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Environmental Protection Agency
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Re: Comment Request; Draft Supporting Materials for the Science Advisory Board Panel on the Role of Economy-Wide Modeling in U.S. EPA Analysis of Air Regulations; Docket ID EPA-HQ-OA-2014-0129

The National Association of Manufacturers (NAM), the largest manufacturing association in the United States, representing small and large manufacturers in every industrial sector and in all 50 states, submits the following comments on the Environmental Protection Agency's (EPA) draft analytic blueprint and charge questions for the Science Advisory Board (SAB) panel on the role of economy-wide modeling in U.S. EPA regulatory analysis. Attached to these comments is a report commissioned by the NAM in 2012 that examines the EPA's benefit-cost analyses for six recent major regulations.¹

General Comments

Manufacturers believe regulatory agencies should employ rigorous economic analysis to better understand potential economic impacts and benefit-cost relationships. The NAM is pleased that the EPA has agreed to conduct a thorough evaluation of the manner in which it models the costs and benefits of its regulations. The EPA's approach to economic modeling of its regulations has been, at best, inconsistent. As a result, manufacturers have experienced considerable uncertainty over the true impact of all new EPA regulations. Consider, for example:

- When the EPA modeled the Mercury and Air Toxics Standards (MATS), it predicted only 4.7 gigawatts (GW) of coal retirements as a result of the regulation. The Energy Information Administration (EIA) recently reported that 54 GW of coal-fired capacity will retire as a direct result of MATS by 2016.

¹ A Critical Review of the Benefits and Costs of EPA Regulations on the U.S. Economy, ndp|Consulting, November 2012, available at <http://www.nam.org/~media/423A1826BF0747258F22BB9C68E31F8F.ashx>.

- The EPA has never modeled the true economic impact of Prevention of Significant Deterioration (PSD) permitting for greenhouse gases (GHGs), which took effect in early 2011, appears to be a barrier to new manufacturing expansions, and over time exposes six million stationary sources to regulation.
 - Instead of measuring PSD for GHGs when it triggered the authority in the Light-Duty Vehicle Greenhouse Gas Rule, EPA measured only the impact of the rule on the major automobile manufacturers.
 - EPA had another chance to measure PSD for GHGs in the GHG Tailoring Rule, but it again refused, claiming that the Tailoring Rule was a “relief rule” that imposed only benefits, not costs.
- The difference between the EPA’s suggested cost for the 2011 Reconsideration of the Ozone National Ambient Air Quality Standards (NAAQS) and industry’s suggested cost was a factor of ten.
- The EPA suggested its now-overturned Cross-State Air Pollution Rule (CSAPR) would cost \$3.6 billion annually; industry analyses placed the cost at \$14-18 billion annually.
- The EPA suggested its proposed Coal Combustion Residuals Rule would cost \$1.5 billion annually; industry studies estimated the rule would cost \$7.6 billion.
- The EPA suggested its proposed Cooling Water Intake Structures Regulation would cost between \$0.3 billion and \$4.6 billion annually; industry studies estimated the rule would cost \$8 billion annually.
- The EPA has not modeled the cumulative impact of its recent regulations, which by conservative estimates could cost over \$100 billion annually and place two million jobs in jeopardy.

As a result of this uncertainty, virtually every major air regulation issued by the EPA in recent years has given rise to a host of economic studies from private sector groups—both in support and in opposition—attempting to clarify the true impact of the regulation on the economy. Groups (including the NAM) have felt compelled to run these models because our members are not getting an accurate picture of costs and benefits from the EPA.

If done properly, whole economy modeling may cure some of the defects that have eroded the regulated community’s trust in the EPA’s ability to conduct credible benefit-cost analysis. It would signal to manufacturers that the EPA will “use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible,” as directed by President Obama in Executive Order 13563. It would provide the public with better information than it has been receiving from the Agency to date.

As the EPA carries out this analysis of whole economy modeling, manufacturers ask that the SAB review not only the model itself but the quality and accuracy of the assumptions the Agency routinely uses in its economic analyses. An economist can develop the best model in the world, but if the assumptions he or she inputs into the model are unreasonable, the model’s outputs will be of limited utility. Assumptions worthy of review are discussed below.

Comments on the Analytic Blueprint and Charge Questions

The NAM suggests that the EPA charge the SAB panel to examine the EPA's historically aggressive assumptions about industry's capacity to comply and whether whole economy modeling would change these assumptions. These assumptions include the cost of new control technologies and manufacturers' ability to handle the surge in demand for new control technologies, equipment and skilled workers that will inevitably increase input prices and compliance costs.

The NAM suggests that the EPA charge the SAB panel to assess the EPA's use of long-term amortization of expenditures (typically between 30 and 50 years) as a tool for measuring compliance costs. Given the large upfront capital costs inherent in regulations like MATS, long-term amortization fails to account for the full financial burden to regulated entities and may mask the true costs.

The NAM suggests that the EPA charge the SAB panel to re-run EPA's economic impact analyses for recent major rules under a CGE model. Last year, NERA Economic Consulting, in a project for the U.S. Chamber of Commerce, converted the EPA's job impact forecasts for several of its regulations from the EPA's partial-equilibrium model to NERA's computable general equilibrium (CGE) model. In every case, the EPA's partial-equilibrium model predicted a small number of added jobs to the economy, while NERA's whole economy CGE model predicted tens of thousands of lost jobs. EPA's partial-equilibrium model predicted the MATS rule would add 8,000 jobs; NERA's CGE model predicted MATS would trigger 71,000 lost jobs. EPA predicted CSAPR would add 700 jobs; NERA's CGE model predicted CSAPR would cost 34,000 jobs. The EPA predicted Boiler MACT would add 2,200 jobs; NERA's CGE model predicted Boiler MACT would cost 28,000 jobs.

Similarly, the NAM suggests EPA charge the SAB panel to evaluate the *actual* costs several of its recent regulations have imposed, and how these costs compare to what EPA had predicted. As mentioned above, the EPA predicted the MATS rule would trigger the retirement of only 4.7 GW worth of coal-fired power plants; however, in reality MATS will cause the retirement of 54 GW, a tenfold increase from EPA's estimate.

Finally, the NAM echoes the comments of the U.S. Chamber of Commerce, American Chemistry Council, American Forest & Paper Association and National Lime Association in recommending that any whole economy model contain sufficient industry sector and regional detail, and that it provide for a way to examine impacts on U.S. competitiveness. Manufacturers in the U.S. face a significant cost disadvantage due in part to tort, trade and regulatory policies; the NAM believes the EPA models should consistently examine the impact any new regulations would have on manufacturers' competitive balance.

Conclusion

Comprehensive cost-effectiveness studies are essential to sound regulation. Measures to protect environmental quality should be based on factual data, with due regard for their total impacts on employment, energy used, resources, land use and other regional, national and international social and economic concerns. Consistent with this policy, manufacturers see tremendous value in employing whole economy modeling for EPA regulations, and believe whole economy modeling (either on its own or in conjunction with other modeling techniques)

may yield a more complete picture of costs and benefits. Manufacturers further recommend that the EPA analyze the assumptions it uses in its models.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Eisenberg", is displayed on a light yellow rectangular background.

Ross Eisenberg
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Energy and Resources Policy

Attachment: Pham, N. and Ikenson, D., *A Critical Review of the Benefits and Costs of EPA Regulations on the U.S. Economy*, ndp|Consulting, November 2012.