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Tara Johnson
EFAB Alternate Designated Federal Officer
Water Infrastructure & Resiliency Finance Center
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1201 Constitution Avenue N.W.
Washington, DC 20004

Dear EFAB Alternate Designated Federal Officer Johnson,

In 2023, the Water Reuse Interagency Working Group requested the EPA Environmental Finance Advisory Board (EFAB) provide recommendations on the public benefits of an investment tax incentive for industrial water reuse and recycling. The American Fuel & Petrochemical Manufacturers (AFPM) is pleased to provide its views on how an investment tax credit could bolster private investment in industrial water reuse and recycling infrastructure.

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

An investment tax credit could support private investment in industrial water reuse and recycling infrastructure. Industrial users in the energy sector rely on water for several critical applications, including cooling and steam generation. Water challenges may pose business continuity risks, and resilient water systems are needed for our members' operations to ensure they meet society's evolving needs. Our industry is already investing in water reuse and recycling technologies where there is a threat of water scarcity. A tax credit tailored to support industrial water reuse and recycling infrastructure that could offset operational costs would provide financial incentive to accelerate the adoption of water reuse and recycling technologies not only in our industry but should be made available to many others as well. In addition to adding resiliency to industrial sectors and reducing the demands on local watersheds, a tax credit could spur advancements in the development of water technology.

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?

If an investment tax credit is implemented, it should be adaptable and accessible to various entities engaged in water-savings efforts in regions where water conservation is necessary. Eligibility should encompass a broader range of activities related to water reuse and recycling to encourage all water

conservation innovations. Additionally, the credit should be transferable, allowing for collaboration and partnership among entities to maximize water savings.

Tax credits should be transferrable if a facility transfers ownership to a new company. The credit provided to the entity is for the technology and sustainability benefits of that technology to the community. For example, the credit could be structured based on reduction of water intake or account for the expenditure of capital cost for technology required to attain a water quality reuse threshold and offset requirement.

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?

Considerations for the availability and scale of a tax credit could consider factors such as local water scarcity. A sliding scale based on volume or a de minimis threshold could ensure the tax credit appropriately incentivizes water recycling while accommodating various circumstances across different industries.

EPA should also consider incentives for meeting a certain percentage reduction in source water consumption or wastewater discharge. This would incentivize smaller facilities to invest in water efficiency technology even if they could not meet certain volumetric thresholds.

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

Yes, tax credits should be considered for large commercial and agriculture users, recognizing their significant impact on water consumption. For society to get the most benefit for the lowest price, similar levels of support should be available to all sectors, with the market deciding the most economically competitive projects to pursue.

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

Unintended consequence could vary based on utility type and how the program is structured. For example, public utilities supplying water to facilities and utilities that accept facility wastewater as industrial users would see reduced revenues. Additionally, end-of-pipe recycle/reuse technologies tend to increase salt concentrations at the publicly owned treatment works (POTWs). If the increased concentration is too severe for the POTW, these residual streams may need another disposal method. This result would apply to direct dischargers, where we know higher salt loads impact on effluent compliance. Finally, consistent regulation is needed for facilities providing treated effluent to a third-party user (agriculture, landscaping, etc.). Oversight of public utilities varies based on a state/local level and would need to be investigated for each facility looking to provide treated water.

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

The importance of beneficial reuse and technological advancements should be considered in the context of a potential tax credit. For example, discharges of effluent to a water of the United States (WOTUS) should qualify as a beneficial reuse since the water certainly would provide more benefit in the WOTUS than being sent to the evaporation ponds or discharged to underground injection control (UIC) wells.

Some large recycling projects may require pilot testing to ensure a project can be implemented and successful. However, this can extend the design phase of large infrastructure projects. The long time horizon associated with infrastructure projects and the permitting challenges underscores the need for a structure that accommodates planning and implementation over a multiple year window.

The language in the National Water Reuse Action Plan documents is primarily geared towards end-of-pipe recycle/reuse as targets for this credit structure. The same credit should apply to evaluating and implementing internal process recycling systems, such as refineries stripping sour water as a component desalting.

Finally, any plants that are considering water reuse and recycling would benefit from a stem-to-stern review of their current wastewater treatment equipment, operations, and water chemistry to confirm the potential for water reuse and recycling opportunities.

* * *

AFPM welcomes continued engagement with the EPA Environmental Finance Advisory Board as it develops recommendations for an investment tax credit for industrial water reuse and recycling infrastructure.

Thank you for considering our perspective on this critical issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey Gunnulfsen", with a long horizontal flourish extending to the right.

Jeff Gunnulfsen
Director, Security & Risk Management Issues
AFPM