



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

APR 25 2007

OFFICE OF
SOLID WASTE AND
EMERGENCY RESPONSE

Mr. A. James Barnes
Chair, Environmental Financial Advisory Board
United States Environmental Protection Agency
1200 Pennsylvania Avenue NW
Washington, D.C. 20460

Dear Mr. Barnes:

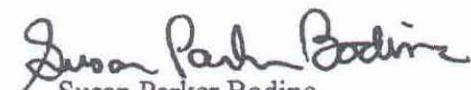
Thank you for your letter of March 20, 2007, to Administrator Johnson on the Environmental Financial Advisory Board's report that explores the use of captive insurance as a financial assurance tool in the Agency's waste and remediation programs. My staff and I appreciate all of the work the Board has done on this important topic, and recognize the Board's consultation with a broad range of interested parties. EPA greatly appreciates the Board's inclusion of State and EPA staff in many of its meetings on this topic. We find that the Board's input on captive insurance, as well as other issues, is extremely valuable as we consider moving forward with improvements to the RCRA financial assurance requirements.

In response to its charge, the Board presented several important findings and recommendations on captive insurance that the Agency will take under advisement. Consistent with the Board's findings with regard to the use of the financial test for financial assurance purposes, the Board found that the use of independent credit analysis is a cost-effective mechanism for demonstrating the financial strength of a captive insurer. We note that the Board will also examine the issue of ratings as it looks at commercial insurers.

With respect to the Board's earlier recommendations on the financial test, I recently directed my staff to initiate the Agency's Action Development Process (ADP) to more fully analyze possible regulatory options concerning the RCRA Subtitle C financial test. By entering into the ADP, EPA is acknowledging that the current financial test does present a number of issues that need to be explored. One of the options that will be analyzed through this process is the recommendation from the Board that EPA include an independent ratings requirement to Alternative I of the current financial test. Although initiating the ADP is the first step in pursuing regulatory alternatives, a possible outcome of the process could be to address these concerns through implementation assistance rather than pursuing regulatory changes.

EPA appreciates the expertise and experience that the Board brings and values the insights it can provide. EPA looks forward to receiving the findings in response to the other questions presented to the Board.

Sincerely,


Susan Parker Bodine
Assistant Administrator