February 4, 2019

To: FERC

Subject: Comments on Failure to Monetize Greenhouse Gas Emissions in the Environmental Assessment for the Adelphia Gateway Project

Submitted by: Institute for Policy Integrity and Union of Concerned Scientists[1]

These comments address the failure of the Federal Energy Regulatory Commission's environmental assessment of the Adelphia Gateway Project to provide a meaningful analysis of the pipeline project's climate effects, as required by the National Environmental Policy Act.

FERC quantifies nearly 90,000 tons per year of direct emissions of carbon dioxide-equivalent pollution from leakage and the project's compressors.[2] Yet FERC fails to provide any meaningful analysis of the actual, real-world climate impacts associated with those emissions. Had FERC applied the social cost of greenhouse gas metrics to monetize the climate damages of those emissions, decisionmakers and the public would have been informed that the project's direct carbon emissions will cause at least $4.6 million per year in property damage, lost productivity, premature death, and other quantifiable effects.[3]

Even more egregiously, after admitting that the project will "result in . . . downstream GHG emissions" from combustion of the transported gas,[4] FERC declines to attempt even to quantify those downstream emissions, let alone assess the contribution to climate change caused by the project's downstream emissions. FERC's reason for failing to quantify downstream emissions is that, of the 250 million cubic feet per day of gas that the project's southern portion may transport,[5] 22.5 million cubic feet per day are subscribed "for an unspecific end use" to the Philadelphia Electric Company, and the remaining capacity is not "designated to a specific user."[6] Yet by failing to estimate any downstream emissions, FERC essentially assumes that downstream emissions will be zero, with no real-world climate consequences.[7] It is implausible to assume that up to 250 million cubic feet per day of gas could be transported to the Philadelphia Electric Company and other eventual end users without any of it being combusted or

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[1] Our organizations may separately and independently submit other comments on other issues raised by the EA.

[2] FERC, *Adelphia Gateway Project Environmental Assessment* 128 (2019) [hereinafter EA] (quantifying 31,348 tons emitted by each of two compressors, 25,286 tons of fugitive emissions from the pipelines, and 1,810 tons of fugitive emissions from the stations, which together total 89,792 tons per year in direct emissions). These comments do not necessarily endorse these figures as complete or accurate calculations of the project's direct emissions.

[3] The central estimate for the social cost of carbon for year 2020 emissions is $42 in 2007$. Interagency Working Group on the Social Cost of Greenhouse Gases, *Technical Update of the Social Cost of Carbon* 4 (2016). Using the CPI inflation calculator, $42 in 2007$ was worth about $52 in 2018$. 89,792 tons CO_2e * $52/ton = $4.67 million in climate damages for year 2020 emissions. A full analysis of climate damages would account for the facts that the social cost of carbon rises over time, but also that future costs and benefits should be discounted to present value.

[4] EA at 132. Notably, FERC also fails to quantify or monetize the upstream emissions from additional production induced by the project.

[5] FERC also claims that while the project will expand the pipeline's northern portion capacity by 75 million cubic feet per day, that gas will just be delivered to the pipeline's southern portion. *Id.* at 132. Elsewhere, FERC writes that the pipeline's overall capacity is 850 million cubic feet per day. *Id.* at 2. These comments do not endorse as correct any of FERC's statements regarding the project's *additional* capacity compared to the existing baseline and after substitution effects. Regardless of the specific numbers, FERC has failed to conduct a meaningful assessment of the project's downstream, additional contributions to climate change.

[6] *Id.* at 132; *but see id.* at 132 n.39 (admitting that the unsubscribed capacity will likely serve Calpine power plants).

[7] *See, e.g.,* Center for Biological Diversity v. NHTSA, 538 F.3d 1172, 1200 (9th Cir. 2008) (explaining there is no difference between failing to value carbon emissions and placing a "zero value" on carbon emissions).

releasing greenhouse gas emissions; to the contrary, the most realistic outcome of the pipeline's construction is that virtually all of the transported gas will be combusted to generate energy. At an emissions factor of 0.053 metric tons of carbon dioxide per mmBtu of combusted pipeline gas,[8] just the 22.5 million cubic feet per day subscribed to the Philadelphia Electric Company will emit over 450,000 tons of carbon dioxide per year; combustion of the southern portion's remaining capacity will emit an additional 4.6 million tons per year.[9]

Had FERC meaningfully analyzed the real-world climate impacts associated with the project's downstream emissions, by applying the social cost of greenhouse gas metrics, the Commission would have found that the project's downstream emissions may cause at least an additional $260 million per year in property damage, lost productivity, premature death, and other quantifiable effects.[10]

Unfortunately, FERC refused to apply the social cost of greenhouse gas metrics to monetize the project's climate damages. Its reasons are arbitrary and violate its statutory obligations. FERC bases its refusal on the argument that there is no methodology to correlate a project's additional greenhouse gas emissions with specific physical climate damages; yet FERC elsewhere admits that the social cost of carbon provides such a tool. FERC insists that there is no way for it to meaningfully assess the significance of climate damages under either NEPA or its Natural Gas Act authority; yet assessing the significance of $260 million per year in climate damages from downstream emissions or $4.6 million per year in climate damages from the project's direct emissions is well within FERC's professional judgment, and both NEPA and the Natural Gas Act require FERC to exercise such judgment. FERC argues that a range of potential estimates of the social cost of carbon prevent use of the metric; yet by failing to apply any metric, FERC effectively ascribes zero value to highly significant climate damages.

FERC must assess the real-world climate impacts of its project's direct, upstream, and downstream emissions, and the social cost of greenhouse gas methodology is the best available tool for meaningfully weighing the significance of such impacts under both NEPA and the NGA. The draft environmental assessment arbitrarily rejects the social cost of greenhouse gas methodology, and so FERC has so far fallen short of its obligations under NEPA and the NGA.

I. FERC Should Monetize the Social Cost of Greenhouse Gases in its EA

The National Environmental Policy Act (NEPA), the statute under which environmental impact statements are required, directs agencies to fully and accurately analyze the environmental, public health, and social welfare differences between proposed alternatives, and to contextualize that information for decision-makers and the public. NEPA requires a more searching analysis than merely disclosing the amount of pollution. Rather, FERC must examine the "ecological[,]… economic, [and] social" impacts of those emissions, including an assessment of their "significance."[11] By failing to use

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[8] EPA, *Emission Factors for Greenhouse Gas Inventories* (2018), *available at* https://www.epa.gov/sites/production/files/2018-03/documents/emission-factors_mar_2018_0.pdf (providing that combustion of natural gas emits 53.06kg CO_2 per mmBtu, which equals 0.053 metric tons CO_2 per mmBtu).

[9] 22.5 million cubic feet per day * 365 days = 8,212.5 million cubic feet per year. At a ratio of 1000 cubic feet = 1.037 mmBtu, *see* https://www.eia.gov/tools/faqs/faq.php?id=45&t=8, that 8,212.5 million cubic feet per year equals 8.516 million mmBtu per year. 8.516 million mmBtu per year * 0.053 metric tons CO_2 per mmBtu = 0.45 million metric tons CO_2 per year. For the remaining 227.5 million cubic feet per day of capacity, the same calculate yields 4.56 million metric tons CO_2 per year.

[10] *See supra* note 3 for calculation details. (4.56 million metrics tons + 0.45 million metric tons) * $52 per ton = $260.79 in climate damages for year 2020 emissions.

[11] 40 C.F.R. §§ 1508.8(b), 1502.16(a)-(b).

available tools, such as the social cost of carbon, to analyze the significance of emissions, FERC violated NEPA.

Monetizing Climate Damages Fulfills the Obligations and Goals of NEPA and the NGA

When a project has climate consequences that must be assessed under NEPA, monetizing the climate damages fulfills an agency's legal obligations under NEPA in ways that simple quantification of tons of greenhouse gas emissions cannot. NEPA requires "hard look" consideration of beneficial and adverse effects of each alternative for major federal government actions. The U.S. Supreme Court has called the disclosure of impacts the "key requirement of NEPA," and held that agencies must "consider and disclose the *actual environmental effects*" of a proposed project in a way that "brings those effects to bear on [the agency's] decisions."[12] Courts have repeatedly concluded that an environmental impact statement must disclose relevant climate effects.[13] NEPA requires "a reasonably thorough discussion of the significant aspects of the probable environmental consequences," to "foster both informed decisionmaking and informed public participation."[14] In particular, "[t]he impact of greenhouse gas emissions on climate change is precisely the kind of cumulative impact analysis that NEPA requires," and it is arbitrary to fail to "provide the necessary contextual information about the cumulative and incremental environmental impacts."[15] Furthermore, the analyses included in environmental assessments and impact statements "cannot be misleading."[16] An agency must provide sufficient informational context to ensure that decisionmakers and the public will not misunderstand or overlook the magnitude of a proposed action's climate risks compared to the no action alternative. As this section explains, by only quantifying the volume of greenhouse gas emissions, agencies fail to assess and disclose the actual climate consequences of an action and misleadingly present information in ways that will cause decisionmakers and the public to overlook important climate consequences. Using the social cost of greenhouse gas metrics to monetize climate damages fulfills NEPA's legal obligations in ways that quantification alone cannot.

Similarly, monetizing climate damages advances the NGA's goals of reasoned decisionmaking. To assess whether a project is "required by present or future public convenience and necessity,"[17] FERC must "evaluate *all factors* bearing on the public interest."[18] Relevant factors include any "adverse effects" to "general societal interests," and specifically include "environmental impacts" beyond just those

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[12] *Baltimore Gas & Elec. Co. v. Natural Res. Def. Council*, 462 U.S. 87, 96 (1983) (emphasis added); *see also* 40 C.F.R. § 1508.8(b) (requiring assessment of the "ecological," "economic," "social," and "health" "*effects*") (emphasis added).

[13] As the Ninth Circuit has held: "[T]he fact that climate change is largely a global phenomenon that includes actions that are outside of [the agency's] control . . . does not release the agency from the duty of assessing the effects of *its* actions on global warming within the context of other actions that also affect global warming." *Ctr. for Biological Diversity v. Nat'l Highway Traffic Safety Admin.*, 538 F.3d 1172, 1217 (9th Cir. 2008); *see also Border Power Plant Working Grp. v. U.S. Dep't of Energy*, 260 F. Supp. 2d 997, 1028-29 (S.D. Cal. 2003) (failure to disclose project's indirect carbon dioxide emissions violates NEPA).

[14] *Ctr. for Biological Diversity*, 538 F.3d at 1194 (citations omitted).

[15] *Id.* at 1217.

[16] *High Country Conservation Advocates v. U.S. Forest Service*, 52 F. Supp. 3d 1174, 1182 (D. Colo. 2014); *accord. Johnston v. Davis*, 698 F.2d 1088, 1094-95 (10th Cir. 1983) (disapproving of "misleading" statements resulting in "an unreasonable comparison of alternatives"); *Hughes River Watershed Conservancy v. Glickman*, 81 F.3d 437, 446 (4th Cir. 1996) ("For an EIS to serve these functions" of taking a hard look and allowing the public to play a role in decisionmaking, "it is essential that the EIS not be based on misleading economic assumptions"); *see also Sierra Club v. Sigler*, 695 F.2d 957, 979 (5th Cir. 1983) (holding that an agency's "skewed cost-benefit analysis" was "deficient under NEPA"); *see generally Bus. Roundtable v. SEC*, 647 F.3d 1144, 1148-49 (D.C. Cir. 2011) (criticizing an agency for "inconsistently and opportunistically fram[ing] the costs and benefits of the rule" and for "fail[ing] adequately to quantify the certain costs or toe explain why those costs could not be quantified").

[17] 15 U.S.C. § 717f(e).

[18] *Missouri Public Serv. Comm'n v. FERC*, 234 F. 3d 36, 38 (D.C. Cir. 2000) (quoting *Atlantic Ref. Co. v. Public Serv. Comm'n*, 360 U.S. 378, 391 (1959)) (emphasis added).

experienced by landowners and the surrounding community, extending to cover the range of "other environmental issues considered under the National Environmental Policy Act."[19] When FERC "articulate[s] the critical facts upon which it relies" to review public convenience and necessity, "[a] passing reference to relevant factors . . . is not sufficient to satisfy the Commission's obligation to carry out 'reasoned' and 'principled' decisionmaking. [Courts] have repeatedly required the Commission to 'fully articulate the basis for its decision.'"[20] Consequently, when FERC weighs a project's climate consequences directly into its review of public convenience and necessity, monetization using the social cost of greenhouse gas metrics achieves the goal of fully articulating a relevant factor, while quantification alone would obscure important details.

FERC Must Assess Actual Incremental Climate Impacts, Not Just the Volume of Emissions

The tons of greenhouse gases emitted by a project are not the "actual environmental effects" under NEPA, nor are they the relevant "factors bearing on the public interest" under the NGA. Rather, the actual effects and relevant factors are the incremental climate impacts caused by those emissions, including:[21]

- property lost or damaged by sea-level rise, coastal storms, flooding, and other extreme weather events, as well as the cost of protecting vulnerable property and the cost of resettlement following property losses;
- changes in energy demand, from temperature-related changes to the demand for cooling and heating;
- lost productivity and other impacts to agriculture, forestry, and fisheries, due to alterations in temperature, precipitation, CO_2 fertilization, and other climate effects;
- human health impacts, including cardiovascular and respiratory mortality from heat-related illnesses, changing disease vectors like malaria and dengue fever, increased diarrhea, and changes in associated pollution;
- changes in fresh water availability;
- ecosystem service impacts;
- impacts to outdoor recreation and other non-market amenities; and
- catastrophic impacts, including potentially rapid sea-level rise, damages at very high temperatures, or unknown events.

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[19] 88 FERC ¶ 61,227, Statement of Policy at pp.23-24 (Sept. 15, 1999). *See*, *e.g.*, *Minisink Residents for Envtl. Pres. v. FERC*, 762 F.3d 97, 101 (D.C. Cir. 2014) ("listing "conservation" and "environmental . . . issues" as the NGA's "subsidiary purposes").

[20] *Missouri Public Serv. Comm'n*, 234 F.3d at 40, 41 (citations omitted).

[21] These impacts are all included to some degree in the three integrated assessment models (IAMs) used by the IWG (namely, the DICE, FUND, and PAGE models), though some impacts are modeled incompletely, and many other important damage categories are currently omitted from these IAMs. *Compare* Interagency Working Group on the Social Cost of Carbon, *Technical Support Document: Social Cost of Carbon for Regulatory Impact Analysis* at 6-8, 29-33 (2010), https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/for-agencies/Social-Cost-of-Carbon-for-RIA.pdf [hereinafter 2010 TSD]; *with* Peter Howard, *Omitted Damages: What's Missing from the Social Cost of Carbon* (Cost of Carbon Project Report, 2014), http://costofcarbon.org/files/Omitted_Damages_Whats_Missing_From_the_Social_Cost_of_Carbon.pdf. For other lists of actual climate effects, including air quality mortality, extreme temperature mortality, lost labor productivity, harmful algal blooms, spread of west nile virus, damage to roads and other infrastructure, effects on urban drainage, damage to coastal property, electricity demand and supply effects, water supply and quality effects, inland flooding, lost winter recreation, effects on agriculture and fish, lost ecosystem services from coral reefs, and wildfires, *see* EPA, *Multi-Model Framework for Quantitative Sectoral Impacts Analysis: A Technical Report for the Fourth National Climate Assessment* (2017); U.S. Global Change Research Program, *Climate Science Special Report: Fourth National Climate Assessment* (2017); EPA, *Climate Change in the United States: Benefits of Global Action* (2015); Union of Concerned Scientists, *Underwater: Rising Seas, Chronic Floods, and the Implications for U.S. Coastal Real Estate* (2018).

Even in combination with a general, qualitative discussion of climate change, by calculating only the tons of greenhouse gases emitted or a percentage comparison to sectoral, regional, or national emissions, an agency fails to meaningfully assess the actual incremental impacts to property, human health, productivity, and so forth.[22] An agency therefore falls short of its legal obligations and statutory objectives by focusing just on volume estimates. Similarly, courts have held that merely quantifying the acres of timber to be harvested or the miles of road to be constructed does not constitute a "description of *actual* environmental effects," even when paired with a qualitative "list of environmental concerns such as air quality, water quality, and endangered species," when the agency fails to assess "the degree that each factor will be impacted."[23]

By monetizing climate damages using the social cost of greenhouse gas metrics, FERC can satisfy NEPA's mandate to analyze and disclose to the public the actual effects of emissions and their significance. The social cost of greenhouse gas methodology calculates how the emission of an additional unit of greenhouse gases affects atmospheric greenhouse concentrations, how that change in atmospheric concentrations changes temperature, and how that change in temperature incrementally contributes to the above list of economic damages, including property damages, energy demand effects, lost agricultural productivity, human mortality and morbidity, lost ecosystem services and non-market amenities, and so forth.[24] FERC is incorrect in asserting that "there is no scientifically-accepted methodology available to correlate specific amounts of GHG emissions to discrete changes in average temperature rise, annual precipitation fluctuations, surface water temperature changes, or other physical effects on the global environment."[25] The social cost of greenhouse gas tool in fact does allow agencies to consider the actual effects of emissions and their significance in ways that merely providing a quantitative estimate of the volume of emissions cannot.

Climate Damages Depend on Stock and Flow, But Volume Estimates Only Measure Flow

The climate damage generated by each additional ton of greenhouse gas emissions depends on the background concentration of greenhouse gases in the global atmosphere. Once emitted, greenhouse gases can linger in the atmosphere for centuries, building up the concentration of radiative-forcing pollution and affecting the climate in cumulative, non-linear ways.[26] As physical and economic systems become increasingly stressed by climate change, each marginal additional ton of emissions has a greater, non-linear impact. The climate damages generated by a given amount of greenhouse pollution

[22] *See High Country*, 52 F. Supp. 3d at 1190 ("Beyond quantifying the amount of emissions relative to state and national emissions and giving general discussion to the impacts of global climate change, [the agencies] did not discuss the impacts caused by these emissions."); *Mont. Envtl. Info. Ctr. v. U.S. Office of Surface Mining*, 274 F. Supp. 3d 1074, 1096–99 (D. Mont. 2017) (rejecting the argument that the agency "reasonably considered the impact of greenhouse gas emissions by quantifying the emissions which would be released if the [coal] mine expansion is approved, and comparing that amount to the net emissions of the United States").

[23] *Klamath-Siskiyou Wildlands Ctr. v. Bureau of Land Mgmt.*, 387 F.3d 989, 995 (9th Cir. 2004) ("A calculation of the total number of acres to be harvested in the watershed is . . . not a sufficient description of the actual environmental effects that can be expected from logging those acres."); *see also Oregon Natural Res. Council v. Bureau of Land Mgmt.*, 470 F.3d 818 (9th Cir. 2006). *See also NRDC v. U.S. Nuclear Reg. Comm'n*, 685 F.2d 459, 487 (D.C. Cir. 1982) (ruling that merely listing "the quantity of . . . heat, chemicals, and radioactivity released" is insufficient under NEPA if the agency "does not reveal the meaning of those impacts in terms of human health or other environmental values"), *rev'd sub nom. on other grounds Baltimore Gas & Elec. Co.*, 462 U.S. at 106-07 ("agree[ing] with the Court of Appeals that NEPA requires an EIS to disclose the significant health, socioeconomic, and cumulative consequences of the environmental impact of a proposed action," but finding that the specific "consequences of effluent releases" could be assessed at a subsequent stage in the particular proceeding under review).

[24] 2010 TSD, *supra* note 21, at 5.

[25] EA at 172.

[26] Carbon dioxide also has cumulative effects on ocean acidification, in addition to cumulative radiative-forcing effects.

is therefore a function not just of the pollution's total volume but also the year of emission, and with every passing year an additional ton of emissions inflicts greater damage.[27]

As a result, focusing just on the volume or rate of emissions is insufficient to reveal the incremental effect on the climate. The change in the rate of emissions (flow) must be assessed given the background concentration of emissions (stock). A percent comparison to national emissions is perhaps even more misleading. For example, a project that adds 23 million additional tons per year of carbon dioxide would have contributed to 0.43% of total U.S. carbon dioxide emissions in the year 2012.[28] In the year 2014, that same project with the same carbon pollution would have contributed to just 0.41% of total U.S. carbon dioxide emissions—a seemingly smaller relative effect, since the total amount of U.S. emissions increased from 2012 to 2014.[29] However, because of rising background concentrations of global greenhouse gas stock, and because of growing stresses in physical and economic systems, the marginal climate damages per ton of carbon dioxide (as measured by the social cost of carbon) increased from $33 in 2012 to $35 in 2014 (in 2007$).[30] Consequently, those 23 million additional tons would have caused marginal climate damages costing $759 million in the year 2012, but by 2014 that same 23 million tons would have caused $805 million in climate damages. To summarize: the percent comparison to national emissions misleadingly implied that a project adding 23 million more tons of carbon dioxide would have a relatively less significant effect in 2014 than in 2012, whereas monetizing climate damages using the social cost of greenhouse gases would accurately reveal that the emissions in 2014 were much more damaging than the emissions in 2012—almost $50 million more. This example illustrates why only providing a percentage comparison against national or global greenhouse gas inventories (as FERC has done in other environmental reviews) is misleading.

Capturing how marginal climate damages change as the background concentration changes is especially important because NEPA requires assessing both present and future impacts.[31] Different project alternatives can have different greenhouse gas consequences over time. Most simply, different alternatives could have different start dates or other consequential changes in timing. For example, FERC does not seriously consider an option to delay the pipeline project, but such an alternative could significantly change the climate consequences of leasing activity, especially because a project's relative greenhouse gas effect compared to other alternatives or to the no-action *status quo* can change over time as the fuel mix in the overall market changes.[32] For the reasons explained above, calculating volumes or percentages is insufficient to accurately compare the climate damages of project alternatives with varying greenhouse gas emissions over time.

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[27] *See* 2010 TSD, *supra* note 21, at 33 (explaining that the social cost of greenhouse gas estimates grow over time).

[28] Total U.S. carbon dioxide emissions in 2012 were 5,366.7 million metric tons (for all greenhouse gases, emissions were 6,529 MMT CO2 eq). *See* EPA, *Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2016* at ES-6, tbl. ES-2 (2018).

[29] Total U.S. carbon dioxide emissions in 2014 were 5,568.8 million metric tons (and for all greenhouse gases, 6,763 MMT CO2 eq.) *Id.*

[30] Interagency Working Group on the Social Cost of Greenhouse Gases, *Technical Support Document: Technical Update of the Social Cost of Carbon for Regulatory Impact Analysis* at 25 tbl. A1 (2016) (calculating the central estimate at a 3% discount rate), https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/scc_tsd_final_clean_8_26_16.pdf [hereinafter 2016 TSD].

[31] NEPA requires agencies to weigh the "relationship between local short-term uses of man's environment and the maintenance and enhancement of long-term productivity," as well as "any irreversible and irretrievable commitments of resources." 42 U.S.C. § 4332(2)(C).

[32] *See* U.S. Energy Info. Admin., *Annual Energy Outlook 2018 with Projections to 2050* at 84 (2018) (projecting coal's share of electricity generation to decline over time, while renewables' share increases).

By factoring in projections of the increasing global stock of greenhouse gases as well as increasing stresses to physical and economic systems, the social cost of greenhouse gas metrics enable accurate and transparent comparisons of projects with varying greenhouse gas emissions over time.

Monetization Provides the Required Informational Context that Volume Estimates Lack

NEPA requires sufficient informational context; the NGA requires a reasoned explanation of factors and more than "passing references." Yet without proper context, numbers like 25,000 tons in annual fugitive emissions[33] will be misinterpreted by people as meaningless, as practically zero. Indeed, in a country of over 300 million people and over 6.5 billion tons of annual greenhouse gas emissions, it is far too easy to make highly significant effects appear relatively trivial. For example, presenting all weather-related deaths as less than 0.1% of total U.S. deaths makes the risk of death by weather event sound trivial, but in fact that figure represents over 2,000 premature deaths per year[34]—hardly an insignificant figure.[35]

Similarly, many people will be unable to distinguish the significance of project alternatives or scenario analyses with different emissions: for example, whether the 25,000 tons per year increase in fugitive emissions, or 90,000 tons total in direct emissions[36] over the no action alternative is significant or not. As the Environmental Protection Agency's website explains, "abstract measurements" of so many tons of greenhouse gases can be rather inscrutable for the public, unless "translat[ed] . . . into concrete terms you can understand."[37] Abstract volume estimates fail to give people the required informational context due to another well-documented mental heuristic called "scope neglect." Scope neglect, as explained by Nobel laureate Daniel Kahneman, among others, causes people to ignore the size of a problem when estimating the value of addressing the problem. For example, in one often-cited study, subjects were unable to meaningfully distinguish between the value of saving 2,000 migratory birds from drowning in uncovered oil ponds, as compared to saving 20,000 birds.[38]

Scope neglect means many decisionmakers and members of the public would be unable to meaningfully distinguish the climate risks of 25,000 tons per year increase in fugitive emissions, or 90,000 tons total in direct emissions. While decisionmakers and the public certainly can discern that the numbers are not zero and that one number is higher, without any context it may be difficult to weigh the relative magnitude of the climate risks. In contrast, the climate risks would have been readily discernible through application of the social cost of greenhouse gas metrics. In this example, while an increase of 90,000 tons in direct emissions may seem trivial, in fact those direct emissions will cause over $4.6 million per year in climate damages.[39]

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[33] EA at 128.

[34] *Compare* Nat'l Ctr. for Health Stat., Ctrs. for Disease Control & Prevention, *Death Attributed to Heat, Cold, and Other Weather Events in the United States, 2006-2010* at 1 (2014) (reporting about 2000 weather-related deaths per year) *with* Nat'l Ctr. for Health Stat., *Deaths and Mortality*, https://www.cdc.gov/nchs/fastats/deaths.htm (reporting about 2.7 million U.S. deaths per year total).

[35] The public willingness to pay to avoid mortality is typically estimated at around $9.6 million (in 2016$). E.g., 83 Fed. Reg. 12,086, 12,098 (Mar. 19, 2018) (U.S. Coast Guard rule using the Department of Transportation's value of statistical life in a recent analysis of safety regulations). Losing 2,000 lives prematurely to weather-related events is equivalent to a loss of public welfare worth over $19 billion per year.

[36] EA at Appendix Table 4.

[37] EPA, *Greenhouse Gas Equivalencies Calculator*. *Available at* https://web.archive.org/web/20180212182940/ https:/www.epa.gov/energy/greenhouse-gas-equivalencies-calculator (last updated Sept. 2017) ("Did you ever wonder what reducing carbon dioxide (CO_2) emissions by 1 million metric tons means in everyday terms? The greenhouse gas equivalencies calculator can help you understand just that, translating abstract measurements into concrete terms you can understand.").

[38] Daniel Kahneman et al., *Economic Preferences or Attitude Expressions? An Analysis of Dollar Responses to Public Issues*, 19 J. Risk & Uncertainty 203, 212-213 (1999).

[39] *See supra* note 3 and accompanying text.

In general, non-monetized effects are often irrationally treated as worthless.[40] On several occasions, courts have struck down administrative decisions for failing to give weight to non-monetized effects.[41] Most relevantly, in *Center for Biological Diversity v. NHTSA*, the U.S. Court of Appeals for the Ninth Circuit found it arbitrary and capricious to give zero value "to the most significant benefit of more stringent [fuel economy] standards: reduction in carbon emissions."[42] Monetizing climate damages provides the informational context required by NEPA and the NGA, whereas a simple tally of emissions volume and rote, qualitative, generic description of climate change are misleading and fail to give the public and decisionmakers the required information about the magnitude of discrete climate effects.[43]

Climate Effects Must Be Monetized If Other Costs and Benefits Are Monetized

Though NEPA does not require a full and formal cost-benefit analysis,[44] agencies' approaches to assessing costs and benefits must be balanced and reasonable. Courts have warned agencies, for example, that "[e]ven though NEPA does not require a cost-benefit analysis," an agency cannot selectively monetize benefits in support of its decision while refusing to monetize the costs of its action.[45]

In *High Country Conservation Advocates v. Forest Service*, the U.S. District Court of Colorado found that it was "arbitrary and capricious to quantify the *benefits* of the lease modifications and then explain that a similar analysis of the *costs* was impossible when such an analysis was in fact possible."[46] The court explained that, to support a decision on coal mining activity, the agencies had "weighed several specific economic benefits—coal recovered, payroll, associated purchases of supplies and services, and royalties," but arbitrarily failed to monetized climate costs using the readily available social cost of carbon protocol.[47] Similarly, in *Montana Environmental Information Center v. Office of Surface Mining* (*MEIC v. OSM*), the U.S. District Court of Montana followed the lead set by *High Country* and likewise held an environmental assessment to be arbitrary and capricious because it quantified the benefits of

[40] Richard Revesz, *Quantifying Regulatory Benefits*, 102 Cal. L. Rev. 1424, 1434-35, 1442 (2014).

[41] *See id.* at 1428, 1434.

[42] 538 F.3d at 1199.

[43] *See* 42 U.S.C. § 4332(2)(B) (requiring agencies to "identify and develop methods and procedures . . . which will insure that presently unquantified environmental amenities and values may be given appropriate consideration in decisionmaking along with economic and technical considerations").

[44] 40 C.F.R. § 1502.23 ("[T]he weighing of the merits and drawbacks of the various alternatives need not be displayed in a monetary cost-benefit analysis."); *but see e.g.*, *Sierra Club v. Sigler*, 695 F.2d 957, 978-79 (5th Cir. 1983) (holding that NEPA "mandates at least a broad, informal cost-benefit analysis," and so agencies must "fully and accurately" and "objectively" assess environmental, economic, and technical costs); *Chelsea Neighborhood Ass'ns v. U.S. Postal Serv.*, 516 F.2d 378, 387 (2d Cir. 1975) ("NEPA, in effect, requires a broadly defined cost-benefit analysis of major federal activities."); *Calvert Cliffs' Coordinating Comm. v. U.S. Atomic Energy Comm'n*, 449 F.2d 1109, 1113 (D.C. Cir. 1971) ("NEPA mandates a rather finely tuned and 'systematic' balancing analysis" of "environmental costs" against "economic and technical benefits"); *Nat'l Wildlife Fed. v. Marsh*, 568 F. Supp. 985, 1000 (D.D.C. 1983) ("The cost-benefit analysis of NEPA is concerned primarily with environmental costs. . . . A court may examine the cost-benefit analysis only as it bears upon the function of insuring that the agency has examined the environmental consequences of a proposed project."); *High Country*, 52 F.Supp.3d at 1191 (holding that NEPA does not require cost-benefit analysis, although monetizing benefits but not costs is arbitrary and capricious).

[45] *High Country Conservation Advocates*, 52 F. Supp. 3d at 1191; *accord. MEIC v. Office of Surface Mining*, 274 F. Supp. 3d at 1094-99 (holding it was arbitrary for the agency to quantify benefits in an EIS while failing to use the social cost of carbon to quantify costs, as well as arbitrary to imply there would be no effects from greenhouse gas emissions).

[46] 52 F. Supp. 3d at 1191.

[47] *Id.*

action (such as employment payroll, tax revenue, and royalties) while failing to use the social cost of carbon to quantify the costs.[48]

High Country and *MEIC v. OSM* are the latest applications of a broader line of case law in which courts find it arbitrary and capricious to apply inconsistent protocols for analyzing some effects compared to others, especially when the inconsistency obscures some of the most significant effects.[49] For example, in *Center for Biological Diversity v. National Highway Traffic Safety Administration*, the U.S. Court of Appeals for the Ninth Circuit ruled that, because the agency had monetized other uncertain costs and benefits of its vehicle fuel efficiency standard—like traffic congestion and noise costs—its "decision not to monetize the benefit of carbon emissions reduction was arbitrary and capricious."[50] Specifically, it was arbitrary to "assign[ ] no value to *the most significant benefit* of more stringent [vehicle fuel efficiency] standards: reduction in carbon emissions."[51] When an agency bases a decision on cost-benefit analysis, it is arbitrary to "put a thumb on the scale by undervaluing the benefits and overvaluing the costs."[52] Similarly, the U.S. Court of Appeals for the District of Columbia Circuit has chastised agencies for "inconsistently and opportunistically fram[ing] the costs and benefits of the rule [and] fail[ing] adequately to quantify certain costs or to explain why those costs could not be quantified"[53]; and the U.S. Court of Appeals for the Tenth Circuit has remanded an environmental impact statement because "unrealistic" assumptions "misleading[ly]" skewed comparison of the project's positive and negative effects.[54]

Here, the draft environmental assessment reports $7 million in annual operational purchases and payroll,[55] categories of economic benefits similar to the income and output benefits highlighted in *High Country* and *MEIC*. It is inconsistent for FERC to report impacts like earnings in monetized figures while failing to use another readily available protocol to monetize important environmental costs.

II. The Social Cost of Greenhouse Gas Metric Is the Appropriate Tool to Assess the Significance of a Project's Emissions

The draft environmental assessment claims that "there is no scientifically accepted methodology available to correlate specific amounts of GHG emissions to discrete changes in . . . physical effects on the global environment."[56] Yet just a few sentences later, FERC concedes that "the SCC methodology does constitute a tool that can be used to estimate the incremental physical climate change impacts."[57] FERC also asserts that there is "no basis" to "designate a particular monetized value as significant" and that using the social cost of greenhouse gas metrics "cannot meaningfully inform" the Commission's decisions under NEPA or the NGA.[58] However, FERC is wrong: applying the social cost of greenhouse gas protocol to monetize the incremental climate impacts of specific projects is appropriate,

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[48] 274 F. Supp. 3d at 1094-99 (also holding that it was arbitrary to imply that there would be zero effects from greenhouse gas emissions).

[49] Other cases from different courts that have declined to rule against failures to use the social cost of carbon in NEPA analyses are all distinguishable by the scale of the action or by whether other effects were quantified and monetized in the analysis. *See League of Wilderness Defenders v. Connaughton*, No. 3:12-cv-02271-HZ (D. Ore., Dec. 9, 2014*); EarthReports v. FERC*, 15-1127, (D.C. Cir. July 15, 2016); *WildEarth Guardians v. Zinke*, 1:16-CV-00605-RJ, at 23-24, (D. N.M. Feb. 16, 2017).

[50] 538 F.3d 1172, 1203 (9th Cir. 2008).

[51] *Id.* at 1199.

[52] *Id.* at 1198.

[53] *Bus. Roundtable v. SCC*, 647 F.3d 1144, 1148-49 (D.C. Cir. 2011)

[54] *Johnston v. Davis*, 698 F.2d 1088, 1094–95 (10th Cir. 1983)

[55] EA at 107.

[56] EA at 172.

[57] *Id*.

[58] *Id*.

straightforward, and meaningfully facilitates review of the significance of a project's environmental impacts.

Monetization Is Appropriate and Useful in Any Decision with Significant Climate Impacts, and Its Use Should Not Be Limited to Regulatory Analyses

Though the federal Interagency Working Group on the Social Cost of Greenhouse Gases originally developed its estimates of the social cost of greenhouse gases to harmonize the metrics used by agencies in their various regulatory impact analyses, there is nothing in the numbers' development that would limit applications to other decisionmaking contexts. The social cost of greenhouse gases measures the marginal cost of any additional unit of greenhouse gases emitted into the atmosphere. The government action that precipitated a particular unit of emissions—whether a regulation, the granting of a permit, or a project approval—is irrelevant to the marginal climate damages caused by the emissions. Whether emitted by a leaking pipeline or the fossil fuel extraction process, whether emitted because of a regulation or a resource management decision, whether emitted in Colorado or Maine or anywhere else, the marginal climate damages per unit of emissions remain the same. Indeed, the social cost of greenhouse gases has been used by many federal and state agencies in environmental impact analyses[59] and in resource management decisions.[60]

The Social Cost of Greenhouse Gas Metrics Provides a Tool to Assess the Significance of Individual Physical Impacts

The social cost of greenhouse gas methodology is well suited to measure the marginal climate damages of individual projects. These protocols were developed to assess the cost of actions with "marginal" impacts on cumulative global emissions, and the metrics estimate the dollar figure of damages for one extra unit of greenhouse gas emissions. This marginal cost is calculated using integrated assessment models. These models translate emissions into changes in atmospheric greenhouse concentrations, atmospheric concentrations into changes in temperature, and changes in temperature into economic damages. A range of plausible socio-economic and emissions trajectories are used to account for the scope of potential scenarios and circumstances that may actually result in the coming years and decades. The marginal cost is attained by first running the models using a baseline emissions trajectory, and then running the same models again with one additional unit of emissions. The difference in damages between the two runs is the marginal cost of one additional unit. The approach assumes that the marginal damages from increased emissions will remain constant for small emissions increases relative to gross global emissions. In other words, the monetization tools are in fact perfectly suited to measuring the marginal effects of individual projects or other discrete agency actions.

Some of the incremental impacts on the environment that the social cost of greenhouse gas protocol captures—and which the EA fails to meaningfully analyze—include property lost or damaged; impacts to

[59] For example, in August 2017, the Bureau of Ocean Energy Management called the social cost of carbon "a useful measure to assess the benefits of CO2 reductions and inform agency decisions," and applied the metric in an environmental impact statement to monetize the emissions difference of about 5 million metric tons per year between the proposed oil and gas development project and the no-action baseline, *Draft Environmental Impact Statement—Liberty Development Project in the Beaufort Sea, Alaska* at 3-129, 4-50 (2017). More generally, agencies have used IWG's social cost of greenhouse gas estimates not only in scores of rulemakings but also in NEPA analyses for resource management decisions. *See* Peter Howard & Jason Schwartz, *Think Global: International Reciprocity as Justification for a Global Social Cost of Carbon*, 42 Columbia J. Envtl. L. 203, 270-84 (2017) (listing all uses by federal agencies through July 2016).

[60] States have used the social cost of greenhouse gases in decisions about electricity planning. *See* Iliana Paul et al., *The Social Cost of Greenhouse Gases and State Policy: A Frequently Asked Questions Guide* (Policy Integrity Report, 2017), http://policyintegrity.org/files/publications/SCC_State_Guidance.pdf.

agriculture, forestry, and fisheries; impacts to human health; changes in fresh water availability; ecosystem service impacts; impacts to outdoor recreation and other non-market amenities; and some catastrophic impacts, including potentially rapid sea-level rise, damages at very high temperatures, or unknown events.[61] A key advantage of using the social cost of greenhouse gas tool is that each physical impact—such as sea-level rise and increasing temperatures—need not be assessed in isolation. Instead, the social cost of greenhouse gas tool conveniently groups together the multitude of climate impacts and, consistent with NEPA regulations,[62] enables agencies to assess whether all those impacts are cumulatively significant and to then compare those impacts with other impacts or alternatives using a common metric.

By applying the social cost of greenhouse gases, the common metric of money provides the very framework for assessing significance that FERC is looking for. While the relative significance of 20,000 additional tons of carbon dioxide per year versus 2 million additional tons per year may be somewhat challenging to discern, the relative significance of $1 million per year in climate damages versus $100 million per year in climate damages is much easier to discern. In this case, applying the social cost of greenhouse gases reveals that the project's direct carbon emissions will cause at least $4.6 million per year in property damage, lost productivity, premature death, and other quantifiable effects,[63] and the project's downstream emissions may cause at least an additional $260 million per year in property damage, lost productivity, premature death, and other quantifiable effects.[64] Determining the significance of $265 million in annual climate damages still requires FERC to exercise its professional judgment, but that is no different than how FERC routinely applies its judgment to determine the significance of impacts to landowners, the local community, or the tax base. Compared to volume estimates, the monetized figures of climate damage can then be reasonably weighed against reasonable judgments about a project's other qualitative, quantitative, or monetized costs and benefits. In short, applying the social cost of greenhouse gases is both straightforward and meaningfully informs FERC's decisions under NEPA and the NGA in ways that volume estimates alone cannot.

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[61] These impacts are all included to some degree in the three integrated assessment models (IAMs) used by the IWG (namely, the DICE, FUND, and PAGE models), though some impacts are modeled incompletely, and many other important damage categories are currently omitted from these IAMs. *Compare* Interagency Working Group on the Social Cost of Carbon, *Technical Support Document: Social Cost of Carbon for Regulatory Impact Analysis* at 6-8, 29-33 (2010), https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/for-agencies/Social-Cost-of-Carbon-for-RIA.pdf [hereinafter 2010 TSD]; *with* Peter Howard, *Omitted Damages: What's Missing from the Social Cost of Carbon* (Cost of Carbon Project Report, 2014), http://costofcarbon.org/files/Omitted_Damages_Whats_Missing_From_the_Social_Cost_of_Carbon.pdf. For other lists of actual climate effects, including air quality mortality, extreme temperature mortality, lost labor productivity, harmful algal blooms, spread of west nile virus, damage to roads and other infrastructure, effects on urban drainage, damage to coastal property, electricity demand and supply effects, water supply and quality effects, inland flooding, lost winter recreation, effects on agriculture and fish, lost ecosystem services from coral reefs, and wildfires, *see* EPA, *Multi-Model Framework for Quantitative Sectoral Impacts Analysis: A Technical Report for the Fourth National Climate Assessment* (2017); U.S. Global Change Research Program, *Climate Science Special Report: Fourth National Climate Assessment* (2017); EPA, *Climate Change in the United States: Benefits of Global Action* (2015); Union of Concerned Scientists, *Underwater: Rising Seas, Chronic Floods, and the Implications for U.S. Coastal Real Estate* (2018).

[62] 40 C.F.R. § 1508.27(b)(7) (explaining that actions can be significant if related to individually insignificant but cumulatively significant impacts).

[63] The central estimate for the social cost of carbon for year 2020 emissions is $42 in 2007$. Interagency Working Group on the Social Cost of Greenhouse Gases, *Technical Update of the Social Cost of Carbon* 4 (2016). Using the CPI inflation calculator, $42 in 2007$ was worth about $52 in 2018$. 89,792 tons CO_2e * $52/ton = $4.67 million in climate damages for year 2020 emissions. A full analysis of climate damages would account for the facts that the social cost of carbon rises over time, but also that future costs and benefits should be discounted to present value.

[64] *See supra* note 3 for calculation details. (4.56 million metrics tons + 0.45 million metric tons) * $52 per ton = $260.79 in climate damages for year 2020 emissions.

The Tons of Greenhouse Gas Emissions at Stake Here Are Clearly Significant

While there may not be a bright-line test for determining significance, the potential emissions from this project are clearly significant and warrant monetization. In *High Country*, the District Court for the District of Colorado found that it was arbitrary for the Forest Service not to monetize the "1.23 million tons of carbon dioxide equivalent emissions [from methane] the West Elk mine emits annually."[65] That suggests a threshold for monetization far below the tons of greenhouse gases at stake here. In *MEIC v. OSM*, the District Court for the District of Montana found it was arbitrary for the Office of Surface Mining not to monetize the 23.16 million metric tons.[66] In *Center for Biological Diversity*, the Ninth Circuit found that it was arbitrary for the Department of Transportation not to monetize the 35 million metric ton difference in lifetime emissions from increasing the fuel efficiency of motor vehicles:[67] given the estimated lifetime of vehicles sold in the years 2008-2011 (sometimes estimated at about 15 years on average), this could represent as little two million metric tons per year. In a recent environmental impact statement from the Bureau of Ocean Energy Management published in August 2017, the agency explained that the social cost of carbon was "a useful measure" to apply to a NEPA analysis of an action anticipated to have a difference in greenhouse gas emissions compared to the no-action baseline of about 25 million metric tons over a 5-year period,[68] or about 5 million metric tons per year.

Under any reasonable application of the social cost of greenhouse gas metrics, the emissions from the project will cause hundreds of millions of dollars in climate damages. Tellingly, FERC had no problem reporting the potential for the project to generate $7 million in per operational purchases and payroll.[69] A potential climate cost of hundreds of millions of dollars is also significant, particularly in the context of a document the very purpose of which is to evaluate a project's *environmental* impacts.

Monetizing Climate Damages Is Appropriate and Useful Regardless of Whether Every Effect Can Be Monetized in a Full Cost-Benefit Analysis

FERC argues that it cannot apply the social cost of greenhouse gas metrics because it does not conduct a full cost-benefit analysis under either NEPA or the NGA.[70] FERC is wrong. Monetizing one key impact still provides useful information for decisonmakers and the public even when monetizing other impacts is not feasible. The social cost of greenhouse gases enables a more accurate and transparent comparison of alternatives along the dimension of climate impacts even if other costs and benefits cannot be quantified, and "breakeven analysis" could provide a framework for making decisions when some effects but not others are monetized. Climate damages can and should be monetized even if other costs and benefits are harder to quantify or monetize and so must be discussed qualitatively. Many effects can readily be quantified and monetized, and agencies should generally do so when feasible; other effects, like water quality, are notoriously difficult to quantify and monetize, due to the geographically idiosyncratic nature of individual water bodies. Greenhouse gases, by comparison, have the same impact on climate change no matter where they are emitted, and those impacts are readily monetized using the social cost of greenhouse methodology. Regardless of whether all other effects can be monetized, using the social cost of greenhouse gases provides useful and necessary information to the public and decisionmakers. In particular, whether or not other effects are monetized, using the social cost of greenhouse gases will facilitate comparison between alternative options along the dimension of

[65] 52 F. Supp. 3d at 1191 (quoting an e-mail comment on the draft statement for the quantification of tons).
[66] *MEIC v. Office of Surface Mining* at 36-37.
[67] 538 F.3d at 1187.
[68] BOEM, *Liberty Development and Production Plan Draft EIS* at 3-129, 4,50 (2017) (89,940,000 minus 64,570,000 is about 25 million).
[69] EA at 107.
[70] EA at 172.

climate change. As discussed above, different alternatives could have varying greenhouse gas consequences over time, and monetization provides the best means of comparing project alternatives along the dimension of climate change.

Moreover, analytical frameworks exist to weigh qualitative effects alongside monetized effects. NEPA regulations, for example, first state that if there are "important qualitative considerations," then the ultimate "weighing of the merits and drawbacks of the various alternatives" should not be displayed exclusively as a "monetary cost-benefit analysis." Nevertheless, NEPA regulations further acknowledge that when monetization of costs and benefits is "relevant to the choice among environmentally different alternatives," "that analysis" can be presented alongside "any analyses of unquantified environmental impacts, values, and amenities."[71] In other words, the monetization of some impacts does not require the monetization of all impacts.

The Office of Management and Budget's *Circular A-4*[72] guidance to agencies on conducting economic analysis also provides a framework for weighing monetized and qualitative costs and benefits, called break-even analysis:

> It will not always be possible to express in monetary units all of the important benefits and costs. When it is not, the most efficient alternative will not necessarily be the one with the largest quantified and monetized net-benefit estimate. In such cases, you should exercise professional judgment in determining how important the non-quantified benefits or costs may be in the context of the overall analysis. If the non-quantified benefits and costs are likely to be important, you should carry out a "threshold" analysis to evaluate their significance. Threshold or "break-even" analysis answers the question, "How small could the value of the non-quantified benefits be (or how large would the value of the non-quantified costs need to be) before the rule would yield zero net benefits?" In addition to threshold analysis you should indicate, where possible, which non-quantified effects are most important and why.[73]

Even without using something as formal as a break-even analysis, it is clear that monetizing climate damages provides useful information whether or not every effect can be monetized in a full cost-benefit analysis.

III. FERC Should Use the Interagency Working Group's 2016 Estimates of the Social Cost of Carbon, Methane, and Nitrous Oxide

In 2016, the IWG published updated central estimates for the social cost of greenhouse gases: $50 per ton of carbon dioxide, $1440 per ton of methane, and $18,000 per ton of nitrous oxide (in 2017 dollars for year 2020 emissions).[74] Agencies must continue to use estimates of a similar or higher[75] value in their

[71] 40 C.F.R. § 1502.23.

[72] Though *Circular A-4* focus on agencies' regulatory analyses under Executive Order 12,866, the document nevertheless more generally has distilled best practices on economic analysis and is a useful guide to all agencies undertaking an assessment of costs and benefits.

[73] OMB, Circular A-4 at 2 (2003).

[74] U.S. Interagency Working Group on the Social Cost of Greenhouse Gases, "Technical support document: Technical update of the social cost of carbon for regulatory impact analysis under executive order 12866 & Addendum: Application of the methodology to estimate the social cost of methane and the social cost of nitrous oxide" (2016), available at https://obamawhitehouse.archives.gov/omb/oira/social-cost-of-carbon.

[75] See, e.g., Richard L. Revesz et al., Global Warming: Improve Economic Models of Climate Change, 508 NATURE 173 (2014) (explaining that current estimates omit key damage categories and, therefore, are very likely underestimates).

analyses and decisionmaking. A recent Executive Order disbanding the IWG does not change the fact that the IWG estimates still reflect the best available data and methodologies.

IWG's Methodology Is Rigorous, Transparent, and Based on Best Available Data

Beginning in 2009, the IWG assembled experts from a dozen federal agencies and White House offices to "estimate the monetized damages associated with an incremental increase in carbon emissions in a given year" based on "a defensible set of input assumptions that are grounded in the existing scientific and economic literature."[76] IWG's methods combined three frequently used models built to predict the economic costs of the physical impacts of each additional ton of carbon.[77] The models together incorporate such damage categories as: agricultural and forestry impacts, coastal impacts due to sea level rise, impacts from extreme weather events, impacts to vulnerable market sectors, human health impacts including malaria and pollution, outdoor recreation impacts and other non-market amenities, impacts to human settlements and ecosystems, and some catastrophic impacts.[78] IWG ran these models using a baseline scenario including inputs and assumptions drawn from the peer-reviewed literature, and then ran the models again with an additional unit of carbon emissions to determine the increased economic damages.[79] IWG's social cost of carbon estimates were first issued in 2010 and have been updated several times to reflect the latest and best scientific and economic data.[80]

Following the development of estimates for carbon dioxide, the same basic methodology was used in 2016 to develop the social cost of methane and social cost of nitrous oxide—estimates that captures the distinct heating potential of methane and nitrous oxide emissions.[81] These additional metrics used the same economic models, the same treatment of uncertainty, and the same methodological assumptions that IWG applied to the social cost of carbon, and these new estimates underwent rigorous peer-review.[82]

IWG's methodology has been repeatedly endorsed by reviewers. In 2014, the U.S. Government Accountability Office concluded that IWG had followed a "consensus-based" approach, relied on peer-reviewed academic literature, disclosed relevant limitations, and adequately planned to incorporate new information through public comments and updated research.[83] In 2016 and 2017, the National Academies of Sciences issued two reports that, while recommending future improvements to the methodology, supported the continued use of the existing IWG estimates.[84] And in 2016, the U.S. Court of Appeals for the Seventh Circuit held that the Department of Energy's reliance on IWG's social cost of

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[76] IWG, *Technical Support Document: Social Cost of Carbon for Regulatory Impact Analysis Under Executive Order 12866* (2010) ("2010 TSD"). *Available at* https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/for-agencies/Social-Cost-of-Carbon-for-RIA.pdf.

[77] *Id.* at 5. These models are DICE (the Dynamic Integrated Model of Climate and the Economy), FUND (the Climate Framework for Uncertainty, Negotiation, and Distribution), and PAGE (Policy Analysis of the Greenhouse Effect).

[78] *Id.* at 6-8.

[79] *Id.* at 24-25.

[80] IWG, *Technical Update of the Social Cost of Carbon* at 5–29 (2016). *Available at* https://obamawhitehouse.archives.gov/sites/default/files/omb/inforeg/ scc_tsd_final_clean_8_26_16.pdf.

[81] *See* 2016 IWG Addendum at 2.

[82] *Id.* at 3.

[83] Gov't Accountability Office, *Regulatory Impact Analysis: Development of Social Cost of Carbon Estimates* 12-19 (2014). Available at http://www.gao.gov/assets/670/665016.pdf.

[84] Nat'l Acad. Sci., Engineering & Med., *Valuing Climate Damages: Updating Estimation of the Social Cost of Carbon Dioxide* 3 (2017), https://www.nap.edu/read/24651/chapter/1; Nat'l Acad. Sci., Engineering & Med., *Assessment of Approaches to Updating the Social Cost of Carbon: Phase 1 Report on a Near-Term Update* 1–2 (2016); https://www.nap.edu/read/21898/chapter/1.

carbon was reasonable.[85] It is, therefore, unsurprising that leading economists and climate policy experts have endorsed the Working Group's values as the best available estimates.[86]

A Recent Executive Order Does Not Change the Requirements to Monetize Climate Damages

In March 2017, President Trump disbanded the IWG and withdrew their technical support documents.[87] Nevertheless, Executive Order 13,783 assumes that federal agencies will continue to "monetiz[e] the value of changes in greenhouse gas emissions" and instructs agencies to ensure such estimates are "consistent with the guidance contained in OMB Circular A-4."[88] Consequently, while federal agencies no longer benefit from ongoing technical support from the IWG on use of the social cost of greenhouse gases, by no means does the new Executive Order imply that agencies should not monetize important effects in their environmental impact statements. The Executive Order does not prohibit agencies from relying on the same choice of models as the IWG, the same inputs and assumptions as the IWG, the same statistical methodologies as the IWG, or the same ultimate values as derived by the IWG. To the contrary, because the Executive Order requires consistency with Circular A-4, as agencies follow the Circular's standards for using the best available data and methodologies, they will necessarily choose similar data, methodologies, and estimates as the IWG, since the IWG's work continues to represent the best available estimates.[89] The Executive Order does not preclude agencies from using the same range of estimates as developed by the IWG, so long as the agency explains that the data and methodology that produced those estimates are consistent with Circular A-4 and, more broadly, with standards for rational decisionmaking.

Similarly, the Executive Order's withdrawal of the Council on Environmental Quality's guidance on greenhouse gases,[90] does not—and legally cannot—remove agencies' statutory requirement to fully analyze and disclose the environmental impacts of greenhouse gas emissions. As the Council on Environmental Quality explained in its withdrawal, the "guidance was not a regulation," and "[t]he withdrawal of the guidance does not change any law, regulation, or other legally binding requirement."[91] In other words, when the guidance originally recommended the appropriate use of the social cost of greenhouse gases in environmental impact statements,[92] it was simply explaining that use of the social cost of greenhouse gases is consistent with longstanding NEPA regulations and case law, all of which are still in effect today.

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[85] *Zero Zone,* 832 F.3d at 679.

[86] See, e.g., Richard Revesz et al., *Best Cost Estimate of Greenhouse Gases*, 357 Science 655 (2017); Michael Greenstone et al., *Developing a Social Cost of Carbon for U.S. Regulatory Analysis: A Methodology and Interpretation*, 7 Rev. Envtl. Econ. & Pol'y 23, 42 (2013); Richard L. Revesz et al., *Global Warming: Improve Economic Models of Climate Change*, 508 Nature 173 (2014) (co-authored with Nobel Laureate Kenneth Arrow, among others).

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

[88] *Id.* § 5(c).

[89] *See* Richard L. Revesz et al., *Best Cost Estimate of Greenhouse Gases*, 357 SCIENCE 6352 (2017) (explaining that, even after Trump's Executive Order, the social cost of greenhouse gas estimate of around $50 per ton of carbon dioxide is still the best estimate).

[90] Exec. Order 13,783 § 3(c)

[91] 82 Fed. Reg. 16,576, 16,576 (Apr. 5, 2017).

[92] *See* CEQ, *Revised Draft Guidance on Consideration of Greenhouse Gas Emissions and the Effects of Climate Change in National Environmental Policy Act Reviews* at 16 (Dec. 2014), *available at* https://obamawhitehouse.archives.gov/sites/default/files/docs/nepa_revised_draft_ghg_guidance_searchable.pdf ("[A]lthough developed specifically for regulatory impact analyses, the Federal social cost of carbon, which multiple Federal agencies have developed and used to assess the costs and benefits of alternatives in rulemakings, offers a harmonized, interagency metric that can provide decisionmakers and the public with some context for meaningful NEPA review.").

Notably, some agencies under the Trump administration have continued to use the IWG estimates even following the Executive Order. For example, in August 2017, the Bureau of Ocean Energy Management called the social cost of carbon "a useful measure" and applied it to analyze the consequences of offshore oil and gas drilling.[93] And in July 2017, the Department of Energy used the IWG's estimates for carbon and methane emissions to analyze energy efficiency regulation, describing the social cost of methane as having "undergone multiple stages of peer review."[94]

A Strong Consensus Exists to Use a 3% or Lower (or Declining) Discount Rate for a Central Estimate

FERC complains that "different discount rates introduce substantial variation" in the IWG's estimates of the social cost of greenhouse gases, and such variation "limit[s] the tool's usefulness in the review under NEPA and the decision under the NGA."[95] Not only was this line of thinking rejected by the Ninth Circuit in *Center for Biological Diversity*—"while . . . there is a range of values, the value of carbon emissions reduction is certainly not zero"[96]—but the range of values recommended by the Interagency Working Group[97] and endorsed by the National Academies of Sciences[98] is rather manageable. In 2016, the IWG recommended values at discount rates from 2.5% to 5%, calculated as between $12 and $62 for year 2020 emissions.[99] Numerous federal agencies have had no difficulty either applying this range in their environmental impact statements or else focusing on the central estimate at a 3% discount rate.[100] Most recently, in August 2017, the Bureau of Ocean Energy Management applied the IWG's range of estimates calculated at three discount rates (2.5%, 3%, and 5%) to its environmental impact statement for an offshore oil development plan,[101] and called this range of estimates "a useful measure to assess the benefits of CO_2 reductions and inform agency decisions."[102]

More importantly, there is widespread consensus that a central estimate calculated at a 3% or lower discount rate, or else using a declining discount rate, is most appropriate, while a 7% discount rate would be wholly inappropriate in the context of intergenerational climate damages. Because of the long lifespan of greenhouse gases and the long-term or irreversible consequences of climate change, the effects of today's emissions changes will stretch out over the next several centuries. The time horizon for an agency's analysis of climate effects, as well as the discount rate applied to future costs and benefits, determines how an agency treats future generations. Current central estimates of the social

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[93] *Draft Environmental Impact Statement—Liberty Development Project in the Beaufort Sea, Alaska* at 3-129.

[94] Energy Conservation Program: Energy Conservation Standards for Walk-In Cooler and Freezer Refrigeration Systems, 82 Fed. Reg. 31,808, 31,811, 31,857 (July 10, 2017).

[95] EA at 172

[96] 538 F.3d at 1200.

[97] *See* 2016 TSD, *supra* note 30.

[98] *See* National Academies of Sciences, *Assessment of Approaches to Updating the Social Cost of Carbon* (2016) [hereinafter First NAS Report] (endorsing continued near-term use of the IWG numbers); in 2017, the NAS recommended moving to a declining discount rate, *see* National Academies of Sciences, *Valuing Climate Damages* (2017) [hereinafter Second NAS Report].

[99] 2016 TSD, *supra* note 30. The values given here are in 2007$. The IWG also recommended a 95th percentile value of $123.

[100] E.g., BLM, *Envtl. Assessment—Waste Prevention, Prod. Subject to Royalties, and Res. Conservation* at 52 (2016); BLM, *Final Envtl. Assessment: Little Willow Creek Protective Oil and Gas Lease*, DOI-BLM-ID-B010-2014-0036-EA, at 82 (2015); Office of Surface Mining, *Final Envtl. Impact Statement—Four Corners Power Plant and Navajo Mine Energy Project* at 4.2-26 to 4.2-27 (2015) (explaining the social cost of greenhouse gases "provide[s] further context and enhance[s] the discussion of climate change impacts in the NEPA analysis."); U.S. Army Corps of Engineers, *Draft Envtl. Impact Statement for the Missouri River Recovery Mgmt. Project* at 3-335 (2016); U.S. Forest Serv., *Rulemaking for Colorado Roadless Areas: Supplemental Final Envtl. Impact Statement* at 120-123 (Nov. 2016) (using both the social cost of carbon and social cost of methane relating to coal leases).

[101] BOEM, *Liberty Development Project: Draft Environmental Impact Statement*, at 4-247 (2017).

[102] *Id.* at 3-129.

cost of greenhouse gases are based on a 3% discount rate and a 300-year time horizon. Executive Order 13,783 disbanded the Interagency Working Group in March 2017 and instructs agencies to reconsider the "appropriate discount rates" when monetizing the value of climate effects.[103] By citing the official guidance on typical regulatory impact analyses (namely, *Circular A-4*), the Order implicitly called into question the IWG's choice not to use a 7% discount rate. In its Sabal Remand Order, FERC suggests that the Executive Order may require use of a "7 percent (or higher)" discount rate.[104] However, use of a 7% discount would not only be inconsistent with best economic practices but would violate both NEPA's and NGA's requirements to consider impacts on future generations.

NEPA requires agencies to weigh the "relationship between local short-term uses of man's environment and the maintenance and enhancement of long-term productivity," as well as "any irreversible and irretrievable commitments of resources."[105] That requirement is prefaced with a congressional declaration of policy that explicitly references the needs of future generations:

> The Congress, recognizing the profound impact of man's activity on the interrelations of all components of the natural environment . . . declares that it is the continuing policy of the Federal Government . . . to use all practicable means and measures . . . to create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic, and other requirements of present and **future generations** of Americans.[106]

When the Congressional Conference Committee adopted that language, it reported that the first "broad national goal" under the statute is to "fulfill the responsibilities of each generation as trustee of the environment for future generations. It is recognized in this [congressional] statement [of policy] that each generation has a responsibility to improve, enhance, and maintain the quality of the environment *to the greatest extent possible for the continued benefit of future generations*."[107]

Similarly, the NGA requires weighing both "the present or *future* public convenience and necessity."[108] FERC has interpreted this broadly to require consideration of "the effects of the project on *all* the affected interests."[109]

Because applying a 7% discount rate to the social cost of greenhouse gases could drop the valuation essentially to $0, use of such a rate effectively ignores the needs of future generations. Doing so would arbitrarily fail to consider an important statutory factor that Congress wrote into the requirements of both NEPA and the NGA.

Moreover, a 7% discount rate is inconsistent with best economic practices, including under Circular A-4. In 2015, OMB explained that "Circular A-4 is a ***living document***. . . . [T]he use of ***7 percent is <u>not</u> considered appropriate*** for intergenerational discounting. There is wide support for this view in the academic literature, and it is recognized in Circular A-4 itself. "[110] While Circular A-4 tells agencies

[103] Exec. Order No. 13,783 § 5(c).
[104] Sabal Remand Order at para. 49; *see also id.* at para. 46.
[105] 42 U.S.C. § 4332(2)(C).
[106] 42 U.S.C. § 4331.
[107] *See* 115 Cong. Rec. 40419 (1969) (emphasis added); *see also* same in S. Rep. No. 91-296 (1969).
[108] 15 U.S.C. § 717f(e).
[109] 88 FERC ¶ 61,227 at p. 23.
[110] Interagency Working Group on the Social Cost of Carbon, *Response to Comments: Social Cost of Carbon for Regulatory Impact Analysis under Executive Order 12,866* at 36 (July 2015) [hereinafter, OMB 2015 Response to Comments].

generally to use a 7% discount rate in addition to lower rates for typical rules,[111] the guidance does not intend for default assumptions to produce analyses inconsistent with best economic practices. Circular A-4 clearly supports using lower rates to the exclusion of a 7% rate for the costs and benefits occurring over the extremely long, 300-year time horizon of climate effects.

Circular A-4 requires agency analysts to do more than rigidly apply default assumptions: "You cannot conduct a good regulatory analysis according to a formula. Conducting high-quality analysis requires competent professional judgment."[112] As such, analysis must be "based on the best reasonably obtainable scientific, technical, and economic information available,"[113] and agencies must "***[u]se sound and defensible values*** or procedures to monetize benefits and costs, and ensure that key analytical assumptions are defensible."[114] Rather than assume a 7% discount rate should be applied automatically to every analysis, Circular A-4 requires agencies to justify the choice of discount rates for each analysis: "[S]tate in your report what assumptions were used, *such as . . . the discount rates* applied to future benefits and costs," and explain "clearly how you arrived at your estimates."[115] Based on Circular A-4's criteria, there are numerous reasons why applying a 7% discount rate to climate effects that occur over a 300-year time horizon would be unjustifiable.

First, basing the discount rate on the **consumption rate of interest** is the correct framework for analysis of climate effects; a discount rate based on the private return to capital is inappropriate. Circular A-4 does suggest that a 7% rate should be a "default position" for regulations that primarily displace capital investments; however, the Circular explains that "[w]hen regulation primarily and directly affects private consumption . . . *a lower discount rate is appropriate*."[116] The 7% discount rate is based on a private sector rate of return on capital, but private market participants typically have short time horizons. By contrast, climate change concerns the public well-being broadly. Rather than evaluating an optimal outcome from the narrow perspective of investors alone, applying economic theory to climate policy requires analysts to make the optimal choices based on societal preferences and social discount rates. Moreover, because climate change is expected to largely affect large-scale consumption, as opposed to capital investment,[117] a 7% rate is inappropriate.

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[111] Office of Mgmt. & Budget, *Circular A-4* at 36 (2003) ("For regulatory analysis, you should provide estimates of net benefits using both 3 percent and 7 percent….If your rule will have important intergenerational benefits or costs you might consider a further sensitivity analysis using a lower but positive discount rate in addition to calculating net benefits using discount rates of 3 and 7 percent.").

[112] *Id.* at 3.

[113] *Id.* at 17.

[114] *Id.* at 27 (emphasis added).

[115] *Id.* at 3 (emphasis added).

[116] *Id.* at 33 (emphasis added).

[117] "There are two rationales for discounting future benefits—one based on consumption and the other on investment. The consumption rate of discount reflects the rate at which society is willing to trade consumption in the future for consumption today. Basically, we discount the consumption of future generations because we assume future generations will be wealthier than we are and that the utility people receive from consumption declines as their level of consumption increases. . . . The investment approach says that, as long as the rate of return to investment is positive, we need to invest less than a dollar today to obtain a dollar of benefits in the future. Under the investment approach, the discount rate is the rate of return on investment. If there were no distortions or inefficiencies in markets, the consumption rate of discount would equal the rate of return on investment. There are, however, many reasons why the two may differ. As a result, using a consumption rather than investment approach will often lead to very different discount rates." Maureen Cropper, *How Should Benefits and Costs Be Discounted in an Intergenerational Context?*, 183 RESOURCES 30, 33.

In 2013, OMB called for public comments on the social cost of greenhouse gases. In its 2015 Response to Comment document,[118] OMB (together with the other agencies from the IWG) explained that

> the consumption rate of interest is the correct concept to use . . . as the impacts of climate change are measured in consumption-equivalent units in the three IAMs used to estimate the SCC. This is consistent with OMB guidance in Circular A-4, which states that when a regulation is expected to primarily affect private consumption—for instance, via higher prices for goods and services—it is appropriate to use the consumption rate of interest to reflect how private individuals trade-off current and future consumption.[119]

The Council of Economic Advisers similarly interprets Circular A-4 as requiring agencies to choose the appropriate discount rate based on the nature of the regulation: "[I]n Circular A-4 by the Office of Management and Budget (OMB) the appropriate discount rate to use in evaluating the net costs or benefits of a regulation depends on whether the regulation primarily and directly affects private consumption or private capital."[120] The National Academies of Sciences also explained that a consumption rate of interest is the appropriate basis for a discount rate for climate effects.[121] For this reason, 7% is an inappropriate choice of discount rate for the impacts of climate change.[122] Finally, each of the three integrated assessment models upon which the social cost of greenhouse gas estimates are based—DICE, FUND, and PAGE—uses consumption discount rates; a capital discount rate is thus inconsistent with the underlying models. For these reasons, 7% is an inappropriate choice of discount rate for the impacts of climate change.

Second, **uncertainty over the long time horizon** of climate effects should drive analysts to select a lower discount rate. As an example of when a 7% discount rate is appropriate, Circular A-4 identifies an EPA rule with a 30-year timeframe of costs and benefits.[123] By contrast, greenhouse gas emissions generate effects stretching out across 300 years. As Circular A-4 notes, while "[p]rivate market rates provide a reliable reference for determining how society values time within a generation, but for extremely long time periods no comparable private rates exist."[124]

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[118] Note that this document was not withdrawn by Executive Order 13,783.

[119] OMB 2015 Response to Comments, *supra* note 110, at 22.

[120] Council of Econ. Advisers, *Discounting for Public Policy: Theory and Recent Evidence on the Merits of Updating the Discount Rate* at 1 (CEA Issue Brief, 2017), *available at* https://obamawhitehouse.archives.gov/sites/default/files/ page/files/201701_cea_discounting_issue_brief.pdf. In theory, the two rates would be the same, but "given distortions in the economy from taxation, imperfect capital markets, externalities, and other sources, the SRTP and the marginal product of capital need not coincide, and analysts face a choice between the appropriate opportunity cost of a project and the appropriate discount rate for its benefits." *Id.* at 9. The correct discount rate for climate change is the social return to capital (i.e., returns minus the costs of externalities), not the private return to capital (which measures solely the returns).

[121] NAS Second Report, *supra* note 98, at 28; *see also* Kenneth Arrow et al., *Is There a Role for Benefit-Cost Analysis in Environmental, Health, and Safety Regulation?*, 272 Science 221 (1996) (explaining that a consumption-based discount rate is appropriate for climate change).

[122] *See also* this article by the former chair of the NAS panel on the social cost of greenhouse gases: Richard Newell, *Unpacking the Administration's Revised Social Cost of Carbon*, Oct. 10, 2017, http://www.rff.org/blog/2017/unpacking-administration-s-revised-social-cost-carbon ("It is clearly inappropriate, therefore, to use such modeling results with OMB's 7 percent discount rate."); *see also* Comments from Robert Pindyck, to BLM, on the Social Cost of Methane in the Proposed Suspension of the Waste Prevention Rule, BLM-2017-0002-16107 (submitted Nov. 5, 2017) (explaining that 3%, not 7%, is the appropriate discount rate).

[123] Circular A-4 at 34. *See also* OMB 2015 Response to Comments, *supra* note 110, at 21 ("While most regulatory impact analysis is conducted over a time frame in the range of 20 to 50 years . . . ").

[124] Circular A-4 at 36.

Circular A-4 discusses how uncertainty over long time horizons drives the discount rate lower: "the longer the horizon for the analysis," the greater the "uncertainty about the appropriate value of the discount rate," which supports a lower rate.[125] Circular A-4 cites the work of renowned economist Martin Weitzman and concludes that the "certainty-equivalent discount factor corresponds to ***the minimum discount rate having any substantial positive probability***."[126] The NAS makes the same point about discount rates and uncertainty.[127] In fact, as discussed more below and in the technical appendix on discounting, uncertainty over the discount rate is best addressed by adopting a declining discount rate framework.

Third, a 7% discount rate **ignores catastrophic risks and the welfare of future generations**. As demonstrated in the frequency distribution graphs included in some agencies' recent and misguided attempts to calculate the social cost of greenhouse gases at a 7% discount rate,[128] the 7% rate truncates the long right-hand tail of social costs relative to the 3% rate's distribution. The long right-hand tail represents the possibility of catastrophic damages. The 7% discount rate effectively assumes that present-day Americans are barely willing to pay anything at all to prevent medium- to long-term catastrophes. This assumption violates statutory duties under NEPA and the NGA to protect the future needs of Americans. At the same time, the 7% distribution also misleadingly exaggerates the possibility of negative estimates of the social cost of greenhouse gases.[129] A negative social cost of greenhouse gases implies a discount rate so high that society is willing to sacrifice serious impacts to future generations for the sake of small, short-term benefits (such as slightly and temporarily improved fertilization for agriculture). Again, this assumption contravenes statutory responsibilities to protect the welfare of future Americans.

Fourth, a 7% discount rate would be inappropriate for climate change because it is based on **outdated data and diverges from the current economic consensus**. Circular A-4 requires that assumptions—including discount rate choices—are "based on the best reasonably obtainable scientific, technical, and economic information available."[130] Yet Circular A-4's own default assumption of a 7% discount rate was published 14 years ago and was based on data from decades ago.[131] Circular A-4's guidance on discount rates is in need of an update, as the Council of Economic Advisers detailed in 2017 after reviewing the best available economic data and theory:

> The discount rate guidance for Federal policies and projects was last revised in 2003. Since then a general reduction in interest rates along with a reduction in the forecast of

[125] *Id*.

[126] *Id.* (emphasis added); *see also* CEA, *supra* note 120, at 9: "Weitzman (1998, 2001) showed theoretically and Newell and Pizer (2003) and Groom et al. (2007) confirm empirically that discount rate uncertainty can have a large effect on net present values. A main result from these studies is that if there is a persistent element to the uncertainty in the discount rate (e.g., the rate follows a random walk), then it will result in an effective (or certainty-equivalent) discount rate that declines over time. Consequently, lower discount rates tend to dominate over the very long term, regardless of whether the estimated investment effects are predominantly measured in private capital or consumption terms (see Weitzman 1998, 2001; Newell and Pizer 2003; Groom et al. 2005, 2007; Gollier 2008; Summers and Zeckhauser 2008; and Gollier and Weitzman 2010)."

[127] NAS Second Report, *supra* note 98, at 27.

[128] *E.g.*, EPA, *Estimated Cost Savings and Forgone Benefits Associated with the Proposed Rule, "Oil and Natural Gas: Emission Standards for New, Reconstructed, and Modified Sources: Stay of Certain Requirements"* at 19 (Oct. 17, 2017).

[129] In the Monte Carlo simulation data from EPA, the 7% discount rate doubles the frequency of negative estimates compared to the 3% discount rate simulations, from a frequently of 4% to 8%.

[130] CEQ regulations implementing NEPA similarly require that information in NEPA documents be "of high quality" and states that "[a]ccurate scientific analysis . . . [is] essential to implementing NEPA." 40 C.F.R. § 1500.1(b).

[131] The 7% rate was based on a 1992 report; the 3% rate was based on data from the thirty years preceding the publication of Circular A-4 in 2003. Circular A-4 at 33.

> long-run interest rates, warrants serious consideration for a reduction in the discount rates used for benefit-cost analysis.[132]

In addition to recommending a value below 7% as the discount factor based on private capital returns, the Council of Economic Advisers further explains that, because long-term interest rates have fallen, a discount rate based on the consumption rate of interest "should be at most 2 percent."[133] The latest OMB updates to Circular A-94, the document on which Circular A-4 based its discount rates,[134] also show that more up-to-date long-run discount rates are historically low. In the February 2018 update to Circular A-94's discount rates, OMB found that the real, 30-year discount rate is 0.6 percent,[135] the lowest rate since the OMB began tracking the number.[136] Notably, OMB also shows that the current real interest rate is negative for maturities less than 7 years.[137]

These low interest rates further confirm that applying a 7% rate to a context like climate change would be wildly out of step with the latest data and theory. Similarly, recent expert elicitations—a technique supported by Circular A-4 for filling in gaps in knowledge[138]—indicate that a growing consensus among experts in climate economics for a discount rate between 2% and 3%; 5% represents the upper range of values recommended by experts, and few to no experts support discount rates greater than 5% being applied to the costs and benefits of climate change.[139] Based on current economic data and theory, the most appropriate discount rate for climate change is 3% or lower.

Fifth, Circular A-4 requires more of analysts than giving all possible assumptions and scenarios equal attention in a sensitivity analysis; if alternate assumptions would fundamentally change the decision, Circular A-4 requires analysts to select the **most appropriate assumptions from the sensitivity analysis**.

Circular A-4 indicates that significant intergenerational effects will warrant a special sensitivity analysis focused on discount rates even lower than 3%:

> Special ethical considerations arise when comparing benefits and costs across generations. . . It may not be appropriate for society to demonstrate a similar preference when deciding between the well-being of current and future generations. . . If your rule will have important intergenerational benefits or costs you might consider a further sensitivity analysis using a lower but positive discount rate in addition to calculating net benefits using discount rates of 3 and 7 percent.[140]

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[132] CEA, *supra* note 120, at 1; *id.* at 3 ("In general the evidence supports lowering these discount rates, with a plausible best guess based on the available information being that the lower discount rate should be at most 2 percent while the upper discount rate should also likely be reduced."); *id.* at 6 ("The Congressional Budget Office, the Blue Chip consensus forecasts, and the Administration forecasts all place the ten year treasury yield at less than 4 percent in the future, while at the same time forecasting CPI inflation of 2.3 or 2.4 percent per year. The implied real ten year Treasury yield is thus below 2 percent in all these forecasts.").

[133] *Id.* at 1.

[134] Circular A-4 at 33.

[135] OMB Circular A-94 Appendix C (2018).

[136] https://obamawhitehouse.archives.gov/sites/default/files/omb/assets/a94/dischist-2017.pdf.

[137] Circular A-94 Appendix C.

[138] Circular A-4 at 41.

[139] Peter Howard & Derek Sylvan, *The Economic Climate: Establishing Expert Consensus on the Economics of Climate Change* (Inst. Policy Integrity Working Paper 2015/1); M.A. Drupp, et al., *Discounting Disentangled: An Expert Survey on the Determinants of the Long-Term Social Discount Rate* (London School of Economics and Political Science Working Paper, May 2015) (finding consensus on social discount rates between 1-3%).

[140] Circular A-4 at 35-36.

Elsewhere in Circular A-4, OMB clarifies that sensitivity analysis should not result in a rigid application of all available assumptions regardless of plausibility. Circular A-4 instructs agencies to depart from default assumptions when special issues "call for different emphases" depending on "the sensitivity of the benefit and cost estimates to the key assumptions."[141] More specifically:

> If benefit or cost estimates depend heavily on certain assumptions, you should make those assumptions explicit and carry out *sensitivity analyses using plausible alternative assumptions*. If the value of net benefits changes from positive to negative (or vice versa) or if the relative ranking of regulatory options changes with alternative plausible assumptions, you should conduct further analysis to determine ***which of the alternative assumptions is more appropriate***.[142]

In other words, if using a 7% discount rate would fundamentally change the agency's decision compared to using a 3% or lower discount rate, the agency must evaluate which assumption is most appropriate. Since OMB, the Council of Economic Advisers, the National Academies of Sciences, and the economic literature all conclude that a 7% rate is inappropriate for climate change, agencies should select a 3% or lower rate. Applying a 7% rate to climate effects cannot be justified "based on the best reasonably obtainable scientific, technical, and economic information available" and is inconsistent with the proper treatment of uncertainty over long time horizons.

Finally, to the extent there is uncertainty around the discount rate over long periods of time, the growing economic consensus supports shifting to a declining discount rate framework. Circular A-4 contemplates the use of declining discount rates in its reference to the work of Weitzman.[143] As the Council of Economic Advisers explained earlier this year, Weitzman and others developed the foundation for a declining discount rate approach, wherein rates start relatively higher for near-term costs and benefits but steadily decline over time according to a predetermined schedule until, in the very long-term, very low rates dominate due to uncertainty.[144] The National Academies of Sciences' report also strongly endorses a declining discount rate approach due to uncertainty.[145] In other words, the rational response to a concern about uncertainty over the discount rate is not to abandon the social cost of greenhouse gas methodology, but to apply declining discount rates and to treat the estimates calculated at a constant 3% rate as conservative lower-bound estimates.

One possible schedule of declining discount rates was proposed by Weitzman.[146] It is derived from a broad survey of top economists and other climate experts and explicitly incorporates arguments around interest rate uncertainty. Work by Arrow *et al*, Cropper *et al*, and Gollier and Weitzman, among others,

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[141] *Id.* at 3.

[142] *Id.* at 42 (emphasis added).

[143] Circular A-4, at page 36, cites to Weitzman's chapter in Portney & Weyant, eds. (1999); that chapter, at page 29, recommends a declining discount rate approach: "a sliding-scale social discounting strategy" with the rate at 3-4% through year 25; then around 2% until year 75; then around 1% until year 300; and then 0% after year 300.

[144] CEA, *supra* note 120, at 9 ("[A]nother way to incorporate uncertainty when discounting the benefits and costs of policies and projects that accrue in the far future—applying discount rates that decline over time. This approach uses a higher discount rate initially, but then applies a graduated schedule of lower discount rates further out in time. The first argument is based on the application of the Ramsey framework in a stochastic setting (Gollier 2013), and the second is based on Weitzman's 'expected net present value' approach (Weitzman 1998, Gollier and Weitzman 2010). In light of these arguments, the governments of the United Kingdom and France apply declining discount rates to their official public project evaluations.").

[145] NAS Second Report, *supra* note 98.

[146] Martin L. Weitzman, *Gamma Discounting*, 91 AM. ECON. REV. 260, 270 (2001). Weitzman's schedule is as follows:

1-5 years	6-25 years	26-75 years	76-300 years	300+ years
4%	3%	2%	1%	0%

similarly argue for a declining interest rate schedule and lay out the fundamental logic.[147] Another schedule of declining discount rates has been adopted by the United Kingdom.[148]

The technical appendix on discounting attached to these comments more thoroughly reviews the various schedules of declining discount rates available for agencies to select and explains why agencies not only can but should adopt a declining discount framework to address uncertainty. An additional technical appendix on uncertainty explains in detail why uncertainty around the social cost of greenhouse gas points toward higher values. Shifting to a declining discount rate framework would increase the social cost of greenhouse gases.[149] Consequently, a central estimate calculated at 3% should be considered a lower-bound of the social cost of greenhouse gases. But even providing a lower-bound estimate of the social cost of greenhouse gases helps inform decisionmakers and the public, and FERC is required by NEPA to provide some monetization of climate damages, consistent with economic best practices.

Similarly, a 300-year time horizon is required by best economic practices. In 2017, the National Academies of Sciences issued a report stressing the importance of a longer time horizon for calculating the social cost of greenhouse gases. The report states that, "[i]n the context of the socioeconomic, damage, and discounting assumptions, the time horizon needs to be long enough to capture the vast majority of the present value of damages."[150] The report goes on to note that the length of the time horizon is dependent "on the rate at which undiscounted damages grow over time and on the rate at which they are discounted. Longer time horizons allow for representation and evaluation of longer-run geophysical system dynamics, such as sea level change and the carbon cycle."[151] In other words, after selecting the appropriate discount rate based on theory and data (in this case, 3% or below), analysts should determine the time horizon necessary to capture all costs and benefits that will have important net present values at the discount rate. Therefore, a 3% or lower discount rate for climate change implies the need for a 300-year horizon to capture all significant values. NAS reviewed the best available, peer-reviewed scientific literature and concluded that the effects of greenhouse gas emissions over a 300-year period are sufficiently well established and reliable as to merit consideration in estimates of the social cost of greenhouse gases.[152]

Uncertainty Supports Higher Social Cost of Greenhouse Gas Estimates, and Is Never a Reason to Abandon the Metric

FERC complains that "methodological limitations" mean the social cost of greenhouse gases cannot be a useful tool for analysis.[153] In fact, it would be much more misleading to not monetize climate damages at

[147] Kenneth J. Arrow et al., *Determining Benefits and Costs for Future Generations*, 341 SCIENCE 349 (2013); Kenneth J. Arrow et al., *Should Governments Use a Declining Discount Rate in Project Analysis?*, REV ENVIRON ECON POLICY 8 (2014); Maureen L. Cropper et al., *Declining Discount Rates*, AMERICAN ECONOMIC REVIEW: PAPERS AND PROCEEDINGS (2014); Christian Gollier & Martin L. Weitzman, *How Should the Distant Future Be Discounted When Discount Rates Are Uncertain?* 107 ECONOMICS LETTERS 3 (2010).

[148] Joseph Lowe, H.M. Treasury, U.K., Intergenerational Wealth Transfers and Social Discounting: Supplementary Green Book Guidance 5 (2008), *available at* http://www.hm-treasury.gov.uk/d/4(5).pdf. The U.K. declining discount rate schedule that subtracts out a time preference value is as follows:

0-30 years	31-75 years	76-125 years	126-200 years	201-300 years	301+ years
3.00%	2.57%	2.14%	1.71%	1.29%	0.86%

[149] This assumes the use of reasonable values in the Ramsey equation. But in general, as compared to a constant discount rate, a declining rate approach should decrease the effective discount rate.

[150] NAS Second Report, *supra* note 98, at 78.

[151] *Id.*

[152] NAS First Report, *supra* note 98, at 32.

[153] EA at 172.

all and so risk treating them as worthless. More generally, uncertainty is *not* a reason to abandon the social cost of greenhouse gas methodologies;[154] quite the contrary, uncertainty supports higher estimates of the social cost of greenhouse gases, because most uncertainties regarding climate change entail tipping points, catastrophic risks, and unknown unknowns about the damages of climate change. Because the key uncertainties of climate change include the risk of irreversible catastrophes, applying an options value framework to the regulatory context strengthens the case for ambitious regulatory action to reduce greenhouse gas emissions.

There are numerous well-established, rigorous analytical tools available to help agencies characterize and quantitatively assess uncertainty, such as Monte Carlo simulations, and the IWG's social cost of greenhouse gas protocol incorporates those tools. To further deal with uncertainty, the IWG recommended to agencies a range of four estimates: three central or mean-average estimates at a 2.5%, 3%, and 5% discount rate respectively, and a 95th percentile value at the 3% discount rate. While the IWG's technical support documents disclosed fuller probabilities distributions, these four estimates were chosen by agencies to be the focus for decisionmaking. In particular, application of the 95th percentile value was not part of an effort to show the probability distribution around the 3% discount rate; rather, the 95th percentile value serves as a methodological shortcut to approximate the uncertainties around low-probability but high-damage, catastrophic, or irreversible outcomes that are currently omitted or undercounted in the economic models.

The shape of the distribution of climate risks and damages includes a long tail of lower-probability, high-damage, irreversible outcomes due to "tipping points" in planetary systems, inter-sectoral interactions, and other deep uncertainties. Climate damages are not normally distributed around a central estimate, but rather feature a significant right skew toward catastrophic outcomes. In fact, a 2015 survey of economic experts concludes that catastrophic outcomes are increasingly likely to occur.[155] Because the three integrated assessment models that the IWG's methodology relied on are unable to systematically account for these potential catastrophic outcomes, a 95th percentile value was selected instead to account for such uncertainty. There are no similarly systematic biases pointing in the other direction which might warrant giving weight to a low-percentile estimate.

Additionally, the 95th percentile value addresses the strong possibility of widespread risk aversion with respect to climate change. The integrated assessment models do not reflect that individuals likely have a higher willingness to pay to reduce low-probability, high-impact damages than they do to reduce the likelihood of higher-probability but lower impact damages with the same expected cost. Beyond individual members of society, governments also have reasons to exercise some degree of risk aversion to irreversible outcomes like climate change.

The National Academies of Sciences did recommend that the IWG document its full treatment of uncertainty in an appendix and disclose low-probability as well as high-probability estimates of the

[154] *Center for Biological Diversity v. NHTSA*, 538 F.3d 1172, 1200 (9th Cir. 2008) ("[W]hile the record shows that there is a range of values, the value of carbon emissions reductions is certainly not zero.").

[155] Policy Integrity, *Expert Consensus on the Economics of Climate Change* 2 (2015), *available at* http://policyintegrity.org/files/publications/ExpertConsensusReport.pdf [hereinafter *Expert Consensus*] ("Experts believe that there is greater than a 20% likelihood that this same climate scenario would lead to a 'catastrophic' economic impact (defined as a global GDP loss of 25% or more)."). *See also* Robert Pindyck, *The Social Cost of Carbon Revisited* (National Bureau of Economic Research, No. w22807, 2016).

social cost of greenhouse gases.[156] However, that does not mean it would be appropriate for individual agencies to rely on low-percentile estimates to justify decisions. While disclosing low-percentile estimates as a sensitivity analysis may promote transparency, relying on such an estimate for decisionmaking—in the face of contrary guidance from the best available science and economics on uncertainty and risk—would not be a "credible, objective, realistic, and scientifically balanced" approach to uncertainty, as required by Circular A-4.[157]

In short, the 95th percentile estimate attempts to capture risk aversion and uncertainties around lower-probability, high-damage, irreversible outcomes that are currently omitted or undercounted by the models. There is no need to balance out this estimate with a low-percentile value, because the reverse assumptions are not reasonable:

- There is no reason to believe the public or the government will be systematically risk seeking with respect to climate change.[158]
- The consequences of overestimating the risk of climate damages (i.e., spending more than we need to on mitigation and adaptation) are not nearly as irreversible as the consequences of underestimating the risk of climate damage (i.e., failing to prevent catastrophic outcomes).
- Though some uncertainties might point in the direction of lower social cost of greenhouse gas values, such as those related to the development of breakthrough adaptation technologies, the models already account for such uncertainties around adaptation; on balance, most uncertainties strongly point toward higher, not lower, social cost of greenhouse gas estimates.[159]
- There is no empirical basis for any "long tail" of potential benefits that would counteract the potential for extreme harm associated with climate change.

Moreover, even the best existing estimates of the social cost of greenhouse gases are likely underestimated because the models currently omit many significant categories of damages—such as depressed economic growth, pests, pathogens, erosion, air pollution, fire, dwindling energy supply, health costs, political conflict, and ocean acidification, as well as tipping points, catastrophic risks, and unknown unknowns—and because of other methodological choices.[160]

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[156] Nat'l Acad. Of Sci., *Assessment of Approaches to Updating the Social Cost of Carbon* 49 (2016) ("[T]he IWG could identify a high percentile (e.g., 90th, 95th) and corresponding low percentile (e.g., 10th, 5th) of the SCC frequency distributions on each graph.").

[157] Circular A-4 at 39.

[158] As a 2009 survey revealed, the vast majority of economic experts support the idea that "uncertainty associated with the environmental and economic effects of greenhouse gas emissions increases the value of emission controls, assuming some level of risk-aversion." *See Expert Consensus, supra* note 155, at 3 (citing 2009 survey).

[159] *See* Richard L. Revesz et al., *Global Warming: Improve Economic Models of Climate Change*, 508 NATURE 173 (2014). R. Tol, *The Social Cost of Carbon*, 3 Annual Rev. Res. Econ. 419 (2011) ("[U]ndesirable surprises seem more likely than desirable surprises. Although it is relatively easy to imagine a disaster scenario for climate change—for example, involving massive sea level rise or monsoon failure that could even lead to mass migration and violent conflict—it is not at all easy to imagine that climate change will be a huge boost to human welfare.").

[160] *See* Revesz et al., *Global Warming: Improve Economic Models of Climate Change*, *supra* note 159; Peter Howard, *Omitted Damages: What's Missing from the Social Cost of Carbon* (Cost of Carbon Project Report, 2014); Frances C. Moore & Delavane B. Diaz, *Temperature Impacts on Economic Growth Warrant Stringent Mitigation Policy*, 5 NATURE CLIMATE CHANGE 127 (2015) (demonstrating SCC may be biased downward by more than a factor of six by failing to include the climate's effect on economic growth).

Consequently, uncertainty suggests an even higher social cost of greenhouse gases and so is not a reason to abandon the metric, which would misleadingly suggest that climate damages are worthless. For more details, please see the attached technical appendix on uncertainty.

Sincerely,

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*No part of this document purports to present New York University School of Law's views, if any.

TECHNICAL APPENDIX: UNCERTAINTY

Contrary to the arguments made by many opposed to strong federal climate action, uncertainty about the full effects of climate change *raises* the social cost of greenhouse gases and warrants *more* stringent climate policy.[161] Integrated assessment models (IAMs) currently used to calculate the SCC show that the net effect of uncertainty about economic damage resulting from climate change, costs of mitigation, future economic development, and many other parameters raises the SCC compared to the case where models simply use our current best guesses of these parameters.[162] Even so, IAMs still underestimate the impact of uncertainty on the SCC by not accounting for a host of fundamental features of the climate problem: the irreversibility of climate change, society's aversion to risk and other social preferences, option value, and many catastrophic impacts.[163] Rather than being a reason not to take action, uncertainty increases the SCC and should lead to more stringent policy to address climate change.[164]

Types of Uncertainty in the IAMs

IAMs incorporate two types of uncertainty: parametric uncertainty and stochastic uncertainty. Parametric uncertainty covers uncertainty in model design and inputs, including the selected parameters, correct functional forms, appropriate probability distribution functions, and model structure. With learning, these uncertainties should decline over time as more information becomes available.[165] Stochastic uncertainty is persistent randomness in the economic-climate system, including various environmental phenomena such as volcanic eruptions and sun spots.[166] Uncertainties are present in each component of the IAMs: socio-economic scenarios, the simple climate model, the damage and abatement cost functions, and the social welfare function (including the discount rate).[167]

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[161] Sonja Peterson, *Uncertainty and economic analysis of climate change: A survey of approaches and findings*, 11 Environmental Modeling & Assessment 1-17 (2006) ("Most modeling results show (as can be expected) that there is optimally more emission abatement if uncertainties in parameters or the possibility of catastrophic events are considered.").

[162] Richard SJ Tol, Safe policies in an uncertain climate: an application of FUND, 9 *Global Environmental Change* 221-232 (1999); Peterson 2006 *supra* note 161.

[163] Robert S Pindyck, *Uncertainty in environmental economics*, 1 Review of environmental economics and policy 45-65 (2007); Alexander Golub, Daiju Narita, and Matthias GW Schmidt, *Uncertainty in integrated assessment models of climate change: Alternative analytical approaches*, 19 Environmental Modeling & Assessment 99-109 (2014); Lemoine, Derek, and Ivan Rudik, *Managing Climate Change Under Uncertainty: Recursive Integrated Assessment at an Inflection Point*, 9 Annual Review of Resource Economics 18.1-18.26 (2017).

[164] *See* cites *supra* note 163.

[165] Learning comes in multiple forms: passive learning of anticipated information that arrives exogenous to the emission policy (such as academic research), active learning of information that directly stems from the choice of the GHG emission level (via the policy process), and learning of unanticipated information. Antje Kann & John P. Weyant, *Approaches for performing uncertainty analysis in large-scale energy/economic policy models*, 5 Environmental Modeling & Assessment 29-46 (2000); Derek Lemoine & Ivan Rudik, *Managing Climate Change Under Uncertainty: Recursive Integrated Assessment at an Inflection Point*, 9 *Annual Review of Resource Economics* 18.1-18.26 (2017).

[166] A potential third type of uncertainty arises due to ethical or value judgements: normative uncertainty. Peterson (2006) *supra* note 161; Geoffrey Heal & Antony Millner, *Reflections: Uncertainty and decision making in climate change economics*, 8 Review of Environmental Economics and Policy 120-137 (2014). For example, there is some normative debate over the appropriate consumption discount rate to apply in climate economics, though widespread consensus exists that using the social opportunity cost of capital is inappropriate (see earlier discussion). Preference uncertainty should be modeled as a declining discount rate over time (see earlier discussion), not using uncertain parameters. Kann & Weyant, *supra* note 165 and Golub et al. *supra* note 163.

[167] Peterson (2006), *supra* note 161; Pindyck (2007), *supra* note 163; Heal & Millner 2014, *supra* note 166.

When modeling climate change uncertainty, scientists and economists have long emphasized the importance of accounting for the potential of catastrophic climate change.[168] Catastrophic outcomes combine several overlapping concepts including unlucky states of the world (i.e., bad draws), deep uncertainty, and climate tipping points and elements.[169] Traditionally, IAM developers address uncertainty by specifying probability distributions over various climate and economic parameters. This type of uncertainty implies the possibility of an especially bad draw if multiple uncertain parameters turn out to be lower than we expect, causing actual climate damages to greatly exceed expected damages.

Our understanding of the climate and economic systems is also affected by so-called "deep uncertainty," which can be thought of as uncertainty over the true probability distributions for specific climate and economic parameters.[170] The mean and variance of many uncertain climate phenomena are unknown due to lack of data, resulting in "fat-tailed distributions"—i.e., the tail of the distributions decline to zero slower than the normal distribution. Fat-tailed distributions result when the best guess of the distribution is derived under learning.[171] Given the general opinion that bad surprises are likely to outweigh good surprises in the case of climate change,[172] modelers capture deep uncertainty by selecting probability distributions with a fat upper tail which reflects the greater likelihood of extreme events.[173] The possibility of fat tails increases the likelihood of a "very" bad draw with high economic costs, and can result in a very high (and potentially infinite) expected cost of climate change (a phenomenon known as the dismal theory).[174]

Climate tipping elements are environmental thresholds where a small change in climate forcing can lead to large, non-linear shifts in the future state of the climate (over short and long periods of time) through positive feedback (i.e., snowball) effects.[175] Tipping points refer to economically relevant thresholds after which change occurs rapidly (i.e., Gladwellian tipping points), such that opportunities for adaptation and intervention are limited.[176] Tipping point examples include the reorganization of the Atlantic meridional overturning circulation (AMOC) and a shift to a more persistent El Niño regime in the Pacific Ocean.[177] Social tipping points—including climate-induced migration and conflict—also exist.

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[168] William Nordhaus, A Question of Balance: Weighing the Options on Global Warming Policies (2008); Robert E. Kopp, Rachael L. Shwom, Gernot Wagner, and Jiacan Yuan, Tipping elements and climate–economic shocks: Pathways toward integrated assessment, 4 *Earth's Future* 346-372 (2016).

[169] Kopp et al. (2016), *supra* note 168.

[170] *Id.*

[171] William Nordhaus, *An Analysis of the Dismal Theorem* (Cowles Foundation Discussion Paper No. 1686, 2009); Martin L. Weitzman, *Fat-tailed uncertainty in the economics of catastrophic climate change*, 5 Review of Environmental Economics and Policy 275-292 (2011). Robert S Pindyck, *Fat tails, thin tails, and climate change policy*, 5 Review of Environmental Economics and Policy 258-274 (2011).

[172] Michael D Mastrandrea, Calculating the benefits of climate policy: examining the assumptions of integrated assessment models (Pew Center on Global Climate Change Working Paper, 2009); Richard SJ Tol, On the uncertainty about the total economic impact of climate change, 53 Environmental and Resource Economics 97-116 (2012).

[173] Weitzman (2011), *supra* note 171, makes clear that "deep structural uncertainty about the unknown unknowns of what might go very wrong is coupled with essentially unlimited downside liability on possible planetary damages. This is a recipe for producing what are called 'fat tails' in the extreme of critical probability distributions."

[174] Martin L Weitzman, *On modeling and interpreting the economics of catastrophic climate change*, 91 The Review of Economics and Statistics 1-19 (2009); Nordhaus (2009), *supra* note 171; Weitzman (2011), *supra* note 171.

[175] Tipping elements are characterized by: (1) deep uncertainty, (2) absence from climate models, (3) larger resulting changes relative to the initial change crossing the relevant threshold, and (4) irreversibility. Kopp et al. (2016), *supra* note 168.

[176] *Id.*

[177] *Id.*; Elmar Kriegler, Jim W. Hall, Hermann Held, Richard Dawson, and Hans Joachim Schellnhuber, Imprecise probability assessment of tipping points in the climate system, 106 *Proceedings of the national Academy of Sciences* 5041-5046 (2009);

These various tipping points interact, such that triggering one tipping point may affect the probabilities of triggering other tipping points.[178] There is some overlap between tipping point events and fat tails in that the probability distributions for how likely, how quick, and how damaging tipping points will be are unknown.[179] Accounting fully for these most pressing, and potentially most dramatic, uncertainties in the climate-economic system matter because humans are risk averse and tipping points—like many other aspects of climate change—are, by definition, irreversible

How IAMs and the IWG Account for Uncertainty

Currently, IAMs (including all of those used by the IWG) capture uncertainty in two ways: deterministically and through uncertainty propagation. For the deterministic method, the modeler assumes away uncertainty (and thus the possibility of bad draws and fat tails) by setting parameters equal to their most likely (median) value. Using these values, the modeler calculates the median SCC value. Typically, the modeler conducts sensitivity analysis over key parameters—one at a time or jointly—to determine the robustness of the modeling results. This is the approach employed by Nordhaus in the preferred specification of the DICE model[180] used by the IWG.

Uncertainty propagation is most commonly carried out using Monte Carlo simulation. In these simulations, the modeler randomly draws parameter values from each of the model's probability distributions, calculates the SCC for the draw, and then repeats this exercise thousands of times to calculate a mean social cost of carbon.[181] Tol, Anthoff, and Hope employ this technique in FUND and PAGE—as did the IWG (2010, 2013, and 2016)[182]—by specifying probability distributions for the climate and economic parameters in the models. These models are especially helpful for assessing the net effect of different parametric and stochastic uncertainties. For instance, both the costs of mitigation and the damage from climate change are uncertain. Higher costs would warrant less stringent climate policies, while higher damages lead to more stringent policy, so theoretically, the effect of these two factors on climate policy could be ambiguous. Uncertainty propagation in an IAM calibrated to empirically motivated distributions, however, shows that climate damage uncertainty outweighs the effect of cost uncertainty, leading to a stricter policy when uncertainty is taken into account than when it is ignored.[183]

Delavane Diaz & Klaus Keller, A potential disintegration of the West Antarctic Ice Sheet: Implications for economic analyses of climate policy, 106 *The American Economic Review* 607-611 (2016). See Table 1 of Kopp et al. (2016) *supra* note 168, for a full list of known tipping elements and points.

[178] Kriegler et al. (2009), *supra* note 177; Cai, Yongyang, Timothy M. Lenton, and Thomas S. Lontzek, *Risk of multiple interacting tipping points should encourage rapid CO2 emission reduction*, 6 Nature Climate Change 520-525 (2016); Kopp et al. (2016) *supra* note 168.

[179] Peter Howard, *Omitted Damages: What's Missing from the Social Cost of Carbon* 5 (Cost of Carbon Project Report, 2014), http://costofcarbon.org/; Kopp et al. (2016) *supra* note 168.

[180] *See* Nordhaus, W., & Sztorc, P. (2013). DICE 2013R: Introduction and user's manual.

[181] In alternative calculation method, the modeler "performs optimization of polices for a large number of possible parameter combinations individually and estimates their probability weighted sum." Golub et al. *supra* note 163. In more recent DICE-2016, Nordhaus conducts a three parameter analysis using this method to determine a SCC confidence interval. Given that PAGE and FUND model hundred(s) of uncertainty parameters, this methodology appears limited in the number of uncertain variables that can be easily specified.

[182] INTERAGENCY WORKING GROUP ON SOCIAL COST OF CARBON, TECHNICAL SUPPORT DOCUMENT: SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 (2010). INTERAGENCY WORKING GROUP ON SOCIAL COST OF CARBON, TECHNICAL SUPPORT DOCUMENT: SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 (2013). INTERAGENCY WORKING GROUP ON SOCIAL COST OF CARBON, TECHNICAL SUPPORT DOCUMENT: SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 (2016).

[183] Tol (1999), *supra* note 162, in characterizing the FUND model, states, "Uncertainties about climate change impacts are more serious than uncertainties about emission reduction costs, so that welfare-maximizing policies are stricter under uncertainty than under certainty."

This can be seen in the resulting right-skewed distribution of the SCC (see Figure 1 in IWG (2016)) where the mean (Monte Carlo) SCC value clearly exceeds the median (deterministic) SCC value.

The IWG was rigorous in addressing uncertainty. First, it conducted Monte Carlo simulations over the above IAMs specifying different possible outcomes for climate sensitivity (represented by a right skewed, fat tailed distribution to capture the potential of higher than expected warming). It also used scenario analysis: five different emissions growth scenarios and three discount rates. Second, the IWG (2016)[184] reported the various moments and percentiles—including the 95th percentile—of the resulting SCC estimates. Third, the IWG put in place an updating process, e.g., the 2013 and 2016 revisions, which updates the models as new information becomes available.[185] As such, the IWG used the various tools that economists have developed over time to address the uncertainty inherent in estimating the economic cost of pollution: reporting various measures of uncertainty, using Monte Carlo simulations, and updating estimates as evolving research advances our knowledge of climate change. Even so, the IWG underestimate the SCC by failing to capture key features of the climate problem.

Current IAMs Underestimate the SCC by Failing to Sufficiently Model Uncertainty

Given the current treatment of uncertainty by the IWG (2016) and the three IAMs that they employ, the IWG (2016) estimates represent an underestimate of the SCC. DICE clearly underestimates the true value of the SCC by effectively eliminating the possibility of bad draws and fat tails through a deterministic model that relies on the median SCC value. Even with their calculation of the mean SCC, the FUND and PAGE also underestimate the metric's true value by ignoring key features of the climate-economic problem. Properly addressing the limitations of these models' treatment of uncertainty would further increase the SCC.

First, current IAMs insufficiently model catastrophic impacts. DICE fails to model both the possibility of bad draws and fat tails by applying the deterministic approach. Alternatively, FUND and PAGE ignore deep uncertainty by relying predominately on the thin-tailed triangular and gamma distributions.[186] The IWG (2010) only partially addresses this oversight by replacing the ECS parameter in DICE, FUND, and PAGE with a fat-tailed, right-skewed distribution calibrated to the IPCC's assumptions (2007), even though many other economic and climate phenomenon in IAMs are likely characterized by fat tails, including climate damages from high temperature levels, positive climate feedback effects, and tipping points.[187] Recent work in stochastic dynamic programming tends to better integrate fat tails – particularly with respect to tipping points (see below) – and address additional aversion to this type of uncertainty (also known as ambiguity aversion); doing so can further increase the SCC under uncertainty.[188]

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[184] IWG (2016) *supra* note 182.

[185] IWG (2010) *supra* note 182.

[186] Howard (2014), *supra* note 179. While both FUND and PAGE employ thin tailed distributions, the resulting distribution of the SCC is not always thin-tailed. In PAGE09, the ECS parameter is endogenous, such that the distribution of the ECS has a long tail following the IPCC (2007). *See* Z Chen, M Marquis, KB Averyt, M Tignor, & HL Miller, Contribution of working group I to the fourth assessment report of the intergovernmental panel on climate change (2007). Similarly, while Anthoff and Tol do not explicitly utilize fat-tail distributions, the distribution of net present welfare from a Monte Carlos simulation is fat tailed. DAVID ANTHOFF & RICHARD S. J. TOL, THE CLIMATE FRAMEWORK FOR UNCERTAINTY, NEGOTIATION, AND DISTRIBUTION (FUND), TECHNICAL DESCRIPTION, VERSION 3.8 (2014). Explicitly modeling parameter distributions as fat tailed may further increase the SCC.

[187] Weitzman (2011), *supra* note 171; Kopp et al. (2016) *supra* note 168.

[188] Derek Lemoine & Christian P. Traeger, *Ambiguous tipping points*, 132 Journal of Economic Behavior & Organization 5-18 (2016); Lemoine & Rudik (2017), *supra* note 163. IAM modelers currently assume that society is equally averse to known unknown and known unknowns. Lemoine & Traeger, *id*.

In contrast to their approach to fat tails, the IAMs used by the IWG (2010; 2013; 2016) sometimes address climate tipping points, though they do not apply state-of-the-art methods for doing so. In early versions of DICE (DICE-2010 and earlier), Nordhaus implicitly attributes larger portions of the SCC to tipping points by including certainty equivalent damages of catastrophic events - representing two-thirds to three-quarter of damages in DICE – calibrated to an earlier Nordhaus (1994) survey of experts.[189] In PAGE09, Hope also explicitly models climate tipping points as a singular, discrete event (of a 5% to 25% loss in GDP) that has a probability (which grows as temperature increases) of occurring in each time period.[190] Though not in the preferred versions of the IAMs employed by the IWG, some research also integrates specific tipping points into these IAMs finding even higher SCC estimates.[191] Despite the obvious methodological basis for addressing tipping points, the latest versions of DICE[192] and FUND exclude tipping points in their preferred specifications. Research shows that if these models were to correctly account for the full range of climate impacts—including tipping points—the resulting SCC estimates would increase.[193]

The IWG approach also fails to include a risk premium—that is, the amount of money society would require in order to accept the uncertainty (i.e., variance) over the magnitude of warming and the resulting damages from climate change relative to mean damages (IWG, 2010; IWG, 2015)). The mean of a distribution, which is a measure of a distribution's central tendency, represents only one descriptor or "moment" of a distribution's shape. Each IAM parameter and the resulting SCC distributions have differing levels of variance (i.e., spread around the mean), skewness (i.e., a measure of asymmetry), and

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[189] William Nordhaus & Joseph Boyer, Warning the World: Economic Models of Global Warming (2000); Nordhaus (2008) *supra* note 264; Howard (2014), *supra* note 179; Kopp et al. (2016) *supra* note 168.

[190] Hope (2006) also calibrated a discontinuous damage function in PAGE-99 used by IWG (2010); see Chris Hope, *The Marginal Impact of CO_2 from PAGE2002: An Integrated Assessment Model Incorporating the IPCC's Five Reasons for Concern*, 6 INTEGRATED ASSESSMENT J. 19 (2006). Howard (2014), *supra* note 179.

[191] Kopp et al. (2016) *supra* note 168.

[192] For DICE-2013 and DICE-2016, Nordhaus calibrates the DICE damage function using a meta-analysis based on estimates that mostly exclude tipping point damages. Peter H Howard & Thomas Sterner, *Few and Not So Far Between: A Meta-analysis of Climate Damage Estimates*, 68 Environmental and Resource Economics 1-29 (2016).

[193] Using FUND, Link and Tol (2011) find that a collapse of the AMOC would decrease GDP (and thus increase the SCC) by a small amount. Earlier modeling of this collapse in DICE find a more significance increase. P. Michael Link & Richard SJ Tol, Estimation of the economic impact of temperature changes induced by a shutdown of the thermohaline circulation: an application of FUND, 104 *Climatic Change* 287-304 (2011); Klaus Keller, Kelvin Tan, François MM Morel, & David F. Bradford*, Preserving the Ocean Circulation: Implications for Climate Policy*, 47 Climatic Change 17-43 (2000); Michael D Mastrandrea & Stephen H. Schneider*, Integrated assessment of abrupt climatic changes*, 1 Climate Policy 433-449 (2001); Klaus Keller, Benjamin M. Bolker, & David F. Bradford, *Uncertain climate thresholds and optimal economic growth*, 48 Journal of Environmental Economics and management 723-741 (2004). With respect to thawing of the permafrost, Hope and Schaefer (2016) and Gonzalez-Eguino and Neumann (2016) find increases in damages (and thus an increase in the SCC) when integrating this tipping element into the PAGE09 and DICE-2013R, respectively. Chris Hope & Kevin Schaefer. *Economic impacts of carbon dioxide and methane released from thawing permafrost*, 6 Nature Climate Change 56-59 (2016); Mikel González-Eguino & Marc B. Neumann, *Significant implications of permafrost thawing for climate change control*, 136 Climatic Change 381-388 (2016). Looking at the collapse of the West Antarctic Ice sheet, Nicholls et al. (2008) find a potential for significant increases in costs (and thus the SCC) in FUND. Robert J Nicholls, Richard SJ Tol, & Athanasios T. Vafeidis, Global estimates of the impact of a collapse of the West Antarctic ice sheet: an application of FUND, 91 *Climatic Change* 171-191 (2008). Ceronsky et al. (2011) model three tipping points (collapse of the Atlantic Ocean Meridional Overturning Circulation, large scale dissociation of oceanic methane hydrates; and a high equilibrium climate sensitivity parameter), and finds a large increase in the SCC in some cases. Megan Ceronsky, David Anthoff, Cameron Hepburn, and Richard SJ Tol, *Checking the price tag on catastrophe: The social cost of carbon under non-linear climate response* (ESRI working paper No. 392, 2011).

kurtosis (which, like skewness, is another descriptor of a distribution's tail) as well as means.[194] It is generally understood that people are risk averse in that they prefer input parameter distributions and (the resulting) SCC distributions with lower variances, holding the mean constant.[195] While the IWG assumes a risk-neutral central planner by using a constant discount rate (setting the risk premium to zero), this assumption does not correspond with empirical evidence,[196] current IAM assumptions,[197] the NAS (2017) recommendations, nor with the IWG's own discussion (2010) of the possible values of the elasticity of the marginal utility of consumption. Evidence from behavioral experiments indicate that people and society are also averse to other attributes of parameter distributions – specifically to the thickness of the tails of distributions – leading to an additional ambiguity premium (Heal and Millner, 2014).[198] Designing IAMs to properly account for the risk and ambiguity premiums from uncertain climate damages would increase the resulting SCC values they generate.

Even under the IWG's current assumption of risk neutrality, the mean SCC from uncertainty propagation excludes the (real) option value of preventing marginal CO_2 emissions.[199] Option value reflects the value of future flexibility due to uncertainty and irreversibility; in this case, the irreversibility of CO2 emissions due to their long life in the atmosphere.[200] If society exercises the option of emitting an additional unit of CO2 emissions today, "we will lose future flexibility that the [mitigation] option gave" leading to possible "regret and…a desire to 'undo'" the additional emission because it "constrains future

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[194] Alexander Golub & Michael Brody, *Uncertainty, climate change, and irreversible environmental effects: application of real options to environmental benefit-cost analysis*, 7 Journal of Environmental Studies and Sciences 7 519-526 (2017); see Figure 1 in IWG (2016) supra note 182.

[195] In other words, society prefers a narrow distribution of climate damages around mean level of damages X to a wider distribution of damages also centered on the same mean of X because they avoid the potential for very high damages even at the cost of eliminating the chance of very low damages.

[196] IWG, 2010 *supra* note 182, at fn 22; Cai et al., 2016, *supra* note 178, at 521.

[197] The developers of each of the three IAMs used by the IWG (2010; 2013; 2016) assume a risk aversion society. Nordhaus and Sztorc 2013 *supra* note 180; Anthoff & Tol (2013) *supra* note 186; DAVID ANTHOFF & RICHARD S. J. TOL, THE CLIMATE FRAMEWORK FOR UNCERTAINTY, NEGOTIATION, AND DISTRIBUTION (FUND), TECHNICAL DESCRIPTION, VERSION 3.5 (2010); Chris Hope, *Critical issues for the calculation of the social cost of CO2: why the estimates from PAGE09 are higher than those from PAGE2002*, 117 CLIM. CHANGE 531–543 (2013) at 539.

[198] According to Heal and Millner (2014) *supra* note 166, there is an ongoing debate of whether ambiguity aversion is rational or a behavioral mistake. Given the strong possibility that this debate is unlikely to be resolved, the authors recommend exploring both assumptions.

[199] Kenneth J Arrow & Anthony C. Fisher*, Environmental preservation, uncertainty, and irreversibility*, 88 The Quarterly Journal of Economics 312-319 (1974); Avinash K Dixit and Robert S Pindyck, Investment under uncertainty (1994); Christian P Traeger, On option values in environmental and resource economics, 37 Resource and Energy Economics 242-252 (2014).

In the discrete emission case, there are two overlapping types of option value: real option value and quasi-option value. Real option value is the full value of future flexibility of maintaining the option to mitigate, and mathematically equals the maximal value that can be derived from the option to [emit] now or later (incorporating learning) less the maximal value that can be derived from the possibility to [emit] now or never. Traeger (2014) *supra* note 295, equation 5. Quasi-option value is the value of future learning conditional on delaying the emission decision, which mathematically equals the value of mitigation to the decision maker who anticipates learning less the value of mitigation to the decision maker who anticipates only the ability to delay his/her decision, and not learning. *Id.* The two values are related, such that real option value can be decomposed into:

$$\mathrm{DPOV} = \mathbf{Max}\{QOV + SOV - \mathbf{Max}\{NPV, 0\}, 0\} = \mathbf{Max}\{QOV + SOV - \mathrm{SCC}, 0\}$$

where DPOV is the real option value, QOV is quasi-option value, SOV is simple option value (the value of the option to emit in the future condition on mitigating now), and NPV is the expected net present value of emitting the additional unit or the mean SCC in our case. *Id.*

[200] Even if society drastically reduced CO_2 emissions, CO_2 concentrations would continue to rise in the near future and many impacts would occur regardless due to lags in the climate system. Robert S Pindyck, *Uncertainty in environmental economics*, 1 Review of environmental economics and policy 45-65 (2007).

behavior."[201] Given that the SCC is calculated on the Business as Usual (BAU) emission pathway, option value will undoubtedly be positive for an incremental emission because society will regret this emission in most possible futures.

Though sometimes the social cost of carbon and a carbon tax are thought of as interchangeable ways to value climate damages, agencies should be careful to distinguish two categories of the literature. The first is the economic literature that calculates the optimal carbon tax in a scenario where the world has shifted to an optimal emissions pathway. The second is literature that assesses the social cost of carbon on the business-as-usual (BAU) emissions pathway; the world is currently on the BAU pathway, since optimal climate policies have not been implemented. There are currently no numerical estimates of the risk premium and option value associated with an incremental emission on the BAU emissions path. Although there are stochastic dynamic optimization models that implicitly account for these two values, they analyze *optimal,* sequential decision making under climate uncertainty.[202] By nature of being optimization models (instead of policy models), these complex models focus on calculating the optimal tax and not the social cost of carbon, which differ in that the former is the present value of marginal damages on the optimal emissions path rather than on the BAU emissions path.[203] While society faces the irreversibility of emissions on the BAU emissions path when abatement is essentially near zero (i.e., far below the optimal level even in the deterministic problem),[204] the stochastic dynamic optimization model must also account for a potential counteracting abatement cost irreversibility – the sunk costs of investing in abatement technology if we learn that climate change is less severe than expected – by the nature of being on the optimal emissions path that balances the cost of emissions and abatement. In the optimal case, uncertainty and irreversibility of abatement *can theoretically* lead to a lower optimal emissions tax, unlike the social cost of carbon. The difference in the implication for the optimal tax and the SCC means that the stochastic dynamic modeling results are less applicable to the SCC.

What can we learn from new literature on stochastic dynamic programming models?

Bearing in mind the limitations of stochastic dynamic modeling, some new research provides valuable insights that are relevant to calculation of the social cost of greenhouse gases. The new and growing stochastic dynamic optimization literature implies that the IWG's SCC estimates are downward biased. The literature is made up of three models – real option, finite horizon, and infinite horizon models – of which the infinite time horizon (i.e., stochastic dynamic programming (SDP)) models are the most comprehensive for analyzing the impact of uncertainty on optimal sequential abatement policies.[205] Recent computational advancements in SDP are helping overcome the need for strong simplifying assumptions in this literature for purpose of tractability. Traditionally, these simplifications led to unrealistically fast rates of learning – leading to incorrect outcomes – and difficulty in comparing results

[201] Pindyck (2007) *supra* note 163.

[202] Kann & Weyant *supra* note 165; Pindyck (2007) *supra* note 163; Golub et al. (2014) *supra* note 163.

[203] Nordhaus (2014) makes this difference clear when he clarifies that "With an optimized climate policy…the SCC will equal the carbon price…In the more realistic case where climate policy is not optimized, it is conventional to measure the SCC as the marginal damage of emissions along the actual path. There is some inconsistency in the literature on the definition of the path along which the SCC should be calculated. This paper will generally define the SCC as the marginal damages along the baseline path of emissions and output and not along the optimized emissions path." William D. Nordhaus, *Estimates of the Social Cost of Carbon: Concepts and Results from the DICE-2013R Model and Alternative Approaches*, 1 J. ASSOC. ENVIRON. RESOUR. ECON. 1 (2014).

[204] On the BAU path, emissions far exceed their optimal level even without considering uncertainty. As a consequence, society is likely to regret an additional emission of CO2 in most future states of the world. Alternatively, society is unlikely to regret current abatement levels unless the extremely unlikely scenarios that there is little to no warming and/or damages from climate change.

[205] Kann & Weyant *supra* note 165; Pindyck (2007) *supra* note 163; Golub et al. (2014) *supra* note 163.

across papers (due to differing uncertain parameters, models of learning, and model types). Even so, newer methods still only allow for a handful of uncertain parameters compared to the hundreds of uncertain parameters in FUND and PAGE. Despite these limitations, the literature supports the above finding that the SCC, if anything, increases under uncertainty.[206]

First, uncertainty increases the optimal emissions tax under realistic parameter values and modeling scenarios. While the impact of uncertainty on the optimal emissions tax (relative to the deterministic problem) depends on the uncertain parameters considered, the type of learning, and the model type (real option, finite horizon, and infinite horizon), the optimal tax clearly increases when tipping points or black swan events are included in stochastic optimization problems.[207] For SDP models, uncertainty tends to strengthen the optimal emissions path relative to the determinist case even without tipping points,[208] and these results are strengthened under realistic preference assumptions.[209] Given that there is no counter-balancing tipping abatement cost,[210] the complete modeling of climate uncertainty – which fully accounts for tipping points and fat tails – increases the optimal tax. Uncertainty leads to a stricter optimal emissions policy even if with irreversible mitigation costs, highlighting that the SCC would also increase when factoring in risk aversion and irreversibility given that abatement costs are very low on the BAU emissions path.

Second, given the importance of catastrophic impacts under uncertainty (as shown in the previous paragraph), the full and accurate modeling of tipping points and unknown knowns is critical when modeling climate change. The most sophisticated climate-economic models of tipping points – which include the possibility of multiple correlated tipping points in stochastic dynamic IAMs – find an increase in the optimal tax by 100%[211] to 800%[212] relative to the deterministic case without them. More realistic modeling of tipping points will also increase the SCC.

Finally, improved modeling of preferences will amplify the impact of uncertainty on the SCC. Adopting Epstein-Zin preferences that disentangle risk aversion and time preferences can significantly increase the SCC under uncertainty.[213] Recent research has shown that accurate estimation of decisions under

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[206] Kann & Weyant *supra* note 165; Pindyck (2007) *supra* note 163; Golub et al. (2014) *supra* note 163; Lemoine & Rudik 2017 supra note 163. Comparing the optimal tax to the mean SCC is made further difficult by the frequent use of DICE as the base from which most stochastic dynamic optimization models are built. As a consequence, deterministic model runs are frequently the base of comparison for these models (Lemoine & Rudik, *id*).

[207] The real options literature tends to find an increase in the optimal emissions path under uncertainty relative to the deterministic case (Pindyck 2007 *supra* note 163), though the opposite is true when modelers account for the possibility of large damages (i.e., tipping point or black swan events) even with a risk-neutral society (Pindyck 2007 *supra* note 163; Golub et al 2014 *supra* note 163). Solving finite horizon models employing non-recursive methods, modelers find that the results differ depending on the model of learning – the research demonstrates stricter emission paths under uncertainty without learning (with emission reductions up to 30% in some cases) and the impact under passive learning has a relatively small impact due the presence of sunken mitigation investment costs - except when tipping thresholds are included (Golub et al 2014 *supra* note 163).

[208] Using SDP, modelers find that uncertainty over the equilibrium climate sensitivity parameter generally increases the optimal tax by a small amount, though the magnitude of this impact is unclear (Golub et al. (2014) *supra* note 163; Lemoine & Rudik 2017 supra note 163). Similarly, non-catastrophic damages can have opposing effects dependent on the parameters changed, though emissions appear to decline overall when you consider their uncertainty jointly.

[209] Pindyck (2007) *supra* note 163; Golub et al. (2014) *supra* note 163; Lemoine & Rudik 2017 supra note 163.

[210] Pindyck (2007) *supra* note 163.

[211] Derek Lemoine & Christian P. Traeger, *Economics of tipping the climate dominoes*. 6 NAT. CLIM. CHANG. 514-519 (2016).

[212] Cai et al. 2016 *supra* note 178.

[213] Cai et al. 2016 *supra* note 178; Lemoine & Rudik 2017 supra note *259*. The standard utility function adopted in IAMs with constant relative risk version implies that the elasticity of substitution equals the inversion of relative risk aversion. As a consequence, the society's preferences for the intra-generational distribution of consumption, the intergenerational

uncertainty crucially depends on distinguishing between risk and time preferences.[214] By conflating risk and time preferences, current models substantially understate the degree of risk aversion exhibited by most individuals, artificially lowering the SCC. Similarly, adopting ambiguity aversion increase the SCC, but to a much lesser extent than risk aversion.[215] Finally, allowing for the price of non-market goods to increase with their relative scarcity can amplify the positive effect that even small tipping points have on the SCC if the tipping point impacts non-market services.[216] Including more realistic preference assumptions in IAMs would further increase the SCC under uncertainty.

Introducing stochastic dynamic modeling (which captures option value and risk premiums), updating the representation of tipping points, and including more realistic preference structures in traditional IAMs will – as in the optimal tax – further increase the SCC under uncertainty

Conclusion: Uncertainty Raises the Social Cost of Greenhouse Gases

Overall, the message is clear: climate uncertainty is *never* a rationale for ignoring the SCC or shortening the time horizon of IAMs. Instead, our best estimates suggest that increased variability implies a higher SCC and a need for more stringent emission regulations.[217] Current omission of key features of the climate problem under uncertainty (the risk and climate premiums, option value, and fat tailed probability distributions) and incomplete modeling of tipping points imply that the SCC will further increase with the improved modeling of uncertainty in IAMs.

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distribution of consumption, and risk aversion hold a fixed relationship. For purposes of stochastic dynamic programming, this is problematic because this assumption conflates intertemporal consumption smoothing and risk aversion. WJ Wouter Botzen & Jeroen CJM van den Bergh, *Specifications of social welfare in economic studies of climate policy: overview of criteria and related policy insights*, 58 Environmental and Resource Economics 1-33 (2014). By adopting the Epstein-Zinn utility function which separates these two parameters, modelers can calibrate them according to empirical evidence. For example, Cai et al. (2016) *supra* note 178 replace the DICE risk aversion of 1.45 and elasticity parameter of 1/1.45 with values of 3.066 and 1.5, respectively.

[214] James Andreoni & Charles Sprenger, *Risk Preferences Are Not Time Preferences*, 102 AM. ECON. REV. 3357–3376 (2012).

[215] Lemoine & Traeger (2016) *supra* note 307.

[216] Typically, IAMs assume constant relative prices of consumption goods. Reyer Gerlagh & B. C. C. Van der Zwaan, *Long-term substitutability between environmental and man-made goods*, 44 Journal of Environmental Economics and Management 329-345 (2002); Thomas Sterner & U. Martin Persson, *An even sterner review: Introducing relative prices into the discounting debate*, 2 Review of Environmental Economics and Policy 61-76 (2008). By replacing the standard isoelastic utility function in IAMs with a nested CES utility function following Sterner and Persson (2008), Cai et al. (2015) find that even a relatively small tipping point (i.e., a 5% loss) can substantially increase the SCC in the stochastic dynamic setting. Yongyang Cai, Kenneth L. Judd, Timothy M. Lenton, Thomas S. Lontzek, & Daiju Narita, *Environmental tipping points significantly affect the cost− benefit assessment of climate policies*, 112 PROC. NATL. ACAD. SCI. 4606-4611 (2015).

[217] Golub et al. (2014) *supra* note 163 states "The most important general policy implication from the literature is that despite a wide variety of analytical approaches addressing different types of climate change uncertainty, none of those studies supports the argument that no action against climate change should be taken until uncertainty is resolved. On the contrary, uncertainty despite its resolution in the future is often found to favor a stricter policy." *See also* Comments from Robert Pindyck, to BLM, on the Social Cost of Methane in the Proposed Suspension of the Waste Prevention Rule (submitted Nov. 5, 2017) ("Specifically, my expert opinion about the uncertainty associated with Integrated Assessment Models (IAMs) was used to justify setting the SC-CH4 to zero until this uncertainty is resolved. That conclusion does not logically follow and I have rejected it in the past, and I reiterate my rejection of that view again here. While at this time we do not know the Social Cost of Carbon (SCC) or the Social Cost of Methane with precision, we do know that the correct values are well above zero…Because of my concerns about the IAMs used by the now-disbanded Interagency Working Group to compute the SCC and SC-CH4, I have undertaken two lines of research that do not rely on IAMs…[They lead] me to believe that the SCC is larger than the value estimated by the U.S. Government."

TECHNICAL APPENDIX: DISCOUNTING

The Underlying IAMs All Use a Consumption Discount Rate

Employing a consumption discount rate would also ensure that the U.S. government is consistent with the assumptions employed by the underlying IAM models: DICE, FUND, and PAGE. Each of these IAMs employs consumption discount rates calibrated using the standard Ramsey formula (Newell, 2017). In DICE-2010, the elasticity of the pure rate of time preference is 1.5 and an elasticity of the marginal utility of consumption (η) of 2.0. Together with its assumed per capita consumption growth path, the average discount rate over the next three hundred years is 2.4%.[218] However, more recent versions of DICE (DICE-2013R and DICE-2016) update η to 1.45; this implies an increase of the average discount rate over the timespan of the models to between 3.1% and 3.2% depending on the consumption growth path.[219] In FUND 3.8 and (the mode values in) PAGE09, both model parameters are equal to 1.0. Based on the assumed growth rate of the U.S. economy (without climate damages), the average U.S. discount rate in FUND 3.8 is 2.0% over the timespan of the model (without considering climate damages). Unlike FUND 3.8, PAGE09 specifies triangular distributions for both parameters with a pure rate of time preference of between 0.1 and 2 with a mean of 1.03 and an elasticity of the marginal utility of consumption of between 0.5 and 2 with a mean 1.17. Using the PAGE09's mode values (without accounting for climate damages), the average discount rate over the timespan of the models is approximately 3.3% with a range of 1.2% to 6.5%. Rounding up the annual growth rate over the last 50 years to approximately 2%,[220] the range of best estimates of the SDR implied in the short-run by these three models is approximately 3% (PAGE09's mode estimate and FUND 3.8) to 4.4% (DICE-2016), though the PAGE09 model alone implies a range of 1.1% to 6.0% with a central estimate of 3%. The range of potential consumption discount rates in these IAMs is relatively consistent with IWG (2010; 2013; 2016) in the short-run, though the discount rates of the IAMs employed by the IWG decline over time (due to declining growth rates over time) implying a potential upward bias to the IWG consumption discount rates.

A Declining Discount Rate is Justified to Address Discount Rate Uncertainty

A strong consensus has developed in economics that the appropriate way to discount intergenerational benefits is through a declining discount rate (Arrow et al., 2013; Arrow et al., 2014; Gollier & Hammitt, 2014; Cropper et al., 2014).[221] Not only are declining discount rate theoretically correct, they are actionable (i.e., doable given our current knowledge) and consistent with OMB's *Circular A-4*. Perhaps the best reason to adopt a declining discount rate is the simple fact that there is considerable uncertainty around which discount rate to use. The uncertainty in the rate points directly to the need to use a declining rate, as the impact of the uncertainty grows exponentially over time such that the

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[218] Due to a slowing of global growth, DICE-2010 implies a declining discount rate schedule of 5.1% in 2015, 3.9% from 2015 to 2050; 2.9% from 2055 to 2100; 2.2% from 2105 to 2200, and 1.9% from 2205 to 2300. This would be a steeper decline if Nordhaus accounted for the positive and normative uncertainty underlying the SDR.

[219] Due to a slowing of global growth, DICE-2016 implies a declining discount rate schedule of 5.1% in 2015, 4.7% from 2015 to 2050; 4.1% from 2055 to 2100; 3.1% from 2105 to 2200, and 2.5% from 2205 to 2300.

[220] According to the World Bank, the average global and United States per capita growth rates were 1.7% and 1.9%, respectively.

[221] Arrow et al. (2014) at 160-161 states that "We have argued that theory provides compelling arguments for using a declining certainty-equivalent discount rate," and concludes the paper by stating "Establishing a procedure for estimating a [declining discount rate] for project analysis would be an improvement over the OMB's current practice of recommending fixed discount rates that are rarely updated."

correct discount rate is not an arithmetic average of possible discount rates.[222] Uncertainty about future discount rates could stem from a number of sources particularly salient in the context of climate change, including uncertainty about future economic growth, consumption, the consumption rate of interest, and preferences. Additionally, economic theory shows that if there is debate or disagreement over which discount rate to use, this should lead to the use of a declining discount rate (Weitzman, 2001; Heal & Millner, 2014). Though, the range of potential discount rates is limited by theory to potential consumption discount rates (see earlier discussion), which is certainly less than 7%.

There is a consensus that declining discount rates are appropriate for intergenerational discounting

Since the IWG undertook its initial analysis and before the most recent estimates of the SCC, a large and growing majority of leading climate economists consensus (Arrow et al., 2013) has come out in favor of using a declining discount rate for climate damages to reflect long-term uncertainty in interest rates. This consensus view is held whether economists favor descriptive (i.e., market) or prescriptive (i.e., normative) approaches to discounting (Freeman et al., 2015). Several key papers (Arrow et al., 2013; Arrow et al., 2014; Gollier & Hammitt, 2014; Cropper et al., 2014) outline this consensus and present the arguments that strongly support the use of declining discount rates for long-term benefit-cost analysis in both the normative and positive contexts. Finally, in a recent survey of experts on the economics of climate change, Howard and Sylvan (2015), found that experts support using a declining discount rate relative to a constant discount rate at a ratio of approximately 2 to 1.

Economists have recently highlighted two main motivations for using a declining discount rate, which we elaborate on in what follows. First, if the discount rate for a project is fixed but uncertain, then the certainty-equivalent discount rate will decline over time, meaning that benefits should be discounted using a declining rate.[223] Second, uncertainty about the growth rate of consumption or output also implies that a declining discount rate should be used, so long as shocks to consumption are positively correlated over time.[224] In addition to these two arguments, other motivations for declining discount rates have long been recognized. For instance, if the growth rate of consumption declines over time, the Ramsey rule[225] for discounting will lead to a declining discount rate.[226]

In the descriptive setting adopted by the IWG (2010), economists have demonstrated that calculating the expected net present value of a project is equivalent to discounting at a declining certainty

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[222] Karp (2005) states that mathematical "intuition for this result is that as [time] increases, smaller values of r in the support of the distribution are relatively more important in determining the expectation of e−rt" where r is the constant discount rate." Or as Hepburn et al. (2003) puts it, "The intuition behind this idea is that scenarios with a higher discount rate are given less weight as time passes, precisely because their discount factor is falling more rapidly" over time.

[223] This argument was first developed in Weitzman (1998) and Weitzman (2001).

[224] *See, e.g.,* Gollier (2009).

[225] The Ramsey discount rate equation for the social discount rate is $r = \delta + \eta * g$ where r is the social discount rate, δ is the pure rate of time preference, η is the aversion to inter-generational inequality, and g is the growth rate of per capita consumption. For the original development, *see*, Ramsey, F. P. (1928). A Mathematical Theory of Saving. *The Economic Journal*, *38*(152).

[226] Higher growth rates lead to higher discounting of the future in the Ramsey model because growth will make future generations wealthier. If marginal utility of consumption declines in consumption, then, one should more heavily discount consumption gains by wealthier generations. Thus, if growth rates decline over time, then the rate at which the future is discounted should also decline. *See*, *e.g.,* Arrow et al. (2014) at 148. It is standard in IAMs to assume that the growth rate of consumption will fall over time. *See*, *e.g.,* Nordhaus (2017) at 1519, "Growth in global per capita output over the 1980–2015 period was 2.2% per year. Growth in global per capita output from 2015 to 2050 is projected at 2.1% per year, whereas that to 2100 is projected at 1.9% per year." Similarly, Hope (2011) at 22 assumes that growth will decline. For instance, in the U.S., growth is 1.9% per year in 2008 and declines to 1.7% per year by 2040. Using data provided by Dr. David Anthoff (one of the founders of FUND), FUND assumes that the global growth rate was 1.8% per year from 1980–2015 period, 1.4% per year from 2015 to 2050 and 2015 to 2100, and then dropping to 1.0% from 2100 to 2200 and then 0.7% from 2200 to 2300.

equivalent discount rate when (1) discount rates are uncertain, and (2) discount rates are positively correlated (Arrow et al., 2014 at 157). Real consumption interest rates are uncertain given that there are no multi-generation assets to reflect long-term discount rates and the real returns to all assets—including government bonds—are risky due to inflation and default risk (Gollier & Hammitt, 2014). Furthermore, recent empirical work analyzing U.S. government bonds demonstrates that they are positively correlated over time; this empirical work has estimated several declining discount rate schedules that the IWG can use (Cropper et al., 2014; 2014; Arrow et al., 2013; Arrow et al., 2014; Jouini and Napp, 2014; Freeman et al. 2015).

Currently when evaluating projects, the U.S. government applies the descriptive approach using constant rates of 3% and 7% based on the private rates of return on consumer savings and capital investments. As discussed previously, applying a capital discount rate to climate change costs and benefits is inappropriate (Newell, 2017). Instead, analysis should focus on the uncertainty underlying the future consumption discount rate (Newell, 2017). Past U.S. government analyses (IWG, 2010; IWG, 2013; IWG, 2016) modeled three consumption discount rates reflecting this uncertainty. If the U.S. government correctly returns its focus on multiple consumption discount rates, then the expected net present value argument given above implies that a declining discount rate is the appropriate way to perform discounting. As an alternative, given that the Ramsey discount rate approach is the appropriate methodology in intergenerational settings, the U.S. government could use a fixed, low discount rate as an approximation of the Ramsey equation following the recommendation of Marten et al. (2015); see our discussion on Martin et al. 2015). This is roughly IWG (2010)'s goal for using the constant 2.5% discount rate.

If the normative approach to discounting is used in the future (i.e., the current approach of IAMs), economists have demonstrated that an extended Ramsey rule[227] implies a declining discount rate when (1) the growth rate of per capita consumption is stochastic,[228] and (2) consumption shocks are positively correlated over time (or their mean or variances are uncertain) (Arrow et al., 2013; Arrow et al., 2014; Gollier & Hammitt, 2014; Cropper et al., 2014).[229] While a constant adjustment downwards (known as the precautionary effect[230]) can be theoretically correct when growth rates are independent and identically distributed (Cropper et al., 2014), empirical evidence supports the two above assumptions for the United States, thus implying a declining discount rate (Cropper et al., 2014; Arrow et al., 2014; IPCC,

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[227] If the future growth of consumption is uncertainty with mean μ and variance σ^2, an extended Ramsey equation $r = \delta + \eta * \mu - 0.5\eta^2\sigma^2$ applies where r is the social discount rate, δ is the pure rate of time preference, η is the aversion to inter-generational inequality, and g is the growth rate of per capita consumption. Gollier (2012, Chapter 3) shows that we can rewrite the extended discount rate as $r = \delta + \eta * g - 0.5\eta(\eta + 1)\sigma^2$ where g is the growth rate of expected consumption and $\eta + 1$ is prudence.

[228] The IWG assumption of five possible socio-economic scenarios implies an uncertain growth path.

[229] The intuition of this result requires us to recognize that the social planner is prudent in these models (i.e., saves more when faces riskier income). When there is a positive correlation between growth rates in per capita consumption, the representative agent faces more cumulative risk over time with respect to the "duration of the time spent in the bad state." (Gollier et al., 2008). In other words, "the existence of a positive correlation in the changes in consumption tends to magnify the long-term risk compared to short-term risks. This induces the prudent representative agent to purchase more zero-coupon bonds with a long maturity, thereby reducing the equilibrium long-term rate." (Gollier, 2007). Mathematically, the intuition is that under prudence, the third term in the extended Ramsey equation (*see* footnote 323) is negative, and a "positive [first-degree stochastic] correlation in changes in consumption raises the riskiness of consumption at date T, without changing its expected value. Under prudence, this reduces the interest rate associated to maturity T" (Gollier et al., 2007) by "increasing the strength of the precautionary effect" in the extended Ramsey equation (Arrow et al., 2014; Cropper et al., 2014).

[230] The precautionary effect measures aversion to future "wiggles" in consumption (i.e., preference for consumption smoothing) (Traeger, 2014).

2014).[231] We should further expect this positive correlation to strengthen over time due to the negative impact of climate change on consumption, as climate change causes an uncertain permanent reduction in consumption (Gollier, 2009).[232]

Several papers have estimated declining discount rate schedules for specific values of the pure rate of time preference and elasticity of marginal utility of consumption (e.g., Arrow et al., 2014), though recent work demonstrates that the precautionary effect increases and discount rates decrease further when catastrophic economic risks (such as the Great Depression and the 2008 housing crisis) are modeled (Gollier & Hammitt, 2014; Arrow et al., 2014). It should be noted that this decline in discount rates due to uncertainty in the global growth path is in addition to that resulting from a declining central growth path over time (Nordhaus, 2014; Marten, 2015).[233]

Additionally, a related literature has developed over the last decade demonstrating that normative uncertainty (i.e., heterogeneity) over the pure rate of time preference (δ)—a measure of impatience—also leads to a declining social discount rate (Arrow et al., 2014; Cropper et al., 2014; Freeman and Groom, 2016). Despite individuals differing in their pure rate of time preference (Gollier and Zeckhauser, 2005), an equilibrium (consumption) discount exists in the economy. In the context of IAMs, modelers aggregate social preferences (often measured using surveyed experts) by calibrating the preferences of a representative agent to this equilibrium (Millner and Heal, 2015; Freeman and Groom, 2016). The literature generally finds a declining social discount rate due to a declining collective pure rate of time preference (Gollier and Zeckhauser, 2005; Jouini et al., 2010; Jouini and Napp, 2014; Freeman and Groom, 2016).[234] The heterogeneity of preferences and the uncertainty surrounding economic growth hold simultaneously (Jouini et al., 2010; Jouini and Napp, 2014), leading to potentially two sources of declining discount rates in the normative context.

Declining Rates are Actionable and Time-Consistent

There are multiple declining discount rate schedules from which the U.S. government can choose, of which several are provided in Arrow et al. (2014) and Cropper et al. (2014). One possible declining interest rate schedule for consideration by the IWG is the one proposed by Weitzman (2001).[235] It is derived from a broad survey of top economists in context of climate change, and explicitly incorporates

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[231] Essentially, the precautionary effect increases over time when shocks to the growth rate are positively correlated, implying that future societies require higher returns to face the additional uncertainty (Cropper et al., 2014; Arrow et al., 2014; IPCC, 2014).

[232] Due to the deep uncertainty characterizing future climate damages, some analysts argue that the stochastic processes underlying the long-run consumption growth path cannot be econometrically estimated (Weitzman, 2007; Gollier, 2012). In other words, economic damages, and thus future economic growth, are ambiguous. Agents must then form subjectivity probabilities, which may be better interpreted as a belief (Cropper et al., 2014). Again, theory shows that ambiguity leads to a declining discount rate schedule by Jensen's inequality (Cropper et al., 2014).

[233] A common assumption in IAMs is that global growth will slow over time leading to a declining discount rate schedule over time; *see* footnote 7. Uncertainty over future consumption growth and heterogeneous preferences (discussed below) would lead to a more rapid decline in the social discount rate.

[234] The intuition for declining discount rates due to heterogeneous pure rates of time preference is laid out in Gollier and Zeckhauser (2005). In equilibrium, the least patient individuals trade future consumption to the most patient individuals for current consumption, subject to the relative value of their tolerance for consumption fluctuations. Thus, while public policies in the near term mostly impact the most impatient individuals (i.e., the individuals with the most consumption in the near term), long-run public policies in the distant future are mostly going to impact the most patient individuals (i.e., the individuals with the most consumption in the long-run).

[235] Weitzman (2001)'s schedule is as follows: 4% for 1-5 years; 3% for 6-25 years; 2% for 26-75 years; 1% for 76-300 years; and 0% for 300+ years.

arguments around interest rate uncertainty.[236] Other declining discount rate schedule include Newell and Pizer (2003); Groom et al. (2007); Freeman et al. (2015). Many leading economists support the United States government adopting a declining discount rate schedule (Arrow et al., 2014; Cropper et al., 2014). Moreover, the United States would not be alone in using a declining discount rate. It is standard practice for the United Kingdom and French governments, among others (Gollier & Hammitt, 2014; Cropper et al., 2014). The U.K. schedule explicitly subtracts out an estimated time preference.[237] France's schedule is roughly similar to the United Kingdom's. Importantly, all of these discount rate schedules yield lower present values than the constant 2.5% discount rate employed by IWG (2010), suggesting that even the lowest discount rate evaluated by the IWG is too high.[238] The consensus of leading economists is that a declining discount rate schedule should be used, harmonious with the approach of other countries like the United Kingdom. Adopting such a schedule would likely increase the SCC substantially from the administration's 3% estimate, potentially up to two to three fold (Arrow et al., 2013; Arrow et al., 2014; Freeman et al., 2015).

A declining discount rate motived by discount rate or growth rate uncertainty avoids the time inconsistency problem that can arise if a declining pure rate of time preference (δ) is used. *Circular A-4* cautions that "[u]sing the same discount rate across generations has the advantage of preventing time-inconsistency problems."[239] A time inconsistent decision is one where a decision maker changes his or her plan over time, solely because time has passed. For instance, consider a decision maker choosing whether to make an investment that involves an up-front payment followed by future benefits. A time consistent decision maker would invest in the project if it had a positive net-present value, and that decision would be the same whether it was made 10 years before investment or 1 year before investment. A time inconsistent decision maker might change his or her mind as the date of the investment arrived, despite no new information becoming available. Consider a decision maker who has a declining pure rate of time preference (δ) trying to decide whether to invest in a project that has large up-front costs followed by future benefits. 10 years prior to the date of investment, the decision maker will believe that this project is a relatively unattractive investment because both the benefits and costs would be discounted at a low rate. Closer to the date of investment, however, the costs would be relatively highly discounted, possibly leading to a reversal of the individual's decision. Again, the discount rate schedule is time consistent as long as δ is constant.

The arguments provided here for using a declining consumption discount rate are not subject to this time inconsistency critique. First, time inconsistency occurs if the decision maker has a declining pure rate of time preference, not due to a decreasing discount rate term structure.[240] Second, uncertainty

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[236] Freeman and Groom (2014) demonstrate that this schedule only holds if the heterogeneous responses to the survey were due to differing ethical interpretations of the corresponding discount rate question. A recent survey by Drupp et al. (2015) – which includes Freeman and Groom as co-authors – supports the Weitzman (2001) assumption.

[237] The U.K. declining discount rate schedule that subtracts out a time preference value is as follows (Lowe, 2008): 3.00% for 0-30 years; 2.57% for 31-75 years; 2.14% for 76-125 years; 1.71% for 126- 200 years; 1.29% for 201- 300 years; and 0.86% for 301+ years.

[238] Using the IWG's 2010 SCC model, Johnson and Hope (2012) find that the U.K. and Weitzman schedules yield SCCs of $55 and $175 per ton of CO_2, respectively, compared to $35 at a 2.5% discount rate. Because the 2.5% discount rate was included by the IWG (2010) to proxy for a declining discount rate, this result indicates that constant discount rate equivalents may be insufficient to address declining discount rates.

[239] *Circular A-4* at 35.

[240] Gollier (2012) states "It is often suggested in the literature that economic agents are time inconsistent if the term structure of the discount rate is decreasing. This is not the case. What is crucial for time consistency is the constancy of the rate of impatience, which is a cornerstone of the classic analysis presented in this book. We have seen that this assumption is compatible with a declining monetary discount rate."

about growth or the discount rate avoids time inconsistency because uncertainty is only resolved in the future, after investment decisions have already been made. As the NAS (2017) notes, "One objection frequently made to the use of a declining discount rate is that it may lead to problems of time inconsistency….This apparent inconsistency is not in fact inconsistent….At present, no one knows what the distribution of future growth rates…will be; it may be different or the same as the distribution in 2015. Even if it turns out to be the same as the distribution in 2015, that realization is new information that was not available in 2015."[241]

We should note that time-inconsistency is not a reason to ignore heterogeneity (i.e., normative uncertainty) over the pure rate of time preference (δ). If the efficient declining discount rate schedule is time-inconsistent, the appropriate solution is to select the best time-consistent policy. Millner and Heal (2014) do just this by demonstrating that a voting procedure – whereby the median voter determines the collective preference – is: (1) time consistent, (2) welfare enhancing relative to the non-commitment, time-inconsistent approach, and (3) preferred by a majority of agents relative to all other time-consistent plans. Due to the right skewed distribution of the pure rate of time preference and the social discount rate as shown in all previous surveys (Weitzman, 2001; Drupp et al., 2015; Howard and Sylvan, 2015), the median is less than the mean social discount rate (and pure rate of time preference); the mean social discount rate is what holds in the very short-run under various aggregation methods, such as Weitzman (2001) and Freeman and Groom (2015). Combining an uncertain growth rate and heterogeneous preference together implies a declining discount rate starting at a lower value in the short-run. In addition to the reasons discussed earlier in the comments, this is another reason to exclude a discount rate as high as 7%.

There is an economic consensus on the appropriateness of employing a consumption discount rate (and the inappropriateness of a capital discount rate) in the context of climate change

There is a strong consensus among economists that it is theoretically correct to use consumption discount rates in the intergenerational setting of climate change, such as in the calculation of the SCC. Similarly, there is a strong consensus that a capital discount rate is inappropriate according to "good economics" (Newell, 2017).[242] This consensus holds across panels of experts on the social cost of carbon (NAS, 2017); surveys of experts on climate change and discount rates (Weitzman, 2001; Drupp et al., 2015; Howard and Sylvan, 2015; and Pindyck, 2016); the three most commonly cited IAMs employed in calculating the federal SCC; and the government's own analysis (IWG, 2010; CEA, 2017). For more analysis of this issue, see the discussion in the main body our Comments on the inappropriateness using a discount rate premised on the return to capital in intergenerational settings.

[241] NAS Second Report, *supra* note 98, at 182.

[242] The former co-chair of the National Academy of Sciences' Committee on Assessing Approaches to Updating the Social Cost of Carbon – Richard Newell (2017) – states that "[t]hough the addition of an estimate calculated using a 7 percent discount rate is consistent with past regulatory guidance under OMB *Circular A-4*, there are good reasons to think that such a high discount rate is inappropriate for use in estimating the SCC…It is clearly inappropriate, therefore, to use such modeling results with OMB's 7 percent discount rate, which is intended to represent the historical before-tax return on private capital…This is a case where unconsidered adherence to the letter of OMB's simplified discounting approach yields results that are inconsistent with and ungrounded from good economics."