



**ENVIRONMENTAL FINANCIAL
ADVISORY BOARD**

Public Comments Received for Environmental Financial Advisory Board
Investment Tax Incentive for Water Reuse Infrastructure Listening Session

May 21, 2024

FEEDBACK: TAX INCENTIVE FOR WATER REUSE INFRASTRUCTURE

To:	GEORGE KELLY
From:	LANCE HEALY (FD Real Asset Advisors, LLC)
Date:	MAY 17, 2024

Dear George:

I wanted to provide feedback from the perspective of my private markets project finance investment banking practice relative to the Tax Incentive for Water Reuse Infrastructure evaluation by the EFAB working group.

Framing perspective: I am a FINRA-licensed investment banker, focusing on arranging private capital (debt, equity, tax credit finance) for a variety of infrastructure projects, which has included various water/wastewater/recycling opportunities. My clients tend to be private companies, either developing a private infrastructure project as an income-producing enterprise, or creating an infrastructure asset as part of an overall project (e.g. manufacturing plant).

Feedback to EFAB considerations:

EFAB's mission is to explore ways to lower costs and increase investments in environmental protection. An investment tax credit to encourage private investment in water reuse and recycling infrastructure has the potential to expand the market for recycled water and innovative treatment and reuse technologies to reduce wastewater discharges and reduce freshwater demand.

Based on EFAB's interpretation such a tax incentive would be focused on encouraging investment in equipment at privately owned industrial facilities to enable the use of municipally provided recycled water and/or enable onsite treatment and reuse of different sources of water.

If the motivation is to expand the recycling of water, why limit such to municipally-provided recycled water or captive recycled water as part of industrial projects? For example, why should this incentive not be available to a company that might want to develop an independent, private water treatment facility that may sell recycled water to multiple industrial users or event perhaps into other sectors?

Evaluate the "public benefit" of a potential investment tax credit for privately owned industrial facilities
1. Consider public benefits to both local utilities and ratepayers (often overlapping but also distinct). For example, this can include lower water rates/increased local water affordability than would otherwise be expected (i.e., utility does not bear the cost of having to find new sources of water to support industrial water use), potentially greater local climate resilience and drought mitigation, and a shift to a more sustainable utility business model to ensure fiscal health in light of declining water sales overall.

Recycled water could be an offset to further groundwater depletion – especially in sensitive areas of the country. The recycled water would also help remove more freshwater from "brown water" eligible activities (industrial, landscaping, etc).

2. How broad or narrow should the considerations for the public benefit of a tax credit be? Potential options include decreases in: i. Wastewater discharges to surface waters from a publicly owned treatment works processing industrial wastewater, ii. iii. Discharges directly from an industrial facility, Demands on both freshwater (surface and groundwater) and treated drinking water due to the use of recycled water, and/or 1 iv. Aggregate energy demand due to decreased conveyance needs for onsite water reuse as well as decreased treatment needs for processes not requiring water of drinking water quality.

I believe the broadest definition of public benefit would be ideal, using a tiered incentive concept mentioned below, to facilitate the widest breadth of activities which might have a positive impact.

3. How can we best measure and quantify potential public benefits? This can be monetary benefits to local water utilities, as well as environmental benefits to the entire community.

I might suggest something like a tiered credit as a percentage of capital costs for project based on type of water reused, which should correlate to operating costs required to clean and reintroduce (e.g. cost to clean AMD contaminated water vs reuse of stormwater would be different but both could be valuable). Perhaps water systems engaging in recycling projects could utilize these credits to help support needed upgrades and improvements to water delivery systems as well.

Reporting and performance tracking using SASB Water & Wastewater Management standards per industry or similar would seem to make sense to me.

4. Externalities and unintended consequences should also be taken into consideration. For example, increased onsite reuse may result in more a concentrated discharge to a POTW and result in pretreatment concerns for a POTW.

If widely adopted, could large-scale reuse affect the discharge into waterways, impacting the water volume – especially in times of drought?

B. Evaluate the optimal investment tax incentive to encourage innovation

1. How can a tax credit be best established to encourage investment without providing a subsidy that is too generous (i.e., a subsidy for investment that the private entity is likely to have made even without the benefit of the credit)?

Tiering based on water quality would be one way to motivate most challenging activity.

What is the generally accepted minimum return on investment for water reuse and recycling infrastructure at industrial facilities?

In very general terms I would think private infrastructure investors would be looking for ~8-10% yield minimum for investment grade and ~15% expectation for non IG activities pretax.

Should there be a required public benefit be (e.g., volume of water savings) to qualify for the tax credit?

I believe that proper screening would align with public benefits more than trying to determine on a deal by deal basis. The more subjectivity the credit, the less efficient it will be.

2. Should this be a one-time tax credit or an annual tax credit? If this is a recurring tax credit, for how long should the credit be available for?

I believe that a one-time up front investment tax credit would be the most effective in inducing new projects

3. Should there be limitations on the industrial sectors eligible for a potential tax incentive?

Yes, should be involved in sustainable activities.

Should the value of the tax incentive be the same across eligible sectors or should there be specific priorities?

I believe that the tiering tied to the water condition would be the most effective way to align and motivate

4. Are there any specific differences between the use of municipally provided recycled water and the treatment and reuse of onsite generated wastewaters that a potential tax incentive should take into consideration?

In my view, the municipal markets have access to multiple lower-cost (relatively) financing resources compared to the private markets (municipal bonds, state environmental finance authorities, farm credit banks, USDA nonprofit program, etc), so I would expect that any new incentives might have less impact in the public sector than in the private sector. Again, I believe that the investors should extend beyond industrial activities to cast the widest net and induce many different players into these activities.

Credits would ideally be clearly defined, with limited dependency on third-party studies to qualify and quantify, thereby ensuring a transparent and clear process.

They would also ideally be readily transferrable with the performance obligations remaining with the transferor, not transferee, to avoid unnecessary transactions costs (i.e. insurance) and help support the marketplace.

In addition, it would be ideal if the terms and conditions were also well designed in order to reduce the documentation costs and improve consistency, if such is feasible.

Finally, it would be ideal if these credits were available to individual taxpayers as well as corporations.

Thank you for the opportunity to provide feedback on what could be a very exciting program.

Regards,

A handwritten signature in black ink, appearing to read 'Lance Healy'.

C. Lanier (Lance) Healy
Managing Partner
FD Real Asset Advisors, LLC
1230 Peachtree Street, Suite 1500
Atlanta, Georgia 30309
Lance.healy@fdrealassets.com
(404)573-4264

IMPORTANT NOTICE

This information is being furnished through FD Real Asset Advisors and is for informational purposes only and does not constitute an offer, invitation or recommendation to buy, sell, subscribe for or issue any securities. The material is based on information that the Company considers correct, however, no warranty is made as to the accuracy or reliability of any estimates, opinions, conclusions or recommendations. Private placements are not suitable for all investors. Private placement securities are speculative, illiquid and carry a high degree of risk, including the loss of the entire investment. The principals of FD Real Asset Advisors are registered representatives of BA Securities, LLC. Securities and investment banking services are offered through BA Securities, LLC Member FINRA, SIPC. FD Real Asset Advisors and BA Securities, LLC are separate and unaffiliated entities.

May 31, 2024

EPA Environmental Financial Advisory Board
Water Reuse Tax Incentive Workgroup

RE: Investment Tax Incentive for Water Reuse Infrastructure

Dear Ms. Bricmont,

Grundfos Americas Corporation appreciates the opportunity to provide its comments on this important issue. We strongly endorse the development of an investment tax credit to support private investment in industrial water reuse and recycling infrastructure.

At Grundfos, we pioneer solutions to the world's water and climate challenges and improve quality of life. Every day, our energy efficient pumps power industries, provide comfort, deliver drinking water, remove wastewater, or help farmers water their crops all over the world.

As the world's largest pump company, not only is water our business, but for over 70 years it has also been our mission. Likewise, we are at the forefront of innovations to tackle issues like flood control and non-revenue water and create high efficiency solutions for effective water use in industries.

It is important that investment in water and energy efficiency innovations continue, and incentivizing action in the industrial sector is vital to larger sustainability goals.

Kind regards,

Chris Hogan
Director, Public Affairs USA

+++++

Should an investment tax credit be developed to support private investment in industrial water reuse and recycling infrastructure, and why or why not?

Yes. Water is the foundation of life as we know it; clean water for drinking, to growth crops and food in general, and to fuel industries that create growth and prosperity. However, clean water is a limited resource and concerns about the reliable availability of water are growing. Industry as a

major user of clean water has an important role to play in the more efficient use of water. Indeed, industries critical to health, innovation, and people's lives, such as food production, pharmaceutical, medical, technology, and science, all demand reliable and safe water resources for all aspects of production, cooling, and cleaning.

Many innovative technologies driving the green energy transformation, such as green hydrogen, require significant use of water. Without a doubt, the transition to scalable green energy solutions also depends on the effective and sustainable use of water.

We believe implementing a tax credit designed to support investment in industrial water reuse and recycling infrastructure will help encourage increased water and energy efficiency and manage overall demand. New, updated, and improved water reuse infrastructure are critical to securing a resilient, reliable, and sustainable future for our water supply. Additionally, the practical benefits of a well-designed tax credit provide an avenue for investment that supports the need for businesses to make smart and beneficial financial decisions as part of their own fiduciary responsibilities.

Additionally, it is important to emphasize that the long-term benefits of an investment tax credit are significant and wide-ranging. The impact of a tax credit encouraging investment in water reuse will last longer than the need for the credit itself. The ROI of such an investment instrument will be well worth the effort because water and water reuse infrastructure impact communities, and society at large, for decades and support the health and welfare of millions of Americans.

How can an industrial investment tax credit be structured to maximize public benefit and encourage private investments in reuse and recycling infrastructure without providing a subsidy that is too generous? Should only the entity owning the equipment be eligible for the tax credits or should it be available to others in the treatment process? Should the tax credits be transferable?

Tax credits should be designed to encourage the maximum interest in industrial water reuse and recycling investment and promote innovative thinking and technological and operations applications.

For example, giving higher tax credits in places where water stress is high would ensure that the benefits are going to communities where water issues are urgent. By reducing the pressures on water supply and infrastructure, such investments would also help prevent rising costs and restrictions on water use for people and communities. Moreover, by incentivizing industrial water reuse, which can be treated to purpose rather than to drinking water standards, the tax credit can avoid wasting water or using more energy than needed.

Tax credits that incentivize the equipment owner will have a strong impact on decision making, but providing scaled tax incentives along the treatment process can also help to align business interests and those decisions. While the primary focus of this Charge is on industrial water use, it should also be considered for other large volume water users. There should also be a larger goal of

reducing overall wastewater discharges and demand on freshwater and treated drinking water, as well as reductions in associated energy demands.

Would a tax credit for industrial reuse and recycled water infrastructure investment look different by industrial sector or type of use, and should there be a minimum volume of recycled use to qualify?

Based on application and needed infrastructure, it could make sense to scale tax credits to meet varying investment needs. However, the larger goal should be to match the tax credit incentive to the sector's needs and business opportunity. Up-front costs will vary, and volume-driven needs will impact expenditures, which, in turn, will make such tax credits more important in the decision-making process. Establishing minimum volumes could be one metric for measuring the impact as well as creating a baseline for assessing the tax credit's effect on water reuse operations.

The tax credit could be used for implementing peripheral technologies that drive circularity in building heating and cooling systems. These types of systems can capture heat from wastewater and use that heat to pre-condition buildings' heating water which will ultimately reduce the energy consumption of building heating systems.

Regardless of the approach, there should also be a measurement and verification methodology to capture the amount of water and energy savings connected to such tax credits.

Should water reuse tax credits also be considered for large commercial or agricultural uses, and if so, how would you define?

Yes. If the primary goal is to encourage and incentivize more impactful and effective water use and reuse, major use sectors should be incentivized to participate. In particular, 'purple pipe' investments, meaning increased capture and reuse of nonpotable water repurposed for uses such as agriculture and irrigation, should be incentivized.

Cleaning used water is important, but reusing and recycling water will become more and more critical in a water-stressed world. Additionally, the waste itself from wastewater can be extracted and converted to usable items such as fertilizers that will have peripheral GHG emission benefits.

So, from agriculture to utility cooling to cleaning processes, all large commercial operations should be encouraged to become more water efficient.

Are there any unintended consequences to public utilities, and if so, how could they be mitigated?

There is the potential for utility demand reduction based on particularly successful water reuse upgrades. There is also the possibility that increased efficiency and reuse capabilities will drive up

production and increase water utility demand. Municipalities and industries can work together to reduce and manage these impacts effectively. We think that this kind of transparent, cooperative, and careful approach is the right and best way forward.

Are there any other considerations that should be taken into account?

We think that the main issue is the possible cost of doing nothing. For example, even though the industrial and technology sectors in the US offer great opportunity, if water efficiency and circularity are not improved, they could also pose a threat to water supply and security.

An investment tax credit for water reuse and recycling infrastructure will directly affect water efficiency and security. High costs and long payback time are obstacles to action in the industrial sector along with the relatively low cost of water. Examples of how to use tax credits effectively to motivate corporations to move forward for the public good can be found in the successes of green energy investment and energy efficiency. These are issues that Grundfos has been dedicated to for a long time and that have a direct and significant impact on people's lives every day.

Denver Water Recycled Water Program Comments on EFAB Industrial Reuse Tax Incentives

Question 1: Should an investment tax credit be developed to support private investment in industrial water reuse and recycling infrastructure, and why or why not?

We think an industrial tax credit would be helpful in expanding the scope of reuse in our service area, both for our existing centralized non-potable recycled water system and future decentralized reuse applications. Under our current policies, interested industrial customers must be close to existing purple pipe and have sufficient non-potable uses to make it financially feasible to connect to our centralized system. Our purple pipe system does not cover our full service area, so for us to expand reuse on a larger scale we would need to consider decentralized systems that could help take the strain off our potable water supply. Even with a reduced rate for recycled vs. potable water and a flat rate vs. a tiered system, potential industrial reuse partners have often selected a potable connection because the return on investment associated with using recycled water is too long (can be 50+ years). A tax credit could help industrial investment in reuse look more attractive.

Additionally, we are a water utility that provides drinking water and recycled water to our customers; we do not provide wastewater treatment services. Since our scope is only a portion of the urban water cycle, the full benefits of water reuse are not realized by our utility, yet we are obliged to our customers to be fiscally responsible. A tax incentive could help us promote centralized and decentralized reuse approaches that have a net benefit to our customers who pay multiple bills for water/wastewater/stormwater services.

Question 2: How can an industrial investment tax credit be structured to maximize public benefit and encourage private investments in reuse and recycling infrastructure without providing a subsidy that is too generous? Should only the entity owning the equipment be eligible for the tax credits or should it be available to others in the treatment process? Should the tax credits be transferable?

We would support the creation of a tax credit that allows for creative and innovative approaches to water reuse. The tax credit should be offered to new construction and retrofits, when possible, to broaden the pool of those eligible. Using benefits that are not directly tied to water savings, such as ambient water quality improvements, in evaluation criteria for funding could help increase the public benefit.

Question 3: Would a tax credit for industrial reuse and recycled water infrastructure investment look different by industrial sector or type of use, and should there be a minimum volume of recycled use to qualify?

Flexibility in how the credit was administered could allow for more innovation and multi-benefit projects to be implemented. Successes from Los Angeles County's Measure W, which accounted for multi-benefits related to green stormwater infrastructure as part of the funding application process, should be considered. Also, the credit should not be limited to a minimum volume so that the utility can evaluate the impacts to their system case-by-case. We encourage the inclusion of a water stewardship metric or assessment to show the holistic impacts of the proposed water reuse investment on local water supplies.

Question 4: Should water reuse tax credits also be considered for large commercial or agricultural uses, and if so, how would you define?

An expanded tax credit for large commercial or agricultural uses would also help scale reuse adoption. In our service area, urban agriculture and multi-family homes could benefit the most from this credit. Defining the uses should be flexible and align with state reuse regulations.

Question 5: Are there any unintended consequences to public utilities, and if so, how could they be mitigated?

Unintended consequences will vary based on utility type (i.e. drinking water vs. wastewater vs. combined water wastewater) and under what roof recycled water is managed. On the drinking water side, reuse allows for potable offsets and can help save pristine water sources for critical indoor uses like cooking and drinking. Industrial reuse, if made more financially attractive, could lead to the expansion of water-intensive industries in water-scarce areas which could threaten long-term resilience. On the wastewater side, expanded reuse could result in lower flows to the sewer system and resource recovery facility which could impact long-term operations. Grouped with other conservation measures, increased reuse could result in higher concentration wastewater and pose treatability challenges. Compliance with emerging water quality regulations could be impacted by large-scale industrial reuse.

Depending on the scale of adoption, current rate methodologies and cost-recovery models related to recycled water may be impacted. Utilities could benefit from guidance for recycled water rate-setting in the presence of industrial incentives.

In Colorado, water rights may be an issue depending on the scale of industrial reuse adoption. Generally, property-scale reuse systems would not pose a threat to water rights administration but larger-scale/district systems may trigger concerns and require augmentation water and reduce the benefit to utilities and the public.

To mitigate some of these impacts, it would be helpful if EPA helped fund/create a simple tool that could simulate the impacts of industrial adoption on water and wastewater utilities. The tool could help identify at what scale of adoption that utilities would need to start mitigation measures for some of the impacts listed above and help show scenarios under different rates of adoption.

Question 6: Are there any other considerations that should be taken into account?

Thank you for the opportunity to comment. Our concerns and insights were all addressed by the previous questions.