



December 6, 2022

The Honorable Michael Regan, Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460
RE: GHG Reduction Fund (Docket ID: EPA-HQ-OA-2022-0859)

Dear Administrator Regan:

Section 60103 of the *Inflation Reduction Act* (IRA) provides a unique opportunity to utilize financial assistance to advance the public interest. The Greenhouse Gas Reduction Fund (GGRF) enables three types of funding opportunities that can empower a range of state and local government and private-sector finance implementers and innovators to make investments that both reduce emissions and improve the quality of life for residents of our states and communities. The envisioned GGRF financial assistance and investment actions support a national move to accelerate emission reduction opportunities utilizing energy efficiency and other clean energy technologies that can benefit all consumers and businesses, especially those living in disadvantaged communities.

The National Association of State Energy Officials (NASEO) offers these comments based upon the decades of experience the State Energy Offices have in developing, implementing, and managing clean energy financing programs. NASEO has worked with states and their public-sector and private-sector clean energy financing and technology partners for almost 40 years. The vast majority of the 56 State, Territory, and District of Columbia Energy Offices operate financing programs and a number of these offices have aided in the creation of green banks and other non-profit financing organizations within their states. Since the 1970s, approximately 42 State Energy Offices have initiated and overseen clean energy financing and grant programs.

NASEO's Overarching Recommendations for Implementing Section 60103

NASEO offers the following overarching recommendations for the implementation of Section 60103:

- 1. Utilize a Formal Partnership Among EPA, DOE, State and Local Environmental Agencies, and State Energy Offices to Leverage Technological, Climate, and Financing Expertise.***

While the GGRF's goal is straightforward, the strategies needed to mobilize financing for clean energy and climate projects that reduce greenhouse gas emissions, particularly in disadvantaged communities, are complex. Successful implementation of Section 60103 will implicate a robust set of stakeholders coordinated across

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multiple sectors and levels of government. A formal partnership among EPA, the U.S. Department of Energy (DOE), state and local environmental agencies, and State Energy Offices will support much-needed cross-sectoral collaboration and coordination. EPA's environmental leadership will ensure the reduction of greenhouse gases (GHGs) and other criteria pollutants that exacerbate climate change and impact the health of residents of all states. Similarly, state energy and environmental agencies are well-positioned to aid in guiding and leading these efforts at the state and community level. Because most GHG emissions result from energy production, distribution, and end-use, the solutions that Section 60103 will support are fundamentally clean energy solutions – supply- and demand-side energy efficiency, solar, wind, hydro, carbon capture, advanced nuclear, bioproducts, electrification, and other innovations – and would benefit from the decades of policymaking, program design, and technology deployment expertise that State Energy Offices bring.

NASEO urges EPA to consider a formal partnership or “Joint Office” for the implementation of the GGRF and deliver on the Biden Administration's oft-stated “whole of government” approach to climate action. As a model, the joint actions of DOE, the U.S. Department of Transportation, and EPA in creating a Joint Office to advance transportation electrification is currently achieving great success. The U.S. Department of Housing and Urban Development and U.S. Department of Agriculture could also offer representatives, based on their experience with low-income housing and rural clean energy financing.

Many state clean energy financing programs were created with the aid and partnership of DOE and focus on working through state- and community-based financial innovators. In addition, DOE's programs (e.g., Weatherization Assistance Program) and initiatives focused on affordable housing energy efficiency and energy system resilience utilizing zero emission technologies can support disadvantaged communities in synergistic ways. Importantly, many of the programs DOE is currently implementing under the *Infrastructure Investment and Jobs Act* (IIJA) and the IRA are synergistic with the GGRF and other EPA programs under these same statutes.

For these reasons, pairing the existing clean energy financing and technology expertise of DOE and the State Energy Offices with the climate and environmental expertise of EPA and state and local environmental agencies could unlock tremendous program implementation value for disadvantaged communities and others.

2. Include Program Design Requirements that Proactively Leverage Other State Clean Energy Financing and Deployment Programs

NASEO urges EPA to work with State Energy Offices in implementing GGRF funding opportunities to leverage their expertise and billions of dollars they oversee in clean energy financing, deployment, and technical assistance programs that they already operate, as well as new activities, such as the following: IIJA Section 40502, \$250 million Loan Fund; Section 40109, \$500 million State Energy Program; Section 40101(d), \$2.5 billion grid resilience program; Section 40552, \$550 million Energy Efficiency and Conservation Block Grant Program; and IRA Section 50121 and 50122, \$9 billion residential efficiency and electrification programs.

NASEO has worked with states and their public-sector and private-sector financing and technology partners for almost 40 years to advance clean energy and energy efficiency innovations. In fact, the vast majority of the 56 State, Territory, and District of Columbia Energy Offices operate clean energy financing programs and a number of these offices have aided in the creation of green banks and other

non-profit financing organizations within their states. Since the 1970s, approximately 42 State Energy Offices have initiated and overseen clean energy financing programs.

NASEO recommends that all three EPA 60103 financial assistance and investment programs include guidance to awardees to coordinate efforts with State Energy Offices. Awardees should also be encouraged to work with entities receiving the environmental and climate justice grants pursuant to IRA Section 60201. EPA should also explicitly tie the greenhouse gas air pollution plans and implementation grants under IRA Section 60114 to the 60103 programs.

In addition, NASEO recommends that EPA create or support an ongoing Section 60103 advisory group that includes representatives of State Energy Offices and other stakeholders. Once 60103 funding is awarded, ongoing guidance and coordination among various state, local, tribal, and private-sector stakeholders will benefit EPA decision making and allow EPA to better inform stakeholder actions and co-investment. Such a working or advisory group could be organized and led by an external organization(s) to afford greater flexibility.

3. *Emphasize Energy Efficiency to Reduce Emissions and Enhance Economic Outcomes*

NASEO recommends that EPA prioritize energy efficiency deployment in the award process and incentivize demonstration of energy cost savings and reduced energy demand in relevant program investments. Prioritization of energy efficiency – supply and demand – is essential to emission reduction objectives, and is a necessary component to optimize energy equity, affordability, and reliability.

An energy efficiency linkage and energy cost-savings metric is an important tool to help ensure consumers do not take on debt to finance an energy project without benefiting from a financial perspective. For example, a rooftop solar project that includes low-interest debt financing could be supplemented by energy efficiency retrofits funded by grants and allow for low-interest debt repayment and greater greenhouse gas emission reductions. This is an especially important concept in supporting low-income and disadvantaged communities, and particularly as electrification of home heating and cooling continues to proliferate.

EPA should also ensure funding from the GGRF is encouraged to complement the Home Energy Performance-Based, Whole-House Rebates and High-Efficiency Electric Home Rebate programs included under Sections 50121 and 50122 of the IRA. In 2020, residential buildings accounted for 20 percent of energy-related carbon dioxide emissions by end-use sector in the United States. Home retrofits and the installation of zero-emissions technologies like insulation combined with high-efficiency heat pumps reduce emissions and can lower home utility bills. These home rebate programs include substantial funding targeted at disadvantaged and low-income communities and are synergistic with GGRF.

Funding-Stream Specific Recommendations

NASEO offers the following funding-stream recommendations for EPA's implementation of the Section 60103 – 134(a)(1) \$7 billion program; 134(a)(2) \$11.97 billion program; and 134(a)(3) \$8 billion program:

1. Section 60103 – 134(a)(1) (\$7 Billion)

Ensure Speed, Scale, Diversity, and Flexibility – The overarching recommendations for Section 60103 programs noted above support the statute's objectives of prioritizing both emissions reductions and meeting the needs of low-income and disadvantaged communities. A critical means to accelerating the

pace of investment (i.e., why should the benefits for disadvantaged communities be delayed?) and the scale of emissions reductions is to proactively leverage existing State Energy Office and other state agency programs, including those funded under the IIJA and IRA. For these reasons, NASEO recommends that under the Section 134(a)(1), \$7 billion program, EPA allocate a significant portion of these funds on a formula basis to state and territory agencies, as designated by their respective governors in their applications. For the formula awardees, additional EPA guidance could include the application of equitable awardee principles (similar to those included in our comments below for the Section 134(a)(2) and Section 134(a)(3) programs) where funds are reallocated by states to other providers. It is also critical that EPA couple energy efficiency initiatives with rooftop solar to ensure that low-income Americans save money and energy while reducing greenhouse gas emissions.

This formula approach would achieve several important objectives: 1) rapidly move funds toward deployment and utilization in every state and territory; 2) ensure the delivery of funds in a geographically diverse manner that competitive awards cannot achieve while delivering emissions reductions in every state; 3) enhance leverage of these funds with other state energy and environmental resources; 4) avoid inadvertently prioritizing competitive awards for those entities that have exceptional grant-writing resources and skills; and 5) increase the likelihood that the zero emission opportunities unique to each state and disadvantaged community are met. EPA can also utilize program awardee guidance that includes issues such as emissions reduction and equity in sub-awardee decisions.

In its utilization of GGRF funds – whether provided by formula or competitively – EPA should include flexibility in how states meet and exceed the goals of the program. For example, there are a range of EPA and DOE resources to aid states in defining low-income and disadvantaged communities to meet Justice 40 requirements. However, states and their local partners often have their own, more relevant and granular data, which can augment national-level information and tools. EPA should provide flexibility and guidance to states on employing state definitions for disadvantaged communities and income levels. State definitions combined with federal data and tools, such as the EPA-EJ Screen and DOE–Disadvantaged Communities Reporter, will produce more meaningful outcomes and benefit disadvantaged communities most in need of assistance.

2. Section 60103 – 134(a)(2) (\$11.97 Billion) and Section 134(a)(3) (\$8 Billion)

Require Greater Equity in Selecting Financing Organization Awardees for Better Results – The GGRF statute prioritizes low-income and disadvantaged communities, as well as projects that lack access to private capital. However, it is not enough to prioritize these communities. It is essential that awardees selected for GGRF funds, particularly under Section 134(a)(2) (\$11.97 billion) and Section 134(a)(3) (\$8 billion), include a substantial number of diverse entities. For example, state green banks, in states that have them, are important entities for program implementation due to their proximity to target markets and their ability to fill in financing gaps in disadvantaged communities. Non-profit community lenders, such as Community Development Finance Institutions (CDFIs), are also well-positioned to serve disadvantaged and low-income communities. Where funds are allocated to non-profit community lenders and other entities whose primary missions are not energy and emissions related, EPA should be clear in directing that GGRF funding can only be used for emission reductions resulting from clean energy portions of projects, and not for the full cost of development projects such as housing.

NASEO is concerned that a focus on a national-level awardee(s), rather than state green banks and non-profit community lenders, will produce missed opportunities for under-resourced and marginalized communities to access GGRF resources.

An example of the importance of proactively elevating minority-led community solutions is demonstrated by the outcomes of the federal New Markets Tax Credit program led by the U.S. Treasury. This program provides funding allocations on a competitive basis to Community Development Entities (CDEs) to incentivize economic development in low-income and disadvantaged communities – including those in urban, rural, and Tribal areas. According to the Hope Policy Institute’s analysis, African American and minority-led CDEs often receive smaller allocations when compared to white-led organizations, and communities that are “majority-minority” experienced lower levels of deployed investments. Based on allocations received by minority-led CDEs from 2012-2019, amounts ranged from a low of five percent of total allocations in 2014 to a peak of just sixteen percent in 2017. While these results were clearly unintended by the U.S. Treasury, by not proactively prioritizing capital gaps in the awardee process there was nevertheless an inequitable impact on many disadvantaged communities. An institutionally equitable approach to program design, including prioritizing the capitalization of African American, Latino, and Tribal non-profit and not-for-profit financing entities serving rural and urban communities – particularly within Section 134(a)(2) Section 134(a)(3) programs – can avoid this unintended outcome.

In addition, the capitalization of a diverse array of community lenders with specific GGRF lending criteria for GHG and other emissions reduction goals will aid in building the technological innovation and wealth of these communities. Failure to seed community lenders also diminishes the potential for high-impact energy efficiency and clean energy investments because community-based lenders are often better positioned to understand the opportunities and needs of the communities they serve. For state, local, Tribal and other awardees, Section 60103 – 134(a)(1) already requires funds to be utilized for low-income and disadvantaged communities. However, additional EPA guidance for these awardees could include similar equitable awardee principles when they reallocate funds to other providers.

Finally, congressional intent prioritizes this \$7 billion program for primarily for low-income rooftop solar investments which could be paired with energy efficiency improvements for maximum impact. NASEO looks forward to working with EPA to coordinate this program with existing state activities, such as residential energy efficiency and new IJIA and the IRA programs.

Conclusion

NASEO appreciates not only the opportunity that EPA has provided to offer our comments through this docket, but also for the robust formal stakeholder discussions EPA has held with NASEO and other organizations representing state and local energy and air agencies. We look forward to working with EPA and other federal partners to aid communities in utilizing the 60103 resources to the greatest emissions reduction and economic development impacts possible.

Best regards,



David Terry
Executive Director, NASEO

cc: State and Territory Energy Directors