

The Honorable Michael Regan
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20460

The Honorable John Podesta
Senior Advisor for Clean Energy
Innovation & Implementation
The White House
1600 Pennsylvania Ave., NW
Washington, DC 20006

December 5, 2022

RE: The Inflation Reduction Act of 2022 – Section 60103, Greenhouse Gas Reduction Fund: Joint State Recommendations

Dear Administrator Regan and Senior Advisor Podesta:

Thank you for the opportunity to provide comments on the program design and implementation of the Greenhouse Gas Reduction Fund (GHGRF) established in Section 60103 of the Inflation Reduction Act (IRA).

As the heads of energy and/or environmental agencies in Connecticut, Colorado, Illinois, Louisiana, Maine, Michigan, Nevada, New Jersey, New Mexico, Pennsylvania, and Vermont we recognize how critical the \$27 billion GHGRF allocation is to expanding and accelerating state climate change mitigation, advancing clean energy markets and reducing costs for our residents and businesses. These funds have the potential to catalyze large numbers of local jobs, substantially lower energy burdens for low-income and disadvantaged communities, and improve environmental and energy justice in our states.

Congress intended states to be key partners in the administration of this program. We stand ready to work collaboratively with you on fund deployment and administration. This letter is specifically focused on the subset of GHGRF monies directly available to states – \$7 billion allocated to zero-emission technologies (ZET funds). However, we are also interested in partnering with you on the equitable allocation of the remaining approximately \$20 billion, as these funds are critical to our state goals and local economies. For this reason, we encourage EPA to establish a strong, transparent, and accessible governance structure through which states and disadvantaged communities can have direct and ongoing input into funding prioritization of the \$20 billion. This governance structure is especially critical if a large portion of funds will flow through a small number of entities.

In parallel, we encourage EPA to treat the \$7 billion in ZET funds separately from other GHGRF monies. By doing so, we believe that EPA can maximize GHGRF impact, efficiency, and equity. Below, we provide recommendations that are intended to help EPA in meeting its short ZET funding allocation timeline while enabling robust disadvantaged community engagement. The recommendations also ensure coordination across proposed projects and investments to avoid unnecessary duplication, leverage existing programs and funding streams to the fullest extent possible, support established state and federal equity goals as well as existing climate strategies, and are competitively selected. Lastly, our ZET funding recommendations emphasize flexibility, to enable the \$7 billion to adapt to market differences among states, regions, and communities, and to further unlock financing and private capital for project types and communities experiencing barriers not addressable by financing alone.

ZET Funding Recommendations:

Signatories to this letter recommend the following processes and program implementation strategies for ZET funds.

- A. **Use a formula-based allocation to states:** We recommend that ZET funding first be offered via formula-based grants to states, with a minimum allocation per state. As a first step in this process, states would need to indicate interest and identify the specific state agency or other state-specific entity that would receive and administer the funds.¹

Upfront grants received by states would seed the program and provide for administrative functionality.² Upon receiving a formula-based grant and prior to awarding funds to eligible projects, states would be required to submit a competitive project selection process to EPA for review and approval. At minimum, EPA-approved project selection processes should create a call for projects (open to all entities within a state that are eligible to receive ZET funds under Section 60103), a competitive ranking process of those projects, and a publication process for a final Intended Use Plan within a specified period of time. Final Intended Use Plans would detail the pipeline of competitively-selected, eligible projects that would receive funds within a state.

Using this allocation method, the EPA could quickly allocate large portions of funding while enabling competitive and equitable project selection, and ensuring coordination among the various entities within a state that are eligible to receive these funds. Requirements issued by the EPA to guide the development of Intended Use Plans should require robust stakeholder engagement, especially with disadvantaged communities, to help determine localized priorities to be reflected in project scoring and ranking processes. Other EPA requirements could establish minimum criteria that must be considered when scoring and ranking project proposals or could be used as minimum requirements for a portfolio of competitively selected projects.

Should a state opt not to receive formula funds, unallocated funds could be reallocated by EPA into a nationally competitive pool. This pool should be used by EPA to fund eligible multi-state, regional, and national projects and coalitions, as well as supplemental individual state applications.^{3,4} Applicants for regional and national funds should be required to collaborate with impacted states. In addition, should a state that initially opted to receive formula funds fail to submit an approvable final Intended Use Plan within the specified period of time or not fully allocate all formula-based funds via their final Intended Use Plan, those unallocated funds could also be reallocated to the nationally competitive pool.

Altogether, this proposed allocation method would achieve rapid funding allocation from EPA, robust stakeholder engagement, realistic application development timelines, project alignment with existing

¹ State climate offices, energy offices, green banks, or non-government entities may have the appropriate resources and expertise to administer these funds. Flexibility for states to choose the most appropriate administrator will maximize deployment efficiency and success.

² EPA's current State Revolving Funds (SRF) program, could serve as a model from which to build this type of allocation process

³ For example, states with greater qualified project demand than available initial grant funding could apply for additional funds from the nationally competitive pool.

⁴ EPA's Water Infrastructure Finance and Innovation Act ("WIFIA") program, offers a potential model for such a direct and competitive application process with EPA.

local, state and federal climate and equity strategies, synergies with and leveraging of existing programs (including the ability to address gaps or barriers to deployment of other federal funds under the IRA and the Bipartisan Infrastructure Law), applicant coordination to minimize proposal duplication, and flexible project scoring approaches that can support locally-identified priorities – all of which are critical to advancing equity in funding deployment.

- B. Ensure fund use flexibility:** Significant gaps in climate and clean energy markets are not addressable with financing alone. Financing deployment may be hindered by market failures or inefficiencies such as workforce limitations, inequitable education and career pathways, unequal information and data sharing, or regulatory delays. Each state, market, and disadvantaged community is likely to have its own gaps or market barriers that, if remedied, could unlock significant private investment. By allowing ZET funding to act as flexible, gap-filling monies to complement increased and more accessible financing, EPA can help to unlock private capital for projects and communities that currently experience systemic financial inequities.

Specifically, EPA should permit the \$7 billion of ZET funds to be awarded to projects as grants, rebates, loans, or other financial offerings and products that will best serve a community. EPA guidance should permit the funds to be used for staff, technical assistance such as application assistance, community engagement, project financial management support, long-term project management, operation, monitoring, and evaluation work, and workforce development that enables increased zero-emission technology deployment. Cost-share should not be required since identifying matching funds can be a substantial barrier to many disadvantaged communities.

As states that administer a variety of energy and environmental programs, the signatories of this letter recognize that funding gaps and barriers vary greatly by market, state, and community. For this reason, we encourage EPA to retain the substantial flexibility provided in the ZET statutory language and while ensuring that development of Intended Use Plans engage local, income eligible and disadvantaged communities to determine their specific preferences and fund use priorities.

- C. Permit the use of state-specific definitions:** To further support equitable funding deployment and to enable leveraging of existing programs and funding streams, we recommend EPA provide guidance on how states can utilize any state-specific definitions for “low-income”, “disadvantaged communities” and other related terms such as “environmental justice zones” alongside national tools like the EPA’s EJScreen and CEQ’s Climate & Economic Justice Screening Tool. States have local knowledge of community needs that may be more refined than a national tool, making it especially important that state definitions be permissible for use in GHGRF funding allocation decisions.

Thank you for the opportunity to submit comments on this important program. We look forward to continuing to collaborate with EPA throughout the GHGRF development and implementation phases.

Sincerely,



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