



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

NOV 23 2016

Mr. Kirk Warren
Chief Operations Officer and Project Implementation Director
Alaska Energy Authority
813 West Northern Lights Blvd.
Anchorage, Alaska 99503

OFFICE OF
AIR AND RADIATION

Dear Mr. Warren:

Thank you for your letter dated May 26, 2016 to the U.S. Environmental Protection Agency (EPA). According to your letter, I understand the Alaska Energy Authority (AEA) is seeking formal concurrence that the submitted workplan is in compliance with the fiscal year (FY) 2016 State DERA Program requirements, and is requesting a waiver for the following items:

1. Replacement (repower) of non-road engines with certified Tier 2 & Tier 3 marine engines for stationary power generation in conformance with EPA's New Source Performance Standards for Alaska [40 CFR 60.4201 (f)(1)].
2. Horsepower increases greater than 25% with prior approval from EPA.
3. Use of reduced mandatory cost-share requirement from the 40%-EPA, 60%-State, to 75%-EPA, 25%-State, for projects benefiting rural Alaska Tribal people.
4. Use of certified marine Tier 2 engines prior to 2013 for replacement of non-certified or Tier 0 non-road engines.
5. Exceed administrative cost cap because of Alaska's unique logistics.

The equipment eligibility and funding restrictions for the FY2016 State DERA Program are defined in EPA's FY2014-2016 State Clean Diesel Grant Program Information Guide. Relevant criteria and funding restrictions that apply to nonroad repowers and replacements have been excerpted and included as an attachment to this letter for your reference.

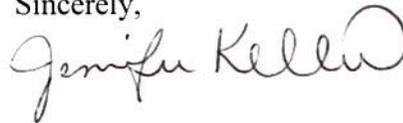
In accordance with EPA's FY2014-2016 State Clean Diesel Grant Program Information Guide, the repower of stationary generators powered with Tier 0 (unregulated) nonroad diesel engines with Tier 2 or higher nonroad engines is eligible for funding. EPA concurs on Alaska Energy Authority's overall approach and workplan, and approves the following waivers to allow additional flexibility in the implementation of the proposed projects:

- Firstly, understanding that Tier 3 and Tier 4 nonroad engines present availability and operational issues for rural Alaska communities, EPA will allow stationary diesel generators powered with Tier 0 or unregulated nonroad diesel engines to be repowered with marine engines, where appropriate, and as allowed under applicable EPA regulations. In addition, EPA will allow the purchase and installation of replacement engines manufactured prior to 2013.

- Secondly, understanding that newer engines typically have higher horsepower than older engines of the same displacement, EPA will allow horsepower (HP) increases of more than 25 percent of the original engine's horsepower rating.
- Thirdly, EPA recognizes that rural Alaska tribes are disproportionately impacted by the diesel emissions of the older diesel generators that they depend on, and that these tribes have limited resources with which to address the issue. EPA will allow a reduced cost-share for rural Alaska tribes; EPA will fund up to 75 percent of the cost of an eligible stationary generator repower or replacement. In addition, EPA will allow administrative costs in excess of 15% as eligible expenses under the grant.

If you have further questions, please contact me or your staff may call Cindy Huang, the DERA State Clean Diesel Program Coordinator, at 202-343-9240.

Sincerely,



Jennifer Keller, Director
Legacy Fleet Incentives and Assessment Center

cc:

Dan Brown, EPA R10
Donald Dossett, EPA R10
Lucita Valiere, EPA R10
Dave Bray, EPA R10
Debbie Kline, EPA R10
Cindy Huang, OTAQ Headquarters
Faye Swift, OTAQ Headquarters

The Environmental Protection Agency's FY2014-2016 State Clean Diesel Grant Program Information Guide states the following criteria and funding restrictions as they apply to nonroad repowers and replacements:

Section VIII.C.6. Certified Engine Repowers: "Repower" refers to replacing an existing engine with a newer, cleaner engine that is certified to a more stringent set of engine emission standards. Repower includes, but is not limited to, diesel engine replacement with an engine certified for use with a clean alternative fuel, diesel engine replacement with an electric power source (grid, battery or fuel cell), and/or the replacement of a nonroad engine with a highway engine. The state may fund up to 40% of the cost (labor and equipment) of an eligible engine repower. All-electric (i.e. zero emission) repowers do not require EPA or CARB certification.

a) Electric Generator Repower:

- i. For a repower that involves the replacement of an existing diesel propulsion engine with a stationary or auxiliary diesel powered electric generator (genset), the electric generator and the newer, cleaner engine comprising the genset are both eligible costs of the repower.
- ii. Repower of an existing genset involves replacing the existing diesel engine in the genset with a newer, cleaner engine. Only the newer, cleaner engine (labor and equipment) is an eligible cost of the repower.

Section VII.C.7. Vehicle and Equipment Replacements: Nonroad and highway diesel vehicles and equipment can be replaced under this program with newer, cleaner vehicles and equipment that operate on diesel or alternative fuels and use engines certified by EPA or CARB to meet a more stringent set of engine emission standards. Replacement projects can include the replacement of diesel vehicles/equipment with newer, cleaner diesel, electric (grid, battery or fuel cell), hybrid or alternative fuel vehicles/equipment. All-electric (i.e. zero emission) vehicles and equipment do not require EPA or CARB certification. Marine vessels are not eligible for full replacement.

a) Nonroad Diesel Vehicles and Equipment: The state may fund up to 25% of the cost of a replacement vehicle or piece of equipment powered by a 2013 model year or newer certified nonroad engine. Nonroad engine emission standards are on EPA's website at: www.epa.gov/otaq/standards/nonroad/index.htm.

i. Electric Generator Replacement: For stationary or auxiliary diesel powered electric generator (genset), replacement means the removal of the entire genset and its replacement with a newer, cleaner genset. The electric generator in a genset together with the newer, cleaner engine is an eligible cost of the replacement.

Section IX. USE OF FUNDS RESTRICTIONS

C. Fleet Expansion

2. The replacement vehicle, engine, or equipment will be of the same type and similar gross vehicle weight rating or horsepower as the vehicle,

engine, or equipment being replaced (e.g., a 300 horsepower bulldozer is replaced by a bulldozer of similar horsepower). Horsepower increases of more than 25 percent require specific written approval from the EPA Project Officer prior to purchase, and the grantee/subgrantee may be required to pay the additional costs associated with the higher horsepower equipment

F. Administrative Costs Expense Cap: No more than 15 percent of the state’s total project costs may be used to cover administrative type costs (e.g. personnel, benefits, travel, and office supplies). Total project costs include the federal share as well as any cost-share provided by the state. However, Regions have the discretion to allow state matching funds to exceed the 15% cap if the state provides justification for unique circumstances. The state’s indirect costs are not considered as administrative type costs and do not count towards the 15 percent maximum.

P. Nonroad Repower/Replacement: No funds awarded under the Program shall be used to repower or replace nonroad Tier 0 (unregulated) engines to a nonroad Tier 1 or lower nonroad engine standard or from a Tier 2 nonroad engine standard to a Tier 3 or lower nonroad engine standard. Refer to Table 3 for further explanation.

Table 3: Nonroad Engine Funding Restrictions

Current Engine Tier	Repowered or Replaced 2013 or Newer Certified Engine				
	Tier 0	Tier 1	Tier 2/3	Tier 4	All-Electric
Tier 0 / 1	No	No	Yes	Yes	Yes
Tier 2 / 3	No	No	No	Yes	Yes

Section X. MANDATORY COST-SHARE REQUIREMENT

D. Certified Engine Repower: EPA funds and state voluntary matching funds can cover up to 40% of the cost (labor and equipment) of an eligible engine repower (i.e. states and/or eligible third parties are responsible for cost-sharing at least 60% of the cost of an eligible engine repower).

E. Certified Vehicle/Equipment Replacement:

1. Nonroad Diesel Vehicles and Equipment: EPA funds and state voluntary matching funds can cover up to 25% of the cost of an eligible replacement vehicle or piece of equipment powered by a 2013 model year or newer certified engine (i.e. states and/or eligible third parties are responsible for cost-sharing at least 75% of the cost of an eligible replacement vehicle or piece of equipment).