




UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF THE
CHIEF FINANCIAL OFFICER

JAN 11 2012

MEMORANDUM

SUBJECT: Environmental Financial Advisory Board (EFAB) Letter on Financing
Clean Air Technology

FROM: Barbara J. Bennett 
Chief Financial Officer

TO: Gina McCarthy, Assistant Administrator
Office of Air and Radiation

I am pleased to transmit to you the attached letter on the Board's preliminary examination and findings of financing incentives for consideration by industrial facilities to change to newer, cleaner technologies.

Since considerable time has elapsed from the initiation of EFAB's work while the promulgation of the MACT rule has been worked through, we thought it important to provide this overview of EFAB's work to date, preliminary findings and observations, interim recommendations, and the Board's next steps.

The Board welcomes your review and feedback. If you have any questions or comments regarding the letter, please contact me or have a member of your staff contact Joseph Dillon, Director, Center for Environmental Finance at 564-9679.

Attachment

cc: Lisa P. Jackson, Administrator
Bob Perciascepe, Deputy Administrator
Michael Shapiro, EFAB Designated Federal Official

Environmental Financial Advisory Board

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Letter on Financing Incentives for Replacing Boilers with Clean Air Technology

This report has not been reviewed for approval by the U.S. Environmental Protection Agency; and hence, the views and opinions expressed in the report do not necessarily represent those of the Agency or any other agencies in the Federal Government.

January 2012

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Michael Shapiro
Designated
Federal Officer

Honorable Gina McCarthy, Assistant Administrator
Office of Air and Radiation
U.S. Environmental Protection Agency
Washington, DC 20460

Dear Ms. McCarthy:

The Environmental Financial Advisory Board (EFAB) is pleased to submit a preliminary report on its examination of financing issues related to the promulgation of Maximum Achievable Control Technology (MACT) standards for boilers and process heaters at major sources of hazardous air pollutants. In particular, EFAB has been working to identify creative options that would incentivize boiler facility owners to comply with the MACT standards by using newer cleaner technologies rather than by retrofitting existing facilities using traditional control technologies. This examination is proving to be both interesting and challenging as you will see by the following review of EFAB's efforts.

EFAB Work To Date

Initially, in response to the Office of Air and Radiation's (OAR) request for assistance on addressing this question, EFAB formed a project work group to study the issue in depth and help the Board to develop findings and recommendations for Agency use. The leadership of this new EFAB workgroup quickly met with OAR to further delineate the scope of the project and to begin to develop a plan of action.

As part of the project, EFAB has held numerous workgroup conference calls, met on an on-going basis with relevant OAR staff and managers, reviewed information generously provided by OAR from a number of sources, including the Department of Energy, and solicited information, feedback, and analysis from a range of sources, including a DOE speaker at its March 2011 Board meeting. The workgroup also began an effort to collect, review, and analyze information on the financial conditions of a number of EPA identified industries/corporations that must comply with any new MACT standards.

This work has been impacted by a series of events over the past six months, of which you are all too aware. These include EPA finalizing emission standards for boilers and incinerators in February; EPA allowing time for additional public input and review of new industry information; and EPA setting a

new schedule for updating the standards in June. In addition to these regulatory actions, industry and others have filed numerous legal actions to compel, stop, speed up or slow EPA's work on the standards. As a result of all of this, active EFAB work on the project has slowed to adjust to changes and to allow the various legal considerations to be worked through.

Since considerable time has elapsed while all of this occurred, we thought it was important to provide this overview of EFAB's work to date as well as the following preliminary findings, observations, and recommendations.

EFAB's Preliminary Findings

EFAB's preliminary findings regarding the financial condition of boiler owners, the costs of technologies, and their energy efficiency include:

- The financial condition information of boiler owners varies widely from industry to industry, firm to firm, and even plant to plant.**
- Boiler owners oppose the new rules because they require costly capital expenditures. This is true for the existing retrofit technologies as well as the new, more environmentally desirable technologies.**
- The new technologies are, on the whole, more expensive.**
- Many of the new technologies are not particularly energy efficient. They do not produce any financial payback of the investment.**
- The newer technologies may be less energy efficient than the older retrofit technologies.**

To help address the cost challenges, EFAB has been searching for financial incentives that would help industry pay for the more costly new technologies. The Board has not yet identified any existing financial incentives for encouraging these investments so it has begun to look for other incentives/reasons for making them. EFAB is exploring areas such as the value of improved corporate image and better environmental responsibility credentials. In addition, EFAB would like to review with OAR the financial implications of the whole suite of future air rules. If any of them might require boiler owners to update to the newer technologies, then EFAB could examine the costs of upgrading now versus the costs of retrofitting now and upgrading later.

As the boiler MACT process continues, the Board preliminarily recommends that:

- 1) Agency coordinate federal resources around the state and local efforts to move companies toward cleaner technologies;**
- 2) the Administrator work across agencies, including the Departments of Energy and Commerce, to promote coordinated assistance to boiler owners by industry;**

- 3) the Administrator encourage redoubled intra-agency cooperation to examine and promote regional success stories in the use of innovative cleaner technologies throughout the country; and
- 4) the Agency review its discretionary grant authority in any programs where boiler owners and the most polluting facilities might be helped to move to cleaner technologies.

Future Thoughts/Next Steps

The Board still believes that the new MACT rules provide an unprecedented opportunity to involve boiler owners in proactively contributing to improving the quality of our environment. If efforts to promote the use of cleaner technologies are successful, and they are widely adopted, they will make a significant reduction in air pollution across the country.

EFAB will continue to expand its financial analysis of boiler owners. This work will include a discussion of opportunities and challenges which vary based on the particular industry, the size, nature and capitalization of the individual firm, and the location of the specific facility.

Among the financing techniques that EFAB will further explore are:

- long-term financing – matched with the useful life of cleaner technologies. Securing loans through a variety of methods using boiler owner's real property, the actual assets or streams of payments, as well as reductions in operating costs. Inducing boiler owners to factor in lower operating costs in the out years in their decision making process;
- public and private sources and mechanisms for coordinating local government finances with federal programs;
- inducement to banks to offer much lower interest rates; and
- opening up federal and state sources to possible taxable as well as tax-exempt obligations.

The Board wishes to note the invaluable assistance of Ellen Kurlansky during this time and we look forward to continuing this important work with your office.

Sincerely,



Michael Shapiro
Designated Federal Official




UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

MAR 26 2012

OFFICE OF
AIR AND RADIATION

MEMORANDUM

SUBJECT: Environmental Financial Advisory Board (EFAB) Letter on Financing Clean Air Technology

FROM: Gina McCarthy 
Assistant Administrator

TO: Barbara J. Bennett
Chief Financial Officer

Thank you for your memorandum of January 11, 2012 forwarding the Environmental Financial Advisory Board's preliminary report on its examination of financing incentives for industrial and institutional boiler owners for the installation of new cleaner technologies. We are especially interested in encouraging the use of combined heat and power as an alternative to retrofitting older boilers with pollution controls. I appreciate that there is no easy or obvious solution to financing that kind of investment. At the same time, improvements would be more energy efficient and could have a financial payback. We will continue to explore this area and I am grateful that the Board will as well.

Again, thank you for the opportunity to comment on the preliminary report and I look forward to their findings as we move to finalize the regulation and provide assistance to companies working together with the Department of Energy. If you have any questions or comments, please contact me or have a member of your staff contact Ellen Kurlansky in the Office of Policy Analysis and Review at (202) 564-1669.