LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

Revision 1

May 30, 2009

TO: Honorable David Dewhurst, Lieutenant Governor, Senate
Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB1796** by Chisum (Relating to the development of carbon dioxide capture and sequestration in this state.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1796, Conference Committee Report: a negative impact of ($3,796,996) through the biennium ending August 31, 2011.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	($1,907,498)
2011	($1,889,498)
2012	($1,889,498)
2013	($1,889,498)
2014	($1,669,498)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from *General Revenue Fund* 1	Probable Savings/ (Cost) from *Clean Air Account* 151	Probable Savings/ (Cost) from *Texas Emissions Reduction Plan* 5071	Probable Revenue Gain/(Loss) from *Texas Emissions Reduction Plan* 5071
2010	($1,907,498)	($250,000)	($684,062)	$0
2011	($1,889,498)	($250,000)	($625,562)	$0
2012	($1,889,498)	$0	($625,562)	$0
2013	($1,889,498)	$0	($625,562)	$0
2014	($1,669,498)	$0	($625,562)	$82,659,000

Fiscal Year	Change in Number of State Employees from FY 2009
2010	16.5
2011	16.5
2012	16.5
2013	16.5
2014	16.5

Fiscal Analysis

The bill would require the Land Commissioner to contract with the University of Texas Bureau of Economic Geology (BEG) at the University of Texas at Austin to conduct a study of state-owned offshore submerged land to identify potential locations for a carbon dioxide repository. The Texas Commission on Environmental Quality (TCEQ) would develop standards and rules for the offshore sequestration of carbon dioxide. Any standards adopted by the TCEQ would need to comply with any requirements issued by the U.S. Environmental Protection Agency. The School Land Board (SLB) would make the final determination of suitable locations for carbon dioxide storage. The SLB also would issue a request for proposals for the construction of infrastructure for transportation to and storage in the offshore repository. The bill also would give the SLB authority to establish a storage fee by rule.

The TCEQ would be required to adopt standards for monitoring, measuring and verifying the permanent storage status of the repository, and the BEG would perform those functions and serve as a scientific advisor. The BEG would perform the measurement, monitoring, and verification of the permanent status of carbon dioxide in the carbon dioxide repository. The BEG would be required to provide the SLB data relating to the measurement, monitoring, and verification of the permanent storage status of the carbon dioxide in the carbon dioxide repository, as determined by the SLB. The SLB would acquire title to the carbon dioxide stored in the repository on behalf of the state and administer and control the stored carbon dioxide in the name of the state. Both the SLB and the TCEQ would be prohibited from establishing or regulating the rates charged for the transportation of carbon dioxide to the carbon dioxide repository. Finally, the SLB would issue an annual report on the repository.

The bill would establish the New Technology Implementation Grant (NTIG) program, and it would require the Commission on Environmental Quality to establish and administer a new technology implementation grant program to implement new technologies to reduce emissions from facilities and other stationary sources located within the state. The bill provides guidelines and criteria for the program as well as grant application review procedures. The section provides cost sharing requirements that require applicants to provide at least 50 percent of the costs of implementing a project under this chapter. TCEQ is required to coordinate an interagency application review process with the Comptroller, Public Utility Commission, and the Railroad Commission. The TCEQ would be required to incorporate the review results into the grant award decision process and include an annual report justification for awards made to projects that were negatively reviewed by the other agencies. Projects eligible for grants in the NTIG program could include: advanced clean energy project; new technology projects that reduce emissions of regulated pollutants from point sources that involve capital expenditures that exceed $500 million; and electricity storage projects related to renewable energy.

The bill would would provide that funds collected under Section 185 of the Federal Clean Air Act be deposited to the General Revenue-Dedicated Clean Air Account No. 151.

The bill would extend a 2.5 percent surcharge on vehicles over 14,000 pounds, a surcharge on the registration of a truck-tractor or commercial vehicle in an amount equal to 10 percent of total fees due for the registration; and a $10 fee on every commercial motor vehicle required to be inspected, all of which would expire under current law on August 31, 2013, to August 31, 2019. Article IV also adds stationary engines to the list of items the TCEQ can fund through the TERP grant program. It would also exempt mobile generators used for natural gas recovery purposes from the requirement that at least 75 percent of the annual use of a TERP-funded project occur in nonattainment areas and affected counties for at least five years.

The bill would reduce the allocation of funding for the New Technology Research and Development (NTRD) program from 9.5 percent of TERP funds to 9 percent. The bill would remove an allocation of $250,000 to the TCEQ for administering the NTRD program and it would remove an allocation of $216,000 of the NTRD funds to be used by the Texas Engineering Experiment Station (TEES) for the calculation of the statewide emissions reduction for the State Implementation Plan (SIP). The bill also would remove an allocation of at least 20 percent of the NTRD funds for research related to air quality at a nonprofit based in Houston, and it would reallocate these NTRD funds to contract with a nonprofit organization or institution of higher education to establish and administer a program to support research related to air quality. The bill would allow the TCEQ to fund air quality research with the remaining NTRD funds and provide a $216,000 contract with the TEES for the development and annual computation of creditable statewide emissions reductions obtained through wind and other renewable energy resources for the SIP. Finally, Article V of the bill would provide that 3.5 percent of TERP funding, instead of 3 percent, can be used for administration of the TERP program, and it would specify that the TCEQ receive 2 percent, and that the TEES receive 1.5 percent.

The bill would require the TCEQ, the Railroad Commission, and the PUC to establish a greenhouse gas registry in which they would participate in the development of federal greenhouse gas reporting requirements. The TCEQ would also be directed to establish a registry of voluntary actions taken by businesses in the state and state agencies since September 1, 2001 to reduce carbon dioxide emissions and to work with the U.S. Environmental Protection Agency to give credit for early action under any federal rules that may be adopted for federal greenhouse gas regulation.

Methodology

The bill's provisions relating to the offshore sequestration program would result in the need for 2.5 FTEs by the GLO to develop the program, oversee the study conducted by the BEG, evaluate recommendations of the pilot study, and maintain a carbon dioxide storage database. In addition, the GLO would need to develop and manage construction contracts for off-shore platforms, injection wells, and connecting pipelines to generators of carbon dioxide throughout the state. A data system would be needed for a fee collection program and for tracking and monitoring the carbon dioxide accepted for storage. This estimate assumes that carbon dioxide would not be designated as a pollutant by the U.S. EPA. Total costs to the GLO are estimated at $216,385 in fiscal year 2010 and $198,385 in 2011. This estimate assumes these costs would be paid out of the General Revenue Fund.

Although the bill authorizes a fee for the storage of carbon dioxide in the carbon dioxide repository, this estimate does not assume that the study would be complete, the repository constructed, nor a significant amount of carbon stored in the first five years after enactment of the bill. Thus, no significant revenue from the carbon storage fee is included in this estimate.

The BEG estimates the costs to perform the pilot study for potential locations for a carbon dioxide repository, conduct on-going measurement, monitoring and verification of the permanent storage status of the carbon dioxide in the repository, and serve as a scientific advisor to the SLB at $5,500,000 between fiscal years 2010 and 2014. For purposes of this analysis, this cost is estimated to be $1.1 million per year for the five year period, and assumed to be paid out of the General Revenue Fund. This estimate assumes that costs to the TCEQ associated with the carbon repository would not be significant and could be absorbed using existing agency resources.

The bill would amend the definition of an advanced clean energy project to require that a project meeting this definition must also capture at least 50 percent of the carbon dioxide in the fuel being combusted and sequester that carbon dioxide through methods that include geologic storage. The bill also includes a definition of "geologic storage." The bill's provisions creating the NTIG program is expected to result in the need for an additional 9.0 FTEs at the TCEQ and associated costs. These additional resources would be used mainly to review grant applications. Costs for the NTIG program are assumed to be paid out of the TERP Account No. 5071. Additional costs to the PUC and Railroad Commission for coordinating with the TCEQ on grant application selection are not expected to be significant.

The bill's provisions requiring the Comptroller to assess the financial stability of applicants and to conduct an annual review for the new technology implementation grant program would result in the need for 5.0 additional FTEs and $371,113 in related costs to the Comptroller of Public Accounts. This includes 1.0 FTE to assess financial stability of applicants under the grant application review procedures, and 4.0 FTEs to conduct grant audits. This estimate assumes these costs would be paid out of the General Revenue Fund.

The bill's provisions providing for the deposit of fees collected through Section 185 of the Federal Clean Air Act to the Clean Air Account No. 151 would not result in a net fiscal impact to the state because this estimate assumes that any such funds that would otherwise have been collected would have been deposited to the General Revenue Fund. The amount of funds that would be deposited to the Clean Air Account No. 151 would be dependent on baseline emission information in the Houston-Galveston-Brazoria nonattainment area, which the TCEQ reports is not yet available.

The bill's provisions which extend the 2.5 percent of consideration surcharge on vehicles over 14,000 pounds, the surcharge on the registration of a truck-tractor or commercial vehicle in an amount equal to 10 percent of total fees due for the registration, and the $10 fee on every commercial motor vehicle required to be inspected, are expected to result in an additional $82.7 million per year in new revenues beginning in fiscal year 2014.

The bill's provisions removing the allocation of $250,000 to the TCEQ for administering the NTRD program and the removal of the allocation of $216,000 of the NTRD funds to be used by the TEES are not expected to result in a fiscal impact to either agency because this estimate assumes that the overall amount the TCEQ receives from the TERP Account No. 5071 would actually increase because the amount TCEQ would be eligible for administration of the program would increase from 1.5 to 2.0 percent of TERP Account No. 5071 funds, while the amount TEES receives would remain the same since the agency would receive $216,000 through an Interagency Contract with the TCEQ.

The bill's provisions requiring the creation of a greenhouse gas registry and coordination with the US EPA would result in costs to the PUC of $220,000 in fiscal years 2010 - 2013, with no significant costs in future years. These costs would include consulting fees because it is assumed the agency would need outside expertise, and travel costs because it is assumed that agency staff would be required to travel to Washington, D.C. These costs are assumed to be paid out of the General Revenue Fund. TCEQ expects to incur costs of $250,000 in fiscal years 2010 and 2011 to modify the agency's Emissions Inventory Data System to create the greenhouse gas registry. It is assumed these costs would be paid out of the Clean Air Account No. 151.

Technology

Technology costs would include $250,000 in fiscal years 2010 and 2011 for the greenhouse gasregistry database.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 582 Commission on Environmental Quality, 712 Texas Engineering Experiment Station, 301 Office of the Governor, 302 Office of the Attorney General, 405 Department of Public Safety, 455 Railroad Commission, 473 Public Utility Commission of Texas, 601 Department of Transportation, 710 Texas A&M University System Administrative and General Offices

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