



August 15, 2017

VIA ELECTRONIC SUBMISSION

Attn: U.S. Department of the Interior, Office of the Secretary

Re: Regulatory Reform Request for Comments, Docket No. DOI-2017-0003-0003

The Institute for Policy Integrity (“Policy Integrity”) at New York University School of Law¹ respectfully submits the following comments to the Department of the Interior (“DOI”) regarding its obligation, pursuant to Executive Order 13,777, to evaluate existing regulations and identify some for repeal, replacement, or modification and as part of its implementation of Executive Order 13,771.² Policy Integrity is a non-partisan think tank dedicated to improving the quality of government decisionmaking through advocacy and scholarship in the fields of administrative law, economics, and public policy.

Executive Order 13,777 directs agencies to identify regulations that “impose costs that exceed benefits” and prioritize “outdated, unnecessary, or ineffective” regulations for repeal, replacement, and modification.³ It requires agencies to seek input on identifying such regulations from interested persons.⁴ Policy Integrity submits these comments to ensure that DOI stays focused on its mandate to identify outdated, unnecessary, ineffective, or net costly regulations for repeal, replacement, or modification and does not instead prioritize recently promulgated and overwhelmingly cost-benefit justified rules identified by industry commenters. Policy Integrity offers five main comments:

- First, retrospective review should prioritize reanalysis of regulations for which actual costs and benefits diverge significantly from predicted costs and benefits because of changing economic circumstances, new technological innovations, or emerging scientific understandings. **Prioritizing retrospective review based purely on the volume of opposition from regulated entities—without consideration of regulatory benefits—is an irrational and inefficient approach.**
- Second, DOI should use this opportunity to **establish a process to prospectively collect the information necessary to review the performance of any future “economically significant” rules.**

¹ This document does not purport to present New York University School of Law’s views, if any.

² Exec. Order No. 13,777, 82 Fed. Reg. 12,285, 12,286 (Feb. 24, 2017); Exec. Order No. 13,771, 82 Fed. Reg. 9339, 9339 (Jan. 30, 2017).

³ Exec. Order No. 13,777, *supra* note 2, § 3(d),(f).

⁴ *Id.* § 3(e).

- Third, to the extent that other stakeholders suggest repealing rules by attacking cost-benefit methodologies, **DOI should reaffirm that benefit estimates used in recent regulatory impact analyses, including the value of mortality risk reduction and the social cost of greenhouse gases, remain the best available estimates.**
- Fourth, to the extent that other stakeholders argue for the repeal of regulations by alleging large negative impacts on employment, Policy Integrity urges reliance on well-accepted economic theory and strong evidence: **Regulations have little effect on aggregate employment or unemployment rates.**
- Finally, these comments identify two regulations ripe for modification or repeal as an example of the type of rule that DOI should prioritize under Executive Order 13,777. Specifically, **DOI should consider eliminating 43 C.F.R. § 3485.2(c)(1) and 43 C.F.R. § 3103.4-1, as these fossil fuel royalty relief provisions prevent a fair return to taxpayers and are “unnecessary” and “ineffective” as described by Executive Order 13,777.**

Below, we explain each comment in turn.

I. Retrospective review should prioritize reanalysis of regulations for which actual costs and benefits diverge significantly from predicted costs and benefits because of changed circumstances—and should not rehash recent debates over massively cost-benefit justified rules.

Retrospective review is an opportunity to recalibrate regulations to improve efficiency and effectiveness. DOI must approach the review of existing regulations with a plan for identifying appropriate candidates for such modification.

Every President since Carter has sought to identify and address inefficient existing regulations through a process of retrospective review of regulatory costs and benefits. President Trump’s Executive Order 13,777 follows this tradition by directing agencies to identify regulations for repeal, replacement, and modification that are “outdated, unnecessary, or ineffective” or that “impose costs that exceed benefits.”⁵ Executive Order 13,777 embraces past methodologies for identifying such regulations, reaffirming President Obama’s Executive Order 13,563,⁶ which called on agencies to develop plans “to promote retrospective analysis of rules that are outmoded, ineffective, insufficient, or excessively burdensome” and “to modify, streamline, expand, or repeal them in accordance with what has been learned.”⁷ It also reaffirms President Clinton’s Executive Order 12,866, particularly its call for agencies “to determine whether regulations promulgated by the executive branch of the Federal Government have become unjustified or unnecessary as a result of changed circumstances.”⁸ Thus, the procedures underlying retrospective review pursuant to Executive Order 13,777 should be consistent with those underlying past efforts.

⁵ *Id.* § 3(d),(f).

⁶ *Id.* § 2(iii).

⁷ Exec. Order No. 13,563 § 6(b), 76 Fed. Reg. 3821, 3822 (Jan. 21, 2011).

⁸ Exec. Order No. 12,866 § 5, 58 Fed. Reg. 51,735, 51,739-40 (Oct. 4, 1993).

In other words, agencies should identify net costly or otherwise outdated rules by determining whether, in light of changed circumstances, the actual benefits of the implemented rules no longer justify the actual costs, or the rules as implemented do not maximize net benefits. To prioritize such regulations for modification, DOI must not get diverted by comments from stakeholders complaining about recently promulgated and overwhelmingly cost-benefit justified rules. Retrospective review should strive to enhance net benefits, not just to decrease compliance costs.

1. *Retrospective review should prioritize reanalysis of older regulations for which actual costs and benefits diverge significantly from predicted costs and benefits.*

Retrospective review is an opportunity to go back and fix some regulations that have become “outdated, unnecessary, or ineffective” due to changed economic circumstances, new technological innovations, or emerging scientific understandings. When promulgating new rules, agencies make estimates about what the rules’ future costs and benefits will likely be. These *ex ante* estimates typically reflect the best available data, scientific models, and economic tools. Nevertheless, *ex ante* estimates are still estimates made in the face of uncertainty. Changing economic conditions, new technological innovations, or emerging scientific understandings can cause a rule’s actual costs and benefits to diverge greatly from the agency’s *ex ante* estimates. Consequently, after a rule takes effect, *ex post* calculations of actual costs and benefits may reveal that the rule was poorly calibrated. A rational approach to retrospective review would identify such rules and initiate a process to modify them.

New rules are typically not good candidates for retrospective review because, in most cases, regulated entities have not yet fully implemented and adapted to the rules. For such rules, there have been no economic, technological, scientific, or other changed circumstances that shed light on the true costs and benefits of the rules. The cost-benefit analyses conducted before the rules were issued continue to reflect society’s best estimates of the costs and benefits of these rules. There is nothing yet to fix; there is only industries’ unwillingness to make changes necessary to implement and adapt to the rules. Eliminating such rules under the guise of “retrospective review” would be premature and irrational.

In fact, agencies should be careful not to review existing rules so early as to reduce the ability or incentive for industry to adapt. Adaptation, learning, and innovation by industry in the early years of implementation have often brought down compliance costs.⁹ Moreover, these rules are often overwhelmingly cost-benefit justified. Thus, older rules are better candidates for review because technological or other relevant changed circumstances are more likely to have occurred since the rules were issued.

2. *DOI must not rely exclusively on the volume of complaints it receives from stakeholders to prioritize rules for review.*

Although eliminating new rules under the guise of “retrospective review” would be premature and irrational, many stakeholders are likely to encourage DOI to do exactly that. When the Department of Commerce recently sought input from manufacturers on existing

⁹ See Winston Harrington, Richard D. Morgenstern, & Peter Nelson, On the Accuracy of Regulatory Cost Estimates, Resources for the Future Discussion Paper #99-18 (1999); see also OFFICE OF MGMT. & BUDGET, OMB CIRCULAR NO. A-4, REGULATORY ANALYSIS (2003) [hereinafter CIRCULAR NO. A-4].

regulations, for example, the agency received many comments recommending repeal of recently issued and overwhelming cost-benefit justified rules, some issued by DOI.¹⁰ Many targeted rules had not yet been fully implemented, making them particularly poor candidates for retrospective review for the reasons discussed previously. The commenters tended to offer no new information on costs or benefits in their comments to the Department of Commerce; the majority of comments simply rehashed the same arguments and facts presented to and considered by agencies during the initial notice-and-comment rulemaking process.

One regulatory rollback that brings these cost-benefit issues to the forefront is the Bureau of Land Management's ("BLM's") stay of the methane waste rule. The rule addresses the loss of natural gas through venting, flaring, and leaks during the production of federal and Indian oil and gas.

The benefits of the BLM methane rule included increased capture of marketable natural gas, as well as reduced greenhouse gas emissions and other air pollutants. BLM quantified these societal benefits in the regulatory impact analysis accompanying the final Rule, and found that it would have delivered net benefits of \$50 to \$204 million per year.

Given that the rule was justified on the basis of significant societal benefits, BLM should calculate how delaying, repealing, or otherwise modifying the rule would affect those benefits and explain how any such changes could be justified.

We suspect that DOI will receive requests from stakeholders to repeal or modify similarly net beneficial rules. Of course, public comments, including from regulated entities, should play a role in informing regulatory review. But it would waste significant resources if the retrospective review process simply provided another opportunity to rehash prior arguments. Therefore, DOI should resist the urge to review rules solely as a result of intensive lobbying by regulated entities. A high volume of repetitive comments resulting from such lobbying should not by itself weigh in favor of conducting a retrospective review.

Instead, agencies should prioritize rules for reconsideration based on evidence of changed costs or benefits. Public comments are most useful to the extent they offer evidence of circumstances that have changed since the rules were originally promulgated. The agency must remember that the goal of Executive Order 13,777 is not the elimination of cost-benefit justified rules. Moreover, regardless of the goal of the Order, DOI cannot abandon its statutory obligations to balance energy production with environmental preservation and earn fair market value for taxpayers.¹¹ DOI must keep its objectives—the goals of Executive Order 13,777 and its statutory obligations—in mind as it critically reviews requests from regulated entities.

3. Retrospective review should include a thorough and balanced review of identified

¹⁰ See Department of Commerce, Public Comments on Impact of Federal Regulations on Domestic Manufacturing, available at <https://www.regulations.gov/docketBrowser?rpp=25&so=DESC&sb=commentDueDate&po=0&dct=PS&D=DOC-2017-0001>.

¹¹ See 43 U.S.C. § 1701(a)(9).

rules' actual impacts, including both costs and benefits.

As discussed above, DOI should identify rules that are ripe for retrospective review based on changed costs and benefits over time. Once it identifies promising candidates for the review, the review should include a thorough and balanced assessment of a rule's actual impacts, including both costs and benefits and distributional consequences.

Agencies should aim to follow the same best practices in their retrospective analyses as they do when conducting a regulatory impact analysis during the notice-and-comment process.¹² These practices include such factors as choosing an appropriate baseline¹³ and identifying the proper scope of the analysis.¹⁴ One of the persistent difficulties in prospective cost-benefit analysis is ensuring that evaluations sufficiently address the unquantified impacts of regulation.¹⁵ Some unquantified costs and benefits may be particularly amenable to retrospective analysis, as they may be easier to identify and measure after implementation of the regulation.

II. Going forward, DOI should create a plan to review the performance of each economically significant rule it promulgates.

Executive Order 13,777 cites existing initiatives on regulatory reform, including Executive Order 13,563,¹⁶ which states in that a well-functioning regulatory system “must measure, and seek to improve, the actual results of regulatory requirements.”¹⁷ Accordingly, rather than waiting until years after a rule has taken effect and circumstances are already changing to look back at the rule's effectiveness, agencies should look ahead when drafting each new rule toward addressing uncertain costs and benefits over time. DOI—and all other executive agencies—should include, in the preamble for each new “economically significant”¹⁸ regulation, a prospective plan to collect sufficient information on the rule's performance and should define metrics of success to permit an informed assessment of the rule's effectiveness and design over time.

In particular, for each new economically significant rule, agencies should set a timeline for future retrospective reviews and define the goals, metrics, and milestones against which the rule's success will be evaluated. Agencies should also be rigorous in identifying sources of uncertainty in their new regulatory actions. Agencies should then develop plans to collect information on the rule's performance under the metrics—ideally, the actual, *ex post* costs and benefits of the rule (both quantitative and qualitative)—to permit an informed assessment of the rule's effectiveness and design. After an agency conducts its

¹² CIRCULAR NO. A-4, *supra* note 9, at 14-42.

¹³ *Id.* at 15; *see also* Thomas O. McGarity & Ruth Ruttenberg, *Symposium: What We Know and Do Not Know About the Impact of Civil Justice on the American Economy and Policy: Counting the Cost of Health, Safety and Environmental Regulation*, 80 TEX. L. REV. 1997, 2039 (2002).

¹⁴ CIRCULAR NO. A-4, *supra* note 9, at 15.

¹⁵ *Id.* at 27 (“You should carry out a careful evaluation of non-quantified benefits and costs.”).

¹⁶ Exec. Order No. 13,777, *supra* note 2, §2(a).

¹⁷ Exec. Order No. 13,563, *supra* note 7, §1(a).

¹⁸ “Significance” is defined by Executive Order 12,866 § 3(f), and “economically significant” is usually understood to refer to that definition's first clause: “Any regulatory action that is likely to . . . [h]ave an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities.” Exec. Order No. 12,866, *supra* note 8, § 3(f).

retrospective review at the pre-determined time, it should issue a reasoned statement on whether the retrospective review warrants any regulatory changes.

These guidelines for retrospective review will place new burdens on agencies' resources. However, the information generated from such retrospective reviews would have the potential to facilitate future regulatory analyses by informing *ex ante* predictions of costs and benefits of other rules, thereby making it easier for agencies to address uncertainty. In fact, this recommendation is one of six consensus recommendations from a roundtable of former OIRA administrators (six from Republican administrations, two from Democratic administrations) convened by Policy Integrity in August 2016.¹⁹

III. Benefit estimates used in recent regulatory impact analyses, including the value of mortality risk reduction and the social cost of greenhouse gases, remain the best available estimates.

DOI should identify rules that are ripe for retrospective review based on changed costs and benefits over time, where estimates of costs and benefits reflect the best available scientific evidence. DOI should not be diverted by comments arguing for a lower value of statistical life, a lower or no social cost of greenhouse gases, or other changes to cost-benefit methodology that are not supported by best available evidence.

In particular, if DOI considers repeals of rules with greenhouse gas effects, then it should continue to use existing best estimates of the social cost of greenhouse gases in regulatory analyses. Although Executive Order 13,783 withdrew the technical documents prepared by the Interagency Working Group on the Social Cost of Greenhouse Gases,²⁰ leaving agencies without specific guidance for how to incorporate the social cost of greenhouse gases, the estimates developed by the Interagency Working Group continue to reflect the best available data and methodological choices consistent with Circular A-4, as required by the new Executive Order.²¹ As discussed more thoroughly in joint comments recently submitted to the Army Corps of Engineers by Policy Integrity, Environmental Defense Fund, Natural Resources Defense Council, and Union of Concerned Scientists (appended to these comments and available online²²), a central estimate of about \$40 per ton or higher for the value of year 2015 carbon dioxide emissions continues to reflect the best available, peer-reviewed scientific and economic data, models, methodological choices, and literature. No new scientific or economic evidence supports a central estimate lower than \$40, a discount rate higher than 3 percent, a different treatment of uncertainty, a shorter time horizon, or ignoring the significant costs and benefits to U.S. citizens accruing from effects beyond our geographic borders. It would be irrational and inconsistent with Circular A-4 to prioritize rules for review based on attacks on the estimates of the social

¹⁹ See Jason A. Schwartz & Caroline Cecot, *Strengthening Regulatory Review: Recommendations for the Trump Administration from Former OIRA Leaders* (2016), available at <http://policyintegrity.org/publications/detail/strengthening-regulatory-review>.

²⁰ Exec. Order. No. 13,783 § 5(b), 82 Fed. Reg. 16,093, 16,095 (Mar. 28, 2017).

²¹ *Id.* § 5(c).

²² See Environmental Defense Fund, Policy Integrity, Natural Resources Defense Council, and Union of Concerned Scientists, "Comments on the Use of the Social Cost of Greenhouse Gases in the Draft Environmental Impact Statement for the Proposed Missouri River Recovery Management Plan," http://policyintegrity.org/documents/Joint_Comments_to_Army_Corps_on_SCC_in_EIS.pdf.

cost of greenhouse gases, the value of mortality risk reduction, or other well-established values used in cost-benefit analysis.

IV. Regulations have little effect on aggregate employment or unemployment rates.

If commenters recommend to DOI rules for repeal based on alleged “job-killing” effects, note that well-accepted economic theory and strong evidence indicate otherwise. Policy Integrity submits the following findings, detailed in an issue brief (appended to these comments and available online²³):

- (1) Regulations have little effect on aggregate employment or unemployment rates.
- (2) While regulatory or deregulatory action may temporarily create labor demand or lead to temporary layoffs, such actions do not typically affect long-term job growth across all sectors and regions.
- (3) Job analysis models can easily be manipulated to predict either job losses or gains, and therefore should not be relied upon to prioritize regulatory targets for retrospective review.
- (4) Blocking or repealing regulations solely based on job effects without consideration of broader costs and benefits is bad economics, bad policy, and bad law.
- (5) Regulations are poor tools for addressing the negative impacts from jobs shifting from one sector to another.

V. As two examples of rules appropriate for retrospective review under Executive Order 13,777, DOI should consider eliminating 43 C.F.R. § 3485.2(c)(1) and 43 C.F.R. § 3103.4-1, as they prevent a fair return to taxpayers.

Pursuant to existing statutes, federal fossil fuel leasing must provide a fair return to the public.²⁴ Relevant to the question of whether leasing provides “fair market value” to taxpayers is how royalties are calculated, including whether any deductions or loopholes affect the overall return. Two existing regulations ripe for retrospective review are DOI’s royalty relief regulations for coal and oil and natural gas. These regulations provide improper incentives to coal, oil, and natural gas companies and hinder the receipt of a fair return to taxpayers. As such, they are costly to the American public and “ineffective,” to use the language of Executive Order 13,777.

With respect to federal coal, the Secretary of the Interior has discretion to reduce or waive royalties “whenever in [his or her] judgment it is necessary to do so in order to promote development, or whenever in [his or her] judgment the leases cannot be successfully operated under the terms provided therein.”²⁵ Pursuant to current regulations, BLM has discretion to grant royalty rate reductions “for the purpose of encouraging the greatest

²³ See Policy Integrity, “Does Environmental Regulation Kill or Create Jobs?” (2017), http://policyintegrity.org/files/media/Jobs_and_Regulation_Factsheet.pdf.

²⁴ 43 U.S.C. § 1701(a)(9).

²⁵ 30 U.S.C. §209.

ultimate recovery of Federal coal, and in the interest of conservation of Federal coal and other resources, whenever in [his or her] judgment it is necessary to promote development, or if [he or she] finds that the Federal lease cannot be successfully operated under its terms.”²⁶

Royalty rate reductions that are “necessary to promote development of the coal resource” are simply a subsidy for coal; the government should not be in the business of supporting uneconomical coal production from public lands, especially where this results in a loss of revenue for taxpayers. This regulation is directly at odds with managing the federal coal program to maximize the net return to the American public. DOI can therefore use the retrospective review process under Executive Order 13,777 as an opportunity to amend or eliminate 43 C.F.R. § 3485.2(c)(1).

Similarly, DOI should consider amending the royalty rate reduction regulations that govern oil and natural gas production. This regulation also jeopardizes a fair return to the public. With respect to oil and natural gas, “[i]n order to encourage the greatest ultimate recovery of oil or gas and in the interest of conservation,” the Secretary of the Interior has the authority to waive suspend or reduce the rental or minimum royalty, “upon a determination that it is necessary to promote development or that the leases cannot be successfully operated under the terms provided therein.”²⁷

Like those for federal coal, royalty rate reductions “to encourage the greatest ultimate recovery of oil or gas,” act as subsidies for these resources. This rule, 43 C.F.R. § 3103.4-1, is therefore ineffective because it can be used to justify favoring uneconomic oil and gas production from public lands. This is especially inappropriate as it can result in a loss of revenue for taxpayers. Accordingly, DOI should use the retrospective review process under Executive Order 13,777 as an opportunity to amend or eliminate 43 C.F.R. § 3103.4-1.

Respectfully,

Caroline Cecot
Jayni Foley Hein
Jason A. Schwartz

Institute for Policy Integrity

Attached:

- (1) Environmental Defense Fund, Policy Integrity, Natural Resources Defense Council, and Union of Concerned Scientists, “Comments on the Use of the Social Cost of Greenhouse Gases in the Draft Environmental Impact Statement for the Proposed Missouri River Recovery Management Plan,”

²⁶ 43 C.F.R. 3485.2(c)(1).

²⁷ 43 C.F.R. § 3103.4-1 (a).

http://policyintegrity.org/documents/Joint_Comments_to_Army_Corps_on_SCC_in_EIS.pdf.

(2) Policy Integrity, "Does Environmental Regulation Kill or Create Jobs?" (2017), http://policyintegrity.org/files/media/Jobs_and_Regulation_Factsheet.pdf.