

# Texas Emissions Reduction Plan Annual Report



Prepared by  
Air Grants Division

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**Texas Commission on Environmental Quality**



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## Overview

The Texas Commission on Environmental Quality (TCEQ) implements the Texas Emissions Reduction Plan (TERP) to reduce emissions of nitrogen oxides (NO<sub>x</sub>), a precursor to ozone pollution. TERP grant programs provide financial incentives to individuals, state and local governments, corporations, or any other legal entity to upgrade or replace their older, higher emitting vehicles and equipment with newer, cleaner vehicles and equipment. The TERP programs also encourage the use of alternative fuels for transportation in Texas, and the implementation of new technologies that reduce emissions from stationary sources and oil and gas operations.

Since 2001, emissions reductions from the TERP have been included in the State Implementation Plan (SIP) revisions to help demonstrate attainment and progress toward attainment of the National Ambient Air Quality Standards (NAAQS) established by the United States Environmental Protection Agency (EPA) under authority of the federal Clean Air Act (FCAA). TERP programs continue to support attainment demonstrations in SIP revisions as additional measures called “Weight of Evidence,” which includes activities that are expected to further reduce ozone levels in the nonattainment areas.

Fees and surcharges related to the sale and use of vehicles and heavy-duty equipment in Texas fund the TERP programs. Revenue from the TERP fees is deposited to the TERP Trust each month and is projected to approach \$500 million in the fiscal year (FY) 2022–2023 state fiscal biennium. After a statutory minimum transfer of 35% of TERP Trust revenue to the state highway fund for congestion mitigation projects, a projected \$324 million will be available for TERP programs and administration. Appendix 1 of this report lists projected TERP revenue and program allocations for FY 2022–2023.

This report provides information about projects awarded through the TERP programs from September 1, 2021, through August 31, 2022. Appendix 2 of this report lists the total number of projects awarded, the total projected NO<sub>x</sub> emissions reductions, and the cost-effectiveness of the TERP programs that have been implemented as of August 31, 2022. The TERP programs are implemented throughout the state fiscal biennium and, as of this publication, some of the TERP programs are still open and accepting applications. Additionally, some of the TERP programs will be opened after the publication of this report. This report does not include projects that may still be submitted under open programs, are currently under review, or that will be awarded under programs that have not yet opened.

TCEQ produced this report to fulfill the requirements of the General Appropriations Act (GAA), Article VI, Section 25, page 647 (2021). See the [TERP Biennial Report to the 88<sup>th</sup> Texas Legislature](#) for additional information about the TERP programs and achievements since 2001, or visit the TCEQ's TERP webpage at [www.terpgrants.org](http://www.terpgrants.org).

## TERP Programs

TERP was established in 2001 by Senate Bill (SB) 5, 77th Texas Legislature, Regular Session, under Texas Health and Safety Code (THSC) Chapter 386. TERP objectives include achieving maximum reductions in NO<sub>x</sub> to help areas in Texas meet the NAAQS and demonstrate compliance with the SIP. TERP objectives also include reducing diesel exhaust emissions from school buses, as well as advancing technologies that reduce NO<sub>x</sub> and other emissions from stationary sources and oil and gas operations. Finally, TERP programs aim to encourage the use of alternative fuels in the state and to promote energy efficiency to help keep the air clean.

TERP incentive grant programs include:

- **Diesel Emissions Reduction Incentive (DERI) Rebate Grants and DERI Emissions Reduction Incentive Grants (ERIG)** programs, providing grants to upgrade or replace on-road vehicles, non-road equipment, stationary equipment, marine vessels, and locomotives, as well as add or expand on-vehicle electrification and idle reduction infrastructure, and rail relocation and improvement projects;
- **Texas Natural Gas Vehicle Grants Program (TNGVGP)**, providing grants to upgrade or replace existing diesel or gasoline vehicles with natural gas engines or vehicles;
- **Seaport and Rail Yard Areas Emissions Reduction Program (SPRY)**, providing grants to replace older drayage trucks and equipment operating at eligible seaports and rail yards in areas of Texas designated as nonattainment under the FCAA;
- **Texas Clean Fleet Program (TCFP)**, providing grants to owners of at least 75 vehicles in Texas to replace a minimum of 10 diesel vehicles with new alternative fuel or hybrid vehicles powered by natural gas, propane, hydrogen, methanol (85% by volume), or electricity;
- **Light-Duty Motor Vehicle Purchase or Lease Incentive Program (LDPLIP)** providing rebates for the purchase of light-duty vehicles operating on compressed natural gas (CNG), liquefied petroleum gas (LPG), electricity (plug-in or plug-in hybrid), or hydrogen fuel cell;
- **Texas Clean School Bus Program (TCSB)**, providing grants to replace or retrofit older school buses to reduce emissions of diesel exhaust throughout the state;
- **Alternative Fueling Facilities Program (AFFP)**, providing grants for the construction or reconstruction of facilities to store, compress, or dispense alternative fuels, including biodiesel, hydrogen, methanol (85% by volume), natural gas, propane, and/or electricity;
- **New Technology Implementation Grant Program (NTIG)**, providing grants for electricity storage projects related to renewable energy, or to reduce emissions of pollutants from stationary sources and oil and gas operations in Texas;
- **Port Authority Studies and Pilot Programs (PASPP)**, providing grants to port authorities in Texas nonattainment areas to encourage cargo movement that reduces NO<sub>x</sub> emissions and PM; and

- **Governmental Alternative Fuel Fleet Grant Program (GAFF)**, providing grants to assist state agencies and political subdivisions in purchasing or leasing new motor vehicles that operate primarily on CNG, liquefied natural gas (LNG), LPG, hydrogen fuel cell, or electricity.

Additional TERP programs include:

- **Energy Efficiency Programs**, supporting goals for energy efficiency, energy efficiency programs in institutions of higher education and certain government entities, and the Texas Building Energy Performance Standards;
- **Regional Air Monitoring Program**, supporting air monitoring sites in the North Texas region;
- **Health Effects Studies**, conducting studies on health effects related to air quality and exposure to certain compounds and pollutants;
- **Air Quality Research Support Program**, identifying, prioritizing, and funding research important to air quality management in Texas; and
- **Foreign Emissions and Exceptional Events Research**, providing research on the impact of foreign emissions and exceptional events.

## TERP Trust

TERP is funded from revenue deposited to the TERP Trust established under THSC Section 386.250, as an account outside the state treasury. Beginning September 1, 2021, the Texas Legislature authorized TCEQ to use the revenue deposited to the TERP Trust. THSC Section 386.252, requires TCEQ to transfer no less than 35% of TERP Trust revenue to the state highway fund for use by the Texas Department of Transportation (TXDOT) for congestion mitigation and air quality improvement projects in nonattainment areas and affected counties. THSC Section 386.250, requires that TCEQ transfer all funds that are not encumbered to TERP projects by the last day of the state fiscal biennium (August 31, 2023) to the credit of the state highway fund. Revenue to the TERP Trust is projected to approach \$500 million in FY 2022-2023.

## Revenue

The TERP Trust comprises revenue from the fees and surcharges listed below.

- Tax Code Section 151.0515(b): A 1.5% surcharge on the sale price or lease/rental amount of off-road, heavy-duty diesel equipment sold, rented, or leased in the state. (A surcharge is also applied to the storage, use, or consumption of this equipment in Texas.)
- Tax Code Section 152.0215(a): A 2.5% surcharge of the total consideration on the sale or lease of on-road diesel vehicles over 14,000 pounds for pre-1997 model years, and a 1% surcharge for those vehicles model year 1997 and newer.
- Texas Transportation Code Section 502.358: A 10% surcharge of the total fees due for the registration of truck-tractors and certain commercial motor vehicles.

- Texas Transportation Code Section 501.138(a): A portion of the vehicle certificate of title fee: \$20 of the \$33 fee for applicants in the nonattainment areas and affected counties and \$15 of the \$28 fee for applicants in all other counties.
- Texas Transportation Code Section 548.5055: A \$10 fee on commercial motor vehicles required to have an annual safety inspection.

The fees and surcharges will continue until, for each active or revoked ozone NAAQS, all areas in Texas have been designated by the EPA as in attainment or unclassifiable/attainment or the EPA has approved a re-designation substitute making a finding of attainment. The TERP fees and surcharges will expire once there is no pending judicial review of those EPA actions, and the final notice of such action is published in the Texas Register by TCEQ as required by THSC Section 387.037.

## **Allocation**

TERP allocation amounts are based on projected TERP Trust revenue and the initial allocation amounts listed in THSC Section 386.252, after the statutory minimum 35% transfer to the state highway fund for use by TXDOT for congestion mitigation and air quality improvement projects. A projected \$324 million will be available for TERP programs and administration in the FY 2022-2023 state fiscal biennium, and a projected \$174 million will be available for use by TXDOT. Projected initial TERP funding allocations are listed in Appendix 1 of this report. THSC Section 396.252, provides that TERP funds may be reallocated to other programs under the plan as determined by the commission. The initial allocations may change for each grant program based on demand for grants for eligible projects under the programs after the commission solicits projects to award grants according to the initial allocation of each program.

## **TERP Program Implementation**

TCEQ implements the TERP programs throughout the state fiscal biennium, incorporating any legislative changes. House Bill (HB) 4472, 87R, required TCEQ to adopt rule and guideline changes to set the minimum percentage of annual hours of operation required for TERP-funded marine vessels or engines at 55% in the intercoastal waterways or bays adjacent to a Texas nonattainment area or affected county. HB 4472 and HB 2361, 87R, required TCEQ to adopt guideline changes that prioritized and expanded the types of oil and gas site emissions reduction projects that could be funded under the NTIG program. Finally, HB 963, 87R, required TCEQ to implement changes to the TNGVGP to provide grant funds for used natural gas vehicles. As of August 31, 2022, all legislative changes to the TERP programs have been implemented.

## **Implemented TERP Programs**

As of August 31, 2022, TCEQ has opened the following TERP grant programs:

- Light Duty Purchase or Lease Incentive Program;
- Texas Clean School Bus Program;
- Seaport And Railyard Areas Emissions Reduction Program;

- Texas Clean Fleet Program; and
- Alternative Fueling Facilities Program.

Appendix 2 of this report lists the number of projects and activities that have already been awarded grants under the TERP grant programs that have been opened. Appendix 2 also lists the total grant amounts awarded, total reductions in NO<sub>x</sub> emissions reductions (when applicable), and the cost-effectiveness of those programs, as of August 31, 2022.

## **Upcoming TERP Programs**

TCEQ has or will open the following TERP grant programs in fiscal year 2023:

- DERI Emissions Reduction Incentive Grants Program;
- DERI Rebate Grants;
- Texas Natural Gas Vehicle Grants Program;
- Governmental Alternative Fuel Fleet Program;
- New Technology Implementation Grant Program; and
- Port Authorities Study and Pilot Programs.



## APPENDIX 1: Projected TERP Funding Allocation FY 2022-2023

Program	Projected Allocation <sup>1,2</sup>	Statutory Allocation Percentage (%)
TCEQ Administration	\$16,000,000/FY	At least \$6,000,000 but not more than \$16,000,000/FY
TXDOT Congestion Mitigation Projects	\$87,476,619/FY	TCEQ shall deposit no less than 35% of the fund to the credit of the state highway fund
Texas Clean School Bus Program	\$6,558,500/FY	4%
New Technology Implementation Grants	\$4,918,875/FY	3%; with at least \$1 million for battery storage
Texas Clean Fleet Program	\$8,198,125/FY	5%
Regional Air Monitoring Program	\$3,000,000/FY	not more than \$3,000,000/FY
Texas Natural Gas Vehicle Grant Program	\$16,396,250/FY	10%
Alternative Fueling Facilities Program	\$6,000,000/FY	not more than \$6,000,000/FY
Air Quality Research	\$750,000/FY	not more than \$750,000/FY
Health Effects Study	\$200,000/FY	not more than \$200,000/FY
Seaport and Rail Yards Emissions Reduction Program	\$9,837,750/FY	6%
Light-Duty Motor Vehicle Purchase or Lease Incentive Program	\$8,198,125/FY	5%
Energy Systems Laboratory Contract	\$216,000/FY	not more than \$216,000/FY
Foreign Emissions and Exceptional Events Research	\$2,500,000/FY	not more than \$2.5 million to conduct research and other activities to account for the impact of foreign emissions or an exceptional event
Port Authorities Studies & Pilot Projects	\$500,000/ FY	not more than \$500,000/FY
Governmental Alternative Fuel Fleet Program	\$3,976,943/FY2022	not more than 3% of the balance at the start of each FY
Diesel Emissions Reduction Incentive Program	\$77,410,483/FY	balance of the fund
<b>Total Allocation</b>	<b>\$249,933,198/FY</b>	

<sup>1</sup>Allocation amounts are projected and subject to change as revenue from the TERP fees is deposited to the credit of the TERP Trust monthly.

<sup>2</sup> Projected TERP percentage allocation amounts are based on fee revenue remaining after transferring 35% to the state highway fund.

## APPENDIX 2: TERP Project Totals FY 2022-2023

(as of August 31, 2022)

Implemented Programs	Number of Projects Awarded	Number of Activities Awarded	Total Funds Awarded	Projected NO <sub>x</sub> Reductions (tons)	Cost-Effectiveness (cost-per-ton of NO <sub>x</sub> reduced)
Light Duty Purchase or Lease Incentive Program (LDPLIP) <sup>1</sup>	822	822	\$2,039,972	N/A	N/A
Texas Clean School Bus Program (TCSB) <sup>2</sup>	23	67	\$4,692,995	37	\$125,740
Seaport And Railyard Areas Emissions Reduction Program (SPRY) <sup>3</sup>	66	85	\$7,474,788	299	\$24,953
<b>Total</b>	<b>911</b>	<b>974</b>	<b>\$14,207,756</b>	<b>336</b>	<b>\$36,120</b>

<sup>1</sup> **LDPLIP:** additional applications are currently under review and TCEQ anticipates awarding the maximum 2,000 grants for electric vehicles; TCEQ is accepting applications for light-duty natural gas vehicles until 5:00 p.m., January 7, 2023.

<sup>2</sup> **TCSB:** additional applications are currently under review; this program is oversubscribed and TCEQ anticipates awarding all funds initially allocated for the program.

<sup>3</sup> **SPRY:** additional applications are currently under review.