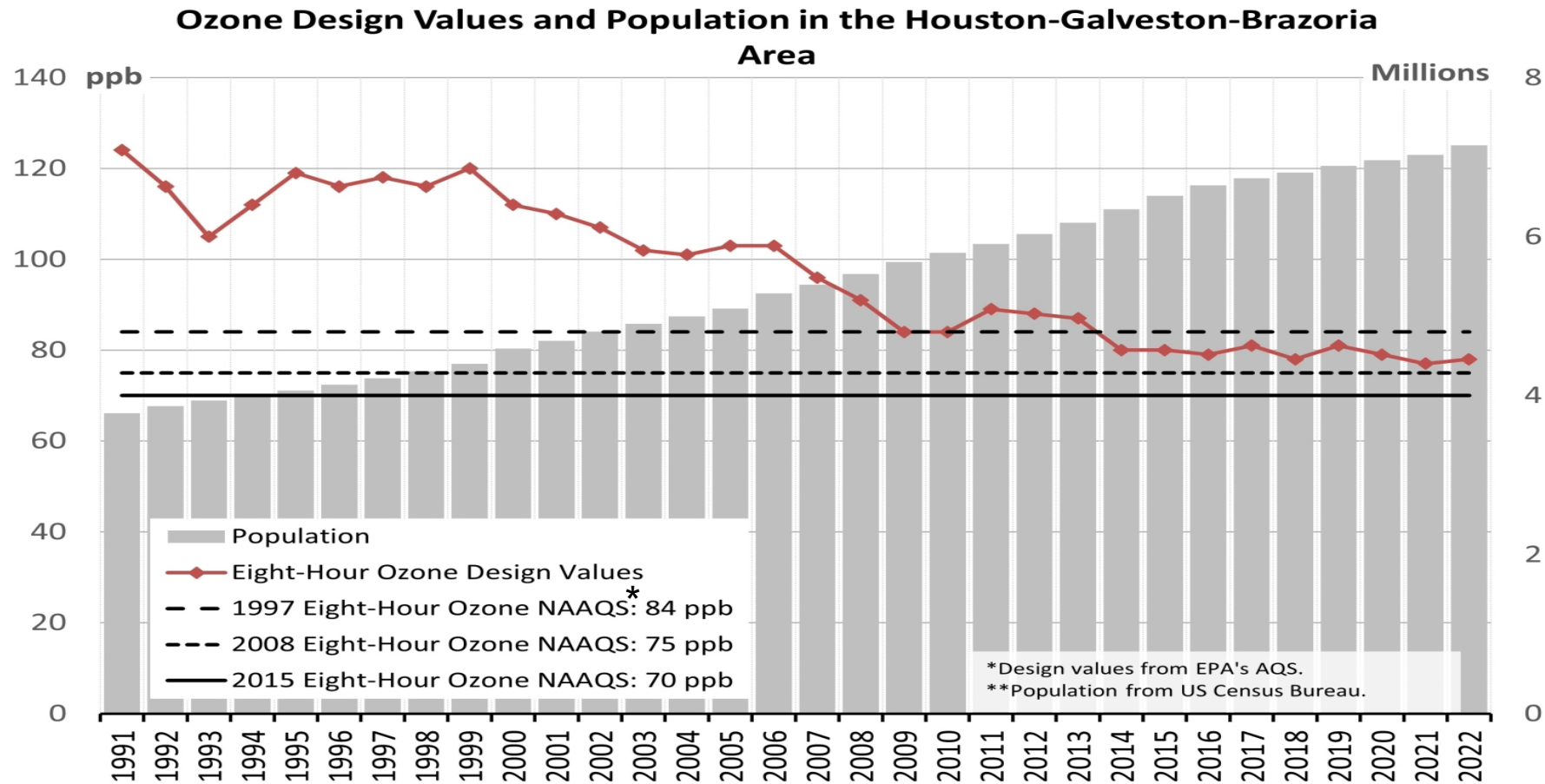
FCAA Section 185 Penalty Fee: Stakeholder Meetings

August 2024

Dallas-Fort Worth (DFW) Ozone Design Value Trends



Houston-Galveston-Brazoria (HGB) Ozone Design Value Trends



*National Ambient Air Quality Standard (NAAQS)

2008 Eight-Hour Ozone NAAQS Severe Reclassification

- DFW and HGB nonattainment areas were reclassified to severe, effective November 7, 2022.
 - Attainment demonstration and reasonable further progress state implementation plan (SIP) revisions were submitted to the U.S. Environmental Protection Agency (EPA) by the May 7, 2024 due date.
 - **FCAA Section 185 fee program rules are due to EPA by November 7, 2025.**
 - Attainment is required by the end of 2026 to meet the July 20, 2027 attainment date.
 - If an area **fails to meet** its severe attainment date for an ozone NAAQS, the FCAA requires a penalty fee to be imposed.

FCAA Section 185 Fee Requirements: Counties

DFW 2008 eight-hour ozone
NAAQS nonattainment area
counties:

- Collin
- Dallas
- Denton
- Ellis
- Johnson
- Kaufman
- Parker
- Rockwall
- Tarrant
- Wise

HGB 2008 eight-hour ozone
NAAQS nonattainment area
counties:

- Brazoria
- Chambers
- Fort Bend
- Galveston
- Harris
- Liberty
- Montgomery
- Waller

FCAA Section 185 Fee Requirements: Sources

- The fee applies to **major stationary sources** of ozone precursor emissions located in the severe ozone nonattainment areas.
- Major stationary sources are defined in 30 Texas Administrative Code (TAC) Section 116.12 and are based upon actual or potential emissions.
 - Typically includes larger **point sources** such as power plants, cement plants, petrochemical facilities, etc.
- The fee **does NOT apply** to minor stationary sources or mobile sources.

FCAA Section 185 Fee Requirements: Pollutants

- The major stationary source threshold in severe ozone nonattainment areas is 25 tons per year (tpy) of either actual or potential emissions of **ozone precursors, nitrogen oxides (NO_x) or volatile organic compounds (VOC)**.
 - If a site is a major source for NO_x emissions, then the fee is assessed on NO_x.
 - If the site is major for VOC, then the fee is assessed on VOC.
 - If the site is major for both NO_x and VOC emissions, then the fee is assessed on both NO_x and VOC.

FCAA Section 185 Fee: Collection

- The fee is required each year after the missed attainment date until the area is **redesignated as attainment** by EPA.
- Redesignation to attainment is a lengthy process:
 - The area must attain the applicable NAAQS based upon three years of certified ambient air monitoring data.
 - EPA must approve all required SIP elements for the area under FCAA, Section 110(k).
 - TCEQ must develop, propose, and adopt a redesignation request and maintenance (RDM) SIP revision.
 - EPA must propose and approve redesignation of the area to attainment and the RDM SIP revision.

FCAA Section 185 Fee: Collection (continued)

- The Section 185 fee could be imposed as early as 2028, if one or both the areas fails to attain the 2008 ozone NAAQS.
 - The estimated Section 185 fee obligation for the DFW area could be as much as **\$45 million** annually starting in 2028.
 - The estimated Section 185 fee obligation for the HGB area could be as much as **\$154 million** annually starting in 2028.
- If the state does not collect the fee, **EPA is required** by the FCAA to impose the fee with interest.
 - The revenue is not returned to the state.

FCAA Section 185 Fee: Assessment

- To determine the Section 185 fee baseline amount:
 - First, choose the **lower** of either **actual** (in the emissions inventory [EI]) ozone precursor emissions (NO_x and/or VOC) or **permitted** emissions for the attainment year.
 - Second, take 80% of ozone precursor emissions reported in the EI or permit (the lower of the two chosen in the first step) to get the baseline amount.
- The fee is charged annually on the tonnage of actual ozone precursor emissions (in the EI) that exceed the baseline amount.
- If the actual ozone precursor emissions in the EI do not exceed the baseline amount, a fee is not assessed.

FCAA Section 185 Fee: Assessment (continued)

- The fee rate is \$5,000 per ton of NO_x and VOC and is adjusted by inflation, using the Consumer Price Index.
- For calendar year (CY) 2023, the [EPA-published fee rate](#) was \$11,922 per ton.

FCAA Section 185 Fee: Hypothetical Assessment

- For purposes of this example, assume:
 - Stationary source is major for NO_x emissions only
 - EI emissions lower than the permitted emissions
 - 2027 baseline year with 100 tpy of NO_x reported in the EI
 - 2028 is the first year the fee is assessed
 - CY23 Section 185 fee rate is used to estimate amount to be paid
- Baseline calculation:
$$100 \text{ tpy} * 80\% = 80 \text{ tpy}$$
- Fee will be paid on 2028 NO_x emissions emitted over 80 tpy reported in the EI.
- If NO_x emissions are 80 tpy or less, then no fee payment is due.

FCAA Section 185 Fee: Hypothetical Assessment (continued)

- In 2028, 125 tons of NO_x was reported in the EI.

$$(125 - 80) = 45$$

- Site would pay the fee on 45 tons of NO_x emissions in 2028.

- Using the CY23 fee rate for example purposes, the site would pay **\$536,490.00** for NO_x emissions in 2028.

$$\$11,922.00 * 45 = \$536,490.00$$

FCAA Section 185 Fee: How Would the Money be Spent?

- If the DFW and/or the HGB 2008 eight-hour ozone nonattainment areas do not attain by July 20, 2027, and the fee is imposed, how will the collected money be spent?
 - If EPA collects the fee, the money goes into the U.S. Treasury.
 - If TCEQ collects the fee, the money goes into the Clean Air Act Fund.
 - The Legislature will provide direction on how to use the money **if** they appropriate the funds to TCEQ.

FCAA Section 185 Fee Rule Does Not Address Important Issues

- Baseline amounts for the following:
 - New major sources after the attainment date
 - Minor sources that existed on the attainment date but later became major sources
 - Equipment sold or transferred between companies
 - Aggregation of NO_x and VOC emissions for a baseline determination
 - Aggregation of sites under common control for a baseline determination

Section 185 Fee History in Texas

- Since the DFW area has not been previously classified as severe under a previous ozone NAAQS, a Section 185 Fee program has not been required before now.
- TCEQ developed a Section 185 fee program for the HGB area under the **revoked** one-hour ozone NAAQS that provided flexibilities in fee assessment.
- These flexibilities included:
 - site and pollutant aggregation to determine baseline amounts; and
 - mobile source funding credit from various grant programs, including the Texas Emissions Reduction Plan (TERP).

Section 185 Fee History in Texas (continued)

- Since the one-hour ozone NAAQS has been revoked, EPA approved these flexibilities as an “equivalent alternative program” allowed under FCAA, Section 172(e) in February 2020.
- Based on these approved flexibilities, TCEQ assessed the Section 185 fee, and the HGB one-hour ozone nonattainment area met the fee obligation based on TERP and other grant program revenue.
- Since the Section 185 fee obligation under the revoked one-hour ozone NAAQS was met, TCEQ did not issue invoices to HGB-area major stationary sources.

TCEQ Development of FCAA Section 185 Fee Program

- TCEQ is considering all options for the 2008 eight-hour ozone NAAQS.
- EPA decided not to issue guidance on Section 185 fee programs for eight-hour ozone NAAQS and directed states to consult with their EPA regional office.
- EPA regional staff have provided comments to California and Texas that an alternative Section 185 fee program for the 2008 eight-hour ozone NAAQS is not a SIP-approvable element at this time.

Opportunities to Provide Stakeholder Input

- We are soliciting stakeholder input on all aspects of rulemaking.
- Please email your informal comments to 185Rule@tceq.texas.gov by **September 9, 2024**.
- There will be a formal public comment period after the proposal agenda, tentatively set for April 2025.
 - The public comment period would tentatively be from end of April 2025 through the end of May 2025.
 - The rulemaking timeline will not allow time for an extension of the formal comment period due to the EPA rule submission deadline (November 7, 2025).

Section 185 Fee: Important Dates

- **September 9, 2024:** Due date for informal comments
- **April 2025:** Potential proposal of the TCEQ Section 185 fee program
- **April - May 2025:** public comment period and hearings
- **September 2025:** Potential adoption of the TCEQ Section 185 fee program
- **November 7, 2025:** TCEQ Section 185 fee program due to EPA (this date is final)
- Final dates will be posted on the Section 185 Stakeholder webpage.

Section 185 Fee: Important Dates (continued)

- **January 1 through December 31, 2026:** Areas must attain the 2008 eight-hour ozone NAAQS based on 2024 through 2026 monitoring data
- **2027:** Potential year for fee baseline determinations
- **2028:** Potential first year of fee assessment (if attainment is missed)

Helpful Information

- [Section 185 Stakeholder](#) webpage
- [Email group](#) to join the stakeholder group “*Penalty Fee for Major Stationary Sources Under the Federal Clean Air Act Section 185*”.
- Section 185 fee for the HGB revoked one-hour ozone NAAQS is located in [30 TAC 101 Subchapter B](#)

TCEQ Contacts

- Jill Dickey-Hull, Technical Specialist, Rule Project Manager, Emissions Assessment Section
 - jill.dickey@tceq.texas.gov
- Danielle Nesvacil, Manager, Emissions Assessment Section
 - danielle.nesvacil@tceq.texas.gov
- Proxy box monitored by the rule team
 - 185Rule@tceq.texas.gov