

The Houston-Galveston Area Emission Reduction Credit Organization Annual Report for January 1, 2006 – December 31, 2006

This report contains a combined summary of the activities of the Houston-Galveston Area Emission Reduction Credit Organization (AERCO) through December 2006, its first year of organizational activity under its renewed 12-year charter, which expires on October 18, 2018.

The 73rd Texas Legislature passed S.B. 513 in 1993, authorizing the creation of AERCOs in an effort to promote the coexistence of air quality improvement and economic development statewide. The Houston-Galveston AERCO, a 501(c)(3) corporation, was created on March 23, 1994 and is administered in accordance with its bylaws and the requirements under applicable Texas laws, including S.B. 513. As required by AERCO's charter, this report will be submitted to the Texas Commission on Environmental Quality (TCEQ).

Activities for the period include the nominations and appointments/reappointments of members to the Board of Directors (the "Board") for three-year terms, continuation of AERCO's re-certification process, approval as a recipient of Supplemental Environmental Project (SEP) program funds, financial transactions, adoption of the Clean School Bus Program and program and board highlights.

AERCO Board and Appointments

AERCO's Board of Directors consists of 18 members who represent the general public (4), environmental concerns (2), large industry (6), small regulated businesses (3), and economic development interests (3). Board membership reflects a range of interests in all eight counties of the region's ozone nonattainment area. Nine members are appointed from Harris County, two members each are appointed from Galveston and Brazoria counties, and one member each is appointed from Chambers, Fort Bend, Liberty, Montgomery, and Waller counties.

AERCO Board members and H-GAC staff worked to secure nominations from the respective counties to fill several resignations. Board appointments are listed as of October. Ed Fiesinger continued as AERCO Board Chair. Re-nomination and recommendation letters were sent; and despite subsequent efforts to fill them, Galveston County currently has two vacancies.

Board Member	Representing	Membership Category	Employer
Bartosh, Patrick	Harris	Small Business	Sage Environmental Consulting
Beck, Tom	Waller	Econ. Development	Waller County
Bosma, Mark	Montgomery	General Public	Montgomery Co.
Chen, Ke	Ft. Bend	Econ. Development	KCE Consulting
Fiesinger, Ed	Brazoria	Large Industry	Zephyr Environmental Corp
Hebert, John J.	Liberty	Small Business	Hebert Distributing

Irby, W.E. "Buddy"	Chambers	Large Industry	Bayer Corporation
Kilpatrick, Steve	Brazoria	Large Industry	Dow Chemical
Kuryla, Matt	Harris	Econ. Development	Baker Botts, L.L.P
Kush, John	Harris	Large Industry	NRG Energy, Inc.
Santos, Betin	Harris	Environment	Environmental Defense
Naquin, Mary Jane	Harris	Env./General Public	Informed Futures
Peak, Mark	Harris	General Public	Sierra Research
Porter, Alton	Harris	General Public	City of La Porte
Rash, Jeanette	Harris	Small Business	Harris Co. Auto Recyclers Association
	Galveston	Large Industry	
	Galveston	General Public	
Lewis, Edward	Harris	Large Industry	Fulbright & Jaworski, L.L.P

Houston-Galveston AERCO Re-Certification under Chapter 384

AERCOS were established under Chapter 384 of the Texas Health & Safety Code, which governs the state's continuing statutory revision program. The Code provides revisions of general and permanent statute law without substantive change. Under Code provisions, TCEQ must re-certify the Houston-Galveston AERCO for another 12 years and did so in May of 2006. Board members and H-GAC staff attended the TCEQ recertification hearing in Austin to answer any questions from the Commissioners.

As described in a Baker Botts L.L.P. memorandum dated June 25, 2004 to the AERCO Board chair, the H-GAC resolution and accompanying petition for re-certification, together with the bylaws, were approved by H-GAC and forwarded to TCEQ. TCEQ received the H-GAC resolution and petition, and a public hearing was held in the region to obtain public comment on the petition. TCEQ found that Chapter 384 requirements were met and re-certification of the Houston-Galveston AERCO was found to be in the public interest, approval of the petition was granted on May 17, 2006.

The AERCO Board applied to TCEQ to renew its SEP agreement, as part of its mission to acquire and distribute emission reduction credits. AERCO's original SEP agreement with TCEQ, effective June 1, 1996, terminated on August 31, 1998. The SEP program allows mitigation of civil penalties through donations to approved SEP recipients. TCEQ accepted AERCO's application to be a SEP recipient on June 7, 2006 and AERCO is seeking and has received state and federal SEP funds.

AERCO Financial and Contractual Transactions

Account activities include H-GAC's maintaining a separate account (LOC 461) for Clean Cities/Clean Vehicles program activities related to funding area school districts under EPA's Clean School Bus program.

For FY 2006 H-GAC budgeted approximately \$25,000 to provide staffing activities in transportation planning (PL) funds from the Federal Highway Administration (FHWA) and local sources. For FY 2006-2007 H-GAC consolidated the AERCO and Air Quality Planning budget estimates in Section 4.2 of the 2006-2007 Unified Planning Work Program (UPWP).

The H-GAC Finance Department provided the AERCO financial summaries through H-GAC's year end, December 31, 2006.

Account Balances for January 1 – December 31, 2006

AERCO 0430 GENERAL PL ACCOUNT BALANCE SHEET for JANUARY 1 – DECEMBER 31, 2006			
Date	Source	Amount	Cumulative Balance
2005	AERCO 0430: General PL Account	\$ 98,177.00	
01/01/2006	Balance Forward	\$98,177.00	
	ADD: Interest earned thru 07/31/05 on AERCO bank account (\$98,177.00)	\$1,027.00	
07/31/2006	AERCO fund balance with interest added	\$98,177.00+ + \$1,027.00	\$99,204.00
08/01/06- 12/31/06	ADD: SEP fund Contributions Aug. thru Dec., 2006	\$140,690.00	
	ADD: interest from SEP funds (\$140,690.00) thru 12/31/05	\$1,421.00	
12/31/2006	Ending Balance of all accounts	\$99,204.00+ \$140,690.00 + \$1,421.00	\$241,315.00
	Remaining amount set aside for TXDOT fees (has not been spent)	(\$23,430.00)	
2007	Balance Forward – Jan 2007 (minus set aside money for TXDOT fees)		\$217,885.00

AERCO LOCAL ACCOUNT 461 for JANUARY 1 - DECEMBER 31, 2006			
Fiscal Year	Budgeted Funding	Amount	Balance
2006-2007	AERCO 0430: General PL Acct	\$ 75,000.00	\$75,000.00
	LESS: Disbursements to school districts (Galena Park)	(\$ 50,000.00)	-\$50,000.00
12/31/2006	Ending Balance		\$ 25,000.00
11/16 Board Action	Clean Cities/Clean Vehicles: TxDOT Fees	\$38,160.00	
	Less: Disbursement to TXDOT	(\$14,729.00)	
2007	Acct. Balance Forward – Jan 2007 Amount remaining to cover additional TXDOT fees	\$23,430.00	\$23,430.00

AERCO PROGRAM AND BOARD HIGHLIGHTS

The AERCO Board identified general objectives in 2006 that included renewing AERCO's 12-year charter; using AERCO funds to promote area emission reductions; obtaining Supplemental Environmental Project (SEP) program funds and further Clean School Bus projects.

AERCO Emission Trading and Related Activities

No program compliance credits (PCC's) were sold or retired due to the termination of the Texas Clean Fleet program by the TX legislature in September 2005.

For this reporting period, the Houston-Galveston AERCO did not engage in any emission reduction credit (ERC) purchases, sales, trades, or other activity involving the exchange of ERCs. TCEQ estimates an average of \$4,049.60 for a ton of NOx per project for the Houston area TERP program and also reports that its mobile ERC (MERC) program values NOx at \$18,000 per ton per year. There was interest by Clean Energy regarding emissions credits and the use of natural gas.

Regional Voluntary Programs

The AERCO Board reviewed possible activities under the Regional Voluntary Mobile Emission Reduction Program (VMEP) section of the State Implementation Plan (SIP) for ground-level ozone (O₃). AERCO's participation in a voluntary program enables entities to donate emission credits to be retired toward the SIP in exchange for possible tax deduction eligibility as well as private donations for the Clean School Bus Houston program. Measures include cap and trade policies, which were merged with the DERC and mobile programs in 2004 to provide greater flexibility.

The state defines VMEPs as incentive-based programs that can be funded through federal transportation dollars, including Congestion Mitigation/Air Quality (CMAQ) funds. The 2004 mid-course revisions to the region's ozone SIP reduced H-GAC program commitments through voluntary measures, originally outlined in the December 2000 SIP, to 0.8 tons per day (tpd) VOCs (volatile organic compounds) and 7.0 tpd NOx (nitrogen oxides).

VMEPs cite that any mobile reduction can be classified as an MDERC (Mobile Discrete Emission Credit). Voluntary incentive programs for AERCO include H-GAC's Clean Cities/ Clean Vehicles program initiatives, Clean School Bus Houston, which helps fund school districts that utilize technologies to lower NOx and PM emissions and fuel requirements through retrofit or replacement bus engines.

In FY 2005-2006, AERCO donated \$200,000 from its funds to area districts to help fund local match requirements. As of December, H-GAC had distributed \$175,000 to local school districts, with \$25,000 remaining for distribution in 2007. The Clean School Bus Houston program has been reorganized in this region and, the H-GAC Clean Cities/ Clean Vehicles program took over the management of that emission reduction initiative for part of 2006 until AERCO adopted Clean School Bus Houston from the Harris County Education Foundation.

Community Outreach

H-GAC updated the AERCO Web page at www.h-gac.com/HGAC/Programs/AERCO/default.htm, and worked with H-GAC's Clean Vehicles program coordinator to distribute funds for area school districts. In addition, extensive outreach was conducted regarding the Clean School Bus Houston program and SEP fund projects.

AERCO Board Action Highlights

During this reporting period, the Houston-Galveston AERCO Board held meetings in February, March, May, August and November. These are highlights:

On February 1, 2006, the Board took action on the following items:

- Approved the Board minutes for November 16, 2005.
- Approved AERCO Draft Annual Report

All other agenda items were included as discussion items only. These included SEP Fund Agreements, Recertification application and Public Process, Clean School Bus updates, and TCEQ updates

On March 16, 2006, the Board took action on the following items:

- Approved the Board minutes for February 1, 2006.
- Approved recommended nominations for AERCO board members to the H-GAC Board of Directors.
- Board approved the recertification application to TCEQ and the public involvement process. The Board also approved as a part of the recertification application the continued goal of participating in emission credit buying, selling, and trading and the the goal of participation of funding school buses in the H-GAC Clean Vehicle Program.
- In addition, the Board acted to request that a state SEP application be submitted to TCEQ for purposes of providing additional funding to the Clean School Bus, Transit Vehicle Program, and to provide additional incentives to the Low Income Repair and Replacement Program for vehicle replacements.
- Discussions were held regarding, a status report on Clean Vehicles and Clean School Bus Program and AERCOs continued involvement in the programs. A representative of Environmental Defense presented information on the need for providing cleaner school buses.

On May 3, 2006, the Board took action on the following items:

- Approved the Board minutes for March 16, 2006.

- Approved acquiring the Adopt-a-School Bus Program now “Clean School Bus Houston” from the Harris County Education Foundation.
- Discussions held regarding the nomination of AERCO board members to the H-GAC Board of Directors, the TCEQ public meeting on AERCOs recertification, a Clean Vehicles status report update, and a list of accomplishments.

On August 2, 2006, the Board took action on the following items:

- Approved the Board minutes for May 3, 2006.
- Approved notification letter to EPA regarding the Clean School Bus program.
- Approved pursuing Federal SEP funds for the Clean School Bus program in addition to other Clean Air Quality Implementation Projects.
- Status report given regarding AERCO Re-certification (May 17, 2006), potential DOE grants, and a Clean Vehicles update. Potential State and Federal SEP funded projects were discussed.

On November 1, 2006, the Board took action on the following items:

- Approved the Board minutes for August 2, 2006.
- Discussions held regarding Clean School Bus Houston, Environmental Defense and El Paso Corporation, Clean Vehicle Update, SEP projects, TCEQ report on Emissions trading.