SUBJECT: Revising Texas Emissions Reduction Plan eligible projects, funding

COMMITTEE: Environmental Regulation — committee substitute recommended

VOTE: 9 ayes — Landgraf, Dominguez, Dean, Goodwin, Kacal, Kuempel, Morales Shaw, Morrison, Reynolds

0 nays

WITNESSES: For — Cyrus Reed, Lone Star Chapter Sierra Club; Michael Lozano, Permian Basin Petroleum Association; Sam Gammage, Texas Chemical Council; Kenneth Flippin, US Green Building Council Texas Chapter; (*Registered, but did not testify*: Marshall Kenderdine, Advanced Environmental Group LLC; Martha Landwehr, BASF; TJ Patterson, City of Fort Worth; Daniel Womack, Dow, Inc.; Tammy Narvaez, Harris County Commissioners Court; Mark Vane, Husch Blackwell Strategies; Buddy Garcia, LafargeHolcim; Jason Modglin, Texas Alliance of Energy Producers; Mark Vickery, Texas Association of Manufacturers; Shana Joyce, Texas Oil and Gas Association)

Against — None

On — Tom Smitty Smith, Texas Electric Transportation Resources Alliance; (*Registered, but did not testify*: Mike Wilson, Texas Commission on Environmental Quality)

BACKGROUND: In 2001, the 77th Legislature created the Texas Emissions Reduction Plan (TERP) to provide financial incentives to eligible individuals, businesses, and government entities to reduce emissions from vehicles and equipment and help the state achieve federal Environmental Protection Agency air quality standards, or "attainment." Health and Safety Code ch. 386 provides for the establishment of TERP, the programs that may receive funding under the plan, and the allocation of the TERP fund and account to different programs.

Interested parties have suggested making certain changes to TERP to better utilize funds, improve air quality, and protect the public health.

DIGEST:

CSHB 4472 would expand projects eligible for funding under the Texas Emissions Reduction Plan (TERP), revise allocations from the TERP fund and account, and make other changes to TERP programs.

Expanding TERP eligible projects. CSHB 4472 would expand the items receiving grants or funding under TERP to include:

- air monitoring equipment;
- fee-based contracts for the purchase of reductions in nitrogen oxides (NOx) emissions; and
- the energy efficiency loan guarantee program.

Contracts to purchase NOx reductions. TCEQ would have to establish a program to enter into fee-based contracts for the purchase of reductions in NOx emissions that would:

- specify the types of projects that were eligible, such as marine emission capture systems;
- measure NOx emissions input and output on a continuous basis;
- require reduced NOx emissions to be verified and certified;
- assign a dollar per ton fee based solely on the cost of the reduction in NOx emissions;
- require payments under the contract to be made only for actual emissions reductions; and
- authorize TCEQ to enter into multiyear contracts.

The Texas Commission on Environmental Quality (TCEQ) could enter into such a contract for a project involving a new emissions reduction measure that would otherwise generate marketable credits under a state or federal emissions reduction credit averaging, banking, or trading program if the project was not used for such credit during the term of the contract. A project could be used for the credit if the fee-based contract under this bill had expired or been terminated.

Energy efficiency loan guarantee program. The comptroller and the State Energy Conservation Office by rule would have to establish and administer a program that issued or guaranteed loans to be used for improvements that increased the energy efficiency of residences that were not newly constructed.

The rule would have to establish eligibility requirements for receipt of a loan, including emissions reduction cost-effectiveness criteria with preference given to nonattainment areas or affected counties.

The office would have to submit to TCEQ and the Energy Systems Laboratory an annual report that evaluated program effectiveness and quantified the energy savings and emissions reductions for consideration in the state implementation plan for emissions reduction credit.

Revising TERP fund and account allocations. CSHB 4472 would revise the allocations from the TERP fund and account such that:

- $3 million, instead of 4 percent, could be used for the clean school bus program;
- $5 million, instead of 3 percent, could be used for the new technology implementation grant program;
- $4 million, instead of 5 percent, could be used for the Texas clean fleet program;
- $8 million, instead of 10 percent, could be used for the Texas natural gas vehicle grant program;
- $1 million, instead of $750,000, could be used to support research related to air quality;
- $5 million, instead of 6 percent, could be used for the seaport and rail yard areas emissions reduction program; and
- $4 million, instead of 5 percent, could be used for the light-duty motor vehicle purchase or lease incentive program.

The bill would expand the allocation from the TERP fund and account to include:

- up to $10 million for air monitoring equipment;
- up to $10 million could be used for fee-based contracts; and
- up to $5 million could be used for the energy efficiency loan guarantee program.

The bill would allow part of the balance of the fund to be used by TCEQ for funding research at the Texas A&M Transportation Institute to determine the cost effectiveness of existing emissions reduction programs and cost effective programs not currently authorized under TERP.

The bill would increase from $2.5 million to $5 million the amount that TCEQ could use to conduct research and other activities associated with making demonstrations to the Environmental Protection Agency to account for the impact of foreign emissions or an exceptional event.

Money allocated to one program could be used for another, as determined by TCEQ, regardless of whether TCEQ had solicited projects to award grants according to the initial allocation.

Redirecting fees to TERP fund. CSHB 4472 would redirect collected motor vehicle title fees from the Texas Mobility Fund to the TERP fund. The Texas Department of Transportation would remit an equal amount of funds from the State Highway Fund to the Texas Mobility Fund instead of the TERP fund.

The comptroller would have to deposit the fees to the Texas Mobility Fund instead if the fees were collected on or after the last day of the biennium during which TCEQ published the national ambient air quality standards for ozone in the Texas Register.

Marine vessel eligibility requirements. CSHB 4472 would amend eligibility requirements for a diesel emissions reduction incentive program grant such that a marine vessel or engine had to be operated in the intercoastal waterways or bays adjacent to a nonattainment area or affected county for a sufficient percentage of time, rather than a sufficient amount of time, as determined by TCEQ. The percentage determined by the commission could not be less than 55 percent.

Light-duty motor vehicle incentive program. CSHB 4472 would make a new motorcycle eligible for a $750 incentive under the light-duty motor vehicle incentive program if the motorcycle:

- had a maximum speed capability of at least 55 miles per hour;
- was propelled by a significant extent by an electric motor that drew electricity from a hydrogen fuel cell or rechargeable battery;
- was acquired on or after September 1, 2013, or a later date established by TCEQ;
- was not a motor-assisted scooter, pocket bike, or minimotorbike; and
- met certain other conditions listed in the bill.

The incentive would be limited to 500 vehicles each fiscal biennium.

New technology implementation grant program. The bill would expand the list of projects TCEQ would have to give preference to in awarding grants under the new technology implementation grant program to including projects that reduced flaring emissions and other site emissions.

A recipient of a grant under this program could use the grant to pay the costs of the lease of the project. The bill would allow recipients to use the grant for costs of operating and maintaining the emissions-reducing equipment.

Natural gas vehicle grant program. The bill would specify that a used natural gas vehicle was a qualifying vehicle that could be considered for a grant under the Texas natural gas vehicle grant program. A used natural gas vehicle that was proposed to replace an on-road heavy-duty of medium-duty motor vehicle would have to be of model year 2017 or later, provided that the model year could not be more than six years older than the current model year at the time of the grant application submission.

The bill would take effect September 1, 2021, and apply only to a TERP grant awarded or fee collected on or after that date.

NOTES: According to the Legislative Budget Board, the bill would have an estimated negative impact of $1.2 million to general revenue through fiscal 2023.