

The Houston-Galveston Area Emission Reduction Credit Organization Annual Report for January 1, 2008 – December 31, 2008

This report contains a summary of the activities of the Houston-Galveston Area Emission Reduction Credit Organization (AERCO) through December 2008, its third 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, financial transactions, other actions relating to 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.

Board appointments are listed as of December 31, 2008. Ed Fiesinger continued as AERCO Board Chair.

Board Member	Representing	Membership Category	Employer
Araiza, Adrian	Galveston	Large Industry	Valero Texas City Refinery
Bartosh, Patrick	Harris	Small Business	Sage Environmental Consulting
Bosma, Mark	Montgomery	General Public	Montgomery Co.
Cernak, Steve	Galveston	General Public	Port of Galveston
Chen, Ke	Ft. Bend	Econ. Development	KCE Consulting
Cron, Catarina Gonzales	Harris	General Public	Harris County Judge's Office
Fiesinger, Ed	Brazoria	Large Industry	Zephyr Environmental Corp
Hebert, John J.	Liberty	Small Business	Chevron Products
VACANT	Chambers	Large Industry	VACANT

Kuryla, Matt	Harris	Econ. Development	Baker Botts, L.L.P
Kush, John	Harris	Large Industry	NRG Energy, Inc.
Lewis, Edward	Harris	Large Industry	Fulbright & Jaworski, L.L.P
Naquin, Mary Jane	Harris	Env./General Public	Informed Futures
Porter, Alton	Harris	General Public	City of La Porte
Rash, Jeanette	Harris	Small Business	Harris Co. Auto Recyclers Association
Rhoads, Orval	Waller	Econ. Development	Waller Co. Engineer's Office
Santos, Betin	Harris	Environment	Santos & Associates
Woodard, Julie	Brazoria	Large Industry	Dow Chemical

AERCO Financial Transactions

The H-GAC Finance Department provided the AERCO financial summaries through H-GAC's year end, December 31, 2008.

Account Balances for January 1 – December 31, 2008

AERCO 0430 GENERAL PL ACCOUNT BALANCE SHEET for JANUARY 1 – DECEMBER 31, 2008			
Date	Source	Amount	Cumulative Balance
2007	AERCO 0430: General PL Account	\$1,092,955.44	
01/01/2008	Balance Forward	\$1,092,955.44	
01/01/08 to 12/31/08	ADD: SEP Fund Contribution	\$1,942,991.49	
01/01/08 to 12/31/08	ADD: Private Corp. Contribution	\$0	
01/01/08 to 12/31/08	ADD: Interest earned from bank account.	\$28,888.02	
01/01/08 to 12/31/08	ADD: Other Income	\$23.82	
	<i>Less: Reimbursement to HGAC for TXDOT fee of 2007</i>	(3,377.44)	
	<i>Less: Refund to Exxon/Mobil</i>	(15.00)	
	<i>Less: SEP Payment rollover for Port Arthur ISD</i>	(3,720.00)	
	<i>Less: Payment to IRS for prior years penalty</i>	(1,580.00)	

**AERCO 0430 GENERAL PL ACCOUNT BALANCE SHEET
for JANUARY 1 – DECEMBER 31, 2008**

Date	Source	Amount	Cumulative Balance
	<i>Less: Reimbursement to HGAC for FY08 payment to Humble and Tomball ISD</i>	(101,783.00)	
	<i>Less: Bank Fee</i>	(31.00)	
12/31/2008	<i>Ending Balance of all accounts</i>		\$2,954,352.33
	<i>Remaining amount set aside for TXDOT fees (has not been spent)</i>	(\$20,053.00)	
	<i>Remaining amount set aside for Clean Vehicles</i>	(\$25,000.00)	
2009	<i>Balance Forward – Jan 2009 (minus set aside money for TXDOT fees & Clean Vehicles)</i>		\$2,909,299.33

AERCO Local Account 461 for January 1 - December 31, 2008

Fiscal Year	Budgeted Funding	Amount	Balance
2007-2008	AERCO 0430: General PL Acct	\$ 25,000.00	\$25,000.00
12/31/2008	<i>Ending Balance</i>		\$ 25,000.00
2007-2008	Clean Cities/Clean Vehicles: TxDOT Fees	\$20,053.00	
2009	Acct. Balance Forward – Jan 2009 Amount remaining to cover additional TXDOT fees	\$20,053.00	\$20,053.00

AERCO Board Action Highlights

During this reporting period, the Houston-Galveston AERCO Board held meetings in February, May, August, and November. Board meeting highlights include the following:

On February 13, 2008, the Board took action on the following items:

- Approved the Board minutes for November 7, 2007.
- Committee members discussed AERCO's goals for the year and all agreed to have AERCO retain its purpose, but would revise its by-laws to more formally incorporate its Clean School Bus activities. Meanwhile, AERCO waits on the EPA to pass the DERC program which will create an emission credit trading and banking system.
- SEP funds for Klein ISD were approved by the Board for four new school buses. The project costs \$352,000.00 (\$98,514.54 of CMAQ funding, \$6,000.00 of Private Donation funding, and \$248,297.46 of SEP funds).

All other agenda items were included as discussion items only. These included review of the quarterly TCEQ report, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

On May 7, 2008, the Board took action on the following items:

- Approved the Board minutes for February 13, 2008.
- Clean School Bus Guidelines were revised to clarify weight and mileage requirements.
- H-GAC approved funding for incorporated school districts with ninety-three engines which is equivalent to about fourteen tons per NOx reduced per year and approximately \$775,000 in CMAQ funds. Also, a half million dollars of SEP funds were committed for a grand total of approximately \$1.2 million in the past few months.
- Ed Fiesinger, Chairman of the AERCO committee, raised discussion about revising the By-Laws to correct the number of Board Members to 18 from 15, and to revise the phrasing of Article III, Responsibilities and Powers of the Organization.
- The following action items could not be approved due to no quorum: 1) SEP funds for Pasadena ISD, Danbury ISD, Cypress-Fair ISD, and Galveston ISD; 2) Draft AERCO annual report; and 3) Dow SEP proposal.

All other agenda items were included as discussion items only. These included review of the quarterly TCEQ report, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

On August 6, 2008, the Board took action on the following items:

- Approved the Board minutes for May 7, 2008.
- Clean Vehicles and Clean School Bus have committed total project grant funding of just over \$500,000.00, which is equivalent to approximately 5 tons of NOx per year for 17 vehicles.
- The committee agreed to expand how SEP funds were administered and to proceed in developing a separate SEP initiative to address the vehicle retrofit and replacement issue for local governments.
- Mr. Alex Cuclis delivered a presentation on the Potential Impact of Dial on Cap and Trade. Mr. Cuclis spoke on topics such as IR Camera (HAWK/GasFindIR), Differential Absorption LIDAR (DIAL), and Solar Occultation Flux (SOF).
- SEP funds were approved for Pasadena ISD, Danbury ISD, Cypress-Fair ISD, Galveston ISD, and Magnolia ISD.
- Amendments to the AERCO By-Laws were approved.
- Approved the AERCO 2007 Annual Report.

All other agenda items were included as discussion items only. These included review of the quarterly TCEQ report, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

On November 12, 2008, the Board took action on the following items:

- Approved the Board minutes for August 6, 2008.
- The H-GAC Board approved 2 clean school bus contracts totaling 64 engines, 1.7 million dollars in CMAQ funds committed, \$130,000 SEP funds, and 27 tons per year NOx reduced.
- Mr. Blake Hudson discussed the potential implications for an AERCO Carbon Credit Based Project. In the presentation, he gave example of how municipalities, educational campuses, and utilities may calculate greenhouse gas emissions on their property by accounting for the number of trees planted on-site. The potential for carbon credit generation and pricing were also discussed.
- SEP funds were approved for Waller ISD: Retrofit of 47 engines at \$125,000.00
- SEP funds were approved for Galena Park ISD: Repower of 6 engines at \$173,719.89

- The new 3rd party SEP agreement to include local governments was approved with recommended changes.
- The Board Member position to represent Chambers County/Large Industry is available and a nomination is needed.
- As of September 30, 2008 the AERCO account has over 2 million dollars.

All other agenda items were included as discussion items only. These included review of the quarterly TCEQ report, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

AERCO Emission Trading and Related Activities

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.

Community Outreach

- H-GAC updated the AERCO Web page at <http://www.h-gac.com/taq/airquality/aerco/default.aspx>, and worked with H-GAC's Clean Vehicles program coordinator to distribute funds for area school districts. In addition, outreach was conducted regarding the Clean School Bus HGB program and SEP fund projects. This includes an Annual Fresh Air Friday Event on April 11, 2008, distribution of brochures at the annual Advancing the Choice conference in June 2008, and celebrating the Commute Solutions program in August 2008.